Crisil Ratings

Rating Rationale

January 28, 2025 | Mumbai

Central Bank Of India

‘Crisil AA/Stable' assigned to Corporate Credit Rating; Long-term ratings upgraded to 'Crisil AA/Crisil AA-/Stable'; Short-term rating reaffirmed

Rating Action

Corporate Credit Rating	**Crisil AA/Stable (Assigned)**
Rs.1000 Crore Tier I Bonds (Under Basel III)	**Crisil AA-/Stable (Upgraded from 'Crisil A+/Positive')**
Rs.10000 Crore Certificate of Deposits	**Crisil A1+ (Reaffirmed)**
Tier II Bonds (Under Basel III) Aggregating Rs.3000 Crore (Reduced from Rs.3500 crore)	**Crisil AA/Stable (Upgraded from 'Crisil AA-/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 assigned its ‘**Crisil AA/Stable’** rating to corporate credit rating of Central Bank of India (Central Bank) and upgraded the long-term ratings on the tier-II and tier-I bonds (under Basel III) to **‘Crisil AA/Crisil AA-/Stable’** from ‘Crisil AA-/Crisil A+/Positive’. The rating on the certificate of deposits programme has been reaffirmed at ‘Crisil A1+’.

Crisil Ratings has also **withdrawn** its rating on Rs 500 crore of Tier II bonds (under Basel III) on the bank's request as the outstanding against the same is nil and on receipt of confirmation from debenture trustee (See 'Annexure - Details of Rating Withdrawn' for details).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 action factors in sustained improvement in the earnings profile, and strengthening of capital position, which is likely to be maintained over the medium term. The bank has been profitable since fiscal 2022 owing to lower credit cost backed by less incremental stress as well as improving net interest margins (NIMs) and other income. Supported by regular capital infusion, the bank was able to build a sufficient buffer for its non-performing assets (NPAs) with a provision coverage ratio (PCR)[1] of 85% as on December 31, 2024. With higher provisions and lower slippages, the bank is expected to maintain profitability over the medium term.

The capital position has also improved, supported by steady internal accruals and timely equity infusion by the majority stakeholder, Government of India (GoI). Between fiscals 2018 and 2021, the government infused Rs 19,903 crore, which led to a substantial improvement in the capital adequacy ratio (CAR). Tier 1 and CAR improved to 14.2% and 16.4% respectively as on December 31, 2024, from 12.5% and 15.1% respectively as on March 31, 2024. With continued profitability, the capital position should be adequate going forward.

Asset quality metrics improved as gross non-performing assets (NPAs) stood at 3.9% as on December 31, 2024, as against 4.5% as on March 31, 2024, while Net NPAs improved further to 0.6% from 1.2% during the same periods owing to increase in the PCR.

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[1] PCR including technical write-off was 96.5% as on December 31, 2024

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 strong support that the bank is expected to receive from its majority owner, GoI, both on an ongoing basis and in the event of 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 December 31, 2024, the Tier 1 and overall CAR stood at 14.2% and 16.4%, respectively. Further, the bank has received board approval to raise Rs 5,000 crore of capital in FY25.

- **Adequate resource profile:** The bank operates on a large scale and has an adequate resource profile. As on December 31, 2024, it had 4,541 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 accounted for 49.0% of total deposits as on December 31, 2024 (49.9% as on March 31, 2024), and remain higher compared with peers.

  Gross advances grew 13% y-o-y to Rs 2,70,779 crore as on December 31, 2024, while deposits grew by 5.3% on y-o-y basis and stood at Rs 3,97,907 crore as on same date. Cost of funds remained stable at 4.7% in the first nine months of fiscal 2025 (4.6% in fiscal 2024).

Weakness:

- **Moderate asset quality and earnings profile, albeit improving:** The bank's asset quality remains moderate, albeit improving with GNPAs, at 4.5% as on March 31, 2024, from the earlier elevated level of 8.4% as on March 31, 2023 and 14.8% as of March 31, 2022. The improvement was driven by write-offs and recoveries of Rs 10,001 crore and Rs 1,710 crore, respectively, in fiscal 2024 (Rs 10,258 crore and Rs 2,930 crore, respectively, in fiscal 2023).

  As on December 31, 2024, GNPA improved to 3.9% due to structural improvement in asset quality seen through lower slippages (as a percentage of net opening advances) which were down to 1.0% in first nine months of fiscal 2025 from 2.5% in fiscal 2024 (2.4% in fiscal 2023; 3.0% in fiscal 2022, 4.1% in fiscal 2021 and 5.6% in fiscal 2020). Additionally, write-offs and recoveries of Rs 1,352 crore and Rs 1,301 crore respectively, during the first nine months of fiscal 2025 also helped improve the GNPA ratio. NNPA improved further to 0.6% owing to increase in the PCR.

  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. However, asset quality will continue to remain a key monitorable over the medium term.

  Earnings, while moderate, have been improving with profit reported for fifteen consecutive quarters. Return on assets (RoA) in the first nine months of fiscal 2025 increased to 0.8% (annualised) (PAT of Rs 2,752 crore) from 0.6% (PAT of Rs 2,549 crore) in fiscal 2024 on the back of controlled credit cost and improved NIMs and other income. This is partially offset by higher operating costs. Further, provision coverage ratio remains adequate at 85% as on December 31, 2024 (74% as on March 31, 2024). Going forward, ability to sustain improvement in profitability will remain a key monitorable, with expected impact on NIMs from higher funding cost and trend in slippages determining the trajectory of credit cost.

<u>Liquidity: Superior</u>

Liquidity is supported by sizeable retail deposits, forming a significant proportion of total deposits. Liquidity coverage ratio was 233% as on December 31, 2024, against the regulatory requirement of 100%. The bank also has access to systemic sources of funds, including the liquidity adjustment facility from the Reserve Bank of India, the call money market and refinance limits from the 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 and other sustainability related factors

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

Key highlights:

- ESG disclosures of the bank are evolving, and it is in the process of further strengthening the disclosures going forward.
- That said, Central Bank factors in ESG principles in its lending decisions to identify and monitor its ESG risks of its exposure.
- Gender diversity of the employees stood at ~26% (which was in-line with peers) and it reported significantly low attrition rate of ~2.5%, in fiscal 2024.
- The bank's governance structure is characterized by ~25% independent directors and extensive disclosures.

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. The bank's ability to improve its earnings profile and asset quality will remain a key monitorable

<u>Rating sensitivity factors</u>

Upward factors:
- Continued improvement in asset quality and profitability, with the bank reporting return on assets of over 1.0% on a sustained basis, and
- Sustained improvement in overall market position over the medium term

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, the stake held by GoI came down to 93.08% as on December 31, 2024. The bank had total advances and deposits of Rs 2,70,779 crore and Rs 3,97,907 crore, respectively, and a network of 4,541 branches as on December 31, 2024.

For fiscal 2024, the bank reported net profit of Rs 2,549 crore on total income (net of interest expense) of Rs 17,608 crore, against Rs 1,582 crore and Rs 15,771 crore, respectively, in fiscal 2023.

For the first nine months of fiscal 2025, the bank reported net profit of Rs 2,752 crore on total income (net of interest expense) of Rs 14,539 crore, against Rs 1,742 crore and Rs 12,705 crore, respectively for the corresponding period in the previous fiscal.

Key Financial Indicators

As on / for the period ended		March 2024	March 2023
Total assets	Rs crore	4,46,673	4,06,165
Total income	Rs crore	35,434	29,626
PAT	Rs crore	2,549	1,582
GNPAs	%	4.5	8.4
Overall CAR	%	15.1	14.1
Return on assets	%	0.60	0.40

As on / for the period ended		December 2024	December 2023
Total assets	Rs crore	4,67,220	4,39,923
Total income	Rs crore	29,088	25,735
PAT	Rs crore	2,752	1,742
GNPAs	%	3.9	4.5
Overall CAR	%	16.4	14.7
Return on assets*	%	0.8	0.5

**annualised*

Any other information:

Note on complexity levels of the rated instrument

Crisil Ratings complexity levels are assigned to various types of financial instruments. The Crisil Ratings complexity levels are available on www.Crisil.com/complexity-levels. Users are advised to refer to the Crisil Ratings complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments

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 Levels	Rating Outstanding with Outlook
NA	Certificate of Deposits	NA	NA	7-365 days	10000.00	Simple	Crisil A1+
NA	Tier I Bonds (Under Basel III)#	NA	NA	NA	1000.00	Highly Complex	Crisil AA-/Stable
INE483A08031	Tier II Bonds (Under Basel III)	20-Mar-20	9.20	20-May-30	500.00	Complex	Crisil AA/Stable
INE483A08049	Tier II Bonds (Under Basel III)	30-Aug-23	8.80	30-Aug-33	1500.00	Complex	Crisil AA/Stable
NA	Tier II Bonds (Under Basel III)#	NA	NA	NA	1000.00	Simple	Crisil AA/Stable

#Yet to be issued

Annexure - Details of Rating Withdrawn

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Outstanding with Outlook
INE483A08023	Tier II Bonds (Under Basel III)	30-Sep-19	9.80	30-Nov-29	500.00	Complex	Withdrawn

Annexure - Rating History for last 3 Years

	Current			2025 (History)		2024		2023		2022		Start of 2022
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Corporate Credit Rating	LT	0.0	Crisil AA/Stable		--		--		--		--	--
Certificate of Deposits	ST	10000.0	Crisil A1+		--	09-08-24	Crisil A1+		--		--	--
			--		--	03-01-24	Crisil A1+		--		--	--
Lower Tier-II Bonds (under Basel II)	LT		--		--	09-08-24	Withdrawn	31-05-23	Crisil AA-/Stable	30-08-22	Crisil A+/Positive	Crisil A+/Stable
			--		--	03-01-24	Crisil AA-/Stable		--		--	--
Perpetual Tier-I Bonds (under Basel II)	LT		--		--		--	31-05-23	Withdrawn	30-08-22	Crisil A/Positive	Crisil A/Stable
Tier I Bonds (Under Basel III)	LT	1000.0	Crisil AA-/Stable		--	09-08-24	Crisil A+/Positive	31-05-23	Crisil A+/Stable		--	--
			--		--	03-01-24	Crisil A+/Stable		--		--	--
Tier II Bonds (Under Basel III)	LT	3000.0	Crisil AA/Stable		--	09-08-24	Crisil AA-/Positive	31-05-23	Crisil AA-/Stable	30-08-22	Crisil A+/Positive	Crisil A+/Stable
			--		--	03-01-24	Crisil AA-/Stable		--		--	--
Upper Tier-II Bonds (under Basel II)	LT		--		--		--		--		--	Withdrawn

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
[Rating Criteria for Banks and Financial Institutions]
[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]
[CRISILs Criteria for rating short term debt]
[Rating criteria for Basel III - compliant non-equity capital instruments]

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