August 09, 2017

UCO Bank

UCO Bank (UCO) has announced its Q1FY2018 results on August 02, 2017.

Advances: During Q1FY2018, the bank has reported degrowth of 4.07% in gross advances on YoY basis, which is higher than degrowth of 2.84% in gross advances during FY2017. The degrowth in advances has been driven by corporate segment and is in line with our expectations, as the bank reduces its risk weighted assets in backdrop of weak capital position.

NIMs & NII: The yield on advances declined to 7.5% during Q1FY2018 (8.1% in Q1FY2017 and 8.0% during FY2017), whereas the cost of funds declined to 5.6% during Q1FY2018 (5.9% in Q1FY2017 and 5.7% during FY2017). The yield on advances is lower than the benchmark lending rates of the bank because interest reversals on NPAs and high level of non-earning assets given the high NPAs levels. With higher decline in yield on advances, the Net Interest margins (NIMs) (as % of average total assets – ATA) declined to 1.5% during Q1FY2018 (1.7% in Q1FY2017 and 1.6% during FY2017). With lower NIMs coupled with degrowth in advances, the Net Interest income (NII) witnessed a YoY degrowth of 14.6% during Q1FY2018 (21.3% YoY decline during FY2017).

Asset Quality: The asset quality weakened with Gross NPAs (GNPAs) increasing to 19.87% at end Q1FY2018 (17.19% at end of Q1FY2017 and 17.12% at end of Q4FY2017) mainly due high fresh NPA generation rate of 13.84% (annualized) during Q1FY2018. With increase in slippage, the net NPAs (NNPAs) increased to 10.63% at end of Q1FY2018 (10.04% at end of Q1FY2017 and 8.94% at end of Q4FY2017).

Profitability: A decline in NII coupled with high credit provision led to a loss before tax of Rs. 663 crore during Q1FY2018 as compared with loss before tax of Rs. 440 crore and Rs 1,840 crore during Q1FY2017 and FY2017 respectively. While the NII was up by 38.1% during Q1FY2018 on a sequential basis, however this is because of interest income reversals on weak assets during Q4FY2017.

Capitalisation: Due to losses in Q1FY2018 and no capital raising, capital ratios. i.e. CET1, Tier 1 and CRAR of the bank deteriorated to 7.05%, 7.69%, and 9.69% (as % of risk weighted assets) respectively at end of Q1FY2018, which are weak in relation to minimum regulatory levels. While the regulatory requirements will increase by March 31, 2018, reported capital ratios are lower than the regulatory requirements[1] as on March 31, 2017 of 6.75%, 8.25% and 10.25% respectively. The solvency level remained weak with NNPAs/Net worth of 123% at end of Q1FY2018 (122% at end of Q1FY2017 and 103% at end of Q4FY2017), and is also weaker than the public sector bank average.

- The results are significantly weak, but are in line with expectations of likely loss during FY2018, which is also reflected in a negative outlook on the bank's bond programme. As has been highlighted earlier, the bank will require significant capital during FY2018 and FY2019 and ICRA is monitoring the capital position of the bank.
- UCO meets the regulatory CRAR of 9% (excluding capital conservation buffers) required for the coupon payment of its Basel II Upper Tier II bonds.

[1] Including capital conservation buffers

ICRA currently has outstanding ratings of [ICRA]A+ (Negative) for the Basel II Lower Tier II bond programme and [ICRA]A- (Negative) for the Upper Tier II bond programme of the bank.

The previous rating rationale is available on the following link: Click here

Key Financial Indicators:

	FY2016	**FY2017**	**Q1FY2017**	**Q1FY2018**
Net Interest Income	4,848	3,817	985	841
Profit before tax	(2,779)	(1,840)	(440)	(663)
Profit after tax	(2,799)	(1,851)	(441)	(663)
Net advances	1,25,905	1,19,724	1,20,835	1,12,960
Total assets[2]	2,42,517	2,29,015	2,28,000	2,21,849
%CET 1	7.52%	7.64%	7.67%	7.05%
%Tier 1	7.63%	8.27%	7.67%	7.69%
% CRAR	9.63%	10.93%	9.90%	9.69%
% Net Interest Margin / Average total assets	1.99%	1.62%	1.68%	1.49%
%Net Profit / Average total assets	-1.15%	-0.78%	-0.75%	-1.18%
%Return on Net Worth	-25.34%	-17.98%	-17.54%	-26.27%
% Gross NPAs	15.43%	17.12%	17.19%	19.87%
% Net NPAs	9.09%	8.94%	10.04%	10.63%
% Provision coverage incl technical write offs	53.87%	61.17%	54.14%	60.05%
% Net NPA/ Net worth	112.67%	102.64%	121.99%	123.00%

Source: Bank's investor presentation and ICRA research; Amount in Rs. crore

[2] Total assets is excluding revaluation reserves

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