Corporation Bank

Instrument	Amount in Rs. crore	Rating Action
Lower Tier-II Bonds Programmes	1,000.00	Revised to [ICRA]AA from [ICRA]AA+; outlook Stable

ICRA has revised the rating outstanding on the Rs.1,000.00 crore Lower Tier-II Bonds Programme of Corporation Bank (Corpbank/"the bank") from [ICRA]AA+ (Pronounced ICRA double A plus) to **[ICRA]AA (Pronounced ICRA double A)**. Outlook on the rating is **stable**.

The rating revision takes note of the decline in the asset quality and the earning profile of the bank in Q3FY2016. The gross NPAs of the bank, post the Asset quality review by RBI during Q3FY2016, has increased sharply to 7.3% in Dec-15 from 5.3% in Sep-15. Corpbank's reported Gross NPAs% is expected to worsen further in Q4, FY2016. The bank's total stressed advances[*] are high at around 13% as in Dec-15. ICRA takes note the bank's exposure to the power and iron and steel sector, which stood at 11-12%, which are vulnerable given the weak demand and other structural challenges; this is likely to keep the fresh NPA generation rate at elevated levels and make recoveries more challenging over next 1-2 years. Corpbank's ability to control its fresh NPA generation and timely recovery from stressed advances would be important for asset quality profile going forward and would be a key rating sensitivity.

The decline in the asset quality profile has impacted the bank's earnings in relation to the risk (Corpbank's annualized operating profits[†] in relation to net NPAs have dropped to 37% in Q3, FY2016 vs. 63% in Q2, FY2016). The bank's core operating profitability[‡] was moderate at 1.3% in 9M, FY2016, however its high credit cost (credit provisions in relation to ATA[§] of around 1.9% in 9M, FY2016) impacted the post provision profits adversely; the bank's net profits for 9M FY2016 was supported by sizeable tax reversals. Corpbank's profitability is expected to remain under pressure over next 2-3 years due to the sizeable Net NPAs (4.8% as on December 31, 2015) and other weak assets (standard restructured advances of around 7% and some other weak standard assets) which is likely to keep credit costs at elevated levels, leading to pressure on earnings and therefore internal capital generation.

Corpbank's Tier-I capital and CRAR was 8.27% (CET-1 at 7.54%) and 11.49% respectively as on December 31, 2015 as against regulatory minimum requirement of 7.625% and 9.625% respectively as on March 31, 2016[**]. Further, Corpbank's Net NPAs in relation to net-worth have increased to 57% as of Dec-15 from 43% as of Mar-15, weakening the ability of the bank to withstand unexpected losses.

As for minimum regulatory requirement, while current capitalization level is adequate as of now, the bank would need to raise sizeable capital to meet increasing regulatory minimum requirements as well as for growth. In ICRA's estimate, corpbank's common equity requirement is equivalent to 1.0-1.4 times[††] of its current market capitalization and about Rs. 2,500-3,000 crore of additional tier I capital (AT-1). In case of lack of adequate investor appetite for AT1 capital raising, the gap would need to be met through further core capital raising, thereby increasing core capital raising requirements further to about 1.7-2.3 times of its current market capitalization. As for capital raising in current fiscal, Government of India (GoI) infused equity capital of Rs 857 crore in corpbank and the bank secured equity infusion of about Rs 143 crore from LIC. The rating continue to draw comfort from corpbank's majority sovereign ownership (67.2% equity shares are held by GoI as on December 31, 2015), which

---

[*] Gross NPAs % + Standard Restructured Advance (excluding restructured exposure of SEBs and Air India); estimated
[†] Excluding profit on sale of investments
[‡] Operating profit before credit provisions and profit on sale of investments in relation to ATA
[§] Average Total Assets
[**] Including capital conservation buffer of 0.625%
[††] Assuming buffer of 0.5% over and above the regulatory minimum requirement and annualized growth of 7-10% in risk weighted assets during FY17-FY19

provides a strong likelihood of sovereign support to the bank coupled with the bank's systemic importance and its established franchise in South India

Bank Profile:

Corporation Bank, established in 1906, is a public sector bank with 67% of the share capital held by the Government of India. As on December 31, 2015, Corpbank had 2,399 branches across 28 states and 3 UTs and 2 representative offices in Dubai & Hong Kong. In FY2015, Corpbank reported profit after tax (PAT) of Rs.584 crore on an asset base of Rs.2,25,993 crore as against corresponding figures of Rs.562 crore and Rs.2,22,048 crore for the previous financial year.

During the nine months ended December 31, 2015 the bank reported a profit of Rs. 4 crore against a profit of Rs. 539 crore during the corresponding period in the previous financial year. As on December 31, 2015, the bank's reported capital adequacy (as per Basel III) was 11.49% and the Gross NPA% and Net NPA stood at 7.3% and 4.8% respectively.

February 2016

For further details please contact:
Analyst Contacts:
Mr. Karthik Srinivasan (Tel No +91 22 6114 3444)
karthiks@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: **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: **9821086490** Email: shivakumar@icraindia.com 1802, 18th Floor, Tower 3, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone, Mumbai 400013, 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: **9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Bangalore** **Mr. Jayanta Chatterjee** Mobile: **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: **989986490** 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: **989986490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: **9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	