Central Bank of India

November 30, 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); outstanding
Upper Tier II bonds programme	285.00	285.00	[ICRA]A- &; outstanding
Upper Tier II bonds programme	500.00	500.00	[ICRA]A- &; outstanding
Upper Tier II bonds programme	500.00	500.00	[ICRA]A- &; outstanding
Upper Tier II bonds programme	1,000.00	1,000.00	[ICRA]A- &; outstanding
Total	**2,785.00**	**2,785.00**	

& Under Rating Watch with Developing Implications

Update

Central Bank of India (CBI) announced its quarterly results on November 14, 2018. The bank reported a loss after tax of Rs. 2,446 crore during H1 FY2019 compared to a loss after tax of Rs. 1,327 crore in H1 FY2018 and Rs. 5,105 crore in FY2018. With continuing losses and lack of significant reduction in risk-weighted assets (RWAs), despite fresh equity capital infusion of Rs. 2,354 crore by the Government of India (GoI) in September 2018, the capital to risk-weighted ratio (CRAR) and Tier I ratio remained below the regulatory levels of 9.00% and 7.00%, respectively, at 8.71% and 6.71%, respectively, as on September 30, 2018 (8.05% and 6.05%, respectively, as on June 30, 2018).

Rating action

ICRA continues to maintain the rating of [ICRA]A- (pronounced ICRA A minus) for the Rs. 2,285.00-crore upper Tier II bonds programme of CBI on Rating Watch with Developing Implications (RWD). ICRA also has a rating of [ICRA]A+ (pronounced ICRA A plus) outstanding on the Rs. 500.00-crore lower Tier II bonds programme of CBI[1]. ICRA believes that the rating on the lower Tier II bonds programme is unlikely to be impacted in the near term because of a breach in CRAR and hence, it has not been placed on RWD. The outlook on the long-term rating of the lower Tier II bonds programme is Negative.

Rationale

The rating on the upper Tier II bonds programme continues to be on RWD as CBI's capital adequacy ratios remained below the regulatory levels as on September 30, 2018. Maintaining the capital ratios above the regulatory levels is critical for servicing the bank's Basel II debt capital instruments[2]. Earlier in August 2018 (click here for the previous rationale), ICRA had placed the rating on the upper Tier II bonds programme on RWD as its capital ratios fell below the regulatory levels. ICRA had also noted that CBI will require sizeable capital infusion from the GoI to keep its capital ratios above the regulatory levels. Assuming a 5-10% reduction in RWAs during FY2019, ICRA estimated that CBI will require Tier I capital of ~Rs. 6,000-8,000 crore (60-85% of the market capitalisation) to meet the regulatory capital requirement

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

[2] *Innovative perpetual debt instruments (IPDIs) and upper Tier II bonds – in a year of loss, the capital instruments can be serviced with prior approval from the RBI subject to the bank meeting minimum regulatory capital ratios (Tier I of 7.0% and CRAR of 9.0%)*

(including capital conservation buffer (CCB) of 1.875% and an additional buffer of 50 bps) as on March 31, 2019. Given the large amount, ICRA expects the bank will not be able to maintain the CCB in the near term. However, if it maintains a CET I/Tier I capital of 7.25-7.50%, and hence CRAR of >9.0%, the equity capital requirement is still expected to remain sizeable albeit lower at over Rs. 4,000 crore (42% of the market capitalisation).

Further, with the gross non-performing advances (NPA) ratio and net NPA ratio at 21.48% and 10.36%, respectively, as on September 30, 2018, ICRA estimates that CBI will continue to post a net loss during H2 FY2019, as credit costs will remain above operating profits during this period. Unless the bank is able to demonstrate large recoveries from its NPAs, ICRA anticipates a loss before tax of more than Rs. 5,000 crore for FY2019 against which the bank has already reported a loss before tax of Rs. 3,859 crore in H1 FY2019. Hence, the capital requirement for FY2019 can exceed Rs. 4,000 crore, against which the bank has received only Rs. 2,354 crore. Accordingly, ICRA expects the bank to require further capital infusion in H2 FY2019 to service its Basel II debt capital instruments.

ICRA will closely monitor the impact of any measures or actions taken by the bank or the size of capital infusion by the GoI and the consequent impact on CBI's capitalisation profile and will resolve the rating watch depending on the quantum of capital raised by the bank. Ability to raise sufficient capital in a timely manner to keep the capital ratios above the regulatory levels on a sustained basis will resolve the rating watch.

The ratings continue to factor in CBI's majority sovereign ownership (86.40% of the equity shares were held by the GoI as on September 30, 2018[3]), its well-developed deposit franchise with a healthy CASA deposit base, and sound liquidity profile.

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 a significant improvement in its capitalisation, solvency and asset quality indicators. The ratings may be downgraded if the bank is unable to raise sufficient capital in a timely manner to augment the capital adequacy ratios, thereby impacting its ability to service its debt capital instruments.

Key rating drivers

Credit strengths

Sovereign ownership with demonstrated funding support – The GoI has majority shareholding in CBI with a stake of 86.40% as on September 30, 2018. During September 2018, the GoI infused equity capital of Rs. 2,354 crore in the bank, which remained short of the loss after tax of Rs. 2,446 crore during H1 FY2019. With CBI's capital ratios being below the regulatory requirement as on September 30, 2018 and with losses expected during FY2019, regular equity infusion by the GoI is crucial from a near-term rating perspective.

[3] *Capital infusion of Rs. 2,354 crore by the GoI in September 2018 was held as share application money and will lead to further increase in GoI shareholding upon allotment of shares*

Well-developed deposit franchise with strong CASA deposit base - The bank has a strong franchise with 4,666 branches and 4,611 ATMs as on September 30, 2018. This gives it access to a healthy and stable deposit base. CBI reported strong CASA of 43.5% as on September 30, 2018 (42.46% as on March 31, 2018 and 39.20% as on March 31, 2017), higher than the PSB average of 38% as on June 30, 2018. The increase in the CASA share was supported by the GoI's demonetisation exercise in Q3 FY2017 and the bank's stable credit book, which reduced the need to raise bulk deposits.

Comfortable liquidity profile - ICRA expects CBI to maintain comfortable liquidity given the large proportion of retail deposits. The bank has flexibility to receive support from the Reserve Bank of India (RBI; through the repo and marginal standing facility mechanism) in case of urgent liquidity needs. CBI had a comfortable liquidity coverage of 253.30% in Q4 FY2018 compared to the regulatory requirement of 90%.

Credit challenges

Weak asset quality – CBI's gross and net NPA ratios remained elevated at 21.48% and 10.36%, respectively, as on September 30, 2018 (22.17% and 10.58%, respectively, as on June 30, 2018). Its gross and net NPA remained above the PSB average of 14.14% and 7.25%, respectively, as on September 30, 2018. Despite an improvement in the provision coverage ratio (excluding technical write-offs) to 57.78% as on September 30, 2018 from 58.52% as on June 30, 2018, CBI's solvency ratio (Net NPAs/Net worth) remained weak at 107% as on September 30, 2018 compared to 121% as on June 30, 2018. With the resolution of the stressed accounts and increasing provisions, ICRA expects the GNPAs and NNPAs to start declining though they will remain elevated.

Capital adequacy ratios below regulatory levels; servicing debt capital instruments can be a challenge – Despite fresh equity infusion of Rs. 2,354 crore in September 2018 by the GoI, the Tier I ratio and CRAR were 6.71% and 8.71%, respectively, as on September 30, 2018, below the regulatory levels (excluding CCB) of 7% and 9%, respectively, but marginally higher compared to 6.05% and 8.05%, respectively, as on June 30, 2018. The capital adequacy ratio (excluding CCB) of 9.0% is critical for servicing IPDIs and Upper Tier II bonds. Given that CBI is expected to incur losses in the near future, its ability to service its Basel II debt capital instruments will be subject to approvals from the RBI and meeting the regulatory capital ratios (7.00% Tier I and 9.00% CRAR).

Unless the bank is able to demonstrate large recoveries from its NPAs, ICRA expects a loss before tax of more than Rs. 5,000 crore for FY2019 against which bank has already reported a loss before tax of Rs. 3,859 crore in H1 FY2019. Hence, the capital requirement for FY2019 can be more than Rs. 4,000 crore, against which the bank has received only Rs. 2,354 crore. Accordingly, ICRA expects CBI to require further capital infusion in H2 FY2019 to service its Basel II debt capital instruments. The 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.

Losses to continue on elevated credit provisioning requirements – CBI has been reporting losses for 12 quarters ending Q2 FY2019 with significantly high credit costs. With high NPAs and a consequent decline in earning assets, the bank's net interest margins (NIMs) were weak at 2.05% of average total assets (ATA) and 2.00% of ATA during H1 FY2019 and FY2018, respectively. The core operating profit (before credit provisions and treasury gain/loss) was Rs. 1,121 crore (0.69% of ATA) and Rs. 2,385 crore (0.73% of ATA) for H1 FY2019 and FY2018, respectively.

The bank's credit costs stood at Rs. 4,187 crore (2.56% of ATA) and Rs. 10,975 crore (3.36% of ATA) for H1 FY2019 and FY2018, respectively, and far exceeded its core operating profits. Accordingly, CBI reported a net loss of Rs. 2,446 crore (-1.50% of ATA) and Rs. 5,105 crore (-1.56% of ATA) during H1 FY2019 and FY2018, respectively. With an elevated stock of net NPAs as on September 30, 2018, ICRA expects CBI to report losses with increasing provisioning requirements and subdued operating profit due to de-growth of its advances.

Given the high level of net NPAs and continued losses, the bank was included under the RBI’s prompt corrective action (PCA) framework. Inclusion under the PCA framework constrains the bank’s ability to expand and requires it to take corrective actions like capital infusion and cost rationalisation to improve its profitability and capitalisation.

Liquidity position

CBI had comfortable liquidity coverage of 253.30% in Q4 FY2018 compared to the regulatory requirement of 90%. The bank has flexibility to receive support from the Reserve Bank of India (RBI; through the repo and marginal standing facility mechanism) in case of urgent liquidity needs.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	[ICRA Rating Methodology for Banks](#)
Parent / Group Support	For arriving at the ratings, ICRA has taken the support of sovereign ownership given GoI’s stake of 86.40% in CBI
Consolidation / Standalone	Standalone

About the company

Mumbai-based Central Bank of India is a public sector bank with GoI ownership of 86.40% (as on September 30, 2018). The bank reported a loss after tax of Rs. 5,105 crore on a total asset base of Rs. 3.26 lakh crore in FY2018 compared to a loss after tax of Rs. 2,439 crore on a total asset base of Rs. 3.33 lakh crore in FY2017. During H1 FY2019, the bank reported a loss after tax of Rs. 2,446 crore compared to a loss after tax of Rs. 1,327 crore during the corresponding period in the previous financial year. As on September 30, 2018, the bank reported capital adequacy under Basel III of 8.71% (Tier I: 6.71%), gross NPA of 21.48% and net NPA of 10.36%.

Key financial indicators - (standalone)

For period ending Number of months	FY2017 12	FY2018 12	H1 FY2018 6	H1 FY2019 6
Net interest income	6,574	6,517	3,040	3,354
Profit before tax	(3,529)	(7,896)	(1,911)	(3,859)
Profit after tax	(2,439)	(5,105)	(1,327)	(2,446)
Net advances	1,39,399	1,56,542	1,66,923	1,52,397
Total assets excluding revaluation reserves	3,33,402	3,26,225	3,28,417	3,29,925
% CET	8.62%	7.01%	7.04%	6.71%
% Tier I	8.62%	7.01%	7.04%	6.71%
% CRAR	10.95%	9.04%	9.22%	8.71%
% Net interest margin / Average total assets^	2.08%	2.00%	1.85%	2.05%
% Net profit / Average total assets^	(0.77%)	(1.56%)	(0.81%)	(1.50%)
% Return on net worth^	(16.45%)	(34.50%)	(18.47%)	(33.03%)
% Gross NPAs	17.81%	21.48%	17.32%	21.48%
% Net NPAs	10.20%	11.10%	9.53%	10.36%
% Provision coverage excl. technical write-offs	47.83%	54.43%	49.75%	57.78%
% Net NPA / Net worth	96.48%	116.98%	113.56%	106.98%

Amount in Rs. crore; ^ Annualised
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)	November 2018	August 2018	May 2018	FY2018	FY2017	FY2016
								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] A+ (negative)	[ICRA] A+ (negative)	[ICRA] AA- (negative)
2	Upper Tier II bonds programme	Long Term	285.00	285.00	[ICRA] A- &	[ICRA] A- &	[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- &	[ICRA] A- &	[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- &	[ICRA] A- &	[ICRA] A- (negative)	[ICRA] A- (negative)	[ICRA] A (negative)	[ICRA] A+ (negative)
5	Upper Tier II bonds programme	Long Term	1,000.00	1,000.00	[ICRA] A- &	[ICRA] A- &	[ICRA] A- (negative)	[ICRA] A- (negative)	[ICRA] A (negative)	[ICRA] A+ (negative)

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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
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 With call option on 17-Feb-2019	285.00	[ICRA]A- &
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 With call option on 23-June-2020	500.00	[ICRA]A- &
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 With call option on 20-Jan-2020	500.00	[ICRA]A- &
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 With call option on 11-June-2020	1,000.00	[ICRA]A- &

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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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