



## Rating Rationale

Union Bank of India

28th February 2017

**Brickwork Ratings (BWR) reaffirms “BWR AAA” rating with revision in Outlook from Negative to Stable for Union Bank of India’s existing bonds – IPDI issues amounting to ₹ 340 Crores, Upper Tier II Bonds of ₹ 500 Crores and Basel III compliant Tier II Bonds of ₹ 1000 Crores**

### Particulars

Instrument	Issue Date	Raised ₹ Cr	Interest Rate	Maturity Date	ISIN	Rating <sup>^</sup> (Feb 2017)
Innovative Perpetual Debt Instrument	30-Mar-2009	140	9.10%	Perpetual	INE692A09191	BWR AAA (Outlook: Negative to Stable) Revision
Innovative Perpetual Debt Instrument	16-Jun-2009	200	8.85%	Perpetual	INE692A09209	BWR AAA (Outlook: Negative to Stable) Revision
Upper Tier II Bond	25-Jun-2009	500	8.65%	25-Jun-2024	INE692A09217	BWR AAA (Outlook: Negative to Stable) Revision
Basel III compliant Tier II Bond	22-Aug-2016	750 (out of the rated ₹1000 Cr)	8.00%	22-Aug-2026	INE692A08011	BWR AAA (Outlook: Negative to Stable) Revision

<sup>^</sup> Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

### Rating Reaffirmed

Brickwork Ratings has reaffirmed the rating of Union Bank of India’s various Bond issues, with revision in Outlook from Negative to Stable as tabulated above.

### Rationale/Description of Key Rating Drivers/Rating sensitivities:

Brickwork Ratings have relied on Union Bank of India’s financial results upto Q3/9MFY17, publicly available information and other information/clarifications provided by the Bank.

The rating reaffirmation, *inter alia*, factors Government of India’s (GOI) equity stake of 63.44%, periodic infusion of funds and its continued support to the Bank, improved CASA levels and capital adequacy, and overall profitable operations. However, the rating may be constrained by continuing asset quality issues, high provisioning costs; and its impact on the overall performance of the bank.



### **Rating Outlook: Stable**

BWR believes Union Bank of India's business risk profile will be maintained over the medium term. The change in Outlook from 'Negative' to 'Stable' indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Negative' if the asset quality deteriorates further, resulting in higher provisions and lower profitability..

### **About the Company**

**Background:** Union Bank of India started its Banking operations in Mumbai in 1919 and is one among the major public sector banks in India, with a total business (Deposits + Advances) of ₹ 656,819 Cr as on December 31, 2016. The Bank is operating its business through 4,237 branches and 7,496ATMs as on December 31, 2016. GOI holds 63.44% of the equity capital as of September 30, 2016.

**Management:** Shri Arun Tiwari is the Chairman and Managing Director of the Bank since Dec 26, 2013. Shri Vinod Kathuria, Shri Raj Kamal Verma and Shri Atul Kumar Goel are the Executive Directors.

### **Financial Performance**

**Business Performance:** Total business of the Bank registered an increase of 5.86% from ₹ 620,445 Cr as on March 31, 2016 to ₹ 656,819 Cr as on December 31, 2016. Deposits have increased by 10.82% from ₹ 342,720 Cr in FY16 to ₹ 379,807 Cr in 9MFY17. CASA ratio has improved from 32.35% to 36.80%. Total advances have decreased by 0.26% from ₹ 277,725 Cr in FY16 to ₹ 277,012 Cr in 9MFY17. Of the domestic advances of ₹ 249,741 Cr as of 31 Dec 2016, the Bank registered a higher growth in loans to retail sector by 6.80%, Agriculture by 4.90%, and MSME by 2.83 % over FY16. Exposure to infrastructure sector at 15.6% of its total advances stood at ₹ 38,935 Cr in 9MFY17; it was 13.6% of its total advances standing at ₹ 34,225 Cr in FY16. The loans/deposit ratio of the bank has decreased significantly from 81.04% in FY16 to 72.93% in 9MFY17.

**Earnings Quality:** Total Net Interest Income for the Bank during 9MFY17 stood at ₹ 6,516 Cr from ₹ 8,314 Cr in FY16. Net Interest margin stood at 2.19% (FY16: 2.32%), and is comparable with its peer public sector banks. Non-interest income stood at ₹ 3,519 Cr in 9MFY17 against ₹ 3,632 Cr in FY16. Of the ₹ 1,968 Cr of treasury income, profit on sale of investment contributed ₹ 1,477 Cr. With continuing challenges regarding asset quality, Bank's total provisions the first three quarters of FY17 increased to ₹ 4,849 Cr from ₹ 3,877 Cr for FY16. However, the Bank has remained profitable with PAT of ₹ 447 Cr for 9MFY17 (₹ 1,352 Cr: FY16). Provision costs and non-interest income are key monitorables.

**Asset Quality:** In 9MFY17, the Bank's Gross NPAs increased from ₹ 24,171 Cr in FY16 to ₹ 32,403 Cr. Fresh slippages were to the tune of ₹ 10,293 Cr. GNPA ratio for the Bank has increased to 11.70% (FY16:10.73%) and the NNPA ratio to 6.95% (FY16: 5.25%). The Bank's Standard Restructured advances as of December 31, 2016 stood at ₹ 5,523 Cr, taking the total stressed assets to 13.69%.

Potential slippages from the restructured portfolio would be a key rating sensitivity. Provision Coverage Ratio stands at 50.62% (50.98% in FY16).

**Capital Adequacy:** As on December 31, 2016, the Bank's total CRAR as per BASEL III guidelines stands at 11.36% (in Q1FY17:10.49% and FY16:11.02%) out of which Tier I capital adequacy ratio stood at 8.51% (Q1FY17:8.09% and FY16:8.41%). GOI has decided to infuse funds amounting to ₹ 721 Cr during the current financial year FY17.

KEY Parameters (₹ Cr)	2014	2015	2016	9MFY16	9MFY17
Total Deposits	297,675	316,870	342,720	327,412	379,807
<i>Deposit Growth (in %)</i>	12.86%	6.45%	8.16%		16.00%
Gross Advances	234,332	262,757	277,725	262,477	277,012
<i>Loans Growth</i>	13.38%	12.13%	5.70%		5.54%
<b>Total Business</b>	532,007	579,627	620,445	589,889	656,819
<b><i>Business Growth</i></b>	11.49%	8.95%	7.04%		11.35%
CASA Ratio %	29.50%	29.24%	32.35%	30.60%	36.80%
<b>Profitability Ratios (%)</b>					
RoE	9.99%	9.73%	6.84%	8.13%	3.05%
RoA	0.52%	0.49%	0.35%	0.44%	0.14%
NIM	2.56%	2.48%	2.32%	2.32%	2.19%
Net Interest Income (NII)	7879	8444	8314	6229	6516
Non Interest Income	2822	3523	3632	2635	3519
Operating profits	5218	5823	5722	4312	5296
Provisions	3149	3040	3877	2978	4849
PAT	1696	1782	1352	1255	447
Cost to Income Ratio	51.24%	51.34%	52.10%	51.35%	47.23%
<b>Asset Liability Profile (%)</b>					
Loans/Deposit Ratio	78.72%	82.92%	81.04%	80.17%	72.93%
Gross NPAs to Advances	4.08%	4.96%	8.70%	7.05%	11.70%
Net NPAs to Advances	2.33%	2.71%	5.25%	4.07%	6.95%
Restructured Portfolio as a % of Gross Advances	5.27%	5.20%	3.09%	5.19%	1.99%
Gross NPA% + Restructured (Stressed Advances)	9.35%	10.16%	11.79%	12.24%	13.69%
Provision Coverage Ratio	59.89%	59.23%	50.98%	55.00%	50.62%
<b>CRAR</b>	<b>10.80%</b>	<b>10.22%</b>	<b>10.56%</b>	<b>10.30%</b>	<b>11.36%</b>

Tier I	7.54%	7.50%	8.14%	8.14%	8.51%
CET-I	7.18%	7.24%	7.95%	7.95%	NA
AT-I	0.36%	0.26%	0.19%	0.19%	NA
Tier II	3.26%	2.72%	2.42%	2.42%	2.85%
Book Value	269.4	288	288	299.62	284.5
GOI Stake	60.13%	60.47%	63.44%	63.44%	63.44%
NA :Not available; * as per BWR calculations;					

**Rating History for the last three years (including withdrawn/suspended ratings)**

Sl. No.	Instrument/Facility	Current Rating (February 2017)			Rating History			
		Type	Amount (Rs Crs)	Rating	17Aug 2016	11 Mar 2016	11 Sep 2013	16 Aug 2012
1	Innovative Perpetual Debt Instrument	Long term	140	BWR AAA (Outlook: Negative to Stable) Revision	BWR AAA (Outlook: Negative) reaffirmed	BWR AAA (Outlook: Stable to Negative) Revision	BWR AAA (Outlook: Stable) reaffirmed	BWR AAA (Outlook: Stable) reaffirmed
2	Innovative Perpetual Debt Instrument	Long Term	200	BWR AAA (Outlook: Negative to Stable) Revision	BWR AAA (Outlook: Negative) reaffirmed	BWR AAA (Outlook: Stable to Negative) Revision	BWR AAA (Outlook: Stable) reaffirmed	BWR AAA (Outlook: Stable) reaffirmed
3	Upper Tier II Bond	Long Term	500	BWR AAA (Outlook: Negative to Stable) Revision	BWR AAA (Outlook: Negative) reaffirmed	BWR AAA (Outlook: Stable to Negative) Revision	BWR AAA (Outlook: Stable) reaffirmed	BWR AAA (Outlook: Stable) reaffirmed
4	Basel III compliant Tier II Bond	Long Term	750 (out of the rated ₹1000 Cr)	BWR AAA (Outlook: Negative to Stable) Revision	BWR AAA (Outlook: Negative) assigned	NA	NA	NA

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)



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**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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