ICRA

October 12, 2017

Corporation Bank

Summary of rated instrument

Instruments*	Rated Amount (Rs. crore[1])	Rating Action
Lower Tier-II Bonds Programme	700.00	[ICRA]AA- (negative); downgraded from [ICRA]AA (negative)
Certificate of Deposits Programme	30,000.00	[ICRA]A1+; reaffirmed

**Instruments details are provided in Annexure-1*

Rating action

ICRA has downgraded the ratings on the Rs.700 crore lower Tier-II Bonds programme of Corporation Bank (Corpbank) to [ICRA]AA- (pronounced ICRA double A minus) from [ICRA]AA (pronounced ICRA double A). ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Certificate of Deposits programme of Corpbank. The outlook on the long term rating is Negative.

Rationale

The rating revision takes into account the sharp deterioration in Corpbank's asset quality and solvency level[2], as its gross NPAs increased to 15.5% as on June 30, 2017 from 11.7% as on March 31, 2017 (9.9% as on March 31, 2016); the low NPA provision cover[3] at 31.5% as on June 30, 2017 resulted in the solvency ratio weakening to 122.6% from 97.0% as on March 31, 2017 (85.9% as on March 31, 2016). Given the current low provision coverage ratio, ICRA expects the bank's credit costs to remains high in the near to medium term on account of both incremental slippages and ageing of current NPAs; thus, profitability and internal generation going forward would remain subdued. With the bank's current capitalisation profile being moderate with Tier-I ratio at 8.54% as on June 30, 2017 as compared with the regulatory requirement of 8.875% (including CCB[4]) by March 31, 2018, securing external equity would be critical in the backdrop of weak internal generation and increasing capital requirements under Basel III regulations. The negative rating outlook reflects the expected pressure on the bank's overall credit profile as the asset quality is likely to remain weak in the medium term and as the existing NPAs season further.

The ratings continue to factors in the sovereign ownership with the Government of India (GoI) shareholding at 70.76% stake as on June 30, 2017 and the high likelihood of support from the parent, if required. The rating is also supported by the bank's established franchise network in South India with access to good deposit profile; however, Corpbank's CASA profile remains weaker than public sector banks' average.

Going forward, raising equity capital in a timely manner and controlling incremental slippages and undertaking effective recoveries would be crucial from a rating perspective.

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[1] Rs. 1 crore = Rs. 10 million = Rs. 100 Lakh
[2] Net NPA/Net worth (excluding revaluation reserves)
[3] (Gross NPA-Net NPA)/Gross NPA
[4] Capital conservation buffer

Key rating drivers

Credit strengths

- **Majority sovereign ownership and continued capital support** – The GoI held a 70.76% of the equity stake in the company as on June 30, 2017, which provides comfort in terms of sovereign support, if required. The GoI infused capital of Rs. 508 crore in FY2017, resulting in an increase in its stake from 67% as on March 31, 2016 to 71% as on June 30, 2017. ICRA expects the GoI to infuse further fresh capital going forward, if required.
- **Established regional franchise and comfortable liquidity position -** The bank's established regional franchise in South India supports its overall deposit profile. However, its CASA ratio is moderate at 24.3% as on June 30, 2017, which is lower than the public sector banks' average of 37%. The bank's liquidity profile is comfortable with the liquidity coverage ratio of 167% as on June 30, 2017 supported by excess SLR investments; the liquidity coverage ratio is well above the regulatory requirement of 100% by January 2019.

Credit weaknesses

- **Steep deterioration in asset quality on account of high fresh slippages in Q1FY2018 -** The bank's asset quality deteriorated sharply during Q1FY2018, with its gross and net NPAs increasing to 15.5% and 11.1% respectively as of June 30, 2017 from 11.7% and 8.3% respectively as of March 31, 2017. The fresh NPA generation rate increased steeply from 5.9% in FY2017 to 16.4% (annualised) in Q1FY2018 on account of higher fresh slippages from large corporate accounts. The large slippages were partly on account of the compliance to restrict RBI divergence. ICRA estimates that the bank has standard vulnerable advances including, restructured, SDR[5], S4A[6] and 5/25[7] and other stressed corporate advances of about 2.5-2.7% of gross advances as on June 30, 2017, which would exert pressure on its asset quality in the near to medium term. Thus, it is critical for the bank to control incremental slippages and undertake effective recoveries to improve its asset quality.
- **Weak profitability indicators; expected to remain stressed in the near to medium term -** The bank has reported a weak PAT[8]/ATA of 0.10% for Q1FY2018 (0.23% in FY2017) resulting from high credit provisioning (1.74% of ATA[9] for Q1FY2018). The reported net profit of Rs.60 crore is supported by trading income and tax write-backs as the operating profitability was significantly impacted by the higher credit provision towards NPA.

  The bank's provision cover was modest at 31.5% as of June 30, 2017 (37.0% as of March 31, 2016). Incremental provisioning requirements for ageing NPAs and incremental slippages is expected to keep the earnings subdued in the near to medium term.
- **Moderate capitalisation profile; sizeable capital requirement going forward** – Corpbank's CET-I, Tier-1 and CRAR (as % of risk weighted assets) stood at 7.6%, 8.5%, and 10.6% respectively as on June 30, 2017. Considering the regulatory requirement (Tier-1 ratio including CCB of 8.875% and 9.50% by March 2018 and March 2019 respectively) going forward and the modest expectation of internal accruals, the current capitalisation is moderate. During the FY2017, the bank's Tier-1 ratio improved from 7.2% to 7.9% supported by the issuance of AT1 bonds (Rs. 500 crore) and an equity infusion by the GoI (aggregating to Rs. 508 crore). As per ICRA's estimates, assuming a 5% growth in RWA[10] and 0.5% capital cushion above regulatory levels, the bank would require approximately Rs. 3,000 - 3,500 crore of Tier-1 capital by March 2019 to meet the regulatory requirements.

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[5] Strategic Debt Restructuring

[6] Scheme for Sustainable Structuring of Stressed Assets

[7] Flexible structuring of existing long term project loans to infrastructure and core industries

[8] Profit after tax,

[9] Average total assets

[10] Risk weighted assets

Analytical approach: For arriving at the rating, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria
ICRA's Credit Rating Methodology for Banks

About the bank:
Established in 1906, Corporation Bank (Corpbank) is a mid-sized public sector bank, with the Government of India and Life Insurance Corporation holding about 70.76% and 19.0% stake respectively as on June 30, 2017. Headquartered in Mangalore, the bank had 2,517 branches as of June 2017. The bank's total net worth stood at about Rs. 12,712 crore as on June 30, 2017.

For FY2017, the bank reported a net profit of Rs. 561 crore on a total asset base of Rs. 2.4 lakh crore as on March 31, 2017 as against a net loss of Rs. 506 crore in FY2016 on a total asset base of Rs. 2.3 lakh crore as on March 31, 2016. For Q1FY2018, the bank reported a net profit of Rs. 60 crore on a total asset base of Rs. 2.4 lakh crore as on June 30, 2017 as against a net profit of Rs. 36 crore for Q1FY2017 on a total asset base of Rs. 2.3 lakh crore as of June 30, 2016.

Key Financial Indicators:

	FY2016	FY2017	Q1FY2017	Q1FY2018
Net interest income	4,239	4,451	1,031	1,035
Profit before tax	-1,931	836	-97	-240
Profit after tax	-506	561	36	60
Net advances	140,322	140,357	136,943	133,332
Total assets	234,864	247,891	230,851	248,481
% CET 1	7.2%	7.9%	7.0%	7.6%
% Tier 1	7.9%	8.9%	7.7%	8.5%
% CRAR	10.5%	11.3%	10.2%	10.6%
%Net interest margin / Average total assets	1.8%	1.8%	1.8%	1.7%
%Net profit / Average total assets	-0.2%	0.2%	0.0%	0.1%
%Return on net worth	-4.4%	4.4%	1.3%	1.9%
% Gross NPAs	9.9%	11.7%	11.0%	15.5%
% Net NPAs	6.5%	8.3%	7.2%	11.1%
% NPA Provision cover	37.0%	31.4%	37.1%	31.5%
% Net NPA/Net worth (excluding revaluation reserve)	85.9%	97.0%	90.7%	122.6%

Source: Bank's investor presentation and ICRA research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:
Table:

S. No	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Oct 2017	FY2017	FY2016	FY2015
					Sep 2016	Mar 2016	Jan 2015
1	Lower Tier-II Bonds Programme	Long term	700.00	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA+ (Stable)
2	Certificate of Deposits Programme	Short term	30,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

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

Instruments Details

Instrument	ISIN Details	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
Lower Tier-II Bonds	INE112A09026	19-Mar-2008	9.30%	19-Mar-2018	200.00	[ICRA]AA- (Negative)
	INE112A09034	27-Mar-2008	9.40%	27-Mar-2018	300.00	[ICRA]AA- (Negative)
	INE112A09042	03-Dec-2008	10.80%	03-Dec-2018	200.00	[ICRA]AA- (Negative)
Certificate of Deposits	-	-	-	-	30,000.00	[ICRA]A1+

Source: Corporation Bank

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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.

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