
Rating Rationale for Corporation Bank's Certificate of Deposit (CD) Issue of INR 2000 crore or INR 20 billion

Instrument: Certificate of Deposits

Ratings: 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.

The rating factored, inter alia, higher operating profits, improving asset quality, comfortable capital adequacy, lean operating cost structure and the Government of India's equity stake. Brickwork has relied upon the audited financial statements and the published un-audited results for the first and second quarters of FY 10.

The financial year 2009 has witnessed one of the worst financial crises all over the world. However, Public sector banks in India not only skillfully tided over global financial crises and were also largely unharmed from liquidity crunch essentially due to the proactive steps taken by the Reserve Bank of India and the Government of India.

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.

Table I: Corporation Bank's Performance Indicators

Criteria	FY 09	FY 08	FY 07
Deposits (INR Billion)	739.83	554.24	423.56
Demand and Saving Deposits	231.63	194.05	144.29
Term Deposits	507.20	360.19	279.28
Advances (INR Billion)	485.12	391.85	299.49
Non-Performing Assets			
Gross NPAs	1.14%	1.47%	2.05%
Net NPAs	0.29%	0.32%	0.47%
Profit			
Gross Profit (INR Billion)	17.96	12.51	11.40
Net Profit (INR Billion)	8.92	7.34	5.36
ROA	1.28%	1.38%	1.11%
ROE	18.23%	17.38%	14.24%
Business per Employee (INR Million)	104.9	83.9	64.5
Net worth (INR Billion)	48.97	42.29	37.65
CRAR	13.61%	12.09%	12.76%
Branches	1054	981	901
ATMs	1032	957	929

As on 31st March 2009, the bank has recorded an asset base of Rs 86,905 crore as against Rs 66,597 crore for the same period a year ago, registering a growth of 30.49%. Off-balance sheet exposures grew by 53.94% to Rs 42,230 crore as compared to Rs 27,432 crore in the previous year.

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.

Table II: Corporation Bank Financial Performance

Financials (INR Billion)	2008-09	2007-08
Interest Income	6,067	4,516
Interest Expenses	4,377	3,073
Net Interest Income	1,690	1,443
Non-interest Income	1,107	699
Operating Income	2,797	2,142
Employee Expenses	467	427
Other Operating Expenses	534	464
Operating Profits	1,796	1,251
Provisions & Contingencies	410	186
Profit Before Tax	1,386	1,065
Provision for Tax	494	331
Profit After Tax	892	734

During FY 09, the bank's Net Worth had improved progressively to reach Rs 4,897 crore with 15.79% growth over the previous year and it had grown further to Rs 5,449 crore in Q2 FY 10. Similarly, the bank's Return on Assets stood at 1.28% during FY 09, which is 10 bps lower than that the previous year figure of 1.38%, however, which has increased marginally to 1.30 in Q2 FY 10. Similarly, ROE has improved consistently from 17.38% in FY 08 to 18.23% end of FY 09, which has further increased to 20.29% in Q2 FY 10.

The bank is making strenuous efforts to improve asset quality. In FY 09, gross NPAs stood at 1.14% as against 1.47% in FY 08, which has marginally increased to 1.18% in Q2 FY 10. Similarly Net NPAs have decreased to 0.29% in FY09 as compared to 0.32% in FY08. The bank was able to keep its net NPAs at 0.29% in Q2 FY 10.

Table III: Corporation Bank Vs Peer Group

Key Ratios	CORP	Peers
Operating Ratios		
Cost of Deposits	7.02%	6.15%
Cost of Funds	6.30%	5.99%
Return on Funds	8.73%	9.29%
Net Interest Margin	2.43%	2.81%
Earnings		
NIM	2.43%	2.81%
Non-Interest Income	11.07	12.10
Return on Assets (ROA)	1.28%	1.14%
Return on Equity (ROE)	18.23%	17.65%
Cost to Income	35.79%	40.55%
Asset Quality		
Gross NPA	1.14%	1.69%
Net NPA	0.29%	0.72%
Real Estate Loans	15.03%	11.47%
Term Loans	45.43%	57.54%
Capital Adequacy		
Tier 1 (Basel II)	8.89%	9.22%
Total Capital (Basel II)	13.61%	13.32%
Leverage	17.00	17.40
Liquidity		
CASA	31.44%	30.40%
Credit Deposit Ratio	65.57%	71.41%

BWR has made a study of the performance of Corporation Bank vis-à-vis its peers in certain key parameters as given in the table above. BWR rating methodology has defined peer banks as those with closely similar size/operation as Corporation Bank.

The bank's capital adequacy ratio has improved under Basel I to 13.66% as on 31st March 2009 compared to 12.09% for the same period a year ago. The bank's capital adequacy ratio under Basel II stood at 13.61% as on 31st March 2009, which is 29 bps higher than its peers' average of 13.32%. Similarly, the Tier I capital ratio stood at 8.89% as against the peers' average of 9.22%.

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.

The bank's 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.

Shortcomings:

In the analysis of the Corporation Bank's performance for FY 2009, a few shortcomings as under have been noticed.

- a) The share of CASA deposits has slipped from 35.01% as of March 2008 to about 31.44% by year ending March 2009.
- b) The net interest margin declined from 3.08% in FY07 to 2.71% in FY08 to 2.43% in FY09.
- c) The real estate exposure at 15.03% of the total advances as at FY09 is high compared with the peers, though it has come down from 22.24% in FY 07.

The bank has been taking many initiatives to improve its performance and overcome the shortcomings. Similarly appropriate risk management practices are being adopted to improve the quality of credit portfolio.

Bank Profile:

Incorporated in 1906, Corporation Bank is one of the oldest mid-sized public sector banks in India. The bank has always been in the forefront to improve its productivity and efficiency. Over the years the bank has been transforming itself from core banking activities to universal banking solutions.

The bank has positioned itself well in the southern part of the country. As a result, the bank was able to show relatively good deposit growth compared to its peers in India. The bank continues to expand its technology driven customer-centric products and services to serve effectively its growing customer base. The bank has implemented Core Banking Solution (CBS) in all its branches, thus covering 100% of overall business. The bank's distribution channel consists of 1054 branches, and 1032 ATMs.

Table IV: Corporation Bank Shareholding Pattern

Shareholders	Stake
Government of India	57.17%
Foreign	34.37%
Retail	3.91%
Financial Institutions	4.55%

Brickwork Ratings (BWR) issue rating is based on CAMEL-TP framework, which is used to assess the bank's financial fundamentals and risk exposures relative 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.

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