

Press Release

UCO Bank

February 20, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
BOND	1000.00	ACUITE AA- Stable Assigned	-
BOND	1000.00	ACUITE AA Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	2000.00	-	-

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE AA-' (read as ACUITE double A minus)** on the Rs.1000.00 Cr proposed Basel III Compliant Tier-1 Bond Programme of UCO Bank. The outlook is **'Stable'**.

Acuité has reaffirmed its long-term rating of **'ACUITE AA' (read as ACUITE double A)** on Rs. 1000.00 Cr. Non-Convertible Basel III Compliant Tier-2 Bonds programme of UCO Bank. The outlook is **'Stable'**.

Rationale for the rating

The rating continues to take 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 December 31, 2022 the bank reported a PAT of Rs. 1281Cr. The ratings 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 1.48 percent as on December 31, 2022 (March 31, 2022: 5.01 percent) resulting in GNPA at 5.63 percent as on December 31, 2022 (March 31, 2022: 7.89 percent). The Provision Coverage Ratio (PCR) (Including technical write-offs) stood at 93.58 percent as on December 31, 2022 (December 2021: 91.30 percent). The bank's comfortable capitalization levels are marked by CAR and Tier I of 14.32 percent and 11.57 percent respectively as on December 31, 2022 (CAR: 13.74 percent and Tier I:10.97 percent as on March 31, 2022).

The rating continues to factor in strong ownership (GoI held 95.39 percent stake as on December 31, 2022) and demonstrated capital support from the Government of India. The rating further takes into account healthy resource profile with CASA (Domestic) of 37.94 percent which is better than the mid-sized public sector banks and pan India presence with established presence in eastern region as depicted by 946 branches (30 percent of branch network) as on December 31, 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 0.85 percent for the quarter ended December 31, 2022. Although at an improving trend, the

asset quality still remains moderate as depicted by GNPA of 5.63 percent as on December 31, 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 3120 branches in India and 2 branches, one each in Hong Kong and Singapore as on December 31, 2022. UCO Bank was listed on BSE and NSE in 2003 and Government of India holds 95.39 percent stake as on December 31, 2022.

Analytical Approach

Acuité has adopted a standalone approach to analyse the business and financial profile of UCO Bank and considered features of AT-I Bonds viz. discretion in coupon payment, coupon omission risk and principal write down/loss absorption and in arriving at the rating. 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 (GoI) holds 95.39 percent stake in UCO Bank as on December 31, 2022, which is one of its largest shareholdings in any public sector bank. The bank has a pan-India presence through a network of 3122 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, Singapore and a representative office in Tehran, Iran. 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 946 branches (30 percent of branch network) as on December 31, 2022. 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 (Domestic) base stood at Rs. 89,185 Cr. (37.94 percent of the total domestic deposits) as on December 31, 2022 (Rs. 82,670 Cr. (38.63 percent of the total domestic deposits) as on December 31, 2021). The bank's CASA share continued to compare favourably with its peers among mid-sized public sector banks.

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 (3.12 percent as on March 31, 2022 (4.35 percent as on March 31, 2021) that led to Net Interest Income (NII) of Rs. 6473 Cr. during FY2022 (FY2021: Rs. 5480 Cr.). Also, higher treasury income (interest on investments and trading profits) contributed to uptick in operating profits. Resultantly, ROAA stood at 0.44 percent as on March 31, 2022 as compared to 0.12

percent as on March 31,2021. For 9MFY2023, the Bank reported PAT of Rs. 1281 Cr. as against PAT of Rs. 617.59 Cr. during 9MFY2022.

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.9411 Cr.). Although the asset quality is at an improving trend, it still remains moderate as depicted by GNPA of 5.63 percent with a PCR (including technical write offs) of 93.58 percent as on December 31,2022. Assets in SMA-1 and SMA-2 category stood at Rs. 3357 Cr. and Rs. 2888 Cr. respectively as on December 31, 2022 (Rs. 3661 Cr. and Rs. 2969 Cr. as on December 31, 2021) while restructured assets stood at Rs. 4763.59 Cr as on December 31, 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 181 percent as on December 31, 2022, as against minimum regulatory requirement of 100%. Further, excess SLR stood at Rs. 28,041.6 Cr. as on December 31, 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 2022	Bond	Long Term	500.00	ACUITE AA Stable (Upgraded from ACUITE AA- Positive)
	Bond	Long Term	500.00	ACUITE AA Stable (Upgraded from ACUITE AA- Positive)
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	Proposed Bond	Long Term	500.00	ACUITE AA- Stable (Assigned)
	Non Convertible Debentures	Long Term	500.00	ACUITE AA- Stable (Reaffirmed)
	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)

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	Basel III Tier II Bonds	28 Jun 2019	9.64	28 Jun 2029	Highly Complex	500.00	ACUITE AA Stable Reaffirmed
Not Applicable	INE691A08062	Basel III Tier II Bonds	16 Dec 2019	9.71	16 Dec 2029	Highly Complex	500.00	ACUITE AA Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Perpetual Additional Tier I Bonds	Not Applicable	Not Applicable	Not Applicable	Highly Complex	1000.00	ACUITE AA- Stable Assigned

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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.

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