



## RATING RATIONALE

10 January 2022

### Central Bank of India

**Brickwork Ratings reaffirms the ratings for the Basel III Tier II Bonds and Innovative Perpetual Debt Instruments of Rs. 2500 Crores of Central Bank of India**

#### Particulars:

Instruments	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Jan, 2021)	Present
<b>Basel III Tier II Bonds</b>	2000.00	<b>2000.00#</b>	<b>Long Term</b>	BWR A+ (Stable)	<b>BWR A+ (Stable) Reaffirmed</b>
<b>Innovative Perpetual Debt Instruments</b>	500.00	<b>500.00</b>	<b>Long Term</b>	BWR A (Stable)	<b>BWR A (Stable) Reaffirmed</b>
<b>Total</b>	2500.00	<b>2500.00</b>	<b>Rs. Two Thousand Five Hundred Crs. Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\* Details of Bank Loan facilities/NCD/Bonds/Commercial Paper are provided in Annexure-I&II

#Outstanding against the Rs 2000 Crs Basel III Tier II Bonds is Rs. 1500 Crs.

#### RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the rating of various bond issues of the Central Bank of India (CBI or the bank), as tabulated above. The rating continues to factor in the strong support of the Government of India (GOI) as the bank's promoter and a major shareholder with an 93.08% stake as of 30 September 2021, along with its continued support to the bank in the form of a capital infusion, comfortable capitalisation and resource profile. The ratings are, however, constrained by continued asset quality pressure and an average earnings profile.

BWR maintains a Stable outlook for the bank as the bank's business risk profile would remain unchanged over the medium term, indicating a low likelihood of a rating change over the medium term.

#### KEY RATING DRIVERS

##### Credit Strengths:-

- **GOI's shareholding and support, and market presence:** The GOI continues to remain the major shareholder of the bank, with a 93.08% stake as of 30 September 2021. The GOI infused funds amounting to Rs. 4800 Crs in the bank in 2020. The GOI's support to public sector banks (PSBs) has always been of prime importance. Being the key promoter-shareholder, the GOI has continued to support PSBs even in times of distress,



through various recapitalisation plans announced over the years. The GOI's support to the bank in the form of a capital infusion is expected to continue, given that the bank is one of the major PSBs in the country. The GOI is expected to provide capital support to the bank as and when required for business growth, as well as to strengthen the balance sheet cover for asset-side risks. CBI is a PSB with its business across India, with 4594 branches.

- **Comfortable capitalisation :** The bank remains comfortably capitalized, with capital ratios under Basel III at the common equity Tier I (CET-I) ratio at 13.41%, Tier II at 1.97% and the total capital to risk weighted asset ratio (CRAR) at 15.38% as on 30 September 2021. The bank has received equity support of Rs. 4800 Crs from GOI during the year. The net worth cover for net non-performing assets (NPAs) improved to 3.85 times, as on 30 September 2021. BWR believes the bank will continue to maintain comfortable capitalisation over the medium term.
- **Comfortable resource profile:** CBI has a comfortable resource profile because of its stable deposit base, with over 49.79% of deposits from the (CASA). The cost of deposits reduced to 3.84% as on 30 September 2021 (4.45% as of 30 September 2020), compared with 4.35 % as of 31 March 2021. The borrowings of the bank were limited to only 1.59% of the balance sheet size, at Rs 5998 Crs, as on 30 September 2021.

#### **Credit Risks:-**

- **Weak asset quality:** The asset quality of the bank continues to remain stressed, with the gross NPA of 15.52% as on 30 September 2021( 16.55% as on 31 March 2021). The bank has been taking steps to improve asset quality and reduce gross NPAs through better recovery mechanisms and also write-offs and upgradation. For H1FY22, slippages stood at Rs. 2875 Crs while Rs. 2405 Crs of accounts have been upgraded, regular write-off stood at Rs. 900 Crs. As on 30 September 2021, total SMA book stood at 9.53% against 9.14% as on 30 June 2021. Hence, the asset quality remains key monitorable for determining future profitability and business growth.
- **Pressure on earnings:** In the last couple of years, the bank has seen pressure on profitability due to high provisioning costs as a result of asset quality issues. During H1FY22, the bank made a provision of Rs. 2030 Crs (H1FY21:Rs.2453 Crs). The net profits of the bank of Rs. 456 Crs in H1FY22 against Rs. 296 Crs in H1FY21 and return on assets of 0.29% as on 30 September 2021, continue to remain thin. However, its net interest income increased to Rs. 4630 Crs in H1FY22, against Rs. 4500 Crs in H1FY21. The net interest margin increased to 3.36% in H1FY22, against 3.21% during H1FY21. An improvement in profitability, a reduction in provisioning costs and an improvement at the asset quality level will remain monitorables.



## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

**Basel III compliant** bonds are subject to guidelines/regulations of the Reserve Bank of India (RBI) and as detailed in the term sheet of respective issues. BWR considers them as highly complex instruments in terms of published criteria. BWR has rated Basel III instruments; however, any restrictions by the regulator on coupon servicing on any of the outstanding bonds due to the non-meeting of regulatory guidelines shall be a key rating sensitivity.

## **RATING SENSITIVITIES**

**Upward:** An improvement in the bank's performance, exiting from the prompt corrective action framework of the regulator, a reduction in the gross NPAs and improvement in profitability shall be positives.

**Downward:** Any further deterioration in the asset quality from the current level and its impact on the profitability and overall performance of the bank will remain monitorable.

## **LIQUIDITY INDICATORS: ADEQUATE**

As on 30 September 2021, the bank had a liquidity coverage ratio of 403.17% and Basel III leverage ratio of 5.15%. The bank had cash and cash equivalents of Rs. 54100 Crs and investments of Rs. 1.47 lakh Crs out of which Investments - Available for Sale stood at Rs. 49846 Crs as on 30 September 2021.

## **COMPANY PROFILE**

Central Bank of India is one of the oldest PSBs headquartered in Mumbai. The Government of India is a majority shareholder in the bank, with a 93.08% stake as of 30 September 2021. As of that date, the bank's network consisted of 4594 branches and 3392 ATMs.

The Bank's management team is led by the Managing Director and Chief Executive Officer Mr M V Rao, and is supported by three Executive Directors along with one nominee director each representing the Reserve bank of India, Government of India and Shareholders. The bank has also appointed a part-time Non-official director on the board



## KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY20	FY21
Result Type		Aud.	Aud.
Total Deposits	Rs in Crs	313763	329973
Gross Advances	Rs in Crs	172244	176913
RoA (%)	%	-0.35%	-0.26%
NIM (%)	%	2.78%	2.78%
Net Interest Income (NII)	Rs in Crs	7629	8245
PAT	Rs in Crs	-1121	-888
<b>CRAR</b>	%	11.72%	14.81%
<i>Tier I</i>	%	9.33%	12.82%
<i>CET-I</i>	%	9.33%	12.82%
<i>Tier II</i>	%	2.39%	1.99%

## KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

**Basel III Tier II Bonds:** The Basel III Bonds of this nature are susceptible to loss absorbency features as per the terms of the issue and the RBI's extant guidelines. The key distinguishing feature of these bonds is the existence of a point of non-viability (PONV) trigger, and the occurrence of such a PONV trigger event may, at the option of the RBI, be temporarily or permanently written-off, resulting in the permanent loss of the principal to the investor, and a default on the instrument to the investor.

**Innovative Perpetual Debt Instruments:** Bonds of this nature are covered under Basel II norms. The key distinguishing feature of such instruments is the triggering of the default in the event of breaching the minimum capital adequacy ratios (as per regulators extant guidelines) or the regulators' denial of permission to service the coupon on such bonds, if the bank incurs losses. Generally, such instruments are perpetual in nature and have a call option on the completion of 10 years.

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]**

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (Year T) (2022)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crs)	Rating	Date(s)& Rating(S) assigned in year T-1 (2021)	Date(s) & Rating(s) assigned in Year T-2 (2020)	Dates( Rating assigned in in Year T (2019)
1	Basel II Tier II Bonds	Long Term	2000.00	BWR A+ (Stable)	BWR A+ (Stable) (12 Jan 21)	BWR A+ (Stable) (08 Jan 20)	BWR A (Negative) (30 Mar 19)
2	Innovative Perpetual Debt Instruments	Long Term	500.00	BWR A (Stable)	BWR A (Stable) (12 Jan 21)	BWR A (Stable) (08 Jan 20)	BWR A- (Negative) (30 Mar 19)

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- **General Criteria**
- **Basel III Compliant Instruments**
- **Banks and Financial Institutions**
- **Complexity levels of the Rated Instruments**

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**Central Bank of India**

**ANNEXURE I**

**Details of Bank Loan Facilities rated by BWR :NA**

**ANNEXURE II**

**INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS**

<b>Instrument</b>	<b>Issue Date</b>	<b>Amount Rs. Crs.</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>ISIN Particulars</b>
BASEL III Tier II Bonds	08-Nov-13	1000	9.90% P.A.	8-Nov-23	INE483A09260
BASEL III Tier II Bonds	28-Mar-19	500	10.80% P.A.	29-May-29	INE483A09286
Innovative Perpetual Debt Instruments	28-Sep-12	500	9.40% P.A.	28-Sep-22	INE483A09252

**ANNEXURE III**

**List of entities consolidated: NA**

**For print and digital media**

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