September 29, 2023

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 18.12% as on March 31, 2023, and the granular deposit profile, which imparts strong liquidity. Although the capital ratios are comfortable, the operating profitability level and internal capital generation continue to be weighed down by the low credit-to-deposit (CD) ratio. Further, the bank operates with a competitive cost of funds, which 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 average statutory liquidity ratio (SLR) stood at 34.82% of the net demand and time liabilities (NDTL) for Q4 FY2023.

The headline asset quality metrics weakened due to higher slippages in FY2023. Further, Citizencredit's standard restructured book remained high at ~9% of its standard advances in FY2023. 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 also 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. 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 18.12% as on March 31, 2023 (19.26% as on March 31, 2022). Compared to the net worth of Rs. 458 crore as on March 31, 2023, the Tier I capital was lower at Rs. 291 crore as reserves such as revaluation reserves, provisions on NPAs and non-performing investments are excluded from the core capital. However, improvement in internal capital generation depends on the bank's ability to grow its loan book. Moreover, the capital-to-risk weighted assets ratio (CRAR), which stood at 22.75% as on March 31, 2023, remained well above the regulatory level of 12% that was raised from 9% after 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. 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 requirement 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 44% of total deposits as on March 31, 2023 (42% as on March 31, 2022). 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 3.89% in FY2023 (3.99% in FY2022). In addition to the competitive cost of funds, the low CD ratio supports the bank's strong liquidity with excess SLR holdings of ~Rs. 495 crore as on March 24, 2023 (16.05% of NDTL on a fortnightly average basis during April 2022-March 2023).

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 from 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. 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 40% of the loan book while the corporate and MSME segment accounted for 46% as on March 31, 2023, with the book mix largely remaining at similar levels in recent years.

Credit challenges

Suboptimal operating profitability – Despite the competitive cost of funds compared to other UCBs[1], Citizencredit's operating profitability remains modest, given the low CD ratio. Nonetheless, the net interest margin (NIM), as a percentage of assets, improved to 3.30% in FY2023 from 2.99% in FY2022 largely driven by the lower cost of funds and faster repricing of advances compared to deposits amid rising interest rates. While this supported a relative improvement in the core pre-provision operating profit (excluding trading gains/loss) to 1.32% of the average total assets (ATA) in FY2023 (0.95% in FY2022), it remains at a suboptimal level.

Despite the improvement in the operating profitability, high credit costs due to higher slippages and trading losses, led to a moderation in the return metrics with the return on assets (RoA) and return on equity (RoE) at 0.59% and 4.97%, respectively, in FY2023 (0.71% and 6.43%, respectively, in FY2022). While the bank's reported RoA level was higher than the positive triggers, the sustainability of the same will depend on its ability to maintain the NIMs amid the upward repricing of the deposit base that could put pressure on the profitability. Besides this, the ability to keep incremental slippages in check with high recoveries from stressed assets will be key for sustaining the improvement in the 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 the profitability. With the hardening of bond yields in FY2023, Citizencredit's profitability was subdued by trading losses.

Asset quality remains monitorable – Citizencredit's slippages remained high at Rs. 41 crore in FY2023 compared to Rs. 36 crore in FY2022. As a result, fresh NPA generation rose to 3% in FY2023 from 2% in FY2022. Further, recoveries and upgrades were lower at Rs. 4 crore in FY2023 (Rs. 20 crore in FY2022) and Rs. 14 crore (Rs. 25 crore in FY2022), respectively. This led to an increase in the gross NPA (GNPA) stock and a deterioration in the headline asset quality metrics with the GNPA and net NPA

[1] UCBs typically operate at a higher cost of funds than most scheduled commercial banks

(NNPA) at 5.39% and 1.81%, respectively, as on March 31, 2023 (4.74% and 0.00%, respectively, as on March 31, 2022). Given the relatively high standard restructured book of 8.78% of standard advances as on March 31, 2023, 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 high 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, 2023. 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 0.31% of ATA in FY2023 (0.26% in FY2022).

Liquidity position: Strong

The bank's SLR stood at 34.05% of the NDTL as on March 31, 2023 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 – An improvement in the scale of operations along with an increase in the bank's operating profitability and an RoA of more than 0.5% on a sustained basis will be a positive trigger.

Negative factors – A deterioration in the asset quality, leading to a sustained weakness in the RoA and resulting in the weakening of the capital ratio, or a substantial weakening in the deposit base will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Banks and Financial Institutions
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, 2023.

Key financial indicators (standalone)

	FY2020	FY2021	FY2022	FY2023
Net interest income	95	88	113	122
Operating profit (excl. trading gain)	22	21	36	49
Profit after tax	15	15	27	22
Net advances	1,488	1,480	1,375	1,517
Total assets	4,167	3,785	3,756	3,675
Net interest margin / Average total assets	2.34%	2.22%	2.99%	3.30%
Return on assets	0.36%	0.38%	0.71%	0.59%
Return on net worth	3.61%	3.73%	6.43%	4.97%
Tier I	16.73%	16.80%	19.26%	18.12%
CRAR	22.42%	22.08%	24.76%	22.75%
Gross NPA	4.45%	5.03%	4.74%	5.39%
Net NPA	0.82%	0.68%	0.00%	1.81%
Provision coverage ratio (excl. technical write-offs)	82%	87%	100%	68%
Solvency (NNPA + SRs + NPIs)/CET)	4.99%	3.79%	0.00%	9.47%

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 (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Sep-29-2023	Sep-20-2022	Aug-20-2021	Aug-20-2020
1	Issuer Rating	Long term	-	-	[ICRA]BBB (Stable)	[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: Click Here

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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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.

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