



## RATING RATIONALE

20 Sep 2024

### Union Bank of India

**Brickwork Ratings upgrades the rating of Tier II Bonds (under Basel III) of Rs. 1000 Crs and the rating of Additional Tier I Bonds (under Basel III) amounting to Rs. 1705 Crs of Union Bank of India**

#### Particulars:

Instruments**	Amount Rs. Crs.		Tenure	Rating <sup>^</sup>	
	Previous	Present		Previous (22-Sep-2023)	Present
Tier II Bonds (under Basel III)	1000.00	<b>1000.00</b>	Long Term	BWR AA+/ Stable (Reaffirmed)	<b>BWR AAA/ Stable (Upgrade)</b>
Additional Tier I Bonds (under Basel III)	1705.00	<b>1705.00</b>		BWR AA/ Stable (Reaffirmed)	<b>BWR AA+/ Stable (Upgrade)</b>
<b>Total</b>	2705.00	<b>2705.00</b>	<b>Rs Two Thousand Seven Hundred &amp; Five Crores Only</b>		

\*\* Details of Bonds are provided in Annexure-II

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

#### RATING ACTION / OUTLOOK: UPGRADE/ STABLE

Brickwork Ratings (BWR) upgrades the ratings for Tier II Bonds (under Basel III) of Rs. 1000 Crs and rating of Additional Tier I Bonds (under Basel III) amounting to Rs. 1705 Crs of Union Bank of India (UnionB or the Bank), as tabulated above.

The rating upgrade necessarily factors in the strengthening of the capital of the Bank, with total capital to risk weighted asset ratio (CRAR) at 16.97%, Tier-1 Ratio at 15.0 % and CET-1 Ratio at 13.65%, as of 31 March 2024, substantially above the regulatory minimum capital requirements, including capital conservation buffers. As of 30 June 2024, the capitalization levels of the Bank remained strong with total CRAR at 17.02%, Tier-1 Ratio at 15.13% and CET-1 Ratio at 13.81%. The Bank's capital adequacy levels were comparatively better than its peers amongst the Public Sector Banks (PSBs).

The Bank continues to receive the strong support of its promoter Government of India (GOI) with 74.76% stakeholding as of 30 June 2024; and is expected to continue with the Bank. During FY2024, the Bank had raised fresh capital of ~Rs. 8000 Crs and further substantial capital infusion expected for FY25, indicating its strong position and ability to raise capital from the market.

The rating upgrade also factors in the Bank's improved earnings profile and strong liquidity as of FY24 and Q1FY25. The Bank's asset quality too improved during FY24 and Q1FY25.

GNPA ratio improved from 7.53% as of 31 March 2023 to 4.76% as of 31 March 2024 and further to 4.54% as of 30 June 2024 driven by the reduction in slippages, increase in upgradation



and improved cash recoveries of the Non-Performing Assets. Improvement in asset quality also resulted in decreased credit costs and improved profitability. The profitability was also supported by increased net interest income and stable operating expenses. As a result of improved profitability, the ROA improved from 0.69% as on 31 March 2023 to 1.03% as on 31 March 2024 and was 1.06% as on 30 June 2024. The Bank's asset liability management (ALM) statements as of 31 March 2024 and 30 June 2024, continued to indicate positive cumulative mismatches across the buckets upto 5 years, as also the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) levels were comfortably above the regulatory requirements.

The rating considers the raising of equity capital through QIP of Rs. 8000 Crs in FY2024 by the Bank had strengthened the CRAR to 16.97% as of 31 March 2024. The rating factors in strong support of the Government of India, as the promoter and major shareholder of the bank, scalable size in operations, and growing momentum in the business. The strengths are offset by moderate, albeit improving, asset quality and stable but lower CASA ratio compared to peer PSBs.

BWR believes Union Bank of India's risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term

#### **KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:**

Following are the unsecured rated listed subordinated non-convertible Basel III compliant bonds:

- **INE112A08051:** The coupon rate is 8.93% of Tier II bonds (under Basel III) of Rs. 1000 Crs. These were raised by Corporation Bank and upon amalgamation were transferred to Union Bank of India. The bonds were raised in November 2019 for a period of 10 years with a fixed coupon of 8.93% payable annually on 08 Nov till its maturity.
- **ISINs INE692A08110, INE692A08128 and INE692A08136** are Additional Tier I Bonds (under Basel III). These bonds raised on 15 Dec 2020, 11 Jan 2021 and 29 Jan 2021 respectively are perpetual in nature. These bonds carry fixed coupon rates of 8.73%, 8.64% and 8.73% respectively, payable on an annual basis from the date of issue till its maturity. These bonds have a call option on completion of 5 years, with the approval of the regulator.

#### **Key Rating Drivers**

##### **Credit Strengths:-**

- **Strong support from GOI:** Government of India remains the highest shareholder of the bank with 74.76% as of 30 June 2024 which has been reduced from 83.49% as of 30 June 2023 post the capital raising of Rs. 8000 Crs through QIP. The GOI's support to Public Sector Banks (PSBs) has always been of prime importance with its criticality to the economy and to maintain the stability of the banking sector. Being the key promoter-shareholder, the GOI has continued to support PSBs even in times of distress, through various recapitalisation plans announced over the years. The GOI's support to the bank in the form of capital infusion is expected to continue, given that the bank is one of the major PSBs in the country. The GOI is expected to provide capital support to the bank as and when required for business growth, as well as to strengthen the balance sheet to cover for any asset-side risks.



- **Established track record and significant scale of operations:** Union Bank of India is the 5th largest PSB in terms of Business mix. As of 30 June 2024, the total business of the bank stood at Rs. 21,36,405 Crs which increased by 9.76% YoY. This growth was driven by significant expansions in the retail, agricultural, and MSME (RAM) segments. The Total Gross Advances increased by 11.46% YoY standing at Rs. 9,12,214 Crs as of 30 June 2024 of which 96.34% were domestic advances. Overseas advances contribute only 3.66% but increased by 33.6% YoY. The contribution from corporate advances was 44.3%, followed by agriculture at 20.7%, retail at 19.9% and MSME at 15.1% of the global advances as on 30 June 2024. RAM Segment of the Bank increased by 14.53% YoY, where 12.28% growth in Retail, 23.00% growth in Agriculture and 7.21% growth in MSME advances is achieved on YoY basis. RAM advances as a percent of Domestic Advances stood at 57.83%.  
The number of branches and ATMs has decreased, with the strategic movement of establishing Digital Banking Units (DBUs), and significant investments in green projects highlight UBI's commitment to sustainable development, cost efficiency, and digital banking, enhancing customer convenience and aligning with modern banking trends. As of 30 June 2024, the bank had 8473 branches and 9342 Automated Teller Machines (ATMs) with 20646 Business Correspondent points and 75200+ employees.
- **Strong Liability franchise with growing momentum:** Total deposits have increased by 8.52% YoY with a deposit base of Rs.12,24,191 Crs as on June 30, 2024. CASA (domestic) ratio stood at 33.4% as on 30 June 2024, which was reduced from 80 bps QoQ and 120 bps YoY. Retail term deposits (less than Rs 2 Crs) held 38.64% followed by CASA (domestic) deposits at 33.39% and Bulk Term Deposits stood at 27.97%. as of June 2024. CASA and retail term deposits form 72% of the total deposits. The global credit to deposit ratio was comfortable, at 76.41%, as on 30 June 2024.
- **Profitability:** Earnings profile show significant improvement with increased profits driven by increased net interest income, stable operating expenses and decrease in credit costs. Net Profit increased significantly by 13.68% on YoY basis from Rs. 3236 Crs in June 2023 to Rs. 3679 Crs in June 2024. Operating Profit improved by 8.44% on YoY basis during Q1FY25. Net interest income grew by 6.47% on YoY basis from Rs. 8840 Crs in June 2023 to Rs. 9412 Crs in June 2024 and Non Interest income contributing ~15% to the total income grew by 15.52% from Rs. 3903 Crs in June 2023 to Rs. 4509 Crs in June 2024. Net Interest Margin slipped by 8bps from 3.13% in March, 2024 to 3.05% in June, 2024 due to increase in Cost of deposit by 40 bps though partially offset by 29 bps increase in the yield on advances, during the same period. As per the management, the reduction was on account of the general tendency of being a soft first quarter, although it has surpassed the bank's guidance of 2.8-3% for FY25. On an annual basis, NIM is maintained at an average of 3.10% in FY24. Bank's Return on Assets & Return on Equity was at 1.06% and 15.70% respectively as of 30 June 2024, as against 1.00% and 18.97% as of 30 June 2023 respectively. Bank raised fresh capital of Rs. 8000 Crs during the year, resulting in the impact on decreasing ROE.
- **Strong Capitalization:** Banks capitalization levels improved with CRAR improving from 15.95% as on 30 June 2023 to 17.02% as on 30 June 2024. CET1 ratio improved to



13.81% as on 30 June 2024 from 12.34% as on 30 June 2023. The improvement in capital ratios is viewed on account of significant improvement in profitability and raising of fresh capital of Rs. 8000 Crs in FY2024 which was supported by banks' better asset quality. The Bank has also received Board approval for raising additional capital of Rs. 10000 Crs in FY2025 of which Rs. 6000 Crs would be raised by Equity, Rs. 2000 Crs through Tier II and Rs. 2000 Crs through Additional Tier I Bonds.

The Bank's total capital to risk weighted asset ratio, the Tier I ratio and CET-1 ratio was strong and well above the regulatory requirements of a minimum Common Equity Tier-1 (CET1) capital ratio of 8.0% (including the capital conservation buffer of 2.5%), and a minimum Tier 1 capital ratio of 9.5%, a minimum total capital adequacy ratio (total CRAR) of 11.5% (including the capital conservation buffer of 2.5%), as of 31 March 2024. [The Bank's total CRAR was 16.97%; Tier 1 ratio was 15.0% and CET -1 ratio was 13.65% as of 31 March 2024].

#### **Credit Risks:-**

- **Asset quality improved; albeit remains monitorable:** The Banks Asset quality has improved with Gross NPA (%) reduced by 280 bps on YoY basis from 7.34% in Q1FY24 to 4.54% Q1FY25 and Net NPA (%) reduced by 68 bps on YoY basis from 1.58% in Q1FY24 to 0.90% in Q1FY25. PCR has improved from 90.86% in Q1FY24 to 93.49% in Q1FY25. Credit costs have also decreased from 0.97% in Q1FY24 to 0.73% in Q1FY25. Reduction in NPA was on account of consistent decrease in fresh slippages every quarter from Rs. 3032 Crs in June, 2023 to Rs. 2058 Crs in June, 2024, increase in cash recovery from Rs. 1166 in June, 2024 to Rs. 1200 Crs in June, 2024 and increased write-off from Rs. 1957 in June, 2023 to Rs. 2186 in June, 2024. Gross NPAs in the MSME segment stood at 8.44%, followed by the agriculture segment at 8.13%, corporate segment at 2.50% and the retail segment at 2.41% as on 30 June 2024. Incremental slippages in Q1FY25 were lower at Rs 2058 Crs, compared with Rs.3032 Crs during Q1FY24 and Rs.3202 Crs during Q4FY24. However, continued improved recoveries in collections in the coming quarters will aid to improve the asset quality in the near term, with less dependence on write offs shall remain a monitorable.
- **Moderate CASA ratio, compared to peers:** CASA ratio of the bank stays at a lower 33.40%, which is weaker than that of peer PSBs. During Q1FY25, banks CASA ratio decreased by 120 bps yoy, the overall deposits grew by 8.52% yoy, while advances grew 11.46% yoy. Given that deposit growth has lagged advance growth, the bank has been under pressure to raise deposit rates. In Q1FY25, the bank's cost of funds increased to 4.89% (Q1FY24: 4.52%) which is also higher than its peers.

#### **ANALYTICAL APPROACH - Standalone**

For arriving at its ratings, BWR has considered the standalone financial profile of Union Bank of India and has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).



## **RATING SENSITIVITIES**

### **Positives: Nil**

**Negatives:** Decline in Stakeholding of the Government of India (GoI) below 51% and weakening of capital cushioning levels of less than 1% over and above the minimum regulatory requirements, including the capital conservation buffers. A substantial deterioration in Union Bank of India's asset quality, impacting significantly on the profitability and capitalization metrics, could be the key rating sensitivities.

## **LIQUIDITY POSITION - STRONG**

As of 30 June 2024 Cash and cash Balances with RBI were Rs. 55,270 Crs. and Non SLR Investments available for sale were Rs. 9835 Crs. Total borrowings as on June 2024 stood at Rs.25488 Crs. The Bank's ALM statements as of 31 March 2024 and 30 June 2024, continued to indicate positive cumulative mismatches across the buckets upto 5 years, as also the LCR and NSFR levels were comfortably above the regulatory requirements. The Bank's daily average LCR during the Quarter ending 30 June 2024 was 138.45% as against the prescribed minimum regulatory LCR requirement of 100%. Net Stable funding ratio as on 30 June 2024 was 129.83% as against the prescribed minimum regulatory requirement.

## **COMPANY PROFILE**

Union Bank of India started its banking operations in Mumbai in 1919 and is among the largest public sector banks in the country with 8,473 branches (inclusive of 2 overseas branches each in Dubai and Sydney) and 9,342 ATM's as of 30 June, 2024. Andhra Bank and Corporation Bank were amalgamated into Union Bank of India w.e.f. 1 April 2020. The Bank has a stable and experienced board and management team. Board comprises distinguished members from the industry, with extensive experience from the field of financial services and banking. The Bank has a strong and experienced board of directors led by Ms. M Manimekalai. She is assisted by four Executive Directors, two Nominee Directors (one each from RBI and GOI) and four Independent Directors, including the shareholders directors. The GOI held a 74.76% stake in the bank as of 30 June 2024.

## **KEY FINANCIAL INDICATORS – Standalone**

<b>Key Parameters</b>	<b>Units</b>	<b>FY 23</b>	<b>FY 24</b>	<b>3MFY25</b>
<b>Result Type</b>		<b>Audited</b>	<b>Audited</b>	<b>Unaudited (Reviewed)</b>
Total Business	Rs. in Crs	19,27,621	21,26,412	21,36,405
CASA ratio(Domestic)	%	35.26	33.58	33.40
Gross NPA	%	7.53	4.76	4.54
Net NPA	%	1.70	1.03	0.90
PCR	%	90.34	92.69	93.49
Net Interest Income	Rs. in Crs	32,765	36,570	9,412
Net Profits	Rs. in Crs	8,433	13,648	3,679
Net Interest Margin	%	3.07	3.10	3.05
ROA	%	0.69	1.03	1.06
CRAR	%	16.04	16.97	17.02



Tier I	%	13.91	15.00	15.13
CET-I	%	12.36	13.65	13.81

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY:**

No non-cooperation rating with other Credit Rating Agencies.

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

S. N	Facilities	Current Rating (19 Sept 2024)			Rating History				
		Type	Amount Outstanding (Rs in Cr)	Rating	2023 22 Sep 2023	2022 19 August 2022	2021		
1	Tier II Bonds (under Basel III)	Long Term	1000.00	BWR AAA/ Stable (Upgraded)	BWR AA+/Stable (Reaffirmed)	BWR AA+/ Stable (Reaffirmed)	04 Oct 2021		
							Long Term	1000.00	BWR AA+/ Stable (Reaffirmed)
							14 Dec 2021		
							Long Term	1000.00	BWR AA+/Stable (Reaffirmed)
2	Additional Tier I Bonds (under Basel III)	Long Term	500.00	BWR AA+/ Stable (Upgraded)	BWR AA/Stable (Reaffirmed)	BWR AA/ Stable (Reaffirmed)	04 Oct 2021		
							Long Term	1500.00	BWR AA/ Stable (Reaffirmed)
							14 Dec 2021		
							Long Term	1500.00	BWR AA/Stable (Reaffirmed and Outlook revised from Negative)
3	Additional Tier I Bonds (under Basel III)	-	-	-	-	-	04 Oct 2021		
							Long Term	1000.00	BWR AA/ Stable (Reaffirmed)
							14 Dec 2021		
							Long Term	1000.00	BWR AA/Stable (Reaffirmed and Outlook revised from Negative)

4	Tier II Bonds (under Basel III)	-	-	-	-	Long Term	500.00	BWR AA+/Stable	04 Oct 2021		
									Long Term	500.00	BWR AA+/Stable (reaffirmed)
									14 Dec 2021		
									Long Term	500.00	BWR AA+/Stable (reaffirmed)
5	Tier II Bonds (under Basel III)	-	-	-	-	-	-	-	04 Oct 2021		
									Long Term	1000.00	BWR AA+/Stable (reaffirmed)
									14 Dec 2021		
									Long Term	1000.00	BWR AA+/Stable (reaffirmed)
6	Additional Tier I Bonds (under Basel III)	Long Term	1205.00	BWR AA+/Stable (Upgraded)	BWR AA/Stable (Reaffirmed)	BWR AA/Stable (Reaffirmed)	-	-	04 Oct 2021		
									Long Term	2000.00	BWR AA/Stable (Reaffirmed)
									14 Dec 2021		
									Long Term	1205.00	BWR AA/Stable (Reaffirmed and Outlook revised from Negative)
7	Additional Tier I Bonds (under Basel III)	-	-	-	-	-	-	-	04 Oct 2021		
									Long Term	250.00	BWR AA/Stable (Assigned)
<b>Total</b>			<b>2705.00</b>								

**Hyperlink/Reference to applicable Criteria:**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Capital Instruments issued by Banks and Financial Institutions](#)



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**Union Bank of India**  
**ANNEXURE I**  
**Details of Bank Loan Facilities rated by BWR:**

Lender Name	Type of Facility	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs)	Total (Rs. Crs)	Complexity Level
NIL	NIL	NIL	NIL	NIL	NIL	NIL

**ANNEXURE II**  
**(NCD/Bonds/CP/FDs) DETAILS**

Instrument	Issue Date	Amount Raised (Rs. Cr)	Coupon Rate	Maturity Date	ISIN Particulars	Complexity
Additional Tier I Bonds (under Basel III)	15-Dec-2020	500.00	8.73%	Perpetual	INE692A08110*	Highly Complex
Additional Tier I Bonds (under Basel III)	11-Jan-2021	1000.00	8.64%	Perpetual	INE692A08128*	Highly Complex
Additional Tier I Bonds (under Basel III)	29-Jan-2021	205.00	8.63%	Perpetual	INE692A08136*	Highly Complex
Tier II Bonds (under Basel III)	8-Nov-2019	1000.00	8.93%	8-Nov-2029	INE112A08051^	Highly Complex
<b>Total</b>		<b>2705.00</b>				

\* Call option available after completion of 5 years from allotment date.

^ Issued by Corporation Bank and on amalgamation, transferred to Union Bank of India.

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Highly Complex**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**ANNEXURE-III**  
**List of Entities Consolidated - None**





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