

**Uttarakhand Gramin Bank**

March 17, 2020

**Ratings**

Facilities/Instrument	Amount (Rs. crore)	Ratings	Rating Action
Tier I Perpetual Debt Instrument (PDI)	300 (Rupees Three Hundred Crore only)	CARE BBB+; Stable (Triple BBB Plus; Outlook: Stable)	Assigned

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the proposed issue of Tier I Perpetual Debt Instrument (PDI) by Uttarakhand Gramin Bank (UGB) factors in its constitution as a Regional Rural Bank (RRB) with shareholding of Govt. of India (GoI; 50%), State Bank of India (SBI, Sponsor bank, 35%) and the State Government (15%), managerial and systems support provided by SBI and a robust deposit franchise. The ratings remain constrained on account of moderately weak asset quality parameters, modest profitability which is expected to remain subdued due to recognition of higher pension liability, capital adequacy of the bank being marginally above the regulatory requirement, Restricted geographic presence due to its mandate of serving a specific region and asset quality vulnerable due to lending to weak borrower profiles

Capitalization levels, trend in profitability and asset quality as well as continued support from SBI and GOI, shall remain as key rating sensitivities.

**Rating Sensitivities**
**Positive Factors**

- Improvement in the asset quality with GNPA of less than 6% on sustained basis
- Improvement in the profitability with ROTA of 1.5% on sustained basis

**Negative Factors**

- Deterioration in capital adequacy ratio and breaching the regulatory requirement of 9%
- Deterioration in the asset quality with GNPA above 12%
- Reduction in the profitability leading to losses

**Detailed description of the key rating drivers**
**Key Rating Strengths**
**Strong support from Stakeholders**

UGB's PDI rating factors in the benefits derived from its strong stakeholders. Central Government, State Government of Uttarakhand and Sponsor bank (SBI) have contributed capital in the ratio of 50:15:35. UGB is constituted as a RRB under The Regional Rural Bank Act, 1976 (The RRB Act, 1976) also specifies that, under any circumstances stake of the central government and sponsor bank should not fall below 51% which suggests that in the future, UGB would continue to get the support from the central government and SBI. Over the years, the shareholders have infused capital in the proportion of their holdings. GoI, State Government of Uttarakhand and SBI infused Rs.38.14 crore as equity in UGB in FY16. As on December 31, 2019, the networth of the bank was Rs.212.2 crore.

**Managerial & System Support from Sponsor Bank**

UGB's Board of Directors comprises of the officials from SBI, NABARD, State government and RBI. This ensures that the operations are managed by professional and experienced personnel. Under the act, the sponsor bank (SBI) is required to support the Bank by providing managerial and operation support whenever required. SBI has deputed Key personnel such as Chairman and 3 General Manager and a Chief Vigilance Officer in the bank to support its day to day activities. Further, the team at central office also helps in recommending suitable policies/processes and guidelines for the Bank. SBI also undertakes the Management audit of the Bank and ensures, operations are conducted as per defined policies and processes. The Bank also leverages upon the Core Banking Systems from the parent SBI's network.

**Robust Deposit Franchise**

UGB has a robust deposit franchise. Its 286 branches spread across the entire state helps in creating and maintain a healthy deposit base. UGB is able to attract customers because of its regional nature, government ownership, localized hiring as well as certain government schemes. The deposit base of the Bank has shown steady growth in the past 2.5 years and has increased by 28% from Rs.4,130 crore in FY17 to Rs.5,309 crore at 9MFY20 and CASA of 55.99% for 9MFY20.

**Key Rating Weakness****Moderately weak Asset Quality:**

UGB's asset quality has remained moderately weak since being a RRB it typically provides credit facilities in the agricultural and rural sectors. Having said that asset quality of the Bank has started improving with Gross NPA reducing from 9.87% to 8.33% in FY18 and further reduced to 7.30% in FY19 due to resolution of certain cases as well as increase in the collection efficiency. Also, the slippage ratio moderated from 2.48% at FYE2018 to 1.89% at FYE19. Further, provision of the Bank has reduced from Rs.72 crore in FY17 to Rs.65 crore, however it increased to Rs.97 crore in FY19 and to Rs.116 crore in 9MFY20. While Agri loans as a % of total loans has been low at 18%, the share in total delinquency remains high at 55%. Going forward, asset quality of the bank shall remain key monitorable as any increase in credit cost will have a material impact on its profitability.

**Moderate Capitalization & resource raising ability:**

The Bank has historically maintained low capital adequacy which stood at 9.49% at FYE19 as against 9.16% at FYE18. Equity Infusion of Rs.38.14 Crore was made in FY16 by the stakeholders – Central Government, State Government and SBI in the proportion of 50:15:35 respectively which helped the bank to conduct operations and maintain capital adequacy parameters as per regulatory requirements.

UGB also has the option to avail refinance facility from NABARD and other agencies post qualifying the refinance criteria. While UGB's capital is helped by internal accretion, we expect that UGB would require fresh capital infusion to maintain its CRAR and grow its loan book.

**Modest Profitability Parameters**

The Bank reported a PAT of Rs.14.8 crore during FY19 as against Rs.3.65 crore during FY18. The ROTA for FY17, FY18 and FY19 was 0.09, 0.07 and 0.28 respectively. The Bank has historically demonstrated weak profitability due to lower net interest margins and higher credit costs. Also, due to low cultivable land, most of the PSL lending is through small and medium scale enterprises where the recovery could be erratic. Further, the additional burden of pension liabilities is expected to lower the profitability of next few years. As such, given the difficult operating environment and lower income levels we believe that the profitability will remain a key monitorable.

**Geographical concentration with growth constraints due to operations restricted to a region as mandated by regulations**

UGB operations are limited to the Uttarakhand State where it has almost 286 branches. RRB's typically do not lend outside of their home state which restricts regional diversification. The geographical concentration and heavy dependence on tourism activity in a single region may have a material impact on profitability and asset quality going forward.

**Lending to relatively vulnerable borrower segments**

The Bank is supposed to extend 75% of its loans to priority sector. As such, the Bank has been lending to Agricultural related loans (18%), SME (25%), Home loans (32%) and Personal Loans (25%). Given the rugged terrain in Uttarakhand, most of these loans are extended in agri/agri related and tourism sector which are rather seasonal in nature. These loans are typically low ticket size and may sometimes be driven by government sponsored schemes. As such, given the borrower profile the recovery from vulnerable borrower segments can sometimes be challenging.

**Liquidity Profile: Adequate**

UGB has CRR of Rs.201.00 crore and SLR of Rs. 2270.05 crores as on March 31, 2019. UGB has Cash & Balance with RBI of Rs.247.47 crore and balance with banks and money at call & short notice of Rs.703 crore as on December 31, 2019. The Bank has the option to take refinance of PSL loans from agencies like NABARD, NHFDC and NHB etc. Bank's refinance from agencies amounted to Rs.150 crore in FY19 and Rs.163 crore in 9MFY20.

**Analytical approach:** CARE has considered the standalone business and financial profile of Uttarakhand Gramin Bank along with factoring in benefits on account of its ownership and support from the Sponsor bank, SBI & GoI.

### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Financial Ratios- Financial Sector](#)

[Factoring Linkages in Ratings](#)

[CARE's Criteria for Bank](#)

### About Uttarakhand Gramin Bank

Uttarakhand Gramin Bank (UGB) is a regional rural bank in India. Sponsored by State Bank of India, established under RRB Act 1976, UGB came into existence on November 01, 2012 after amalgamation of erstwhile RRB viz. Uttaranchal Gramin Bank (Sponsored by SBI) and Nainital Almora Kshetriya Gramin Bank (Sponsored by Bank of Baroda) in Uttarakhand State. UGB was mainly formed to capitalize on the customer base created by the two former RRBs and improve the efficiency by the using expertise of the management. UGB offer all products and services like other banks but it focuses mainly on bridging the credit gaps in the rural areas, reduce regional imbalances and provide services to the un-served region of the rural areas. Uttarakhand Gramin Bank is the second largest bank of Uttarakhand in terms of branch network. It is operating in all 13 districts of Uttarakhand State with 218 Rural branches, 44 Semi-Urban branches & 24 Urban branches which makes total of 286 branches. Bank's role also involves creating financial inclusion through its services to un-served rural area. In FY19, the Bank enrolled 26408 customers under Pradhan Mantri Jeevan Jyothi Bima Yojana, also enrolled 135806 customers under Pradhan Mantri Suraksha Bima Yojana and 16510 customers enrolled under Atal Pension Yojana. Bank's business has grown at a rate of 9.34% to reach Rs.7,289 crore as on March 31, 2019 as against Rs.6,666 crore as on March 31, 2018. Out of the total business growth, 60% is contributed by CASA and 25% growth is contributed by advances.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	401.94	443.95
PAT	3.65	14.83
Interest coverage (times)	1.02	1.09
Total Assets	5,115.19	5,548.53
Net NPA (%)	5.47	3.21
ROTA (%)	0.07	0.28

Note: A: Audited. All ratios are as per CARE Calculations.

### About RRBs.

Regional Rural Banks (RRBs) were formed under the RRB Act, 1976 with the objective of providing credit and related banking facilities to small farmers, agricultural labourers, artisans, and other rural poor. In the union budget of 2019-20, Rs.235 crores were allocated for recapitalisation of RRBs to enable them to comply with regulatory requirements and to empower them to channelise a larger volume of resources for financial inclusion. In line with their mandate, the emphasis of RRBs' lending remains on the priority sector. Total Deposits of RRBs increased from Rs.4,28,287 crore with CASA of 54.9% in FY19 to Rs.4,51,262 crore with CASA of 53.4% in 9MFY20 whereas Loans and Advances increased from Rs.2,83,670 crore in FY19 to Rs.2,93,379 crore in 9MFY20.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Tier I Bonds	NA	NA	NA	Proposed	300.00	CARE BBB+; Stable

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Tier I Bonds	LT	300.00	CARE BBB+; Stable	-	-	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Contact us****Media Contact**

Mradul Mishra

Contact no. +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)**Analyst Contact 1**

Group Head Name - Mr. Abhijit Urankar

Group Head Contact no.- 022-6754 3669

Group Head Email ID- [abhijit.urankar@careratings.com](mailto:abhijit.urankar@careratings.com)**Analyst Contact 2**

Mr. Sanjay Kumar Agarwal

Contact no. : (022) 6754 3500 / 582

Email ID- [sanjay.agarwal@careratings.com](mailto:sanjay.agarwal@careratings.com)**Business Development Contact**

Name: : Ankur Sachdeva

Contact no. : 91 98196 98985

Email ID : [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)**About CARE Ratings:**

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