

B&S/39 /2019

February 6, 2019.

The Listing Department,
National Stock Exchange of India Ltd.,
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051.

Dear Sir,

Issue Description/ Description of Security:
CSBL Bonds-2012 (Series-I)

ISIN/Scrip Code:
INE679A08109

Tier – II Bonds listed under WDM Segment – Changes in the rating of the Bank by CARE.

We would like to inform you that the rating of the above referred Bonds by CARE, has been upgraded from 'BBB Minus' to 'A minus; Outlook : Stable' as per their press release dated February 6, 2019, issued by Rating agency CARE Ratings.

Relevant press release is enclosed herewith for your kind information and records.

Thank You,

Yours faithfully,


SIJO VARGHESE
COMPANY SECRETARY

The Catholic Syrian Bank Limited

February 06, 2019

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Lower Tier II Bonds	41.80	CARE A-; Stable (A Minus; Outlook: Stable)	Removed from credit watch Revised from CARE BBB- (Triple B Minus)
Total Facilities	41.80 (Rupees Forty One crore and Eighty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to lower tier II bond issue of The Catholic Syrian Bank Ltd (CASY) factors in sharp increase in networth on account of fresh equity infusion of Rs.1208 crore (of which Rs.442 crore infused in October 2018) by FIH Mauritius Investments Limited (FIHM; part of Fairfax group), resultant change in ownership and committed funding support from the group to meet capital requirements of the bank for the first five years. Fairfax group has significant presence in financial services across the globe with total asset size of around \$64 billion as at end of December 2017.

Above equity infusion along with the committed support from Fairfax group will help the bank in improving the scale of operations and profitability of the bank in the medium term. The rating factors in the long-standing track record of operations of the bank and comfortable liquidity position.

The rating is, however, constrained by its relatively weak asset quality, moderate financial performance, relatively small size of operations and regional concentration of business.

Going forward, the ability of the bank to grow its advances especially in retail/SME portfolio amidst increasing competition in this segment, improve asset quality and profitability will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing operational track record

CSB has a long standing track record of more than 95 years. Over the years, the bank has established in the state of Kerala with extensive presence in the rural and urban markets. As on March 31, 2018, total branches stood at 421 with majority of the branches in Kerala and total ATMs stood at 254.

Comfortable liquidity profile

ALM profile of the bank as on September 30, 2018 was comfortable with no negative cumulative mismatches in any of the time buckets. Also, CSB has liquidity backup in the form of excess SLR investments of Rs.818 crore as on September 30, 2018 to meet contingencies, if any. In addition to this, the bank has a deposit rollover rate of 93% (for FY18) which provides additional comfort.

Comfortable capitalization levels post equity infusion

Total CAR stood at 9.91% as on March 31, 2018 as against the regulatory requirement of 10.875% mainly on the account of bank reporting losses in FY18 and delay in capital infusion due to delay in the approvals. As on September 30, 2018, Total CAR continued to remain below regulatory requirement at 9.70%. The bank received approval for equity infusion in the month of October 2018 and FIHM infused Rs.442 crore in October 2018 on a partly paid up basis and the remaining amount (total equity infusion of Rs.1208 crore) will be infused in Q1FY20. The current round of equity of around Rs.1,200 crore will be sufficient for the growth of the bank over the medium term. It is to be noted that in the month of Oct 2018, the bank has received Rs.69.41 crore towards equity shares (partly paid) and Rs.372.19 crore towards warrants.

Key Rating Weaknesses

Regional concentration and small size of operations with improvement in overall business during FY18

The business of the bank is largely concentrated in the state of Kerala, which accounted for majority of the branch network as on March 31, 2018. With total advances of Rs.9,337 crore and total assets of Rs.15,530 crore as on March 31, 2018, CSB is one of the small sized banks in India.

During FY18, advances grew by 15% from Rs. 8,119 crore as on March 31, 2017 to Rs.9,337 crore as on March 31, 2018. The growth in advances during FY18 is aided by growth in corporate advances where the bank focused on lending to highly rated corporates. Deposits declined by 1% to Rs. 14,691 crore and investments declined by 26% to Rs.4,699 crore

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

as on March 31, 2018. With increased focus on CASA and reduction in bulk deposits, CASA proportion also improved from 24.78% as on March 31, 2017 to 27.03% as on March 31, 2018. Credit deposit ratio improved from 54.45x as on March 31, 2017 to 63.56x as on March 31, 2018.

However the overall business remained flat during H1FY19 due to capital constraint. Advances and deposits stood at Rs. 9,240 crore and Rs. 14,775 crore respectively as on September 30, 2018.

Losses reported during FY18 and H1FY19

Net Interest Margin improved from 2.00% in FY17 to 2.45% in FY18 mainly on account of decrease in cost of deposits from 6.84% in FY17 to 6.06% in FY18. Non-Interest Income declined from Rs.281 crore in FY17 to Rs.125 crore in FY18 mainly due to decrease in the profit on sale of investments from Rs.196 crore in FY17 to Rs.3 crore in FY18. Opex/Total Assets remained at 2.77% in FY18 as against 2.83% in FY17. With operating expenses remaining stable, CSB reported pre-provisioning profit of Rs.74 crore in FY18 as against Rs.152 crore in FY17 despite significant decline in non-interest income. With higher provisions towards NPAs of Rs.191 crore, CSB reported loss of Rs.97 crore in FY18.

During H1FY19, NIM remained at 2.49%. Non-interest income declined from Rs.67 crore in H1FY18 to Rs.39 crore in H1FY19 mainly due to loss on sale of investment of Rs.7 crore during H1FY19. Also, CSB made provisions on depreciation of investments (MTM) of Rs.14 crore during H1FY19 for the MTM losses. During H1FY19, the bank reported net loss of Rs.48 crore on a total income of Rs.678 crore. CSB has availed RBI dispensation to spread the provisions for MTM losses on investments in previous quarters. CSB is yet to provide Rs.6.03 crore provisions for MTM losses which will be provided in Q3FY19.

Relatively weak asset quality

The bank reported GNPA and NNPA ratios of 7.89% and 4.46% respectively as on March 31, 2018 as against GNPA and NNPA ratios of 7.25% and 5.51% respectively as on March 31, 2017. Provision coverage ratio improved from 53.13% as on March 31, 2017 to 61.86% as on March 31, 2018.

Slippages was Rs.281 crore in FY18 as against Rs.367 crore in FY17 and recoveries/upgradations was Rs.112 crore in FY18. GNPA increased from Rs.600 crore as on March 31, 2017 to Rs.764 crore as on March 31, 2018. With higher provisions during FY18, Net NPA decreased from Rs.448 crore as on March 31, 2017 to Rs.416 crore as on March 31, 2018.

Gross NPA and Net NPA further moderated to 8.26% and 4.32% as on September 30, 2018. The bank has also improved the recovery efforts during the current year. Despite slippages of Rs.296 crore during H1FY19, recoveries/upgradation was Rs.257 crore resulting in increase in GNPA from Rs.764 crore as on March 31, 2018 to Rs.796 crore as on September 30, 2018.

Analytical approach:

Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Financial sector](#)

[Bank - CARE's Rating Methodology for Banks](#)

About the Company

CSB is one of the smaller sized old private sector banks in India based in Kerala. It was established in 1920 by eminent residents of Thrissur, Kerala. The business operations of CSB are geographically concentrated in South India particularly Kerala. As on March 31, 2018, CSB had a network of 421 branches and 254 ATMs.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total income	1,617	1,422
PAT	2	-97
Total Assets	15,931	15,530
Net NPA (%)	5.51	4.46
ROTA (%)	0.01	NM

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Lower Tier II	March 31, 2012	11.70%	March 31, 2019	41.80	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (13-Nov-15)
2.	Bonds-Lower Tier II	LT	41.80	CARE A-; Stable	1)CARE BBB- (Under Credit watch with Positive Implications) (17-May-18)	1)CARE BBB- (Under Credit watch with Positive Implications) (05-Mar-18) 2)CARE BBB-; Stable (06-Dec-17)	1)CARE BBB- (17-Oct-16)	1)CARE BBB- (13-Nov-15)