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ICRA downgrades United Bank's rating

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The ratings are constrained due to United Bank of India's weak asset quality and low profitability due to high credit provisioning

BS Reporter | Mumbai
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Rating agency ICRA has downgraded United Bank of India's long-term ratings to 'stable' from 'positive' on the back of lower probability of improvement in credit profile.

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It reaffirmed the rating for lower tier-II bonds of the bank at 'A+' and upper tier-II bonds at 'A-'. The revision in outlook reflects the lower possibility of improvement in bank's credit profile as it is saddled with a large stock of weak assets. There are limitations to grow its credit book due to capital constraints, ICRA said in a statement.

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The ratings are constrained due to the bank's weak asset quality and low profitability due to high credit provisioning. Its return on assets was 0.19 per cent in the first half of FY16.

The level of weak assets remains elevated. But, there has been gradual improvement in asset quality. The gross non-performing assets declined to 8.9 per cent in September 2015 against 12.03 per cent a year ago through a combination of recoveries and through sale of assets to asset reconstruction companies.

Going forward, the bank's ability to improve asset quality

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indicators, improve earnings, and mobilise capital to facilitate future credit growth will be key rating sensitivities.

The rating reaffirmation factors in the government's majority ownership (82 per cent as on September 30, 2015) and well established franchise in eastern and north-eastern regions. It helps bank to achieve high proportion of low-cost deposits. The share of current account and savings account deposits constituted 40.5 per cent of total deposits as of September 2015,

imparting it a favourable liquidity profile.

The bank's tier-I capital as on September 30, 2015 was 7.45 per cent, which would need to be increased to meet the 7.625 per cent tier-1 plus capital conservation buffer requirement by March 2016.

The government has in the past supported the bank through regular infusions. The bank is expected to maintain its regulatory capital ratios in the near-term either through equity support from the government or by managing its credit growth and focusing on lending to capital-efficient segments.

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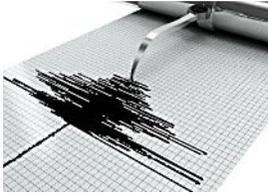
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