

## Corporation Bank

December 14, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore <sup>1</sup> )	Current Rated Amount (Rs. crore)	Rating Action
Lower Tier II Bonds Programme	200.00	-	[ICRA]AA- (Negative) / Withdrawn
Certificate of Deposits	30,000.00	30,000.00	[ICRA]A1+ / Reaffirmed
<b>Total</b>	<b>30,200.00</b>	<b>30,000.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has withdrawn the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) with Negative outlook on the Rs.200 crore Lower Tier II bonds programme of Corporation Bank<sup>2</sup>, at the request of the bank, as the same has been redeemed in full and there are no amount outstanding against the same.

The rating reaffirmation considers sovereign support, improvement in capitalization profile with the recent equity infusion by the Government of India (GoI) and our expectation that the bank's incremental slippages are likely to be lower than in the past. During Q2 FY2019, the GoI infused equity of Rs.2,555.00 crore into Corporation Bank taking the shareholding of GoI to 86.8% as on October 15, 2018. This has improved the bank's CET I, Tier I and CRAR to 8.7%, 8.9% and 11.0% respectively as on September 30, 2018 (from 6.1%, 6.3% and 8.5% respectively as on June 30, 2018) against regulatory requirement of CET I of 5.5%, Tier I of 7.0% and CRAR of 9.0% as on March 31, 2019, excluding CCB of 2.5%. The bank's asset quality continues to remain weak with GNPA and NNPA of 17.5% and 11.7% as on September 30, 2018. Given the current low provision coverage ratio (at 37.7% in September 30, 2018), incremental slippages as well as ageing of existing NPAs, ICRA expects the bank's credit costs to remain high in the near to medium term. Thus, profitability and internal generation would remain subdued, going forward. For FY2018 and H1 FY2019, the bank reported net profitability of -1.7% and 0.18% respectively.

The ratings are also supported by the bank's established franchise network in South India. However, Corp Bank's CASA (Current and Savings Account) profile remains weaker than the public-sector banks' average. The share of low-cost current account and savings account (CASA) deposits remained low at 29% as on September 30, 2018 (compared to the public-sector bank (PSB) average of around 38%) resulting in higher cost of interest-bearing funds compared to peers. Going forward, Corp Bank's ability to improve its asset quality metrics, improve its deposit profile and strengthen its capitalization would be key rating sensitivities.

### Key rating drivers

### Credit strengths

**Majority Government ownership provides visibility on sovereign support** – Corporation Bank is a mid-sized PSB with an advances and deposit base of Rs. 1.16 lakh crore and Rs. 1.75 lakh crore, respectively and a market share of ~1.4% in advances and deposits as on September 30, 2018. The GoI held 79.87% stake in Corp Bank as on March 31, 2018 which

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications

increased to 86.77% as on October 15, 2018 following the equity infusion of Rs.2,555 crore by the Gol during Q2 FY2019. During the period FY2016 to H1 FY2019, the bank has received a cumulative capital infusion of Rs.6,250 crore from the Gol, which supported the bank's capitalization metrics. An increase in the Gol's stake during H1 FY2019 also provides scope for Corporation Bank to raise equity capital from market sources, if required.

**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, 2018, the bank had a network of 2,440 branches spread across India. While this has supported its overall deposit profile with 74.0% being retail deposits, the share of CASA remains below that of peers resulting in high dependence on term deposits. Following the Government's demonetisation exercise, although the share of CASA deposits in the bank's total deposits has increased to 29.9% as on September 30, 2018 as compared to 22.1% as on March 31, 2016; it remains lower than PSB average. The bank's net advances have been declining since FY2016 primarily because of a decline in corporate segment advances stemming from subdued credit demand and the bank's capital constraints in growing its advance book. ICRA however notes that Corporation Bank has a comfortable liquidity profile with a liquidity coverage ratio (LCR) of 151.8% as on September 30, 2018 against the regulatory requirement of 90% by January 1, 2018.

## Credit challenges

**Asset quality continues to remain weak with lower provision cover in relation to peers** – Corp Bank's gross NPAs increased to 17.4% as on March 31, 2018 from 11.7% as on March 31, 2017 and remained elevated at 17.5% as on September 30, 2018 primarily because of higher slippages from the corporate segment and moderate recoveries. The bank was placed under prompt corrective action (PCA) framework in December 2017 by the Reserve Bank of India (RBI) in view of the weakened asset quality and financial risk profile. As on September 30, 2018, the bank's NPA provision cover remained low at 37.7% compared to the peer average of around 49%, resulting in net NPAs of 11.7%. However, the bank's solvency ratio (net NPA / Networth) improved to 102.4% in September 30, 2018 compared to 129.7% in March 2018 supported by equity infusion during Q2 FY2019. Corp Bank's share of standard restructured advances was modest at around 0.6% of net advances as on September 30, 2018 (vs 1.2% as on March 31, 2018). Going forward, an improvement in the bank's asset quality will depend on the resolution on the accounts referred to National Company Law Tribunal (NCLT) and the bank's ability to control incremental slippages and undertake effective recoveries.

**Profitability expected to remain moderate** – Despite lower cost of funds during FY2018 supporting Corporation Bank's net interest margins, it reported net losses during FY2018 owing to high credit costs. The bank's credit cost increased to 4.7% resulting in a net loss of 1.7% in FY2018 (net profit of 0.2% during FY2017). The credit costs reduced to 2.1% and the bank reported net profit of 0.2% during H1 FY2019. Going forward, the bank's profitability will depend on its ability to control incremental credit costs and maintain adequate margins in an increasing interest rate environment. Given the high level of gross NPAs at 17.5% and low provision cover of 37.7% as on September 30, 2018 in relation to its peers, the bank's profitability is highly dependent on its ability to resolve these NPA accounts and key credit costs under control. Pressure on net interest income owing to rising in cost of funds along with increased credit cost is likely to affect the bank's overall profitability going forward.

**Moderate capitalization indicators** – During Q2 FY2019, the Gol infused equity of Rs.2,555.00 crore into Corporation Bank taking the shareholding of Gol to 86.77% as on October 15, 2018. This has improved the bank's CET I, Tier I and CRAR to 8.65%, 8.90% and 11.04% respectively as on September 30, 2018 (from 6.07%, 6.32% and 8.46% respectively as on June 30, 2018) against regulatory requirement of CET I of 5.5%, Tier I of 7.0% and CRAR of 9.0% as on March 31, 2019 excluding CCB of 2.5%. However, with Corporation Bank's internal accrual estimated to be impacted by the incremental provisions during FY2019, the bank is expected to witness weakening in its capital profile requiring additional capital infusion to maintain capital ratios above regulatory minimum (including CCB). ICRA expects the Gol to continue to provide capital support to Corporation Bank going forward.

### Liquidity Position:

Corporation Bank has a comfortable liquidity profile with a liquidity coverage ratio (LCR) of 151.8% as on September 30, 2018 against the regulatory requirement of 90% by January 1, 2018. ICRA also takes note of the reduction in the share of bulk deposits, which typically tend to be of a shorter tenure. Corp Bank's liquidity profile remains comfortable with positive cumulative gaps of 0.7% of total assets in the less than 1-year bucket as on September 30, 2018 as per structural liquidity statement as on that date.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Banks</a>
Parent/Group Support	Implicit support from GOI based on demonstrated track record of equity infusion. During the period FY2016 to H1 FY2019, the bank has received a cumulative capital infusion of Rs.6,250 crore from the GoI which has supported the bank's capitalization metrics.
Consolidation / Standalone	Rating is based on standalone financial statements of the 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 86.8% and 8.6%, respectively, as on October 15, 2018. Headquartered in Mangalore, the bank had 2,440 branches as of September 2018. The bank's total net worth (excluding revaluation reserves) stood at about Rs. 12,950 crore as on September 30, 2018.

For H1 FY2019, the bank reported net profit of Rs.188 crore on a total asset base of Rs.2.0 lakh crore as on September 30, 2018 as against net loss of Rs. 4,054 crore on a total asset base of Rs. 2.2 lakh crore as on March 31, 2018.

## Key financial indicators

	FY2017	FY2018	H1 FY2019
Net Interest Income (Rs. crore)	4,451	4,838	3,022
Profit before Tax (Rs. crore)	836	(6,681)	10
Profit after Tax (Rs. crore)	561	-4054	188
Total Advances (Rs. crore)	140,357	119,869	116,197
Total Assets (Rs. crore) (adjusted for revaluation reserve)	247,228	221,244	200,543
% CET 1	7.9%	5.7%	8.7%
% Tier 1	8.9%	7.3%	8.9%
% CRAR	11.3%	9.2%	11.0%
% Net Interest Margin / Average Total Assets	1.8%	2.1%	2.9%
% Net Profit / Average Total Assets	0.2%	-1.7%	0.2%
% Return on Net Worth	4.4%	-39.6%	3.2%
% Gross NPAs	11.7%	17.4%	17.5%
% Net NPAs	8.3%	11.7%	11.7%
% Provision Coverage incl Technical Write-offs	31.4%	36.6%	37.7%
% Net NPA / Net Worth*	97.0%	138.0%	104.5%

Note: Amounts in Rs. crore

Source: Corporation Bank, ICRA research; \*Note: Excluding Revaluation Reserves

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount Outstanding (Rs. crore)	Dec-18	FY2018	FY2017	FY2016
					Oct-17	Oct-16	Feb-16
Lower Tier II Bonds	LT	200.0	-	[ICRA]AA- (Negative); Withdrawn	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)
Certificate of Deposits	ST	30,000.0	30,000.0	[ICRA]A1+	[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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Certificate of Deposits	-	-	-	30,000.0	[ICRA]A1+

Source: Corporation Bank

## 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)

**Ms. Swathi Hebbar**

+91 80 4332 6404

[swathi.hebbar@icraindia.com](mailto:swathi.hebbar@icraindia.com)

## RELATIONSHIP CONTACT

**Mr. L. Shivakumar**

+91 22 6114 3406

[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) 2556 0194/ 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