July 09, 2021

CTBC Bank Co., Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Certificate of Deposit Programme	200.00	200.00	[ICRA]A1+; reaffirmed
Issuer Rating	0.00	0.00	[ICRA]AAA(Stable); reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to factor in the dominant market position of CTBC Bank Co., Ltd. (CTBC; rated A1/Stable/P-1 by Moody's Investors Service with baseline credit assessment (BCA) of baa2), which is one of the six systemically important banks in Taiwan. CTBC is one of the largest banks in Taiwan with total assets of NT$ 4.51 trillion as on December 31, 2020 and a strong market share of over 6.7% in deposits in the Taiwanese banking system. The ratings factor in CTBC's strong asset quality, capital position and the profitability of its global operations.

CTBC's Indian branches continue to have strong financial and operational linkages with the head office (HO) in Taiwan. The Indian branches continue to maintain strong capitalisation and asset quality with the oversight and involvement of the HO in underwriting as well as liquidity monitoring. However, the profitability of the Indian branches remains below average because of the sub-optimal scale of operations. The deposit franchise of the branches is characterised by high depositor concentration and short tenure. Despite the short tenure of the liabilities, the liquidity of the branches is strong and is supported by the short tenure of the advances, excess holding of Government securities (G-Secs) and a committed line of credit from the HO. In addition, the Indian branches can borrow from inter-bank markets for any liquidity requirements. Going forward, ICRA will continue to closely monitor CTBC's profile as the same will remain a key driver of the credit profile of the Indian branches.

Key rating drivers and their description

Credit strengths

Systemically important bank in Taiwan; Indian branches have high operational and financial linkages with HO– Classified as a systemically important bank in Taiwan, CTBC is one of the largest private banks in Taiwan with a total balance sheet size of NT$ 4.51 trillion (~Rs. 11.58 lakh crore) as on December 31, 2020 and a market share of 7.0%, 6.7% and 6.5% in the total assets, total deposits and loans, respectively, in the Taiwanese banking system.

The Indian branches have high operational linkages with the HO in Taiwan, which is reflected by the formulation of liquidity and market risk management policies that are in line with those followed by the HO. The HO is also involved in loan sanctions after the approval of the credit and business teams at the branches. Additionally, many Taiwanese corporates remain depositors and borrowers at the Indian branches because of their strong relationship with the HO. The Indian branches have also been instrumental in originating business from Indian corporates, which is booked in the overseas branches of CTBC.

Comfortable capitalisation and demonstrated capital support to Indian branches – Globally, CTBC reported comfortable capital ratios with common equity tier I (CET-I) of 11.95% and a CRAR of 14.61% as on December 31, 2020 (11.33% and 13.84%, respectively, as on December 31, 2019) in comparison to the regulatory CET-I capital requirement of 7.5% as on December 31, 2020. As it is a systemically important bank in Taiwan, in June 2019, CTBC was required to maintain a CET-I of 11% by 2023, which was deferred to 2024 on account of the Covid-19 pandemic. The capitalisation metrics of the Indian branches remained strong with CET-I and CRAR of 35.54% and 36.80%, respectively, on March 31, 2021 (38.71% and 39.73%, respectively, as on March 31, 2020). The HO remains committed to support the growth of the Indian branches and infused Rs. 212.70 crore in FY2020.

Strong asset quality – CTBC's gross non-performing advances (GNPAs) remained low at 0.34-0.50% during the last three fiscals and stood at 0.50% as on December 31, 2020 (0.34% as on December 31, 2019). The bank maintained a 100% provision cover on its NPAs with Nil net NPAs (NNPAs) over the last three years.

The Indian branches have a presence only through two branches in New Delhi and Sriperumbudur with the customer base limited to the corporate segment. The asset quality profile of the branches has remained stable since FY2017, witnessing nil slippages and Nil NNPAs. The SMA[1] accounts also remain Nil for the branches. With ~86% of the exposures towards entities rated A and above and ~6% towards Chinese/Taiwanese entities, the asset quality profile of the branches is likely to remain stable going forward.

Credit challenges

High deposit concentration in Indian branches – CTBC's liability profile remains strong with deposits accounting for ~83% of the total liabilities. Moreover, it has a strong market share of over 6.7% in the overall deposit base in the Taiwanese banking system.

However, given the limited retail franchise of the branches, the bank largely relies on wholesale deposits with the top 20 depositors accounting for ~90% of the total deposits as on March 31, 2021 (~94% as on March 31, 2020). The current account deposits relationship is largely with Taiwanese corporates operating in India. Given the deposit concentration, the branches operate in short-tenor advances to prevent any gaps in asset and liability maturities with a limited share of term loans. To meet the funding requirements, the branches can avail funding support from the HO for up to 100% of the Tier I capital.

Sub-optimal scale and profitability for Indian branches – Globally, CTBC reported a net profit of ~NT$ 27.3 billion, translating into a healthy return on assets (RoA) of 0.62% and return on equity (RoE) of 8.73% in CY2020 (0.75% and 9.99%, respectively, in CY2019).

The advances of the Indian branches stood at Rs. 1,377 crore as on March 31, 2021 (YoY growth of 11% in FY2021). The ability of the branches to grow the loan book and hence the income is driven by their ability to scale up the local deposit base while maintaining the stability of the same. This may remain a constraint over the medium term, given the focus on wholesale funding. The branches have increased their non-funded business (including derivatives) over the last few years, which has led to an increase in fee income. However, considering the wholesale nature of the business, the cost-to-income ratio remained high at 62.04% in FY2021. Supported by higher income and lower expenses, the operating profits for the bank increased to Rs. 29.4 crore in FY2021 from Rs. 19.9 crore during FY2020, however, the increase was partially offset by increase in the provisioning to Rs. 4.2 crore in FY2021 (nil provisions in FY2020) on the back of the depreciation in the value of investments and others. The RoA and RoE for the branches stood at 0.53% and 2.04%, respectively, in FY2021 compared to 0.43% and 1.39%, respectively, in FY2020.

Liquidity position: Strong

The overall liquidity position of the Indian branches remains strong with positive gaps witnessed across all the <1-year maturity buckets as per the structural liquidity statement (SLS) as on April 30, 2021. The statutory liquidity ratio (SLR) holding stood at 39.8% of the net demand and time liabilities (NDTL) as on April 23, 2021, well above the regulatory requirement. Although the

[1] SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant Reserve Bank of India (RBI) guidelines; SMA-1 accounts are overdue by 31-60 days and SMA-2 accounts are overdue by 61-90 days

deposit concentration remains high for the branches, the Indian operations can avail liquidity support of up to 100% of the Tier I capital from the HO in case of urgent liquidity requirement.

Rating sensitivities

Positive factors – NA

Negative factors – A material deterioration in the credit profile of CTBC will lead to a downgrade in the credit ratings of its Indian branches.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Banks
Parent/Group Support	ICRA expects the Indian branches to be supported by the HO – CTBC; the HO will extend financial support to the Indian branches, if needed, as they are an integral part of CTBC
Consolidation/Standalone	Standalone of Indian branches

About the company

CTBC Bank is the one of the largest private sector banks in Taiwan. It has 152 branches in Taiwan and 116 offices worldwide across 14 countries. The first Taiwanese bank in India, CTBC Bank established its first branch in New Delhi in April 1996 to serve Indian corporates as well as Taiwanese clients. It opened its second branch in Sriperumbudur (Tamil Nadu) in June 2012, catering to the commercial banking requirements of both international and domestic companies in the Chennai SEZ area.

The Indian branches reported a net profit of Rs. 10.98 crore in FY2021 compared to a net profit of Rs. 7.34 crore in FY2020. The net interest income was Rs. 56.53 crore in FY2021 compared to Rs. 56.78 crore in FY2020. The total asset base growth remained muted at 2.5% as the total assets stood at Rs. 2,109 crore as on March 31, 2021 (Rs. 2,058 crore as on March 31, 2020). The net loan book increased to Rs. 1,377 crore as on March 31, 2021 from Rs. 1,244 crore at the end of March 2020.

Key financial indicators (standalone)

CTBC Bank Co., Ltd. (Indian Branches)	FY2019	FY2020	FY2021
Net interest income (Rs. crore)	47.29	56.78	56.53
Profit before tax (Rs. crore)	17.69	19.97	25.14
Profit after tax (Rs. crore)	6.14	7.34	10.98
Loan book (Rs. crore)	815	1,244	1,377
Total assets (Rs. crore)	1,345	2,058	2,109
% Net interest margin / Average total assets	4.39%	3.34%	2.71%
% Return on assets	0.57%	0.43%	0.53%
% Return on net worth	2.00%	1.39%	2.04%
% CET-I / Tier-I	34.79%	38.71%	35.54%
% CRAR	35.36%	39.73%	36.80%
% Gross NPA	0.42%	0.21%	0.13%
% Net NPA	0.00%	0.00%	0.00%
%Net NPA/Core capital	-	-	-

Source: *CTBC Bank, ICRA Research*
All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Jul-06-2021	FY2022	FY2021	FY2020	FY2019	
					Jul-09-2021	Jul-10-2020	Jul-26-2019	Aug-03-2018	Jun-07-2018
1	Certificate of Deposit Programme	Short Term	200.00	25.00	**[ICRA] A1+; reaffirmed**	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2	Issuer Rating	Long Term	0.00	0.00	**[ICRA]AAA (Stable); reaffirmed**	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Certificate of Deposit Programme	Very Simple
Issuer Rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE019516066	Certificate of Deposit	Jun-10-2021	3.65%	Jul-12-2021	25.00	[ICRA] A1+
NA	Certificate of Deposit	Yet to be placed	-	7-365 days	175.00	[ICRA] A1+
-	Issuer Rating	-	-	-	-	[ICRA]AAA(Stable)

Certificate of deposit outstanding as on July 06, 2021
Source: *CTBC Bank*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Aayush Behal
+91 124 4545 300
aayush.behal@icraindia.com

Hemant Sultania
+91 124 4545 386
hemant.sultania@icraindia.com

RELATIONSHIP CONTACT

Mr. Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches