

Annexure I

United Bank of India - Rationale

CARE has assigned a 'CARE IPO Grade 4' (Grade Four) grading to the proposed Initial Public Offer (IPO) of United Bank of India (UBI). UBI proposes an IPO of around 5 crore equity shares of face value of Rs.10 each for cash at the market determined price. CARE IPO Grade 4 indicates 'above average fundamentals'. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading assigned to any individual issue represents a relative assessment of the fundamentals of the issuer.

The grading derives strength from 100% GoI ownership (which will come down to 84.2% after the IPO), long track record in banking industry, recapitalisation support demonstrated by GoI in FY09, wide & expanding network of branches & ATMs, strong technology back-up with CBS implementation in all branches, continuous improvement in core lending activities with increasing exposure to high rated clients, increasing deposit base with satisfactory proportion of low cost deposits, comfortable capital adequacy ratio (CAR) & expected further recapitalisation support from GoI and improving results in the current year. Improving corporate governance with formation of various committees in accordance with clause 49 of listing agreement also support the grading. The grading is however, constrained by relatively low level of profit, high slippages, relatively higher net NPAs, manifold increase in restructured accounts, geographical concentration in eastern & north-eastern states and intense competition in the domestic banking industry. UBI's ability to leverage its wide branch network, scale up its operations in other territories and generate higher fee based income shall remain the key rating sensitivities.

Background

UBI, a wholly owned GoI, came into existence in 1950 and is one of the 14 major commercial banks which were nationalised in 1969. In the past, GoI has demonstrated support to UBI. In FY09 as well, GoI infused a sum of Rs.250 crore by way of subscription to Perpetual Non Cumulative Preference Shares (PNCPS) issue. Further, in the current fiscal, GoI has approved conversion of equity share capital of Rs.1,266 crore into capital reserve and fresh issue of equity shares by way of the proposed IPO.

As on Mar.31, 2009, it had a wide branch network comprising 1,451 branches, 25 extension counters and 226 ATMs with major concentration of branches in eastern and

