January 31, 2020

Corporation Bank: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Certificates of Deposit	30,000.00	30,000.00	[ICRA]A1+; reaffirmed
Total	**30,000.00**	**30,000.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers the majority sovereign ownership and Corporation Bank's superior liquidity position. The bank reported a high liquidity coverage ratio (LCR) of 174.2% as on September 30, 2019 compared to the regulatory requirement of 100%. Its liquidity profile is superior with a positive cumulative asset-liability management gap across all the buckets except for a marginal negative cumulative mismatch in the 6 months to 1-year maturity bucket. The rating is also supported by the bank's established franchise network in South India.

ICRA takes into account the bank's adequate capitalisation profile, mainly supported by a large capital infusion of Rs. 11,641 crore in FY2019 (10.3% of risk-weighted assets (RWAs) as on March 31, 2019) by the Government of India (GoI). As a result, the bank's capital ratios improved and remained comfortable above the minimum regulatory requirement[1]. The huge capital infusion also supported an increase in the bank's provision coverage ratio on stressed assets and a reduction in the net NPA (NNPA) ratio to 5.59% as on September 30, 2019 from 11.65% as on September 30, 2018. This led to an improvement in the solvency (net NPA/core equity) to 56.8% as on September 30, 2019 from 132.3% as on September 30, 2018. With an improvement in the capital ratios and a reduction in the NNPA ratio, Corporation Bank exited the Reserve Bank of India's (RBI) prompt corrective action (PCA) framework in February 2019. Driven by the reduced NNPAs and credit provisions, the bank's profitability improved with return on assets (RoA) of 0.2% in H1 FY2020 (-2.9% in FY2019), with the same expected to remain stable at ~0.2-0.3% in FY2020.

In August 2019, the GoI announced the amalgamation of Corporation Bank and Andhra Bank into Union Bank of India (rated [ICRA] A1+). In September 2019, the board of directors of all the merging banks gave in-principle approval for the merger. The merged entity (referred Union-M hereafter) is likely to be the fifth largest public sector bank (PSB) in terms of business (advances + deposits) with a market share of 6.2% in net advances and 6.8% in total deposits of the Indian banking sector as on September 30, 2019. Based on the merged financials of the banks, the NNPAs for the combined entity were weak at 6.4%, translating into a weak solvency of 64.5% as of September 30, 2019. The combined entity reported a net loss of Rs. 614 crore (RoA of -0.4%) in H1 FY2020.

Supported by the sizeable capital infusion of Rs. 11,768 crore in Union Bank of India in Q2 FY2020 and the comfortable capital position of the merging banks, ICRA estimates that the merged entity will maintain comfortable capital cushions over the regulatory levels. Even though the internal capital generation is likely to remain weak with RoA of <0.1% in FY2020, it is likely to be comfortably placed for credit growth in the near term.

[1] *CET I of 8.0%, Tier I of 9.5% and CRAR of 11.5% (including capital conservation buffer (CCB) of 2.5%) as on March 31, 2020*

Key rating drivers and their description

Credit strengths

Majority sovereign ownership – Corporation Bank is a mid-sized PSB with an advances and deposit base of Rs. 1.2 lakh crore and Rs. 1.9 lakh crore, respectively, as on September 30, 2019. Its market share in advances and deposits was 1.3% and 1.5%, respectively, as on September 30, 2019. The GoI held a 93.5% stake in the bank as on December 31, 2019, up from 79.9% as on March 31, 2018, following the equity infusion of Rs. 11,641 crore in FY2019. During FY2016 to FY2019, the bank received a cumulative capital infusion of Rs. 15,193 crore from the GoI, displaying strong capital support.

Established franchise in South India – Incorporated in 1906, Corporation Bank has a long track record of operations and an established retail franchise, particularly in South India. As on September 30, 2019, the bank had a network of 2,432 branches spread across India. This has supported its overall deposit profile with the share of low-cost CASA at 28.5% compared to the PSBs' average of ~38% as on September 30, 2019. The bank's low CASA ratio resulted in higher dependence on term deposits. It also resulted in a higher cost of average interest-bearing funds at 5.53% in H1 FY2020 compared to the PSBs' average of 5.1% during the same period. Further, Corporation Bank's net advances witnessed a cumulative average degrowth of 4.8% during FY2016-FY2019 mainly due to capital constraints in growing its advances book. However, with fresh capital infusion from the GoI in FY2019, the bank's advances growth is expected to revive though it will remain muted in FY2020. On a merged basis, Union-M is expected to report a CASA ratio of ~32-33%.

Adequate capitalisation – Corporation Bank was placed under the PCA framework by the RBI in December 2017 for failing to meet the minimum regulatory capital requirements and reporting high level of NNPAs. In FY2019, the GoI infused capital of Rs. 11,641 crore, which improved its capital profile with CET I, Tier I and CRAR of 10.89%, 10.89% and 12.29%, respectively, as on September 30, 2019 compared to 8.65%, 8.90% and 11.04%, respectively, as on September 30, 2018. Consequent to the improvement in the capitalisation levels and the reduction in the NNPA levels, the bank was removed from the PCA framework in February 2019. ICRA estimates that Corporation Bank is likely to report muted internal capital generation with RoA of 0.2-0.3% in FY2020 and it is expected to maintain comfortable capital cushions over the regulatory levels without any requirement for fresh capital raise for its near-term growth requirements.

Supported by the sizeable capital infusion of Rs. 11,768 crore in Union Bank of India in Q2 FY2020 and the comfortable capital position of the merging banks, ICRA estimates that the merged entity will maintain comfortable capital cushions over the regulatory levels. Even though the internal capital generation is likely to remain weak with RoA of <0.1% in FY2020, the merged entity is likely to be comfortably placed for credit growth in the near term.

Credit challenges

Weak asset quality – The bank's asset quality remained weak with elevated levels of gross NPAs (GNPAs) of Rs. 20,823 crore (GNPA ratio of 15.43%) as on September 30, 2019 (GNPA of Rs. 20,913 crore or 15.44% as on June 30, 2019) compared to the PSBs' average GNPA ratio of ~12.1% as on September 30, 2019. However, the bank reported a decline in slippages to Rs. 807 crore (fresh NPA generation rate of 2.8%) in Q2 FY2020 from Rs. 1,399 crore (4.9%) in Q1 FY2020. The slippages were mainly in the agriculture sector (48.2% of total slippages; GNPA ratio of 13.0%) and the SME (23.7%; 12.5%) and large industry (17.8%; 17.8%) segments in Q2 FY2020. The bank provided fully for its exposure to the National Company Law Tribunal (NCLT) accounts (I and II) in FY2019.

The large capital infusion by the GoI in FY2019 helped the bank increase its provision coverage ratio (including technical write-offs - TWO) to 83.3% as on March 31, 2019 and 84.0% as on September 30, 2019 from 63.7% as on March 31, 2018. As a result, the NNPAs declined to Rs. 6,751 crore (NNPA ratio of 5.59%) as on September 30, 2019 from Rs. 14,077 crore

(NNPA ratio of 11.74%) as on March 31, 2018. Consequently, the bank's solvency profile (net NPA/core equity) improved to 59.0% as on March 31, 2019 and 56.8% as on September 30, 2019 from 188.5% as on March 31, 2018, closer to the PSBs' average of ~52% as on September 30, 2019. ICRA expects the NNPA% to decline further to ~4.6% and the solvency to improve to ~45% by March 2020 with a capital cushion of 1.5-2.0% at the Tier I level.

On a merged basis, the GNPA% and NNPA% of Union-M are estimated at 15.7% and 6.4%, respectively, with a provision coverage ratio (excluding TWO) of 63.4% as on September 30, 2019. As per ICRA's estimates, the NNPA% is estimated to decline below 5% by March 31, 2020 with a Tier I capital cushion of ~2.0-2.4% and solvency of ~50%.

Subdued profitability indicators – Corporation Bank's net interest income (NII) declined by 12.9% YoY to Rs. 2,633 crore in H1 FY2020, mainly due to the lower credit-deposit ratio and a decline in the yields and spreads, leading to lower NIMs. The operating expenses increased sharply to 1.78% of average total assets (ATA) in H1 FY2020 from 1.54% in H1 FY2019 and 1.61% in FY2019 because of lower bond yields, resulting in higher provisioning towards employee retirement benefits. Limited NII growth on a YoY basis and higher operating expenses resulted in a 32.0% YoY decline in operating profits to Rs. 1,707 crore or 1.60% of ATA in H1 FY2020 from 1.83% of ATA in FY2019. With lower NPAs, the bank reported lower credit provisions of Rs. 1,374 crore (-38.4% YoY) or credit provisions/ATA of 1.29% in H1 FY2020 (2.11% in H1 FY2019), which resulted in a rise in the net profit to Rs. 233 crore (+23.9% YoY) in H1 FY2020.

ICRA expects the bank to report profitable operations in FY2020, though the profitability will remain subdued. ICRA estimates the credit provisions for Corporation Bank to improve to 1.5-1.6% of ATA in FY2020 compared to 5.3% in FY2019, thereby leading to RoA of 0.2-0.3% in FY2020. On a merged basis, Union-M is expected to report credit provisions/ATA of 1.5-1.6% in FY2020, translating into muted return ratios with RoA of <0.1% in FY2020.

Liquidity position: Superior

Corporation Bank has a superior liquidity profile with a liquidity coverage ratio of 174.2% as on September 30, 2019 compared to the regulatory requirement of 100%. The bank's liquidity profile is characterised by positive cumulative asset-liability management gaps across all the buckets except for a marginal negative cumulative mismatch of 1.3% of the total outflows in its 6 months to 1-year maturity bucket as on August 31, 2019. The bank can also avail liquidity support from the RBI under the liquidity adjustment facility against excess Government securities and the marginal standing facility, which will enable it to plug its limited mismatches.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – ICRA could downgrade the short-term rating in case of insufficient capital support from the GoI, leading to sustained capital breaches with a CRAR of <9.0%. Additionally, the ability to maintain the depositor base and the strong liquidity profile with limited asset liability mismatches will also be a rating driver.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Banks Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Sovereign ownership The rating factors in Corporation Bank's sovereign ownership and the demonstrated track record of capital infusion by the GoI
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of Corporation Bank and ICRA's estimates of the merged financial profile of Union Bank of India, Andhra Bank and Corporation Bank

About the company

Established in 1906, Corporation Bank is a mid-sized public sector bank (PSB), with the Government of India and Life Insurance Corporation holding 93.5% and 3.62%, respectively, as on December 31, 2019. Headquartered in Mangalore, the bank had 2,432 branches and 2,845 ATMs as of September 2019. Its total net worth (excluding revaluation reserves) stood at about Rs. 15,907 crore as on September 30, 2019.

For H1 FY2020, the bank reported a net profit of Rs. 233 crore on a total asset base of Rs. 2.1 lakh crore as on September 30, 2019 against a net profit of Rs. 188 crore in H1 FY2019 on a total asset base of Rs. 2.0 lakh crore as on September 30, 2018.

Key financial indicators (audited)

	FY2018	FY2019	H1 FY2019	H1 FY2020
Net interest income	4,838	5,508	3,022	2,633
Profit before tax	-6,681	-8,049	10	352
Profit after tax	-4,054	-6,333	188	233
Net advances	1,19,869	1,21,251	1,16,197	1,20,853
Total assets	2,21,244	2,12,676	2,00,805	2,14,382
% CET I	5.68%	10.39%	8.65%	10.89%
% Tier I	7.27%	10.52%	8.90%	10.89%
% CRAR	9.23%	12.30%	11.04%	12.29%
% Net interest margin	2.06%	2.54%	2.86%	2.47%
% PAT/ATA	-1.73%	-2.92%	0.18%	0.22%
% Return on net worth	-39.75%	-40.43%	3.21%	2.95%
% Gross NPAs	17.35%	15.35%	17.46%	15.43%
% Net NPAs	11.74%	5.71%	11.65%	5.59%
% Provision coverage excl. technical write-offs	36.63%	66.58%	37.67%	67.58%
% Net NPA/CET I	188.49%	59.03%	132.27%	56.77%

Note: Amount in Rs. crore; Net worth and total assets exclude revaluation reserves
Source: Corporation Bank, ICRA research
All calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Rating	FY2019			FY2018	FY2017	
					31-Jan-2020	14-Dec-2018	11-Jun-2018	5-Apr-2018	12-Oct-2017	6-Oct-2016	11-Apr-2016
1	Certificates of Deposit	Short Term	30,000.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Lower Tier II Bonds	Long Term	200.0	-	-	[ICRA]AA- (Negative) (Withdrawn)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)
3	Lower Tier II Bonds	Long Term	200.0	-	-	-	-	[ICRA]AA- (Negative) (Withdrawn)	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)
4	Lower Tier II Bonds	Long Term	300.0	-	-	-	-	[ICRA]AA- (Negative) (Withdrawn)	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)
5	Lower Tier II Bonds	Long Term	300.0	-	-	-	-	-	-	-	[ICRA]AA (Stable) (Withdrawn)

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Certificates of Deposit	NA	NA	7-365 days	30,000.0^	[ICRA]A1+

^ No outstanding against the rated amount

Source: Corporation Bank, ICRA research

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Analyst Contacts

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Niraj Jalan
+91 33 7150 1146
niraj.jalan@icraindia.com

Shashank Singh
+91 124 4545 367
shashank.singh@icraindia.com

Relationship Contact

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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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

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
Website: 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) 2556 0194/ 6606 9999