Central Bank of India

August 11, 2017

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Lower Tier II Bonds	270	**CARE A; Negative (Single A; Outlook: Negative)**	**Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)**
Upper Tier II Bonds	2,285	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Revised from CARE A; Negative (Single A; Outlook: Negative)**
Total	**2,555 (Rs. Two thousand five hundred and fifty 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 rating revision takes into account significant deterioration in capital adequacy parameters, continued weakening in profitability and deterioration in the asset quality 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 Current Account Savings Account (CASA) base.

The bank would require significant capital infusion in order to comply with the minimum capital requirement under Basel III regulations considering the weak profitability and asset quality of the bank. As on June 30, 2017, the bank reported Capital Adequacy Ratio (CAR) of 9.61% with Tier I CAR of 7.47% and Common Equity Tier I (CET I) Capital ratio of 7.47% as against minimum regulatory requirement under Basel III for Tier I CAR of 10.25% (including Capital Conservation Buffer (CCB) of 1.25%), Tier I CAR of 8.25% and CET I Ratio of 6.75%.

Continued ownership and support from GoI with adequate capital infusion, 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

Rating Strengths

Majority ownership and capital support by GoI

Government of India is the major shareholder in the bank with a stake of 81.28% stake as on June 30, 2017. GOI has been supporting the bank through periodic capital infusion and during FY17 (refers to period from April 01 to March 31), the bank had equity infusion of Rs.2,137 crore. 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

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

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 4716 total branches, 3677 Ultra – Small Branches (USBs) and 5267 ATMs across the country as of June 30, 2017.

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 2.09% despite asset quality stress (P.Y.2.31%). In FY17 (refers to the period April 1 to March 31), CASA increased to Rs.1,16,310 crore from Rs.94,455 crore, recording Y-o-Y growth of 23.14%. Share of CASA in total deposits stood at 39.20%.

Rating Weaknesses

Deterioration in capital adequacy parameters

The bank reported Total CAR (as per Basel III norms) of 10.95% [P.Y.: 10.40%] with Tier I CAR at 8.62% [P.Y.:8.20%] as on March 31, 2017.

As on June 30, 2017, the bank reported total CAR and Tier I CAR of 9.61% and 7.47% respectively. As per Basel III guidelines, bank's minimum capital requirement in terms of Total CAR, Tier I CAR and CET I ratio are 10.25%, 8.25% and 6.75% (including 1.25% of CCB) respectively as on March 31, 2017. 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.

Weak asset quality

Asset quality continues to be under stress and the bank reported Gross NPA at 17.81% at the end of FY17 [P.Y. 11.95%] Its Net NPA to Networth increased to 114.73% from 95.7% as on March 31, 2017 Iron and steel, engineering and manufacturing, power generation, textile and infrastructure are the major sectors in which bank has seen large amount of NPAs. The bank's standard restructured assets outstanding decreased 31% to Rs.7,543 crore as on March 31, 2017 [P.Y.: Rs.10,970 crore] which is 5% of advances and 61% of net worth. The total stressed assets (Gross NPA plus std. restructured assets plus Security Receipts as a percentage of advances) increased to 27.36% from 20.59% a year ago. At the end of Q1FY18, asset quality further deteriorated as Gross NPA ratio and Net NPA stood at 18.23% and 11.04% respectively.

Deterioration in earnings profile

The bank has been reporting losses during the last two financial years. During FY17, the bank's profitability declined substantially and it reported a net loss of Rs.2,439 crore on total income of Rs.24,661 crore on account of high provisioning which increased to Rs.5,528 crore . The bank's Net Interest Margin (NIM) declined to 2.09% [P.Y. 2.31%] in FY17..

Profitability continues to be weak with the bank reporting net loss of Rs.577 crore over total income of Rs.6,871 crore during Q1FY18.

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.3,27,843 crore as on March 31, 2017. Government of India (GoI) is the major shareholder with 81.28% stake as on March 31, 2017 (March 31, 2016 – 79.94%). The bank had a network of 4,714 branches and 5,285 ATMs as on March 31, 2017. 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)	FY16 (A)	FY17 (A)
Total operating income	25,888	24,661

PAT	-1,419	-2,439
Interest coverage (times)	0.87	0.80
Total Assets^	3,01,085	3,27,843
Net NPA (%)	7.36	10.20
ROTA (%)	-0.46	-0.78

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
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-24	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	-	-	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)	1)CARE AA- (14-Oct-14)
4.	Bonds-Upper Tier II	LT	285.00	CARE A-; Negative	1)CARE A; Negative (03-Aug-17) 2)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)	1)CARE A+ (14-Oct-14)
5.	Bonds-Lower Tier II	LT	270.00	CARE A; Negative	1)CARE A+; Negative (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)	1)CARE AA- (14-Oct-14)

6.	Bonds-Upper Tier II	LT	500.00	CARE A-; Negative	1)CARE A; Negative (03-Aug-17) 2)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)	1)CARE A+ (14-Oct-14)
7.	Bonds-Upper Tier II	LT	500.00	CARE A-; Negative	1)CARE A; Negative (03-Aug-17) 2)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)	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 (03-Aug-17) 2)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)	1)CARE A+ (14-Oct-14)

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