UCO Bank

July 07, 2017

Ratings

Instruments	Aggregate amount (Rs. crore)	Ratings[1]	Rating action
Lower Tier II Bonds	375 (Rupees Three hundred seventy five crore only)	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)**
Upper Tier II Bonds	320 (Rupees Three hundred twenty crore only)	**CARE A; Negative (Single A; Outlook: Negative)**	**Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)**
Total	**695 (Rupees six hundred ninety five crore)**		

Details of instruments in Annexure-1

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.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the instruments of UCO Bank is on account of sustained weak asset quality during last two years which has significantly impacted the profitability and capital adequacy of the bank.
The rating continues to draw comfort from strong parentage support of Government of India, strong deposit base due to pan-India presence with an extensive branch network and satisfactory liquidity parameters.
Ability of the bank to improve its profitability & asset quality and shore up its CAR would remain the key rating sensitivities.

Outlook: Negative

The negative outlook on rating reflects the expectation of continued stress on asset quality and profitability of the bank. The outlook may be revised to stable in the event of sustained improvement in these parameters.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage support

UCO Bank has a strong parentage support of GoI which holds 76.67% equity stake in the bank as on March 31, 2017. Due to GOI's continuous support, the bank has moderate level of capitalization. Despite the bank reporting losses both during FY16 and FY17, Tier I CAR remained at 8.27% which is just above minimum regulatory requirement of 8.25% as on March 31, 2017 due to equity infusion of Rs.1925 crore by GoI and issuance of AT-1 bonds during Fy17. Overall CAR (Basel III) stood at 10.93% as on March 31, 2017 as against 9.63% as on March 31, 2016. Going ahead, the bank would be required to raise significant amount of capital over the medium term to fund the anticipated losses and meet the increasing Tier I CAR norms (i.e. 8.875% by March 2018 and 9.5% by March 2019).

Strong deposit base due to pan-India presence with extensive branch network

The bank continued to rely upon the deposits heavily for funding its advances (accounting for 87.89% of total liabilities as on March 31, 2017). While Iranian deposits amount has gone down from around Rs.6,000 crore in June 2016 to around Rs.2,000 crore in June 2017, the CASA improved from 29.42% in March 2016 to 33.92% in March 2017 .
However, the bank's advance portfolio has remained at similar level at Rs.119,724 crore as on March 31, 2017 as against Rs.120,791 crore as on March 31, 2016.

Satisfactory liquidity parameters

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

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

Sustained Weak asset quality over last two years
The asset quality of the bank deteriorated in FY17. Gross NPA deteriorated from 15.43% as on March 31, 2016 to 17.12% as on March 31, 2017 due to higher slippages of Rs.9909 crore in FY17. Stressed asset to advances increased from 23.13% as on March 31, 2016 to 24.01% as on March 31, 2017. The bank's Net NPA reduced marginally to 8.94% as on March 31, 2017 from 9.09% as on March 31, 2016. Further, Provision coverage ratio stood high at 52.52% as on March 31, 2017.

Financial performance marked by losses in two consecutive years
The bank's total income decreased by 8.52% y-o-y to Rs.18,440 crore in FY17. NIM declined from 1.99% in FY16 to 1.62% in FY17. Operating cost as a % of average total assets declined from 1.81% in FY16 to 1.78% during FY17. Provisioning cost as a % of average total assets declined from 2.44% in FY16 to 1.88% in FY17 due to higher provisioning made during asset quality review in H2FY16, however, provisioning coverage improved from 45.27% in FY16 to 52.52% in FY17. Overall, the bank reported negative ROTA of 0.79% in FY17 as against a negative ROTA of 1.15% in FY16. On an absolute basis, the bank reported loss of Rs.1,850.96 during FY17 as against a loss of Rs.2,799.26 crore in FY16. Given the losses in two consecutive years and the high net NPA levels, the RBI invoked Preventive corrective action (PCA) in the bank.

Going ahead, the bank's profitability is expected to remain under pressure on expectation of weak NIM and higher provisioning expense on the back of continued stress in asset quality and ageing effect of NPA.

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]
[CARE's Rating Methodology for Banks]

Bank's Background
UCO Bank (UCO), incorporated in 1943, is a Kolkata-based mid-sized public sector bank. UCO manages a total business of Rs.332,940 (Rs.342,626 crore during FY16) crore through a network 3,104 (including four overseas branches) as on March 31, 2017. Government of India (GoI) is the major shareholder of UCO, holding 76.67% equity stake as on March 31, 2017. The gross advances and deposits as on March 31, 2017 stood at Rs.1,31,655 crore and Rs.201,285 crore, respectively.
During FY17, the bank reported a PAT of (Rs.1,851 crore) on a total income of Rs.18,440 crore as against a PAT of (Rs.2,799 crore) on a total income of Rs.20,157 crore during FY16.

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for 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.*

Analyst Contact:
Name: Mr. Vineet Chamaria
Tel: 033-40181609
Mobile: 90517 30850
Email: vineet.chamaria@careratings.com

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

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

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	100.00	CARE A+; Negative
Bonds-Lower Tier II	December 12, 2008	9.75%	April 22, 2019	275.00	CARE A+; Negative
Bonds-Upper Tier II	December 22, 2007	9.35%	December 22, 2022	320.00	CARE A; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (23-Jul-14)
2.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (19-Oct-15)	1)CARE AA+ (28-Jul-14)
3.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (19-Oct-15)	1)CARE AA+ (28-Jul-14)
4.	Bonds-Lower Tier II	LT	100.00	CARE A+; Negative	-	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)	1)CARE AA+ (28-Jul-14)
5.	Bonds-Lower Tier II	LT	275.00	CARE A+; Negative	-	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)	1)CARE AA+ (28-Jul-14)
6.	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)	1)CARE AA (28-Jul-14)
7.	Bonds-Upper Tier II	LT	320.00	CARE A; Negative	-	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)	1)CARE AA (28-Jul-14)
8.	Bonds-Perpetual Bonds	LT	-	-	-	1)Withdrawn (13-Jul-16)	1)CARE AA- (23-Mar-16) 2)CARE AA-	1)CARE AA (28-Jul-14)

							(09-Feb-16) 3)CARE AA (19-Oct-15)	
9.	Bonds-Infrastructure Bonds	LT	-	-	-	-	1)Withdrawn (23-Mar-16) 2)CARE AA (09-Feb-16) 3)CARE AA+ (19-Oct-15)	1)CARE AA+ (03-Mar-15)
10.	Bonds-Tier I Bonds	LT	-	-	-	1)Withdrawn (13-Jul-16)	1)CARE A (23-Mar-16) 2)CARE A+ (09-Feb-16)	-

CARE Ratings
Professional Risk Opinion

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691