Central Bank of India

May 07, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Lower Tier II bonds programme	500.00	500.00	[ICRA]A+ (negative); reaffirmed
Upper Tier II bonds programme	285.00	285.00	[ICRA]A- (negative); reaffirmed
Upper Tier II bonds programme	500.00	500.00	[ICRA]A- (negative); reaffirmed
Upper Tier II bonds programme	500.00	500.00	[ICRA]A- (negative); reaffirmed
Upper Tier II bonds programme	1000.00	1000.00	[ICRA]A- (negative); reaffirmed
Lower Tier II bonds programme (with greenshoe option of Rs. 270 crore)	570.00	-	[ICRA]A+ (negative); rating withdrawn
Lower Tier II bonds programme	270.00	-	[ICRA]A+ (negative); rating withdrawn
Lower Tier II bonds programme	500.00	-	[ICRA]A+ (negative); rating withdrawn
Total	**4,125.00**	**2,785.00**	

Rating action

ICRA has reaffirmed the rating of [ICRA]A+ (pronounced ICRA A plus) for the Rs. 500.00-crore lower Tier II bonds programme of Central Bank of India (CBI)[1]. ICRA has also reaffirmed the rating of [ICRA]A- (pronounced ICRA A minus) for the Rs. 2,285.00-crore upper Tier II bonds programme of CBI. The outlook on the long-term rating is Negative.

ICRA has also withdrawn the rating of [ICRA]A+ for the Rs. 1,340.00-crore lower Tier II bonds programme of CBI. The ratings were withdrawn since there is no amount outstanding.

Rationale

The ratings factor in CBI's majority sovereign ownership (86.40% equity shares are held by the Government of India or GoI as on March 31, 2018), its well-developed deposit franchise with a healthy CASA deposit base and sound liquidity profile. ICRA takes note of the weak capitalisation ratios for CBI as the bank is unlikely to maintain the required regulatory capital conservation buffer (CCB)[2] in the near term above the minimum capital ratios, despite a capital infusion of Rs. 5,158 crore by the GoI during FY2018.

The ratings are further constrained by the bank's weak asset quality. Gross non-performing advances (GNPAs) and net NPAs stood at 18.08% and 9.45%, respectively, as on December 31, 2017, much above the PSB average. Weak asset quality has resulted in nine consecutive quarters of losses leading to erosion of capital and a weak solvency profile with net NPA/net worth at 126% as on December 31, 2017 (96% as on March 31, 2017). Further, with recent regulatory changes whereby the Reserve Bank of India (RBI) has discontinued all the earlier schemes for the resolution of stressed assets, ICRA expects the bank's slippages and credit provisions to surge during the next few quarters given the stock of

[1] *For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications*

[2] *CCB required is 1.875% of risk weighted assets (RWAs) as on March 31, 2018 and 2.5% as on March 31, 2019*

stressed assets[3] as on December 31, 2017, thereby keeping asset quality and profitability under pressure. ICRA expects GNPAs to increase further till H1 FY2019 and the same may reduce thereafter as the stressed accounts undergo resolution under Insolvency and Bankruptcy Code (IBC), 2016 leading to an improvement in recoveries and upgrades. While the reported GNPAs may peak during H1 FY2019, credit provisions are likely to remain elevated during FY2018 and FY2019 as the bank may need to provide for fresh slippages, ageing of NPAs as well as haircuts on exposures under IBC proceedings. Accordingly, ICRA expects losses to continue in Q4 FY2018 with losses before taxes for FY2018 likely to exceed the additional equity infused during FY2018 (Rs. 5,158 crore from the GOI). Further, the bank's internal capital generation is expected to remain under pressure during FY2019 with credit provisions likely to far exceed core operating profits (before credit provisions and treasury income).

With losses expected during FY2018 and FY2019, the bank's ability to service its Basel II debt capital instruments will be subject to approvals from the RBI and its ability to meet the minimum regulatory capital ratios (Tier 1 of 7.0% and CRAR of 9.0%).

The extent of haircuts in the existing and likely stressed accounts will determine the bank's incremental losses and capital requirement. Ability to raise sufficient capital in a timely manner will be critical for meeting the regulatory capital ratios and will be a key rating sensitivity.

Outlook: Negative

In ICRA's opinion, the bank's profitability and, consequently, its capital position is expected to remain weak. The outlook may be revised to Stable if there is an improvement in the bank's capitalisation, solvency and asset quality indicators. The rating may be downgraded if the bank is unable to raise sufficient capital to offset the expected losses and reports capital ratios below the regulatory levels on a consistent basis.

Key rating drivers

Credit strengths

Sovereign ownership with demonstrated funding support - CBI is majority owned by the GoI with shareholding at 86.40%[4] as on March 31, 2018. During FY2018, the GoI infused equity capital of Rs. 5,158 crore in the bank to improve its capitalisation profile. However, as per ICRA's estimates, despite the capital infusion, CBI is unlikely meet the CCB requirement in the near term because of losses during FY2018 (loss before tax of Rs. 4,472 crore during 9M FY2018). With the weak capitalisation profile and the expected losses during FY2019, regular equity infusion by the GoI is crucial from a near-term rating perspective.

Well-developed deposit franchise with strong CASA deposit base - The bank has a strong franchise with 4,715 branches and 4,957 ATMs as on December 31, 2017. The bank's robust franchise network gives it access to a healthy and stable deposit base. The bank reported a strong CASA of 40.68% as on December 31, 2017 (39.20% as on March 31, 2017 and 35.48% as on March 31, 2016), above the PSB average of 35% as on December 31, 2017. The increase was supported by the GOI's demonetisation exercise in Q3 FY2017 and the bank's stable credit book, reducing the need to raise bulk deposits.

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[3] *The bank had vulnerable exposures of ~11% of standard advances as on December 31, 2017, which also included exposures under regulatory forbearance schemes like Strategic Debt Restructuring - SDR, flexible restructuring and the scheme for sustainable structuring of stressed assets (S4A), all of which stand discontinued*

[4] *Including the capital infused in FY2018*

Comfortable liquidity profile - CBI's liquidity profile was comfortable without any mismatches in the short-term buckets of up to 1 year as on December 31, 2017. ICRA expects CBI to maintain comfortable liquidity given its large proportion of retail deposits. The bank has flexibility to receive support from the RBI (through repo and the marginal standing facility mechanism) in case of urgent liquidity needs.

Credit challenges

Weak asset quality, incremental slippages likely to remain high - CBI's asset quality deteriorated significantly with gross and net NPAs increasing to 18.08% and 9.45%, respectively, as on December 31, 2017 from 14.14% and 8.54%, respectively, as on December 31, 2016. Gross and net NPAs were also above the PSB average of 13.04% and 7.42%, respectively, as on December 31, 2017. The bank reported high annualised slippages of 9.7% in 9M FY2018 and 6.4% in FY2017. Higher slippages and limited capital infusion led to worsening of CBI's solvency ratio. Net NPA/net worth increased to 126% as on December 31, 2017 from 96% as on March 31, 2017. Despite the capital infusion by the GoI in Q4 FY2018, the solvency profile is likely to remain weak given the expectations of further slippages. As per ICRA's estimates, CBI has vulnerable exposures (~11% of standard advances as on December 31, 2017) including loans outstanding under various schemes of restructuring. A major portion of this can to slip to NPAs in the near term, upon revision in the RBI's guidelines for the resolution of stressed assets. CBI also has exposure to 21 accounts, referred under IBC, with total outstanding of Rs. 11,042 crore (6% of gross advances with provision coverage of ~48% as on December 31, 2017). ICRA expects CBI's reported GNPA levels to increase further as the vulnerable accounts are likely to slip in the near term. ICRA expects the vulnerable exposure to be largely recognised as NPAs by Q2 FY2019 and, consequently, the GNPAs to peak for the bank. Thereafter, with the resolution of the stressed accounts, ICRA expects GNPAs to start declining but remain elevated.

Capitalisation profile to remain weak, servicing debt capital instruments can be a challenge – On account of continued losses being reported by the bank, its capitalisation profile has deteriorated significantly with CRAR, Tier I and CET1 of 7.87%, 5.87% and 5.87%, respectively, as on December 31, 2017 compared to 10.95%, 8.62% and 8.62%, respectively, as on March 31, 2017 as against the regulatory requirement (including CCB of 1.875%) under Basel III of 10.875%, 8.875% and 7.375%, respectively, as on March 31, 2018.

As can be seen, the bank reported capital adequacy below the regulatory Tier I and CRAR (excluding CCB) of 7.0% and 9.0%, respectively, as on December 31, 2017, which are critical for servicing its Basel II debt capital instruments[5]. With the capital infusion of Rs. 5,158 crore in March 2018 and the reduction in risk weighted assets, Tier I and CRAR are likely to improve above the regulatory levels. However, the bank is unlikely to meet CCB requirements as on March 31, 2018 because of continued losses.

With expected continued losses, the bank would require additional equity support from the GoI on a regular basis to meet the minimum capital requirements (7% Tier 1 and 9% CRAR) for servicing the coupon on Basel II instruments. As per ICRA's estimates, given the expected loss in FY2019 and assuming a 15% reduction in RWA levels, CBI will require Tier 1 capital of ~Rs. 6,000 - Rs. 8,000 crore (33-44% of the market cap) to meet regulatory capital requirements (including CCB and additional buffer of 50 bps) as on March 31, 2019. In the event of the bank not maintaining CCB but maintaining a CET-I/Tier-I capital of 7.25-7.50%, the equity capital requirement is expected to be lower at Rs. 2,000-4,000 crore (11-22% of the market cap). Ability to raise sufficient capital in a timely manner will be critical for meeting the regulatory capital ratios and will be a key rating sensitivity.

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[5]*Innovative perpetual debt instruments (IPDI) and upper Tier II bonds – in a year of loss, the capital instruments can be serviced with prior approval from the RBI and on meeting the minimum regulatory capital ratios (Tier 1 of 7.0% and CRAR of 9.0%)*

Profitability expected to remain weak because of elevated credit provisioning requirements – CBI's core profitability (after provisions) has been negative for the nine quarters ending Q3 FY2018 with significantly high credit costs. With high NPAs and a consequent decline in earning assets, the bank's NIMs were 2.08% of average total assets (ATA) and 2.05% of ATA during FY2017 and 9M FY2018, respectively. After the operating costs, the bank's core operating profit (before credit provisions and treasury gain/loss) stood at Rs. 1,548 crore (0.49% of ATA) and Rs. 2,227 crore (0.91% of ATA) for FY2017 and 9M FY2018, respectively.

The bank's credit costs stood at Rs. 6,622 crore (2.09% of ATA) and Rs. 6,143 crore (2.51% of ATA) for FY2017 and 9M FY2018, respectively, and far exceeded its core operating profits. Profitability in 9M FY2018 was also impacted by the losses on bond portfolios of Rs. 611 crore (0.25% of ATA) as opposed to a trading profit of Rs. 1,541 crore (0.49% of ATA) in FY2017. Overall, the bank reported a net loss of Rs. 2,439 crore (0.77% of ATA) and Rs. 2,991 crore (1.22% of ATA) during FY2017 and 9M FY2018, respectively. ICRA expects CBI to incur losses during Q4 FY2018 and FY2019, given the high levels of stressed exposures as well as net NPAs.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

ICRA Rating Methodology for Banks

About the company:

Mumbai-based Central Bank of India is a public sector bank in which the GOI has 86.40% ownership (as on March 31, 2018). For the year ended March 31, 2017, Central Bank of India reported loss after tax of Rs. 2,439 crore on a total asset base of Rs. 3.32 lakh crore compared to loss after tax of Rs. 1,418 crore on a total asset base of Rs. 3.05 lakh crore for the year ended March 31, 2016. During 9M FY2018, the bank reported a loss of Rs. 2,991 crore as against a loss of Rs. 1,847 crore in the corresponding period in the previous financial year. As on December 31, 2017, the bank reported capital adequacy under Basel III of 7.87% (Tier 1: 5.87%), gross NPA of 18.08% and net NPA of 9.45%.

Key financial indicators - (standalone)

	FY2016	FY2017	9MFY2017	9MFY2018
Net interest income	7,066	6,574	4,859	5,017
Profit before tax	(2,369)	(3,529)	(2,668)	(4,472)
Profit after tax	(1,418)	(2,439)	(1,847)	(2,991)
Net advances	180,010	139,399	170,997	162,045
Total assets	305,466	333,402	332,187	322,778
% CET	8.03%	8.62%	7,70%	5.87%
% Tier 1	8.20%	8.62%	7.87%	5.87%
% CRAR	10.41%	10.95%	9.99%	7.87%
% Net interest margin / Average total assets	2.31%	2.08%	2.04%	2.05%
% Net profit / Average total assets	(0.46%)	(0.77%)	(0.78%)	(1.22%)
% Return on net worth	(9.28%)	(16.45%)	(16.69%)	(29.69%)
% Gross NPAs	11.95%	17.81%	14.14%	18.08%
% Net NPAs	7.36%	10.20%	8.54%	9.45%
% Provision coverage excl. technical write offs	41.72%	47.83%	43.46%	52.88%
% Net NPA/ Net worth	88.74%	96.48%	100.08%	126.19%

Amount in Rs. crore

Source: CBI; ICRA research

All ratios are as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sr. No.	Name of Instrument	Current Rating FY2019				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Amount Outstanding (Rs. Crore)		FY2018	FY2017	FY2016
					May 2018	Aug-17	Mar-17	Feb-16
1	Lower Tier II bonds programme	Long Term	500.00	500.00	[ICRA] A+ (negative);	[ICRA] A+ (negative))	[ICRA] A+ (negative)	[ICRA] AA- (negative)
2	Upper Tier II bonds programme	Long Term	285.00	285.00	[ICRA] A- (negative);	[ICRA] A- (negative)	[ICRA] A (negative)	[ICRA] A+ (negative)
3	Upper Tier II bonds programme	Long Term	500.00	500.00	[ICRA] A- (negative);	[ICRA] A- (negative)	[ICRA] A (negative)	[ICRA] A+ (negative)
4	Upper Tier II bonds programme	Long Term	500.00	500.00	[ICRA] A- (negative);	[ICRA] A- (negative)	[ICRA] A (negative)	[ICRA] A+ (negative)
5	Upper Tier II bonds programme	Long Term	1000.00	1000.00	[ICRA] A- (negative);	[ICRA] A- (negative)	[ICRA] A (negative)	[ICRA] A+ (negative)
6	Lower Tier II bonds programme (with Green Shoe Option of Rs. 270 crore)	Long Term	570.00	-	[ICRA] A+ (negative); withdrawn	[ICRA] A+ (negative)	[ICRA] A+ (negative)	[ICRA] AA- (negative)
7	Lower Tier II bonds programme	Long Term	270.00	-	[ICRA] A+ (negative); withdrawn	[ICRA] A+ (negative)	[ICRA] A+ (negative)	[ICRA] AA- (negative)
8	Lower Tier II bonds programme	Long Term	500.00	-	[ICRA] A+ (negative); withdrawn	[ICRA] A+ (negative))	[ICRA] A+ (negative))	[ICRA] AA- (negative))

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE483A09245	Lower Tier II bonds	21-Dec-2011	9.33% p.a.	21-Dec-2026	500.00	[ICRA]A+ (negative)
INE483A09195	Upper Tier II bonds	17-Feb-2009	9.40% p.a. Step up of 50 bps from 11th year (9.90% till maturity)	17-Feb-2024	285.00	[ICRA] A- (negative)
INE483A09203	Upper Tier II bonds	23-June-2009	8.80% p.a. Step up of 50 bps from 11th year (9.30% till maturity)	23-June-2024	500.00	[ICRA] A- (negative)
INE483A09211	Upper Tier II bonds	20-Jan-2010	8.63% p.a. Step up of 50 bps from 11th year (9.13% till maturity)	20-Jan-2025	500.00	[ICRA] A- (negative)
INE483A09229	Upper Tier II bonds	11-June-2010	8.57% p.a. Step up of 50 bps from 11th year (9.07% till maturity)	11-June-2025	1,000.00	[ICRA] A- (negative)

Source: CBI

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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