Press Release for Corporation Bank's INR 20 billion CDs Rating

Brickwork Ratings assigns "BWR P1+" for Corporation Bank Certificate of Deposits (CDs) Issue of INR 20 billion

Instrument: Certificate of Deposits	Rating: BWR P1+

Brickwork Ratings has assigned BWR P1+ (Pronounced BWR P one Plus) for Corporation Bank's proposed Certificate of Deposits Issue of INR 2000 crore or INR 20.00 billion. 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. Brickwork Ratings has recently rated Corporation Bank's Upper Tier II Bonds Issue with "BWR AAA+" (Outlook: Stable) rating. This new addition to the bank's resources profile would not affect the rating. The rating factored higher operating profits, improving asset quality, comfortable capital adequacy, healthy low cost deposits, stable earning assets, well diversified credit deployment, lean operating cost structure and the Government of India's equity stake.

In spite of the continuing economic slowdown in the domestic market and financial crises in international markets, the bank has continued to post excellent all round performance during FY09. As a result, the bank has recorded robust growth in total business, deposits and advances along with improving non-performing assets during FY09. With total business growth of 29.47%, the bank's has skillfully increased its total business to INR 1224.96 billion in FY09 as against INR 946.10 billion in FY08. The bank's advances and deposits grew by 23.80% and 33.49% respectively during FY 09.

The bank has been improving its asset quality with strict credit culture and monitoring in line with its policy on credit risk management. As a result, the bank has been able to reduce its non-performing assets consistently over the years. During FY09, the bank's gross NPAs stood at 1.14% as against 1.47% in FY08, which is 67 bps lower than that of peers' 1.81%. Similarly, the bank's net NPAs at 0.29% as compared to 0.32% in FY08, 56 bps lower than the peers' average of 0.85%. Further, the bank's provision coverage ratio improved to 75.27% from the previous level of 73.24%.

The bank has strengthened its sales and marketing infrastructure besides in order to ensure steady clientele acquisition. As a result, the bank has posted very impressive revenues and profit figures with significant improvement in core income and good fee based income. During FY09, the bank's operating profit and net profit surged 43.60% and 21.47% respectively.

Bank's Return on average assets (ROA) has decreased to 1.28% in FY09 from the previous level of 1.38%. However, the bank's return on assets was still 33 bps higher than its peers' average of 0.95% during FY09. In spite of drop in ROA, the bank has increased its return on equity to 18.23% in FY09 from 17.38% in FY08. Similarly, the bank has improved its cost to income ratio to 35.79% in FY09 from 41.62% in FY08.

In line with banking industry trend, Corporation Bank has restructured some of its assets. The bank has received 5,404 applications amounting to INR 23.23 billion worth of loans for restructuring, but the bank has approved only 4,313 applications with a total amount of INR 10.43 billion. The bank's restructured loans account for 2.15% of total outstanding loans as on 31st March 2009. Brickwork expects that the bank's restructured loans likely to affect the asset quality.

The bank's low cost deposits mix was declined, with its CASA deposits stood at 31.44% during FY09, which is 3.57% lower than the previous level of 35.01%. Further, the bank is making concerted efforts to reduce its dependence on high cost bulk deposits. It has introduced several new schemes for mobilizing new savings deposits and is actively pursuing them through appropriate marketing strategies to improve the low cost CASA deposits.

During FY 09, the bank has healthy capital adequacy ratio stood at 13.66% under Basel I, as against 12.09% during the previous year, which is 141 bps higher than its peers' average of 12.25%. Similarly, the bank's Tier I capital stood at 8.93%, which is 172 bps higher than that of peers.

Overall, the rating factored the bank's Government of India ownership, improved earning assets quality, reasonable CASA deposits, one of the lowest cost to income ratio, comfortable capital adequacy, high technology adoption as well as efficient management. The bank' strong growth in advances and deposits, decline in NPAs, comfortable capital adequacy ratio, adequate risk management systems, and the healthy earning assets are expected to help the bank to manage the current economic situation.

Analysts

A Suresh Kumar,
suresh.kumar@brickworkratings.com
Phone: +91 80 4040 9940

Praveen Prakash
praveen.prakash@brickworkratings.com
Phone: +91 80 4040 9940

Media

Anitha G
media@brickworkratings.com
Phone: +91 80 4040 9940

Relationship

K N Suvarna
Sr. V.P. - Business Development
kn.suvarna@brickworkratings.com
Phone: +91 22 2430 4902