

HO/Finance/Share/156/2022-23

Date: 16.12.2022

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: Bond Ratings - Reaffirmed

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, we inform that India Rating and Research Pvt. Ltd. has affirmed its rating on Bank's BASEL III Tier II Bond of the Bank as detailed hereunder :

ISIN	Instrument type	Rated amount (Rs. in crore)	Rating & Outlook
INE691A08054	9.644% Basel III Tier II Bond	500	AA-/Stable (Ratings Re-affirmed)
INE691A08062	9.71% Basel III Tier II Bond	500	
INE691A08070	8.51% Basel III Tier II Bond	400	
INE691A08088	8.51% Basel III Tier II Bond	100	

The rating rationale dated 16.12.2022 issued by India Rating and Research Pvt. Ltd. is enclosed.

Yours faithfully,

PURNA
CHANDRARAO
NIBHANAPUDI
NIBHANAPUDI

Digitally signed by
PURNA CHANDRARAO
NIBHANAPUDI
Date: 2022.12.16
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(N Purna Chandra Rao)
Company Secretary

Encl : as stated

India Ratings Affirms UCO Bank at 'IND AA-'; Outlook Stable

Dec 16, 2022 | Public Sector Bank

India Ratings and Research (Ind-Ra) has taken the following rating actions on UCO Bank (UCO):

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AA-/Stable	Affirmed
Basel III Tier 2 bonds*	-	-	-	INR15 (reduced from INR25)	IND AA-/Stable	Affirmed

*Details in Annexure

Analytical Approach: Ind-Ra continues to factor in the support from the government of India (GoI) to arrive at the rating. The GoI held a 95.39% stake in UCO at end-September 2022 and the bank is of systemic importance to the government.

The affirmation reflects the strengthening of UCO's balance sheet, reasonable cushion to absorb the impact of the pandemic, and the fact that COVID-19-led disruptions have had only a moderate impact on the bank. Ind-Ra believes the government's support to UCO has been demonstrated through regular infusions of equity over the past few years, helping the bank step up provisions and strengthen its balance sheet. Ind-Ra expects UCO to continue receiving timely support from the GoI if and when required (the agency does not envision any material requirement in the short-to-medium term to meet the minimum regulatory capital requirements).

Key Rating Drivers

Capital Buffers Strengthened through Regular Equity Infusions by Gol: UCO has been receiving regular equity infusions from the Gol (FY21: INR26 billion; FY16-FY20: INR200.45 billion, about 93% of 1HFY23 net worth), leading to a substantial improvement in its capital. Its common equity tier (CET)-I ratio stood at 11.25% at end-2QFY23 (FY22: 10.97%; FY21: 11.14%;). Moreover, with the sharp catch-up in the provisions coverage ratio over FY18-1HFY23, the need to provide for legacy non-performing assets (NPAs) has been taken care of, thereby reducing the pressure on profitability. Additionally, with the bank's return to profitability (profitable over the past 11 quarters), its internal accruals would bolster the capital buffers.

Asset Quality Stabilising: While UCO's asset quality might be weaker than that of larger public sector banks, the impact of COVID-19-related issues were manageable for the bank. The credit cost of 2.6% for FY22 (FY21: 5.2%), resulting from ageing provisions and the credit costs rising out of COVID-19, was comfortably absorbed by the bank, given the steady pre-provision operating profit performance (FY22: 4.1%; FY21: 5.1%). Moreover, UCO wrote off loans worth about INR311.5 billion during FY19-1HFY23 (about 23% of its current net advances), and if recoveries pick up further, this could be a source of profitability, and hence, capital too.

Furthermore, the asset quality continued to improve in 1HFY23, with UCO's gross NPAs and net NPAs standing at 6.58% and 1.99% with provision coverage ratio (excluding technical write-offs) at 71.15%. Ind-Ra expects with the manifestation of additional COVID-19 stress in terms of slippages from restructured assets (1HFYE23: 2.4%), special mention account 1 and 2 (4.6%) and loans supported by emergency credit line guarantee scheme (INR17.68 billion outstanding till date); including normal business slippages, the incremental impact on the asset quality to be manageable.

Liquidity Indicator – Adequate: As of June 2022, UCO's short-term (one year) asset liability mismatches (cumulative funding deficit) stood at 1.0%, in line with most similarly-rated peers. The liquidity coverage ratio was 223.74% in FY22 (FY21: 229.9%), well above the regulatory requirement. As of 1HFY23, the bank maintains around 25% of its total assets in balances with the Reserve Bank of India and in government securities, indicating that it will be able to meet its short-term funding requirements. However, if its deposit growth does not keep pace with the advance growth, then the bank may need to increasingly rely on wholesale sources, impacting its liquidity adversely but seems manageable in the foreseeable future.

Improvement in Quality of Earnings; Although Remains Dependent on Treasury Income and Recoveries: UCO reported a net profit of INR17.25 billion over FY21-1HFY23, after cumulative losses of INR158.45 billion over FY16-FY20, higher than the profits earned over FY12-FY15. UCO's net interest income grew 18.1% yoy and 11.8% yoy in FY22 and 1HFY23, respectively, supporting its earnings. However, elevated cost to income ratio of 60.7% in 1HFY23 (FY22: 49.3%), largely led to a decline in pre-provision operating profit (PPOP) 37.8% (5.3%). Furthermore, the contribution of treasury income and recoveries from written-off accounts continued to constitute majority of its PPOP performance over FY22-1HFY23. A decline in credit costs to 1.55% (annualised) in 1HFY23 (FY22: 3.3%, FY21: 5.2%, FY20: 8.5%,) also led to stronger profit generation. Barring any major credit events such as COVID-19, the improving recoveries trend in FY23 and FY24, could aid the bank's profitability. Furthermore, management aims to achieve mid-teens return on equity on a sustainable basis.

Weaker Liability Franchise: UCO's current account savings account ratio remained at 38.5% in 2QFY23 (FY22: 39.1%; FY21: 38.8%), lower than its similar-rated peers. While the bank has tried to enhance its current account savings account franchise, especially current accounts, it has not seen any material growth in advances. Consequently, the need for raising bulk deposits has been low, while the granular deposits have continued to accrue. Management is cognizant of a loss in market share over last few years. Thus, with the objective of streamlining the business, it is aiming for materially higher market share in both, deposit and advances than peers in the medium term.

With a likely relatively higher loan growth in the medium term, it remains to be seen if the liability profile deteriorates ahead. The current interest rate curve is adverse and the agency expects the bank's interest rates on deposits to continue

to increase. The challenges get accentuated, given public sector banks in general (including UCO) have not opened many new branches and most banks now have appetite to lend, leading to competition within banks for mobilising deposits has increased.

Rating Sensitivities

Positive: Consistent material gains in franchise which among other things may reflect in market share in both advances and deposits, stronger operating performance from the core lending operations reflecting on returns on equity, adequate capital buffers and asset quality could lead to a positive rating action.

Negative: The Basel III Tier-2 bond rating are based on Ind-Ra's expectation of support from the GoI (majority shareholder) to meet the minimum capital requirements. Any change in the majority GoI ownership or a change in the agency's opinion regarding the GoI's timely support for the bank, which could be warranted in case of a sharp drop in capitalisation or otherwise, could result in a negative rating action or a rating watch.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on UCO, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

Company Profile

UCO is a public sector bank, with operations across India. At end-September 2022, the bank had 3,106 branches, with a strong presence in eastern India.

FINANCIAL SUMMARY

Particulars	FY22	FY21
Total assets (INR billion)	2,677.84	2,533.36
Total equity (INR billion)	235.94	226.06
Net income/loss (INR billion)	9.35	1.68
Return on average assets (%)	0.4	0.1
CET I (%)	10.97	11.14
Capital adequacy ratio (%)	13.74	13.74
Source: UCO, Ind-Ra		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	17 December 2021	5 August 2021	19 November 2020	5 August 2020
Issuer rating	Long-term	-	IND AA-/Stable	IND AA-/Stable	IND AA-/Negative	IND AA-/Negative	IND AA-/Negative
Basel III Tier II bonds	Long-term	INR15	IND AA-/Stable	IND AA-/Stable	IND AA-/Negative	IND AA-/Negative	IND AA-/Negative

Annexure

Issue Name/Type	ISIN	Date of Issuance	Coupon Rate (% p.a.)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Basel III Tier II bonds	INE691A08054	June 2019	9.64	June 2029	INR5	IND AA-/Stable
Basel III Tier II bonds	INE691A08062	December 2019	9.71	December 2029	INR5	IND AA-/Stable
Basel III Tier II bonds	INE691A08070	March 2022	8.51	March 2032	INR4	IND AA-/Stable
Basel III Tier II bonds	INE691A08088	March 2022	8.51	March 2032	INR1	IND AA-/Stable
Basel III Tier II bonds	INE691A08047	March 2017	8.95	March 2027	INR10	WD (paid in full)
	Total utilised limit				INR15	

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Basel III tier 2 bonds	Moderate

For details on the complexity level of the instrument, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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APPLICABLE CRITERIA

Evaluating Corporate Governance**Rating Bank Subordinated and Hybrid Securities****Financial Institutions Rating Criteria****The Rating Process****DISCLAIMER**

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