

Rating Rationale

18 Jan 2023

Central Bank of India

Brickwork Ratings reaffirms the rating of BWR A+ and revises the outlook from Stable to Positive to the Tier II Bonds (under Basel III) bonds amounting to Rs. 2,000 Crs of Central Bank of India (CBoI or the bank). The rating for Innovative Perpetual Debt Instruments of the bank is withdrawn on redemption

Particulars

Instruments**	Amount Rs Crs.		Tenor	Rating*	
	Previous	Present		Previous 10-Jan-2022	Present
Tier II bonds (under Basel III)	2000.00	2000.00	Long Term	BWR A+/Stable Reaffirmed	BWR A+/Positive (Reaffirmed with revision in outlook)
Innovative Perpetual Debt Instruments (IPDI)	500.00	0.00	Long Term	BWR A/Stable /Reaffirmed	Withdrawn on Redemption
Total	2500.00	2000.00	Rupees Two Thousand Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.

** Details of Instruments are shared at Annexure I

Note 1: The bank has raised only Rs.1500 Cr out of Rs 2000 Crs of rated tier II bonds (under basel III)

Note 2: The aforesaid rated IPDI have been redeemed in full with nil outstanding

RATING ACTION / OUTLOOK:

Brickwork Ratings (BWR) reaffirms the ratings of the Tier II Bonds (under Basel III) amounting to Rs. 2,000 Crs of Central Bank of India (CBoI or the bank), as tabulated above. The rating reaffirmation continues to draw comfort from the sovereign ownership and Government of India (GOI) support, comfortable capitalisation levels, healthy resource profile and comfortable overall financial risk profile. The improving asset quality and average earnings profile shall be the monitorable.

The revision in outlook from stable to positive factors in the bank's capacity to substantially grow its loan book with its exit from the prompt corrective action (PCA) framework of the regulator since Sep 2022, ability to improve upon the net profits over the medium term as there was visibility of net profits continuously over the last few quarters, and an improvement in the net non performing assets (NPA) ratio below 3% as of 30 Sep 2022 which shall be a monitorable over the near to medium term.

The rating for Innovative Perpetual Debt Instruments (IPDI) of the bank is withdrawn on redemption in full. Out of the rated Rs. 500 Crs of IPDI, the bank had prematurely redeemed IPDI amounting to Rs. 360.90 Crs in March 2017 through buyback option on obtaining the regulatory approval and the balance Rs. 139.10 Crs were fully redeemed in September 2022 through exercise of call option. The Withdrawal of rating of IPDI is at the request of the bank,

conveying its redemption in full by the bank and confirmation of the redemption by the debenture trustee. The Withdrawal of Rating is in line with the BWR's policy for Withdrawal of Rating

Description of Key Rating Drivers

- **Credit Strengths:-**

GOI's shareholding and support, comfortable capitalisation and market presence:

Central Bank of India receives 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 Sep 2022, along with its continued support to the bank in the form of a capital infusion, comfortable capitalisation and resource profile. The Bank's total capital to risk weighted assets ratio (CRAR) was 13.56%, Tier I capital ratio and CET-1 ratio was 11.6% as of 30 Sep 2022; which was comfortable above the regulatory requirements of Total CRAR of 11.5%, Tier I ratio of 9.5% and CET-1 ratio of 8% under Basel III guidelines, including the regulatory buffer. The continued support of GOI in the form of capital funds infusion amounting to Rs.19503 crs during fiscal of 2018 - 2021, have strengthened capitalisation levels of the Bank. For the current financial year period ended 30 Sep 2022, the retention of internal accruals maintains the capitalisation level of the bank, at well above the regulatory requirements. One of the oldest banks of the country existing since 1911, will be on its path to revival and grow its market presence over the medium term.

Strong board with experienced management team:

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 company has also appointed a part-time Non-official director on the board. The strong support of the board and an experienced management team of the bank shall be guiding support to strengthen the bank's overall growth, both in terms of financial and non financial parameters

Adequate Liquidity: As on 30 Sep 2022 cash & balances with RBI were Rs.26,557 Crs and Investments were Rs.1,33,654 Crs. The available liquidity seems comfortable to meet its near term debt obligations. The bank's liquidity coverage ratio was 347.71 % and basel III leverage ratio of 4.32% as of 30 Sep 2022, and was well above the regulatory requirement of 100% and 3.5% respectively

- **Credit Risks:-**

Improving asset quality albeit, remains monitorable:

The bank's asset quality had improved over the last one year ending 30 Sep 2022. The Gross NPA ratios improved from 15.52% on 30 Sep 2021 to 9.67% as of 30 Sep 2022. The Net NPA ratio improved from 4.51% as of 30 Sep 2021 to 2.95% as of 30 Sep 2022. The reduction in gross NPAs from Rs. 28,156 crs as on 30 Sep 2021 to Rs.19,059 Crs, was mainly on account of technically write offs of Rs.9514 Crs in Sep 2022; However, the regular write offs were lower at Rs.82 Crs for the period ending 30 Sep 2022, as against Rs. 802 Crs

an year ago. Further, there was a decline in slippages to NPA at Rs. 777 Crs for the period ending 30 Sep 2022, as against Rs. 2104 Crs for the period ending 30 Sep 2021; and the bank made recoveries of Rs. 719 Crs for the period ending 30 Sep 2022 which were Rs. 1169 Crs for the period ending 30 Sep 2021. On sector wise NPA to total NPA, share of corporates and others reduced from 51% as of 30 Sep 2021 to 45% as of 30 Sep 2022, while MSME advances share increased to 22% as of 30 Sep 2022 from 20% as of 30 Sep 2021, agriculture advances share increased to 26% as of 30 Sep 2022 against 21% as of 30 Sep 2021; the retail share continued to remain ~ 7-8%. The Net NPA in absolute terms decreased to Rs.5,407 Crs as of 30 Sep 2022 from Rs.7,004 Crs as of 30 Sep 2021. PCR as at 30 Sep 2022 was 89.20% as against 85.56% as of 30 Sep 2021. Given the average asset quality of the bank amongst peers in the industry, an improvement in the asset quality mainly through recoveries going forward shall remain a monitorable.

Average earnings:

During H1FY23, the bank made a provision of Rs. 1,430 Crs (H1FY22: Rs.1,175 Crs), as a prudent measure to cover for any likely slippages. The net profits of the bank in H1FY23 were Rs. 318 Crs against Rs. 250 Crs in H1FY22 and its further improvement over the medium to better the return on assets (ROA) will be monitorable. The bank's ROA as on 30 Sep 2022 was 0.35% and needs to be comparable with its peers in the industry over the near term. The Bank's net interest income increased to Rs. 2,747 Crs in H1FY23, against Rs. 2,200 Crs in H1FY22, with the growth in advances, and the net interest margin improved to 3.44% in H1FY23, against 2.97% during H1FY22. In an increasing yield on investments, the impact on treasury income and profitability of the bank with adequate provisioning shall be a monitorable. An improvement in profitability, adequate provisioning and an improvement in the overall asset quality level will remain the 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). BWR has assessed the bank's financials, both on a standalone and consolidated levels.

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

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.

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 Sep 2022 cash & balances with RBI were Rs.26,557 Crs and Investments were Rs.1,33,654 Crs, which were comfortable to meet its near term debt obligations. The bank’s liquidity coverage ratio was 347.71 % and basel III leverage ratio of 4.32% as of 30 Sep 2022, were well above the regulatory requirement of 100% and 3.5% respectively

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 Sepr 2022. 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	FY21	FY22	H1FY22	H1FY23
Result Type		Aud.	Aud.	Unaud	Unaud.
Total Deposits	Rs in Crs	329973	342692	336500	343081
Gross Advances	Rs in Crs	176913	189712	175594	197022
RoA (%)	%	-0.26%	0.30%	0.29%	0.31%
NIM (%)	%	2.78%	3.21%	3.36%	3.44%
Net Interest Income (NII)	Rs in Crs	8245	9487	4630	4889
Net profit after tax	Rs in Crs	-888	1045	456	553
Gross Non performing Assets Ratio	%	16.55%	14.84%	15.52%	9.57%
Net Non performing Assets Ratio	%	5.77%	3.97%	4.51%	2.95%
Total CRAR	%	14.81%	15.75%	15.38%	13.56%
Tier I capital ratio	%	12.82%	13.39%	13.41%	11.62%
CET-I ratio	%	12.82%	13.39%	13.41%	11.62%
Tier II capital ratio	%	1.99%	2.36%	1.97%	1.94%

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

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 (2023)			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)	Amt O/s (Rs. Cr)	Rating	Date(s)& Rating(S) assigned in year T-1 (2022)	Date(s) & Rating(s) assigned in Year T-2 (2021)	Dates(s Rating assigned in Year T (2020)
1	Basel II Tier II Bonds	Long Term	2000.00	BWR A+/ Positive (Reaffirmed with change in outlook from stable)	BWR A+/ Stable (10 Jan 2022)	BWR A+/ Stable (12 Jan 2021)	BWR A+/Stable (08 Jan 2020)
2	Innovative Perpetual Debt Instruments	Long Term	0	Withdrawn on Redemption	BWR A/Stable (10 Jan 2022)	BWR A/Stable (12 Jan 2021)	BWR A/Stable (08 Jan 2020)

COMPLEXITY LEVELS OF THE INSTRUMENTS:

Basel III Tier II Bonds and Perpetual Debt Instruments - Highly Complex

For more information, visit

www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks and Financial Institutions](#)
- [Rating based on parent support](#)
- [Basel III Compliant Instruments](#)
- [Rating Criteria for Capital Instruments issued by Banks and Financial Institutions](#)

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CENTRAL BANK OF INDIA

ANNEXURE I

Details of Bank Loan Facilities rated by BWR :NA

ANNEXURE II

INSTRUMENT (NCD) DETAILS:

Instrument	Issue Date	Amount Rs. Crs.	Coupon Rate % p.a.	Maturity Date	ISIN Particulars
BASEL III Tier II Bonds	08-Nov-2013	1000	9.90%	8-Nov-2023	INE483A09260
BASEL III Tier II Bonds	28-Mar-2019	500	10.80%	29-May-2029	INE483A09286
*Innovative Perpetual Debt Instruments	28-Sep-2012	0	9.40%	Perpetual; redeemed on 28-Sep-2022	INE483A09252

*The rating for Innovative Perpetual Debt Instruments amounting to Rs. 500 Crs stands withdrawn on redemption in full, as confirmed by the bank and debenture trustee

ANNEXURE III

List of entities consolidated: NA



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