

## Corporation Bank

June 11, 2018

### Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Lower Tier II Bonds Programme	200.00	[ICRA]AA- (negative)
Certificate of Deposit Programme	30,000.00	[ICRA]A1+
<b>Total</b>	<b>30,200.00</b>	

### Material Event

Corporation Bank (CorpBank) announced its Q4 FY2018 results on May 26, 2018.

**Advances:** CorpBank's net advances declined 14.6% YoY in FY2018 to Rs. 119,869 crore as on March 31, 2018. The bank witnessed a decline in its exposures across key segments. While the corporate and MSME segment exposures witnessed a steep contraction of about 24.2% and 14.7%, respectively, during the year, the exposure to other sectors such as retail and agriculture declined marginally by 2.5% and 3.9%, respectively. ICRA expects the bank's loan book to moderate further in the next one or two quarters considering its stretched capital position.

**NIMs & NII:** The yield on advances declined to 8.8% during FY2018 (9.5% in FY2017) while the cost of funds reduced to 5.9% during FY2018 (6.8% during FY2017). Net interest margins (NIMs), as a percentage of average total assets (ATA), stood at 2.1% for FY2018 (1.9% in FY2017), supported by a reduction in the cost of funds. Consequently, the net interest income (NII) improved 8.7% during FY2018 despite a decline in the loan book. Going forward, with systemic interest rates hardening and the loan book moderating, the bank's NIM and NII is expected to be under pressure.

**Asset Quality:** The bank's asset quality deteriorated sharply during FY2018 with gross and net NPAs increasing to 17.4% and 11.7%, respectively, as on March 31, 2018, from 11.70% and 8.33%, respectively, as on March 31, 2017. The fresh NPA generation rate increased steeply to 11.3% in FY2018 from 5.9% in FY2017 on account of higher fresh slippages from large corporate accounts. The large slippages (annualised fresh NPA generation rate of 17%) during Q4 FY2018 were partly on account of the implementation of the RBI's revised framework on stressed assets. Despite the improvement in the provision coverage ratio<sup>1</sup> to 36.6% in March 2018 (31.4% in March 2017), the bank's solvency ratio<sup>2</sup> deteriorated to 138% in March 2018 (97% in March 2017). As the elevated levels of NPA will exert pressure on CorpBank's solvency profile, it is critical for the bank to control incremental slippages and undertake effective recoveries.

**Profitability:** With an elevated provisioning requirement because of the divergence in asset classification, and the revised stressed assets framework, the bank's credit cost increased to 4.7% (of ATA) during FY2018 (1.5% during FY2017). Consequently, the bank reported a net loss of Rs. 4,055 crore in FY2018 (-1.7% of ATA) as against a net profit of Rs. 561 crore in FY2017 (0.2% of ATA). The bank's profitability is expected to be under pressure in FY2019 as it has taken RBI dispensation for deferring NCLT-related provision of about Rs. 540.8 crore, a mark-to-market loss provision of Rs. 281.8 crore, and an increased gratuity provision of Rs. 58.5 crore, which would impact overall profitability, in the near term, at least. Further, increased provisions on account of NPA ageing and for improving its provision cover would exert pressure on profitability in the medium term. Hence, it remains crucial for the bank to improve recoveries and contain credit costs, going forward.

<sup>1</sup> (Gross NPA-Net NPA)/Gross NPA

<sup>2</sup> Net NPA/net worth (net off revaluation reserves)

**Capitalisation:** CorpBank's capitalisation profile remains stretched as its CET-I, Tier-I and CRAR (as a percentage of risk-weighted assets) ratio stood at 5.7%, 7.3% and 9.2%, respectively, as on March 31, 2018, notwithstanding a Rs. 2,187-crore equity infusion by the GoI in March 2018. Post the recall of AT-1 bonds of Rs. 1,800 crore in April 2018, the bank's capital profile is expected to have weakened further. With CorpBank's internal accrual estimated to be impacted by the incremental provisions (Rs. 654.2 crore) during Q1 FY2019, the bank is expected to witness further weakening in its capital profile unless the GoI infuses commensurate capital. ICRA notes that the bank serviced its Upper Tier-II bonds in April and May 2018 by taking approval from the RBI, as its CRAR ratio dipped below 9%. ICRA notes that the coupon payments on Upper Tier-II bonds and IPDIs are due in July and September 2018. The bank would have to secure capital from the GoI to improve its capital profile or take approval from the RBI in case of any shortfall in its capital adequacy for servicing its coupons. ICRA does not have any rating outstanding on the bank's Upper Tier-II bonds or IPDIs. Given the stretched capital levels, securing external equity would be critical in the backdrop of weak internal generation and increased capital requirements under Basel III regulations. As per ICRA's estimates, assuming a stable RWA<sup>3</sup>, the bank would require about Rs. 2,100-2,300 crore of Tier-I capital to have the minimum Tier-I capital ratio of 7% by June 2018.

### Impact of the Material Event

The ratings remain unchanged, at [ICRA]AA-(Negative)/[ICRA]A1+, as ICRA expects the GOI to support the bank in terms of infusing required capital. In an event CorpBank's losses are sizeable in relation to the capital infusion, thereby keeping its capital profile stretched, the rating may be further revised downwards. Any sizeable deterioration in the asset quality or the profitability profile, going forward, would also be a key rating sensitivity.

The previous detailed rating rationale is available on the following link: [Click here](#)

### Key Financial Indicators (audited):

Instrument	FY2017	FY2018	Q4FY2017	Q4FY2018
Net Interest Income	4,451	4,838	934	1,301
Profit before tax	836	(6,681)	107	(3,034)
Profit after tax	561	(4,054)	160	(1,839)
Net advances	140,357	119,869	140,357	119,869
Total assets (net of revaluation reserve)	247,228	221,224	247,228	221,224
%CET 1	8.0%	5.7%	8.0%	5.7%
%Tier 1	8.9%	7.3%	8.9%	7.3%
%CRAR	11.3%	9.2%	11.3%	9.2%
%Net Interest Margin	1.9%	2.1%	1.5%	2.3%
%Net Profit / ATA	0.2%	-1.7%	0.3%	-3.2%
%Return on Net Worth	4.9%	-36.5%	5.4%	-73.5%
% Gross NPAs	11.7%	17.4%	11.7%	17.4%
% Net NPAs	8.3%	11.7%	8.3%	11.7%
% Provision coverage excl. technical write off	31.4%	36.6%	31.4%	36.6%
% Net NPA/ Net worth	97.0%	138.0%	97.0%	138.0%

Note: ATA is computed on year-end/quarter-end basis; Amounts in Rs. crore

Source: CorpBank

<sup>3</sup> Risk-weighted assets

## ANALYST CONTACTS

**Mr. Karthik Srinivasan**

+91 22 6114 3444  
[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Mr. A M Karthik**

+91 44 4596 4308  
[a.karthik@icraindia.com](mailto:a.karthik@icraindia.com)

**Mr. Sreenivasan Perumal**

+91 44 4596 4325  
[sreenivasan.perumal@icraindia.com](mailto:sreenivasan.perumal@icraindia.com)

**Mr. Anuprasanth**

+91 80 4332 6416  
[anuprasanth@icraindia.com](mailto:anuprasanth@icraindia.com)

## RELATIONSHIP CONTACT

**Mr. L. Shivakumar**

+91 22 6114 3406 / +91 98210 86490  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents