

CO:IRD:2022-23:312

13<sup>th</sup> December, 2022

National Stock Exchange of India Limited Listing Department, Exchange Plaza, Plot No.C/1, 'G' Block Bandra-Kurla Complex Bandra (E), Mumbai-400 051 <b>Scrip code – CENTRALBK</b>	BSE Ltd. Corporate Relationship Department Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai 400001 <b>Scrip Code - 532885</b>
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Dear Sir/Madam,

**Sub: Credit Rating**

Pursuant to Regulation 30 & Regulation 55 of the Securities & Exchange Board of India (Listing Obligations and Disclosure Requirement) Regulations, 2015, this is to inform that India Rating & Research Pvt. Ltd has reviewed the rating of non-convertible securities as under :-

Details of Credit Rating	
Current Rating Details	
ISIN	INE483A08031 (TIER II Bonds under Basel III)
Name of Credit Rating Agency	India Rating & Research Pvt Ltd
Credit Rating assigned	AA-
Outlook (stable/positive/negative/no outlook)	Stable
Rating action (New/Upgraded/downgraded/Reaffirm/other)	Affirmed
Specify other rating action	NA
Date of Credit rating	12.12.2022
Verification status of Credit Rating agency	Verified
Date of verification	12.12.2022

We annex a copy of rating rationale issued by India Rating & Research Pvt Ltd.

Please take the above on record.

Thanking you,

Yours faithfully,

For CENTRAL BANK OF INDIA

**BRIJ KISHOR PATWARI**

Compliance Officer/Senior Manager

## India Ratings Affirms Central Bank of India at ‘IND AA-’; Outlook Stable

Dec 12, 2022 | Other Beverages

India Ratings and Research (Ind-Ra) has affirmed Central Bank of India’s (CBOI) Basel III Tier-II bonds as follows:

Instrument Type	Date of Issuance	ISIN	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel III Tier-II bonds*	20 March 2020	INE483A08031	9.20	20 May 2030	INR15	IND AA-/Stable	Affirmed

\*INR10 billion unutilised

**Analytical Approach:** Ind-Ra continues to factor in support from the government of India (GoI) to arrive at the rating. The GoI’s 93.08% stake in CBOI at end-September 2022, indicates the bank’s systemic importance to the government.

The affirmation reflects the strengthening of CBOI’s balance sheet, a reasonable cushion to absorb the impact of COVID-19 pandemic, and the fact that the COVID-19-led disruptions have had only a moderate impact on the bank. Ind-Ra opines the GoI’s support to CBOI, has been demonstrated through regular infusion of equity over the last few years, has helped the bank to step up provisions and strengthen its balance sheet. Ind-Ra expects CBOI to continue receiving timely support from the GoI, if and when required. Although, the agency does not envisage any material requirement in the short-to-medium term to meet the minimum regulatory capital requirements.

### Key Rating Drivers

**Regular Equity Infusions Strengthen Capital Buffers:** CBOI has been receiving regular equity infusions from the Govt (FY21: INR48 billion, FY16-FY20: INR170.35 billion, around 78% of 1HFY23 net-worth), leading to a substantial improvement in its capital. Its common equity tier (CET)-I ratio stood at 11.62% at 2QFY23 (FY22: 11.48%, FY21: 10.79%). Furthermore, with a sharp rise in provisions coverage ratio over FY18-FY21, the need to provide for legacy non-performing assets has been taken care of, which reduces the pressure on profitability. Additionally, with the bank returning to profitability (profitable over 1QFY22-2QFY23), internal accruals shall add to the capital buffers.

**Stabilising Asset Quality:** The bank's gross non-performing asset (GNPA) ratio improved to 9.67% in 1HFY23 (FY22: 14.84%, FY21: 16.55%) and net non-performing asset ratio to 2.95% (3.97%, 5.77%), mainly on account of huge write-offs of INR97.99 billion in 1HFY23, which are modestly higher than peers' and materially higher than larger public sector banks. Ind-Ra expects with the manifestation of additional COVID-19 stress in terms of slippages from restructured assets (1HFYE23: 2.9%), special mention account-1 & 2 (3.6%) and loans supported by emergency credit line guarantee scheme (INR38.4 billion outstanding till date) including normal business slippages, the incremental impact on asset quality to be manageable.

CBOI's provision coverage ratio stood at 71.6% (excluding technical write-offs) in 2QFY23 (2QFY22: 74.3%), and hence, provisions on legacy GNPA's would not be substantial. Ind-Ra expects the credit costs in the medium term to be absorbed by the bank's expected steady state pre-provisioning operating profit (1HFY23: 3.38%, FY22 3.47%); thus, Ind-Ra does not expect the bank to make losses on account of credit costs as witnessed in the past.

**Improved Liability Franchise:** CBOI has a strong liability franchise with a current and savings account (CASA) ratio of 50.80% in 2QFY23, which has helped it maintain lower cost of deposits of 3.89% in 2QFY23 (2QFY22: 3.84%). The overall deposits grew 2.0% yoy in 2QFY23, with the CASA growing at 4.2% yoy. The low cost of deposits and the bank's increasing CASA were aided by FY15-FY20 advances CAGR decline of 4.3% which also helped bank to accrue sticky and granular deposit profile. However, with the expectations of higher loan growth in the medium term, it remains to be seen if the liability profile deteriorates. The interest rate curve is adverse, and the agency expects the bank's interest rates on deposits to continue to increase.

**Liquidity Indicator – Adequate:** CBOI maintained a surplus funding of about 14.6% in the cumulative one-year bucket as a percentage of total assets in 2QFY23. The bank also maintained about 25.8% of the total assets as balances with the Reserve Bank of India and government securities, which gives Ind-Ra the comfort that CBOI is well placed to meet its short-term funding requirements. CBOI also had a comfortable liquidity coverage ratio of 288.01% in 2QFY23, significantly above the regulatory requirement of 100%. However, if deposit growth does not keep pace with advance growth, then the bank may need to increasingly rely on wholesale sources, which could impact liquidity adversely but seems manageable in the foreseeable future.

**Improvement in Quality of Earnings; Although Remains Dependent on Treasury Income and Recovery Performance:** CBOI reported a net profit of INR15.98 billion over FY22-1HFY23, after reporting cumulative losses of INR166.13 billion over FY16-FY21. The bank reported stable net interest income (NII) growth of 12.83% in 1HFY23 (FY22: 15.06%) which supported pre-provision operating profit (PPOP) growth 11.06% (25.40%) as cost-to-income ratio remained stable at 55.2% (53.90%), although much higher than larger peers. However, contribution of treasury income and recoveries from written-off accounts will continue to constitute majority of PPOP performance, which it expects will improve in the medium term. Moreover, a decline in credit costs to 2.5% in FY22 and 2.3% (annualised) in 1HFY23 (FY21: 3.9%, FY20: 3.5%) led to a stronger profit generation. Furthermore, barring any major credit events such as COVID-19, the improving recovery trend in FY23 and FY24, and increasing loan book with limited requirement to provide for legacy NPA would aid the bank's profitability.

## Rating Sensitivities

**Positive:** Consistent material gains in franchise, which among other things, may reflect in market share in both advances and deposits, stronger operating performance from the core lending operations, adequate capital buffers and asset quality could lead to a positive rating action.

**Negative:** The Basel III Tier-2 bond rating are based on Ind-Ra's expectation of support from the Gol (majority shareholder) to meet the minimum capital requirements. Any change in the majority Gol ownership or a change in the agency's opinion regarding the Gol's timely support for the bank, which could be warranted in case of a sharp drop in capitalisation or otherwise, could result in a negative rating action or a rating watch.

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on CBOI, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

## Company Profile

CBOI has a significant presence in rural and semi-urban areas, with about 64% of its branches located in these regions. At 2QFYE23, it had 4,517 branches and 2,111 ATMs in India.

### FINANCIAL SUMMARY

Particulars	FY22	FY21
Total assets (INR billion)	3,865.66	3,692.15
Total equity (INR billion)	275.27	265.04
Net income/loss (INR billion)	10.45	-8.8
Return on average assets (%)	0.3	-0.2
Equity/assets (%)	7.1	7.2
Capital adequacy ratio (%)	13.84	12.48
Source: CBOI, Ind-Ra		

## Solicitation Disclosures

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	13 December 2021	3 March 2021	4 March 2020
Basel III tier 2 bonds	Long-term	INR15	IND AA-/Stable	IND AA-/Stable	IND AA-/Negative	IND AA-/Negative

## Complexity Level of Instruments

Instrument Type	Complexity Indicator
Basel III tier 2 bonds	Moderate

For details on the complexity level of the instrument, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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## APPLICABLE CRITERIA

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**Evaluating Corporate Governance**

**Rating Bank Subordinated and Hybrid Securities**

## **Financial Institutions Rating Criteria**

### **The Rating Process**

#### **DISCLAIMER**

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