

RATING RATIONALE

11 Oct 2019

Corporation Bank

Brickwork Ratings reaffirms the ratings of ‘BWR AA’ for Basel III Tier II Bond issues amounting to Rs.1500 Cr, withdraws the rating of Upper Tier II Bond issue of Rs.500 Cr and also withdraws the rating of Innovative Perpetual Debt Instrument of Rs.300 Cr of Corporation Bank. The Rating is placed on Credit Watch with Developing Implications.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (March 2019)	Present
Basel III Compliant Tier II bonds	500	500	Long Term	BWR AA (Outlook: Stable)	BWR AA (Credit Watch with Developing Implications) Reaffirmed, removed outlook and placed on Credit watch
Basel III Compliant Tier II bonds (proposed)##	1000	1000	Long Term	BWR AA (Outlook: Stable)	BWR AA (Credit Watch with Developing Implications) Reaffirmed, removed outlook and placed on Credit watch
Upper Tier II**	500	500	Long Term	BWR AA- (Outlook: Stable)	BWR AA- (Outlook: Stable) Withdrawn on redemption
Innovative Perpetual Debt Instrument	300	300	Long Term	BWR AA- (Outlook: Stable)	BWR AA- (Outlook: Stable) Withdrawn on redemption
Total	2300	2300	INR Two Thousand Three Hundred Crores Only		

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

** BWR had rated upper tier 2 bonds of Rs. 1000 Cr, and Bank has confirmed that they have raised only Rs.500 Cr.

Bank is yet to raise these bonds

Complete details of ISIN wise is provided in Annexure-I

Rating Action/ Outlook

Brickwork Ratings (BWR) has reaffirmed the ratings and placed the ratings on Credit Watch with Developing Implications by removing the outlook of bond issues of Corporation Bank as tabulated above. The reaffirmation continues to factor in the Government of India (GOI)’s support with equity stake of 93%, improved earnings and capital adequacy as of June 30, 2019, while business remains stagnant, has gross NPA of 15% and slippages of Rs.1399 Cr as of June 30, 2019. The Government of India (GOI) in August 2019 announced proposed amalgamation of 10 Public Sector Bank (PSBs) to form 4 PSBs.



Wherein, Corporation Bank and Andhra Bank is proposed to be amalgamated with Union Bank of India. The Board's of the respective Banks have accorded their in-principle approval for the proposed amalgamation during September 2019. Brickwork Ratings has taken note and placed the ratings of bonds of these banks on Credit Watch with Developing Implications. The amalgamation is expected to bring in synergies of technology and human resources, increase the business and asset size and improve upon cost efficiency through branch rationalisation and asset monetisation, and reduce dependencies on GOI for capital infusion, strengthen capital and thereby manage the asset quality. However, any extension in timelines for completion of amalgamation and the smooth transition of the amalgamation shall be the rating sensitivities. BWR shall continue to monitor the developments in these Banks and effect appropriate rating action.

BWR has also withdrawn the rating of Upper Tier II Bond issue of Rs.500 Cr and Innovative Perpetual Debt Instrument of Rs.300 Cr of Corporation Bank, as the Bank has redeemed the said issues through exercise of call option on completion of 10 years. The Debenture Trustee confirms of these redemptions.

Key Rating Drivers

BWR has essentially relied upon the audited financials upto FY19 and unaudited financials of Q1FY20 of Corporation Bank, publicly available information and information/ clarifications provided by the Bank's management.

Credit Strengths:

- Bank's Capital adequacy ratios of CRAR, Tier I and CET-1 of 12.01%, 10.62% and 10.49% are comfortable and above the regulatory requirement, as of Q1FY20
- The Bank made Substantial provisioning in Q4FY19 and has resulted in improvement in Net NPA to 5.69%
- The Bank has generated net profits of Rs.103 Cr in Q1FY20 after a huge net loss amounting to Rs.6581 Cr in Q4FY19
- NII and Operating profits as of Q1FY20 has improved from Q4FY19, though it is lower than Q1FY19

Credit Risks:

- As of Q1FY20, the Bank's business remains stagnant at Rs.3.07 lakh Cr (FY19: Rs.3.06 lakh Cr). CASA @ 29% has decreased from 32% in FY19
- Cost to income ratio has increased to 50.61% as of Q1FY20 is higher than its amalgamating banks (Andhra Bank @ 44.6% and Union Bank of India @46.2%)
- Asset quality issues remain a concern with Gross NPA of Rs.20,913 Cr and GNPA @15.44% as of June 30, 2019. However, the Provision Coverage Ratio of 83.57% is more than the PSBs average PCR of 74.05%. Fresh slippages or additional provisioning requirement on account of ageing of the NPAs remains a key monitorable.



Analytical Approach and Applicable Rating Criteria

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

Rating Sensitivities

The focus post amalgamation in the initial few months is likely to move from credit growth and investments to achieving synergies between the entities, enable better customer management, effect branch rationalisation and manpower optimisation;

The Combined entities will have bigger business size, ability to manage costs and improve profitability, reduce stress on the asset quality and strengthen the capital adequacy. However, the ability of the banks to stabilise operations and increase focus on business growth and investment within a year shall be beneficial for these entities, an extension of that time frame shall be a key rating sensitivity

Positive: Amalgamation of Corporation Bank with Union Bank of India is expected to be a credit positive for Corporation Bank. However, it can be strongly ascertained on receipt of consolidated financials of these amalgamating banks.

Negative: Prolongment of amalgamation process and delay in increasing the business growth may lead to rating action or revision in outlook

Liquidity Position: Adequate

Corporation Bank has adequate liquidity with the Liquidity Coverage Ratio of 150.53% against the minimum required of 100%. As part of Contingency Funding Plan, Bank maintains short term liquid assets and highly liquid government securities / bonds / debentures to the extent of Rs 4500 crore. Also Bank has made line of credit arrangements with other Banks. Liquidity of Public Sector Banks has always remained better than its counterparts in the Private Sector Banks.

Key Covenants of the facilities rated

Basel III compliant bonds are subject to guidelines/regulations of the Reserve Bank of India (RBI) and as detailed in term sheet of respective issues. BWR considers them as Highly Complex instruments in terms of published criteria. Bank has raised Basel III Tier II Bonds of Rs.500 Cr and proposes to raise the balance Rs.1000 Crores.

Key Financial Indicators (in INR Crs)

Corporation Bank	Audited	Audited	Audited		UnAud	UnAud
Key Parameters – Rs Cr	FY 2017	FY 2018	FY 2019		Q1FY19	Q1FY20
Total Deposits	220,560	183,316	184,568		176,516	185,443
Deposit Growth (in %)	7.50%	-16.89%	0.68%			5.06%
Net Advances	140,357	119,869	121,251		116,312	121,437
Loans Growth (%)	0.02%	-14.60%	1.15%			4.41%

Total Business	360,917	303,185	305,819	292,828	306,880
Business Growth (%)	4.46%	-16.00%	0.87%		4.80%
CASA Ratio %	26.47%	29.52%	31.59%	28.53%	28.70%
Profitability Ratios (%)					
RoE (%)	4.66%	Negative	Negative	3.12%	2.49%
RoA (%)	0.23%	Negative	Negative	0.17%	0.20%
NIM (%)	2.12%	2.32%	3.05%	3.41%	2.81%
Net Interest Income (NII)	4451	4838	5182	1565	1299
Non-Interest Income	3090	2313	1872	787	432
Operating Profits	4440	3950	3894	1531	855
Provisions (exclg tax)	3603	10631	11943	1612	730
PAT	561	-4054	-6333	85	103
Cost to Income Ratio (%)	41.13%	44.76%	49.42%	34.91%	50.61%
Asset Liability Profile (%)					
Loans/Deposit Ratio	63.64%	65.39%	65.69%	65.89%	65.48%
Gross NPAs to Advances	11.70%	17.35%	15.35%	17.44%	15.44%
Net NPAs to Advances	8.33%	11.74%	5.71%	11.46%	5.69%
Std. Restructured Adv as a % of Gross Advances	4.24%	1.10%	0.72%	1.05%	0.66%
Gross NPA% + SRA % (Stressed Advances)	15.94%	18.45%	16.07%	18.49%	16.10%
Provision Coverage Ratio	55.17%	63.65%	83.30%	65.47%	83.57%
CRAR	11.32%	9.23%	12.30%	8.46%	12.01%
<i>Tier 1</i>	8.90%	7.27%	10.52%	6.32%	10.62%
<i>CET -I</i>	7.99%	5.68%	10.39%	6.07%	10.49%
<i>AT-I</i>	0.91%	1.59%	0.13%	0.25%	0.13%
<i>Tier II</i>	2.42%	1.96%	1.78%	2.14%	1.39%
<i>Book Value</i>	110.82	65.12	27.63	65.3	27.81
<i>GOI stake</i>	70.76%	79.87%	93.50%	79.87%	93.50%

About the Bank

Background: Corporation Bank founded in 1906 and nationalized in 1980, is amongst one of the South based public sector banks based in Mangalore. As of June 30,2019, it has 2,432 branches and 2990 ATMs.

Management: Smt P V Bharathi has assumed charge as Managing Director and CEO of Corporation Bank on 1st February, 2019. She is supported by Shri. Birupaksha Mishra since December 26, 2018.

Non Co-operation with previous Rating agencies - Not Applicable

Rating History for the last three years (including withdrawn/suspended ratings)

S N	Instrument	Current Rating			Rating History		
		Type	Amount (Rs Crs)	Rating	30-Mar-2019	26 Mar 2018	08Nov2017
1	Upper Tier II**	Long term	500	BWR AA- [BWR Double A Minus] (Outlook: Stable) Withdrawn on redemption	BWR AA- [BWR Double A Minus] (Outlook: Stable) Reaffirmed	BWR AA- [BWR Double A Minus] (Outlook: Negative) Reaffirmed	BWR AA- [BWR Double A Minus] (Outlook: Negative) Downgrade
2	Innovative Perpetual Debt instrument	Long term	300	BWR AA- [BWR Double A Minus] (Outlook: Stable) Withdrawn on redemption	BWR AA- [BWR Double A Minus] (Outlook: Stable) Reaffirmed	BWR AA- [BWR Double A Minus] (Outlook: Negative) Reaffirmed	BWR AA- [BWR Double A Minus] (Outlook: Negative) Downgrade
3	Basel III Additional Tier I bonds #	Long Term	800	-	-	BWR A+ [BWR A Plus] (Outlook: Stable) Withdrawn on redemption (26-Apr-2018)	BWR A+ [BWR A Plus] (Outlook: Stable)
4	Basel III Tier II bonds	Long Term	500	BWR AA (Credit Watch with Developing Implications) Reaffirmed, Removed outlook and placed on Credit Watch	BWR AA [BWR Double A] (Outlook: Stable) Reaffirmed	BWR AA [BWR Double A] (Outlook: Negative) Reaffirmed/ Assigned	BWR AA [BWR Double A] (Outlook: Negative) Reaffirmed
4	Basel III Tier II bonds##	Long Term	1000	BWR AA (Credit Watch with Developing Implications) Reaffirmed, Removed outlook and placed on Credit Watch	BWR AA [BWR Double A] (Outlook: Stable) Reaffirmed	BWR AA [BWR Double A] (Outlook: Negative) Assigned (Dec-2018)	-
Total			3100	INR Three Thousand One Hundred Crores Only			
^ Please refer to BWR website www.brickworkratings.com/ for definition of the ratings ** BWR had rated Upper Tier II bonds for Rs.1000 Cr, and the Bank has confirmed that they have raised only Rs.500 Cr. #Bank has informed BWR and also submitted notification to the Stock exchange to prematurely redeem the AT-1 bonds in April 2018 ## The Basel III Tier II Bonds of Rs.1000 Cr was assigned rating in December 2018 and is yet to be raised							

Complexity Levels of the Instrument: Complex

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Complexity levels of the Rated Instruments](#)
- [Banks and Financial Institutions](#)
- [Basel III Compliant Instruments](#)

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**Corporation Bank
ISIN wise facilities
Annexure-1**

Type of Instrument	Issue Date	Amount Rs Cr	Interest Rate	Maturity Date	ISIN
Upper Tier II**	06 May 2009	500	8.25%	06 May 2024	INE112A09091
Innovative Perpetual Debt Instrument	10 July 2009	300	9.15%	10 July 2019	INE112A09117
Basel III Compliant Tier II bonds	14 Nov 2017	500	9.23%	14 Nov 2027	INE112A08044
Basel III Compliant Tier II bonds (proposed)##	-	1000	-	-	not yet raised
Total		2300	INR Two Thousand Three Hundred Crores Only		

** BWR had rated upper tier 2 bonds of Rs. 1000 Cr, and Bank has confirmed that they have raised only Rs.500 Cr.

The Basel III Tier II Bonds of Rs.1000 Cr is yet to be raised



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