

HO/Finance/Share/221/2022-23

Date: 09.03.2023

National Stock Exchange of India Ltd.

"Exchange Plaza"

Plot no. C/1, G Block

Bandra-Kurla Complex, 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

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, we inform that Infomerics Valuation and Research Pvt. Ltd ("Infomerics") has assigned the long term rating on Proposed BASEL III Compliant Tier I Bond Programme , as detailed hereunder :

ISIN	Instrument type	Rated amount (Rs. in crore)	Rating & Outlook
Not Applicable	Proposed BASEL III Additional Tier I Bond	1000	AA-/Stable (New rating assigned)

The rating rationale dated 08.03.2023 issued by Infomerics is enclosed.

Yours faithfully,

PURNA

CHANDRARAO

NIBHANAPUDI

Digitally signed by
PURNA CHANDRARAO
NIBHANAPUDI
Date: 2023.03.09
12:40:07 +05'30'

(N Purna Chandra Rao)

Company Secretary

Encl : as stated



Press Release

UCO Bank (UCO)

March 08, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Proposed BASEL III Compliant Additional Tier I bonds	1000.00	IVR AA-/ Stable (IVR Double A Minus with Stable Outlook)	Assigned	Highly Complex
Total		1000.00 (Rupees One Thousand Crores Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment of ratings to the Proposed BASEL III Compliant Additional Tier I bonds of UCO Bank has taken into consideration sovereign ownership with continued support, comfortable capitalisation, and comfortable resource profile. However, the ratings are constrained by average asset quality and geographically concentrated operations.

Note on Basel-III Compliant Additional Tier-I Instruments: The distinguishing features of the Additional Tier I (AT-I) capital instruments (under Basel III) are the discretionary payment of coupons by the Bank and principal write-down upon the breach of Point of non-viable (PONV). The Bank has a total CAR of 14.32% and Tier I ratio / CET-1 ratio of 11.57% as of 31 December 2022, with a substantial cushion above the regulatory requirement (total CAR of 11.5%, Tier I of 9.5% and CET-1 of 8.0%, including the capital conservation buffer of 2.5% required as of 31 December 2022). The Bank is having a sizeable retail deposit base that forms a significant part of the total deposits. Its liquidity coverage ratio stood at 181% as on 31 December 2022, as against minimum regulatory requirement of 100%. The Bank had cash and bank balances amounting to Rs. 31190 Crores and net investments of Rs. 97,957 Crores as on December 31, 2022 and maintaining adequate eligible reserves for the timely servicing of the coupon payment shall be a monitorable. The Bank is yet to raise these bonds. Factors that could trigger a default event for non-equity Tier-I capital instruments (under Basel III) 2 resulting in the non-payment of the coupon are as follows: i) the bank



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exercising coupon discretion, ii) the inadequacy of eligible reserves to honour the coupon payment if the bank reports losses or low profits, or iii) the bank breaching the minimum regulatory CET-1 ratio. Moreover, given the additional risk attributes, the rating transition for non-equity Tier-I capital instruments (under Basel III) can potentially be higher and faster than that for Tier-II instruments.

Key Rating Sensitivities:

Upward Factors

- Substantial growth in advances and deposits resulting, profitability, and capitalisation levels of the bank.
- Substantial improvement in the size of the bank and its asset quality.

Downward Factors

- Material declines in GoI Shareholding and/or expectation of support from Government of India.
- Any major increase in slippages leading to weakening of asset quality, thereby impacting the earnings profile.
- Any material Decline in overall capital adequacy ratios below the current level.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Sovereign ownership with continued support

The Government of India holds 95.39% stake in the Bank as of 31 December 2022. The Bank is one of the major public sector banks (PSBs) of the country. The Bank has received regular capital support from the Government of India (GoI). The Bank received capital support of Rs. 2,600 crores in FY 2021. From FY16 onwards, GOI has cumulatively infused equity capital aggregating to ₹22,645 crore, including by way of recapitalisation bonds. The GoI is expected to continue to provide significant support to large public sector banks like the UCO bank as it plays an important role in penetration of economic and social development.

Comfortable capitalisation



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Capitalisation of the bank is comfortable, with Common Equity Tier-1 (CET 1) ratio, Tier-II capital adequacy ratio (CAR) and overall CAR at 11.57%, 2.75% and 14.32%, respectively, as on December 31, 2022 (10.97%, 2.77% and 13.74%, respectively, as on March 31, 2022). The bank has flexibility to raise additional equity from the market, with the GoI stake at 95.39% as on December 31, 2022. The capital level is also supported by regular infusion from GoI.

Comfortable resource profile

Resource profile of the Bank has continued healthy with the proportion of low-cost CASA deposits at 36.94% as on December 31, 2022. However, the proportion remains below the industry average, however, the same is expected to improve over years. Bank's cost of deposits and Net interest margin remains comfortable at 4.12% and 2.99% as on 31 December 2022.

Key Rating Weaknesses

Average, albeit improving, asset quality:

Asset quality of the Bank, with reported gross NPAs of 5.63% as on December 31, 2022 (7.89% as on March 31, 2022, improving from 9.59% in FY21), remains modest, albeit with an improving trend. The Net NPA has improved from 3.94% in FY21 to 2.70% in FY22 and further to 1.66% in 9MFY23. UCO's standard restructured assets (including the RBI Resolution Framework 1.0 and 2.0) continued to remain moderate at ₹4,102 crore constituting 2.72% of gross advances as on December 31, 2022, and Emergency Credit Line Guarantee Scheme (ECLGS) outstanding of ₹1,647 crore (1.09% of Gross Advances) as on December 31, 2022. The bank's special mention accounts (SMA), i.e., SMA 1 and SMA 2 excluding restructured accounts stood at 3.15% of gross advances as on December 31, 2022. The provision coverage ratio of the bank remained at 93.58% as on December 31, 2022.

Geographically concentrated operations:



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UCO Bank's operations are concentrated in north and eastern states of India, which accounted for 63% of branches. Also, 67% of the deposits and 48% of the advances are concentrated in north and eastern states of India as on 31 December 2022. While the bank has been opening branches outside the state, concentration risk is likely to reduce only in the long term.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Banks](#)

[Criteria for assigning rating outlook](#)

[Criteria for Government support](#)

Liquidity –Adequate

The UCO bank's liquidity position is supported by the strength of its liabilities franchise and its sovereign ownership. The Bank is having a sizeable retail deposit base that forms a significant part of the total deposits. Its liquidity coverage ratio stood at 181% as on December 31, 2022, as against minimum regulatory requirement of 100%. The Bank had cash and bank balances amounting to Rs. 31190 Crores and net investments of Rs. 97,957 Crores as on December 31, 2022. Liquidity is further supported by the Bank's access to systemic sources of funds, such as the liquidity adjustment facility from RBI and access to the call money market.

About the Bank

UCO Bank was founded in 1943 as United Commercial Bank by the industrialist Mr. G. D. Birla. The bank was nationalized in 1969 and renamed as UCO Bank in 1985. UCO Bank is a public sector bank which is engaged in retail banking, corporate/Wholesale banking, priority sector banking, treasury operations and other banking services. The bank operates through a network of 3120 branches in India and 2 branches, one each in Hong Kong and Singapore as on December 31, 2022. UCO Bank was listed on BSE and NSE in 2003 and Government of India holds 95.39 percent stake as on December 31, 2022.



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Financials (Standalone)*:

Rs in Crores

For the year ended/As on*	31-03-2020	31-03-2021	31-03-2022
	(Audited)	(Audited)	(Audited)
Total Income	18005.55	17870.32	18082.15
PAT	-2436.83	167.03	929.76
Total Advances	101174.25	111354.54	122784.41
Total Deposits	193203.44	205919.39	224072.90
Total Business	294377.70	317273.94	346857.30
Total Assets	235908.15	253336.11	267784.02
NIM (%)	2.63	2.97	2.70
ROTA (%)	-1.04	0.07	0.36
CET I CRAR (%)	8.98	11.14	10.97
Overall CRAR (%)	11.70	13.74	13.74
Gross NPA (%)	16.77	9.59	7.89
Net NPA (%)	5.45	3.94	2.70
CASA (%)	39.17	38.78	39.42

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Proposed BASEL III Complaint Additional Tier I Bonds	Long Term	1000.00	IVR AA-/Stable	-	-	-



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Name and Contact Details of the Rating Analyst:

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities/Instrument:

1.

Name	of	ISIN	Date of	Coupon	Maturity	Size of	Rating
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Instrument		Issuance	Rate/ IRR (%)	Date	Facility (Rs. Crore)	Assigned/ Outlook
Proposed BASEL III Compliant Additional Tier I Bonds	-	-	-	-	-	IVR AA-/Stable
Total					1000.00	

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details – Not Applicable

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:
Proposed Term sheet for the BASEL III Additional Tier I Bonds**

1. Security Name	UCO Bank Basel III Additional Tier I Bond Series I
2. Issuer	UCO Bank (UCO/ the Bank/ the issuer)
3. Type of Instrument	Non-Convertible, Perpetual, Taxable, Subordinated, Fully paid-up, Unsecured Basel III Compliant Additional Tier 1 Bonds in the nature of debentures of Face value of Rs 1 Crore each
4. Nature of Instrument	<p>Unsecured Subordinated Basel III Compliant Additional Tier 1 Bonds. The Bonds are neither secured nor covered by a guarantee of the Bank or related entity or other arrangements that legally or economically enhances the seniority of the claim of the Bondholder vis-à-vis other creditors of the Bank</p> <p>The instrument has certain unique features which, inter-alia, grant the Bank, in consultation with RBI discretion in terms of writing down the principal / interest, to skip interest payments, to make an early recall etc. without commensurate right for investors to legal recourse, even if such actions of the Bank might result in potential loss to investors.</p>
5. Seniority of Claim	<p>The Claims of the bondholders in this instrument shall be:</p> <p>i. superior to the claims of investors in equity shares and perpetual non-cumulative preference shares if any, issued by the Bank;</p> <p>ii. subordinated to the claims of all depositors, general creditors &</p>



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	<p>subordinated debt of the Bank, other than any sub-ordinated debt qualifying as Additional Tier 1 Capital (as defined in the BASEL III guidelines)</p> <p>iii. neither be secured nor covered by a guarantee of the Bank or its related entity or other arrangement that legally or economically enhances the seniority of the claim vis -à-vis other creditors of the Bank.</p> <p>iv. Unless the terms of any subsequent issuance of bonds/debentures by the Bank specifies that the claims of such subsequent bond holders are senior or subordinate to the Bonds issued under this Placement Memorandum or unless the RBI specifies otherwise in its guidelines, the claims of the Bondholders shall be pari passu with claims of holders of such subsequent debentures/bond issuances of the Bank;</p> <p>v. rank pari passu without preference amongst themselves and other subordinated debt classifying as Additional Tier 1 Capital (as defined in the BASEL III guidelines)</p> <p>Additional Tier 1 Capital shall have the meaning ascribed to such terms under Basel III Guidelines.</p> <p>Notwithstanding anything to the contrary stipulated herein, the claims of the Bondholders shall be subject to the provision of coupon discretion, Loss Absorbency, permanent write-off on PONV trigger and other Events mentioned in the Placement Memorandum and this Summary Term Sheet.</p> <p>The Bonds shall not contribute to liabilities exceeding assets of the Bank if such a balance sheet test forms part of a requirement to prove insolvency under any law or otherwise.</p>
Issue Size	Rs 1000.00 Crores
Object of the Issue/ Purpose for which there is requirement of funds	Augmenting Additional Tier I Capital (as per the terms defined in the BASEL III guidelines) and overall capital of the Bank for strengthening its Capital Adequacy and enhancing its long-term resources.
Utilization of the Proceeds of the Issue	<p>The Bank shall utilize the proceeds of the issue for augmenting its Additional Tier I Capital and overall capital of the Bank for strengthening its Capital Adequacy and enhancing its long-term resources. The proceeds of this issue are not meant for financing any particular project.</p> <p>The Bank undertakes that proceeds of the Issue shall not be used for any purpose which may be in contravention of the regulations/ guidelines/ norms issued by the RBI/SEBI/stock</p>



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	exchange.
Coupon Rate	TBD
Interest Parameter	Fixed Coupon
Coupon Payment Frequency	Annual subject to "Coupon Discretion" and / or "Loss Absorbency" (as the case may be)
Coupon Payment Dates	On the Anniversary of Deemed Date of Allotment i.e each year, subject to RBI regulations (up to Call option date, in case Call option is exercised by the Bank)
Coupon Type	Fixed
Cumulative or Non-cumulative	Non-cumulative subject to coupon Discretion, Loss Absorbency (as the case may be)
Tenor	Perpetual i.e. there is no maturity date and there are no step-ups or other incentives to redeem.
Call Option Price	At Par i.e. Face value amount of Rs.1 crore per Bond plus interest/ coupon accrued from and including the last Coupon Payment Date up to but excluding the Call Option Due Date subject to adjustments and/or write off on account of Loss Absorbency, PONV and other Events mentioned in this Term Sheet
Call Notification Time	21 calendar days prior to the date of exercise of Call option, i.e. Issuer Call, Tax Call or Regulatory Call.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.