UCO Bank

January 12, 2026

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier II bonds[&]	500.00	CARE AA; Stable	Reaffirmed

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

The rating assigned to the long-term debt instrument of UCO Bank (UCO) continues to factor in parentage of Government of India (GoI), which holds majority shareholding and its demonstrated support by way of multiple equity infusions in the past and its expected sustenance in future. The rating considers the bank's comfortable capitalisation levels, diversified advances book and established franchise largely in northern and eastern India.

The bank's earnings profile, asset quality and profitability improved over the years but remains moderate compared to larger peers. The rating remains constrained by moderate resource profile with lower-than-average proportion of current account savings account (CASA) deposits compared to peer banks and relatively smaller size with geographical concentration.

CARE Ratings Limited (CareEdge Ratings) expects the bank's net interest margin (NIM) to witness some pressure in FY26, considering faster repricing of advances than deposits post rate cuts. As a result, the bank's ability to keep its operational and credit costs under control to maintain its profitability would remain a key monitorable in the near term.

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) remaining below 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 the majority shareholding.

Outlook: Stable

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

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

Detailed description of key rating drivers:

Key strengths

Majority ownership and expected support from the GoI

GoI continues to be the majority shareholder with 90.95% shareholding as on September 30, 2025, which reduced from 95.39% post the equity capital raise by the bank by way of qualified institutional placement (QIP) of equity shares in March 2025. 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 in the bank. Given the majority ownership of the GoI, CareEdge Ratings expects UCO to receive timely and adequate capital support from the GoI, which 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. In the last five years, the bank's capitalisation has been largely supported by internal accruals and equity capital raised from capital markets. The bank's capitalisation levels have been supported by periodic raise of Tier II Bonds and additional tier I (AT I) bonds.

UCO raised equity capital of ₹2,000 crore in March 2025 through QIP issue which supported the bank's capitalisation levels. As a result, the bank reported capital adequacy ratio (CAR) of 18.49% with common equity tier (CET) I ratio of 16.03% as on March 31, 2025, compared to CAR 16.98% and CET I ratio of 14.14% as on March 31, 2024.

The bank has Board approval to raise additional equity capital of up to ₹2,700 crore through QIP, follow-on public offer or other eligible modes in FY26 in one or more tranches. Supported by internal accruals and periodic capital raise, CareEdge Ratings expects UCO to maintain adequate cushion over minimum regulatory requirement going forward while it grows its advances book.

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 ~18% in FY25 which was higher than the industry growth. The bank's advances is diversified with focus on growing the retail, agriculture and MSME (RAM) segments. The RAM segment advances together grew by 26% in FY25 led by 35% growth in retail advances compared to 13% growth in corporate advances. As on March 31, 2025, RAM segments constituted ~56% of total advances compared to ~52% as on March 31, 2024. The proportion of corporate and overseas advances declined to ~44% of gross advances as on March 31, 2025, against ~48% as on March 31, 2024. Within retail advances, majority proportion was home loans, which constituted ~52% of retails advances. RAM advances as a percentage of domestic advances stood at ~63% as on March 31, 2025, against ~60% as on March 31, 2024. In H1FY26, the bank's advances increased by ~17% to stand at ₹2,30,702 crore with RAM segment constituted 58% of advances as on September 30, 2025.

CareEdge Ratings expects the advances profile of the bank to remain diversified with RAM segment growing at a faster pace than corporate advances in the medium term.

Improvement in earnings but moderate profitability

Earnings profile for the bank has been improving in the last four 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 ~15% in FY25 due to growth in advances book and rise in yield on advances. While interest expenses grew by ~12% resulting in net interest income (NII) to grow by ~19%. The bank's net interest margin (NIM) increased from 2.69% in FY24 to 2.89% in FY25.

Non-interest income increased by 35% year-over-year (y-o-y) majorly due to recovery from written-off accounts and fee-based income, which was partially offset by reduction in treasury income in FY25. The bank's total income grew by ~17% in FY25 to ₹29,474 crore compared to ₹25,120 crore in FY24. Operating expenses (as a percentage of average total assets) increased from 2.25% in FY24 to 2.40% in FY25 and credit cost (as a percentage of average total assets) remained stable with 0.66% in FY25 against 0.67% in FY24. As a result, the bank reported a PAT of ₹2,445 crore in FY25 against ₹1,654 crore in FY24 and resulting in ROTA of 0.73% for FY25 against 0.55% for FY24.

The bank witnessed higher decrease in yields compared to decrease in costs of funds resulting in NIM at 2.70% for H1FY26 against 2.82% in H1FY25. Operating expenses (as a percentage of average total assets) stood at 1.99% in H1FY26 against 2.25%

in H1FY25 and credit cost (as a percentage of average total assets) stood at 0.66% in H1FY26 against 0.59% in H1FY25. Due to the above factors, the ROTA stood at 0.67% in H1FY26 against 0.71% in H1FY25. CareEdge Ratings expects the bank's NIM to see some pressure in FY26 in line with the industry due to impact of rate cuts. UCO's moderation in credit costs and stable operating expenses is expected to absorb the NIM impact and help the bank maintain its profitability and will be a key monitoring factor.

Key weaknesses

Moderate, albeit improving, asset quality

Asset quality parameters of UCO have seen improvement in the last four years (FY20 onwards) but remain moderate compared to its larger peers. The bank has seen significant write-offs, recoveries and upgrades and lower incremental slippages, resulting in improvement in asset quality parameters.

UCO reported gross non-performing assets (GNPA) and net NPA (NNPA) ratio of 2.56% and 0.43%, respectively, as on September 30, 2025 (March 31, 2025: 2.69% and 0.50%), compared to GNPA and NNPA ratio of 3.46% and 0.89%, respectively, as on March 31, 2024. NNPA to net worth ratio stood 4.86% as on March 31, 2025, compared to 9.52% as on March 31, 2024. The bank has high provisioning against the NPAs and its provision coverage ratio (PCR) (excluding technically written-off (TWO) accounts) stood at 83.68% as on September 30, 2025, compared to 81.95% as on March 31, 2025.

UCO saw lower incremental slippages in FY25 with slippage ratio (on net opening advances) improving to 1.25% in FY25 compared to 1.35% in FY24. The bank's net stressed assets (NNPA + net standard restructured assets + net security receipts) to net worth ratio stood at 11.83% as on March 31, 2025, against 28.49% as on March 31, 2024. The bank's special mention accounts (SMA) including SMA 1 and SMA 2 stood at ~2% of gross advances as on September 30, 2025. CareEdge 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 35.83% of total deposits as on March 31, 2025. 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.

The bank's total deposits grew by ~12% in FY25 and by ~11% (y-o-y) in H1FY26. CASA deposit growth was ~7% (y-o-y) in FY25. CareEdge Ratings expects raising low-cost deposits would remain a challenge for banks for the rest of FY26 and UCO's ability 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 ~₹5.36 lakh crore and an asset size of ₹3.69 lakh crore, with ~62% branches situated in North and Eastern India as on September 30, 2025.

Liquidity: Adequate

According to structural liquidity statement as on September 30, 2025, there were no negative cumulative mismatches per asset liability maturity (ALM) in time buckets up to 30 days. Comfort is drawn from the excess statutory liquidity ratio (SLR) of 5.87% amounting ₹17,246 crore as on September 30, 2025. The bank's average liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) stood at 124.70% and 137.93% for the quarter ended September 30, 2025, against the regulatory requirement of 100%. The bank has access to systemic liquidity such as RBI's liquidity adjustment facility (LAF) and marginal standing facility (MSF) facility and access to refinance from Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB) and National Bank for Agriculture and Rural Development (NABARD), among others and access to call money markets. The roll over rate is 75% for retail term deposits and 50% for bulk deposits.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

While UCO Bank's business model limits its direct exposure to environmental risks, credit risk may arise, if operations of asset class of the portfolio are adversely impacted by environmental factors.

Social risks in the form of cybersecurity threat or customer data breach or mis-selling practices can affect the bank's regulatory compliance and reputation and hence remains a key monitorable.

As on September 30, 2025, UCO Bank's Board comprised of 10 Directors, with five Independent Directors.

Applicable criteria

Definition of Default
Factoring Linkages Government Support
Rating Outlook and Rating Watch
Banks
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

Incorporated in 1943, UCO is a Kolkata-based mid-sized public sector bank that operates through a network of domestic 3,322 branches and two international branches and one representative office as on September 30, 2025, with branch concentration in north and east India. In October 2003, GoI divested 25% stake through an initial public offering (IPO) of equity shares. However, post many capital infusions over subsequent years, GoI shareholding stood at 90.95% as on September 30, 2025. 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 was put into PCA framework by RBI in May 2017 and was subsequently removed from PCA in September 2021 after it met parameters under the PCA framework.

Brief Financials (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)	H1FY26(UA)
Total income	25,120	29,474	14,855
Profit after tax (PAT)	1,654	2,445	1,227
Total assets	3,13,381	3,53,456	3,69,475*
Net interest margin (NIM) (%)	2.69	2.89	2.70^
Gross non-performing assets (NPA) (%)	3.46	2.69	2.56
Net NPA (%)	0.89	0.50	0.43
Capital adequacy ratio (CAR) (%)	16.98	18.49	17.89

A: Audited UA: Unaudited; Note: these are latest available financial results,*reported, ^annualised

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 2025-2026	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
1	Bonds-Tier II Bonds	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (14-Jan-25)	1)CARE AA-; Positive (20-Feb-24)	1)CARE AA-; Stable (23-Feb-23)

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: CareEdge 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.

Contact us

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About us:
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