November 28, 2024

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 continues to factor in Citizencredit Co-operative Bank Limited's (Citizencredit) long operating track record as a multi-state urban cooperative bank (UCB), and its comfortable capitalisation profile with Tier I of 19.93% as on March 31, 2024. In addition, the bank benefits from its granular deposit base and healthy share of current and savings account (CASA) deposits, which results in a competitive cost of funds. However, the operating profitability and internal capital generation continue to be weighed down by the low credit-to-deposit (CD) ratio.

The rating also takes note of the bank's strong liquidity position, 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 35.47% of the net demand and time liabilities (NDTL) for Q1 FY2025.

The headline asset quality metrics improved due to lower slippages and healthy recoveries in FY2024 along with the increase in the provision coverage ratio (PCR) to 100% as on March 31, 2024 from 68% as on March 31, 2023. However, the asset quality indicators weakened in Q1 FY2025 due to a few high-value slippages. Moreover, the weak core operating profitability limits Citizencredit's ability to absorb asset quality shocks. Further, the standard restructured book remained high at ~7% of the standard advances as on March 31, 2024. 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 improving the asset quality metrics and keeping the credit costs under control. This will remain a near-to-medium-term monitorable, especially in the backdrop of the persisting high interest rates, geopolitical issues and concerns around overleveraging among retail borrowers.

The bank's high investment portfolio (which is required to have mark-to-market (MTM) valuation) makes it vulnerable to adverse interest rate movements, though ICRA notes that the expected interest rate cut in the near term is likely to provide MTM gains. This apart, regulatory changes related to the increasing share of priority sector loans for cooperative banks in the overall loan mix may lead to challenges for 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 19.93% as on March 31, 2024 (18.12% as on March 31, 2023). Compared to the net worth of Rs. 496 crore[1] as on March 31, 2024, the Tier I capital was lower at Rs. 326 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

[1] The networth includes paid up share capital and total reserves excluding revaluation reserves; paid up share capital and free reserves amounted to Rs. 337 crore as on March 31, 2024

the bank's ability to grow its loan book. Moreover, the capital-to-risk weighted assets ratio (CRAR), which stood at 23.53% as on March 31, 2024, remained well above the regulatory level of 12% that was raised from 9% after the recommendations of the Vishwanathan Committee 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 capitalisation 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 ~4% 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 in the last few years with these branches 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 43% of total deposits as on March 31, 2024 (44% as on March 31, 2023). The share of CASA remains healthy in relation to commercial banks as well as peer UCBs operating in Maharashtra.

With limited credit growth in 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 4.63% in FY2024 (3.89% in FY2023). In addition to the competitive cost of funds, the low CD ratio supports the bank's strong liquidity with excess SLR holdings of ~Rs. 605 crore as on August 23, 2024 (excess of 18.5% of NDTL over regulatory requirement on a fortnightly average basis).

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

The typical ticket size 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 38% of the loan book while the corporate and micro, small and medium enterprise (MSME) segment accounted for 62% as on March 31, 2024. The total loan book largely remained at Rs. 1,350-1,520 crore in the last five years and stood at Rs. 1,518 crore as on March 31, 2024.

Credit challenges

Suboptimal operating profitability – Despite the competitive cost of funds compared to other UCBs[2], Citizencredit's operating profitability remains modest, given the low CD ratio. The net interest margin (NIM), as a percentage of assets, declined marginally to 3.27% in FY2024 from 3.30% in FY2023 largely due to the higher increase in the cost of funds vis-à-vis the rise in the yield on assets. Since the bank witnessed limited growth in its advances, its ability to pass on the increase in the cost of funds to borrowers remains relatively low. The operating profitability remains at a suboptimal level with the core pre-provision operating profit (excluding trading gains/loss) at 1.22% of the average total assets (ATA) in FY2024 (1.32% in FY2023).

The overall profitability improved marginally (profit after tax (PAT) of Rs. 23.45 crore in FY2024 and Rs. 22.10 crore in FY2023), driven by higher trading profits on the bond portfolio (Rs. 4 crore in FY2024 against the loss of Rs. 5 crore in FY2023). Consequently, the bank increased the PCR on its NPAs to 100% as of March 2024 from 68% as of March 2023, leading to a return on assets (RoA) and return on equity (RoE) of 0.63% and 4.91%, respectively, in FY2024 (0.59% and 4.97%, respectively, in FY2023). While the reported RoA level was higher than the positive triggers, the sustainability of the same will depend on

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

Citizencredit's ability to maintain the NIMs. 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.

Asset quality remains monitorable – Citizencredit's gross slippages remained low at Rs. 3 crore in FY2024 compared to Rs. 41 crore in FY2023. As a result, fresh NPA generation declined to 0.2% in FY2024 from 2.9% in FY2023. Further, recoveries and upgrades stood at Rs. 7 crore and Rs. 5 crore, respectively, in FY2024 (Rs. 4 crore and Rs. 14 crore, respectively, in FY2023). This led to a decrease in the gross NPA (GNPA) stock and an improvement in the headline asset quality metrics with GNPAs and net NPAs (NNPAs) at 5.01% and 0.00%, respectively, as on March 31, 2024 (5.59% and 1.89%, respectively, as on March 31, 2023). However, the bank witnessed high slippages in Q1 FY2025, especially a few large accounts. This led to an increase in the GNPAs and NNPAs to 6.56% and 1.51%, respectively, as on June 30, 2024. Moreover, given the relatively high standard restructured book (7% of standard advances as on March 31, 2024), Citizencredit's ability to contain further slippages and achieve recoveries/upgrades from its NPA stock will remain a near-to-medium-term monitorable.

The persisting high interest rates, geopolitical issues and concerns around overleveraging among retail borrowers are the key risks to the asset quality profile, going forward.

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, 2024. 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 intense competition among others.

Limited diversity in products and earnings – While Citizencredit's lending products and customer profile continue to be 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 improving the income profile. The contribution of Citizencredit's fee-based income was low at 0.27% of ATA in FY2024 (0.31% in FY2023).

Liquidity position: Strong

The bank's SLR stood at 36.53% of the NDTL as on August 23, 2024 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 capitalisation 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 and was granted a banking licence by the RBI in 1989. Citizencredit obtained scheduled bank status in 1996 and became a multi-state cooperative bank in 1998. The bank has been operating since the last 100 years, demonstrating a long operating track record in India. It had 46 branches as on March 31, 2024.

Key financial indicators (standalone)

Citizencredit Co-operative Bank Limited	FY2023	FY2024
Total income^	134	133
Profit after tax	22	23
Total assets	3,675	3,820
PAT/ATA	0.59%	0.63%
Tier I	18.12%	19.93%
CRAR	22.75%	23.53%
Gross NPAs	5.59%	5.01%
Net NPAs	1.89%	0.00%

Source: Citizencredit & ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations
^Total income = Net interest income + Non-interest income (excluding trading gains)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Name of Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years					
					FY2024		FY2023		FY2022	
		Type	Rated Amount (Rs. crore)	Nov 28, 2024	Date	Rating	Date	Rating	Date	Rating
1	Issuer Rating	Long Term	-	[ICRA]BBB (Stable)	29-Sep-23	[ICRA]BBB (Stable)	20-Sep-22	[ICRA]BBB (Stable)	20-Aug-21	[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:

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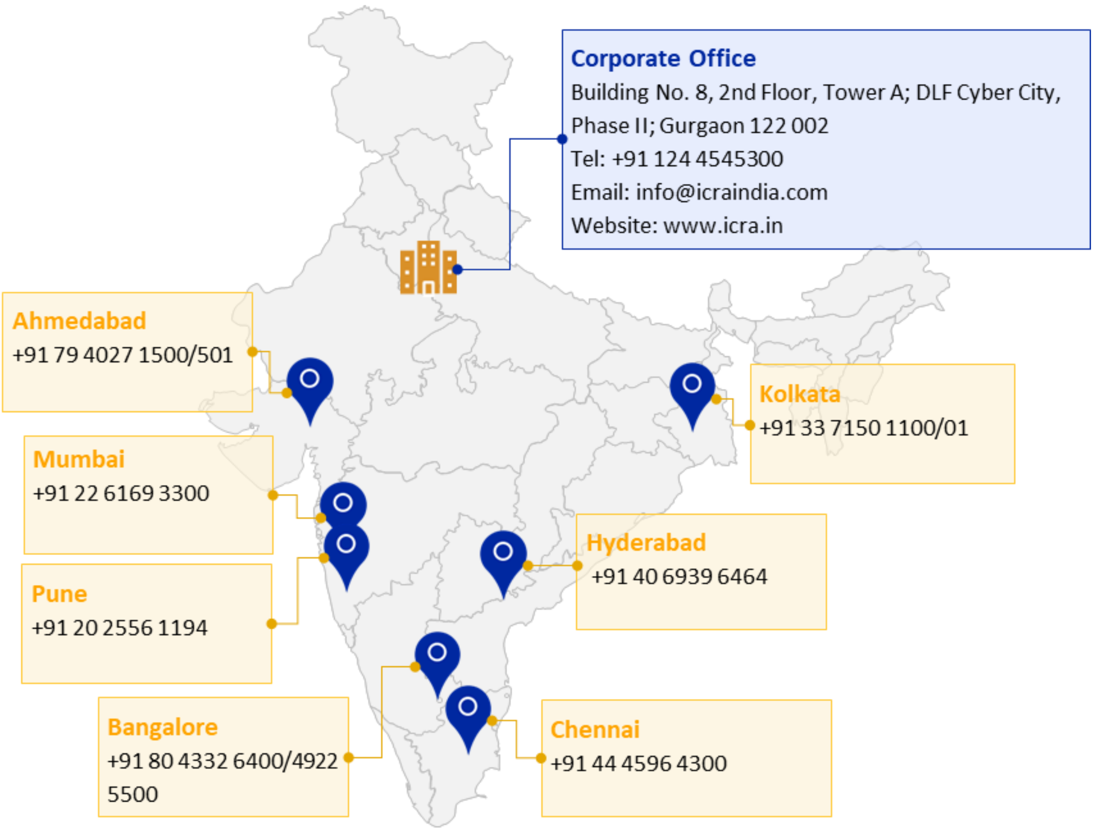

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