FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns First-Time 'BBB-' IDR to India's UCO Bank; Outlook Stable

Mon 27 Jul, 2026 - 6:44 AM ET

Fitch Ratings - Singapore - 27 Jul 2026: Fitch Ratings has assigned UCO Bank (UCO) a Long-Term Issuer Default Rating (IDR) of 'BBB-' with a Stable Outlook, and Short-Term IDR of 'F3'. Fitch has also assigned UCO a Government Support Rating (GSR) of 'bbb-' and a Viability Rating (VR) of 'bb'. A full list of rating actions is below.

KEY RATING DRIVERS

Government Support-Driven IDR: UCO's IDR and GSR are equalised with India's sovereign rating (BBB-/Stable), reflecting Fitch's view of a high probability of extraordinary state support for the bank, if required. This takes into consideration the state's 91% ownership of UCO, our view of very limited politically-acceptable scope to bail in senior creditors of a government-owned bank given the risk of contagion, and the government's record of supporting state-owned banks. The Stable Outlook on the IDR mirrors that on the sovereign IDR.

Improving Operating Environment Despite Risks: We have a positive outlook on Indian banks' operating environment (OE) score of 'bb+'. The outlook reflects our expectations of reduced sector risks due to enhanced regulations and supervision by the Reserve Bank of India. An upward revision to the score is possible if Fitch assesses the sector's strengthened regulatory regime and improved financial performance as sustainable, with several key financial metrics close to those observed when the score was last at 'bbb-' (prior to 2019).

The outlook is also supported by India's large and diversified economy and its strong medium-term growth potential - consistent with Fitch's forecast of GDP growth above 6% through the financial years ending March 2027 (FY27) and March 2028. Downside risks remain, including the economic impact of a sustained rise in energy prices from an extended Middle-East conflict or sustained higher-than-expected inflation due to a weak monsoon, but we believe they are manageable.

Stronger Performance Supports VR: UCO's VR is supported by structural improvement in its financial profile over the past few years, including asset quality, capitalisation and profitability, which we expect to be sustained in an improving OE. We also have positive outlooks on most rating factor scores, which reflect the potential for higher scores if the improvements are sustained as expected. These positive outlooks also mirror the outlook on the OE and reflect the potential for further improvements if the OE score is revised upwards.

Diversified Franchise: UCO's large network of about 3,400 branches supports its growth in granular retail loans. Retail, agriculture and MSME (RAM) loans accounted for 58% of total loans at end-FY26, similar to most state bank peers, although UCO's business profile score of 'bb' also reflects its smaller national market share than most state bank peers, with 1.2% of system loans and deposits. UCO has a more prominent presence in eastern and northern Indian states, and its close state linkages support its business and profit generation.

Large Growth Appetite in Granular Loans: UCO's risk profile score of 'bb- ' reflects high loan growth of 19.5% in FY26 (FY25: 17.8%, FY24: 15.6%), albeit from a low base. Management expects loan growth to normalise to 12%-14% in FY27, but we expect it to exceed this range. The RAM segment drove loan growth in recent years, with high growth in non-mortgage loans, but the bank's overall focus on secured loans mitigates risks.

UCO tightened underwriting and risk controls following regulatory measures and asset quality pressures in the previous cycle, like peers. This has resulted in lower fresh impaired loans and a decline in its exposure to riskier corporate loans. Nevertheless, UCO's above-average loan growth and rapid portfolio expansion are risks to the VR.

Steady Asset Quality: The asset-quality score of 'bb- ' reflects Fitch's expectation that UCO's impaired-loan ratio will remain around 2% until FY28. The ratio decreased to 2.2% in FY26 from 2.7% in FY25, due to lower fresh bad loans, although strong loan growth and write offs also contributed. The score also reflects the bank's above-average loan loss coverage of 88% (121% including other voluntary provisions by our estimates).

Sustained Core Profitability: We expect UCO's core profitability to remain intact till FY28. The bank's operating profit/risk-weighted asset (OP/RWA) ratio is likely to decline to 2.2% in FY27 from 2.6% in FY26 due to frontloading of floating provision to meet increased provisioning under expected credit loss provisioning in FY28. We expect OP/RWA to recover to 2.5% in FY28, supported by broadly stable net interest margins, robust loan growth, improving operating leverage, and manageable credit costs, despite lower treasury and non-interest income.

Capital Buffers Improved: UCO's common equity Tier 1 (CET1) ratio rose to 16.4% in FY26 from 16% in FY25 from improved internal capital generation and remains one of the highest among Indian state banks. We expect the bank's CET1 ratio to fall over the next two years due to loan growth and dividend payments, but it should remain above 15% until FY28.

Stable Low-Cost Funding: UCO's funding and liquidity score of 'bbb- ' is a strength for the VR, similar to state-owned bank peers. This reflects high depositor confidence from its state linkages. Deposits were nearly 88% of total non-equity funding and low-cost deposits were 36% of total deposits at FYE26. The loan/deposit ratio rose to 85.2% in FY26 from 79.1% in FY25, but it remains comparable with the peer average of about 83%. Its liquidity coverage ratio of 114% and net stable funding ratio of 127% in FY26 reflect sufficient funding and liquidity surpluses underpinned by its investments in government securities and reliance on stable funding.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The Long-Term IDR and GSR could be downgraded if we believe the sovereign's support for UCO has weakened, which would be reflected in negative rating action on India's sovereign rating or reduced propensity to extend timely support.

The Short-Term IDR is mapped to the Long-Term IDR, in line with Fitch's criteria, and will be downgraded if the Long-Term IDR is downgraded.

We do not expect the VR to be downgraded in the near term, given the improving OE, but it is possible if Fitch assesses the bank's risk profile to have weakened materially and becomes more of a binding constraint on UCO's financial profile and loss-absorption buffers, increasing the risk of materially weaker financial metrics.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Positive sovereign rating action could lead to a corresponding change to UCO's Long-Term IDR and GSR, if Fitch believes that the sovereign's propensity to support the bank remains unchanged.

The Short-Term IDR is mapped to the bank's Long-term IDR, in line with Fitch's criteria, and could be upgraded if the Long-Term IDR is upgraded.

A VR upgrade is likely if we revise the bank's OE score to 'bbb-' from 'bb+'. A higher OE score would imply lower system risks and would most likely lead to an upward revision in most other rating factor scores, in line with the implied scores under Fitch's Bank Rating Criteria, provided the bank maintains generally steady performance as we expect. UCO's risk profile will remain an important consideration in determining whether the improvements to its financial metrics can be sustained.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

UCO's Long-Term IDR (xgs) is driven by its VR. The Short-Term IDR (xgs) is mapped from the Long-Term IDR (xgs) in accordance with Fitch's criteria.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The Long-Term IDR (xgs) would move in tandem with the VR. The Short-Term IDR (xgs) is sensitive primarily to changes in the Long-Term IDR (xgs) and would be mapped according to Fitch's criteria.

VR ADJUSTMENTS

The operating environment score of 'bb+' is above the 'b' category implied score due to the following adjustment reason(s): economic performance (positive), and size and structure of economy (positive).

The funding & liquidity score of 'bbb-' is above the 'bb' category implied score due to the following adjustment reason(s): deposit structure (positive).

DATE OF RELEVANT COMMITTEE

23-Jul-2026

Sources of Information

The principal sources of information used in the analysis are described in the applicable criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

UCO's IDRs are driven by India's sovereign ratings. A change in the sovereign's IDRs would be reflected in UCO's IDRs.

ESG CONSIDERATIONS

UCO has an ESG Relevance Score of '4' for Governance Structure, in line with other state banks. This reflects our assessment that key governance aspects, in particular board independence, ownership concentration and protection of creditor or stakeholder rights, have a moderate, yet negative, influence on UCO's credit profile, and are relevant to the ratings in conjunction with other factors.

Government appointees dominate the board and its business model is often focused on supporting government strategies, with some lending directed towards promoting social and economic policies. These factors also drive our view on the bank's state linkages, which affect support prospects that determine the long-term ratings.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING TYPE ⬍	RATING ⬍	RATING ACTION ⬍
UCO Bank	LT IDR	BBB- Rating Outlook Stable	New Rating
	ST IDR	F3	New Rating
	Viability	bb	New Rating
	Government Support	bbb-	New Rating
	LT IDR (xgs)	BB(xgs)	New Rating
	ST IDR (xgs)	B(xgs)	New Rating

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 09 May 2026) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

UCO Bank	EU Endorsed, UK Endorsed

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