

July 13, 2023

## 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	-	-	[ICRA]AAA (Stable); reaffirmed
Total	200.00	200.00	

\*Instrument details are provided in Annexure I

### 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 baa1), which is one of the six systemically important banks in Taiwan with total assets of NT\$ 5.54 trillion as on December 31, 2022. The ratings factor in CTBC's strong asset quality, comfortable 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 sub-optimal because of the relatively limited scale of operations. The deposit franchise of the branches is characterised by high depositor concentration and short tenures. Despite the short tenure of the liabilities, the liquidity of the branches 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. Moreover, 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 this 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** – CTBC is classified as a systemically important bank in Taiwan and is one of the largest private banks in Taiwan with a total balance sheet size of NT\$ 5.54 trillion (~Rs. 14.95 lakh crore) as on December 31, 2022 (NT\$ 4.88 trillion (~Rs. 13.03 lakh crore) as on December 31, 2021).

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.

**Comfortable capitalisation and demonstrated capital support to Indian branches** – The capitalisation metrics of the Indian branches remained strong (despite moderating from FY2022 levels) with the common equity tier I (CET-I) and capital-to-risk weighted assets ratio (CRAR) at 22.31% and 23.53%, respectively, as on March 31, 2023 (30.56% and 31.82%, respectively, as on March 31, 2022). The HO remains committed to support the growth of the Indian branches, which is also demonstrated by the infusion of ~Rs. 412 crore in Q1 FY2024, following the infusion of Rs. 212.70 crore in FY2020.

CTBC reported a comfortable capital profile with the CET-I and CRAR at 11.08% and 14.06%, respectively, as on December 31, 2022 (11.50% and 14.63%, respectively, as on December 31, 2021). Going forward, the regulatory capital requirements could tighten, with the minimum ask for the CET-I increasing to 11.00% from 8.00% (as on December 31, 2022).

**Strong asset quality** – The Indian branches have not reported any slippages since FY2017, resulting in strong headline asset quality metrics, with the gross non-performing advances (GNPAs) and net NPAs (NNPAs) at 0.04% and 0.00%, respectively, as on March 31, 2023 (0.10% and 0.00%, respectively, as on March 31, 2022). Additionally, there were no SMA<sup>1</sup> exposures as on March 31, 2023.

Likewise, CTBC's GNPAs remained low at 0.49-0.57% during the last three fiscals and stood at 0.49% as on December 31, 2022 (0.57% as on December 31, 2021). The bank maintained a 100% provision cover on its NPAs with Nil NNPAs over the last three years.

## Credit challenges

**High deposit concentration in Indian branches** – The Indian branches largely rely on wholesale deposits as the retail franchise remains limited. This has led to high depositor concentration levels, with the top 20 depositors accounting for ~88% of the total deposits as on March 31, 2023 (~93% as on March 31, 2022). The current account deposit relationships are 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 term loans having a limited share. To meet the funding requirements, the branches can avail funding support from the HO for up to 100% of the Tier I capital.

CTBC's liability profile remains strong with deposits accounting for ~83% of the total liabilities as on December 31, 2022.

**Sub-optimal scale and profitability for Indian branches** – The overall deposit accretion remained strong in FY2023 with the year-on-year (YoY) growth at 19%, which moderately outpaced the growth in advances (16% YoY), leading to a decline in the credit-to-deposit ratio to 80.63% as on March 31, 2023 (82.52% as on March 31, 2022). The growth in advances, coupled with the rising interest rate environment, led to an increase in the overall yield on earning assets to 5.68% in FY2023 (4.79% in FY2022) and expansion in the gross lending spreads to 1.70% (1.58% in FY2022). As a result, the net interest income (NII) of the Indian branches expanded to Rs. 69.61 crore in FY2023 from Rs. 53.31 crore in FY2022. The operating profit increased to Rs. 21.94 crore in FY2023 from Rs. 16.25 crore in FY2022 despite the higher operating expenses. However, the return on assets (RoA) and return on equity (RoE) remained sub-optimal at 0.35% and 1.84%, respectively, in FY2023, declining from 0.48% and 2.08%, respectively, in FY2022. The recent capital infusion by the HO or the improvement in the credit-deposit ratio could support a relative increase in the operating profitability from the current level.

Globally, CTBC reported a net profit of NT\$ 38.5 billion, translating into a healthy RoA of 0.74% and RoE of 10.66% in CY2022 (0.63% and 8.73%, respectively, in CY2021).

## Liquidity position: Strong

The overall liquidity position of the Indian branches remains strong with positive gaps across all the <1-year maturity buckets as per the structural liquidity statement (SLS) as on March 31, 2023. The statutory liquidity ratio (SLR) holding stood at 34.7% of the net demand and time liabilities (NDTL) as on April 7, 2023, well above the regulatory requirement. Although the 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 and can also borrow from inter-bank markets.

## Rating sensitivities

**Positive factors** – NA

<sup>1</sup> Special mention accounts; SMA-1 is overdue by 31-60 days and SMA-2 is overdue by 61-90 days

**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	<a href="#">ICRA Rating Methodology for Banks</a>
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 is the one of the largest private sector banks in Taiwan. It has 152 branches in Taiwan and 219 overseas outlets 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. 10.21 crore in FY2023 compared to Rs. 11.41 crore in FY2022. The net interest income was Rs. 69.61 crore in FY2023 compared to Rs. 53.31 crore in FY2022. The total asset base growth remained healthy at 20.66% with the total assets standing at Rs. 3,217 crore as on March 31, 2022 (Rs. 2,667 crore as on March 31, 2021). The net loan book increased to Rs. 1,777 crore as on March 31, 2023 from Rs. 1,534 crore at the end of March 2022.

## Key financial indicators (standalone)

CTBC Bank Co., Ltd. (Indian branches)	FY2021	FY2022	FY2023
Net interest income	56.53	53.31	69.61
Profit before tax	25.14	11.20	18.87
Profit after tax	10.98	11.41	10.21
Loan book	1,377	1,534	1,777
Total assets	2,109	2,667	3,217
Net interest margin / Average total assets	2.71%	2.23%	2.37%
Return on assets	0.53%	0.48%	0.35%
Return on net worth	2.04%	2.08%	1.84%
CET-I / Tier I	35.54%	30.56%	22.31%
CRAR	36.80%	31.82%	23.53%
Gross NPA	0.13%	0.10%	0.04%
Net NPA	0.00%	0.00%	0.00%
Net NPA/Core capital	-	-	-

Source: CTBC Bank, 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

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jul 13, 2023	Jul 18, 2022	Jul 09, 2021	Jul 10, 2020	
1	Certificate of deposit programme	Short term	200.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
2	Issuer rating	Long term	-	-	[ICRA]AAA (Stable)	[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: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Certificate of deposit	Yet to be placed	-	7-365 days	200.00	[ICRA]A1+
-	Issuer rating	-	-	-	-	[ICRA]AAA (Stable)

*Certificate of deposit outstanding as on July 4, 2023*

*Source: CTBC Bank*

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

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### Branches



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