

## RATING RATIONALE

14 February 2022

### UCO Bank

**Brickwork Ratings reaffirms the rating for UCO Bank’s Basel III Tier II bonds of Rs.1000 Crs and Lower Tier II Bonds of Rs.1000 Crs with revision in outlook from Stable to Positive.**

#### Particulars:

| Instruments                                 | Amount (Rs. Crs.) |             | Tenure                                 | Rating*                |  |
|---|-------------------|-------------|--|------------------------|--|
|   | Previous          | Present     |  | Previous (March, 2021) | Present  |
| <b>Basel III Tier II Bonds</b>              | 1000              | <b>1000</b> | <b>Long Term</b>                       | BWR A+/ Stable         | <b>BWR A+ Positive (Reaffirmed with revision in outlook from ‘Stable’ to ‘Positive’)</b> |
| <b>Lower Tier II Bonds (under Basel II)</b> | 1000              | <b>1000</b> | <b>Long Term</b>                       | BWR A+/ Stable         | <b>BWR A+ Positive (Reaffirmed with revision in outlook from ‘Stable’ to ‘Positive’)</b> |
| <b>Total</b>                                | 2000              | <b>2000</b> | <b>Rupees Two Thousand Crores Only</b> |                        |  |

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

**Note:** ISIN wise details is provided in Annexure-II

#### RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the rating of the bond issues of UCO Bank (UCO or the bank), as tabulated above with revision in outlook from ‘Stable’ to ‘Positive’. BWR factors in the bank’s performance for FY21 and upto Q3/9MFY22, publicly available information, and information and clarification provided by the bank’s management.

The rating reaffirmation factors in the Government of India (GOI)’s equity stake of 95.39% as of 31 December 2021 and its continued support to the bank in the form of a capital infusion, consistent growth in business and profitability in the last 8 quarters and comfortable capitalization levels. The rating is however, constrained by moderate asset quality and modest earning profile albeit improvement in the last 2 years.

BWR revises the outlook for the bank to Positive which indicates a likelihood of an upgrade in the rating over the medium term.

## KEY RATING DRIVERS

### Credit Strengths:-

- **Improvement in Financial Risk Profile:** The bank had been under the restrictions of Prompt Corrective Action (PCA) from March 2017. In September 2021, RBI removed bank out of PCA on account of improvements in the asset quality, capital position and earning profile. The bank had declared a profit of Rs. 167 Crs for FY21 after being into consequent losses. The profit for 9MFY22 increased to Rs. 617 Crs against Rs. 87 Crs for 9MFY21. The asset quality has been improving wherein GNPA has dropped from 9.8% in Dec 20 to 8% in Dec 21 while Net NPA stood at 2.81%. With capital infusion by the government supported by continued profits Q-O-Q, the capital adequacy ratio has improved to 14.56% as on 31 Dec 2021 with CET-1 of 11.73%.
- **Strong support and majority ownership of GOI:** There is high sovereign support to the bank, with the GOI holding 95.39% as on 31 December 2021. The GOI's support to public sector banks (PSBs) has always been of prime importance. Being the key promoter-shareholder, the GOI has continued to support PSBs even in times of distress, through various recapitalisation plans announced over the years. The GOI's support to the bank in the form of capital infusion is expected to continue, given that the bank is one of the major PSBs in the country. The GOI is expected to provide capital support to the bank as and when required for business growth, as well as to strengthen the balance sheet to cover for any asset-side risks.
- **Established track record and increase in scale of operations:** UCO Bank was founded and has an established operational track record of around seven decades. The bank's business stood at Rs. 3,24,324 Crs as on 31 March 2021 which increased to Rs. 3,44,322 Crs as on 31 Dec 2021. Q-O-Q growth is being witnessed in deposits as well as advance position of the bank. Around 64% of the total advances is to the Retail, Agri and MSME sector (RAM). As on 31 Dec 2021, the bank had 3,071 domestic branches, 2 overseas branches, 2374 ATMs with a strong presence in eastern India.

### Credit Risks:-

- **Average, albeit improving, asset quality:** UCO Bank's asset quality is average albeit consistent improvement since FY21. Gross non performing assets (GNPA) and net non performing assets (NNPA) decreased to 8.0% and 2.81%, respectively, as on 31 December 2021 from 9.59% and 3.94% respectively in FY21. The improvement in asset quality is due to improved recoveries, the upgradation of accounts and write-offs. BWR has also taken note of substantial slippages of accounts from SMA 0 category to SMA 1 and SMA 2 categories during 9MFY22. Going forward, the bank's ability to manage its asset quality and contain any sharp increase in NPAs will be a key monitorable over the medium term.

- **Modest earnings and resource profile:** UCO Bank reported a net profit of Rs.167 Crs for FY21, as against a net loss of Rs 2,437 Crs for FY20 on the back of lower provisions. However, the profitability improved post FY21, with bank reporting profits consistently for the last 3 quarters. For the period of 9 months ending on 31 Dec 2021, the bank reported net profit of Rs 617 Crs and ROA of 0.48%. As of 31 December 2021, the bank's resources profile was moderate, with a total deposit base of Rs 2,18,803 Crs (Rs 2,05,919 Crs as on 31 Mar 2021). However, the growth in low cost CASA deposits was flat during the same period and marginally decreased from 39.66% in FY21 to 38.11% in 9MFY22. Credit deposit ratio for the same period stood low at 57.37% when compared to its peers. Bank's ability to improve profitability, while maintaining the NIMs and reducing provisioning costs will remain key for UCO Bank to improve its earning profile over the medium term.

### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

Basel III-compliant bonds are subject to the guidelines/regulations of the RBI and as detailed in the term sheet of respective issues. BWR considers them as highly complex instruments in terms of published criteria. BWR has rated Basel III instruments; however, restrictions by the regulator on coupon servicing on any of the outstanding bonds due to the non-meeting of regulatory guidelines would be a key rating sensitivity.

### **RATING SENSITIVITIES**

Rating sensitivities factor in the bank's performance, apart from the GOI's support for capital infusion, strong board and management, and internal controls and systems of the bank to reflect on the corporate governance.

**Positive:** Continued improvement in the bank's performance with sustained reduction in the delinquencies, growth in profitability and core capital to support business expansion will be positives for upgradation in the rating.

**Negative:** Higher-than-expected deterioration in the asset quality, thereby impacting profitability and capital adequacy, would constitute negatives that will impact the company's ratings and/or outlook.

### **LIQUIDITY INDICATORS : ADEQUATE**

As on 31.12.2021, the bank has Cash and bank balances of Rs. 24,922 Crs. Out of total investments of Rs. 98275 Crs, Rs. 27847 Crs are available for sale. The bank's Basel III leverage ratio of 4.44% as of 30 September 2021 is above the regulatory requirement of 3.5%.

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED**

Basel III Tier II Bonds: The Basel III Bonds of this nature are susceptible to loss absorbency features as per the terms of the issue and the RBI’s extant guidelines. The key distinguishing feature of these bonds is the existence of a Point of Non-Viability (PONV) trigger, and the occurrence of such a PONV trigger event may at the option of the RBI be temporarily or permanently written-off, resulting in permanent loss of the principal to the investor, and default on the instrument to the investor. The Basel III Tier II bonds are redeemable after 10 years from the deemed date of allotment, with coupon servicing at annual intervals. The bonds are subject to the extant guidelines of the RBI applicable to Tier II Basel III-compliant bonds issued by banks.

**BANK’S PROFILE**

Background: UCO Bank (formerly United Commercial Bank), founded in 1943, is a major public sector bank headquartered in Kolkata, with the GOI holding a nearly 95.39% equity stake in the bank. As of 31 December 2021, UCO Bank had 3071 branches, 2 overseas branches, 2734 ATMs and a total business of Rs.344,322 Crs.

Management: Shri Soma Sankara Prasad assumed the Office of Managing Director & CEO of UCO Bank on 01.01.2022.

**KEY FINANCIAL INDICATORS**

| <b>UCO Bank</b>                         | <b>Audited</b> | <b>Audited</b> | <b>Audited</b> |
|---|----------------|----------------|----------------|
| <b>UCO Bank- Key Parameters – Rs Cr</b> | <b>FY 2019</b> | <b>FY 2020</b> | <b>FY 2021</b> |
| Total Deposits                          | 197,907        | 193,203        | 205,919        |
| Gross Advances                          | 119,573        | 114,961        | 118,405        |
| Total Business                          | 317,480        | 308,164        | 324,324        |
| CASA Ratio %                            | 44.50%         | 40.22%         | 39.66          |
| PAT                                     | -4321          | -2437          | 167            |
| Gross NPAs to Advances                  | 25.00%         | 16.77%         | 9.59%          |
| Net NPAs to Advances                    | 9.72%          | 5.45%          | 3.94%          |
| CRAR                                    | 10.70%         | 11.70%         | 13.74%         |
| Tier 1                                  | 8.64%          | 8.98%          | 11.14%         |
| CET –I                                  | 8.64%          | 8.98%          | 11.14%         |

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY -nil**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

| Sl. No       | Facility                       | Current Rating |                 |  | Rating History                |  |                                  |
|--------------|--------------------------------|----------------|-----------------|--|-------------------------------|--|----------------------------------|
|              |                                | Type           | Amount (Rs Crs) | Rating   | 08 Mar 2021                   | 30 Mar 2020  | 30 Mar 2019                      |
| 1            | Basel III Tier II Bonds        | Long Term      | 1000            | BWR A+ (Positive)<br>Reaffirmed with revision in outlook from Stable to Positive | BWR A+ (Stable)<br>Reaffirmed | BWR A+ /Stable<br>Reaffirmed and Outlook Revised from Negative | BWR A+<br>Negative<br>Reaffirmed |
| 2            | Lower Tier II Bonds (Basel II) | Long term      | 1000            | BWR A+ (Positive)<br>Reaffirmed with revision in outlook from Stable to Positive | BWR A+ (Stable)<br>Reaffirmed | BWR A+/Stable<br>Reaffirmed and Outlook Revised from Negative  | BWR A+<br>Negative<br>Reaffirmed |
| <b>Total</b> |                                |                | <b>2000</b>     | <b>Rupees Two Thousand Crores Only</b>   |                               |  |                                  |

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**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Bank & Financial Institutions](#)
- [Basel III Compliant Instruments](#)

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**UCO BANK  
ANNEXURE I**

**Details of Bank Loan Facilities rated by BWR :NA**

**ANNEXURE II  
INSTRUMENT DETAILS**

| <b>Instrument</b>                     | <b>Issue Date</b> | <b>Amount<br/>Rs. Crs.</b> | <b>Coupon<br/>Rate</b> | <b>Maturity<br/>Date</b> | <b>ISIN<br/>Particulars</b> |
|---------------------------------------|-------------------|----------------------------|------------------------|--------------------------|-----------------------------|
| Lower tier II bonds<br>under Basel II | 28-Dec- 2012      | 1000                       | 9.00%                  | 28-Dec-2022              | INE691A09185                |
| Basel III Tier II Bonds               | 31-Mar-2017       | 1000                       | 8.95%                  | 31-Mar- 2027             | INE691A08047                |

**Total Rupees Two Thousand Crores Only**

**ANNEXURE III  
List of entities consolidated: NA**

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