

## Press Release

Central Bank of India

June 24, 2022



### Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>BOND</b>	1000.00	ACUITE AA-   Reaffirmed & Withdrawn	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	0.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	1000.00	-	-

### Rating Rationale

Acuite has reaffirmed and withdrawn the long term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs.1000.00 crore Basel III compliant Tier-II Bonds of Central Bank of India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). This rating withdrawal is in accordance with the Acuite's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the bank.

The rating continues to take into account the strong ownership and demonstrated capital support from the Government of India. During FY21, the GoI infused Rs.4800 Cr. into the bank. The bank's capitalisation levels stood at 15.75 percent as on March 31, 2022. The rating further factors in CBol's profitability matrix with healthy retail liability franchise across India. The bank has reported profit of Rs.1045 cr. as on March 31, 2022, as against losses of Rs. 888 Cr. as on March 31, 2021. The bank has a comfortable Current Account Saving Account (CASA) base of 50.58 percent of total deposits as on March 31, 2022.

These strengths are however partially offset by moderate asset quality parameters with GNPA and NNPA of 14.84 percent and 3.97 percent respectively as on March 31, 2022. SMA-1 and SMA-2 accounts stood at Rs7,847 Cr. and Rs.1,158 Cr. respectively (4.75 percent of standard advances) while restructured assets stood at Rs.8,794 Cr. (4.6 percent of standard advances) as on March 31, 2022.

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 will be key monitorable.

### 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 (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 4,528 branches all over India, of which 2,934 branches (65 percent of the total branches) are located in rural and semi urban areas as on March 31, 2022. GoI is a majority shareholder with 93.08 percent holding as on March 31, 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 DriversStrength**

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

CBol has a pan-India presence through a network of 4,528 branches of which 65 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 March 31, 2022 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. CAR and Tier I Ratio of the bank stood at 15.75 percent and 13.39 percent respectively as on March 31, 2022, 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.

Acuité 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 4,528 branches of which 64.5 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 50.58 percent as on March 31, 2022 (44.06 percent as on March 31, 2021). 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 March 2022 partly also contributed by the increased risks perceived by depositors in the smaller private sector and cooperative banks.

Acuité 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.

### **Weakness**

- **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).

Acuité takes note of improving trend in asset quality of the Bank with GNPA ratio at 14.84 percent as on March 31, 2022 as against 15.92 percent as on March 31, 2021, and 16.55 percent as on March 31, 2020. With a PCR of 86.69 percent, the NNPA of CBol stood at 3.97 percent as on March 31, 2022. SMA-1 and SMA-2 accounts stood at Rs7,847 Cr. and Rs.1,158 Cr. respectively (4.75 percent of standard advances) while restructured assets stood at Rs.8,794 Cr. (4.6 percent of standard advances) as on March 31, 2022.

While Acuité 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.

- **Moderate Earning Profile, albeit improving**

CBol reported a profit of Rs. 1045 Cr. during FY2022 as against losses of Rs. 888 Cr. during FY 2021 (FY2020: losses of Rs.1121 Cr.) due to low provisions and moderate increase in operating income. 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 15.1 percent YoY aided by sharper contraction in cost of funds (FY 2022: 3.92 vis a vis 4.4 percent in FY2021 & 5.2 percent in FY2020) coupled with reduction in operating expenses with Cost to Income Ratio of 53.90 percent for FY 2022 as against 59.4 percent for FY2021 (FY2020:61.4 percent). This led to 23 percent YoY growth in operating profits from Rs.4,630 Cr. in FY2021 to Rs.5740 for FY2022.

Acuité 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.

### **ESG Factors Relevant for Rating**

Public sector banks play a significant role in promoting financial inclusion in the country including facilitation of banking services in unbanked areas. Healthy corporate governance practices are important for sustainability in a bank's long-term performance. Some of the critical governance factors in the banking sector include board independence and diversity, effectiveness of the board sub committees, shareholders' rights as well as policies on KMP compensation and business ethics. Further, for the financial services sector, data privacy, security of financial instruments and responsible investments are relevant social factors. Other material social factors involve employee management and talent retention given the manpower intensive nature of banking operations as also various initiatives for community support and development. While the banking sector has low exposure to environmental risks, energy efficiency and electronic waste management carry moderate materiality.

Central Bank of India is a major Indian nationalised bank. It is under the ownership of Government of India based, with about 4528 branches. Founded in 1911 by Sir Sorabji Pochkhanawala as the first Indian Commercial bank which was wholly owned and managed by Indians, it has created various milestones in Indian Banking Sector. CBol maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding its Grievance Redressal, related party transaction, principles guiding interest rate determination, etc. The board of directors of the company comprise of MD & CEO, and seven directors which include nominees from RBI and Government as well. The entity has audit committee, risk management committee, nomination and remuneration committee, credit committee, IT Strategy committee and corporate social responsibility committee. It continues to work on several community development initiatives through its corporate social responsibility. Company makes all efforts towards conservation of energy, protection of environment and ensuring safety.

### **Rating Sensitivity**

- 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: Adequate

The bank's liquidity position is supported its strong deposit franchise. Its liquidity coverage ratio stood at 311.22 percent as on March 31, 2022 as against minimum regulatory requirement of 100 percent. Further, excess SLR stood at Rs.105,841 Cr. as on March 31, 2022.

## Outlook:

Not Applicable

## Key Financials - Standalone / Originator

Particulars	Unit	FY2022 (Audited)	FY2021 (Audited)
Interest Income	Rs. Cr.	22801.65	22730.23
Interest Expense	Rs. Cr.	13314.88	14485.19
Profit After Tax (PAT)	Rs. Cr.	1044.83	(887.58)
Deposits	Rs. Cr.	342691.94	329972.95
Net Advances	Rs. Cr.	168173.50	156578.65
Investments	Rs. Cr.	140786.95	148582.43
Capital Adequacy	(%)	15.75	14.81
Return on Average Assets (RoAA)	(%)	0.28	(0.25)
Gross NPA	(%)	14.84	16.55
Net NPA	(%)	3.97	5.77

Ratios as per Acuité calculations.

## Status of non-cooperation with previous CRA (if applicable):

None

## Any other information

Not Applicable

## Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

## Note on complexity levels of the rated instrument

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

## Rating History

<b>Date</b>	<b>Name of Instruments/Facilities</b>	<b>Term</b>	<b>Amount (Rs. Cr)</b>	<b>Rating/Outlook</b>
12 Oct 2021	Proposed Bond	Long Term	1000.00	ACUITE AA-   Stable (Reaffirmed)
18 Feb 2021	Proposed Bond	Long Term	1000.00	ACUITE AA-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Basel III compliant Tier II Bonds	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE AA-   Reaffirmed & Withdrawn

## Contacts

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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