JULY 13, 2016

CARE REVISES RATINGS ASSIGNED TO LOWER TIER II AND UPPER TIER II BONDS AND WITHDRAWS THE RATINGS ASSIGNED TO VARIOUS INSTRUMENTS OF UCO BANK

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Lower Tier II Bonds (Series IX)	375	**CARE AA- (Double A Minus)**	**Revised from CARE AA (Double A)**
Upper Tier II Bonds (Series III)	320	**CARE A+ (Single A Plus)**	**Revised from CARE AA- (Double A Minus)**
Upper Tier II Bonds (Series I)	-	-	**Withdrawn**
Perpetual Bonds (Series I)	-	-	**Withdrawn**
Proposed Infrastructure Bonds	-	-	**Withdrawn**
Total	**695 (Rupees Six Hundred Ninety Five Crore)**		

CARE has rated the aforesaid Upper Tier II 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 (CRAR), 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.

Rating Rationale

The revision in ratings of UCO Bank takes into account higher than anticipated deterioration in asset quality, which has significantly impacted the profitability and capital adequacy of the bank in Q4FY16.

The ratings, however, continues to draw comfort from strong parentage support of Government of India (GoI holding 72.83% stake as on March 31, 2016), strong deposit base due to pan-India presence with an extensive branch network and comfortable liquidity parameters. Ability of the bank to strengthen Tier I capital and timely support from GoI are the key rating sensitivities.

Background

UCO Bank (UCO), incorporated in 1943, is a Kolkata-based mid-sized public sector bank. UCO manages a total business of Rs.342,626 crore through a network of 3,077 (including four overseas branches) as on Mar 31, 2016. Government of India (GoI) is the major shareholder of UCO, holding 72.83% equity stake as on Mar 31, 2016.

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 Bank reported a loss of Rs.1,715 crore on total income of Rs.4,745 crore in Q4FY16 (vis-à-vis a loss of Rs.1,497 crore on total income of Rs.4,935 crore in Q3FY16). The asset quality deteriorated with Gross NPA ratio rising from 10.98% as on Dec 31, 2015 to 15.43% as on Mar 31, 2016. Net NPA ratio increased to 9.09% (Q3FY16: 6.51%). Bank's Return on Assets ratio declined to negative 0.70% in Q4FY16 (Q3FY16: negative 0.61%). As per Basel III norms, the bank reported a Total Capital Adequacy Ratio of 9.63% (Tier I: 7.63%) as on Mar 31, 2016.

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

****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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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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