UCO Bank

July 04, 2018

Rating

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Lower Tier II Bonds (Series IX)	275.0 (reduced from 375.0) (Rupees Two Hundred Seventy Five crore Only)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the instruments of UCO Bank (UCO) is on account of strong parentage support of Government of India (GOI), strong deposit base due to pan-India presence with an extensive branch network and satisfactory liquidity parameters with surplus investments. The rating continues to be constrained by weak asset quality which has significantly impacted the profitability in FY18 and moderate capital adequacy of the bank, with high dependence on GOI for fund support and risk of imposition of further restriction under PCA.

Ability of the Bank to improve its profitability & asset quality, continued fund support from GoI and maintenance of CAR would remain the key rating sensitivities.

Detailed description of key rating drivers

Key Rating Strengths

Strong parentage support

UCO is one of the major public sector banks in the country with GOI's shareholding of 84.23% as on March 31, 2018 (76.67% as on March 31, 2017) in the Bank. GOI has been regularly infusing equity in UCO, enabling adequate capitalization levels. During FY18, GOI infused funds aggregating to Rs.6,507 crore to strengthen the capital adequacy of the bank, which enabled the bank to meet the regulatory capital requirements under Basel III as on March 31, 2018.

Strong deposit base due to pan-India presence with extensive branch network; though witnessed decline in FY18

The total deposits of the bank declined from Rs.2,01,285 crore as on March 31, 2017 to Rs.1,81,849 crore as on March 31, 2018 due to the shedding of bulk deposits. The CASA deposits have increased to 37.25% as on March 31, 2018 vis-à-vis 33.92% as on March 31, 2017 on account of increase in savings and current deposit by Rs.1,307 crore along with a decline of Rs.19,436 crore in total deposits as on March 31, 2018.

However, the bank's net advance portfolio has declined from Rs.1,19,724 crore as on March 31, 2017 to Rs.1,07,470 crore as on March 31, 2018 due to capital constraints along with restrictions imposed by RBI under PCA and some of the infrastructure sectors declared as stress.

Satisfactory liquidity parameters

As per structural liquidity statement of the bank as on March 31, 2018, the bank has negative cumulative mismatches beyond 6 months period as roughly 44% of the deposits are getting matured within one year bucket. The negative cumulative mismatch upto one year tenor bucket is Rs.14,150 crore. However, the Bank has excess SLR investment of Rs.18,176 crore as on March 31, 2018 (Rs.26,000 crore as on March 31, 2017).

The bank's liquidity profile is supported by a healthy proportion of low cost CASA deposits, high proportion of liquid investments and also access to systemic sources of funds, such as refinance limits from RBI and access to the call money market.

Key Rating Weaknesses

Sustained Weak asset quality over the last three years

The asset quality of the bank deteriorated significantly in FY18. Gross NPA deteriorated from 17.12% in FY17 to 24.64% in FY18 due to higher slippages and decline in gross advances. Further, provision coverage ratio stood high at 53.9% as on March 31, 2018. The Bank witnessed fresh slippages of Rs.15,034 crore in FY18. The Net NPA ratio stood at 13.10% (PY: 8.94%) and Net NPA to Net worth ratio stood at 111.72% as on March 31, 2018 (PY: 102.64%).

Continued deterioration in financial performance in for consecutive three years

The bank's total income decreased by 17.89% y-o-y to Rs.15,141 crore in FY18 mainly due to decline in advances. NIM declined from 1.62% in FY17 to 1.41% in FY18 mainly due to decrease in domestic investment portfolio which led to

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

decline in interest income. Operating cost as a % of average total assets declined from 1.78x in FY17 to 1.72x during FY18. Provisioning cost as a % of average total assets deteriorated and stood at 3.51x as on March 31, 2018 as against 2.10x as on March 31, 2017 due to increase in provisions vis-à-vis FY17 Levels (Aggregate provisioning on advances during FY17 and FY18 stood at Rs.4,577 crore and Rs.6,997 crore respectively).

Overall, the bank reported negative ROTA of 2.00% in FY18 as against a negative ROTA of 0.79% in FY17. On an absolute basis, the bank reported loss of Rs.4,436.37 crore during FY18 as against a loss of Rs.1,850.96 crore in FY17.

The performance of the bank continued to remain weak in FY18 mainly due to decline in interest income on the back of further pressure on asset quality along with decline in treasury profit. In FY18, UCO's total income declined by 17.89% y-o-y on account of lower yield on advances. During the period, average cost of funds improved to 5.89% as against 6.14% in FY17 on the back of improvement in CASA ratio.

Going ahead, the bank's profitability is expected to remain under pressure on expectation of increase in cost of funding, higher provisioning requirement on the back of continued stress in asset quality, ageing effect of NPA, provisioning for MTM dispensation (Rs.315 crore) and accounting for unamortised employee benefit (Rs.166 crore).

Moderate capitalization levels

Due to GOI's continuous support, the bank has moderate level of capitalization. Despite the bank reporting losses during last 3 years, Tier I CAR remained at 8.94% which is just above minimum regulatory requirement of 8.875% as on March 31, 2018. Furthermore, overall CAR (Basel III) stood at 10.94% as on March 31, 2018 as against 10.93% as on March 31, 2017, with Core Equity Tier I Ratio (CET I Ratio) of 8.23% (PY: 7.64%).

PCA restrictions imposed by RBI

RBI, vide its letter dated May 05, 2017, had initiated PCA for UCO Bank in view of higher NPA and negative ROTA. As a result of PCA, UCO Bank has restrictions on accessing/renewing costly deposits and CDs, entering into new lines of business, borrowings from inter-bank market, making dividend payments and expanding its staff, contain administrative expenses and restrictions on incurring any capital expenditure other than for technological upgradation and for some emergency situations. The PCA restrictions on the bank are still continuing in view of higher NPA and negative ROTA reported by the bank in FY18. Risk of imposition of further restriction remains, in case the capital is not maintained.

Analytical approach: CARE has considered the standalone business and financial profile of UCO Bank along with ownership and expected support from Government of India.

Applicable criteria:

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial Ratios – Financial Sector]
[Bank – CARE's Rating Methodology for Banks]
[Bank – Rating Framework for Basel III instruments (Tier I & Tier II)]

About the Bank

UCO, incorporated in 1943, is a Kolkata-based mid-sized public sector bank. UCO's total business (advance and deposit) was Rs.3,05,838 crore in FY18 (Rs.3,32,940 crore in FY17) crore through a network of 3,108 branches (including four overseas branches) as on March 31, 2018. Government of India (GoI) is the major shareholder of UCO, holding 84.23% equity stake as on March 31, 2018. The gross advances and deposits as on March 31, 2018 stood at Rs.1,23,989 crore and Rs.1,81,849 crore, respectively. The bank is under Prompt Corrective Action framework (PCA) since May 2017 in view of continued losses and high level of NPA.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	18,440	15,141
PAT	-1,851	-4,436
Interest coverage (times) – Before provisions	1.18	1.08
Interest coverage (times) – After provisions	0.78	0.37
Total Assets	2,29,015	2,13,704
Net NPA (%)	8.94	13.10
ROTA (%)	-0.79	-2.00

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Available

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: *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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	March 31, 2008	9.50%	April 30, 2018	0.00	Withdrawn
Bonds-Lower Tier II	December 12, 2008	9.75%	April 22, 2019	275.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instruments	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (19-Oct-15)
2.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (19-Oct-15)

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3.	Bonds-Lower Tier II	LT	-	-	-	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (07-Jul-17)	1)CARE AA-; Negative (28-Dec-16) 2)CARE AA- (19-Oct-16) 3)CARE AA- (13-Jul-16)	1)CARE AA (23-Mar-16) 2)CARE AA (09-Feb-16) 3)CARE AA+ (19-Oct-15)
4.	Bonds-Lower Tier II	LT	275.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (07-Jul-17)	1)CARE AA-; Negative (28-Dec-16) 2)CARE AA- (19-Oct-16) 3)CARE AA- (13-Jul-16)	1)CARE AA (23-Mar-16) 2)CARE AA (09-Feb-16) 3)CARE AA+ (19-Oct-15)
5.	Bonds-Upper Tier II	LT	-	-	-	-	1)Withdrawn (13-Jul-16)	1)CARE AA- (23-Mar-16) 2)CARE AA- (09-Feb-16) 3)CARE AA (19-Oct-15)
6.	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (08-Feb-18) 2)CARE A; Negative (07-Jul-17)	1)CARE A+; Negative (28-Dec-16) 2)CARE A+ (19-Oct-16) 3)CARE A+ (13-Jul-16)	1)CARE AA- (23-Mar-16) 2)CARE AA- (09-Feb-16) 3)CARE AA (19-Oct-15)
7.	Bonds-Perpetual Bonds	LT	-	-	-	-	1)Withdrawn (13-Jul-16)	1)CARE AA- (23-Mar-16) 2)CARE AA- (09-Feb-16) 3)CARE AA (19-Oct-15)
8.	Bonds-Infrastructure Bonds	LT	-	-	-	-	-	1)Withdrawn (23-Mar-16) 2)CARE AA (09-Feb-16) 3)CARE AA+ (19-Oct-15)
9.	Bonds-Tier I Bonds	LT	-	-	-	-	1)Withdrawn (13-Jul-16)	1)CARE A (23-Mar-16) 2)CARE A+ (09-Feb-16)

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