

Sr. No.	ISIN	Name of the Credit Rating Agency	Credit Rating assigned	Outlook (Stable/Positive/Negative/No outlook)	Rating Action (New/Upgrade/Downgrade/Reaffirm/Other)	Specify other rating action	Date of Credit Rating	Verification status of Credit Rating Agencies	Date of Verification
12	INE692A08094 (Tier-2 Bond)	India Ratings and Research Private Limited	AAA	Stable	Affirmed	NA	17.01.2025	Verified	17.01.2025
13	INE692A08102 (Tier-2 Bond)	India Ratings and Research Private Limited	AAA	Stable	Affirmed	NA	17.01.2025	Verified	17.01.2025
14	INE692A08144 (Tier-2 Bond)	India Ratings and Research Private Limited	AAA	Stable	Affirmed	NA	17.01.2025	Verified	17.01.2025
15	INE692A08151 (Tier-2 Bond)	India Ratings and Research Private Limited	AAA	Stable	Affirmed	NA	17.01.2025	Verified	17.01.2025
16	Certificate of Deposits	India Ratings and Research Private Limited	A1+	-	Affirmed	NA	17.01.2025	Verified	17.01.2025
17	Certificate of Deposits	India Ratings and Research Private Limited	A1+	-	New	NA	17.01.2025	Verified	17.01.2025

Thanking you.

भवदीय Yours faithfully,

(Mangesh Mandrekar)
Company Secretary

Cc to: IDBI Trusteeship Services Ltd.

India Ratings Assigns Union Bank of India's Additional Certificate of Deposits 'IND A1+'; Affirms Existing Ratings

Jan 17, 2025 | Public Sector Bank

India Ratings and Research (Ind-Ra) has taken the following rating actions on Union Bank of India (UBI):

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating Assigned along with Outlook/Watch	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AAA/Stable	Affirmed
Certificate of deposit	-	-	Up to 1 Year	INR100	IND A1+	Assigned
Certificate of deposit	-	-	Up to 1 Year	INR300	IND A1+	Affirmed
Basel III Tier 2 bonds*	-	-	-	INR50	IND AAA/Stable	Affirmed
Basel III AT1 perpetual bonds*	-	-	-	INR98.5	IND AA+/Stable	Affirmed

*Details in Annexure

Analytical Approach

Ind-Ra continues to fully consolidate UBI's wholly-owned subsidiaries - Union Asset Management Company Pvt Ltd, Union Trustee Co Pvt Ltd, Union Bank of India (UK) Ltd, Andhra Bank Financial Services Ltd and UBI Services Ltd - while arriving at the ratings, because of similar nature of operations.

Detailed Rationale of the Rating Action

The ratings reflect the bank's comfortable capital position and operating buffers in 1HFY25, indicating its continued ability to maintain or increase its market share and absorb the impact of expected and unexpected credit costs. The ratings also reflect an improvement in UBI's asset quality parameters in FY21-1HFY25, with a decline in net non-performing asset (NNPA) ratio and an overall improvement in the lending environment, especially for banks. These factors, in the agency's opinion, have boosted UBI's profitability, which is likely to be sustained over the medium term. The ratings continue to reflect UBI's systemically-important position and Ind-Ra's expectations that the bank will continue to receive support from the government of India (GoI; holds 74.8% stake).

For AT1 instruments, the agency considers the discretionary component, coupon omission risk and the write-down/conversion risk as key parameters to affirm the rating. The agency recognises the unique going-concern loss absorption features that these bonds carry and differentiates them from the bank's senior debt, factoring in a higher probability of an ultimate loss for investors in these bonds. Ind-Ra envisages the coupon deferrals and principal write-down risks as remote possibilities, in view of the bank's adequate distributable reserve buffers.

List of Key Rating Drivers

Strengths

- High systemic importance
- Better-than-peers' capital buffers
- Comfortable asset quality metrics

- Improved profitability

Weaknesses

- Moderate funding profile compared to peers

Detailed Description of Key Rating Drivers

High Systemic Importance: UBI's systemic importance is reflected in its high market share in deposits and net advances of around 5.9% and 5.3%, respectively, at 1HFY25 (FY24: 6.0% and 5.5%, respectively), thereby making it the fifth-largest public sector bank. The bank continues to benefit from its amalgamation with Corporation Bank and Andhra Bank effective 1 April 2020. At end-September 2024, the bank had 8,555 branches (including foreign branches) and over 9,124 automated teller machines, making it a significantly larger franchise in the banking parlance. UBI had last received a capital infusion of INR117.7 billion from the Govt in FY20 and the agency continues to expect the bank to receive government support, as and when required. The bank was able to raise INR80 billion of equity in FY24 (FY23: nil; FY22: INR14 billion).

Better-than-Peers' Capital Buffers: UBI's capital buffers improved over FY23-1HFY25, and the bank is now better placed than its similar-rated peers, as reflected in the common equity tier I (CET-I) ratio and tier-I capital adequacy ratio of 13.9% (FY24: 13.7%; FY23: 12.36%; FY22: 10.63%) and 15.2% (15.0%; 13.91%; 12.2%), respectively. This also needs to be viewed in context of the bank's NNPA's reducing to about 0.98% at 1HFY25 (FY24: 1.0%). The improvement in capital ratios was supported by improved profitability and successful qualified institutional placement of INR80 billion in FY24. Ind-Ra believes the manageable asset quality would enable the bank to maintain material profitability during FY25-FY26 compared to its previous performance, with return on assets of 1% or higher. Ind-Ra believes the existing capital buffers are adequately placed to also absorb asset quality shocks.

Comfortable Asset Quality Metrics: The bank's NNPA level, which was previously marginally higher than that of peers, continues to improve and was comparable to peer banks at about 0.98% in 1HFY25 (FY24: 1.0%; FY23: 1.7%; FY22: 3.7%). The bank's provision cover (net of technical write offs) of about 78.4% in 1HFY25 (FY24: 79.1%; FY23: 78.8%; FY22: 69.5%) was also comparable to that of peers. At end-March 2024, the bank's restructured loan book was miniscule, and the agency expects the restructured portfolio to follow the standard portfolio behaviour. The bank's special mention was low at INR75.7 billion (0.8% of advances) in 1HFY25 (above INR50 million ticket size). Furthermore, UBI witnessed continuous improvement in gross slippage during FY21-FY24, with only a slight increase in 1HFY25 to about 1.75% (FY24: 1.6%; FY23: 2.0%; FY22: 4.1%). Overall, the asset quality is likely to be manageable over the near-to-medium term amid the current benign credit environment.

Improved Profitability: UBI's profit increased significantly to about INR136.5 billion in FY24 (FY23: INR84.3 billion; FY22: INR52.3 billion), and stood at INR84 billion in 1HFY25, mainly backed by the decline in its credit costs, growth in advances and improved net interest margins (faster repricing in advances than deposits). The bank's cost-to-income ratio increased slightly to 46.4% in FY24 (FY23: 46.3%, FY22: 45.7%) due to higher employee and technological expenses but declined to 43.82% in 1HFY25. In 1HFY25, the bank's credit cost (provision for non-performing asset/average net advances) remained better compared to FY22-FY23 levels, though it inched up slightly to 0.91% compared to FY24 levels (FY24: 0.8%; FY23: 1.6%; FY22: 1.8%). Ind-Ra expects the bank to witness credit cost of less than 1.0% over the near-to-medium term. The agency expects the bank to maintain adequate profitability, with RoA of around 1%, amid low credit costs and slight decline in net interest margins over the near-to-medium term.

Moderate Funding Profile Compared to Peers: UBI's domestic low-cost current account and savings account (CASA) deposits declined to 32.7% in 1HFY25 (FY24: 34.2%; FY23: 35.6%; FY22: 36.54%) in line with the broader banking industry. However, the CASA ratio is weaker than that of peer public sector banks, and the bank has been ceding CASA market share. During FY24, UBI's CASA grew by about 4.1% yoy; the overall deposits, including fixed deposits, grew about 9.3% yoy, while advances grew 14.3% yoy. Given that deposit growth has lagged advance growth for a few quarters, the bank has been under pressure to raise deposit rates. In FY24, the bank's cost of funds increased to 4.8% (FY23: 3.9%). Given the lower share of the low-cost deposits, UBI's increase in cost of deposits could be marginally higher than peer banks' over the near term. In FY25, the agency expects the bank's cost of funds to increase further moderately.

Liquidity

Adequate: UBI's short-term (one-year) asset-liability deficit (surplus of short-term assets over short-term liabilities to total inflows) was about 0.7% of total assets as of March 2024. The average liquidity coverage ratio was 144% at FYE25 (FYE24: 141.1%; FYE23: 169.4%; FYE22: 175.8%), well above the regulatory requirement of 100%. UBI's excess statutory liquidity qualifying securities of about INR910 billion provide substantial liquidity comfort in addition to its assets in balances with the Reserve Bank of India and in government securities, indicating that it will be able to meet its short-term funding requirements under severe stress. The agency believes the bank's funding gap might not widen in the near term, unless it changes its liability structure drastically.

Rating Sensitivities

Positive: Not applicable

Negative: UBI's Basel III Tier 2 bond ratings have been equated to its Long-Term Issuer Rating, which could change if there is any unfavourable change in the GoI's support stance that restricts the bank's ability to maintain its systemic importance, or if the equity buffers of the bank consistently operate at close to the minimum regulatory levels.

The notching of the AT1 bonds could be widened from its anchor ratings if Ind-Ra believes there is a dilution in the government's support stance towards hybrid instruments of PSBs or if there is any delay in the timeliness of extending this support. This could lead to, among other things, capital buffers continuing to be close to the regulatory levels. In addition, Ind-Ra expects that the capital buffers would be higher for banks with weaker unsupported profiles; if not, then the notching from the Long-Term Issuer Rating could be wider/higher. These capital buffers could be important as the banks' ability to service the instrument could be impaired if it is incurring losses and/or if the capital levels are lower than the regulatory minimum levels.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on UBI, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

UBI is a public sector bank with operations across India. At end-September 2024, the GoI held an 74.76% stake in UBI.

Key Financial Indicators

Particulars (INR billion)	FY24	FY23
Net advances	8,707.8	7,618.5
Total deposits	12,215.3	11,177.2
Net income/loss	136.48	84.3
CET I (%)	13.7	12.4
Capital adequacy ratio (%)	16.9	16.0
Source: UBI, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument	Current Rating/Outlook	Historical Rating/Rating Watch/Outlook
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Type	Rating Type	Rated Limits (billion)	Rating	2 July 2024	26 October 2023	1 November 2022	15 July 2022	10 February 2022	10 December 2021	12 November 2021	6 October 2021
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
Basel III AT1 bonds	Long-term	INR98.5	IND AA+/Stable	IND AA+/Stable	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Basel III-complaint Tier II bonds	Long-term	INR50	IND AAA/Stable	IND AAA/Stable	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
Certificates of deposit	Short-term	INR 400	IND A1+	IND A1+	IND A1+	IND A1+	-	-	-	-	-

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Basel III AT1 Perpetual bonds	High
Basel III Tier 2 bonds	Medium
Certificate of Deposit	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Annexure

Instrument Type	ISIN	Date of Allotment	Tenor (years)	Maturity Date	Amount Mobilised (billion)	Coupon Rate (% p.a.)	Put/Call Option	Rating/Outlook
Basel III Compliant Tier II Bonds								
Basel III-compliant Tier II bonds	INE112A08051	8 November 2019	10	8 November 2029	INR10	8.93	Nil	IND AAA/Stable
Basel III-compliant Tier II bonds	INE692A08094	16 September 2020	10	16 September 2030	INR10	7.42	Call – 16 September 2025	IND AAA/Stable
Basel III-compliant Tier II bonds	INE692A08102	26 November 2020	15	26 November 2035	INR10	7.18	Call – 26 November 2030	IND AAA/Stable
Basel III-compliant Tier II bonds	INE692A08144	24 June 2021	10	24 June 2031	INR8.5	7.19	Call – 24 June 2026	IND AAA/Stable
Basel III-compliant Tier II bonds	INE692A08151	9 July 2021	15	9 July 2036	INR11.50	7.25	Call – 9 July 2031	IND AAA/Stable
Total utilised					INR50			
Basel III Compliant AT1 Bond								
Basel III AT1 Bonds	INE692A08029	15 September 2016	Perpetual	Perpetual	INR10	9.5	Call - 15 September 2026	IND AA+/Stable
Basel III AT1 Bonds	INE692A08110	15 December 2020	Perpetual	Perpetual	INR5	8.73	Call -15 December 2025	IND AA+/Stable
Basel III AT1 Bonds	INE692A08128	11 January 2021	Perpetual	Perpetual	INR10	8.64	Call – 11 January 2026	IND AA+/Stable
Basel III AT1 Bonds	INE692A08136	29 January 2021	Perpetual	Perpetual	INR2.05	8.73	Call – 29 January 2026	IND AA+/Stable
Basel III AT1 Bonds	INE692A08169	22 November 2021	Perpetual	Perpetual	INR20	8.70	Call-22 November 2026	IND AA+/Stable

Basel III AT1 Bonds	INE692A08177	20 December 2021	Perpetual	Perpetual	INR15	8.4	Call-20 December 2026	IND AA+/Stable
Basel III AT1 Bonds	INE692A08185	2 March 2022	Perpetual	Perpetual	INR15	8.5	Call-2 March 2027	IND AA+/Stable
Basel III AT1 Bonds	INE692A08193	25 July 2022	Perpetual	Perpetual	INR13.20	8.69	Call-25 July 2027	IND AA+/Stable
Basel III AT1 Bonds	INE692A08227	23 Dec 2022	Perpetual	Perpetual	INR6.63	8.4	Call December 2027	IND AA+/Stable
Total utilised					INR96.88			
Total unutilised					INR1.62			
Source: UBI								

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

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APPLICABLE CRITERIA AND POLICIES

Rating Bank Subordinated and Hybrid Securities

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

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