UCO Bank

November 21, 2018

Rating

Instrument	Amount (Rs. Crore)	Rating[1]	Rating Action
Lower Tier II Bonds (Series IX)	**275.00 (Rupees Two Hundred Seventy Five crore Only)**	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Rating reaffirmed; Outlook revised from Stable**

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the instrument of UCO Bank (UCO) continues to derive strength from 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 (refers to the period April 01 to March 31) and H1FY19, deterioration in capital adequacy below statutory requirement as on September 30, 2018, high dependence on GOI for fund support and risk of imposition of further restriction under PCA.

The ability of the Bank to improve its profitability and asset quality, continued fund support from GOI and improvement of Capital Adequacy Ratio (CAR) to meet the statutory requirement would remain the key rating sensitivities.

Outlook: Negative

The outlook has been revised to 'Negative' from 'Stable' as banks capitalisation has deteriorated to below regulatory threshold and bank's asset quality continues to remain weak leading to q-o-q operating losses. The outlook may be revised to stable if the deterioration in asset quality is arrested and the trend in losses is reversed or bank improves its capitalization profile significantly through fresh capital infusion from GOI.

Detailed description of the 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 90.80% as on September 30, 2018 (84.23% as on March 31, 2018) 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. However, with continued losses and redemption of AT-1 bonds in April 2018, the CAR reduced to 7.57% as on September 30, 2018, which is below the regulatory requirement. Accordingly, infusion of fresh funds by GOI shall remain a major rating sensitivity.

Strong deposit base due to pan-India presence with extensive branch network; though witnessed decline in FY18 and H1FY19

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 and almost remained stagnant at Rs.1,82,226 crore as on September 30, 2018. 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 and further declined to Rs.98,820 crore as on September 30, 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 and continues to have excess SLR as on September 30, 2018.

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

Weak asset quality in FY18 and H1FY19

The asset quality continued to be weak over the last three years. The Bank witnessed fresh slippages of Rs.15,034 crore in FY18. Gross NPA deteriorated from 24.64% as on March 31, 2018 to 25.37% as on September 30, 2018. However, Net

NPA improved from 13.10% as on March 31, 2018 to 11.97% as on September 30, 2018. Further, provision coverage ratio stood high at 67.61% as on September 30, 2018. The Net NPA to Net worth ratio stood at 107.65% as on September 30, 2018 (111.72% as on March 31, 2018).

Continued deterioration in financial performance in FY18 and H1FY19

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 decline in interest income.

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. Overall, the bank reported negative ROTA of 2.00% in FY18 as against a negative ROTA of 0.79% in FY17.

During H1FY19, UCO's total income increased slightly by 1.45% from Rs.7,995 crore in H1FY18 to Rs.8,111 crore in H1FY19. The bank reported higher loss of Rs.1,761 crore in H1FY19 on account of higher provisioning during H1FY19. The bank reported a negative ROTA of 1.53% in H1FY19 compared to 1.07% in H1FY18.

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.93 crore) and accounting for unamortised employee benefit (Rs.55 crore).

Significant deterioration in capitalisation with CAR breaching regulatory requirement

As on September 30, 2018, the bank's CAR deteriorated to 7.57% which constitutes Tier 1 ratio of 5.57% and Tier 2 ratio of 2% which was below the regulatory requirement of 10.875% (including capital conservation buffer). The bank's CET 1 ratio stood at 5.57% as on September 30, 2018. The bank is dependent on timely infusion of capital from GOI for maintaining its capitalization levels.

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; as CAR is below the regulatory requirement.

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 Company

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 90.80% equity stake as on September 30, 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: Nil

Any other information: Nil

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.*

Analyst Contact
Name: Ms. Richa Bagaria
Tel: 033-4018 1653
Cell: +91 99034 70650
Email: richa.jain@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/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	December 12, 2008	9.75%	April 22, 2019	275.00	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 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)
3.	Bonds-Lower Tier II	LT	-	-	1)Withdrawn (04-Jul-18)	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+; Negative	1)CARE A+; Stable (04-Jul-18)	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)

CONTACT

Head Office Mumbai

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

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

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@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 85111-53511/99251-42264
Tel: +91-0172-490-4000 / 01
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