



HO/Finance/Share/114/2022-23

Date: 25.08.2022

National Stock Exchange of India Ltd.
"Exchange Plaza"
Plot no. C/1, G Block
Bandra-Kurla C
omplex, Bandra (E)
Mumbai – 400 051
NSE Scrip Symbol: UCOBANK

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort,
Mumbai – 400 001
BSE Scrip Code: 532505

Madam/ Dear Sir,

Sub: Revision in Rating of Bonds

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, we inform that CRISIL Rating Limited has upgraded its rating on Lower Tier II Bond of the Bank as detailed hereunder :

ISIN	Instrument type	Rated amount (Rs. in crore)	Revised Rating & Outlook
INE691A09185	9% Lower Tier II Bond (under BASEL II)	1000	CRISIL AA-/Stable (Upgraded from CRISIL A+/Positive)
NA	Certificate of Deposits	10000	CRISIL A1+ (Reaffirmed)

The rating rationale dated 25.08.2022 issued by CRISIL Ratings Limited is enclosed.

Yours faithfully,

(N Purna Chandra Rao)
Company Secretary



Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

August 25, 2022 | Mumbai

UCO Bank

Long-term rating upgraded to 'CRISIL AA-/Stable'

Rating Action

Rs.1000 Crore Lower Tier-II Bonds (under Basel II)	CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')
Rs.10000 Crore Certificate of Deposits	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on Lower Tier-II bonds of UCO Bank to '**CRISIL AA-/Stable**' from '**CRISIL A+/Positive**'. The rating on the certificate of deposits programme has been reaffirmed at '**CRISIL A1+**'.

The rating upgrade, factors in the expectation of continued enhancement in asset quality and profitability of the bank. Asset quality improved with reported gross non-performing assets (NPAs) at 7.89% as on March 31, 2022 (7.42% as on June 30, 2022), from 9.59% as on March 31, 2021, supported by recoveries and write-offs. Net NPAs declined substantially and stood at 2.49% as on June 30, 2022. As on March 31, 2022, restructured advances accounted for 3.60% of the bank portfolio.

Improvement in the asset quality led to better profitability. Return on asset (RoA) increased to 0.36% in fiscal 2022 (0.19% annualised for the three months ended June 30, 2022) from 0.07% in fiscal 2021 since credit cost reduced to 1.21% from 2.16%.

Government of India (GoI) has supported UCO bank with infusion of a total of Rs 22,645 crore through fiscal 2016 to fiscal 2022. Out of this, latest infusion was of Rs 2,600 crore in fiscal 2021.

The Reserve Bank of India (RBI) took UCO Bank out of its prompt corrective action (PCA) in September 2021, which had restricted bank to offer select loan products. Post the lifting of PCA, the strategy has been to grow more granular assets in the retail, and micro, small and medium enterprise (MSME) segments.

The overall ratings continue to reflect the expectation of strong support from the GoI and moderate resource profile. These strengths are partially offset by average, albeit improving, asset quality and earnings.

Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of UCO Bank and has factored in the expected strong government support.

Key Rating Drivers & Detailed Description

Strengths:

Expectation of strong support from GoI

The government should continue to provide strong support both on an ongoing basis and in the event of distress. This is because, GoI is the majority shareholder in public sector banks (PSBs) and is the guardian of India's financial system. Stability of the banking sector is of prime importance to the government, considering the sector's criticality to the economy, the strong public perception of sovereign backing for PSBs, and adverse implications of any PSB failure, in terms of political fallout, systemic stability, and investor confidence. The majority ownership creates a moral obligation on the government to support PSBs, including UCO Bank.

GoI has supported UCO Bank with infusion of Rs 22,645 crore during fiscals 2016 to 2022. Of this, Rs 2,600 crore was infused in fiscal 2021; consequently, tier 1 and capital-to-risk weighted assets ratio (CRAR) were at 11.14% and 13.74%, respectively, as on March 31, 2021. Tier 1 and CRAR were stable year on year (y-o-y) at 10.97% and 13.74% as on March 31, 2022, despite generating a healthy net profit in fiscal 2022; mainly due to impact of around 125bps from directive of the

RBI on the fair valuation of zero-coupon recapitalisation bonds. This had got into effect for the three months ended March 31, 2022. Tier 1 and CRAR were 11.29% and 14.13%, respectively, as on June 30, 2022.

Moderate resource profile

Total deposits increased 9% on year to Rs 2,24,073 crore as on March 31, 2022 (Rs 2,25,328 crore as on June 30, 2022). Ratio of current account and savings account (CASA) deposits to total deposits was 38.73% as on June 30, 2022, and 39.42% as on March 31, 2022. Of the CASA deposits, saving deposits accounted for 90%, and current deposits for the remaining 10%. Additionally, cost of deposits improved to 3.77% in fiscal 2022 from 4.24% in fiscal 2021.

The bank should maintain its resource profile, supported by its established market position in eastern India, which has helped maintain a stable deposit base in the region.

Weakness:

Average, albeit improving, asset quality and profitability

Asset quality remains average, albeit it improved in fiscal 2022 with gross NPAs at 7.89% as on March 31, 2022, (7.42% as on June 30, 2022), as compared with 9.59% a year ago. The improvement was driven by write-offs of Rs 3,851 crore in fiscal 2022 (Rs 594 crore in the three months ended June 30, 2022). Net slippages to net advances were 3.62% in fiscal 2022 and 0.33% in the three months ended June 30, 2022. Majority of stress in the corporate book is already recognised, and fresh slippage in this segment is expected to be relatively lower. As on March 31, 2022, restructured advances accounted for 3.60% of the bank portfolio, and gross NPAs in the restructured book were at 9.80%. Net NPAs were 2.70% as on March 31, 2022, (2.49% as on June 30, 2022) from 3.94% a year ago.

The strategy to grow more granular assets in the retail, and MSME segments, and adoption of conservative approach while lending to corporates, augurs well for the asset quality. Also, increasing proportion of high-yield retail, agriculture, and MSME segments have resulted in steady improvement in net interest margin to 2.47% in fiscal 2022 (2.47% for the three months ended June 30, 2022) from 2.24% in fiscal 2021. Profitability has further benefitted from lower credit cost, which reduced to 1.21% in from 2.16% during same time periods. RoA was 0.36% in fiscal 2022, up from 0.07% in fiscal 2021, and net profit was Rs 930 crore in fiscal 2022, from Rs 167 crore in fiscal 2021.

Net profit was Rs 124 crore (annualised RoA 0.19%) during the three months ended June 30, 2022, which was impacted by mark-to-market losses in treasury operations in the ongoing rising interest rate environment. Bank maintained a healthy provision cover of 68% as on June 30, 2022.

Nevertheless, ability to manage collections and control credit costs, particularly that from the restructured book, and improve profitability will remain key monitorables.

Liquidity: Strong

Liquidity remains supported by the strong retail deposit base. The liquidity coverage ratio stood at 223.7% as on March 31, 2022, and was higher than the regulatory requirement. The excess statutory liquidity ratio stood at Rs 29,171 crore (around 12.92% of net demand and time liabilities) as on June 30, 2022. Liquidity benefits from access to systemic sources of funds, such as the liquidity adjustment facility from the RBI and access to the call money market.

Outlook Stable

UCO Bank will continue to benefit from government support both on an ongoing basis as well as in the event of distress.

Rating Sensitivity factors

Upward factors

- Sustained and meaningful improvement in asset quality
- Increase in profitability with positive RoA (above 0.6%) on a steady-state basis
- Substantial increase in market position

Downward factors

- Material reduction in shareholding and/or expectation of support from GoI
- Decline in the capital adequacy ratio to below minimum regulatory requirements
- Continuous losses and sustained deterioration in asset quality

About the Bank

UCO Bank was founded in 1943 as United Commercial Bank. It was renamed as UCO Bank by an Act of Parliament in 1985. In 2003, the bank made its initial public offering, resulting in dilution of government ownership. GoI owned 95.39% stake in the bank as on June 30, 2022. As on June 30, 2022, the bank had total advances and deposits of Rs 1,31,350 crore and Rs 2,25,328 crore, respectively.

Profit after tax (PAT) was Rs 930 crore and total income (net of interest expenses) was Rs 9,574 crore in fiscal 2022, as against a net profit of Rs 167 crore and total income (net of interest expenses) of Rs 8,904 crore for fiscal 2021.

Key Financial Indicators

Particulars	Unit	Q1FY23	Q1FY22
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Total assets	Rs crore	2,67,449	2,49,930
Total income (net of interest expense)	Rs crore	1,595	2,317
PAT	Rs crore	124	102
Gross NPA	%	7.42	9.37
Overall capital adequacy ratio	%	14.13	14.24
Return on assets	%	0.19	0.16

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating outstanding with outlook
NA	Certificate of deposits	NA	NA	7 to 365 Days	10,000	Simple	CRISIL A1+
INE691A09185	Lower Tier-II bonds (under Basel II)	28-Dec-12	9.00%	28-Dec-22	1000	Complex	CRISIL AA-/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST	10000.0	CRISIL A1+		--	31-08-21	CRISIL A1+	31-08-20	CRISIL A1+	27-08-19	CRISIL A1+	CRISIL A1+
Lower Tier-II Bonds (under Basel II)	LT	1000.0	CRISIL AA-/Stable		--	31-08-21	CRISIL A+/Positive	31-08-20	CRISIL A+/Stable	27-08-19	CRISIL A+/Stable	CRISIL A+/Stable
Upper Tier-II Bonds (under Basel II)	LT		--		--		--	31-08-20	Withdrawn	27-08-19	CRISIL A/Stable	CRISIL A/Stable

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Banks and Financial Institutions
CRISILs Criteria for rating short term debt
Rating criteria for Basel III - compliant non-equity capital instruments
Rating Criteria for Hybrid Capital instruments issued by banks under Basel II guidelines
Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support

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