Central Bank of India

April 11, 2017

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Lower Tier II Bonds	659.1	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Rating revised from CARE AA-; Negative**
Upper Tier II Bonds	2285.0	**CARE A; Negative (Single A; Outlook: Negative)**	**Rating revised from CARE A+; Negative**
Total	**2944.1 (Rupees Two Thousand Nine Hundred And Forty Four Crore Ten Lakh 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 rating revision takes into account sustained deterioration in the asset quality, capital adequacy and profitability of the bank. The ratings continue to 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 CASA base. Continued ownership and support from GoI, capital adequacy, profitability and asset quality are the key rating sensitivities.

Outlook: Negative

The outlook reflects expectation of continued pressure on asset quality and profitability parameters of the bank going forward. The outlook may be revised to 'Stable' in case of sustainable improvement in bank's asset quality and earning profile.

Detailed description of the key rating drivers

Credit Strengths

Majority ownership and capital support by GoI

Government of India is the major shareholder in Central Bank of India with a stake of 81.28% stake as December 2016. In September, 2016 the bank has received equity capital aggregating to Rs.1297 crore from Government of India. In March '17, the bank has converted entire IPDI capital of Rs.583.00 crore held by Government of India, into equity. Further government also approved additional equity infusion of Rs.100 crore during fiscal year 2017.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 4728 branches, 3677 Ultra – Small Branches (USBs), 5254 ATMs, 29 Satellite Offices & 4 Extension Counters across the country as of March 31, 2016.

Comfortable resources profile

The bank has been able to consistently maintain its CASA deposit base in the range of 32-35% for the past three years. Healthy CASA base has helped the bank in maintaining its NIM at 2.31% despite asset quality stress (P.Y.2.42%). In FY16 (refers to the period April 1 to March 31), CASA increased to Rs. 94,455 crore from Rs.87,012 crore, recording Y-o-Y growth of 8.55%. Share of CASA in total deposits stood at 35.48%.

Credit Weakness

Deterioration in capital adequacy

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

Total CAR (as per Basel III norms) stood at 10.40% [P.Y.: 10.90%] with Tier I CAR at 8.20% [P.Y.:8.05%] as on March 31, 2016. The bank will require substantial capital infusion for funding future advances growth as well to take care of its weak asset quality. Higher government stake provides the bank the flexibility to raise equity capital without diluting the government's stake below the minimum required threshold.
As on December 31, 2016, bank's total CAR and Tier I CAR stood at 9.99% and 7.87% respectively. As per Basel III guidelines Bank's minimum capital requirement would go up to 10.25% as on March 31, 2017 as against 9.625%. Thus, bank would need to improve its capitalisation to meet minimum regulatory requirement.

Weak asset quality
Asset quality continues to be under stress in FY16 with Gross NPA at 11.95% at the end of FY16 [P.Y. 6.09%] followed by the AQR by RBI. As a result, bank has seen substantial deterioration in asset quality ratios. Iron & steel, power generation, textile and infrastructure are the major sectors in which bank has seen large amount of NPAs. Net NPA to Networth increased to 95.7% from 43.5% at the end of FY16. The bank's standard restructured assets outstanding decreased 63% to Rs.10,970 crore as on March 31, 2016 [P.Y.: Rs.29,618 crore] which is 6% of advances and 79% of networth mainly on account of slippage into NPA. Thus, the total stressed assets (Gross NPA plus std. restructured assets plus Security Receipts as a percentage of advances) decreased to 20.59% from 23.44% a year ago.
At the end of 9MFY17, asset quality further deteriorated as Gross and Net NPA stood at 14.14% and 8.54%, respectively.

Deterioration in earnings profile
During FY16, the bank's profitability declined substantially and bank reported a net loss of Rs.1,419 crore. NIM remained stable at 2.31% in FY16. For FY16, bank generated a RoTA of -0.46% indicating sharp deterioration in performance of the bank. Deterioration is mainly on account of higher provisioning requirement due to higher slippages. Bank's NPA provisions for FY16 increased by 87.79% to Rs.5,012 crore.
Further during 9MFY17, bank reported net loss of Rs.1847 crore over total income of Rs.20416 crore. As on December 3, 2016, bank's ROTA stood at -0.77%.

Analytical approach: Standalone

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](#)

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.305,466 crore as on March 31, 2016. Government of India (GoI) is the major shareholder with 79.94% stake as on March 31, 2016 (March 31, 2015 – 81.46%). The bank had a network of 4,728 branches and 5,254 ATMs as on March 31, 2016. All the branches are CBS enabled. About 60% of branches are in rural and semi-urban areas. As on March 31, 2016, CBI has sponsored three Regional Rural Banks operating in 3 states covering 47 districts with a network of 1629 branches. The Bank has two subsidiaries, namely, Centbank Home Finance Ltd. (64.4% ownership) and Centbank Financial & Custodial 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.

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
Lower Tier II Bonds - Series XII	3-Mar-08	9.20%	3-May-17	389.1	CARE A+; Negative
Lower Tier II Bonds - Series XIII	10-Feb-09	9.35%	10-Apr-18	270.0	CARE A+; Negative
Upper Tier II Bonds – Series II	17-Feb-09	9.40%	17-Feb-24	285.0	CARE A; Negative
Upper Tier II Bonds – Series III	23-Jun-09	8.80%	23-Jun-26	500.0	CARE A; Negative
Upper Tier II Bonds – Series IV	20-Jan-10	8.63%	20-Jan-25	500.0	CARE A; Negative
Upper Tier II Bonds – Series V	11-Jun-10	8.57%	11-Jun-25	1000.0	CARE A; Negative

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (17-Aug-15)	1)CARE AA- (14-Oct-14)
2.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (14-Oct-14)
3.	Bonds-Lower Tier II	LT	389.10	CARE A+; Negative	-	1)CARE AA-; Negative (29-Dec-16) 2)CARE AA- (23-Aug-16)	1)CARE AA- (17-Aug-15)	1)CARE AA- (14-Oct-14)
4.	Bonds-Upper Tier II	LT	285.00	CARE A; Negative	-	1)CARE A+; Negative (29-Dec-16) 2)CARE A+ (23-Aug-16)	1)CARE A+ (17-Aug-15)	1)CARE A+ (14-Oct-14)
5.	Bonds-Lower Tier II	LT	270.00	CARE A+; Negative	-	1)CARE AA-; Negative (29-Dec-16) 2)CARE AA- (23-Aug-16)	1)CARE AA- (17-Aug-15)	1)CARE AA- (14-Oct-14)
6.	Bonds-Upper Tier II	LT	500.00	CARE A; Negative	-	1)CARE A+; Negative (29-Dec-16) 2)CARE A+ (23-Aug-16)	1)CARE A+ (17-Aug-15)	1)CARE A+ (14-Oct-14)
7.	Bonds-Upper Tier II	LT	500.00	CARE A; Negative	-	1)CARE A+; Negative (29-Dec-16) 2)CARE A+ (23-Aug-16)	1)CARE A+ (17-Aug-15)	1)CARE A+ (14-Oct-14)
8.	Certificate Of Deposit	ST	-	-	-	-	-	1)Withdrawn (14-Oct-14)
9.	Bonds-Upper Tier II	LT	1000.00	CARE A; Negative	-	1)CARE A+; Negative (29-Dec-16) 2)CARE A+ (23-Aug-16)	1)CARE A+ (17-Aug-15)	1)CARE A+ (14-Oct-14)

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CIN - L67190MH1993PLC071691