यूनियन बैंक ऑफ इंडिया Union Bank of India

भारत सरकार का उपक्रम A Government of India Undertaking

आन्ध्रा Andhra | कार्पोरेशन Corporation

Ref: ISD/20-21/288 March 1, 2021

The Deputy General Manager, Corporate Relationships Dept. **BSE Ltd.** PhirozeJeejeebhoy Towers, Dalal Street, Mumbai-400 001. Scrip Code-532 477	TheDeputy General Manager, Listing Dept. **National Stock Exchange of India Ltd.** Exchange Plaza, Plot No.C/1, G Block Bandra-Kurla Complex, Bandra (E), Mumbai-400 051. Scrip Symbol/Series-UNIONBANK-EQ

Madam/Sir,

Subject: Credit Rating

In terms of Regulation 30 read with point 3 of Para A of Part A of Schedule III of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and SEBI circular no. CIR/CFD/CMD/4/2015 dated September 9, 2015, we wish to inform that India Ratings & Research Ltd. has assigned the below credit ratings to the Bank's proposed Basel III Compliant Tier-II Bonds aggregating to upto Rs. 2000 Crore:

Sr No.	Rating Agency	Rating/Outlook
1.	India Ratings & Research	IND AA+/STABLE

The rating rationale of the agency is enclosed herewith.

This is for your information and appropriate dissemination.

Thanking you.

Yours faithfully,

Mangesh Mandrekar

(Mangesh Mandrekar)
Company Secretary

Encl: As above

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India Ratings & Research
A Fitch Group Company

India Ratings Assigns Union Bank of India's Tier II Bonds 'IND AA+'/Stable; Affirms Existing Ratings

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FEB 2021

By Jindal Haria

India Ratings and Research (Ind-Ra) has affirmed Union Bank of India's (Union) Long-Term Issuer Rating at 'IND AA+' with a Stable Outlook. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel III Tier II bonds#	-	-	-	INR20	IND AA+/Stable	Assigned
Basel III ATI bonds*	-	-	-	INR65	IND AA/Stable	Affirmed
Basel III Tier II bonds*	-	-	-	INR45	IND AA+/Stable	Affirmed

*Details in annexure
#Yet to be issued

Analytical Approach: Ind-Ra continues to take a consolidated view of Union and its subsidiaries while arriving at the ratings.

Ind-Ra has revised the Outlook on the banking sector as well as public sector banks (PSBs) to stable for FY22 from negative, on the back of lower-than-expected stress on banks' books on account of COVID-19 and high legacy provisions and capital buffers that banks have built-in. Accounting changes at PSBs have increased their ability to raise tier 1. Also, the government of India (GoI) has earmarked INR345 billion for capital infusions in PSBs over 4QFY21-FY22.

The ratings factor in an increase in Union's systemic importance post its amalgamation with Corporation Bank and Andhra Bank, and continued support from the GoI, given its majority shareholding of 89.1% at end-June 2020. Post the amalgamation, the bank's total deposit and net advances market share increased to around 6.7% and 6.1%, respectively, at FYE20, thereby making it the fifth-largest PSB. Ind-Ra expects the bank to continue to build covid-provisions to take care of 5% of its stressed book (post covid; incremental proforma GNPAs, restructuring and SMA 2 accounts), of which half could be restructured. While Ind-Ra expects the bank's asset quality and capital buffers to be under pressure for FY21 and FY22, owing to covid-related and legacy provisioning, the same would be manageable. If the economy picks up and the restructured assets do not see substantial deterioration, the bank could be better placed to gain market share. In the near term, the bank plans to raise capital (equity and sub-debt); some PSBs have managed to raise such capital from the markets during December 2020- January 2021.

For AT1 instruments, the agency considers the discretionary component, coupon omission risk and the write-down/conversion risk as key parameters to arrive at 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. Post the setting-off of P&L balances with share premium account, Union's distributable reserves were 5.7% of risk weighted assets at end-December 2020.

KEY RATING DRIVERS

Increased Systemic Importance: Union's market share in deposits and net advances increased at FYE20, due to its amalgamation with Corporation Bank and Andhra Bank with effect from 1 April 2020. The bank's total deposit and net advances market share increased to around 6.7% and 6.1%, respectively, at FYE20, thereby making it the fifth-largest PSB,

As of December 2020, the amalgamated bank had over 9,587 domestic branches, over 12,900 ATMs and more than 120 million customers, making it a significantly larger franchise post the amalgamation. Union received a capital infusion of INR41.1 billion from the GoI in FY19 and INR117.7 billion in FY20. Ind-Ra expects the government support to continue, if required, and the same has been factored into the ratings.

Asset Quality Challenges to Continue; but would be Lower-than-earlier Expected: The agency in its outlook report for FY22 expects that overall 3% of assets would be stressed on account of the COVID -19 linked lockdown (proforma NPAs and restructured advances) and about 1.5% stress / slippages (covid-linked) would occur in FY21. This could be modestly higher for PSBs other than State Bank of India (IND AAA/Stable). While this incremental stress definitely extends the PSBs' dependence on the GoI for growth capital, in the agency's opinion this is manageable and banks would able to absorb the same while remaining profitable.

Union is of the view that about 5% of its assets are stressed or could be stressed by end-FY21 (2.5% assets could be restructured, 0.8% SMA2 above INR50 million and the rest incremental proforma GNPAs), on which the bank has about 10% provisions. Also, the bank has disbursed about INR55 billion through schemes other than the Emergency Credit Line Guarantee during the lockdown; the lending supported by these disbursements could result in additional slippages in FY21-FY22. Considering that provisioning on legacy GNPAs of 78% excluding technical write-offs (3QFY21: 86% reported provision coverage ratio for 3QFY21), the bank is in a position to manage the same over the next two-three years. Ind-Ra expects that the bank would see a credit cost to net advances of 2.8% in FY21 (including covid provisions; FY20: 3.8%) and 2.4% in FY22 against a pre-provision operating profit of about 3% in FY20. Ind-Ra also expects that Union's GNPAs could increase from 13.5% at end-December 2020 to 16.4% at end-FY22 (could be lower to the extent of write-offs) with a provision cover of about 74%. Ind-Ra has not factored in recoveries from any of the large resolutions that are in the advanced stage of completion.

Moderate Capital Buffers: Union has moderate capital buffers relative to its similar-rated peers banks, as reflected in common equity tier I (CET-I) ratio and tier-I capital adequacy ratio of 9.22% and 10.47% respectively, at end-3QFY21 (end-FY20: 8.6% and 9.8% on amalgamated basis and 9.4% and 10.8% on standalone basis). While the bank received a sizeable capital infusion of INR117.7 billion in FY20, the capital buffers of the amalgamated entity moderated/depleted, due to high credit costs of 5.4% (INR88.24 billion) in 4QFY20. Ind-Ra expects that the bank's plans of raising capital and the GoI's earmarked INR345 billion infusion into PSBs would provide comfort on both stress and growth capital fronts. If these plans go through and the bank is the beneficiary of the GoI's equity infusion from what they have budgeted, the agency expects Union's dependence on the GoI for further capital would reduce in the medium term.

Liquidity Indicator – Adequate: Union's short-term (one year) asset liability mismatches at end-3QFY21 were about 3% of the total assets, in line with most similar-rated peers. Its average liquidity coverage ratio was about 184% at end-3QFY21. Also, the bank maintains over 20% of its total 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. The agency believes the bank's funding gap will not widen materially, unless it changes its liability structure drastically.

Profitability Remains Under Pressure: Union had witnessed net losses of INR77.5 billion in FY20, mainly due to the increase in provisions. However over 9MFY21, the bank made net profits of about INR15.5 billion; Ind-Ra expects the bank to be marginally profitable in FY21 while it could have an return on assets of 0.2%-0.4% in FY22. Most of the prospective provisions would be on account of covid-related stress and normal business slippages and provisions on legacy GNPAs that could continue till FY22. The bank has been focusing on retail growth and better-rated corporates since FY19. Ind-Ra expects the profitability would be better in FY22 as the bank grows its franchise because newer originations are less risky. Ind-Ra expects branch rationalisation benefits to materialise for the bank over the next two-three years.

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 a change in the GoI's support stance, thereby restricting its ability to maintain its systemic importance, or if the equity buffers of the bank consistently operate at close to the minimum regulatory levels. Substantially higher stress than expected could lead to a negative rating action.

The rating of the AT1 bonds could be downgraded in case of material deterioration in the unsupported credit profile of the bank which, among other factors, could reflect in a material decline in Union's market share, loss of deposit franchise or a large spike in delinquencies. The rating could also be downgraded in the event of the bank reporting high annual losses or a significant depletion of CET-1 capital buffers on a consistent basis (threshold of 100bp above the minimum regulatory requirements for CET-I and tier-I), which could impair the coupon-servicing capability. This could be important in case the bank incurs heavy losses, causing the capital ratios to fall below the minimum regulatory requirement, thereby impairing its ability to pay coupons.

Positive: A significant increase in Union's market share in advances and deposits, leading to a material increase in its systemic importance, consistent improvement in the bank's capital raising ability and minimal dependence on the GoI for capital and substantial sustained improvement in the profitability buffers could lead to a positive rating action.

COMPANY PROFILE

Union is a PSB with operations across India. Effective 1 April 2020, Andhra Bank and Corporation Bank have amalgamated with Union. It is headquartered in Mumbai and has about 10,000 branches and 13,000 ATMs.

FINANCIAL SUMMARY

Particulars (INR billion)	9MFY21 (Amalgamated)	FY20 (Amalgamated)
Net advances	5,817.17	5,998.30
Total deposits	8,925.41	8,686.32
Net income/loss	15.59	-77.49
CET I (%)	9.2	8.6
Capital adequacy ratio (%)	11.6	12.1
Source: Union, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch			
	Rating Type	Rated Limits (billion)	Rating	2 November 2020	5 November 2019	30 October 2018	9 October 2017
Issuer Rating	Long-term	-	IND AA+/Stable	IND AA+/Stable	IND AA+/RWE	IND AA+/Negative	IND AA+/Stable
Basel III AT1 bonds	Long-term	INR65	IND AA/Stable	IND AA/Stable	IND AA/RWE	IND AA/Negative	IND AA/Negative
Basel III-compliant Tier II bonds	Long-term	INR65	IND AA+/Stable	IND AA+/Stable	IND AA+/RWE	IND AA+/Negative	IND AA+/Stable

ANNEXURE

	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	INE692A09274	29 March 2016	10	29 March 2026	INR10	8.61	Call – 29 March 2021	IND AA+/Stable
Basel III-compliant Tier II bonds	INE112A08044	14 November 2017	10	14 November 2027	INR5	8.02	Nil	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
Total utilised					**INR45**			
Basel III Compliant AT1 Bond								
Basel III AT1 Bonds	INE692A08029	15 September 2016	Perpetual	Perpetual	INR10	9.50	Call - 15 September 2026	IND AA/Stable
Basel III AT1 Bonds	INE692A08037	4 November 2016	Perpetual	Perpetual	INR10	9.00	Call - 4 November 2021	IND AA/Stable

Basel III AT1 Bonds	INE692A08052	29 March 2017	Perpetual	Perpetual	INR2.5	9.10	Call - 29 March 2022	IND AA/Stable
Basel III AT1 Bonds	INE692A08060	30 March 2017	Perpetual	Perpetual	INR7.5	9.10	Call - 30 March 2022	IND AA/Stable
Basel III AT1 Bonds	INE692A08078	31 March 2017	Perpetual	Perpetual	INR5	9.10	Call - 31 March 2022	IND AA/Stable
Basel III AT1 Bonds	INE692A08086	3 May 2017	Perpetual	Perpetual	INR5	9.08	Call - 3 May 2022	IND AA/Stable
Basel III AT1 Bonds	INE692A08110	15 December 2020	Perpetual	Perpetual	INR5	8.73	Call -15 December 2020	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	8.63	Call - 29 January 2026	IND AA/Stable
Total utilised					**INR57.05**			
Total unutilised					**INR7.95**			

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency 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.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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

DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Rating Bank Subordinated and Hybrid Securities

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