UCO Bank

January 14, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier II Bonds[&]	500.00	CARE AA; Stable	Upgraded from CARE AA-; Positive

Details of instruments/facilities in Annexure-1.

[&]Tier-II bonds under Basel-III are characterised by a 'point of non-viability' (PONV) trigger by which the investor may suffer a loss of principal. The PONV will be determined by the Reserve Bank of India (RBI) at which the bank may no longer remain a going concern by itself unless appropriate measures are taken to revive operations, enabling it to continue as a going concern. Difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier-I (CET I) capital should be considered the most appropriate way to prevent it from turning non-viable.

Rationale and key rating drivers

Revision in the rating assigned to long-term debt instrument of UCO Bank (UCO) takes into account the improvement in overall financial risk profile with improving asset quality and comfortable capitalisation levels.

The rating continues to factor in parentage of Government of India (GoI), which holds majority shareholding and its demonstrated support by multiple equity infusions in the past and expected sustenance of the same in future. The rating also derives strength from diversified advances book with an established franchise largely in northern and eastern India and improving profitability.

The rating remains constrained by moderate resource profile with lower-than-average proportion of current account savings account (CASA) deposits compared to peer banks, moderate asset quality and relatively smaller size with geographical concentration.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could lead to positive rating action/upgrade

- Sustained improvement in profitability accompanied by a healthy scale-up in operations while maintaining comfortable capitalisation levels.

Negative factors: **Factors that could lead to negative rating action/downgrade**

- Any material dilution in GoI shareholding or support.
- Deterioration in asset quality parameters with net non-performing assets (NNPA) ratio remaining over 5% on a sustained basis.
- Weakening in profitability resulting in return on total assets (ROTA) of under 0.3% on a sustained basis.
- Declining capitalisation levels with cushion above minimum regulatory requirement remaining lower than 1% on a sustained basis.

Analytical approach: Standalone

The rating is based on the bank's standalone profile and factors in strong and continued support from GoI, which has majority shareholding.

Outlook: Stable

The outlook is Stable on expectation that the bank will continue business growth while maintaining comfortable capitalisation and steady asset quality parameters.

Detailed description of key rating drivers:

Key strengths

Majority ownership and expected support from the Government of India (GoI)

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

GoI continues to be the majority shareholder with 95.39% stake in UCO as on September 30, 2024. GoI has been supporting public sector banks with regular capital infusions and steps to improve capitalisation, operational efficiency, and asset quality. From FY16 onwards, GoI has cumulatively infused equity capital aggregating to ₹22,645 crore, including recapitalisation bonds. Given the majority ownership of GoI, CARE Ratings expects UCO to receive timely and adequate support as capital from GoI and the same remains a key rating sensitivity.

Comfortable capitalisation levels
The bank has seen improved capitalisation levels from FY23 due to improving internal accruals, unwinding discount from zero coupon bonds and reducing deferred tax assets. In the past, the bank's capitalisation was supported by multiple equity infusions by the GoI against recapitalisation bonds.

UCO reported capital adequacy ratio (CAR) of 16.84% as on September 30, 2024 (March 31, 2024: 16.98%), with common equity tier (CET) I ratio of 14.22% (March 31, 2024: 14.14%) and Tier I CAR of 14.59% (March 31, 2024: 14.54%). Over the last four years, the bank's capitalisation has been largely supported by internal accruals. The bank raised additional tier I (AT I) bonds of ₹500 crore in FY23. The bank has board and shareholders' approval to issue 400 crore equity shares of face value of Rs.10/- each at appropriate premium during the financial year 2024-25, which would lead to a reduction in GoI's shareholding. CARE Ratings expects the bank to maintain adequate cushion over minimum regulatory requirement going forward.

Diversified advances profile
The bank witnessed an increase in advances post coming out of the prompt corrective action (PCA) framework of RBI in September 2021. UCO's gross advances increased by ~16% in FY24 and by 18% (y-o-y) in H1FY25 (refers to April 01 to September 30) with corporate and overseas segment reporting higher growth at 18% whereas non-corporate segment represented by retail, agriculture and MSME (RAM) growing at a slightly slower pace at 14% in FY24.

Within the retail segment, the bank's focus remains on housing loans for capital conservation and better asset quality. Gross advances stood at ₹1,97,927 crore as on September 30, 2024, with wholesale loans constituting 45% total advances and RAM segment constituting 55% total advances. CARE Ratings expects the share of RAM segment, which continues to be the bank's major focus area, and wholesale segment to remain at similar levels in the medium term.

Improvement in earnings but moderate profitability
UCO's earning profile has been improving over the last three years, with interest income driven by growth in advances and non-interest income driven by recovery from written-off accounts, treasury gains and fee-based income. The interest income increased by 24% in FY24 due to 16% growth in advances book and rise in yield on advances. Interest expenses grew faster at 33% due to increasing term deposits and deposit rates resulting in net interest income (NII) to grow by 10%. The bank's net interest margin (NIM) remained stable at 2.69% for FY24 due to increase in systemic interest rates, increasing yields and the cost of deposits.

Non-interest income increased by 30% year-over-year (y-o-y) due to recovery from written-off accounts and treasury gain in FY24. The bank's total income grew by 25% in FY24 to ₹25,120 crore compared to ₹20,159 crore in FY23. Operating expenses increased by 23% in FY24 due to provision for wage revision resulting in pre-provision operating profit (PPOP) growth of 5.43% from ₹4,341 crore in FY23 to ₹4,576 crore in FY24.

The bank made higher provisions in FY24 and thus credit cost increased from 0.53% of total assets in FY23 to 0.67% in FY24. Profit after tax (PAT) declined by 11.2% from ₹1,862 crore in FY23 to ₹1,654 crore in FY24 with resultant return on total assets (ROTA) declined from 0.68% for FY23 to 0.55% for FY24.

The bank continued to see increase in its NII and total income in H1FY25, resulting in the PPOP increasing by 26.05% (y-o-y) from ₹2,184 crore in H1FY24 to ₹2,753 crore in H1FY25. The bank saw significant decrease in credit costs resulting in the bank reporting increase in PAT by 85% at ₹1,154 crore for H1FY25 compared to ₹625 crore for H1FY24. ROTA for H1FY25 increased to 0.73% (annualised).

CARE Ratings expects the bank to sustain its profitability levels in the medium term, while keeping credit costs under check.

Key weaknesses
Improving but moderate asset quality

After a deteriorating trend since FY16 and peaking in FY19 with gross NPA (GNPA) ratio of ~25%, net NPA (NNPA) ratio of 9.71% and net NPA to net worth ratio of 148.96% as on March 31, 2019, asset quality parameters of UCO have seen improvement in the last four years (FY20 onwards). The bank has seen significant write-offs, recoveries and upgrades and lower incremental slippages resulting in improvement in asset quality parameters.
UCO reported GNPA and NNPA ratio of 3.18% and 0.73%, respectively, as on September 30, 2024 (March 31, 2024: 3.46% and 0.89%), compared to GNPA and NNPA ratio of 4.78% and 1.29%, respectively, as on March 31, 2023. Net NPA to net worth ratio stood at 8.03% and provision coverage ratio (PCR) of 77.65% (excluding technically written-off accounts) as on September 30, 2024.

UCO saw lower incremental slippages in FY24 with slippage ratio (on net opening advances) improving to 1.35% in FY24 compared to 1.75% in FY23. As a result, the bank was able to bring down gross NPA ratio significantly to 3.18% as on September 30, 2024. The bank's net stressed assets (NNPA + net standard restructured assets + net security receipts) to net worth ratio reduced from 75.85% as on March 31, 2022, to 22.85% as on September 30, 2024 (March 31, 2024: 28.48%). The bank's special mention accounts (SMA) including SMA 1 and SMA 2 (accounts with delinquencies between 30 to 90 days), stood at ~5% of gross advances as on September 30, 2024. CARE Ratings expects asset quality to witness further improvement from current levels in the medium term.

Moderate resource profile with low CASA deposits
UCO's resource profile has been moderate with relatively lower proportion of CASA deposits, compared to similar rated public sector banks. CASA deposits constituted 36.60% of total deposits as on September 30, 2024. The bank has taken steps to grow its CASA deposits; however, raising CASA deposits continues to remain challenging, given the higher interest rate differential between CASA deposits and term deposits, and multiple avenues available to depositors for deploying their funds.

While a majority of UCO's deposits remain granular, the proportion of bulk deposits has been increasing since last three years. The bank has been reducing its excess SLR investments to fund its advances. The bank's credit to deposit ratio (C/D) increased to ~72% as on September 30, 2024, compared to ~65% as on March 31, 2023.

The bank's total deposits grew by ~6% in FY24 and by ~11% (y-o-y) in H1FY25, which was lower than the industry deposit growth. CASA deposit growth was ~8% (y-o-y) in H1FY25. CARE Ratings expects raising low-cost deposits would remain a challenge for banks for the rest of FY25 and UCO's ability to compete to garner deposits at competitive rates would be important for the bank to maintain profitability.

Relatively moderate size and concentration in East and Northern India
UCO is one of the relatively smaller PSBs with a total business of ~₹4.74 lakh crore and an asset size of ₹3.22 lakh crore, with ~63% branches situated in North and Eastern India as on September 30, 2024.

Liquidity: Adequate
According to structural liquidity statement as on September 30, 2024, there are no negative cumulative mismatches per the asset liability maturity (ALM) in time buckets up to three months. The cumulative mismatches up to one year was ~13% of cumulative outflows (approx. ₹16,700 crore). Comfort is drawn from the excess statutory liquidity ratio (SLR) amounting ~₹18,000 crore as on September 30, 2024. The bank's average liquidity coverage ratio (LCR) stood at 140.66% for the quarter ended September 30, 2024, against the regulatory requirement of 100%. The bank has access to systemic liquidity such as RBI's LAF and MSF facility and access to refinance from SIDBI, NHB and NABARD, among others and access to call money markets.

Environment, social, and governance (ESG) risks
The bank has established practices like Comprehensive Code of Conduct and Business Ethics, innovative and customer centric products, and has adopted digitisation of business while strengthening cyber and information security. The bank remains committed to employee welfare and has undertaken efforts for reduction in consumption of electricity, fuel and paper while implementing other ESG practices.

Applicable criteria
Definition of Default
Factoring Linkages Government Support
Rating Outlook and Rating Watch
Bank

Financial Ratios - Financial Sector
Rating Basel III - Hybrid Capital Instruments issued by Banks

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Public sector bank

UCO Bank, incorporated in 1943, is a Kolkata-based mid-sized public sector bank that operates through a network of domestic 3,217 branches and three international branches as on September 30, 2024, with branch concentration in north and east India. In October 2003, Government of India (GoI) divested 25% stake through an initial public offering (IPO) of equity shares. However, post many capital infusions over subsequent years, GoI shareholding has been steadily increasing and stood at 95.39% as on September 30, 2024. Post the asset quality review (AQR) by RBI, the bank saw significant increase in its NPAs, resulting in having to make provisions, impacting its profitability and capital adequacy.

UCO Bank was put into prompt corrective action (PCA) framework by RBI in May 2017 and was subsequently removed from PCA in September 2021 after it met parameters under the framework. UCO Bank is sponsor of Paschim Banga Gramin Bank (PBGB), a regional rural bank (RRB), headquartered at Howrah, West Bengal with four regional offices and 230 branches as on March 31, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	20,159	25,120	13,931
PAT	1,862	1,654	1,154
Total Assets*	2,89,851	3,13,381	3,22,180
Net NPA (%)	1.29	0.89	0.73
ROTA (%)*	0.68	0.55	0.74^

A: Audited UA: Unaudited; Note: these are latest available financial results ^annualised, *as per CARE Ratings' calculation
Note: 'these are latest available financial results.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Bonds-Tier II Bonds	INE691A08088	31-Mar-2022	8.51	31-Mar-2032	100.00	CARE AA; Stable
Bonds-Tier II Bonds	proposed	-	-	-	400.00	CARE AA; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Bonds-Tier II Bonds	LT	500.00	CARE AA; Stable	-	1)CARE AA-; Positive (20-Feb-24)	1)CARE AA-; Stable (23-Feb-23)	1)CARE AA-; Stable (24-Mar-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier II Bonds	Complex

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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