

## Press Release

### UCO Bank

November 08, 2019

### Rating Assigned and Reaffirmed



Total facilities Rated*	Rs.1000.00 Cr.
Long Term Rating	ACUITE AA-/Stable

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs.500.00 Cr. Non-Convertible Basel III Compliant Tier-2 Bonds of UCO Bank. The outlook is '**Stable**'.

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### About UCO Bank:

Kolkata based, UCO Bank was founded in 1943 by the industrialist Mr. G. D. Birla as United Commercial Bank. The bank was nationalised in 1969 and renamed as UCO Bank in 1985. UCO Bank is a public sector bank which is engaged in retail banking, corporate/Wholesale banking, priority sector banking, treasury operations and other banking services. The bank operates through a network of 3086 branches in India and 2 branches, one each in Hong Kong and Singapore. The bank also has 2546 ATMs and 3600 Micro-ATMs as on March 31, 2019.

UCO Bank was listed on BSE and NSE in 2003. The Government of India holds 92.5 percent stake in the bank as on September 30, 2019.

### Analytical Approach

Acuite has adopted a standalone approach to analyse the business and financial profile of UCO Bank. The ownership and the ongoing support from the Government of India is central to the rating.

### Key Rating Drivers

#### Strengths

- Government of India ownership with track record of support:**

UCO Bank, headquartered in Kolkata, is among the 14 banks nationalised in 1969. The Government of India (GoI) holds 92.5 percent stake in UCO Bank as on September 30, 2019 (84 percent as on March 31, 2018), which is one of its largest shareholdings in any public sector bank. The bank has a pan-India through a network of 3086 branches of which 31 percent branches are in the eastern region of India and the balance are spread across other regions. UCO Bank has a moderate international presence with 2 overseas branches one each in Hong Kong and Singapore. The bank plays a vital role in supporting the financial inclusion initiatives of the Government in east and the north eastern regions.

The GoI has been proactively supporting the Public sector Banks through regular infusion of funds in order to ensure their financial health, necessary for discharging their role as catalysts of economic growth and financial inclusion. The GoI had recently announced mergers amongst the various public sector banks as a consolidation measure. As a part of this initiative, most of the relatively weak banks are being merged with the stronger PSU Banks based on criteria such as geographical orientation, technology platform commonality etc. UCO Bank despite being under PCA framework has been able to retain its independent identity as the Government has kept the bank outside the scope of these mega mergers. This indicates the regional importance of UCO Bank.

Over the past 4 years, 11 PSU banks (including UCO Bank) were placed within the purview of Prompt Corrective Action Framework (PCA) by RBI on account of the continued deterioration in their key operating metrics such as Capital Adequacy, Profitability and Asset Quality. UCO Bank was included in the PCA

framework in May 2017. Government of India allocated Rs. 88,139 Cr. during FY2018 as a part of its recapitalisation initiative to strengthen the weakening capital position of these PSU banks. UCO Bank has already received Rs. 6,406 Cr. in FY2019 and Rs. 2130 Cr. in Q12020 (by way of recapitalisation bonds). Government has infused Rs. 17,903 Cr. in UCO Bank from FY2016 till September 30, 2019. Such large quantum of capital infusion reflects the strategic importance of UCO Bank to Gol and the role it continues to play particularly in the economy of the eastern part of India.

The ongoing support from Gol has helped UCO Bank in maintaining its overall Capital Adequacy at 10.9 percent as on June 30, 2019 as against the required benchmark level 9.0 percent (excluding Capital Conversion Buffer) as per BASEL III norms. The tier-I equity capital stood at 8.3 percent as on June 30, 2019, higher than the minimum of 7.0 percent required under the extant guidelines.

In addition to the regular capital infusion, UCO Bank's continuing focus on recoveries and resolution of the stressed assets in its books under the National Company Law Tribunal (NCLT) are expected to support the efforts of the bank to come out of the PCA framework by next financial year.

Acuite believes that Gol will continue to support UCO Bank in its revival path through further capital infusion, as and when required for adherence to the regulatory benchmarks. The continued ownership of Gol coupled with timing and magnitude of support will, nevertheless, be the key monitorables.

- **Healthy retail deposit franchise and exclusive trade account with Iran supports liability profile:**

UCO Bank has a pan India presence with around 38 percent of its branches (as on June 30, 2019) in the eastern and north eastern states, followed by 24 percent branches in north India and the balance distributed across Central, Western and Southern regions. UCO Bank has 60 percent of its branches in the rural and semi-urban regions which facilitates the mobilisation of small ticket deposits. On the strength of the extensive branch network, the retail deposits increased to Rs. 1.26 lakh Cr. as on March 31, 2019 (69 percent of overall deposits) as against Rs. 1.22 lakh Cr. as on March 31, 2017 (61 percent of overall deposits).

The savings account amounted to Rs. 59,376 Cr. as on March 31, 2019 as against Rs. 54,824 Cr. as on March 31, 2018. The bank's overall deposits as on March 31, 2019 were Rs. 1.97 lakh Cr. (previous year- Rs. 1.81 lakh Cr.). The top 20 depositors accounted to Rs. 29,259.49 Cr. (i.e. 14.78 percent) in FY2019 as against Rs. 15,580 Cr. (i.e. 8.57 percent of overall deposits) in FY2018.

The bank has benefitted from a strong Current Account Saving Account (CASA) base which accounted for 43 percent of the total domestic deposits as on March 31, 2019 (previous year- 35 percent). This compares favourably with its peers among mid-sized public sector banks. Further, the increasing share of retail deposits in the overall deposit base reflects the strong retail franchise in its key operating regions. Since retail deposits are more stable than bulk deposits, the increasing contribution from the retail deposit segment augurs well from the standpoint of a stability in its deposits base.

In addition to the strong retail deposit platform, UCO Bank also benefits from being nominated for routing of trade transactions under 'Rupee Payment Mechanism' between India and Iran. In view of the US sanctions against Iran, India's imports of crude from Iran are required to be settled in Indian Rupees. As per this arrangement, the oil importing companies deposit their payments for crude oil imports in the Rupee Accounts maintained with UCO Bank. Similarly, any exporter from India to Iran will receive payments for the exports from these accounts. Since India's trade balances with Iran are usually in a deficit, UCO Bank stands to benefit considerably by way of large balances in these accounts which are profitably deployed in the various liquid investment options such as interbank markets, among others. These balances, however, are volatile depending on the magnitude of transactions with Iran. The balance as on March 31, 2019 was Rs. 18,387 Cr. (previous year- Rs. 2,184 Cr.); however, declined again to Rs. 9,071 Cr. as on September 30, 2019 due to moderation in the transactions with Iran following on the back of the U.S. Sanctions.

Acuite expects UCO Bank to benefit by way of lower cost of funds on the back of its stable retail deposit base and large current account balances accruing from the Iranian trade account.

**Weakness:**

- **Persistent pressures on asset quality and profitability:**

The deterioration in corporate sector credit quality over the period 2014-18 witnessed in the Indian banking sector has been significantly reflected through a high level of stress in UCO Bank's advances. Gross NPAs increased from Rs. 6,621 Cr. as on March 31, 2014 to Rs. 30,549 Cr. as on March 31, 2018 and Rs. 29,888 Cr. as on March 31, 2019, mainly on account of elevated delinquencies in key sectors such as Power and Steel sector to which UCO Bank has a significant exposure. The gross NPAs stood at Rs. 29,432 Cr. as on June 30, 2019. The GNPA ratio has increased sharply from 4.32 percent as on March 31, 2014 to 25 percent as on March 31, 2019 (24.8 percent as on June 30, 2019). The top 25 NPAs of the bank comprised 44 percent of the gross NPAs as on June 30, 2019.

The NNPA, over the same period, increased from 2.38 percent to 13.1 percent over the period 2014-18 and slightly improved to 8.9 percent as on June 30, 2019. The Net NPA to networth ratio as on March 31, 2019 stood at 55 percent (Previous Year: 94 percent)

UCO Bank's business (Deposits and Advances) has shown a decline from Rs. 3.52 lakh Cr. in FY2014 to Rs. 3.17 lakh Cr. in FY2019. The deposits have moved from Rs. 1.99 lakh Cr. to 1.97 lakh Cr. over the said period, whereas the advances have declined from Rs. 1.53 lakh Cr. to Rs. 1.19 lakh Cr partly due to the impact of the PCA framework.

The impact of the decline in advances coupled with the severe deterioration in asset quality has led to a significant erosion in the bank's profitability, reflected in higher operating expenses ratio and credit costs. The cost to Income ratio increased to 58 percent in FY2019 from 51 percent in FY2017. The provisions and write off increased to Rs. 7,081 Cr. in FY2019 from Rs. 5,771 Cr. in FY2018. The significant spike in credit cost has resulted in net losses during FY2018 and FY2019, thereby resulting in a negative Return on Average Assets (ROAA), therefore, has been in the negative in FY2019 and FY2018. The continued losses have resulted in erosion in the capital funds which has been partly offset by regular infusion of funds by the Government. The management of UCO Bank has embarked on several initiatives to improve recoveries on delinquent accounts and shore up its profitability which will pave the way for coming out of the PCA framework.

UCO Bank has intensified its recovery efforts by referring most of the large NPA accounts to NCLT. While some of them are at advanced stage of resolution, the timeframe and extent of haircut will be critical to UCO Bank's performance for FY2020. The management is hopeful of recoveries in certain large accounts and lower pace of incremental slippages. This is expected to keep credit costs at moderate levels thereby supporting profitability. The lowering of yields is also expected to support the profitability in the current year due to treasury gains.

The turnaround in UCO bank's operating performance and its ability to exhibit an improvement in its asset quality and profitability parameters will be dependent on two variables- Firstly, a significant traction in its recoveries from the stressed accounts, which will help in reversing the high credit costs and Secondly, UCO Bank will also be required to demonstrate a pick-up in disbursements so as to ensure an increase in its loan book. The level of disbursements will be linked to credit off take in the economy and the bank's ability to identify the lending opportunities.

In the backdrop of a weak capital position constraining fresh lending along with delays in resolution of large stressed exposures, the possibility of a significant turnaround in the operating parameters appears less likely over the near term i.e. next 2-3 quarters. However, Acuite believes that the favourable stance of the Government as regards capital infusion and the regulator's approach regarding the attainment of the key operating metrics will be the key factors in UCO Bank's ability to come out of the PCA framework.

**Rating Sensitivity:**

- Ownership of GoI and continuing support by way of equity infusion
- Significant movements in asset quality and profitability parameters
- Exit from PCA framework

**Material Covenants:** None

### Liquidity Position

UCO Bank has adequate liquidity position as reflected in healthy Liquidity Coverage Ratio (LCR) of 203.5 percent as on June 30, 2019 as against regulatory requirement of minimum 100 percent. In terms of funding profile, UCO Bank has a Net stable funding ratio of 145.51 percent as on June 30, 2019. Besides maintaining CRR and SLR in excess of statutory requirements, the bank has also maintained liquid investments in non-SLR category which provide liquidity buffers.

### Outlook: Stable

Acuite believes that UCO Bank will maintain a 'Stable' outlook on the back of continuing support from Government of India and its important position in the public sector banking system. The outlook may be revised to 'Positive' in case UCO Bank is able to demonstrate a significant and sustainable improvement in profitability, asset quality and capital adequacy. The outlook may be revised to 'Negative' in case the bank faces challenges in attaining a significant improvement in asset quality, profitability and capital adequacy parameters.

### About the Rated Entity - Key Financials

Parameters	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Interest Income	Rs. Cr.	14330.6	14,020	16,326
Interest Expense	Rs. Cr.	10019.5	10,895	12,509
Profit After Tax (PAT)	Rs. Cr.	(4321.1)	(4,436)	(1,851)
Deposits	Rs. Cr.	197906.8	1,81,849	2,01,284
Net Advances	Rs. Cr.	99313.8	1,07,470	1,19,724
Investments	Rs. Cr.	82231.7	70,962	74,019
Capital Adequacy	(%)	10.7	10.9	10.9
Return on Average Assets (RoAA)	(%)	(2.00)	(2.02)	(0.79)
Gross NPA	(%)	25	24.6	17.1
Net NPA	(%)	9.7	13.1	8.9

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

None

### Applicable Criteria

- Banks And Financial Institutions - <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
April 18, 2019	Proposed Non-Convertible Basel III Compliant Tier-2 Bonds	Long Term	500.00	ACUITE AA-/Stable

**\*Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Non-Convertible Basel III Compliant Tier-2 Bonds	-	-	-	500.00	ACUITE AA-/Stable (Assigned)
INE691A08054	Non-Convertible Basel III Compliant Tier-2 Bonds	28-06-2019	9.64%	28-06-2029	500.00	ACUITE AA-/Stable (Reaffirmed)

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**About Acuité Ratings & Research:**

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