



## United Bank of India

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ICRA has assigned an IPO Grade 3 to the proposed IPO of United Bank of India (UBI), indicating average fundamentals. ICRA assigns IPO gradings on a scale of IPO Grade 5 to IPO Grade 1, with IPO Grade 5 indicating strong fundamentals and IPO Grade 1 indicating poor fundamentals.

The IPO grade assigned by ICRA is based on UBI's well established franchise in the eastern and north-eastern (E & NE) regions of the country giving it access to a strong base of low-cost stable deposits (CASA<sup>1</sup> deposits constituted 34% of the total deposits on September 30, 2009), imparting the bank a favorable liquidity profile and helping it keep its cost of funds competitive. ICRA's grading also positively factors in support from GOI and strong supervision from 'Reserve Bank of India' enhancing the reliability of UBI's financials and ensuring compliance to all prudential guidelines. The grading also factors in the 100% CBS implementation of bank in current financial year which would improve the risk management system of the bank going forward. However, these strengths get diluted to an extent by relatively weak core profitability of the bank as a result of lower Net Interest Margins and fee based income and relatively weaker asset quality indicators. The grading is also constrained on account of systemic issues by virtue of being a Public Sector Bank results in high level of Government intervention, lack of flexibility in succession planning and weak minority shareholder rights in terms of voting powers, appointment of Board members and declaration of dividends. ICRA has taken note of UBI's non-compliance with Corporate Governance requirements as the representation of independent directors is reduced to less than 50% on the Board; however bank has received exemption from GOI while approval from SEBI<sup>2</sup> is awaited.

ICRA has taken note of GOI's decision to infuse Rs.8 billion as PNCPS<sup>3</sup>, in the bank (Rs.2.50 billion infused in 2008-09, balance Rs.5.50 billion expected to be infused before Mar-10) which could help UBI to improve shareholder returns while strengthening Tier-1 capital as cost of such capital is nominal (Repo +100 basis points). The Tier-1 capital would further improve with Initial Public Offer (IPO) in the current financial year although GOI's shareholding would get diluted to around 84% from the current levels of 100%. Improved capital structure would help the bank in arresting deterioration in the bank's solvency profile despite expected increase in fresh slippages and low profitability.

Owing to a franchise concentrated in the E & NE region, UBI's recoveries mainly from the exposures in the priority sector are relatively difficult, this is reflected in relatively high NPA% (5.5% in priority sector as against 2.48% overall Gross NPA% as on March 31, 2009). In light of this and restructured accounts (4.62% of gross advances as on March 31, 2009), fresh slippages for the bank could remain higher than peer group. The core profitability of the bank is low in H1' 2009-10 at 0.67% (although improved from 0.05% in 2008-09) owing to low net interest margins (NIMs) and relatively lower fee-based income; although the management is trying to address the same by taking initiatives aimed at improving NIMs (such as repricing of low yielding advances, shedding of bulk deposits); however considering its area of operations and low-fee based income, the bank would need to improve its NIMs substantially and / or improve fee based income from the current low levels to achieve reasonable profitability.

<sup>1</sup> CASA: Current and Saving Account

<sup>2</sup> SEBI: Securities and Exchange Board of India

<sup>3</sup> PNCPS: Perpetual Non-Cumulative Preference Shares



### Bank Profile

United Bank of India (UBI) is one of the 14 banks, which were nationalized in July-1969. UBI is 100% owned by GOI and is headquartered in Kolkata and is Convenor of the State Level Bankers' Committee (SLBC) for the states of West Bengal, Manipur and Tripura. As on September 30, 2009 the bank had 1453 branches with more than 80% of these are located in the Eastern and North-Eastern (E & NE) parts of the country. The branch demographic profile has a skew in favor of rural and semi-urban segments. On the strength of this network, the bank has a strong base of low cost deposits (CASA of 34% as on September 30, 2009). In September 2009 the Core Banking Solutions (CBS) has been implemented in all of the bank's branches and extension counters, covering 100% of its business. The bank is in the process of opening a representative office in Dhaka, Bangladesh. In collaboration with the Central Government and state governments of West Bengal, Assam, Manipur and Tripura UBI sponsor 4 regional rural banks (RRBs) namely; Bangiya Gramin Vikash Bank, Assam Gramin Vikash Bank, Manipur Rural Bank and Tripura Gramin Bank. For 2008-09, UBI reported Profit after Tax (PAT) of Rs.3.59 billion on an asset base of Rs.615.72 billion as compared to a PAT of Rs.1.45 billion on an asset base of Rs.538.24 billion for the previous financial year. As on March 31, 2009 the bank reported Capital adequacy of 13.28% (Tier 1: 7.56%) and Gross NPA of 2.84%. For H1' 2009-10, the bank reported PAT of Rs.2.31 billion. As on September 30, 2009, the bank reported Gross NPA% of 2.48% and Capital Adequacy of 12.93% (Tier 1: 7.61%).

### Issue Details

United Bank of India proposes to come out with an Initial Public Offering (IPO) of 50 million equity shares of face value Rs.10 each during February 2010. Subsequent to employee reservation of 2.5 million shares, the net issue to the public will be 47.5 million shares. The issue would constitute up to 15.8% of the post-issue paid-up equity capital of the bank while the net issue (net of employee reservation) constitute 15.01% of the bank's post-issue paid-up equity capital. The issue is being made through 100% book building process wherein at least 60% of the net issue would be reserved for Qualified Institutional Buyers (QIBs), up to 10% of the net issue will be reserved for non-institutional investors and up to 30% of the net issue shall be reserve for retail investors. Post-IPO, the shares are proposed to be listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

### Proposed Use of IPO Proceeds

The IPO proceeds are proposed to be used primarily to augment the capital base to meet the future capital requirements arising out of the implementation of the Basel II standards & the growth in the bank's assets (primarily loan and investment portfolio).

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