

Press Release

UCO Bank

October 12, 2021

Rating Reaffirmed



Total facilities Rated*	Rs.1500.00 Cr.
Long Term Rating	ACUITE AA-/Positive (Reaffirmed, Outlook revised to 'Positive' from 'Stable')

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs. 1500.00 Cr. Proposed Non-Convertible Basel III Compliant Tier-2 Bond Programme of UCO Bank. The outlook has been revised to '**Positive**' from '**Stable**'.

The revision in outlook takes into consideration noticeable and sustained improvement in the capital position. This is reflected in capital adequacy ratio and Tier I ratio of 14.24 percent and 11.32 percent respectively as on June 30, 2021 (11.65 percent and 8.91 respectively as on June 30, 2020). The revision also factors the improved profitability with the bank posting profits (Profits After Tax) of Rs.167 Cr. during FY2021 as against losses of Rs.2,437 Cr. during FY2020 supported by healthy operational performance and lower provisions. For Q1FY2022, the profits stood at Rs.102 Cr. This sustained improvement in solvency profile and earning profile has resulted in the bank coming out of PCA framework in September 2021.

The rating reaffirmation continues to factor the strong ownership and demonstrated capital support from the Government of India with recent capital infusion of Rs.2600 Cr. during FY2021 (aggregate capital infusion of Rs.22,645 Cr. during FY2016-FY2021 period) taking its stake to 95.39 percent as on June 30, 2021. The rating further takes into account healthy resource profile with CASA of 38.55 percent which is better than the mid-sized public sector banks and pan India presence with established presence in eastern region as depicted by 937 branches (31 percent of branch network) and 711 ATMs (30 percent of ATM network) as on June 30, 2021. The rating also factors in high provision coverage (including technical write-offs) of 88.53 percent as on June 30, 2021, which provides adequate buffer to mitigate asset quality pressures in the near to medium term.

These strengths are however partially offset by the bank's relatively moderate scale of operations, low profitability and moderate asset quality profile. While the bank has been posting profits over the last few quarters, its profitability (ROAA) remains low at 0.17 percent during Q1FY21. The GNPA and NNPA stood at 9.4 percent and 3.85 percent respectively with a PCR (including technical write offs) of 88.53 percent as on June 30, 2021. Assets in SMA-1 and SMA-2 category stood at Rs.320 Cr. and Rs.6008 Cr. respectively (5.78 percent of standard advances) while restructured assets stood at Rs.3776 Cr. (3.45 percent of standard advances) as on June 30, 2021. Acuité believes that the ability of the bank to contain asset quality risks in the currently evolving Covid-19 environment will be key monitorable. Nonetheless, Acuité expects slippages to be lower compared to what the bank has witnessed in the past few years, leading to further reduction in GNPA and NNPA.

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 nationalized 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 3069 branches in India and 2 branches, one each in Hong Kong and Singapore as on June 30, 2021.

UCO Bank was listed on BSE and NSE in 2003 and Government of India holds 95.39 percent stake as on June 30, 2021.

Analytical Approach:

Acuité 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 95.39 percent stake in UCO Bank as on June 30, 2021 (94.44 percent as on March 31, 2021), which is one of its largest shareholdings in any public sector bank. The bank has a pan-India presence through a network of 3069 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 the east and the north-eastern regions.

Acuité believes that GoI will continue to provide support to UCO Bank given its fairly reasonable presence particularly in eastern region and its key role in the penetration of financial services and social development therein. The continued ownership of GoI coupled with timing and magnitude of support will, nevertheless, be the key monitorables.

- **Healthy resource franchise in its area of operations:**

UCO Bank has established presence in eastern region as depicted by 937 branches (31 percent of branch network) and 711 ATMs (30 percent of ATM network) as on June 30, 2021 (943 branches (31 percent of branch network) and 675 ATMs (30 percent of ATM network) as on June 30, 2020). Further, the bank reported around 62 percent of its branches in the rural and semi-urban regions thereby facilitating the mobilisation of small ticket deposits. The CASA base stood at Rs.79,996 Cr. (38.55 percent of the total domestic deposits) as on June 30, 2021 (Rs.76,312 Cr. (40.12 percent of the total domestic deposits) as on June 30, 2020). Though the dip in CASA share was due to higher growth in term deposits, it continued to compare favourably with its peers among mid-sized public sector banks. Additionally, 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 of Rs.519 Cr. as on June 30, 2021 as against Rs.3,176 Cr. as on June 30, 2020 due to moderation in the transactions.

Acuité expects UCO Bank to benefit by way of a sovereign parentage, lower cost of funds on the back of its healthy resource profile.

- **Improvement in Financial Performance**

The bank turned profitable during FY2021 reporting profits (Profits After Tax) of Rs.167 Cr. as against losses of Rs.2,437 Cr. during FY2020. This improvement was supported by lower cost of funding (4.35 percent as on March 31, 2021 (5.31 percent as on March 31, 2020) that led to Net Interest Income (NII) of Rs.5480 Cr. during FY2021 (FY2020: Rs.5,092 Cr.). Also, higher treasury

income (interest on investments and trading profits) at 44.4 percent of total income during FY2021 (FY2020: 40.1 percent of total income) contributed to uptick in operating profits. Furthermore, lower provisions of Rs.5254 Cr. during FY2021 (FY2020: Rs.7272 Cr.) contributed to overall profitability. Resultantly, ROAA stood at 0.07 percent as on March 31, 2021 as compared to (1.09) percent as on March 31, 2020.

For Q1FY2022, the Bank reported PAT of Rs.102 Cr. on total income of Rs.4,540 Cr. as against PAT of Rs.21 Cr. on total income of Rs.4,437 Cr.

Weakness

• Moderate Asset Quality & profitability

The bank saw an improvement in asset quality with GNPA at 9.59 percent as on March 31, 2021 (16.77 percent as on March 31, 2020). Acuité notes that this improvement in asset quality is also attributed by high write offs at Rs.9,411 Cr. during FY2021 (FY2020: Rs.12479 Cr.). The GNPA stood at 9.37 percent with a PCR (including technical write offs) of 88.53 percent as on June 30, 2021. Assets in SMA-1 and SMA-2 category stood at Rs.320 Cr. and Rs.6008 Cr. respectively (5.78 percent of standard advances) as on June 30, 2021 (Rs.5800 Cr. and Rs.2343 Cr. (7.61 percent of standard advances) as on March 31, 2021) while restructured assets stood at Rs.3776 Cr. (3.45 percent of standard advances) as on June 30, 2021. Acuité believes that the ability of the bank to contain asset quality risks in the currently evolving Covid-19 environment will be key monitorable. Nonetheless, Acuité expects slippages to be lower compared to what the bank has witnessed in the past few years, leading to further reduction in GNPA and NNPA.

Further, while Acuité takes cognizance of improvement in the banks operating performance over the last few quarters, its profitability (ROAA) remains low at 0.17 percent during Q1FY21 which exposes the bank to asset quality shocks.

Rating Sensitivities

- Ownership of Gol and continuing support by way of equity infusion
- Movement in capital adequacy levels
- Movement in asset quality and profitability parameters

Material Covenants

Not Applicable

Liquidity Position: Adequate

The bank's liquidity position is supported its strong deposit franchise. Its liquidity coverage ratio stood at 229.9 percent as on March 31, 2021 as against minimum regulatory requirement of 100%. Further, excess SLR stood at Rs.27,361 Cr. as on March 31, 2021.

Outlook: Positive

The rating will be upgraded if the bank is able to demonstrate a sustained and higher than expected improvement in profitability and asset quality. The outlook may be revised to 'Stable' in case the bank faces challenges in maintaining asset quality, profitability and capital adequacy parameters or there is significant divestment in Gol ownership.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Interest Income	Rs. Cr.	14446	15134
Interest Expense	Rs. Cr.	8966	10042

Profit After Tax (PAT)	Rs. Cr.	167	(2437)
Deposits	Rs. Cr.	205919	193203
Net Advances	Rs. Cr.	111355	101174
Investments	Rs. Cr.	93783	90999
Capital Adequacy	(%)	13.74	11.70
Return on Average Assets (RoAA)	(%)	0.07	(1.09)
Gross NPA	Times	9.59	16.77
Net NPA	Times	3.94	5.45

ROAA as per Acuite calculations

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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
November 27, 2020	Non-Convertible Basel III Compliant Tier-2 Bonds	Long Term	500.00	ACUITE AA-/Stable (Reaffirmed)
	Non-Convertible Basel III Compliant Tier-2 Bonds	Long Term	500.00	ACUITE AA-/Stable (Reaffirmed)
	Proposed Basel-III Compliant Tier-II Bonds	Long Term	500.00	ACUITE AA-/Stable (Assigned)
11 th November, 2020	Non-Convertible Basel III Compliant Tier-2 Bonds	Long Term	500.00	ACUITE AA-/Stable (Reaffirmed)
	Non-Convertible Basel III Compliant Tier-2 Bonds	Long Term	500.00	ACUITE AA-/Stable (Reaffirmed)
08 th November, 2019	Non-Convertible Basel III Compliant Tier-2 Bonds	Long Term	500.00	ACUITE AA-/Stable (Assigned)
	Non-Convertible Basel III Compliant Tier-2 Bonds	Long Term	500.00	ACUITE AA-/Stable (Reaffirmed)
18 th April, 2019	Proposed Basel-III Compliant Tier-II Bonds	Long Term	500.00	ACUITE AA-/Stable (Assigned)

***Annexure 1 – Details of instruments rated**

Lender Name	ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Not Applicable	Proposed Basel-III Compliant Tier-II Bonds	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE AA-/Positive (Reaffirmed; Outlook revised to 'Positive' from

							'Stable')
Not Applicable	INE691A08054	Non-Convertible Basel III Compliant Tier-2 Bonds	28.06.2019	9.64	28.06.2029	500.00	ACUITE AA-/Positive (Reaffirmed; Outlook revised to 'Positive' from 'Stable')
Not Applicable	INE691A08062	Non-Convertible Basel III Compliant Tier-2 Bonds	16.12.2019	9.71	16.12.2029	500.00	ACUITE AA-/Positive (Reaffirmed; Outlook revised to 'Positive' from 'Stable')

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About Acuité Ratings & Research:

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