Corporation Bank

July 05, 2019

Ratings

Instrument	**Amount (Rs. crore)**	**Rating**[1]	**Remarks**
Upper Tier II Bonds	850 (Reduced from 2850)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)
Perpetual Bonds	500 (Reduced from 737.5)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)
Lower Tier II Bonds@	- (Reduced from 500)	-	Withdrawn
Total	**1350 (Rs One Thousand three hundred and fifty crore only)**		

Details of instruments/facilities in Annexure-1|@ Rating withdrawn post payment confirmation from Corporation Bank and Debenture Trustee

CARE has rated the aforesaid Upper Tier II bonds and Perpetual bonds of the Corporation Bank one notch lower than Lower Tier II Bonds in view of their increased sensitiveness to the Bank's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments.

The ratings factor in the additional risk arising due to the existence of the lock-in-clause in hybrid instruments. Any delay in the payment of interest/principal (as the case may be) following invocation of the lock in clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared to conventional subordinated debt instruments.

Detailed Rationale & Key Rating Drivers

The revision in outlook of Corporation Bank is on account of significant capital infusion from GOI resulting in improvement in capital adequacy and asset quality measures and CARE's expectation that the bank's credit cost is likely to remain modest going forward.

The rating of Corporation Bank continues to draw strength from majority ownership by GoI and demonstrated track record of continued support with timely equity infusion, moderate resource profile with strong network in South India and relatively low operating cost to income albeit marginal deterioration in FY19 (refers to the period April 1 to March 31). The rating also takes into account the improvement in asset quality ratios with un-provided NPA reducing to Rs.6927 cr as on March 31, 2019 as against Rs.14077 cr as on March 31, 2018 and provision coverage ratio improving to 66.60% as on March 31, 2019 (from 37.11% as on March.31, 2018) aided by higher recoveries and provisions during FY19. Fresh slippages though had moderated remained high during FY19. The ratings, however, continues to be constrained by continued losses reported by the bank owing to de-growth in interest income and high provisions. Going forward, bank's operations turning profitable enabling it to strengthen its capitalization profile and consistent improvement in asset quality parameters remains key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by Government of India (GOI) and demonstrated continuing support: Government of India (GoI) continues to have majority stake in the bank with demonstrated track record in equity infusion. During FY19, as part of its recapitalization plan, Corporation Bank received allocation of Rs. 11,641 crore (Rs.2,555 crore in Oct'18 and another Rs.9,086 crore in Mar'19). Consequently, the shareholding of GoI increased from 79.87% as on March 31, 2018 to 93.50% as on March 31, 2019.

Improvement in capitalization levels due to significant equity infusion by GOI: Significant equity infusion helped bank's capitalization ratios improve despite the net losses reported in FY19. Basel III CAR stood at 12.30% (PY: 9.23%) and Tier I CAR at 10.52% (PY: 7.27%) as on March 31, 2019. The common equity Tier I ratio (BASEL III) as on March 31, 2019 stood at 10.39% improving from 5.68% as on March 31, 2018. The bank had no ATI bonds and the amount of Upper Tier II Bonds declined to Rs.3100 crore (PY: Rs. 4300 crore) and Perpetual Bonds (Basel II) declined to Rs.500 crore (PY:Rs.737.5 crore) as on March 31, 2019. The bank had free reserves of Rs. 14,463 crore as on March 31, 2019.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Improved asset quality parameters: On back of equity infusion, Bank had provided for Rs.11,943 crore in FY19. This along with lower fresh slippages and higher recoveries/ upgradation resulted in improvement of GNPA% and NNPA% as on Mar'19. The bank reported Gross NPA ratio of 15.35% as on March 31, 2019 which improved from 17.35% supported by recoveries and write-offs. Bank's net NPA levels have improved from 11.74% as on March 31, 2018 to 5.71% as on March 31, 2019 and the same led to bank to come out of PCA framework in February 2019. The bank had made complete provisions in respect of NCLT list 1 & 2 borrower accounts. Additionally bank has also made 98.6% provisioning towards other NCLT accounts. On account of increased provisioning, the provision coverage ratio has improved from 37.11% as on March 31, 2018 to 66.60% as on March 31, 2019. The high provision coverage is also expected to provide cushion to the net profitability as the stressed accounts undergo resolution. SMA1+SMA2 as % of gross advances of the Bank stood at 1.23% as on Mar'19 which is better amongst its PSB peers. Going forward slippages are expected to remain modest given the relatively low exposure to watchlist accounts. This along with recoveries is expected to help reduce the net NPA levels of the bank.

Moderate Resource Profile: The bank's resource profile improved with CASA's share in total deposits growing to 31.59% as at month ended Mar'19 as against 29.52% as at month ended Mar'18. The Bank has been embarking on strategies to improve the CASA deposits and higher growth of term deposits. The share of bulk deposits in total deposits stood at 23.93% in FY19 compared to 24.67% in FY18.The improvement in CASA deposits in proportion to the total deposits also partially helped the bank in reducing its cost of deposits of the bank from 5.76% in FY18 to 5.16% in FY19 and improving its net interest income

Key Rating Weaknesses

Substantial losses incurred in FY19, on account of high provisioning for NPA: During FY19, the bank witnessed de-growth of 11.4% in its interest income driven by a 20.2% decline in income from investments owing to overall reduction of investment profile by 14.7%. The net interest income of the bank in FY19 witnessed a growth of 13.9% to Rs.5,509 crore (PY: Rs.4,838 crore) despite decrease in asset and NPA issues. This was supported by interest recognition made out of cash recoveries made by the bank. Bank made interest recognition of ~Rs.1900 crore from cash recoveries. On account of the same the interest spread of the bank has also improved from 2.09% in FY18 to 2.59% in FY19. The operating profit of the bank declined to Rs.3,894 crore in FY19 (PY: Rs.3,950 crore) owing to increase in operating expenses leading to increase in cost to income for the bank to 47.24% in FY19 from 44.76% in FY18, however the same continues to be better than its peers. Despite bank earning operating profit of Rs.3894 crore in FY19, bank profitability was impacted on account of higher provisioning (excluding tax) in FY19 of Rs.11,943 crore (PY: Rs.8,021 crore) the bank reported net loss of Rs.6,333 crore in FY19 as against net loss of Rs.4,054 crore in FY18. Going forward, the bank is expected to recover from losses in FY20 with relatively lower credit costs expected and recoveries from its NCLT account exposures.

Industry prospects: The banking sector is reeling under asset quality pressure thereby impacting profitability. The asset quality review conducted by RBI led to build up of non-performing assets. Credit growth has been subdued due to slowdown in the economy and capital constraints especially in the case of PSU banks. Only with the turnaround in the economy and resolution of NPAs, the banking sector would embark on a growth trajectory.

Adequate liquidity position: According to structural liquidity statement (SLS) submitted by the bank as on March 31, 2019, there are no negative cumulative mismatches in up to 1 year maturity bucket. Further, bank has maintained an excess SLR investment of Rs.2075.17 crore as on March 31, 2019. Additionally the term deposits have a roll over rate ~60%. These factors provide cushion to the bank's liquidity profile. CB's liquidity coverage ratio remained adequate at 153.73% (quarterly average for Jan'19-Mar'19) as against the minimum regulatory requirement of 100%, as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Financial sector
CARE's Rating Methodology for Banks

About the Company

Corporation Bank is a Mangalore-based mid-sized public sector bank which was established in 1906. Government of India is the majority shareholder holding 93.50% stake in the bank followed by LIC of India holding 3.62%. As on March 31, 2019, the bank had 2432 branches, of which 588 are in rural, 794 in semi urban, 518 in urban and 532 in metro areas. The bank has a wholly owned subsidiary viz. Corp Bank Securities Ltd., which is engaged in trading of government securities. Ms. P V Bharathi is the MD and CEO, who is assisted by a team of executive directors and General Managers heading various departments. As

part of recapitalization plan, GOI has infused Rs.11,641 crore of equity capital during FY19. As on March 31, 2019, the bank had advances of Rs.1,21,251 crore and deposits of Rs.1,85,568 crore.
With considerable capital infusion, the bank has come out of Prompt Corrective Action (PCA) framework of RBI with effect from February 26, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	19941	17495
PAT	-4054	-6333
Interest coverage (times)	1.31	1.39
Total Assets	217478	207171
Net NPA (%)	11.74	5.71
ROTA (%)	-1.75	-2.98

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Upper Tier II	December 12, 2008	10.10	December 12, 2023	0.00	Withdrawn
Bonds-Upper Tier II	May 06, 2009	8.25	May 06, 2024	0.00	Withdrawn
Bonds-Upper Tier II	August 11, 2009	8.45	August 11, 2024	300.00	CARE A+; Stable
Bonds-Perpetual Bonds	December 12, 2008	10.10	Perpetual	300.00	CARE A+; Stable
Bonds-Upper Tier II	April 29, 2010	8.75	April 29, 2025	550.00	CARE A+; Stable
Bonds-Lower Tier II	March 31, 2009	8.85	May 31, 2019	0.00	Withdrawn
Bonds-Perpetual Bonds	January 19, 2009	9.00	January 19, 2019	0.00	Withdrawn
Bonds-Perpetual Bonds	August 11, 2009	9.05	Perpetual	100.00	CARE A+; Stable
Bonds-Perpetual Bonds	August 26, 2009	9.10	Perpetual	100.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Upper Tier II	LT	-	-	-	1)CARE A+; Negative (06-Jul-18)	1)CARE A+; Negative (21-Feb-18) 2)CARE A+; Stable (12-Jul-17)	1)CARE A+; Stable (23-Dec-16) 2)CARE A+ (08-Jul-16)

2.	Bonds-Upper Tier II	LT	-	-	-	1)CARE A+; Negative (06-Jul-18)	1)CARE A+; Negative (21-Feb-18) 2)CARE A+; Stable (12-Jul-17)	1)CARE A+; Stable (23-Dec-16) 2)CARE A+ (08-Jul-16)
3.	Bonds-Upper Tier II	LT	300.00	CARE A+; Stable	-	1)CARE A+; Negative (06-Jul-18)	1)CARE A+; Negative (21-Feb-18) 2)CARE A+; Stable (12-Jul-17)	1)CARE A+; Stable (23-Dec-16) 2)CARE A+ (08-Jul-16)
4.	Bonds-Perpetual Bonds	LT	300.00	CARE A+; Stable	-	1)CARE A+; Negative (06-Jul-18)	1)CARE A+; Negative (21-Feb-18) 2)CARE A+; Stable (12-Jul-17)	1)CARE A+; Stable (23-Dec-16) 2)CARE A+ (08-Jul-16)
5.	Bonds-Upper Tier II	LT	550.00	CARE A+; Stable	-	1)CARE A+; Negative (06-Jul-18)	1)CARE A+; Negative (21-Feb-18) 2)CARE A+; Stable (12-Jul-17)	1)CARE A+; Stable (23-Dec-16) 2)CARE A+ (08-Jul-16)
6.	Bonds-Lower Tier II	LT	-	-	-	1)CARE AA-; Negative (06-Jul-18)	1)CARE AA-; Negative (21-Feb-18) 2)CARE AA-; Stable (12-Jul-17)	1)CARE AA-; Stable (23-Dec-16) 2)CARE AA- (08-Jul-16)
7.	Bonds-Perpetual Bonds	LT	-	-	-	1)CARE A+; Negative (06-Jul-18)	1)CARE A+; Negative (21-Feb-18) 2)CARE A+; Stable (12-Jul-17)	1)CARE A+; Stable (23-Dec-16) 2)CARE A+ (08-Jul-16)
8.	Bonds-Perpetual Bonds	LT	100.00	CARE A+; Stable	-	1)CARE A+; Negative (06-Jul-18)	1)CARE A+; Negative (21-Feb-18) 2)CARE A+; Stable (12-Jul-17)	1)CARE A+; Stable (23-Dec-16) 2)CARE A+ (08-Jul-16)
9.	Bonds-Perpetual Bonds	LT	100.00	CARE A+; Stable	-	1)CARE A+; Negative (06-Jul-18)	1)CARE A+; Negative (21-Feb-18) 2)CARE A+; Stable (12-Jul-17)	1)CARE A+; Stable (23-Dec-16) 2)CARE A+ (08-Jul-16)

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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