CRISIL Ratings

Rating Rationale

May 31, 2023 | Mumbai

Central Bank Of India

Rating upgraded to 'CRISIL AA-/Stable'; 'CRISIL AA-/Stable' assigned to Tier II Bonds (Under Basel III); 'CRISIL A+/Stable' assigned to Tier I Bonds (Under Basel III); Perpetual Tier-I Bonds (under Basel II) Withdrawn

Rating Action

Rs.1000 Crore Tier I Bonds (Under Basel III)	**CRISIL A+/Stable (Assigned)**
Rs.1500 Crore Tier II Bonds (Under Basel III)	**CRISIL AA-/Stable (Assigned)**
Rs.139.1 Crore Perpetual Tier-I Bonds (under Basel II)	**CRISIL A/Positive (Withdrawn)**
Lower Tier-II Bonds (under Basel II) Aggregating Rs.1100 Crore	**CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')**
Tier II Bonds (Under Basel III) Aggregating Rs.3500 Crore	**CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the existing long-term debt instruments of Central Bank of India (Central Bank) to **'CRISIL AA-/Stable'** from 'CRISIL A+/Positive' and assigned its '**CRISIL AA-/Stable'** rating to Tier II bonds (under Basel III) and '**CRISIL A+/Stable**' rating to Tier I bonds (under Basel III).

CRISIL Ratings has **withdrawn** its rating on Rs.139.1 crore perpetual Tier I bonds (under Basel II) on the company's request as the outstanding against the same is nil and on receipt of confirmation from debenture trustee (See Annexure 'Details of Rating Withdrawn' for details). The withdrawal is in line with CRISIL Ratings withdrawal policy.

The rating upgrade factors in the sustained improvement in the profitability of the bank. Asset quality metrics have also witnessed a significant downtrend.

The bank has been profitable for eight consecutive quarters (since the first quarter of fiscal 2022). Profit after tax (PAT) increased to Rs 1,582 crore for fiscal 2023 (return on assets [RoA] of 0.40%) from Rs 1,045 crore (RoA of 0.28%) for fiscal 2022. This trend should sustain driven by expected lower credit cost because of lesser incremental stress as focus will remain on maintaining asset quality.

Slippages in fiscal 2023 were 2.4% compared to 3.0% in fiscal 2022. Reported gross non-performing assets (NPAs) also fell sharply to 8.4% as on March 31, 2023, from 14.8% a year earlier, supported mainly by write-offs and partly by recoveries. Net NPAs also declined to 1.8% from 3.9%. As on March 31, 2023, restructured advances accounted for 3.1% of the portfolio (4.6% a year earlier).

The capital position has also improved, supported by timely equity infusion by the majority stakeholder, the Government of India (GoI), and internal accrual. Between fiscals 2018 and 2021, the government infused Rs 19,903 crore which resulted in a substantial improvement in the capital adequacy of the bank. Supported by internal accrual, the capital adequate ratio (CAR) was 14.1% as on March 31, 2023. With continued profitability, the capital position is expected to remain adequate.

The Reserve Bank of India (RBI) took Central Bank out of its prompt corrective action (PCA) in September 2022.

The ratings continue to reflect the expectation of strong support from the GoI and the adequate resource profile of the bank. The strengths are partially offset by average, albeit improving, asset quality and earnings.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has considered the standalone business and financial risk profiles of Central Bank and has factored in the expected strong support from GoI, both on an ongoing basis and during distress.

Key Rating Drivers & Detailed Description

Strengths:

Expected strong support from GoI

GoI is the majority shareholder in all public sector banks (PSBs) and the guardian of India's financial sector. Stability of the banking sector is of prime importance to the government, considering its criticality to the economy, the strong public perception of sovereign backing for PSBs and adverse implications of any PSB failure, in terms of a political fallout, systemic stability and investor confidence. The majority ownership creates a moral obligation on GoI to support PSBs, including Central Bank.

As part of the Indradhanush framework, the government had pledged to infuse at least Rs 70,000 crore in PSBs from fiscals 2015 to 2019, of which Rs 25,000 crore per annum was infused in fiscals 2016 and 2017. In October 2017, the government outlined a recapitalisation package of Rs 2.11 lakh crore over fiscals 2018 and 2019, whereby Central Bank received Rs 5,158 crore in fiscal 2018 and Rs 6,592 crore in fiscal 2019. GoI allocated an additional Rs 70,000 crore in fiscal 2020, of which the bank received Rs 3,353 crore. In fiscal 2021, GoI infused Rs 4,800 crore. Thus, over the past few fiscals, GoI has infused Rs 19,903 crore in Central Bank, helping improve its capital ratios. As on March 31, 2023, the Tier 1 and overall CAR stood at 12.1% and 14.1%, respectively.

Adequate resource profile
The bank operates on a large scale and has an adequate resource profile. As on March 31, 2023, it had 4,493 branches, of which around 65% are in rural and semi-urban areas. As a result, there is geographic diversity in the deposit base and an adequate proportion of low-cost current account and savings account (CASA) deposits. CASA deposits, at 51% of total deposits as on March 31, 2023 (51% as on March 31, 2022), are higher compared with peers.

Gross advances grew 15% to Rs 217,779 crore, while deposits grew 5% to Rs 359,296 crore in fiscal 2023. Cost of deposit for fiscal 2023 remained flat at 3.8%.

Weakness:
Average, albeit improving asset quality and earnings profile
The bank's asset quality has improved with gross non-performing assets (GNPAs), at 8.4% as on March 31, 2023, from the earlier elevated level of 14.8% as of March 31, 2022. The improvement was driven by write-offs and recoveries of Rs 10,258 crore and Rs. 2,869 crores respectively in fiscal 2023. Focus on collections helped reduce slippages to 2.4% of opening net advances in fiscal 2023, from 3.0% and 4.1% in fiscal 2022 and 2021, respectively.

Given that a large part of stress in the corporate book is now recognised, slippages in this segment should be lower than in the past. As on March 31, 2023, restructured advances stood at Rs 6,766 crore (3.1% of the bank portfolio). Asset quality will remain a key monitorable over the medium term.

Earnings, while moderate, have been improving with profits reported for eight consecutive quarters. PAT in fiscal 2023 stood at Rs 1,582 crore (RoA of 0.40%) on the back of improved net interest margin and recovery of written-off accounts. This is partially offset by higher operating and credit costs (due to contingency provisions of ~Rs 1500 crore set aside in Q42023). Provision coverage ratio improved to 80% as of March 31, 2023, from 76%, a year earlier. Ability to manage credit costs and improve profitability will be closely monitored

<u>Liquidity: Superior</u>
Liquidity is supported by sizeable retail deposits, which form a significant proportion of total deposits. Liquidity coverage ratio was 302% as on March 31, 2023, against the regulatory requirement of 100%. The bank also has access to systemic sources of funds, including the liquidity adjustment facility from RBI, call money market and refinance limit from National Housing Bank and National Bank for Agriculture and Rural Development.

<u>ESG profile</u>
CRISIL Ratings believes the Environment, Social and Governance (ESG) profile of Central Bank supports its already strong credit risk profile.

The ESG profile for financial sector entities typically factors in governance as a key differentiator. The sector has a reasonable social impact because of its substantial employee and customer base and can play a key role in promoting financial inclusion. While the sector does not have a direct adverse environmental impact, the lending decisions may have a bearing on the environment.

Central Bank has an ongoing focus on strengthening the various aspects of its ESG profile.

Key ESG highlights of Central Bank:
- ESG disclosures of the bank are evolving, and it is in the process of further strengthening the disclosures going forward.
- The bank accepts Green Deposits (an online time deposit product) with extra return on investment (ROI) to support the United Nations Sustainable Development Goals (SDGs) and empower depositors to opt for financial products that positively impact the environment.
- The bank ensures that the domestic waste (sewage) from its office and branches is not let into water bodies and plastic waste is disposed off through authorised re-sellers only.
- The bank's total workforce comprised around 25.18% of women as on March 31, 2023, and it has taken initiatives to promote gender equality within the organisation.
- Of the board members, 25% are independent directors and none have tenure exceeding 10 years. The bank also has a dedicated investor grievance redressal mechanism.

There is growing importance of ESG among investors and lenders. The commitment of Central Bank to ESG will play a key role in enhancing stakeholder confidence, given shareholding by foreign portfolio investors and access to domestic capital markets.

<u>Outlook: Stable</u>
CRISIL Ratings believes Central Bank of India will continue to benefit from government support on an ongoing basis as well as in the event of distress

Rating Sensitivity Factors
Upward factors:
- Improvement in asset quality and profitability, with the bank reporting return on assets of over 0.75% on a sustained basis, and
- Capitalisation metrics improving considerably with significant cushion over regulatory requirement

Downward factors:
- Material change in shareholding and/or expectation of support from GoI
- Decline in CAR below minimum regulatory requirement (including capital conservation buffer, which is Tier I of 9.5% and overall CAR of 11.5%)

About the Bank
Nationalised in 1969, Central Bank was wholly owned by GoI until July 2007. After an initial public offering, GoI's stake declined to 93.08% as on March 31, 2023. The bank had total advances and deposits of Rs 217,779 crore and Rs 359,296 crore, respectively, and a network of 4,493 branches as on March 31, 2023.

For fiscal 2023, the bank reported net profit of Rs 1,582 crore and total income (net of interest expense) of Rs 15,771 crore, against Rs 1,045 crore and Rs 12,455 crore, respectively, in fiscal 2022.

Key Financial Indicators

As on/for the year ended March 31	Unit	2023	2022
Total assets	Rs crore	406165	386566
Total income	Rs crore	29626	25770
PAT	Rs crore	1582	1045
GNPAs	%	8.4	14.8
Overall CAR	%	14.1	13.8
Return on assets	%	0.40	0.28

Any other information
Note on Tier II instruments (under Basel III)
The distinguishing feature of Tier II capital instruments under Basel III is the existence of the point of non-viability (PONV) trigger, the occurrence of which may result in loss of principal to investors, and hence, to default on the instrument by the issuer. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. CRISIL Ratings believes the PONV trigger is a remote possibility in the Indian context, given the robust regulatory and supervisory framework and systemic importance of the banking sector. The inherent risk associated with the PONV feature is adequately factored into the rating on the instrument.

Note on hybrid instruments (under Basel II)
Given that hybrid capital instruments (Tier I perpetual bonds and upper Tier II bonds under Basel II) have characteristics that set them apart from lower Tier II bonds (under Basel II), the ratings on the two instruments may not necessarily be identical. The factors that could trigger a default event for hybrid instruments include: the bank breaching the regulatory minimum capital requirement, or the regulator's denial of permission to the bank to make payments of interest and principal if the bank reports losses. Hence, the transition from one rating category to another may be significantly sharper for these instruments than in the case of lower Tier II bonds, as debt servicing on hybrid instruments is far more sensitive to the bank's overall capital adequacy level and profitability.

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating outstanding with outlook
NA	Lower tier II bonds* (under Basel II)	NA	NA	NA	1100.00	Complex	CRISIL AA-/Stable
INE483A09260	Tier II bonds (under Basel III)	8-Nov-13	9.9	8-Nov-23	1000.00	Complex	CRISIL AA-/Stable
INE483A09286	Tier II bonds (under Basel III)	29-March-19	10.80	29-May-29	500.00	Complex	CRISIL AA-/Stable

INE483A08023	Tier II bonds (under Basel III)	30-Sep-19	9.8	30-Nov-29	500.00	Complex	CRISIL AA-/Stable
INE483A08031	Tier II bonds (under Basel III)	20-Mar-20	9.2	20-May-30	500.00	Complex	CRISIL AA-/Stable
NA	Tier II bonds* (under Basel III)	NA	NA	NA	1000.00	Complex	CRISIL AA-/Stable
NA	Tier II bonds* (under Basel III)	NA	NA	NA	1500.00	Complex	CRISIL AA-/Stable
NA	Tier I bonds* (under Basel III)	NA	NA	NA	1000.00	Complex	CRISIL A+/Stable

**Not yet issued*

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating Assigned With Outlook
INE483A09252	Tier I perpetual bonds (under Basel II)	28-Sep-12	9.4	Perpetual	139.1	Highly complex	Withdrawn

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Lower Tier-II Bonds (under Basel II)	LT	1100.0	CRISIL AA-/Stable		--	30-08-22	CRISIL A+/Positive	22-09-21	CRISIL A+/Stable	01-09-20	CRISIL A+/Stable	CRISIL A+/Stable
Perpetual Tier-I Bonds (under Basel II)	LT	139.1	Withdrawn		--	30-08-22	CRISIL A/Positive	22-09-21	CRISIL A/Stable	01-09-20	CRISIL A/Stable	CRISIL A/Stable
Tier I Bonds (Under Basel III)	LT	1000.0	CRISIL A+/Stable		--		--		--		--	--
Tier II Bonds (Under Basel III)	LT	5000.0	CRISIL AA-/Stable		--	30-08-22	CRISIL A+/Positive	22-09-21	CRISIL A+/Stable	01-09-20	CRISIL A+/Stable	CRISIL A+/Stable
Upper Tier-II Bonds (under Basel II)	LT		--		--		--	22-09-21	Withdrawn	01-09-20	CRISIL A/Stable	CRISIL A/Stable

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
[Rating Criteria for Banks and Financial Institutions]
[CRISILs Criteria for rating short term debt]
[Rating Criteria for Hybrid Capital instruments issued by banks under Basel II guidelines]
[Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support]

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