ICRA

Corporation Bank Limited

Instrument	Amount (Rs. crore)[1]	Rating Action (September 2016)
Lower Tier-II Bonds Programme	700	[ICRA]AA; reaffirmed Outlook revised from stable to negative
Certificate of Deposits Programme	30,000	[ICRA]A1+; reaffirmed

ICRA has reaffirmed the [ICRA]AA (pronounced ICRA double A) rating for the Rs. 700 crore lower tier II bond programme of Corporation Bank Limited (Corpbank).The outlook on the long-term rating has been revised from stable to negative. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs.30,000 crore certificate of deposits programme of the bank.

The revision in the outlook factors in the deterioration in the bank's asset quality and earnings profile during the last two quarters and the anticipated pressure on the same going forward. The gross NPAs of the bank increased sharply from 7.3% as on December 31, 2015 to 10.0% as on March 31, 2016 and further to 11.0% as on June 30, 2016 on account of high slippages in large corporate advances. The bank's total standard restructured assets[2] and other large vulnerable exposures are estimated to be at around 3.1% and 3.0% respectively of the gross advances as on June 30, 2016. This coupled with weak demand outlook for credit intensive sectors is expected to keep the NPAs at high levels and make recoveries challenging for the next few quarters. The bank's net NPAs in relation to networth increased from 57% as on December 31, 2015 to 92% as on June 30, 2016, weakening its ability to withstand any unforeseen losses. Going forward, the bank's ability to control fresh slippages and recover from stressed advances would be crucial to avert further deterioration in its asset quality profile and improve its profitability indicators, which would be the key rating sensitivities.

During FY2016, the bank's credit costs increased sharply to 2.3% from 0.9% in FY2015, resulting in net losses during the year. Its net profitability (profit after tax as a proportion of average total assets) stood at -0.22% during FY2016 as against 0.26% during FY2015. The sizable tax reversal on account of deferred tax assets during FY2016 and Q1FY2017 aided the bank's net profitability as its pre-tax profitability stood at -0.84% during FY2016 and -0.2% during Q1FY2017. The bank's credit cost continued to remain high at 1.6% during Q1FY2017 and ICRA expects it to remain high in the current fiscal as well on account of the asset quality pressures and ageing of its existing NPAs.

The bank's capitalization profile was moderate with Tier-1 capital at 7.7% (CET-1 at 7.1%) as on June 30, 2016, as against the minimum regulatory Tier-1 capital requirement of 9.5% (CET-1 of 8.0%) by March 2019[3]. In ICRA's estimate, the bank's total Tier-1 capital requirement over the period FY2017 to FY2019 would be about 1.3-1.7 times[4] its current market capitalization. The Government of India has committed a capital infusion of Rs. 677 crore to Corpbank for FY2017 (in two installments, of which Rs. 508 crore would be infused shortly) as against Rs. 857 crore infused in FY2016. The rating continues to factor in the bank's sovereign ownership (67.2% stake held by the Government of India as on June 30, 2016) and its established franchise.

As on June 30, 2016, the bank's gross advances declined by 2.4% on a y-o-y basis, and the share of corporate advances moderated from 44% to 41% on account of the overall weak demand for credit and the bank's efforts to realign its portfolio with a higher share of non-corporate exposures. Corpbank's deposit profile improved with total deposits growing by 3.3% on a y-o-y basis as on June 30, 2016, and the share of CASA deposits improving to 21% from 19% in the previous fiscal.

Bank Profile

Corpbank, established in 1906, is a mid-sized public sector bank with the Government of India and Life Insurance Corporation holding stakes of 67.2% and 21.2% respectively as on June 30, 2016. Headquartered in Mangalore, Karnataka, the bank had 2,451 branches across 28 states and 5 union territories as on June 30, 2016. The bank has an established presence in South India with around 45% of its total branches being located

[1] Rs. 1 crore = Rs. 10 million = Rs. 100 lakh

[2] Excluding additional facilities and the accounts which ceased to attract higher provision

[3] Including capital conservation buffer

[4] Assuming a buffer of 1% over and above the regulatory minimum requirement, with annualized growth of 5-8% in risk weighted assets and internal generation (net of dividends) of 4-6% during FY2017-FY2019

in the five southern states. As on June 30, 2016, the bank's reported total capital adequacy (as per Basel III) was 10.3% and its gross NPAs and net NPAs stood at 11.0% and 7.2% respectively.

Recent Results

In Q1FY2017, the bank reported a net profit of Rs. 36 crore (Rs. 204 crore in Q1FY2016) on a total asset base of Rs. 2.3 lakh crore as on June 30, 2016 (Rs. 2.2 lakh crore as on June 30, 2015).

In FY2016, the bank reported net losses of Rs. 506 crore (net profit of Rs. 584 crore in FY2015) on a total asset base of Rs. 2.3 lakh crore as on March 31, 2016 (same level as on March 31, 2015).

September 2016

For further details please contact:
Analyst Contacts:
Mr. Karthik Srinivasan (Tel No +91 22 6114 3444)
karthiks@icraindia.com

Mr. A M Karthik (Tel. No. +91 44 4596 4308)
a.karthik@icraindia.com

Mr. Vivekanandan L (Tel. No. +91 44 4297 4306)
l.vivekanandan@icraindia.com

Relationship Contacts:
Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	