UCO Bank transforming from a wholesale bank to a retail lender

UCO Bank has seen sharp rise in its net profit in the last couple of quarters after years of slow earnings growth and deteriorating asset quality. **Arun Kaul**, chairman and managing director of UCO Bank, feels his strategy to switch to low-cost deposits and rebalance the bank's credit portfolio, has now started paying dividends. In an interview with *Somasroy Chakraborty*, Kaul says the bank is now transforming itself from being a wholesale bank to a retail lender.

UCO Bank's net profit growth has accelerated in the last couple of quarters after years of slow growth. What has contributed to this turnaround? Is it sustainable?

If you look at the history of UCO Bank, during the 80s the bank made very small profit. The bank was incurring losses throughout the decade of 90s. From 2000 onwards, UCO Bank started doing well because there was a focus on building the balance sheet. But the focus was to grow the large corporate loans and infrastructure credit. From 2010, since the economy was not doing too well, large corporate credit came under stress and NPAs (non-performing assets) shot up. It impacted the bank's profitability. We have been able to improve our profitability in the last couple of quarters primarily because of the growth in CASA (current account savings account) deposits and rebalancing of our asset portfolio. Three years back the share of CASA deposits (in total deposits) had declined to 21%. Now, it is around 35%. This has helped us in reducing the cost of funds. We have been shedding high-cost bulk deposits and switched to cheaper retail deposits, which are more stable in nature. On the asset side, our loans were skewed heavily in favour of large corporates and the infrastructure sector. Since there was stress on these segments, we decided to move away from large corporate credit to retail, SME (small and medium enterprise) and agriculture advances. We have reduced the share of large corporate credit and infrastructure finance from above 70% of our loan portfolio to below 50%. We succeeded in rebalancing our portfolio and as a result do not anticipate large slippages in the future. There were some hidden NPAs in our books. We took them out and initiated the recovery process. All these measures have helped us in improving our bottom-line. If you see, in the last two quarters our operating profit growth has been among the highest in the banking industry, while net profit growth has also been significant.

How did you manage to accelerate the pace of growth in CASA deposits?

The reasons are multifarious. We are now opening new branches. The bank for a very long time did not open many branches. Between 1985 and 2010, we did not open many branches. But in the last three years, we have opened more than 600 branches. What we did not do in 25 years, we have done much more than that during the last three years. We have ambitious plans to open more branches, especially in unbanked areas. We are also acquiring a lot of new customers. Currently, we are acquiring 250,000 customers a month, or three million new customers a year. In the ten years, from 2001 to 2010, our customer acquisition was less than three million. The addition of new customers every month is helping us to push up the CASA and core deposit growth. We are also focusing on customer centricity and servicing, and leveraging on technology in a big way. We are training our staff, making developments in product designing and introducing a number of retail products – both on the asset as well as on the liability side. We are making a tectonic shift from being a wholesale bank to becoming a retail bank.

How many branches you plan to open in the next couple of years? Also, how do you plan to cap the rise in operating expenses as your network expands?

We have more than 2,700 branches now. By the end of this financial year, we will have close to 2,900 branches. In 2014-15, we plan to add another 200-300 branches. We have realised that nowadays you don't require large space in branches as the customer footfalls are declining. We have started re-organising and reducing space even in our existing branches. There is a substantial savings that we are making by reducing branch sizes. But at the same time we are focusing on improving the ambience of our branches to ensure customer delight. We are also leveraging on technology to engage with our customers.

Do you think that the worst in terms of NPA addition is behind you?

If the economy is under stress, then there will always be pressure on large corporate credit. Hence, we are trying to de-risk our portfolio by shifting away from large corporate loans to small advances. The risk is much lower in small ticket loans. We are also focusing on safe businesses like bill discounting and LCs (letters of credit). For the last four quarters, our gross NPA has been around 5.3%. We expect it to come down significantly. Our restructured loan portfolio is around Rs 11,000 crore. Out of these 50% of the book comprises of loans to discoms. The issues there are now getting resolved. We don't see a large pipeline of restructured assets and strongly believe that the concerns on that front are over. We also expect our provisions to come down.

Do you expect the bank's credit growth to decelerate as it continues to focus on small ticket loans?

We are not looking at a very large credit growth. We are comfortable with a growth of 14-15%, which is also in line with the Reserve Bank of India's (RBI) expectations. We are aware that in the current environment we cannot afford aggressive growth in credit. Then the risks will also rise. We are very careful in choosing our borrowers.

(Business Standard)