March 07, 2017

Central Bank of India (Revised)

Instrument	Rated Amount (in Rs. crore)	Amount Outstanding* (in Rs. crore)	Rating Action (February 2017)
Lower Tier II bonds programme (with Green Shoe Option of Rs. 270 crore)	570.00	389.10	Downgraded to [ICRA]A+(negative) from [ICRA]AA-(negative)
Lower Tier II bonds programme	270.00	270.00	Downgraded to [ICRA]A+(negative) from [ICRA]AA-(negative)
Lower Tier II bonds programme	1000.00	500.00	Downgraded to [ICRA]A+(negative) from [ICRA]AA-(negative)
Upper Tier II bonds programme	285.00	285.00	Downgraded to [ICRA]A (negative) from [ICRA]A+(negative)
Upper Tier II bonds programme	500.00	500.00	Downgraded to [ICRA]A (negative) from [ICRA]A+(negative)
Upper Tier II bonds programme	500.00	500.00	Downgraded to [ICRA]A (negative) from [ICRA]A+(negative)
Upper Tier II bonds programme	1000.00	1000.00	Downgraded to [ICRA]A (negative) from [ICRA]A+(negative)
Lower Tier II bonds programme	700.00	700.00	[ICRA]AA- (negative) withdrawn
Corporate Governance Practices	NA	NA	CGR 3+ outstanding

**As on February 07, 2017*
#Instrument details are provided in Annexure-1

Rating Action

ICRA has downgraded the rating for the Rs. 1,840 crore (of which Rs. 1,159.10 crore is outstanding) Basel II lower tier II bonds programme of Central Bank of India (CBI) to [ICRA]A+(negative) (pronounced ICRA A plus with a negative outlook) from [ICRA]AA-(negative) (pronounced ICRA double A minus with a negative outlook). ICRA has also downgraded the rating for the Rs. 2,285 crore Basel II upper tier II bonds programme of the bank to [ICRA]A(negative) (pronounced ICRA A with a negative outlook) from [ICRA]A+(negative). ICRA has also withdrawn the [ICRA]AA- (negative) rating outstanding for the Rs. 700 crore LowerTier II bonds programme of the bank as the instrument has been completely redeemed with no dues outstanding.

ICRA also has a rating of CGR 3+ outstanding for the corporate governance practices of CBI.

Rationale

The rating downgrades takes into account the continued weakness in the operating and financial performance of the bank as reflected in the continued losses during 9MFY2017. The bank has reported net losses of Rs. 1,847 crore during 9MFY2017 as against loss of Rs. 1,418 crore during FY2016. Sustained losses from FY2016 to 9MFY2017 have resulted in weak capitalisation levels and solvency profile. Given the large quantum of immediate as well as future capital requirements under Basel III regulations and relatively weak position in terms of ability to raise the capital, the outlook has been retained as negative.

The bank's asset quality also remains weak despite significant recoveries, upgradations and write-offs seen in 9MFY2017. The gross NPAs increased to Rs. 25,843 crore (14.14% of gross advances) as on December 31, 2016 from Rs 22,721 crore (11.95% of gross advances) as on March 31, 2016. Despite write-offs and recoveries of ~Rs 5477 crore during 9MFY2017, due to high slippages, the net NPAs have increased to Rs 14,611 crore (8.54% of net advances) from Rs 13,242 crore (7.36% of net advances) as on March 31, 2016. Supported by large write-offs during Q3FY2017 of Rs 1486 crore (Rs. 1989 crore in 9MFY2017), the provision coverage levels (including technical write-offs) have improved to 54.95% as on December 31, 2016 from 51.52% as on March 31, 2016. Notwithstanding the improved provision coverage ratio and capital infusion by GoI and other capital raising by the bank during the current year, increase in Net NPAs during the 9MFY2017, has further weakened the bank's solvency profile with Net NPA/ Net worth of 97% as on December 31, 2016 as against 89% as on March 31 2016.

CBI received a capital infusion from Government of India (GoI) in FY2017 as part of the *Indradhanush* initiative; of the Rs. 1729 crore, Rs. 1297 crore has already been received in August 2016. CBI also raised an additional equity of Rs. 157 crore through private placement with Life Insurance Corporation of India (LIC) during Q3FY2017. However, with significant losses in 9MFY2017, the bank's capitalization profile[1] remains weak with the capital to risk weighted asset ratio (CRAR), tier I capital ratio and CET ratio at 9.99%, 7.87% and 7.70% respectively as on December 31, 2016 as against minimum regulatory requirement of 10.25%, 8.25% and 6.75% respectively as on March 31, 2017.

With limited resolution in stressed accounts and continued fresh slippages, while ICRA expect the bank's profitability to remain under pressure and consequently require sizeable capital by March 31, 2017 to meet the minimum regulatory levels. ICRA also notes that, despite the recent changes in the Basel III regulations by RBI for additional Tier I (AT-I) bonds, the bank remains poorly placed for raising Tier I capital through issuance of AT-I bonds, as the ability to service coupon on such bonds continues to remain weak due to accumulated losses and low distributable reserves (less than 0.1% of RWAs as on December 31, 2016). The ability of the bank to raise the required equity capital by March 31, 2017 and on an ongoing basis would remain a key rating sensitivity.

Credit Strengths

- Majority GoI shareholding; demonstrated support from GOI that is expected to continue
- Significant domestic outreach with 4,736 branches as on December 31, 2016 with 5,319 ATMs
- Strong CASA base vis-à-vis peers, at 40.75% as on December 31, 2016
- Declining trend in the share of corporate book (39.63% as on December 31, 2016 as compared with 65.66% as on March 31, 2013) in the overall advances with higher focus on the more granular retail and agri-products

[1] Including the losses during 9MFY2017

Credit Challenges

- Weak capitalisation; limited ability to raise external capital in comparison with other public sector banks
- Deteriorating asset quality profile with gross NPAs at 14.14% and net NPAs at 8.54% as on December 31, 2016 (11.95% and 7.36% respectively as on March 31, 2016)
- Weak solvency profile with net NPAs/net worth of 97% as on December 31, 2016
- Large exposure to the infrastructure sector (~20% of total exposure as on December 31, 2016), which is highly prone to cyclical downturns

Rating Sensitivities

- Ability to meet the regulatory tier I capital requirements in the near to medium term.
- Performance of key accounts in the restructured portfolio
- Ability to arrest further deterioration in asset quality
- Ability to recover from the non-performing book

Description of key rating drivers highlighted above:

The ratings continue to draw comfort from CBI's majority sovereign ownership (81.28% equity with GoI as on December 31, 2016) and the bank's strong franchise with 4,736 branches and 5,319 ATMs as on December 31, 2016. The bank's strong franchise network gives it access to a healthy and stable deposit base resulting in a lower cost of funds vis-a-vis peers. Post the demonetisation exercise of the GoI, CBI's liability profile received further boost with its CASA ratio improving to 40.75% as on December 31, 2106 from 35.48% as on March 31, 2016.

The bank's net advances moderated to Rs. 170,997 crore as on December 31, 2016 from Rs. 180,010 crore as on March 31, 2016 and Rs. 188,478 crore as on March 31, 2015. The decline in advances led to a moderation in the bank's net interest income to Rs. 7,066 crore during FY2016 as compared with Rs. 7,247 crore during FY2015. The net interest income stood at Rs. 4,858 crore during 9MFY2017 as compared with Rs. 5,501 crore during 9MFY2016. The bank's low operating profits (~0.6% of ATA in FY2016 and ~0.8% of ATA in 9MFY2017) and increasing credit costs (~2.7% of ATA in FY2016 and ~2.0% of ATA in 9MFY2017) led to a marked fall in its net profitability as it reported net losses of Rs. 1,118 crore for FY2016 and Rs. 1,958 crore for 9MFY2017 (as against a PAT of Rs. 606 crore in FY2015).

The bank's asset quality remains weak with fresh slippages from the standard book as reflected in the increase in gross NPAs to Rs 25,843 crore (14.14% of gross advances) as on December 31, 2016 from Rs 22,721 crore (11.95% of gross advances) as on March 31, 2016. The fresh slippages during 9MFY2017 stood at Rs 8,599 crore; CBI however made significant recoveries, account upgrades and write-offs during 9MFY2017 following which its provision coverage ratio improved to 54.95% as on December 31, 2016 from 51.52% as on March 31, 2016. Notwithstanding the improved provision coverage, the bank's solvency profile continues to remain weak with net NPAs/ net worth of 97% as on December 31, 2016 as against 89% as on March 31 2016. With limited resolution in the stressed accounts, ICRA expects the credit costs to remain high over next two years which coupled with the pressure on profitability will result in low internal capital generation, leading to a high reliance on external capital.

The GoI has allocated an equity of Rs. 1729 crore for CBI during FY2017 as part of the "*Indradhanush*" initiative of which Rs. 1297 crore has already been received by CBI. CBI also raised equity of Rs. 157 crore from LIC during the year. With significant losses in 9MFY2017 however, the bank's capitalization remains weak with a CRAR of 9.99% (CET I of 7.70% and tier I of 7.87%) under Basel III (after adjusting the loss of Rs. 1,958 crore in 9MFY2017) as on December 31, 2016. With internal capital generation expected to remain under pressure, the bank would require additional equity support from the GoI to meet the enhanced tier I capital requirements under Basel III, going forward. As per ICRA's estimates, apart from near term capital requirements, based on RWA growth of ~10% during FY2017-19 and a buffer of 0.5% over regulatory capital requirements, CBI would need to raise Tier I capital of around ~Rs. 6,000~6500 crore (about 36~40% of its current market capitalization) during FY2017-19. The bank expects to raise some capital from GoI in near term and also intends to raise capital from non-government sources over next few quarters. Some of the near-term capital improvement plans of the bank include conversion of Rs 583 crore IPDI bonds held by GoI into equity and likely reversal of ~Rs 380 crore (out of Rs 581 crore) of provisions on Discom bonds during Q4FY2017. ICRA is closely monitoring the bank's efforts to raise capital to meet the enhanced regulatory capital requirements. Pace of progress in raising capital, maintenance of majority GoI shareholding and trends in asset quality will be key rating sensitivities.

Analytical approach:
To arrive at the ratings ICRA has taken into account the standalone financials of the bank along with the key operational and business developments in the recent past.

Links to applicable Criteria:
[Rating Methodology for Banks]

Company Profile
Central Bank of India is a public sector bank with an 81.28% Government of India ownership (as on December 31, 2016) headquartered in Mumbai. As on December 31, 2016, the bank operated through 4,736 branches and 5,319 ATMs, and had a net worth of Rs. 17,850 crore and an asset base of Rs. 3,34,974 crore.

Recent Results
For FY2016, the bank reported a net loss of Rs. 1,118.06 crore on a total asset base of Rs. 3.02 lakh crore as compared with a net profit of Rs. 606.14 crore on total asset base of Rs. 3.10 lakh crore for FY2015. During 9MFY2017, the bank reported a net loss of Rs. 1,848 crore as against a net loss of Rs. 521 crore during 9MFY2017. As on December 30, 2016, the bank reported capital adequacy under Basel III of 9.99% (Tier 1: 7.87%), gross NPAs of 14.14% and net NPAs of 8.54%.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	March 2017	FY2017	FY2016	FY2015
					February 2017	February 2016	February 2015
1	Basel II Lower Tier II Bonds Programme	Long Term	1,840.00	[ICRA]A+ (negative)	Downgraded to [ICRA]A+ (negative) from [ICRA]AA- (negative)	[ICRA]AA-; outlook revised to negative from stable	[ICRA]AA- (stable)
2	Basel II Upper Tier II Bonds Programme	Long Term	2,285.00	[ICRA]A (negative)	Downgraded to [ICRA]A (negative) from [ICRA]A+ (negative)	[ICRA]A+; outlook revised to negative from stable	[ICRA]A+ (stable)
					May 2016	May 2015	May 2014
3	Corporate Governance Practices	Long Term	NA	CGR 3+	CGR 3+	CGR 3+	CGR 3+

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Current Rating and Outlook
Basel II lower tier II bonds - I	03.03.2008	9.20% p.a.	03.05.2017	389.10	[ICRA]A+ (negative)
Basel II lower tier II bonds - II	10.02.2009	9.35% p.a.	10.04.2018	270.00	[ICRA]A+ (negative)
Basel II lower tier II bonds - III	21.12.2011	9.33% p.a.	21.12.2026	500.00	[ICRA]A+ (negative)
Basel II upper tier II bonds - I	17.02.2009	9.40% p.a. Step up of 50bps from 11^{th} year till maturity	17.02.2024	285.00	[ICRA]A (negative)
Basel II upper tier II bonds – II	23.06.2009	8.80% p.a. Step up of 50bps from 11^{th} year till maturity	23.06.2024	500.00	[ICRA]A (negative)
Basel II upper tier II bonds - III	20.01.2010	8.63% p.a. Step up of 50bps from 11^{th} year till maturity	20.01.2025	500.00	[ICRA]A (negative)
Basel II upper tier II bonds - IV	11.06.2010	8.57% p.a. Step up of 50bps from 11^{th} year till maturity	11.06.2025	1,000.00	[ICRA]A (negative)

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