

संदर्भ Ref.: नि.से.वि.ISD/274/2022-23

दिनांक Date : 02 November 2022

<p><b>BSE Ltd.</b> Corporate Relationships Dept. Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001. <b>BSE Listing Centre</b> Scrip Code-532477</p>	<p><b>National Stock Exchange of India Ltd.</b> Listing Dept. Exchange Plaza, Plot No.C/1, G Block Bandra-Kurla Complex, Bandra (E), Mumbai-400 051. <b>NSE Digital Exchange</b> Scrip Symbol-UNIONBANK-EQ Security - UBI-AT/BB</p>
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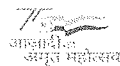
महोदया Madam/महोदय Sir,

**Subject: Reporting under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015-Revision in Credit Rating**

In terms of Regulation 30 read with point 3 of Para A of Part A of Schedule III and Regulation 55 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and SEBI circular no. CIR/CFD/CMD/4/2015 dated September 9, 2015 read with SEBI circular SEBI/HO/DDHS\_Div1/P/CIR/2022/000000103 dated July 29, 2022; we wish to inform that on November 01, 2022 the rating agencies have assigned/reaffirmed the ratings of Bank's Bonds as per following details:

S. 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
1.	INE112A08044	India Ratings & Research Pvt Ltd	IND AA+	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
2.	INE112A08051	India Ratings & Research Pvt Ltd	IND AA+	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
3.	INE692A08094	India Ratings & Research Pvt Ltd	IND AA+	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
4.	INE692A08102	India Ratings & Research Pvt Ltd	IND AA+	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
5.	INE692A08144	India Ratings & Research Pvt Ltd	IND AA+	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
6.	INE692A08151	India Ratings & Research Pvt Ltd	IND AA+	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022

W/nd  
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यूनियन बैंक ऑफ इंडिया, निवेशक सेवाये प्रभाग, यूनियन बैंक भवन, 239, विधान भवन मार्ग, नरीमन पॉइंट, मुंबई- 400021.  
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7.	INE692A08029	India Ratings & Research Pvt Ltd	IND AA	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
8.	INE692A08110	India Ratings & Research Pvt Ltd	IND AA	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
9.	INE692A08128	India Ratings & Research Pvt Ltd	IND AA	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
10.	INE692A08136	India Ratings & Research Pvt Ltd	IND AA	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
11.	INE692A08169	India Ratings & Research Pvt Ltd	IND AA	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
12.	INE692A08177	India Ratings & Research Pvt Ltd	IND AA	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
13.	INE692A08185	India Ratings & Research Pvt Ltd	IND AA	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
14.	INE692A08193	India Ratings & Research Pvt Ltd	IND AA	Stable	Reaffirm	NA	01-11-2022	Verified	01-11-2022
15.	Certificate of Deposits	India Ratings & Research Pvt Ltd	IND A1+	-	Assigned	NA	01-11-2022	Verified	01-11-2022

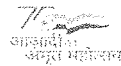
This is for your information and appropriate dissemination.

Thanking you.

भवदीय Yours faithfully,

  
(सीएस एस. के. दाश CS S. K. Dash)  
कंपनी सचिव Company Secretary  
एफसीएस FCS - 4085

Cc to: Debenture Trustees



## India Ratings Assigns Union Bank of India's CDs 'IND A1+'; Affirms Existing Ratings

Nov 01, 2022 | Banks

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

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AA+/Stable	Affirmed
Certificates of deposit	-	-	-	INR300	IND A1+	Assigned
Basel III Tier II bonds <sup>^</sup>	-	-	-	INR55	IND AA+/Stable	Affirmed
Basel III AT1 perpetual bonds <sup>^</sup>	-	-	-	INR98.5	IND AA/Stable	Affirmed

<sup>^</sup>Details in Annexure

**Analytical Approach:** Ind-Ra continues to take a consolidated view of Union and [its subsidiaries](#) while arriving at the ratings.

The ratings reflect Union's systemically-important position and Ind-Ra's expectations that the bank will continue to receive support from the government of India (GoI; holds 83.5% stake in Union). The ratings also reflect the bank's improving capital position and operating buffers, indicating its increasing ability to absorb the impact of any expected and unexpected credit costs. Also, Union's provision cover is improving without any significant deterioration in its credit profile and market position. These factors, in the agency's opinion, could also aid the bank to witness material profitability in FY23 (annualised return on assets (RoA) for 1HFY23: 0.6%) and grow its share in advances and deposits over the medium term.

For AT1 instruments, the agency considers the discretionary component, coupon omission risk and the write-down/conversion risk as key parameters to affirm at the rating. The agency recognises the unique going-concern loss absorption features that these bonds carry and that 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.

## Key Rating Drivers

**Increased Systemic Importance:** Union's systemic importance is reflected in its increased market share in deposits and net advances at FYE22 due to its amalgamation with Corporation Bank and Andhra Bank with effect from 1 April 2020. Post the amalgamation, the bank's market share in total deposits and net advances increased to around 6.4% and 5.7%, respectively, at FYE22, thereby making it the fifth-largest public sector bank.

At end-September 2022, the amalgamated bank had 8,726 domestic branches and over 11,092 automatic teller machines, making it a significantly larger franchise post the amalgamation. Union received a capital infusion of INR117.7 billion from the GoI in FY20 (FY19: INR41.1 billion) and the agency expects the government support to continue, if required; the same has been factored into the ratings. Like other large public sector banks, Union has been able to raise equity (INR14 billion of the equity raised in FY22) from the market, led by the improvement in its financial position. The bank is also planning to raise INR43 billion of AT1 and tier 2 capital bonds in FY23, of which it had raised INR13.2 billion of AT1 in 2QFY23.

**Deposit Profile Could Come Under Pressure:** Union's domestic low-cost current account and savings account (CASA) deposits remained steady at 35.6% at end-1HFY23 (FY22: 36.54%; FYE21: 36.3%). The bank's CASA is weaker than that of peer public sector banks, and the bank has been ceding CASA market share. During 1HFY23, Union's CASA grew at about 9.4% yoy, the overall deposits, including fixed deposits, grew about 17% yoy, while advances grew 21.5% yoy. Given that deposit growth has lagged advance growth for a few quarters, the banks have been under pressure to raise deposit rates – in this financial year, the banks' term deposit rates have increased 1%-1.5% and are likely to increase further – and Union's rates are not likely to be any different. The bank's cost of deposits increased by about 23bp during 1HFY23, from its lowest of 4% that the bank saw in 3QFY22. Given the lower share of the low-cost deposits, the bank's increase in cost of deposits could be marginally higher than peer banks' over the near term.

**Asset Quality – COVID-19 Aftermath Could Play Out but Would be Manageable Overall:** At end-March 2022, Union had about 2.6% loans (as a percentage of net advances: 3.2% at FYE21) that were restructured and loans worth about INR0.4 trillion that have been, in the agency's opinion, supported by the emergency credit line guarantee scheme. The bank has stated that about 7% of these loans are stressed (either slipped into non-performing assets (NPAs) or are overdue) and expects the balance to follow the standard portfolio behaviour. The bank saw a drop in its special mention accounts over INR50 million by more than 50% yoy at end-September 2022. Union witnessed a gross slippage of about 2% in 1HFY23 (FY22: 4.1%, FY21: 3%) and net slippage (gross slippage less upgrades and recoveries) of 0.3% (2.04%, 1.6%) – Ind-Ra believes the bank may not see significant net slippages in FY23. Ind-Ra expects the gross non-performing assets and net non-performing assets (NNPAs) to increase marginally in FY23 from the levels of 8.45% and 2.64%, respectively, in 1HFY23 (FY22: 11.11%, 3.68%). Overall, the asset quality is likely to continue to improve and would be manageable over the near-to-medium term.

**Moderate Capital Buffers:** Union has moderate capital buffers compared to similar-rated peers, as reflected in the common equity tier I (CET-I) ratio and tier-I capital adequacy ratio of 10.67% and 12.26%, respectively, at end-1HFY23 (FYE22: 10.63%, 12.2%; FYE21: 9.1% 10.4%). This also needs to be viewed in context of the bank's net NPAs being higher at about 2.67% at FYE22 compared to the broader public sector banks' universe (1.5%-2.5%). Union's risk weighted assets to net advances decreased to 78% at end-1HFY23 from 82.3% in FY22 and 93% in FY21, indicating the bank's progress in capital efficiency. Ind-Ra believes the manageable asset quality would enable the bank to maintain relatively material profitability compared to its previous performance though FY23-FY24 (RoA likely to be 0.5% or more). This, combined with the further utilisation of deferred tax assets, will help Union to partly offset the higher-than-peers NNPAs. Ind-Ra believes the existing capital buffers are adequately placed to also absorb asset quality shocks. After factoring in the

elevated provisioning requirements in FY23, on account of the pandemic induced potential slippages, the agency believes Union's capital buffers will be moderately higher than regulatory requirements while maintaining peer-comparable NNPA's. In the agency's opinion, if the credit costs exceed 3%, the bank might see equity erosion.

**Liquidity Indicator – Adequate:** Union's short-term (one year) asset liability surplus (surplus of short-term assets over short-term liabilities to total inflows) was about 20% at FYE22, better than that of similar-rated peers. The average liquidity coverage ratio was 176.3% at end-September 22 (FYE22: 175.38%; FYE21: 181.01%), well above the regulatory requirement of 100%. Union's excess statutory liquidity qualifying securities of about INR565 billion also 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, if at all, unless it changes its liability structure drastically.

**Profitability Expectations to be driven by Reduced Credit Cost and NIM:** Union's profit increased significantly to about INR34 billion in 1HFY23 (FY22: INR52.3 billion, FY21: INR29.1 billion), mainly backed by the decline in its credit costs and continued high profits from its treasury operations (FY22: INR39.12 billion; FY21: INR44.93 billion). However, Ind-Ra expects the overall interest rate environment to lead to a lower yoy contribution from the bank's treasury income in FY23 (1HFY23: profit from the sale of investments INR4.4 billion against INR20 billion in 1HFY22). The bank's credit cost (provision for NPA to average net advances) was 1.9% in FY22 (FY21: 3.1%); Ind-Ra expects the bank to witness a credit cost of about 2% over the near-to-medium term. The agency does not expect any significant adverse impact on treasury income hereon (modified duration of about 1.14 years on the available for sale portfolio of about INR740 billion at end-September 2022) at least in FY23. While the bank had a comparable provision cover (net of technical write offs) of about 71% at end-1HFY23, the NNPA levels at about 2.64% were modestly higher than those of peers, and hence, the bank might have to take up more provisions, in the agency's opinion, and may be in a position to cover the gap only by next year. Ind-Ra believes Union might be able to maintain its profitability (ex-treasury income) over the short term, as the NIMs have expanded and the rise in deposit rate would lag the increase in the loan yields over the near term.

## Rating Sensitivities

**Negative:** Union'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 Gol'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.

**Positive:** A significant increase in Union's market share in advances and deposits, leading to a material increase in its systemic importance and a consistent improvement in the bank's capital and profitability buffers (with increased profitability from the core lending operations), while maintaining peer-comparable asset quality or better, and an overall improvement in the operating environment could lead to positive rating action.

## Company Profile

Union is a public sector bank with operations across India. At end-Sept 2022, the Gol held an 83.5% stake in Union.



Basel III-compliant Tier II bonds	INE112A08044	14 November 2017	10	14 November 2027	INR5	8.02	Call 14 November 2022	IND AA+/Stable
Basel III-compliant Tier II bonds	INE112A08051	8 November 2019	10	8 November 2029	INR10	8.93	Nil	IND AA+/Stable
Basel III-compliant Tier II bonds	INE692A08094	16 September 2020	10	16 September 2030	INR10	7.42	Call – 16 September 2025	IND AA+/Stable
Basel III-compliant Tier II bonds	INE692A08102	26 November 2020	15	26 November 2035	INR10	7.18	Call – 26 November 2030	IND AA+/Stable
Basel III-compliant Tier II bonds	INE692A08144	24 June 2021	10	24 June 2031	INR8.5	7.19	Call – 24 June 2026	IND AA+/Stable
Basel III-compliant Tier II bonds	INE692A08151	09 July 2021	15	9 July 2036	INR11.50	7.25	Call – 9 July 2031	IND AA+/Stable
<b>Total utilised</b>					<b>INR55</b>			
<b>Basel III Compliant AT1 Bond</b>								
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	INR 15	8.5	Call-2 March 2027	IND AA/Stable
Basel III AT1 Bonds	INE692A08193	25 July 2022	Perpetual	Perpetual	INR 13.20	8.69	Call-25 July 2027	IND AA/Stable
<b>Total utilised</b>					INR90.25			
<b>Total unutilised</b>					INR8.25			

## Complexity Level of Instruments

Instrument Type	Complexity Indicator
Basel III-compliant Tier II bonds	Moderate
Basel III AT1 bonds	High
CDs	Low

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

## Contact

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Ankur Dahiya

Senior Manager – Corporate Communication



## APPLICABLE CRITERIA

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**Evaluating Corporate Governance**

**Rating Bank Subordinated and Hybrid Securities**

**Financial Institutions Rating Criteria**

**Rating FI Subsidiaries and Holding Companies**

**The Rating Process**

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