Press Release

Central Bank of India

February 18, 2021

Rating Assigned

Total Facilities Rated	Rs.1000.00 Cr.
Proposed BASEL III Compliant Tier II Bonds	ACUITE AA-/Stable (Assigned)

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE AA-' (read as ACUITE double A minus)** on the Rs.1000.00 crore Proposed Basel III compliant Tier-II Bonds of Central Bank of India (CBoI). The outlook is **'Stable'.**

The rating takes into account the strong ownership and demonstrated capital support from the Government of India. Acuité believes that the GoI will continue to provide significant support to large public sector banks like CBoI which plays a critical role in penetration of financial services and social development. The rating further factors in the improvement in capitalization levels, healthy retail liability profile and its large franchise with pan India presence. The bank has a comfortable Current Account Saving Account (CASA) base, which accounted for about 48 percent of the total domestic deposits as on September 30, 2020. Apart from the lower cost of deposits, an increased focus on higher yielding retail and MSME loans is expected to lead to a structural improvement in CBoI's earnings profile. However, these strengths are partly offset by the uncertainty on asset quality improvement in the near term with the gross NPA levels continuing to be high at 17.36% as on September 30,2020.

About the Bank

Central Bank of India (CBoI), a public sector bank, was incorporated in 1911 and nationalised in 1969 along with 13 other banks by the Government of India (GoI). The Bank is engaged in retail banking, corporate/Wholesale banking, priority sector banking, treasury operations and other banking services. The Bank operates through a network of 4,646 branches all over India, of which 2,942 branches (63% of the total branches) are located in rural and semi urban areas as on September 30,2020. GoI is a majority shareholder with 89.78% holding as on December 31,2020. The Bank reported outstanding deposits of Rs. 323,444 Cr and gross advances of Rs.177,293 Cr as on September 30, 2020.

Analytical Approach

Acuité has adopted the standalone approach while assessing the business and financial risk profile of Central Bank of India. The standalone approach, however, also duly factors in the support expectations from the parent, i.e. Government of India.

Key Rating Drivers

Strengths

- **Ownership and demonstrated capital support from the Government**

  CBoI, headquartered in Maharashtra, is among the 14 banks nationalised in 1969. The bank has a pan-India presence through a network of 4646 branches of which 63 percent branches are in the rural and semi-urban region of India. The Government of India (GoI) holds 89.78 percent stake in the Bank as on December 31, 2020 and demonstrated capital support through capital infusion at regular intervals, underlining the strategic importance of the bank in furthering its objective of financial inclusion.

  On account of the continued deterioration in their key operating metrics such as Capital Adequacy, Profitability and Asset Quality. Central Bank of India was included in the PCA framework in 2017. Government has infused Rs.14,780 Cr. from FY2018 till FY2020, helping it to make adequate provisions against stressed assets while attaining a stable capital position. Presently the bank continues to remain under PCA.

Acuité believes that the GoI will continue to provide significant support to large public sector banks like CBoI which plays critical role in penetration of financial services and social development. Nonetheless, any material dilution in stake by the Government as part of the divestment programme will be a key monitorable.

- **Healthy base of low cost deposits**

CBoI has a pan-India presence through a network of 4646 branches of which 63 percent branches are in the rural and semi-urban region of India, which facilitates the mobilisation of small ticket deposits. Retail deposits account for 95 percent of the total deposits as on September 30, 2020. The deposit profile is also supported by a strong Current Account Saving Account (CASA) base of 47.72 percent as on September 30, 2020 (46.83 percent as on March 31,2020). This compares favorably with its peers among mid-sized public sector banks.
Despite a significant reduction in deposit rates including savings rates, the retail deposits grew by 14.08 percent year-on-year and CASA deposits increased by 12.55 percent year-on-year at the end of HFY2021 partly also contributed by the increased risks perceived by depositors in the smaller private sector and cooperative banks.

Acuité expects CBoI to continue to benefit by way of access to lower cost of funds on the back of its sovereign parentage, healthy retail deposit base and CASA share.

- **Adequate Capitalization levels**

CBoI had witnessed an erosion in its capital due to aggressive provisioning leading to weakening in the bank's capitalization metrics with Capital Adequacy Ratio (CAR) and Tier I ratio at 9.04 percent and 7.01 percent, respectively as on March 31,2018. However, support from GoI in the form of capital infusion aggregating to Rs.14,780 Cr. over FY2018-20 and equity infusion of Rs.255 Cr. via QIP route in September 2020 has helped CBoI in attaining stable capital position as reflected in CAR and Tier I Ratio at 12.34 percent and 10.13 percent as on September 30, 2020 as against required benchmark of 10.875 percent and 8.875 percent (including Capital Conservation Buffer (CCB)). Nonetheless, the bank may face some pressures on the capital position due to PCR of 82.24% (including technical write offs) as on September 30,2020 , which is relatively lower than other public sector banks.

Weaknesses

- **Moderate Asset Quality**

The bank was placed under prompt corrective action (PCA) in 2017 mainly on account of deterioration in its key parameters such as asset quality, Return on Average Assets (RoAA) and capital adequacy. Asset quality had deteriorated sharply with GNPA ratio rising from 6.09 percent as on March 31, 2015 to a peak of 21.48 percent as on March 31, 2018, mainly on account of increased delinquencies in key sectors such as Infrastructure, Power and Steel sector to which CBoI has significant exposure. The elevated credit costs resulted in bank reporting consistent losses since FY2016. The impact of these losses on capital adequacy levels, nevertheless, was partly mitigated by continuous infusion by GoI (Rs.14,780 Cr. between FY2018 to FY2020).
Acuite takes note of a gradually improving asset quality of the Bank with GNPA ratio at 17.36 percent as on September 30,2020 as against 18.92 percent as on March 31,2020 and 19.29 percent as on March 31,2019. This is primarily on account of decline in Incremental slippages to net advances to 5.56 percent in FY2020 as against 6.60 percent in FY2019, which further moderated to 0.10 percent in H1FY2021. The management's current underwriting strategy involves additional exposures to Retail, Agricultural and Micro, Small and Medium Enterprises (MSME) segments which collectively accounted for 65 percent of advances as on September 30,2020 where the likelihood of slippages is moderate in the near term.

However, it is pertinent to mention that the Supreme Court has currently restricted banks and financial institutions from classifying accounts as NPA and the latter need to maintain status-quo on the accounts; the actual trend of slippages wil,l therefore, be understood only after a normalization in this regard. While CBoI will continue to witness a broader level of stress across its various asset classes in the current operating environment, Acuité does not expect the bank to witness any major surge in delinquencies and NPAs in the near term.

- **Sustainability of improvement in earnings profile**

  Although the asset quality profile continued to remain moderate, CBoI's profitability indicators improved due to uptick in operational performance as depicted by steadily improving cost to income ratio (61.4% in FY2020 as against 65.9% in FY2019 and 70.1% in FY2018). The bank has shown initial signs of turnaround in H1FY2021, reporting net profit of Rs.296 Cr. in as against net loss of Rs.1,121 Cr in FY2020 and Rs.5,641 Cr. in FY2019, driven by uptick in operational performance. The improvement in profitability was contributed by rising interest rate spreads and correspondingly NIM. The bank's ability to maintain the momentum and improve recoveries from its written off accounts is crucial to sustain the improvement in profitability. The bank has been focusing on retail loans to boost its earning profile and containment of fresh slippages would also contribute towards moderate incremental provisions for non performing assets.
  The ability of the bank to sustain the improvement in key parameters and profitability amidst the current challenging environment will be critical to the maintenance of a stable credit profile.

Rating Sensitivity Factors

- Ownership of GoI and continuing support by way of capital infusion
- Any sharp deterioration in capital position of the bank with capital adequacy coming closer to the regulatory minimum.
- Any significant changes in asset quality and profitability from the current levels
- Exit from PCA framework

Material Covenants

Not Applicable

Liquidity Position: Strong

The bank's liquidity position is supported its strong deposit franchise. Its liquidity coverage ratio stood at 369.99% as on September 30, 2020 as against minimum regulatory requirement of 100%. Further, excess SLR stood at Rs.66,703Cr. as on September 30, 2020.

Outlook: Stable

Acuite believes that CBoI will maintain a 'Stable' outlook on the back of continuing support from the Government of India and its stable liability franchise. The outlook may be revised to 'Positive' in case Central Bank of India's able to demonstrate a significant and sustainable recovery in profitability and asset quality. The outlook may be revised to 'Negative' in case the bank faces challenges in maintaining the adequacy in its capital position and witnesses increased asset quality challenges in a post pandemic environment.

About Central Bank of India- Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Interest Income	Rs. Cr.	23,562	22,639
Interest Expense	Rs. Cr.	15,934	15,866
Profit After Tax (PAT)	Rs. Cr.	(1,121)	(5,641)
Deposits	Rs. Cr.	3,13,763	2,99,855
Net Advances	Rs. Cr.	1,51,101	1,46,525
Investments	Rs. Cr.	1,42,518	1,25,298
Capital Adequacy	(%)	11.72	9.61
Return on Average Assets (RoAA)	(%)	(0.34)	(1.79)
Gross NPA	Times	18.92%	19.29%

Net NPA	Times	7.63%	7.73%

Status of non-cooperation with previous CRA (if applicable)
None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Banks and Financial Institutions:- https://www.acuite.in/view-rating-criteria-45.htm
- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Not Applicable

Annexure- Details of Instruments rated

ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
-	Proposed Basel-III Compliant Tier-II Bonds	-	-	-	1000.00	ACUITE AA-/Stable (Assigned)

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