

Central Bank of India

February 01, 2024

Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Certificate of deposits	10,000.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Rating assigned to the Certificate of Deposits of Central Bank of India (CBI) draws strength from the majority ownership of the Government of India (GoI) and demonstrated funding support by GoI with aggregate equity infusion by GoI at ₹21,835 crore from FY16-FY22. CARE Ratings Limited (CARE Ratings) expects continuation of the strong support by the GoI. Rating also factors-in the long track record of operations with established pan-India business franchise, diversified advances book and deposit base with sizeable Current Account and Savings Account (CASA) proportion.

Rating is constrained by moderate asset quality which has seen improvement over the past few years supported by significant write-offs and recoveries as well as reduction in fresh slippages over the years. The bank's earnings profile has seen considerable improvement starting from FY22 however, the level of profitability continues to remain moderate as reflected in Return on Total Assets (ROTA).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade

- Not applicable

Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade

- Deteriorating asset quality, with gross non-performing assets (NPA) of 8% or more
- Deteriorating capitalisation levels with cushion above the minimum regulatory requirement lower than 1% on a sustained basis.

Outlook: Not applicable

Analytical approach:

Standalone; factoring in the expected support from the GoI.

Detailed description of the key rating drivers:

Key strengths

Majority ownership and support by GOI

GOI continues to be the majority shareholder holding 93.08% stake in CBI as on December 31, 2023. GOI has been supporting public sector banks with regular capital infusions and steps to improve capitalization, operational efficiency and asset quality considering the critical role played and importance of the public sector banks in the overall economy.

CBI cumulatively received equity capital of ₹21,835 crore from FY16 including recapitalisation bonds of ₹4,800 crore which helped the bank to maintain its capital adequacy in spite of reporting net losses during FY16 to FY21 on account of weak asset quality. CARE Ratings expects GOI to continue to support public sector banks including CBI, considering the majority ownership and their importance to the financial sector.

Comfortable capitalisation levels

Aided by regular equity infusion by GoI, improvement in asset quality along with improvement in profitability leading to accretion to net worth and the capitalization profile had improved over the years.

Currently, the capital adequacy levels of the bank remained comfortably above regulatory requirement with total capital adequacy ratio (CAR) of 14.74% (CET-1 and Tier-I: 12.17%) as on December 31, 2023 as against regulatory requirement of 11.5%, however the same remains relatively lower compared to its peers. Given the majority ownership of GOI, CBI is expected to receive timely and adequate support in the form of capital as and when required. CARE Ratings expects the bank to maintain capital cushion of at least 1.5% above the minimum regulatory requirement in the near term.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diversified advances profile with high share of retail advances

The bank's gross advances grew at compounded annual growth rate (CAGR) of 3.5% during FY18-FY22 and has remained lower than the average advances growth of 4.9% for public sector banks during same period, on account of the bank being under the Reserve Bank of India's (RBI's) prompt corrective action (PCA) framework. The bank had come out of PCA framework on September 20, 2022, post which it has seen growth in advances which witnessed growth of 14.8% during FY23 (refers to April 01- to March 31) and 10.0% (y-o-y) growth during 9MFY24 (refers to April 01 to December 31) and stood at ₹2,39,646 crore as on December 31, 2023.

Retail, agriculture and MSME (RAM) segment continues to be the bank's major focus areas and forms major portion advances. Share of corporate advances have remained steady over the past years. As on December 31, 2023, RAM portfolio constituted 67.0% of gross advances. Within retail segment, the focus was more on housing loans for capital conservation and have better asset quality. CARE Ratings expects the proportion of RAM segments and corporate to remain at similar levels in the medium term.

Established franchise with strong deposit base with comfortable CASA proportion

The bank has a track record of over a century and over the years has developed a pan-India business franchise with a network of 4,494 branches and 4,083 ATMs as on December 31, 2023. The deposit base of CBI has been steadily growing over the years and it reported a growth of 4.9% during FY23, with deposits growing from ₹3,42,692 crore as on March 31, 2022, to ₹3,59,296 crore as on March 31, 2023 and the same has grown by 5.1% during 9MFY24 and stood at ₹3,77,722 crore as on December 31, 2023. Over the last few years, share of CASA has steadily improved from 35.48% as on March 31, 2016, to 50.39% as on March 31, 2023 which was higher than peer public sector banks and had remained relatively stable at 48.98% as on December 31, 2023. Retail term deposits formed 89.8% of the overall term deposits as on September 30, 2023. However, the sustenance of CASA at the present levels with the bank's ability to raise deposits at competitive rates remains to be seen.

Key weaknesses**Moderate but improving asset quality parameters**

The asset quality parameters of CBI have seen improvement over the last few years as the bank has written-off significant amount of NPAs and made recovery in the last three years. CBI's asset quality parameters have shown continuous improvement post peaking with Gross NPA ratio of 21.48% and Net NPA ratio of 11.10% as on March 31, 2018, largely on account of exposure to weaker large-ticket corporate accounts.

The bank saw recovery of ₹13,835 crore and write-offs of ₹31,625 crore of NPAs during FY20 to FY23 resulting in Gross NPA ratio improving to 4.50% as on December 31, 2023.

The bank's Net NPA, Net NPA to Net worth and Provision Coverage Ratio (excluding Technical Written Off) stood at 1.28%, 13.08% and 72.60% respectively as on December 31, 2023. Provision coverage ratio (including written off accounts) stood healthy at 93.7% as on December 31, 2023.

CBI's standard restructured assets (including the RBI Resolution Framework 1.0 and 2.0) remained moderate at ₹6,711 crore constituting 2.80% of gross advances as on December 31, 2023. The bank's special mention accounts (SMA) stood at 6.24% of gross advances as on December 31, 2023. The bank's gross stressed assets (Gross NPA+ standard restructured advances+ Security Receipts) to gross advances stood at 8.29% as on December 31, 2023. CARE Ratings expects the level of incremental slippages to remain lower resulting in improvement in asset quality going forward.

Moderate profitability levels; however significant improvement from FY22

CBI saw increase in advances from FY23 post coming out of the PCA framework. During FY23, CBI's net interest income has witnessed increase of 23.2% during FY23 to ₹11,687 crore as against ₹9,487 during FY22. Non-interest income witnessed increase from ₹2,968 crore during FY22 to ₹4,084 crore during FY23. The bank's net interest margin (NIM) stood at 3.02% as against 2.59% during FY22 due to increase in yield on advances with increased focus on the retail as well as lower slippages during the year and was also aided by cost of deposits remaining at similar level. The non-interest income increased due to higher fee-based income along with increase in bad debt recoveries.

However, operating expenses to average total assets witnessed increase and stood at 2.30% during FY23 as against 1.98% during FY22 majorly on account of increase in provisions for employee expenses and expenses incurred on digital transformation project undertaken by the bank.

Credit cost stood at 1.10% during FY23 as against 0.95% during FY22. Aided by improvement in NIM, the bank reported a PAT of ₹1,582 crore on a total income of ₹29,626 crore as against a PAT of ₹1,045 crore on a total income of ₹25,770 crore during FY22. The bank's ROTA stood at 0.41% during FY23 as against 0.28 during FY22.

During 9MFY24, CBI's profitability continued to be on an improving trend with ROTA of 0.56%. However, the same remains relatively lower compared to its peers. CARE Ratings expects the profitability of the bank to improve in the coming quarters with stable NIM and expectations of lower credit costs.

Liquidity: Strong

As per asset-liability management (ALM) statement submitted by bank as on September 30, 2023, the bank's liquidity profile is adequate with no cumulative negative mismatch up to 3-year time bucket. Negative mismatch during longer tenure buckets is due to maturity of deposits however, the bank witnesses roll over rate of deposits of above 90%. Liquidity coverage ratio (LCR) of CBI remains comfortable and stood at 260.7% as on June 30, 2023, as against regulatory requirement of 100%. Comfort can be drawn from the excess Statutory liquidity ratio (SLR) maintained by CBI at 4.47% of statutory requirements as on September 30, 2023. The bank has access to systemic liquidity like RBI's liquidity adjustment facility (LAF) and marginal standing facility (MSF) facility along with access to refinance from SIDBI, NHB, NABARD, etc and access to call money markets.

Environment, social, and governance (ESG) risks

CBI aims to enhance financial inclusion in the country. One of CBI's fundamental and core values is respect for human rights. Climate change is not only an environmental issue, but also a business risk, according to CBI. In its lending policies, CBI is boosting its due diligence on social and environmental impact. CBI is taking its best efforts to reduce the electricity consumption as a part of ESG Initiative. The bank has also installed solar equipment of few of its branches/regional/zonal offices to consume power generated by green channels and to reduce use of power generated by connected channels. CBI has launched Green Fixed Deposits, proceeds of which will be utilized towards funding green projects. Green Deposits are aimed to enhance CBI's participation in projects directly supporting United Nations' Sustainable Development Goals (SDGs) and empower depositors to opt for financial products that have a positive impact on the environment, and the society at large. Green deposit is offered at special rates which are above other fixed deposit rates.

Applicable criteria

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)

[Policy on Default Recognition](#)

[Financial Ratios – Financial Sector](#)

[Notching by Factoring Linkages with the Government](#)

[Rating Methodology - Banks](#)

[Short-Term Instruments](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Banks	Public sector bank

CBI founded on December 21, 1911, was the first commercial bank to be established in India. CBI functioned as a private sector bank until 1969. In 1969, CBI was nationalized along with 13 other banks. As on December 31, 2023, GoI held 93.08% shareholding in the bank. As on December 31, 2023, CBI had a network of 4,494 branches, 4,083 ATMs across the country. As on December 31, 2023, the overall business of bank stood at 6.17 lakh crore with gross advances of 2.40 lakh crore and deposits of 3.77 lakh crore. Post the asset quality review (AQR) by RBI, CBI saw significant increase in its NPAs resulting in the bank having to make provisions which impacted the profitability and capital adequacy of the bank during FY16-FY21. CBI was put into PCA framework by RBI in June 2017 and was subsequently removed from the PCA in September 2022 after it met the parameters under the framework.

CBI has two subsidiaries namely, Centbank Home Finance Ltd. (64.4% ownership) and Centbank Financial & Custodial Services Ltd. (100% ownership). CBI also has a share of profit/loss in three associates consisting of two Regional Rural Banks (RRBs) and its Joint Venture in Zambia named Indo Zambia Bank Ltd. is promoted jointly by Government of Zambia and three Indian Banks viz., CBI, Bank of Baroda and Bank of India. Each Indian bank is holding 20% equity and the Government of Republic of Zambia holds the balance 40% equity.

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	9MFY24 (UA)
Total operating income	25,770	29,626	25,735
PAT	1,045	1,582	1,742
Total Assets	3,75,989	3,96,717	4,31,670
Net NPA (%)	3.97	1.77	1.28
ROTA (%)	0.28	0.41	0.56

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Certificate Of deposit	-	-	-	-	10000.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds-Upper Tier II	-	-	-	-	-	-	1)Withdrawn (04-Jan-21)
2	Bonds-Upper Tier II	-	-	-	-	-	-	1)Withdrawn (04-Jan-21)
3	Certificate Of deposit	ST*	10000.00	CARE A1+				

*Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Certificate of deposits	Simple

Annexure-5: Lender details: Not Applicable

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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