Central Bank of India

January 07, 2020

Ratings

Instruments#	Amount (Rs. Cr)	Rating	Rating Action
Upper Tier II Bonds	1,500 (Rs. One thousand five hundred crore only)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Upper Tier II Bonds*	-	-	Withdrawn

**rating assigned is withdrawn with immediate effect, as the bank has fully repaid the amount under the said instrument and there is no amount outstanding under the issue.*
Details of instruments/facilities in Annexure-1

#CARE has rated the aforesaid Upper Tier II Bonds after taking into consideration their increased sensitivity to the bank'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 Central Bank of India (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 and improvement in capital ratios post the GOI's capital infusion. However, the ratings remain constrained by weak asset quality and profitability albeit showing some signs of improvement.

Key rating sensitivities

Positive Factors

- Continued improvement in earnings profile with ROTA over 1%
- Sharp and sustained improvement in asset quality (NNPA of <5%)

Negative Factors

- Reduction in expected support from the Government
- Persistent weakness in asset quality with NNPA increasing beyond 10%
- Moderation in capital ratios

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership and capital support by GoI

Government of India (GOI) is the major shareholder in the bank with a stake of 89.46% as on September 30, 2019. GOI has been supporting the bank through periodic capital infusion and during FY19 (refers to period from April 01 to March 31), the bank had equity infusion of Rs.6,588 crore. Equity infusion of Rs.3,353 crore took place in H1FY20. The capital infusions in FY19 and FY20 helped the bank in improving its capital adequacy metrics and meeting the BASEL III capital requirements. The rating factors in the support that the bank is expected to get from GoI. Higher government stake provides the bank the flexibility to raise equity capital without diluting the government's stake below the minimum required threshold.

Long track record and pan India network

CBI 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 4,659 branches, 3,966 ATMs, 10 Satellite offices and 1 Extension counter across the country as of March 31, 2019.

Comfortable resources profile

The bank has been able to consistently maintain its CASA deposit base in the range of 40-50% for the past few years. Healthy CASA base has helped the bank in maintaining its NIM at 2.12% (P.Y.: 2.02%) despite asset quality stress. Its CASA deposits grew by 10.67% during FY19 to reach Rs.1,38,555 crore as on March 31, 2019 from Rs. 1,25,196 crore as on March 31, 2018 constituting 46.21% of total deposits (P.Y.: 42.46%). While this is in line with the CASA trend witnessed for PSBs, it remains stronger for CBI compared to the average CASA share of PSBs at ~44% as on March 31, 2019. However, the CASA deposit largely remained unchanged at Rs.1,38,599 crore as on September 30, 2019 which constituted 44.49% of total deposits as against 43.50% as on September 30, 2018. The bank's credit to deposit ratio remained low as it declined to 48.87% at end-FY19 [P.Y.: 53.09%] and remained well below the PSB average of 69.96% at end-FY19.

Moderate capital adequacy parameters on the back of GOI's capital infusion
During FY19 and H1FY20, the GoI infused additional capital in the bank, which was considered as part of Common Equity Tier 1 (CET 1) capital. As a result, the bank reported total CAR (as per Basel III norms) of 9.61% [P.Y.: 9.04%] with Tier I CAR at 7.49% [P.Y.: 7.01%] as on March 31, 2019. As on September 30, 2018, the bank's capital metrics improved further owing to fresh round of capital infusion by the GOI. The bank's CAR increased to 12.69% with Tier I of 10.34% at end-H1FY20. The bank is required to maintain a minimum regulatory CRAR of 10.875% including CCB of 1.875%; Tier I of 8.875% and CET I of 7.375% as on March 31, 2019. Considering the bank's weak profitability and asset quality, it remains to be seen how the bank manages to maintain its capitalisation levels.

Comfortable liquidity profile
The ALM profile of the bank as on March 31, 2019 was comfortable up to 3 years with positive cumulative mismatches. The average Liquidity Coverage Ratio (LCR) stood comfortable at 279.83% as March 31, 2019 as compared to 253.30% as on March 31, 2018 (minimum requirement is 100%). As on September 30, 2019, CBI reported LCR of 327.47% well above the prescribed requirement of 100%.

Key Rating weaknesses
Weak financial performance albeit some signs of improvement in H1FY20
After declining for last three years, CBI's Net Interest Income (NII) increased by 3.92% YoY during FY19 to Rs.6,772 crore as compared to Rs.6,517 crore during FY18 primarily because the decline in interest expenses (-9.43% YoY) which more than offset the decline in interest income (-5.81% YoY). The bank's Net Interest Margin (NIM) during FY19 was marginally higher at 2.12% as compared to 2.02% for FY18, mainly driven by lower cost of deposits during the year which stood at 5.14% during FY19 (P.Y: 5.48%). Operating profit (before provisions) of the bank rose by 14.42% YoY to Rs.3,127 crore for FY19. The bank's cost to average total assets ratio declined marginally to 1.90% at end-FY19 from 1.98% at end-FY18. Due to the provisions (other than tax) and Contingencies (Net) of Rs 11,296.71 crore, CBI reported losses of Rs.5,641.48 crore for the year ended on March 31st, 2019. This was mainly to bring down the NNPA level in order to come out of the PCA framework. During H1FY20, the bank reported a profit of Rs.252.40 crore on a total income of Rs.13,197.27 crore as compared to a net loss of Rs.2,445.85 crore on total income of Rs.12,101.83 crore during H1FY19, mainly triggered by the decline in provisioning and enhanced asset quality.

Continued weakness in asset quality
The bank reported Gross NPA ratio of 19.29% (P.Y.: 21.48%) as on March 31, 2019 and Net NPA ratio of 7.73% (P.Y.: 11.10%) as on March 31, 2018. Net NPA to Net Worth ratio stood at 139.57% (P.Y.: 183.17%) as on March 31, 2019. The gross NPA ratio improved to 19.69% as on September 30, 2019 as compared to 21.48% as on September 30, 2018. CBI's asset quality profile showed moderation with fresh slippages of Rs.10,328.64 crore in FY19 as compared to Rs.17,071 crore during FY18. However, supported by large write-offs of Rs.10,375 crore and recoveries + upgrades of Rs.5,728 crore, the GNPAs declined to Rs. 32,356 crore (19.29%) as on March 31, 2019 from Rs. 38,131 crore (21.48%) as on March 31, 2018.
In FY19, Iron & steel, engineering and manufacturing, power generation and infrastructure were the major sectors in which the bank saw large amount of NPAs. Out of these, except for Infrastructure sector which saw an increase in NPAs, all the other sectors registered a decline in NPAs, mainly triggered by write-offs.

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
Central Bank of India (CBI) was founded on December 21, 1911 by Sir Sorabjee Pochkhanawalla with Sir Pherozeshah Mehta as Chairman. CBI was the first commercial bank to be established in India. CBI functioned as a private sector bank until 1969. In 1969, CBI was nationalized along with 13 other banks. CBI is one of the major players in the Indian banking system with an asset base of Rs.3,19,749 crore as on March 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	24,035	22,638
PAT	-5,105	-5,641
Interest coverage (times)	0.55	0.49
Total Assets^	3,17,727	3,19,749
Net NPA (%)	11.10	7.73
ROTA (%)	-1.58	-1.77

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

Annexure-1: Details of Instruments/Facilities

ISIN	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Issue Size (Rs. Crore)	Rating assigned along with Outlook
INE483A09211	Bonds-Upper Tier II	20-Jan-10	8.63%	20-Jan-25	500	CARE A-; Stable
INE483A09229	Bonds-Upper Tier II	11-Jun-10	8.57%	11-Jun-25	1,000	
INE483A09203	Bonds-Upper Tier II	-	-	-	-	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Lower Tier II	LT	-	-	-	-	-	-
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)
3.	Bonds-Upper Tier II	LT	-	-	1)Withdrawn (24-May-19)	1) CARE A-; Stable (02-Jan-19)	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)
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)	1)CARE AA-; Negative (29-Dec-16) 2)CARE AA- (23-Aug-16)

							3)CARE A; Negative (11-Aug-17) 4)CARE A+; Negative (03-Aug-17) 5)CARE A+; Negative (11-Apr-17)	
5.	Bonds-Upper Tier II	LT	-	-	-	1) CARE A-; Stable (02-Jan-19)	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)
6.	Bonds-Upper Tier II	LT	500.00	CARE A-; Stable	-	1) CARE A-; Stable (02-Jan-19)	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)
7.	Bonds-Upper Tier II	LT	1000.00	CARE A-; Stable	-	1) CARE A-; Stable (02-Jan-19)	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)

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.

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