

Press Release
UCO BANK
February 18, 2025
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
BOND	1000.00	ACUITE AA Stable Reaffirmed	-
BOND	1000.00	ACUITE AA- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	2000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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**’

Acuité has reaffirmed 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**’

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 slight reduction in PAT of Rs. 1653.74 Cr. as on March 31, 2024, as against Rs. 1862 Cr. as on March 31, 2023. For 9MFY2025, the bank reported a PAT of Rs.1792 Cr. 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 0.92 percent as on December 31, 2024 (March 31, 2024: 1.10 percent) resulting in GNPA at 2.91 percent as on December 31, 2024 (March 31, 2024:3.46 percent). The Provision Coverage Ratio (PCR) (Including technical write-offs) stood at 96.16 percent as on December 31, 2024 (December 2023: 95.21 percent). The bank’s comfortable capitalization levels are marked by CAR and Tier I of 16.25 percent and 14.17 percent respectively as on December 31, 2024 (CAR: 16.98 percent and Tier I: 14.54 percent as on March 31, 2024).

The rating continues to factor in strong ownership (GoI held 95.39 percent stake as on December 31, 2024) and demonstrated capital assistance from the Government of India. The rating further takes into account healthy resource profile with CASA (Domestic) of 39.25 percent which is better than the mid-sized public sector banks and pan India presence with established presence in eastern region as depicted by 988 branches (30 percent of branch network) as on December 31, 2024.

These strengths are however partially offset by the bank’s relatively moderate scale of operations and moderate earning profile. 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 3230 branches in India and 2 branches, one each in Hong Kong and Singapore as on December 31, 2024. UCO Bank was listed on BSE and NSE in 2003 and Government of India holds 95.39 percent stake as on December 31, 2024.

Unsupported Rating

Not Applicable

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 assistance from the Government of India is central to the rating.

Key Rating Drivers

Strength

Government of India ownership with track record of assistance provided:

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, 2024, which is one of its largest shareholdings in any public sector bank. The bank has a pan-India presence through a network of 3263 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 ownership benefit 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 ownership benefit 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 988 branches (30 percent of branch network) as on December 31, 2024. Further, the bank reported around 61 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. 1,00,530 Cr. (37.97 percent of the total domestic deposits) as on December 31, 2024 (Rs. 92879 Cr. (37.61 percent of the total domestic deposits) as on December 31, 2023). 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.

Improvements in Asset Quality

The bank saw an improvement in asset quality with GNPA at 3.46 percent as on March 31, 2024 (4.78 percent as on March 31, 2023). Acuité notes that this improvement in asset quality is also attributed by high write offs at Rs. 1938 Cr. during FY2024 (FY2023: Rs.2575 Cr.). Although the asset quality is at an improving trend, it still remains moderate as depicted by GNPA of 2.91 percent with a PCR (including technical write offs) of 96.16 percent as on December 31, 2024. The Net NPA as on March 31, 2024 stood at 0.89 percent as against 1.29 as on March 31, 2023. The Net NPA improved to 0.63 percent as on December 31, 2024. 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 (ROA) annualised remains moderate at 0.79 percent during Q3FY25 which exposes the bank to asset quality shocks.

Weakness

Moderate Earning Profile albeit improving

The Bank reported reduction in profits (Profit after Tax) of Rs 1653.74 Cr. during FY24 as against Rs 1862.34 Cr. during FY23. However, the Bank reported significant improvements in profits of Rs 1792.53 Cr. during 9MFY2025 as against Rs 1128 Cr.during 9MFY2024. The Bank had Net Interest Income (NII) of Rs. 8101 Cr. during FY2024 (FY2023: Rs.7343 Cr.) and Rs.6932Cr. during 9MFY2025 as against NII of Rs. 5914Cr. during 9MFY2024. Accordingly, ROAA stood at 0.54 percent as on March 31, 2024 as compared to 0.68 percent as on March 31, 2023. However, the cost of funds has seen an increase from 4.63 percent during FY24 to 4.75 percent during 9MFY2025.

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 GoI and continuing assistance by way of equity infusion
- Movement in capital adequacy levels
- Movement in asset quality and profitability parameters

Liquidity Position

Adequate

The bank's liquidity position is supported its strong deposit franchise. Its liquidity coverage ratio stood approximately at 125 percent as on December 31, 2024, as against minimum regulatory requirement of 100%. Further, excess SLR stood at 6.69 percent, amounting to approximately Rs.19,500 Cr. as on December 31, 2024.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Interest Income	Rs. Cr.	21854.34	17650.52
Interest Expenses	Rs. Cr.	13753.56	10307.39
PAT	Rs. Cr.	1653.74	1862.34
Deposits	Rs. Cr.	263129.77	249337.74
Net Advances	Rs. Cr.	182021.87	155870.18
Investments	Rs. Cr.	92904.40	95169.35
Capital Adequacy	(%)	16.98	16.51
Return on Average Assets (RoAA)	(%)	0.54	0.68
Gross NPA	(%)	3.46	4.78
Net NPA	(%)	0.89	1.29

ROAA as per Acuité calculations

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

Not Applicable

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, Acuité 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
20 Feb 2024	Basel III Tier II Bonds	Long Term	500.00	ACUITE AA Stable (Reaffirmed)
	Basel III Tier II Bonds	Long Term	500.00	ACUITE AA Stable (Reaffirmed)
	Proposed Perpetual Additional Tier I Bonds	Long Term	500.00	ACUITE AA- Stable (Reaffirmed)
	Basel III AT1 Bonds	Long Term	500.00	ACUITE AA- Stable (Reaffirmed)
20 Feb 2023	Basel III Tier II Bonds	Long Term	500.00	ACUITE AA Stable (Reaffirmed)
	Basel III Tier II Bonds	Long Term	500.00	ACUITE AA Stable (Reaffirmed)
	Proposed Perpetual Additional Tier I Bonds	Long Term	1000.00	ACUITE AA- Stable (Assigned)
14 Dec 2022	Non-Convertible Debentures (NCD)	Long Term	500.00	ACUITE AA Stable (Upgraded from ACUITE AA- Positive)
	Non-Convertible Debentures (NCD)	Long Term	500.00	ACUITE AA Stable (Upgraded from ACUITE AA- Positive)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	INE691A08096	Basel III AT1 Bonds	17 Mar 2023	9.50	31 Mar 2999	500.00	Highly Complex	ACUITE AA- Stable Reaffirmed
Not Applicable	INE691A08054	Basel III Tier II Bonds	28 Jun 2019	9.64	28 Jun 2029	500.00	Highly Complex	ACUITE AA Stable Reaffirmed
Not Applicable	INE691A08062	Basel III Tier II Bonds	16 Dec 2019	9.71	16 Dec 2029	500.00	Highly Complex	ACUITE AA Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Perpetual Additional Tier I Bonds	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	500.00	Highly Complex	ACUITE AA- Stable Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No.	Company Name
1	Government of Uttar Pradesh
2	UCO Bank

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About Acuité Ratings & Research

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