Central Bank of India

January 02, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Upper Tier II Bonds	2,285	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Total	**2,285 (Rs. Two thousand two hundred and eighty five crore only)**		

Details of instruments/facilities in Annexure-1

CARE has rated the aforesaid Upper Tier II Bonds after taking into consideration their increased sensitiveness to Central Bank of India's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in the hybrid instruments. Any delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared to the conventional subordinated debt instruments.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the facilities of CBI factor in the majority ownership and capital support by the Government of India (GoI), long track record of operations with an extensive branch network, comfortable Current Account Savings Account (CASA) base. However, the ratings are constrained by weak asset quality, weak profitability measures and deterioration in capital adequacy parameters.

Continued ownership and support from GoI with adequate capital infusion, profitability and asset quality are the key rating sensitivities.

Detailed description of the key rating drivers

Rating Strengths

Majority ownership and capital support by GoI

Government of India is the major shareholder in the bank with a stake of 86.40% as on September 30, 2018. GOI has been supporting the bank through periodic capital infusion and during FY18 (refers to period from April 01 to March 31), the bank had equity infusion of Rs.5,158 crore. Equity infusion of Rs.2,354 crore took place in H1FY19. However, considering the capital requirement of the bank to comply with the Basel III regulations, GOI would be required to infuse substantial amount of equity capital over the near term. The rating factors in the support that the bank is expected to get from GoI.

Long track record and pan India network

Central Bank of India is a nationalized bank of significant size which was incorporated on December 21, 1911. It has a long track record of operations with a pan India network of 4685 branches, 4886 ATMs, 10 Satellite Offices and 1 Extension Counter across the country as of March 31, 2018.

Comfortable resources profile

The bank has been able to consistently maintain its CASA deposit base in the range of 30-40% for the past three years. Healthy CASA base has helped the bank in maintaining its NIM at 2.02% (P.Y.2.09%) despite asset quality stress. In FY18 (refers to the period April 1 to March 31), CASA increased to Rs.1,25,196 crore from Rs.1,16,310 crore, recording Y-o-Y growth of 7.64%. Share of CASA in total deposits stood at 42.46%.

Rating Weaknesses

Deterioration in capital adequacy parameters

The bank reported Total CAR (as per Basel III norms) of 9.64% [P.Y.: 10.95%] with Tier I CAR at 7.01% [P.Y.: 8.62%] as on March 31, 2018.

As on September 30, 2018, the bank reported total CAR and Tier I CAR of 8.71% and 6.71% respectively. As per Basel III guidelines, bank's minimum capital requirement in terms of Total CAR, Tier I CAR and CET I ratio are 10.875%, 8.875% and 7.375% (including 1.875% of CCB) respectively as on March 31, 2018. Considering the bank's weak profitability and asset quality, it would need to improve its capitalisation to meet minimum regulatory requirement. The bank will require substantial capital infusion in the near term for funding future advances growth as well to take care of its weak asset quality.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Weak asset quality
Asset quality continues to be under stress and the bank reported Gross NPA at 21.48% [P.Y. 17.81%] and Net NPA at 11.10% [P.Y: 10.20%] at the end of FY18. Its Net NPA to Net worth increased to 183.17% from 114.73% as on March 31, 2018. Iron & steel, engineering and manufacturing, power generation and infrastructure are the major sectors in which bank has seen large amount of NPAs. The bank's standard restructured assets outstanding decreased to Rs.1,618 crore as on March 31, 2018 [P.Y.: Rs. 7,543 crore] which is 1% of advances and 17% of net worth. The total stressed assets (Gross NPA plus std. restructured assets plus Security Receipts as a percentage of advances) increased marginally to 27.39% from 27.36% a year ago. At the end of H1FY19, Gross NPA ratio and Net NPA stood at 21.48% and 10.36% respectively. Net NPA to Net worth stood at 226.02% in H1FY19.

Deterioration in earnings profile
The bank has been reporting losses during the last three financial years. During FY18, the bank's profitability declined substantially and it reported a net loss of Rs.5,105 crore on total income of Rs.26,658 crore on account of high provisioning which increased to Rs.10,629 crore . The bank's Net Interest Margin (NIM) declined to 2.02% [P.Y. 2.09%] in FY18.
Profitability continues to be weak with the bank reporting net loss of Rs.2,446 crore over total income of Rs.12,102 crore during H1FY19.

Liquidity profile
The Bank's ALM as on August 15, 2018 has positive cumulative mismatches in the one year time bucket. The Bank has maintained SLR at 27.58% in FY18. Liquidity Coverage Ratio stands at 253.30% in FY18 as against 176.97% in FY17 with HQLA at Rs.90,761 crore as on March 31, 2018.

Analytical approach: The bank has been assessed on standalone basis. However, the assessment also factors in expected support from GoI.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE Policy on Default Recognition]
[Bank - CARE's Rating Methodology For Banks]
[Financial ratios - Financial Sector]
[Factoring Linkages in Ratings]

About the Company
CBI was founded on December 21, 1911 by Sir Sorabjee Pochkhanawalla. CBI is one of the major players in the Indian banking system with an asset base of Rs. 3,17,727 crore as on March 31, 2018. Government of India (GoI) is the major shareholder with 86.40% stake as on March 31, 2018 (March 31, 2017 – 81.28%). The bank had a network of 4,685 branches and 4,886 ATMs as on March 31, 2018. The Bank has two subsidiaries, namely, Centbank Home Finance Ltd. (64.4% ownership) and Centbank Financial Services Ltd. (100% ownership). Its Joint Venture in Zambia named Indo Zambia Bank Ltd. is promoted jointly by Government of Zambia and three Indian Banks, viz, Central Bank of India, Bank of Baroda and Bank of India. Each Indian bank is holding 20% equity and the Government of Republic of Zambia holds the balance 40% equity.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	24,661	24,035
PAT	-2,439	-5,105
Interest coverage (times)	0.80	0.55
Total Assets^	3,27,843	3,17,727
Net NPA (%)	10.20	11.10
ROTA (%)	-0.78	-1.58

A: Audited ^Net Assets

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Upper Tier II	17-Feb-09	9.40%	17-Feb-24	285.00	CARE A-; Stable
Bonds-Upper Tier II	23-Jun-09	8.80%	23-Jun-24	500.00	CARE A-; Stable
Bonds-Upper Tier II	20-Jan-10	8.63%	20-Jan-25	500.00	CARE A-; Stable
Bonds-Upper Tier II	11-Jun-10	8.57%	11-Jun-25	1000.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (17-Aug-15)
2.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (03-Aug-17) 2)CARE A+; Negative (11-Apr-17)	1)CARE AA-; Negative (29-Dec-16) 2)CARE AA- (23-Aug-16)	1)CARE AA- (17-Aug-15)
3.	Bonds-Upper Tier II	LT	285.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Feb-18) 2)CARE A-; Negative (15-Dec-17) 3)CARE A-; Negative (11-Aug-17) 4)CARE A; Negative (03-Aug-17) 5)CARE A; Negative (11-Apr-17)	1)CARE A+; Negative (29-Dec-16) 2)CARE A+ (23-Aug-16)	1)CARE A+ (17-Aug-15)
4.	Bonds-Lower Tier II	LT	-	-	1)Withdrawn (25-May-18)	1)CARE A; Stable (05-Feb-18) 2)CARE A; Negative (15-Dec-17) 3)CARE A; Negative (11-Aug-17) 4)CARE A+; Negative (03-Aug-17) 5)CARE A+; Negative (11-Apr-17)	1)CARE AA-; Negative (29-Dec-16) 2)CARE AA- (23-Aug-16)	1)CARE AA- (17-Aug-15)
5.	Bonds-Upper Tier II	LT	500.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Feb-18) 2)CARE A-; Negative (15-Dec-17) 3)CARE A-; Negative (11-Aug-17) 4)CARE A;	1)CARE A+; Negative (29-Dec-16) 2)CARE A+ (23-Aug-16)	1)CARE A+ (17-Aug-15)

						Negative (03-Aug-17) 5)CARE A; Negative (11-Apr-17)		
6.	Bonds-Upper Tier II	LT	500.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Feb-18) 2)CARE A-; Negative (15-Dec-17) 3)CARE A-; Negative (11-Aug-17) 4)CARE A; Negative (03-Aug-17) 5)CARE A; Negative (11-Apr-17)	1)CARE A+; Negative (29-Dec-16) 2)CARE A+ (23-Aug-16)	1)CARE A+ (17-Aug-15)
7.	Bonds-Upper Tier II	LT	1000.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Feb-18) 2)CARE A-; Negative (15-Dec-17) 3)CARE A-; Negative (11-Aug-17) 4)CARE A; Negative (03-Aug-17) 5)CARE A; Negative (11-Apr-17)	1)CARE A+; Negative (29-Dec-16) 2)CARE A+ (23-Aug-16)	1)CARE A+ (17-Aug-15)

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