



## State Bank of Travancore

	Amount In Rs. crore	Rating Action
Lower Tier-II bonds	625	[ICRA]AAA(Stable); Reaffirmed
Lower Tier-II bonds	195	[ICRA]AAA(Stable); Rating Withdrawn

ICRA has reaffirmed the [ICRA]AAA (pronounced ICRA triple A) rating assigned earlier to the Rs. 625 crore Lower Tier II bonds of State Bank of Travancore (SBT/"the bank"). The Outlook on the rating is Stable. ICRA has withdrawn the [ICRA]AAA (pronounced ICRA Triple A) rating with a Stable outlook assigned to the Rs. 195 crore Lower Tier-II bonds of the bank, as the instrument has been fully repaid and there is no amount outstanding against the rated instrument.

The highest credit quality rating factors in SBT's strong parentage, operational and management synergies with State Bank of India (SBI) and, SBT's well established franchise in its area of operations (mainly Kerala) backed by the "State Bank" brand. SBT is subsidiary of SBI, with SBI holding 75% stake in SBT. SBT's strong franchise is likely to ensure adequate growth in the credit and deposits of the bank. However, pressure on earnings and solvency of SBT may persist in the medium term owing to pressure on its asset quality. Gross NPA% of SBT increased from 2.6% as on March 31, 2013 to 4.35% as on March 31, 2014 owing to increased slippages (gross NPA generation rate of about 7.4% for 2013-14 as against 6.0% for 2012-13). Consequently, there has been a decline in the provision cover and a significant deterioration in the solvency profile (Net NPA/ Net worth) of SBT (38.8% as on March 31, 2014 from about 22.6% as on March 31, 2013). On capitalization front, SBT's capitalization profile is moderate with CRAR at 10.8% and Tier I capital at 8.4% as in March 2014, as per BASEL-III. SBT would be wholly dependent on SBI for fresh capital mobilization for meeting the increased capital requirements under Basel III norms as well as for business growth. Given the current low levels of internal capital generation, SBT's reliance on SBI for capital funds has increased. ICRA takes note of the proposed rights issue in the near term and, expects support from SBI going forward. SBT's deposits profile is characterised by lower proportion of CASA (26% as on December 31, 2013) and, modest high cost deposits and certificate of deposits (10% as on December 31, 2013 vis a vis 15% as on March 31, 2013).

SBT's gross advances grew by about 18% in 2012-13, which was higher than the industry growth of around 14%; However in 2013-14, the bank has witnessed a marginal growth of about 3% as compared to the industry growth of around 14% over March 31, 2013 levels. Owing to the steady deterioration in the asset quality indicators, the credit provisions for the bank went up in the current financial year (credit provisions as % average assets increased from about 0.48% for 2012-13 to about 0.8% for 2013-14). Further, the increase in the operating expenses from about 1.5% in 2012-13 to about 1.8%, partly attributed to the increased provision on account of the wage revision, impacted the overall profitability of the bank. Consequently, the net profitability indicators (net profit as % of average assets) for SBT declined from about 0.7% for 2012-13 to 0.3% for 2013-14.

As in December 2013, Gross NPAs in the retail, corporate, small business and agri segments of SBT stood at 3.5%, 8.5%, 4.8% and 2.3% respectively. SBT's standard restructured advances were lower than peers (around 4.8% as on December 31, 2013) due to limited exposure to state power distribution companies. The bank witnessed sharp increase in the fresh slippages during FY2014, with NPA generation rate at about 7.4% for the period as compared to 4.4% in FY2013, ability of the bank to control incremental slippages and improvement in the overall asset quality would be critical from a credit perspective.

In ICRA's view, over the medium-term the earnings of the bank would be contingent upon its ability to ensure adequate lending spreads, maintaining control over incremental NPA generations, improving CASA proportion and, improvement in fee based income.

**Bank Profile:**

SBT is part of SBI Group and is 75% owned by SBI (India's largest bank) as on March 31, 2014. Being an SBI Associate, SBT derives significant benefits from its use of the State Bank brand name and logo, its access to an extensive branch network (including the network of over 36,740 ATMs as on the end of December 31, 2013), and its sharing of systems like the credit risk rating model, treasury management functions, and IT systems with the parent. The benefits of operational synergies between SBT and SBI have increased further with SBT completing CBS implementation in March 2006; the CBS implemented by SBT is on the same platform as that of SBI. This apart, SBT is also distributing SBI's insurance and mutual funds products, and cross-selling of these products is expected to augment the Associate's fee income in future. Overall, increasing levels of synergy between SBT and SBI are expected to provide SBT with advantages in maintaining its franchise, containing infrastructure-related costs, and increasing fee income.

For the year ended March 31, 2014, the bank reported a net profit of Rs.304.3 crore over an asset base of Rs 1,05,285 crore as compared with a net profit of Rs. 615.0 crore on an asset base of Rs. 1,01,579 crore for the year 2012-13. SBT reported a gross NPA% of 4.35 % (2.56% as on March 31, 2013) and net NPA% of 2.78% (1.46% as on March 31, 2013) as on March 31, 2014. The bank reported a capital adequacy of 10.79 % as on March 31, 2014 as per Basel III (11.52% as per Basel II norms).

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