

Press Release

Central Bank of India

October 12, 2021

Rating Reaffirmed



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

Rating Rationale

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

The rating continues to take into account the strong ownership and demonstrated capital support from the Government of India. During FY21, the Gol infused Rs.4800 Cr. into the bank thereby bolstering capitalisation levels to 14.81 percent as on March 31, 2021. The rating further factors in CBol's healthy retail liability franchise with pan India presence. The bank has a comfortable Current Account Saving Account (CASA) base of 49.20 percent of total deposits as on June 30, 2021.

These strengths are however partially offset by moderate asset quality parameters with GNPA and NNPA of 15.92 percent and 5.09 percent respectively as on June 30,2021. SMA-1 and SMA-2 accounts stood at Rs4,321 Cr. and Rs.5,115 Cr. respectively (6.4 percent of standard advances) while restructured assets stood at Rs.8,039 Cr. (5.5 percent of standard advances) as on June 30,2021.The rating is further constrained on account of continued losses of Rs.888 Cr. during FY2021 (FY2020: losses of Rs.1121 Cr.) due to elevated provisioning, offsetting improvement in operational performance. While Acuite takes note of consistent decline in slippage ratio and improvement in operating profits, the ability of the bank to profitably scale up and contain asset quality risks in the currently evolving Covid-19 environment will be key monitorables.

About the Bank

Central Bank of India (CBol), a public sector bank, was incorporated in 1911 and nationalised in 1969 along with 13 other banks by the Government of India (Gol). 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 4,594 branches all over India, of which 2,936 branches (64 percent of the total branches) are located in rural and semi urban areas as on June 30,2021. Gol is a majority shareholder with 93.08 percent holding as on June 30,2021.

Analytical Approach

Acuite 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**

CBol has a pan-India presence through a network of 4,594 branches of which 64 percent branches are in the rural and semi-urban region of India. The Government of India (Gol) holds 93.08 percent stake in the Bank as on June 30, 2021 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, CBol was placed in the PCA framework in 2017. However, support from Gol in the form of capital infusion aggregating to Rs.19,903 Cr. over FY2018-21 and equity infusion of Rs.255 Cr. via QIP route in September 2020 helped CBol in offsetting losses and attaining stable capital position as reflected in CAR and Tier I Ratio at 14.88 percent and 12.94 percent as on June 30, 2021 as against required benchmark of 10.875 percent and 8.875 percent (including Capital Conservation Buffer (CCB)). Presently the bank continues to remain under PCA.

Acuite believes that the Gol will continue to provide significant support to large public sector banks like CBol 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**

CBol has a pan-India presence through a network of 4,594 branches of which 64 percent branches are in the rural and semi-urban region of India, which facilitates the mobilisation of small ticket deposits. The bank continued to have a significant share of retail deposits. The deposit profile is also supported by a strong Current Account Saving Account (CASA) base of 49.20 percent as on June 30, 2021 (46.83 percent as on March 31, 2020). Despite a significant reduction in deposit rates including savings rates, the deposits grew by percent year-on-year and CASA deposits increased by percent year-on-year at the end of June 2021 partly also contributed by the increased risks perceived by depositors in the smaller private sector and cooperative banks.

Acuite expects CBol 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.

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 CBol 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 Gol (Rs.19,903 Cr. between FY2018 to FY2021).

Acuite takes note of improving trend in asset quality of the Bank with GNPA ratio at 16.55 percent as on March 31, 2021 as against 18.92 percent as on March 31, 2020 and 19.29 percent as on March 31, 2019. This is supported by decline in incremental slippages to net advances to 4.27 percent for FY2021 (FY2020: 5.56 percent FY2019: 6.60 percent) as the bank continues to face lending restrictions and accelerated write offs of legacy exposures. For Q1FY2022, the asset quality witnessed further improvement with lower slippages of 3.80 percent (annualized) coupled with higher upgradations (Q1FY2022: Rs.2,231 Cr. FY2021: Rs.499 Cr.) primarily on the back of restructuring of a few large corporate exposures resulted in GNPA of 15.92 percent as on June 30, 2021. With a PCR of 84.28 percent, NNPA stood at 5.09 percent as on June 30, 2021. SMA-1 and SMA-2 accounts stood at Rs4,321 Cr. and Rs.5,115 Cr. respectively (6.4 percent of standard advances) while restructured assets stood at Rs.8,039 Cr. (5.5 percent of standard advances) as on June 30, 2021. While Acuite takes note of consistent decline in slippage ratio, the ability of the bank to contain asset quality risks in the currently evolving Covid-19 environment will be key monitorable.

- **Subdued profitability**

For FY2021, CBol reported losses of Rs.888 Cr. during FY2021 (FY2020: losses of Rs.1121 Cr.) due to elevated provisioning, offsetting improvement in operational performance. Over the last few years, the bank has been reporting improved operating profits on the back of higher NIMs and rationalization of operating expenses. Net Interest Income (NII) grew 8.1 percent YoY aided by sharper contraction in cost of funds (FY2021: 4.4 percent vis a vis 5.2 percent in FY2020) coupled with

reduction in operating expenses with Cost to Income Ratio of 59.4 percent for FY2021 (FY2020:61.4 percent). This led to 6.6 percent YoY growth in operating profits to Rs.4,630 Cr. for FY2021. However, higher provisioning of Rs.5,518 Cr. (including additional provisioning of Rs.1,050 Cr. for Covid-19 pandemic induced stress) for FY2021 (FY2020:Rs.5,465) led to losses for FY2021.

The bank reported profits (PAT) of Rs.206 Cr. on total income of Rs.6,246 Cr. for Q1FY2022 as against PAT of Rs.135 Cr. on total income of Rs.6,727 Cr. for Q1FY2021. Acuite believes that the ability of the bank to post improvement in key operating parameters and profitability will be critical to the maintenance of a stable credit profile.

Rating Sensitivity Factors

- Ownership of Gol 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 377.66 percent as on June 30, 2021 as against minimum regulatory requirement of 100 percent. Further, excess SLR stood at Rs.62,940 Cr. as on June 30, 2021.

Outlook: Stable

Acuite believes that CBol 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	FY2021 (Audited)	FY2020 (Audited)
Interest Income	Rs. Cr.	22730	23562
Interest Expense	Rs. Cr.	14485	15934
Profit After Tax (PAT)	Rs. Cr.	(888)	(1121)
Deposits	Rs. Cr.	329973	313763
Net Advances	Rs. Cr.	156579	151101
Investments	Rs. Cr.	148582	142518
Capital Adequacy	(%)	14.81	11.72
Return on Average Assets (RoAA)	(%)	(0.25)	(0.33)
Gross NPA	(%)	16.55	18.92
Net NPA	(%)	5.77	7.63

Ratios as per Acuite calculations.

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)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
February 18,2021	Proposed Basel-III Compliant Tier-II Bonds	Long Term	1000.00	ACUITE AA-/Stable (Assigned)

Annexure- Details of Instruments rated

Lender Name	ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Not Applicable	Proposed Basel-III Compliant Tier-II Bonds	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE AA-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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