August 08, 2017

Central Bank of India

Summary of rated instruments

Central Bank of India has announced its Q1 FY2018 results on July 29, 2017.

Instrument	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Rating Action
Lower Tier II bonds programme (with Green Shoe Option of Rs. 270 crore)	570.00	389.10	[ICRA]A+ (negative); Outstanding
Lower Tier II bonds programme	270.00	270.00	[ICRA]A+ (negative); Outstanding
Lower Tier II bonds programme	1000.00	500.00	[ICRA]A+ (negative); Outstanding
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)
Corporate Governance	NA	NA	CGR 3+ outstanding
Total	**4,125.00**	**3,441.00**	

Rating action

ICRA has downgraded the ratings for the Rs. 2,285 crore Basel II Upper Tier II bond programme of Central Bank of India (CBI) to [ICRA]A- (pronounced ICRA A minus) from [ICRA]A (pronounced ICRA A). ICRA has rating of [ICRA]A+ (pronounced ICRA A plus) outstanding for the Rs. 1,840 crore (of which Rs. 1,159.10 crore is outstanding) Basel II Lower Tier II bond programme of CBI. The outlook on the ratings remains negative.

The downgrade in ratings for Upper Tier II bond programme takes into account the deterioration in the bank's capitalisation ratios with the bank reporting CRAR, Tier I and CET1 of 9.61%, 7.47% and 7.47% respectively as on June 30, 2017 (as against regulatory requirement[1] under Basel III of CRAR of 10.25%, Tier I of 8.25% and CET1 of 6.75%) from 10.95%, 8.62% and 8.62% respectively as on March 31, 2017. While the capital ratios are above the minimum ratios (7% Tier 1 and 9% CRAR) required for servicing the coupon on Basel II instruments, the capital ratios of the bank stands lower than the minimum capital requirements under Basel III. With profitability expected to remain under pressure, as

[1] Including capital conservation buffer of 1.25% as on March 31, 2017

per ICRA's estimates, CBI would need to raise Tier I capital of around ~Rs. 4000-5000 crore[2] (about 25%-30% of its current market capitalisation) during FY2018 to FY2019 to meet the minimum regulatory capital requirements. These capital estimates will also increase to the extent of the losses reported by the bank during the projected period. Given the GoI shareholding at 81.28% as on June 30, 2017, the bank has considerable scope to raise capital from non-government sources while maintaining the GoI shareholding above 51%.

Advances: During Q1FY2018, CBI's gross advances de-grew by 7.28% on YoY basis and were reported at Rs. 172,198 crore as on June 30, 2017 as compared to Rs. 185,719 crore as on June 30, 2016. Share of corporate credit has declined to 38.63% of total advances as on June 30, 2017 (42.42% as on June 30, 2016). However, on a QoQ basis, the bank's gross advances grew by ~13% primarily due to reversal of Inter-bank participatory certificates (IBPC) transactions undertaken by the bank during Q4FY2017.

NIMs & NII: With declining interest rate environment and interest income reversal due to high slippage during the quarter, the yield on advances declined to 9.37% during Q1FY2018 (10.18% in Q1FY2017 and 10.20% during FY2017). Decline in both cost of funds and cost of deposits was lower with cost of funds declining to 6.34% during Q1FY2018 (6.67% in Q1FY2017 and 6.22% during FY2017) and cost of deposits declining to 6.54% during Q1FY2018 (6.99% in Q1FY2017 and 6.43% in Q4FY2017). Consequently, the Net Interest margins (NIMs) (as % of average total assets – ATA) declined to 1.97% during Q1FY2018 from 2.18% during Q1FY2017. With decline in NIMs and decline in advances, the Net Interest income (NII) witnessed a sharp YoY de-growth of ~20% during Q1FY2018 (de-growth of ~10% in Q1FY2017 and growth of ~10% during FY2017).

Asset Quality: The bank's asset quality witnessed further deterioration during Q1 FY2018 with gross and net NPAs being reported at 18.23% and 11.04% respectively as on June 30, 2017 as compared to 17.81% and 10.20% respectively as on March 31, 2017. Fresh NPA generation rate[3] during the quarter increased to ~16% (annualized) as compared to ~6% during Q4FY2017. Standard restructured assets of CBI stood at 3.85% of advances as on June 30, 2017. In ICRA's view, with large quantum of standard restructured assets and assets under various schemes on resolution of stressed assets, the asset quality pressure may continue in coming quarters, The ability of the bank to contain slippages and improve recoveries will remain a key rating sensitivity.

Profitability: With credit costs remaining higher than operating profits, the bank reported losses during Q1 FY2018, with a net loss of Rs. 577 crore (-0.76% of ATA) on a total income of Rs. 6,871 crore as compared to a net loss of Rs. 600 crore (-0.73% of ATA) on a total income of Rs. 6,451 crore during Q1FY2017.

- 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.
- CBI meets the regulatory CRAR of 9% (excluding capital conservation buffers) required for the coupon payment of its Basel II Upper Tier II bonds, however given the expectations of losses during FY2018, ability to raise sufficient equity capital remains critical for the bank's credit profile.

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

[2]Assuming an RWA growth of ~5-7% during FY2018 to FY2019 and a buffer of 0.5% over regulatory capital requirements

[3] On an annualized basis

Key Financial Indicators:

	FY2016	FY2017	Q1FY2017	Q1FY2018
Net Interest Income	7,066	6,574	1,659	1,331
Profit before tax	(2,369)	(3,528)	(958)	(818)
Profit after tax	(1,418)	(2,439)	(600)	(577)
Net advances	180,010	139,399	174,227	157,646
Total assets	305,466	333,402	306,748	329,649
%CET 1	8.03%	8.62%	7.65%	7.47%
%Tier 1	8.20%	8.62%	7.82%	7.47%
% CRAR	10.41%	10.95%	9.91%	9.61%
% Net Interest Margin / Average total assets	2.31%	2.08%	2.26%	1.97%
%Net Profit / Average total assets	-0.46%	-0.77%	-0.73%	-0.76%
%Return on Net Worth	-9.28%	-16.45%	-14.47%	-16.65%
% Gross NPAs	11.95%	17.81%	13.52%	18.23%
% Net NPAs	7.36%	10.20%	8.17%	11.04%
% Provision coverage incl technical write offs	51.52%	58.43%	52.14%	54.48%
% Net NPA/ Net worth	88.74%	96.48%	95.79%	122.94%

Amounts in Rs. crore

Source: Central Bank of India and ICRA Research

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