

Press Release

Brickwork Ratings assigns “BWR P1+” for Corporation Bank’s Certificate of Deposits Issue of INR 2000 crore or INR 20 billion.

Instrument: Certificate of Deposits

Issue Rating: BWR P1+

Brickwork Ratings has assigned BWR P1+ (Pronounced BWR P one Plus) for Corporation Bank’s proposed Certificate of Deposit Issue of Rs 2000 crore (Enhancement in the aggregate limit from Rs 10,000 crore to Rs 12,000 crore). Brickwork ratings’ ‘BWR P1+’ stands for an instrument that is considered to offer the BEST credit quality (Short term) in terms of timely serving of debt obligations.

Corporation Bank’s total business has posted strong growth of 29.47% to reach a level of Rs 122,496 crore in FY 09. Operating profits and net profits reached Rs 1251 crore (increased by Rs 545 crore) and Rs 734 crore (increased by Rs 157 crore) respectively. The growth in operating (43.6%) and net profits (21.5%) was mainly contributed by expansion in volume of business, substantial treasury gains, and control on operating cost.

During the year, the bank has mobilized additional tier I capital of Rs 237 crore and lower Tier II capital of Rs 1,700 crore. As a result, it had comfortable capital adequacy ratio (under Basel I) at 13.66% in FY 09 as compared to 12.09% in FY 08. However, the bank’s tier I capital ratio under Basel I decreased to 8.93% in FY 09 as against 9.64% in FY 08. Under Basel II norms, the bank’s CRAR and Tier I capital ratios stood at 13.61% and 8.89% respectively as on 31st March 2009. Overall, the bank has comfortable capital adequacy and Tier I capital.

Corporation Bank, like its peers, is also predominately funded through Term Deposits, which accounts for 68.55% of total deposits, which is 3.57% higher than the previous year figure of 64.98%. The bank’s composition of low-cost deposits to total deposits stood at 31.44% as on 31st March 2009, which is favorably comparable with its peers, though they declined significantly from 35.01% in FY08. During FY09, the bank’s gross advances increased by 23.80% to reach Rs 48,512 crore from the previous level of Rs 39,185 crore. The bank’s credit deposit ratio has significantly decreased to 65.57% in FY 09 as against 72.89% in FY 08; however, it has marginally declined to 64.99% in Q2 FY 10 due to robust deposits growth.

In FY 09, the interest income contributed 86.58% towards total income, slightly higher than the previous year figure of 84.56%. Net interest income increased to Rs 1,690 crore as compared to Rs 1,443 crore in the previous year with a growth of 14.61%. Similar trend is seen in Q2 FY 10, where net interest income increased to Rs 503 crore from Rs 406 crore in Q2 FY 09. The bank has posted excellent non-interest income, with a growth of 58.36% to reach Rs 1,107 crore in FY09 from Rs 699 crore in FY 08, which has grown to Rs 302 crore in Q2 FY 10 as compared to Rs 174 crore in Q2 FY 09.

Brickwork calculates leverage that assesses bank's net worth with reference to both on and off balance sheet exposures. The bank's lower leverage of 17.00 is better compared to peer groups' average of 17.40 as on 31st March 2009.

The bank's gross and net NPAs are 55 and 43 bps lower than its peers' average. Term loan component was far lower than its peers' average, which is a favorable rating factor.

CASA deposit ratio stood at about 31.44% in FY09, which is slightly higher than its peers' average of 30.40%. This ratio however slipped from 35.01% in FY08. It is observed that the bank's cost of deposits and cost of funds was 87 bps and 31 higher than its peers as on 31st March 2009. As a result of higher cost of deposits, the bank's net interest margin has dipped significantly as compared to its peers.

The rating assigned to Corporation Bank is specific to the proposed Certificate of Deposit issue of Rs. 2,000 crore (enhancement in the overall limit from Rs. 10,000 crore to Rs. 12,000 crore). The Rating reflects the government of India ownership, growing business profile and the efforts being made by the Management to improve efficiency and strengthen the Bank.

Disclaimer: Brickwork Ratings has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. Brickwork has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. Brickwork does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by Brickwork should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. Brickwork has the right to change, suspend or withdraw the ratings at any time for any reasons.

Analysts

A Suresh Kumar, Lead Analyst

suresh.kumar@brickworkratings.com

Narahari Prashanthi, Co-Analyst

prashanthi.n@brickworkratings.com

Phone: 1-860-425-2742

Media

Anitha G

media@brickworkratings.com

Phone: 1-860-425-2742

Relationship

K N Suvarna

Director - Business Development

kn.suvarna@brickworkratings.com

Phone: 1-860-425-2742