CRISIL
Ratings

Rating Rationale

December 22, 2023 | Mumbai

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Union Bank of India

Rating upgraded to 'CRISIL AAA/CRISIL AA+/Stable'

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Rating Action

Tier I Bonds (Under Basel III) Aggregating Rs.7100 Crore	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Tier II Bonds (Under Basel III) Aggregating Rs.2750 Crore	**CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Positive')**
Rs.2000 Crore Tier II Bonds (Under Basel III)	**CRISIL AA+/Positive (Withdrawn)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

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Detailed Rationale

CRISIL Ratings has upgraded itsÂ rating on theÂ Tier II Bonds (under Basel III) of Union Bank of India (Union Bank)Â toÂ **â€˜CRISIL AAA/Stableâ€™**Â from â€˜CRISIL AA+/Positiveâ€™ and rating on Tier I Bonds (under Basel III) of the bank have been upgraded to â€˜**CRISIL AA+/Stable**â€™ from â€˜CRISIL AA/Positiveâ€™.Â

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CRISIL Ratings has alsoÂ **withdrawn**Â its rating on Tier II bonds (under BASEL III) of Rs 2000 crore (See Annexure 'Details of Rating Withdrawn' for details)Â in line with its withdrawal policy. CRISIL Ratings has received independent confirmation that these instruments have been fully redeemed.

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The upgrade in rating is driven by sustained improvement in asset quality and profitability of the bank while capitalization and market position remained strong. The rating continues to factor in the expectation of strong government support, both on an ongoing basis and in the event of distress

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The GNPA reduced to 6.4% as on September 30, 2023 from 7.5% as on March 31, 2023 and 11.1% as on March 31, 2022, driven by reduction in slippages and enhanced recovery efforts of the bank. The improvement in GNPA stems primarily from the MSME (Micro, Small and Medium Enterprise) and corporate book which is supporting the overall asset quality metrics. CRISIL Ratings expects the trajectory of gradual improvement in asset quality to continue going forward. Return on Assets (RoA) increased from 0.5% in fiscal 2022 and 0.7% in fiscal 2023 to 1.0% (annualized) in the first half of fiscal 2024, this is supported by improved net interest margins, stable operating expenses and reduced credit cost on account of improvement in the overall asset quality of the bank.

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The banks has raised additional equity capital of Rs 5,000 crore in the second quarter of fiscal 2024 via Qualified Institutional Placement (QIP), this resulted in a CAR of 16.7% as on September 30, 2023, as against 16.0% as on March 31, 2023.

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The overall ratings continue to reflect the expectation of strong support from the majority stakeholder, Government of India (GoI), and the bankâ€™s sizeable scale of operations. These strengths are partially offset by modest, though improving, earnings profile and asset quality.

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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

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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 Ministerâ€™s announcement in the recent budget for privatisation of two PSBs will be a key rating sensitivity factor.

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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.

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Adequate Capitalisation
The bankâ€™s CET-1 ratio, Tier-I CAR and overall CAR remained comfortable 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). The same has improved to 13.0%, 14.5% and 16.7% respectively as on September 30, 2023 on account of equity infusion and strong internal accruals. In Q2 2024, the bank raised additional equity of Rs 5,000 crore from the market as a result of which the stake of GoI in the bank reduced to 77% as on September 30, 2023 from 83.5% as on March 31, 2023. Previously, the bank had raised Rs 2200 crore of Tier 2 bonds and Rs 1983 crore of Tier 1 bonds in fiscal 2023 and Rs 1447 crore via equity in fiscal 2022.
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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 September 30, 2023. The gross advances grew by ~9% (annualized) to Rs 8,47,214 crore in first half of fiscal 2024 from to Rs 8,09,905 crore as on March 31, 2023 and Rs 7,16,408 crore as on March 31, 2022 which is a 13% year on year growth in fiscal 2023. Â 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.
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The bank benefits from its sizeable branch network of 8,521 as on September 30, 2023 31, 2023, and wide reach in rural and semi-urban areas, which facilitates access to low-cost, stable resource base. As on September 30, 2023, current account and savings account (CASA) deposits-to-total deposit ratio was 34.7% (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.
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Weakness:
Average, albeit improving, earnings profile
Profitability of the bank was historically constrained primarily by high provisioning costs. However, it has improved over the last few fiscals. The bank reported a profit after tax (PAT) of Rs 6748 crore in the first six months of fiscal 2024 (return on assets (RoA) of 1.0%) as against PAT Rs 8433 crore with RoA of 0.7% in fiscal 2023 (PAT of Rs 5232 crore with RoA of 0.5% in fiscal 2022).
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The improvement was driven by increase in Net interest income (NII) from Rs 27786 crore (2.5% of average total assets) in FY 22 to Rs 32765 core (2.6% of average total assets) in FY 23. For H1FY24, NII was Rs 18,182 crore (2.8%(annualized) of average total assets). Another factor which contributed to the increase in profits was the increase in other income from 1.1% of average total assets in FY 22 to 1.2% in FY 23 and 1.3%(annualized) in H1FY24.Â 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 fiscals 2022 and fiscal 2023 and credit cost reduced from 1.2% of average total assets in FY22 to 1.1% in FY23 and further to 0.6% (annualized) in H1FY24. Parallel to reduction in credit cost, the provisioning coverage ratio (PCR) of the bank remained high at around 80% in H1FY24 and 78.8% as on March 31, 2023 (69.5% as on March 31, 2022).
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Nevertheless, sustenance in improvement of profitability will remain a key monitorable.

Asset Quality, though improved from previous levels, remains modest:
The bank reported gross NPAs of 6.4% as of September 30, 2023, reduced from 7.5% as on March 31, 2023 (11.1% as on March 31, 2022 and 13.7% as on March 31, 2021). This metric has been on an improving trajectory owing to reduced slippages and increased recoveries. Around 43% of the NPAs are contributed by large corporates, which have gross NPAs of around 5.4% as on September 30, 2023 (7.3% as on March 31, 2023). The same has come down from 19.5% as on March 31, 2020 â€“ driven by the write-offs. As on September 30, 2023, retail, agriculture, and micro--small and medium segments had gross NPAs of around 2.8%, 8.9% and 10.5%, respectively.
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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 reduced to 1.9% (Rs 12518 crore) in fiscal 2023 and subsequently to 0.7% (Rs 5783 crore) in first six month of fiscal 2024. Furthermore, the bankâ€™s standard restructured accounts were at around 2.28% of advances as on September 30, 2023.
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Although the bank has shown improvement in asset quality, a sustained reduction of gross NPA (GNPA) and slippages along alongside uninterrupted recoveries, will remain key monitorables in the near to medium term.

Liquidity: Superior
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 ~144% for the quarter ended September 30, 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: Stable
Union Bank should continue to benefit from strong government support and its large size and scale.

Rating Sensitivity Factors
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 governmentâ€™s ownership stood at ~77% as on September 30, 2023.
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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 September 30, 2023, Union Bank is one of the top five largest PSBs with total assets of Rs 13,14,373 crore and strong domestic branch network comprising 8,519 branches.
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The bank reported a profit of Rs 6748 crore on a total income (net off interest expense) of Rs 25564 crore in H1FY24 and profit of Rs 8433 crore on total income (net of interest expense) of Rs 47398 crore for the fiscal 2023, against Rs 5232 crore and Rs 40312 crore, respectively, in the previous fiscal.

Key Financial Indicators

Particulars as on March 31,	Unit	H12024	2023	2022	2021
Total assets	Rs crore	1314373	1280752	1187591	1071706
Total income (net of interest expense)	Rs crore	25564	47398	40312	36025
Profit after tax	Rs crore	6748	8433	5232	2905
Gross NPA	%	6.4	7.5	11.1	13.7
Overall CARÂ	%	16.7	16.0	14.5	12.6
RoA (annualised)Â	%	1.0	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 -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â 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+/Stable
INE692A08185	Tier-I Bond Issue (Under Basel III)	2-Mar-22	8.5	Perpetual	1500	Highly complex	CRISIL AA+/Stable
INE692A08177	Tier-I Bond Issue (Under Basel III)	20-Dec-21	8.4	Perpetual	1500	Highly complex	CRISIL AA+/Stable
INE692A08169	Tier-I Bond Issue (Under Basel III)	22-Nov-21	8.7	Perpetual	2000	Highly complex	CRISIL AA+/Stable
INE692A08094	Tier II Bonds (under Basel III)	16-Sep-20	7.42	16-Sep-30	1000	Complex	CRISIL AAA/Stable
INE692A08102	Tier II Bonds (under Basel III)	26-Nov-20	7.18	26-Nov-35	1000	Complex	CRISIL AAA/Stable
INE692A08045	Basel III compliant Tier II Bonds	24-Nov-16	7.74	24-Nov-26	750	Complex	CRISIL AAA/Stable
INE692A08193	Tier-I Bond Issue (Under Basel III)	25-Jul-22	8.69	Perpetual	1320	Highly complex	CRISIL AA+/Stable
INE692A08227	Tier-I Bond Issue (Under Basel III)	23-Dec-22	@8.4% PER ANNUM	Perpetual	663	Highly complex	CRISIL AA+/Stable

**Yet to be issued*

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Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	ComplexityÂ levels	Rating assigned with outlook
INE692A09266	XVII-A Basel III compliant Tier II bonds	22-Nov-13	9.8	22-Nov-23	2000	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	JointÂ 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

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Infrastructure Bonds	LT	Â	--	Â	--	Â	--	01-10-21	Withdrawn	23-10-20	CRISIL AA+/Negative	--

Â	Â	Â	--	Â	--	Â	--	02-03-21	CRISIL AA+/Stable	Â	--	--
Lower Tier-II Bonds (under Basel II)	LT	Â	--	Â	--	15-07-22	CRISIL AA+/Stable	09-12-21	CRISIL AA+/Stable	23-10-20	CRISIL AA+/Negative	CRISIL AA+/Watch Developing
Â	Â	Â	--	Â	--	10-02-22	CRISIL AA+/Stable	11-11-21	CRISIL AA+/Stable	10-09-20	CRISIL AA+/Negative	--
Â	Â	Â	--	Â	--	Â	--	01-10-21	CRISIL AA+/Stable	01-09-20	CRISIL AA+/Negative	--
Â	Â	Â	--	Â	--	Â	--	02-03-21	CRISIL AA+/Stable	Â	--	--
Perpetual Tier-I Bonds (under Basel II)	LT	Â	--	Â	--	Â	--	Â	--	23-10-20	Withdrawn	CRISIL AA+/Watch Developing
Â	Â	Â	--	Â	--	Â	--	Â	--	10-09-20	CRISIL AA+/Negative	--
Â	Â	Â	--	Â	--	Â	--	Â	--	01-09-20	CRISIL AA+/Negative	--
Tier I Bonds (Under Basel III)	LT	7100.0	CRISIL AA+/Stable	14-07-23	CRISIL AA/Positive	15-07-22	CRISIL AA/Stable	09-12-21	CRISIL AA/Stable	23-10-20	CRISIL AA-/Negative	--
Â	Â	Â	--	Â	--	10-02-22	CRISIL AA/Stable	11-11-21	CRISIL AA/Stable	Â	--	--
Â	Â	Â	--	Â	--	Â	--	01-10-21	CRISIL AA/Stable	Â	--	--
Â	Â	Â	--	Â	--	Â	--	02-03-21	CRISIL AA-/Stable	Â	--	--
Tier II Bonds (Under Basel III)	LT	2750.0	CRISIL AAA/Stable	14-07-23	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
Â	Â	Â	--	Â	--	10-02-22	CRISIL AA+/Stable	11-11-21	CRISIL AA+/Stable	10-09-20	CRISIL AA+/Negative	--
Â	Â	Â	--	Â	--	Â	--	01-10-21	CRISIL AA+/Stable	01-09-20	CRISIL AA+/Negative	--
Â	Â	Â	--	Â	--	Â	--	02-03-21	CRISIL AA+/Stable	Â	--	--
Upper Tier-II Bonds (under Basel II)	LT	Â	--	Â	--	Â	--	01-10-21	Withdrawn	23-10-20	CRISIL AA+/Negative	CRISIL AA+/Watch Developing
Â	Â	Â	--	Â	--	Â	--	02-03-21	CRISIL AA+/Stable	10-09-20	CRISIL AA+/Negative	--
Â	Â	Â	--	Â	--	Â	--	Â	--	01-09-20	CRISIL AA+/Negative	--

All amounts are in Rs.Cr.

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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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