

September 20, 2022

## Citizencredit Co-operative Bank Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]BBB (Stable); reaffirmed
Total	-	-	

\*Instrument details are provided in Annexure I

### Rationale

The rating takes into consideration Citizencredit Co-operative Bank Limited's (Citizencredit) long operating track record as a multi-state urban cooperative bank (UCB), its comfortable capitalisation profile with Tier I of 19.26% as on March 31, 2022, and the granular deposit profile, which imparts strong liquidity. Although the capital ratios are comfortable, the operating profitability levels along with the internal capital generation continue to be weighed down by the low credit-to-deposit (CD) ratio, which stood at 43% as on March 31, 2022 (45% as on March 31, 2021), even while the cost of deposits remains competitive compared to peer banks. The competitive cost of funds is partly supported by the granular deposit base and the healthy share of current and savings account (CASA) deposits.

The rating also takes note of the bank's strong liquidity position despite the competitive cost of funds, reflected by the high share of excess liquidity parked with Government securities (G-Secs). As a result, its statutory liquidity ratio (SLR) stood at 42.9% of the net demand and time liabilities (NDTL) as on March 2022 (38.6% as on March 2021).

Despite higher slippages in FY2022, the headline asset quality metrics improved on the back of recoveries/upgrades that could meaningfully offset the impact of these slippages. However, the slippage rate remained elevated in Q1 FY2023. Further, Citizencredit's standard restructured book remained high at ~11% of its standard advances in FY2022. The ability to limit incremental slippages from the standard restructured and overdue book while ensuring recoveries/upgrades from non-performing advances (NPAs) will remain critical for maintaining strong asset quality metrics and low credit costs. This will remain a near-to-medium-term monitorable.

The weak core operating profitability limits Citizencredit's ability to absorb asset quality shocks and adverse interest rate movements, given the high level of investments (which are required to be marked to market valuation) in the overall assets. This apart, regulatory changes related to the increasing share of priority sector loans for cooperative banks in the overall loan mix may pose challenges to the future profitability. Despite a relative improvement in the return indicators in FY2022, the sustainability of the same will remain dependent on the above factors and will be a near-to-medium-term monitorable.

### Key rating drivers and their description

#### Credit strengths

**Capitalisation profile remains comfortable** – Citizencredit's capitalisation profile remains comfortable with a Tier I capital of 19.26% as on March 31, 2022 (16.80% as on March 31, 2021). Compared to the net worth of Rs. 431 crore as on March 31, 2022, the Tier I capital remains lower at Rs. 274 crore as reserves such as revaluation reserves, provisions on NPAs and non-performing investments are not included in the core capital. While the bank's capitalisation remains comfortable, internal capital generation has improved. However, the ability to improve the same further is likely to remain a challenge in the near term, given the stagnant credit growth. Moreover, the current capital-to-risk weighted assets ratio (CRAR), which stood at 24.76% as on March 31, 2022, remains well above the regulatory level of 12% that was raised from 9% after some of the recommendations of the Vishwanathan Committee were adopted in July 2022.

As it is a cooperative bank under the Multi-State Cooperative Societies Act, 2002 and given its constitution, Citizencredit's overall capital profile remains dependent on capital contribution from new and existing members as well as withdrawals/redemption/surrender of shares by the members of the society. While any capital infusion or withdrawal by members is at face value, capital withdrawals are unlikely to have a material impact on the bank's capitalisation as the paid-up capital constitutes ~5% of its overall Tier I capital. However, in case of any capital requirements for growth or for provisions for stressed assets, Citizencredit will have to largely rely on its existing capital and internal accruals or consider allowing new members.

**Strong liquidity profile with high share of CASA deposits** – Citizencredit's branch network has remained unchanged at 46 branches during the last few years and these branches are mainly in Mumbai and a few districts of Maharashtra. Considering the branch network, its share of low-cost CASA deposits remained at a fairly comfortable level of 42% of total deposits as on March 31, 2022 (39% as on March 31, 2021). The share of CASA remains healthy in relation to commercial banks as well as peer UCBs operating in Maharashtra.

With limited credit growth during the last few years, Citizencredit's dependence on bulk deposits or on mobilising deposits by offering higher deposit rates has remained limited. This has aided granularity, leading to a competitive cost of interest-bearing funds at 3.99% in FY2022 (4.84% in FY2021). In addition to the competitive cost of funds, the low CD ratio supports the bank's strong liquidity with excess SLR holdings of ~Rs. 809 crore as on March 25, 2022 (24.9% of NDTL on a fortnightly average basis during April 2021-March 2022).

**Long operating track record** – Citizencredit is a Maharashtra-based multi-state scheduled cooperative bank. It was established as a cooperative credit society in 1920, following which it was granted a banking licence by the Reserve Bank of India (RBI) in 1989. In 1996, Citizencredit obtained scheduled bank status and it became a multi-state cooperative bank since 1998. The bank has been in operations since the last 100 years, thereby demonstrating a long operating track record in India.

The typical ticket size of the bank ranges from Rs. 5 crore to Rs. 30-35 crore in the corporate segment and up to Rs. 5 crore in the micro, small and medium enterprise (MSME) segment. This apart, Citizencredit offers various loan products like housing loans, vehicle loans, gold loans and personal loans to retail customers. The retail segment accounted for 44% of the loan book while the corporate and MSME segment accounted for 40% as on March 31, 2022.

## Credit challenges

**Suboptimal operating profitability**— Despite the competitive cost of funds compared to other UCBs<sup>1</sup>, the bank's operating profitability remains modest, given the low CD ratio. The net interest margin (NIM), as a percentage of assets, improved to 2.99% in FY2022 from 2.22% in FY2021 largely driven by the lower cost of funds. While this supported a relative improvement in the core pre-provision operating profit (excluding trading income) to 0.95% of the average total assets (ATA) in FY2022 (0.51% of ATA in FY2021), it remains at a suboptimal level. Despite higher slippages in FY2022, the overall credit costs were low largely due to the meaningfully high recoveries and upgrades in relation to the slippages.

The improvement in the operating profitability, coupled with lower credit costs, led to an improvement in the return metrics with the return on assets (RoA) and return on equity (RoE) at 0.71% and 6.43%, respectively, in FY2022 (0.38% and 3.73% respectively, in FY2021). While the bank's reported RoA level was higher than the positive triggers, the sustainability of the same will depend on a meaningful improvement in the CD ratio amidst the rising cost of deposits that could also pressurise profitability. Besides this, the ability to keep incremental slippages in check while maintaining high recoveries and upgrades will be key for sustaining the improvement in profitability.

Moreover, the progressively increasing target for meeting priority sector lending (PSL) in the overall loan mix may be a factor that may limit the improvement in profitability. Citizencredit's profitability in recent years was supported by meaningful

<sup>1</sup> UCBs typically operate at a higher cost of funds than most scheduled commercial banks

trading gains. However, with the hardening of yields, it witnessed trading losses in Q1 FY2023. Given these factors, the overall improvement in the RoA remains to be seen on a sustainable basis.

**Asset quality remains monitorable** – Citizencredit’s slippages remained high at Rs. 36 crore in FY2022 compared to Rs. 11 crore in FY2021. As a result, fresh NPA generation rose to 2% in FY2022 from 1% in FY2021. However, the impact of the slippages was offset by higher recoveries (Rs. 20 crore in FY2022 compared to Rs. 5 crore in FY2021). This led to a decline in the GNPA stock and an improvement in the headline asset quality metrics with the GNPA and NNPA at 4.74% and 0.00%, respectively, as on March 31, 2022 (5.03% and 0.68%, respectively, as on March 31, 2021). Slippages, nevertheless, remained high in Q1 FY2023 at Rs. 35.92 crore (annualised fresh NPA generation rate of 10.45%). Given the relatively high standard restructured book of 11.32% of standard advances as on March 31, 2022, incremental NPA generation will remain a near-to-medium term monitorable. Moreover, while the bank’s key segments/customers were relatively more impacted by the Covid-19 pandemic, the recent weakening of macro-economic factors including a surge in input prices as well as rising interest costs and their impact on weaker borrowers will be monitorable.

**High geographical concentration in Maharashtra** – Citizencredit’s charter allows it to operate in more than one state. The bank had 46 branches as on March 31, 2022. However, its presence and portfolio are highly concentrated in Maharashtra with most of the branches located in Mumbai. This exposes the bank to concentration risks due to regional factors like natural calamities, political unrest, and rising competition among others.

**Limited diversity in products and earnings** – While Citizencredit’s lending products and customer profile remain diverse, the share of non-interest income remains low with the same limited to bancassurance commission, locker rent and commission and exchange charges. The limited avenues for scaling up the fee-based income restrict the scope for improvement in the income profile. The contribution of Citizencredit’s fee-based income was low at 0.26% of ATA in FY2022.

## Liquidity position: Strong

The bank’s SLR stood at 42.95% of the NDTL as on March 31, 2022 and remained well above the regulatory requirement of 18%. Citizencredit can also avail liquidity support from the RBI (through repo against excess SLR investments and the marginal standing facility) in case of urgent liquidity needs. This apart, it has sizeable liquid assets by way of balances with other banks because of a lower CD ratio. ICRA expects Citizencredit to maintain strong liquidity, though this will continue to depend on its ability to maintain a stable deposit base.

## Rating sensitivities

**Positive factors** – ICRA could revise the outlook to Positive or upgrade the rating if the bank’s operating profitability improves, leading to an improvement in the net profitability with RoA of > 0.5%. An improvement in the scale of operations and the business risk profile, which is relatively less vulnerable to asset quality risks, will also be a positive factor.

**Negative factors** – ICRA could revise the outlook to Negative or downgrade the rating if a deterioration in the asset quality leads to a sustained weakness in the RoA, resulting in the weakening of the capital ratio. Further, a substantial weakening in the deposit base will be a negative trigger.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA Rating Methodology for Banks</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Citizencredit Co-operative Bank Limited is a Maharashtra-based multi-state scheduled cooperative bank. It was established as a cooperative credit society in 1920, following which it was granted a banking licence by the RBI in 1989. In 1996, Citizencredit obtained scheduled bank status and became a multi-state cooperative bank in 1998. The bank has been operating since the last 100 years, thereby demonstrating a long operating track record in India. It had 46 branches as on March 31, 2022.

In FY2022, Citizencredit declared a profit after tax (PAT) of Rs. 27 crore with a net worth of Rs. 431 crore as on March 31, 2022. Citizencredit's asset quality remains comfortable with GNPA's and NNPA's of 4.74% and 0.00%, respectively, as on March 31, 2022. Its capital metrics remain comfortable with a CRAR of 24.76% as on March 31, 2022.

### Key financial indicators (standalone)

	FY2020	FY2021	FY2022
Net interest income	95	88	113
Operating profit (excl trading gain)	22	21	36
Profit after tax	15	15	27
Net advances	1,488	1,480	1,375
Total assets	4,167	3,785	3,756
Net interest margin / Average total assets	2.34%	2.22%	2.99%
Return on assets	0.36%	0.38%	0.71%
Return on net worth	3.61%	3.73%	6.43%
Tier I	16.73%	16.80%	19.26%
CRAR	22.44%	22.08%	24.76%
Gross NPA	4.62%	5.03%	4.74%
Net NPA	0.87%	0.68%	0.00%
PCR (excl TWO)	82%	87%	100%
Solvency (NNPA + SRs + NPIs)/CET	4.99%	3.79%	0.00%

Source: Citizencredit & ICRA Research; Amount in Rs. crore  
All ratios as per ICRA's calculations

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Sr. No.	Name of Instrument	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years			
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	FY2023	FY2022	FY2021	FY2020
					Sep-20-2022	Aug-20-2021	Aug-20-2020	-
1	Issuer Rating	Long Term	-	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-

Source: ICRA Research

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Issuer Rating	NA

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 instruments 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](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	[ICRA]BBB (Stable)

Source: Citizencredit

## Annexure II: List of entities considered for consolidated analysis – Not applicable

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### Branches



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