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CARE REVISES RATINGS ASSIGNED TO VARIOUS INSTRUMENTS AND ASSIGNS 'CARE A+' RATING TO ADDITIONAL TIER-I BONDS (BASEL III) OF UCO BANK

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Lower Tier II Bonds (Series IX & Series X)	375 (Rupees Three hundred seventy five crore)	**CARE AA (Double A)**	**Revised from CARE AA+ (Double A Plus)**
Upper Tier II Bonds (Series I & III)	620 (Rupees Six hundred twenty crore)	**CARE AA- (Double A Minus)**	**Revised from CARE AA (Double A)**
Perpetual Bonds (Series I)	150 (Rupees one hundred fifty crore)	**CARE AA- (Double A Minus)**	**Revised from CARE AA (Double A)**
Proposed Infrastructure Bonds	1,500 (Rupees One thousand five hundred crore)	**CARE AA (Double A)**	**Revised from CARE AA+ (Double A Plus)**
Proposed Additional Tier-1 (Basel III) Bonds	2,500 (Rupees Two thousand five hundred crore)	**CARE A+ (Single A Plus)**	**Assigned**

CARE has rated the aforesaid Upper Tier II Bonds & Perpetual Bonds one notch lower than Lower Tier II Bonds of UCO Bank in view of their increased sensitiveness to the Bank's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments.

The rating factors in the additional risk arising out of existence of the lock-in clause in hybrid instruments. Any delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared to conventional subordinated debt instruments.

Tier I Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable. In CARE's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier II instruments even under Basel II. CARE has rated the Tier I bonds under Basel III after factoring in the additional feature of PONV.

Rating Rationale

The revision in ratings assigned to various instruments of UCO Bank takes into account moderation in profitability ratio and deterioration in asset quality parameters. The ratings however, draw strength from the strong parentage with continued support demonstrated by Government of India (GoI), long track record of operation, pan-India presence with an extensive branch & ATM network, adequate capitalization and moderate liquidity parameters.

The bank's ability to shore up its CAR, improve its ROTA and asset quality, and any substantial decline in Iranian deposits will remain the key rating sensitivities.

Background

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

UCO Bank (UCO), incorporated in 1943, is a Kolkata-based mid-sized public sector bank. UCO manages a total business of Rs.3,54,676 crore through a network of 3,020 (including four overseas branches) as on Sep 30, 2015. Government of India (GoI) is the major shareholder of UCO, holding 72.83% equity stake as on Dec 31, 2015.

Shri Ravi Krishan Takkar, MD & CEO, looks after the overall functioning of the bank. He is assisted by two Executive Directors - Shri Charan Singh and Shri G Subramania Iyer along with various General Managers.

UCO Banks's ROTA declined from 0.43% in Q1FY16 to 0.26% in Q2FY16 mainly due higher provisioning expense on the back of deterioration in asset quality. However NIM of UCO Bank remained relatively stable at 2.38% in Q2FY16, which reflects bank's concern for maintaining of profit position. The asset quality of the bank deteriorated during Q2FY16, with GNPA ratio increasing from 7.30% as on Jun 30, 2015 to 8.51% as on Sep 30, 2015 due to higher slippages in Q2FY16. Stressed asset to gross advances also deteriorated from 16.62% as on Jun 30, 2015 to 19.09% as on Sep 30, 2015.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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