CRISIL
Ratings

Rating Rationale

July 14, 2023 | Mumbai

Union Bank of India

Rating outlook revised to 'Positive'; Rating Reaffirmed; Lower Tier-II Bonds (under Basel II) Withdrawn

Rating Action

Rs.117 Crore Tier I Bonds (Under Basel III)	**CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Rs.1983 Crore Tier I Bonds (Under Basel III)	**CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Rs.1500 Crore Tier I Bonds (Under Basel III)	**CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Rs.1500 Crore Tier I Bonds (Under Basel III)	**CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Rs.2000 Crore Tier I Bonds (Under Basel III)	**CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Rs.500 Crore Tier I Bonds (Under Basel III)	**CRISIL AA/Stable (Withdrawn)**
Rs.2000 Crore Tier II Bonds (Under Basel III)	**CRISIL AA+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Lower Tier-II Bonds (under Basel II) Aggregating Rs.800 Crore	**CRISIL AA+/Stable (Withdrawn)**
Tier II Bonds (Under Basel III) Aggregating Rs.2750 Crore (Reduced from Rs 3750 crore)	**CRISIL AA+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its Outlook on Tier I and Tier II bonds (Under Basel III) of Union Bank of India (Union Bank/UBI) to '**Positive'** from 'Stable' while reaffirming its rating of '**CRISIL AA+'** on existing Tier II Bonds (under Basel III) and '**CRISIL AA**' on existing Tier I Bonds (under Basel III). CRISIL Ratings has also **withdrawn** its rating from Rs 500 crore of Tier I Bonds (Under Basel III), Rs 800 crore of Lower Tier II Bond (under Basel II) and Rs 1000 crore of Tier- II Bond Issue (Under Basel III).

The revision in outlook to "Positive" from "Stable" reflects the gradual improvement in the bank's asset quality and earnings profile over the past few quarters, alongside steady asset growth of ~13% and adequate capitalization.

The GNPA stood at 11.1% as on March 31, 2022 which has reduced to 7.5% as on March 31, 2023 due to reduced slippages. On a quarterly basis also, the slippages have shown a continued improving trajectory at 4.8% for Q1, 3.4% for Q2, 3.1% for Q3 and 1.9% for Q4. The improvement in GNPA is stemming primarily from the MSME and corporate book which is supporting the overall asset quality metrics. CRISIL Ratings expects the trajectory of controlled slippages and hence a further improvement in the asset quality metrics to continue going forward.

Return on Assets (RoA) inched up from 0.5% in fiscal 2022 to 0.7% in fiscal 2023, while this continues to remain subdued, the provision coverage ratio for the bank has improved to 78.8% as on March 31, 2023 from 69.5% previous fiscal.

The banks has plans to raise additional equity capital of Rs 8,000 crore in the coming fiscal, this will further improve the existing CAR from 16.0%.

The overall ratings continue to reflect the expectation of strong support from the majority stakeholder, Government of India (GoI), and the bank's sizeable scale of operations. These strengths are partially offset by modest, though steady, growth in advances

The rating on the Tier I bonds (under Basel III) meets 'CRISIL's rating criteria for BASEL III-compliant instruments of banks'. CRISIL Ratings evaluates the bank's (i) reserves position (adjusted for any medium-term stress in profitability) and (ii) cushion over regulatory minimum Common Equity Tier I (CET1; including Capital Conservation Buffer—CCB) capital ratios. Also evaluated is the demonstrated track record and management philosophy regarding maintenance of sufficient CET1 capital cushion above the minimum regulatory requirements.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has considered the consolidated business and financial risk profiles of Union Bank and its subsidiaries. CRISIL Ratings has also factored in the strong support that the bank is expected to receive from its majority owner, the central government, both on an ongoing basis and in the event of distress.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Expectation of strong support from the government

The ratings continue to factor in expectation of strong government support. This is because the central government is the majority shareholder in public sector banks (PSBs) and the guardian of India's financial system. Stability of the banking sector is of prime importance to the government, given its criticality to the economy, strong public perception of sovereign backing for PSBs, and severe implications of any PSB failure, in terms of political fallout, systemic stability and investor confidence. The majority ownership creates a moral obligation on the government to support PSBs, including Union Bank. Any material change in shareholding by GoI and/or privatisation of the bank in line with Finance Minister's announcement in the recent budget for privatisation of two PSBs will be a key rating sensitivity factor.

As a part of the Indradhanush framework, the government had pledged to infuse at least Rs 70,000 crore in PSBs over fiscals 2015 to 2019, of which Rs 25,000 crore each was infused in fiscals 2016 and 2017. In October 2017, the government outlined a recapitalisation package of Rs 2.11 lakh crore over fiscals 2018 and 2019. Union Bank, Andhra Bank and Corporation Bank together received Rs 10242 crore in fiscal 2018 and Rs 21,028 crore in fiscal 2019 under this package. Also, the government allocated Rs 70,000 crore in fiscal 2020, of which Rs 11968 crore was received.

Adequate Capitalisation

The bank has flexibility to raise additional equity from the market, with the central government stake at 83.5% as on March 31, 2023. The bank has raised Rs 2200 crore of Tier 2 bonds and Rs 1983 crore of Tier 1 bonds in fiscal 2023. The bank has also raised equity of Rs 1447 crore in fiscal 2022 and the next equity raise of Rs 8000 crore is envisaged for the near to medium term. The bank's CET-1 ratio, Tier-I CAR and overall CAR stood at 12.4%, 13.9% and 16.0%, respectively, as on March 31, 2023 (10.6%, 12.2% and 14.5% as on March 31, 2022).

Sizeable scale of operations, backed by extensive branch network and stable growth

Union Bank is among the larger PSBs with share in deposits and advances in the domestic banking system at ~6% each as on March 31, 2023. The gross advances grew from Rs 7,16,408 crore as on March 31, 2022 to Rs 8,09,905 crore as on March 31, 2023 which is a 13% growth. The bank has 46% of its total advances in the form of loans to corporates followed by retail (19%), agriculture (19%) and micro, small and medium enterprises (16%). Within retail, housing loans constituted almost 50% of the loan book.

The bank benefits from its sizeable branch network of 8577 as on March 31, 2023, and wide reach in rural and semi-urban areas, which facilitates access to low-cost, stable resource base. As on March 31, 2023, current account and savings account (CASA) deposits-to-total deposit ratio was 35.6% (36.5% as on March 31, 2022). While this is adequate, it is lower than that for some of the other large banks. Union Bank is likely to maintain its market share and pan-India presence over the medium term.

Weaknesses:

Modest, albeit improving, earnings profile

Profitability of the bank was constrained primarily by high provisioning costs taken by the bank. However, it has improved over the last few fiscals. The bank reported a profit after tax (PAT) of Rs 8434 crore with return on assets (RoA) of 0.7% in fiscal 2023 against PAT of Rs 5233 crore with return on assets (RoA) of 0.5% in fiscal 2022 and a profit of Rs 2905 crore with RoA of 0.3% in fiscal 2021.

The improvement was driven by improvement in Net interest income (NII) from Rs 24688 crore (2.4% of average total assets) in FY 21 to Rs 32765 core (2.6% of average total assets) in FY 23. Another factor which contributed to the increase in profits was the increase in other income from Rs 12525 crore in FY 22 to 14633 crore in FY 23. Further, supported by cost rationalisation measures taken by the bank in the recent past, operating expenses remained range bound between 1.6% -1.8% of average assets between fiscal 2020 to fiscal 2023. Provisioning Coverage Ratio (PCR, excluding the technical write-offs) of the bank continues to remain high at around 78.8% as on March 31, 2023 (69.5% as on March 31, 2022).

Nevertheless, improvement and sustainability of the profitability will remain a key monitorable.

Average Asset Quality:

The bank's asset quality, with reported gross NPAs of 7.5% as on March 31, 2023 (11.1% as on March 31, 2022 and 13.7% as on March 31, 2022) is on an improving trajectory. Around 43% of the NPAs are contributed by large corporates, which have gross NPAs of around 7.3% as on March 31, 2023(11.3% as on March 31, 2022). The same has come down from 19.5% as on March 31, 2020 – driven by the write-offs. As on March 31, 2023, retail, agriculture, and micro--small and medium segments had gross NPAs of around 2.9%, 10.3% and 12.5%, respectively.

The slippages (as percentage of opening net advances), which had elevated to 4.1% (Rs 25147 crore) in fiscal 2020 and 3.9% (Rs 22877 crore) in fiscal 2022 post covid , have improved and reduced to 1.9% (Rs 12518 crore) in fiscal 2023. Furthermore, the bank's standard restructured accounts were at around 2.2% of advances as on March 31, 2023.

The overall Asset quality has improved in fiscal 2023 and the trajectory is expected to continue basis the reduced slippages and enhanced recovery efforts. The GNPA has reduced from Rs 89788 crore in fiscal 2021 to Rs 79587 crore in fiscal 2022 and further to Rs 60987 crore in fiscal 2023, thereby reducing the GNPA percentage from 13.7% in fiscal 2021 to 7.5% in fiscal 2023

Asset quality of the bank, as well as performance of the restructured accounts and ability of the management to contain slippages to NPAs and improve recoveries, will remain key monitorables in the near to medium term.

Liquidity: Strong
Liquidity should remain comfortable, supported by strong retail deposit base. Liquidity is supported the access to LAF window of RBI and refinance lines from financial institutions and LCR of ~192.9% for the quarter ended March 31, 2023. Liquidity also benefits from access to systemic sources of funds, such as the liquidity adjustment facility from RBI and access to the call money market.

Outlook: Positive
Union Bank should continue to benefit from strong government support and its large size and scale.

Rating Sensitivity factors

Upward factors

- Sustained improvement in asset quality with GNPA levels reducing to and remaining below 7% on a steady state basis or the Bank reporting a sustained increase in profitability metrics
- Capitalisation metrics improving considerably with significant cushion over the regulatory requirements

Downward factors

- Material change in shareholding and/or expectation of support from GoI
- Deterioration in asset quality with gross NPAs rising from current levels
- Decline in CAR below minimum regulatory requirements (including CCB, which is Tier I of 9.5% and overall CAR of 11.5%) for an extended period

About the Bank
Incorporated in 1919 in Mumbai, Union Bank was nationalised in 1969. The government's ownership stood at 83.5% as on December 31, 2021.

Amalgamation of Andhra Bank and Corporation Bank into Union Bank was effective from April 1, 2020. Post amalgamation, the merged entity enjoys the benefits of larger balance sheet and wider geographical reach. As on March 31, 2023, Union Bank is one of the top five largest PSBs with total assets of Rs 12,80,752 crore and strong domestic branch network comprising 8577branches.

The bank reported a profit of Rs 8434 crore on total income (net of interest expense) of Rs 47398 crore for the fiscal 2023, against Rs 5233 crore and Rs 40312 crore, respectively, in the previous fiscal.

Key Financial Indicators

Particulars as on March 31,	Unit	2023	2022	2021
Total assets	Rs crore	1280752	1187591	1071706
Total income (net of interest expense)	Rs crore	47398	40312	36025
Profit after tax	Rs crore	8434	5233	2905
Gross NPA	%	7.5	11.1	13.7
Overall CAR	%	16	14.5	12.6
RoA (annualised)	%	0.7	0.5	0.3

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
NA	Tier-I Bond Issue (Under Basel III)*	NA	NA	NA	117	Highly complex	CRISIL AA/Positive

INE692A08185	Tier-I Bond Issue (Under Basel III)	2-Mar-22	8.5	Perpetual	1500	Highly complex	CRISIL AA/Positive
INE692A08177	Tier-I Bond Issue (Under Basel III)	20-Dec-21	8.4	Perpetual	1500	Highly complex	CRISIL AA/Positive
INE692A08169	Tier-I Bond Issue (Under Basel III)	22-Nov-21	8.7	Perpetual	2000	Highly complex	CRISIL AA/Positive
INE692A08094	Tier II Bonds (under Basel III)	16-Sep-20	7.42	16-Sep-30	1000	Complex	CRISIL AA+/Positive
INE692A08102	Tier II Bonds (under Basel III)	26-Nov-20	7.18	26-Nov-35	1000	Complex	CRISIL AA+/Positive
INE692A08045	Basel III compliant Tier II Bonds	24-Nov-16	7.74	24-Nov-26	750	Complex	CRISIL AA+/Positive
INE692A09266	XVII-A Basel III compliant Tier II bonds	22-Nov-13	9.8	22-Nov-23	2000	Complex	CRISIL AA+/Positive
INE692A08193	Tier-I Bond Issue (Under Basel III)	25-Jul-22	8.69	Perpetual	1320	Highly complex	CRISIL AA/Positive
INE692A08227	Tier-I Bond Issue (Under Basel III)	23-Dec-22	@8.4% PER ANNUM	Perpetual	663	Highly complex	CRISIL AA/Positive

*Yet to be issued

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
INE692A09241	XVI-B Lower Tier II	28-Dec-12	8.9	28-Dec-22	800	Complex	Withdrawn
INE434A08083	Tier-I Bond Issue (Under Basel III)	31-Oct-17	9.20%	Perpetual	500	Highly complex	Withdrawn
INE434A08075	Tier-II Bond Issue (Under Basel III)	24-Oct-17	7.98%	24-Oct-27	1000	Complex	Withdrawn

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Union Bank of India (UK) Ltd	Full	Subsidiary
Union Asset Management Co Pvt Ltd	Full	Subsidiary
Union Trustee Co Pvt Ltd	Full	Subsidiary
UBI Services Ltd	Full	Subsidiary
Andhra Bank Financial Services Limited	Full	Subsidiary
Star Union Dai-ichi Life Insurance Co. Limited	Proportionate	Joint venture
India First Life Insurance	Proportionate	Joint venture
ASREC India limited	Proportionate	Joint venture
India International Bank (Malaysia) BHD	Proportionate	Joint venture
Chaitanya Godavari Gramina Bank	Proportionate	Associate

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Infrastructure Bonds	LT		--		--		--	01-10-21	Withdrawn	23-10-20	CRISIL AA+/Negative	--
			--		--		--	02-03-21	CRISIL AA+/Stable		--	--
Lower Tier-II Bonds (under Basel II)	LT	800.0	Withdrawn		--	15-07-22	CRISIL AA+/Stable	09-12-21	CRISIL AA+/Stable	23-10-20	CRISIL AA+/Negative	CRISIL AA+/Watch Developing
			--		--	10-02-22	CRISIL AA+/Stable	11-11-21	CRISIL AA+/Stable	10-09-20	CRISIL AA+/Negative	--
			--		--		--	01-10-21	CRISIL AA+/Stable	01-09-20	CRISIL AA+/Negative	--
			--		--		--	02-03-21	CRISIL AA+/Stable		--	--
Perpetual Tier-I Bonds (under Basel II)	LT		--		--		--		--	23-10-20	Withdrawn	CRISIL AA+/Watch Developing
			--		--		--		--	10-09-20	CRISIL AA+/Negative	--
			--		--		--		--	01-09-20	CRISIL AA+/Negative	--

Tier I Bonds (Under Basel III)	LT	7100.0	CRISIL AA/Positive		--	15-07-22	CRISIL AA/Stable	09-12-21	CRISIL AA/Stable	23-10-20	CRISIL AA-/Negative	--
			--		--	10-02-22	CRISIL AA/Stable	11-11-21	CRISIL AA/Stable		--	--
			--		--		--	01-10-21	CRISIL AA/Stable		--	--
			--		--		--	02-03-21	CRISIL AA-/Stable		--	--
Tier II Bonds (Under Basel III)	LT	4750.0	CRISIL AA+/Positive		--	15-07-22	CRISIL AA+/Stable	09-12-21	CRISIL AA+/Stable	23-10-20	CRISIL AA+/Negative	CRISIL AA+/Watch Developing
			--		--	10-02-22	CRISIL AA+/Stable	11-11-21	CRISIL AA+/Stable	10-09-20	CRISIL AA+/Negative	--
			--		--		--	01-10-21	CRISIL AA+/Stable	01-09-20	CRISIL AA+/Negative	--
			--		--		--	02-03-21	CRISIL AA+/Stable		--	--
Upper Tier-II Bonds (under Basel II)	LT		--		--		--	01-10-21	Withdrawn	23-10-20	CRISIL AA+/Negative	CRISIL AA+/Watch Developing
			--		--		--	02-03-21	CRISIL AA+/Stable	10-09-20	CRISIL AA+/Negative	--
			--		--		--		--	01-09-20	CRISIL AA+/Negative	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating Criteria for Banks and Financial Institutions
CRISILs Criteria for rating short term debt
Rating criteria for Basel III - compliant non-equity capital instruments
Rating Criteria for Hybrid Capital instruments issued by banks under Basel II guidelines
Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support
CRISILs Criteria for Consolidation

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