

Press Release
UCO Bank

December 14, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	1000.00	ACUITE AA Stable Upgraded Positive to Stable	-
Total Outstanding Quantum (Rs. Cr)	1000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating from '**ACUITE AA-' (read as ACUITE double A minus) to 'ACUITE AA' (read as ACUITE double A)** on Rs. 1000.00 Cr. Non-Convertible Basel III Compliant Tier-2 Bonds (in the nature of Debentures) programme of UCO Bank. The outlook is '**Stable**'.

Rationale for the rating

The revision in rating takes into consideration noticeable and sustained improvement in the financial performance and asset quality. Driven by traction in credit growth in RAM (Retail, Agriculture & MSME) segment and healthy margins, the bank has been reporting improvement in operating performance. The bank reported a PAT of Rs. 930 Cr. as on March 31, 2022, as against Rs. 167 Cr. as on March 31, 2021. As on September 30, 2022, the bank reported a PAT of Rs. 628 Cr. The ratings upgrade further take into account sequential improvement in the asset quality metrics and high provisioning buffers. The asset quality has shown improving trends due to lower slippages with slippage ratio of 1.90 percent as on September 30, 2022 (March 31, 2022: 5.01 percent) resulting in GNPA at 6.58 percent as on September 30, 2022 (March 31, 2022: 7.89 percent). The Provision Coverage Ratio (PCR) (Including technical write-offs) stood at 92.90 percent as on September 30, 2022 (September 2021: 90.02 percent) while PCR (excluding technical write offs) stood at ~71 percent as on September 30, 2022.

The bank's comfortable capitalization levels are marked by CAR and Tier I of 14.02 percent and 11.25 percent respectively as on September 30, 2022 (CAR: 13.74 percent and Tier I: 10.97 percent as on March 31, 2022).

The rating continues to factor in strong ownership (Govt held 95.39 percent stake as on September 30, 2022) and demonstrated capital support from the Government of India. The rating further takes into account healthy resource profile with CASA of 39.57 percent which is better than the mid-sized public sector banks and pan India presence with established presence in eastern region as depicted by 944 branches (30 percent of branch network) as on September 30, 2022.

These strengths are however partially offset by the bank's relatively moderate scale of operations, moderate earning profile and moderate asset quality profile. While the bank has been posting profits over the past quarters, its profitability (ROAA) remains low at 0.68 percent for the quarter ended September 30, 2022. Although at an improving trend, the asset quality still remains moderate as depicted by GNPA of 6.58 percent as on September 30, 2022.

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 the 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 3106 branches in India and 2 branches, one each in Hong Kong and Singapore as on September 30, 2022. UCO Bank was listed on BSE and NSE in 2003 and Government of India holds 95.39 percent stake as on September 30, 2022.

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

Strength

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 (Gol) holds 95.39 percent stake in UCO Bank as on September 30, 2022, which is one of its largest shareholdings in any public sector bank. The bank has a pan-India presence through a network of 3106 branches of which 30 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 Gol 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 Gol 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 944 branches (30 percent of branch network) as on September 30, 2022 (937 branches (31 percent of branch network) as on September 30, 2021). 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. 90,519 Cr. (39.57 percent of the total domestic deposits) as on September 30, 2022 (Rs. 81,345 Cr. (38.95 percent of the total domestic deposits) as on September 30, 2021). The bank's CASA share 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. 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.

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 since FY2021. The bank is reporting profits (Profits After Tax) of Rs. 930 Cr. as on March 31, 2022 as against Rs. 167 Cr. as on March 31, 2021, and losses of Rs. 2,437 Cr. during FY2020. This improvement was supported by lower cost of funding (3.66 percent as on March 31, 2022 (4.02 percent as on March 31, 2021) that led to Net Interest Income (NII) of Rs. 6,473 Cr. during FY2022 (FY2021: Rs. 5,480 Cr.). Also, higher treasury income (interest on investments and trading profits) contributed to uptick in operating profits. Furthermore, lower provisions of Rs. 3,867 Cr. during FY2022 (FY2021: Rs. 5,254 Cr.) contributed to overall profitability. Resultantly, ROAA stood at 0.44 percent as on March 31, 2022 as compared to 0.12 percent as on March 31, 2021. For H1FY2023, the Bank reported PAT of Rs. 628 Cr. as against PAT of Rs. 307 Cr. during H1FY2022.

Weakness

Moderate Asset Quality & profitability albeit improving

The bank saw an improvement in asset quality with GNPA at 7.89 percent as on March 31, 2022 (9.59 percent as on March 31, 2021). Acuité notes that this improvement in asset quality is also attributed by high write offs at Rs. 3,851 Cr. during FY2022 (FY2021: Rs. 9,411 Cr.). Although the asset quality is at an improving trend, it still remains moderate as depicted by GNPA of 6.58 percent with a PCR (including technical write offs) of 92.90 percent as on September 30, 2022. Assets in SMA-1 and SMA-2 category stood at Rs. 2,978 Cr. and Rs. 3,283 Cr. respectively as on September 30, 2022 (Rs. 7,217 Cr. and Rs. 255 Cr. as on March 31, 2022) while restructured assets stood at Rs. 5,133.35 Cr. as on September 30, 2022. 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 moderate at 0.68 percent during Q2FY23 which exposes the bank to asset quality shocks.

ESG Factors Relevant for Rating

Public sector banks play a significant role in promoting financial inclusion in the country including facilitation of banking services in unbanked areas. Healthy corporate governance practices are important for sustainability in a bank's long term performance. Some of the critical governance factors in the banking sector include board independence and diversity, effectiveness of the board sub committees, shareholders' rights as well as policies on KMP compensation and business ethics. Further, for the financial services sector, data privacy, security of financial instruments and responsible investments are relevant social factors. Other material social factors involve employee management and talent retention given the manpower intensive nature of banking operations as also various initiatives for community support and development. While the banking sector has low exposure to environmental risks, energy efficiency and electronic waste management carry moderate materiality.

Currently UCO Bank's board comprises of eight directors. UCO Bank maintains adequate disclosures for business ethics which can be inferred from its policies relating to corruption mitigation, whistle blower protection and related party transactions. UCO Bank has taken multiple steps towards enhancement of shareholder rights. The bank has formed a stakeholders' relationship committee for redressal of grievances of shareholders and investors. The bank board also has a committee for performance evaluation of MD & CEO, Executive Directors and General Managers; this committee is constituted as per Government of India, Ministry of Finance, Department of Financial Services directives. On the social aspect, the bank has taken initiatives towards career development of its employees such as conducting training programmes and sponsoring senior employees in reputed training institutes. The bank has put in place cyber security policy and periodically carries out assessment on cyber security awareness through online tests, online surveys etc. Further, as part of Corporate Social Responsibility (CSR), the bank has set up 27 RSETI (Rural Self Employment Training Institutes) pan India to impart training and skill upgradation of rural youth geared towards entrepreneurship development.

Rating Sensitivity

- 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

None

Liquidity Position Adequate

The bank's liquidity position is supported its strong deposit franchise. Its liquidity coverage ratio stood at 188 percent as on September 30, 2022, as against minimum regulatory requirement of 100%. Further, excess SLR stood at Rs.28060 Cr. as on September 30, 2022.

Outlook: Stable

Acuite believes that Uco Bank will maintain a 'Stable' outlook on the back of continuing support from the Government of India and its adequate capital position. The outlook may be revised to 'Positive' in case UCO Bank is able to demonstrate a significant and sustainable improvement in profitability and asset quality. The outlook may be revised to 'Negative' in case the bank faces challenges in maintaining the adequacy in its capital position and witnesses increased asset quality challenges

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Interest Income	Rs. Cr.	14981	14446
Interest Expenses	Rs. Cr.	8508	8966
PAT	Rs. Cr.	930	167
Deposits	Rs. Cr.	224073	205919
Net Advances	Rs. Cr.	122784	111355
Investments	Rs. Cr.	96874	93783
Capital Adequacy	(%)	13.74	13.74
Return on Average Assets (RoAA)	(%)	0.37	0.07
Gross NPA	(%)	7.89	9.59
Net NPA	(%)	2.7	3.94

ROAA as per Acuite calculations

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

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Dec 2021	Bond	Long Term	500.00	ACUITE AA- Positive (Reaffirmed)
	Bond	Long Term	500.00	ACUITE AA- Positive (Reaffirmed)
	Proposed Bond	Long Term	500.00	ACUITE AA- (Withdrawn)
12 Oct 2021	Bond	Long Term	500.00	ACUITE AA- Positive (Reaffirmed)
	Proposed Bond	Long Term	500.00	ACUITE AA- Positive (Reaffirmed)
	Bond	Long Term	500.00	ACUITE AA- Positive (Reaffirmed)
27 Nov 2020	Non Convertible Debentures	Long Term	500.00	ACUITE AA- Stable (Reaffirmed)
	Proposed Bond	Long Term	500.00	ACUITE AA- Stable (Assigned)
	Non Convertible Debentures	Long Term	500.00	ACUITE AA- Stable (Reaffirmed)
11 Nov 2020	Non Convertible Debentures	Long Term	500.00	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	500.00	ACUITE AA- Stable (Reaffirmed)
08 Nov 2019	Non Convertible Debentures	Long Term	500.00	ACUITE AA- Stable (Assigned)
	Non Convertible Debentures	Long Term	500.00	ACUITE AA- Stable (Reaffirmed)
18 Apr 2019	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE AA- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE691A08054	Non-Convertible Debentures (NCD)	Jun 28 2019 12:00AM	9.64	Jun 28 2029 12:00AM	Simple / Complex	500.00	ACUITE AA Stable Upgraded Positive to Stable
Not Applicable	INE691A08062	Non-Convertible Debentures (NCD)	Dec 16 2019 12:00AM	9.71	Dec 16 2029 12:00AM	Simple / Complex	500.00	ACUITE AA Stable Upgraded Positive to Stable

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Shashank Sinha Management Trainee-Rating Operations Tel: 022-49294065 shashank.sinha@acuite.in	

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.