Bank of Maharashtra

June 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier II Bonds[&]	1,600.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Tier II Bonds[&]	1,000.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Tier II Bonds[&]	1,000.00	CARE AA; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments in Annexure-1.

[&]Tier-II Bonds under Basel-III are characterised by a 'point of non-viability' (PONV) trigger due to which the investor may suffer a loss of principal. The PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier-I (CET I) capital of the bank should be considered the most appropriate way to prevent the bank from turning non-viable.

Rationale and key rating drivers

The ratings assigned to the debt instruments of Bank of Maharashtra (BOM) factor in majority ownership by Government of India (GOI) & its continued support, long track record of the bank with established franchise and strong depositor base which helps the bank to maintain relatively high proportion of CASA (current account and saving account) deposits and comfortable capitalisation levels. The rating also takes note of improvement in profitability and asset quality parameters which continued in FY23 and mobilisation of fresh equity of ₹1,000 crore during Q1FY24 by way of QIP. The ratings further factor in continued improvement in the financial risk profile of the bank with improvement in profitability and asset quality parameters along with comfortable capitalisation levels post coming out of the Prompt Corrective Action (PCA) framework of RBI supported by internal accruals with improvement in profitability.

The bank has witnessed significant growth in its advances over the last four years with total advances increasing from Rs 93,467 crore as on March 31, 2019 to Rs 1,75,120 crore as on March 31, 2023 with major focus on retail, agriculture and MSME (RAM segment) and has also seen growth in the corporate lending book. The bank expects to continuing growing its advances sizeably in the near term.

The rating also factors in equity raise by way of QIP of ₹1,000 crore during Q1FY24 to support growth. However, maintaining the asset quality of the recently originated advances would be an important factor for the bank.

The ratings remain constrained due to the geographical concentration of the bank's branches in the state of Maharashtra (owing to the regional focus of the bank) and relatively moderate size in terms of total business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could lead to positive rating action/upgrade:

- Consistent improvement in profitability leading to improvement of capitalisation.
- Significant improvement in the size of the bank
- Improved asset quality parameters, with net stressed assets/tangible net worth below 25% on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in government support and ownership below 51%. Decline in asset quality parameters with Net NPA ratio of over 2.5% on a sustained basis.
- Deterioration in capitalisation levels with cushion over minimum regulatory requirement by 3.5%
- Deterioration in resource profile with decline in CASA deposits ratio below 45%
- Decline in profitability with ROTA below 0.60% on a sustained basis

Analytical approach:

The ratings are based on standalone profile of the bank and factor in strong support from Government of India (GOI) which holds majority shareholding in the bank.

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

Outlook: Positive
The 'Positive' outlook reflects CARE Ratings' expectation that BOM will continue to improve its financial risk profile with improvement in profitability and asset quality parameters in the medium term along with maintaining comfortable capitalisation by the bank while scaling up its advances.

Detailed description of the key rating drivers:

Key strengths

Majority ownership and support by GOI and demonstrated support

GOI continues to be the majority shareholder holding 90.97% stake in BOM as on March 31, 2023 (March 31, 2022: 90.97%). GOI has been supporting public sector banks (PSBs) with regular capital infusions and steps to improve capitalisation, operational efficiency, and asset quality. Given the majority ownership of GOI, BOM is expected to receive timely and adequate support in the form of capital as and when required. GOI had cumulatively infused equity capital of ₹9,007 crore during FY17 to FY20 which helped the bank come out of the PCA (Prompt Corrective Action) in Q4FY19. As the bank has been reporting profit and is sufficiently capitalised, GOI has not infused any equity capital after FY20. However, capital support in case of requirement is expected from GOI considering the majority shareholding and continues to be a key rating sensitivity.

Long track record and established franchise helping the bank with robust CASA base

BOM has been regionally-focused and has established a strong retail franchise in the state of Maharashtra. This has helped it raise stable CASA deposits over the years. During FY23, the bank's deposits have grown by around 16% higher than banking industry growth of 10%, driven mainly by growth in Term Deposits which increased by 28% and savings deposits which grew at a slower pace of 9% during FY23. The bank's CASA deposits increased by 7% during FY23 as compared to 16% growth in total deposits resulting in the CASA ratio to deteriorate to 53.38% as on March 31, 2023 as against 57.85% for the corresponding previous year which still continues to be highest amongst all public sector banks.

Comfortable capitalisation levels

The capitalisation levels of the bank have seen improvement post multiple capital infusions from GOI, QIP of ₹403.70 crore in FY22 and improvement in profitability post PCA. Currently, BOM's capitalisation levels are the best amongst public sector banks.
The bank reported capital adequacy ratio (CAR) of 18.14% (Tier I CAR: 14.25%) and common equity tier I (CET I) ratio of 12.66% as on March 31, 2023, as compared with CAR of 16.48% (Tier I CAR: 12.38%) and CET I Ratio of 12.17% as on March 31, 2022. The capitalisation levels have adequate cushion over the minimum regulatory requirements of CAR of 11.5% and CET I ratio of 8% (including the capital conservation buffer [CCB]). During June 2023, the bank has raised equity of ₹1,000 crore by way of QIP which is expected to improve its capitalisation levels even further.

Improvement in profitability with decline in incremental credit costs

BOM's earning profile has seen consistent improvement since FY20 after years of continuous losses (FY16 to FY19). The net interest margin (NIM) of BOM has expanded in FY23 as compared with FY22 in a rising interest rate scenario. This was due to faster rise in the yields as compared to cost of deposits supported by significant improvement in credit deposit ratio. However, non-interest income declined by 14% YOY due to treasury loss. The total income of the Bank stood at ₹ 18,178.73 crore in FY23 as compared to ₹15,671.70 crore in FY22 registering a growth of 16%. The yields on advances improved in FY23 due to significant rise in interest rates whereas the bank was able to maintain its cost of deposits resulting in Net Interest Income (NII) to grow by 28% to ₹7,741 crore in FY23 as against ₹6,044 crore in FY22. NIM expanded to 3.13% for FY23 vis-à-vis 2.85% for FY22. Opex to total assets reduced to 1.59% of average total assets in FY23 as compared to 1.81% for the previous year. Cost to income ratio of the bank has been coming down very fast and stood at 39.14% for FY23 (44.26% for FY22) which was the lowest amongst midsized public sector banks. Operating Profit increased 25.81% to ₹6,099.21 crore for FY23 from ₹ 4,847.87 crore for FY22.Credit cost (provisions and write-offs/ average assets) reduced from 1.36% in FY22 to 1.07% in FY23 due to improvement in environment and asset quality. The bank continues to hold COVID-19 related provision of ₹1,200 crore as contingency provision as on March 31, 2023 which is expected to bring stability to the credit cost for FY24. The Net Profit of BOM has more than doubled to ₹2,602 crore in FY23 as against ₹1,152 crore resulting in ROTA to improve from 0.54% in FY22 to 1.05% in FY23. BOM's ability to manage its asset quality and thereby credit cost and eventually profitability will be a key rating sensitivity.

Strong advance growth in the last two fiscal years

The advances book of BOM saw a de-growth from peak of ₹1,11,240 crore as on March 31, 2016, to ₹93,467 crore as on March 31, 2019, as under PCA, various restrictions on lending were imposed and BOM continued to write-off bad assets due to which the advances book did not grow. BOM's advances saw modest growth in FY20 and the growth picked up from FY21 onwards. BOM's advances portfolio grew by 29.49% at ₹1,75,120 crore as on March 31, 2023, higher than the banking industry growth of 15.70%. The growth was largely driven by corporate loans which grew by 37.52% whereas retail, agriculture and MSME (known as RAM) grew slower by 24.06% during FY23. Within retail, other retail segment including personal loans, loans against property saw the highest growth at 30.33%, housing by 19.32%, vehicle loans at 14.18% and education loans at 25.35%, respectively. Within the corporate loans, BOM increased the proportion of Government-guaranteed exposures and reduced the proportion of corporates having credit rating of 'BBB' and below. A significant proportion of the advances has been added during the last two financial years and has limited seasoning, performance of which has to be seen over the medium term.

Improving asset quality parameters over the last few years; but remains a monitorable with significant growth in advances in recent years

The asset quality parameters have seen improvement every year since it peaked in FY18 due to lower incremental slippages and higher write-offs. Furthermore, the bank has increased its provision coverage ratio on its GNPA resulting its NNPA ratio to improve significantly. The GNPA, NNPA, PCR (excluding TWO) and NNPA to net worth stood at 2.47%, 0.25%, 90.44% and 3.38%, respectively, as on March 31, 2023 (3.94%, 0.97%, 76.43% and 12.51%, respectively, as on March 31, 2022) which is the lowest amongst the PSU banks. However, given the relatively high levels of advances growth witnessed by BOM in the last two fiscals, ability of the bank to maintain its asset quality and control credit costs remains to be seen.

BOM's standard restructured assets (including the RBI Resolution Framework 1.0 and 2.0) reduced from ₹5,547 crore constituting 4.10% as on March 31, 2022 to ₹4,188 crore constituting 2.39% of gross advances as on March 31, 2023. The bank's special mention accounts (SMA), i.e., SMA 1 and SMA 2 (including restructured accounts) improved to 2.20% of gross advances as on March 31, 2023 as against 2.87% as on March 31, 2022. The bank has increased its exposure significantly to Government owned/guaranteed entities, which have weak credit profiles and has also resulted in the concentration of exposures. The general interest rate has increased significantly in FY23, which may impact certain segment of borrowers especially retail and agriculture which may impact the asset quality. Any higher-than-expected slippages may impact the asset quality parameters and profitability will be a key rating monitorable.

Key weaknesses

Geographical concentration

Being a well-established bank in Maharashtra, BOM has high concentration in the state in terms of advances and deposits, with main focus on the city of Pune where the bank is headquartered. Out of the total 2,203 branches in India, 51% of branches are located in the state of Maharashtra. Furthermore, the west region of India contributes around 79% of deposits and 52% of the advances for the bank as of FY23 as compared to 79% of deposits and 59% of advances in FY21. The bank has started growing its branch network since coming out of PCA with most of the incremental branches being outside Maharashtra.

Relatively moderate size

BOM is one of the relatively smaller PSB with total business of around ₹4 lakh crore and asset size of ₹2.6 lakh crore and ranks 11th of the twelve PSB in terms of asset size and total business. Even though, the bank has the fastest growth among the PSBs it will take a reasonable for the bank to achieve scale and become competitive to larger PSUs.

Liquidity: Adequate

According to Structural Liquidity Statement as on March 31, 2023, there are no negative cumulative mismatches as per the ALM above in time buckets up to 2 months. The bank has the highest CASA amongst the Public Sectors Banks which adds comfort. Further, the bank has access to systemic liquidity like RBI's LAF and MSF facility along with access to refinance from SIDBI, NHB, NABARD, etc and access to call money markets. BOM's liquidity coverage ratio (LCR) stood at 145% for the quarter-ended March 31, 2023, as against the regulatory requirement of 100%. BOM has maintained sufficient excess statutory liquidity ratio (SLR) and high-quality non-SLR instruments, which can be readily used for repo or liquidated in the secondary market. Furthermore, it can also resort to rupee borrowing in the form of CDs, term money, securitisation of portfolio, and re-finance from various domestic financial institutions (NABARD, SIDBI, MUDRA, NHB, and others) in case of liquidity need. Also, the bank has availability of excess priority sector lending (PSL) portfolio over and above regulatory requirement with optionality to capitalise on the same through the right mix of securitisation and PSLC.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks

- The Bank introduced 'Mahabank Green Financing' under the retail housing, vehicle Loans portfolio and solar financing in order to promote lending to environment-friendly sectors.
- As part of bank's ongoing efforts to adopt renewable energy, we installed solar panels at the Bank's Head Office and Bank-owned premises.
- The Bank undertook multiple tree plantation drives at over 50 locations across the country.
- The Bank is focussed on waste reduction and its management in every aspect of its operations as part of its ESG Strategy. During the year, the bank undertook measures to recycle of e-waste in an eco-friendly manner and reduced our consumption of single-use plastic and plastic folders.
- The Bank supports a wide gamut of programmes across education and skill development, science and technology and health and wellness in order to fulfil its Corporate Social Responsibility (CSR) objectives. In FY23, over 3.5 lakh underprivileged and marginalised citizens have benefitted through the bank's initiatives

Applicable criteria

Policy on default recognition
Factoring Linkages Government Support
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Rating Basel III - Hybrid Capital Instruments issued by Banks
Bank

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Public Sector Bank

Bank of Maharashtra (BoM), incorporated in 1935, is a Pune-based mid-sized public sector bank. The Government of India (GOI) holds majority of stake of 90.97% as on March 31, 2023. The bank had a network of 2,203 branches as on March 31, 2023 (2,022 as on March 31, 2022), out of which 1,208 branches are in rural and semi-urban areas. All the branches of the bank are Core Banking Solution (CBS)-enabled. The bank has one 100% subsidiary 'The Maharashtra Executor & Trustee Company Pvt. Ltd. (METCO)' which was established in 1946 with an aim to provide services auxiliary to banking and the bank has one associate Regional Rural Bank (RRB) 'Maharashtra Gramin Bank' wherein BoM is a sponsor bank with 35% ownership, Government of India (50%) and Government of Maharashtra (15%).
Post the asset quality review (AQR) by RBI, the bank saw significant increase in its NPAs resulting in the bank having to make provisions which impacted the profitability and capital adequacy of the bank. Bank of Maharashtra was put into prompt corrective action (PCA) framework by RBI in June 2017 and was subsequently removed from the PCA in January 2019 after it met the parameters under the framework.
The bank is headed by Mr. A. S. Rajeev who was appointed as the Managing Director (MD) and Chief Executive Officer (CEO) of the bank w.e.f. December 01, 2018 for a period of 3 years and further extension was given for 2 years.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total income	14,494	15,672	18,179
PAT	550	1,152	2,602
Total assets	1,95,492	2,29,034	2,64,917
Net NPA (%)	2.48	0.97	0.25
ROTA (%)	0.31	0.54	1.05

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

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Tier II Bonds (Basel III)	INE457A08092	21-10- 2021	7.86	20-10-2031	1,000.00	CARE AA; Positive
Tier II Bonds (Basel III)	INE457A08050	06-03-2020	8.70	06-03-2030	600.00	CARE AA; Positive
Tier II Bonds (Basel III)	INE457A08035	27-06-2016	9.20	27-09-2026	500.00	CARE AA; Positive
Tier II Bonds (Basel III) (proposed)	-	-	-	-	1,500.00	CARE AA; Positive

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-Infrastructure Bonds	LT	-	-	-	1)Withdrawn (28-Jun-22)	1)CARE AA-; Stable (28-Sep-21) 2)CARE AA-; Stable (05-Aug-21)	1)CARE A+; Positive (15-Sep-20)
2	Bonds-Tier II Bonds	LT	1600.00	CARE AA; Positive	-	1)CARE AA; Stable (28-Jun-22)	1)CARE AA-; Stable (28-Sep-21)	1)CARE A+; Positive (15-Sep-20)

							2)CARE AA-; Stable (05-Aug-21)	
3	Bonds-Tier II Bonds	LT	1000.00	CARE AA; Positive	-	1)CARE AA; Stable (28-Jun-22)	1)CARE AA-; Stable (28-Sep-21)	-
4	Bonds-Tier II Bonds	LT	1000.00	CARE AA; Positive	-	1)CARE AA; Stable (28-Jun-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Tier II Bonds (Basel III)	Detailed explanation
Covenants	
Call option	Applicable
Write-down trigger	PONV Trigger, in respect of the bank means the earlier of: (i) a decision that a principal write-down, without which the bank would become non-viable, is necessary, as determined by the RBI; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the RBI.
If write-down, full or partial	Full or partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier II Bonds	Complex

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

Media Contact	**Analytical Contacts**
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Name: Sanjay Agarwal Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3500 E-mail: sanjay.agarwal@careedge.in
Relationship Contact Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Name: Sudhakar P Director **CARE Ratings Limited** Phone: +91-044-28501003 E-mail: p.sudhakar@careedge.in Name: Aditya R Acharekar Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3528 E-mail: aditya.acharekar@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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