



निवेशक संपर्क केंद्र : देना कार्पोरेट सेंटर, सी-10, 'जी' ब्लॉक, बांद्रा - कुर्ला कॉम्प्लेक्स, बांद्रा (पूर्व), मुंबई - 400 051.

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August 18, 2017

The Vice President - Listing BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001.	Vice President – Listing The National Stock Exchange of India Limited, Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai - 400 051.
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Dear Sir,

Re: Revision in Credit Ratings

This is with reference to your mail dated August 17, 2017 on announcement relating to "Credit Rating" submitted by the Bank on August 16, 2017.

As required by you, we are providing below the reasons for Revision in Ratings assigned by CARE Rating for Lower Tier II Bonds and Tier II Bonds (Basel III compliant).

Detailed Rationale & Key Rating Drivers

The rating revision takes into account significant deterioration in the asset quality and profitability parameters which has impacted the overall financial position of the bank. The rating also considers RBI placing the bank under Prompt Corrective Action Framework. The rating continues to factor in the majority ownership and expected support by the Government of India (GoI).

Outlook: Negative

The outlook reflects the expectation of continued stress on asset quality and profitability parameters of the bank leading to further pressure on the bank's capital position which may erode if revival measures are not resorted to. The outlook may be revised to 'Stable' in case of sustainable improvement in bank's asset quality and earning profile.

Detailed description of the key rating drivers

Key Rating Strengths

- Majority ownership and capital support by GOI
- Moderate Capitalization Levels
- Comfortable Liquidity

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Key Rating Weakness

Deterioration in profitability parameters

In FY17, interest income growth has decelerated to -4.35% (P.Y.: -1.09%) on account of lower advances growth & interest reversals on incremental NPAs. Lower growth in operating income coupled with increase in provisioning costs has led to losses in FY17.

Deterioration in asset quality parameters

As on March 31, 2017, GNPA and NNPA ratios increased to 16.27% (P.Y.:9.99%) and 10.66% (P.Y.:6.35%) respectively with net NPA/ net worth being 159.40.7% (P.Y.:105.72%). Thus, Substantial additions to NPA's without corresponding recoveries has led to increase in GNPA and NNPA. Total stressed assets to advances (Gross NPA plus std. restructured assets plus Security Receipts as a percentage of gross advances) increased to 21.53% as on March 31, 2017 as compared to 16.09% as on March 31, 2016.

Decline in Advances Profile

The bank's advances (net) saw a de-growth of 9.64% during FY17 to Rs.77,538 crore as on March 31, 2017 from Rs.85,811 crore as on March,31, 2016. The advances (gross) portfolio primarily comprises of large corporates (36.05%), retail (17.15%), agriculture (16.82%) and MSME (16.07%).

Initiation of Prompt Corrective Action by RBI

In June, 2017, RBI initiated prompt corrective action on the Bank because of the high net non-performing assets and negative return on assets. The Bank's NNPA stood at 10.66% (PY: 6.35%) and ROTA declined to -0.67% during FY17 (P.Y.: - 0.72%). Under PCA, the Bank has been advised to focus on recovery thereby reducing NPA's, rationalize the cap exp and manpower expenses, restrict further opening of branches etc. However, no restrictions are imposed on further lending.

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.

Please take the same on your record.

Thanking You.

Yours faithfully,



(Amit Kumar)
Company Secretary

