Bank of India

June 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term instruments- Tier-II bonds	3,000	CARE AA+; Stable	Assigned

Details of instruments/facilities 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. 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 capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

Rationale and key rating drivers

The rating assigned to the Tier-II bonds (Basel III) of Bank of India (BOI) factors in majority ownership of demonstrated and expected support from Government of India (GOI) which holds majority (i.e., 81.41%) shareholding in the bank along with comfortable capitalisation, diversified advances portfolio and granularity of deposits.

The rating also factors in the bank's established franchise through its PAN-India branch network, which has helped the bank build a depositor base, improvement in asset quality parameters and financial performance over the past few years. These strengths are partly offset by the bank's moderate asset quality and earnings profile with return on total assets (ROTA) being relatively lower to peer banks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in profitability with ROTA over 0.8% on a sustained basis.
- Sustained improvement in asset quality parameters.

Negative factors:

- Decline in profitability with ROTA below 0.30% on a sustained basis.
- Decline in the capitalisation level with decline in cushion over the minimum regulatory requirement by less than 2.5%.
- Deterioration in asset quality parameters from the current levels.

Analytical approach

The rating is based on the standalone profile of the bank and factors in the strong and continued support from the GoI, which holds the majority shareholding in the bank.

Outlook: Stable

The Stable outlook is on account of expected gradual improvement in asset quality parameters and reduction in the credit cost which would improve the overall profitability of the bank in the medium term.

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

Detailed description of the key rating drivers:

Key strengths

Expected and demonstrated support from GOI

GoI has been supporting public sector banks (PSBs) with regular capital infusions and with steps to improve operational efficiency and asset quality. There has been a continued support from the GoI in the form of capital infusions in the past when the bank was classified under prompt corrective action (PCA) framework of RBI. During FY22, the bank raised equity capital of ₹2,550 crore through qualified institutional placement (QIP) (non-government) route, resulting in reduction in GoI's shareholding in the bank from 89.10% as on March 31, 2021, to 81.41% as on March 31, 2022. However, post reduction in shareholding, GoI continues to hold a significant majority shareholding in the bank. Thus, considering the significance of the bank being one of the largest PSBs, with majority shareholding, CARE Ratings expects timely and regular support from the GoI, to maintain the capitalisation as and when required and is a key rating sensitivity.

Long track record of operations and PAN-India presence

BOI has a long and established operational track record of more than a century and is the sixth-largest nationalised bank in terms of advances with net advances of ₹485,899 crore and total business (Advances + Deposits) of ₹1,155,484 crore as on March 31, 2023. The PAN-India geographical presence of the bank has risen substantially, thereby furthering its existing strong franchise with a network of 5,105 branches in India and 22 branches overseas, catering to a larger customer base, as on December 31, 2022. Around 64.62% of its total domestic branches caters to rural and semi-urban areas. Furthermore, the bank has a strong liability profile, as depicted by the increasing deposit base along with the increasing proportion of Current Account Savings Account (CASA) year-on-year. The bank's CASA deposit ratio improved from 41.27% as on March 31, 2021, to 44.73% as on March 31, 2023.

Comfortable capitalisation levels

As on March 31, 2023, the capital adequacy ratio (CAR) of the bank stood at 16.28% with Common Equity Tier-(CET) I Ratio of 13.6% and Tier-I CAR of 14.41% (March 31, 2022: 16.52%, 13.49% and 13.92%, respectively). During FY23, the bank issued Additional Tier-I (AT-I) bonds of ₹1,500 crore. This, along with the equity infusions in the past and the bank reporting profit for the last four years, has led to an improvement in the CAR of the bank. Comfortable capital cushion has enhanced its ability to absorb asset quality pressures as well as support growth in the near term. The bank has board's approval in place to raise up to ₹6,500 crore in FY24, of which ₹4,500 crore would be through Additional Tier-I bonds/ Equity and ₹2,000 crore through Tier-II bonds. With improvement in profitability, CARE Ratings expects the bank to maintain a CAR of over 2.5% above the regulatory requirement in the near to medium term.

Diversified advances profile and deposit growth

The banks gross advances stand at ₹515,852 crore as on March 31, 2023. Exposure to Retail, Agriculture and MSME (RAM) is 55.11% of domestic advances. During FY23, exposure to the government and government-guaranteed advances have reduced from 10.47% in FY22 to 8.56% in FY23 in line with the bank's strategy to reduce the low yielding loans. Furthermore, the international portfolio of the bank has grown from 13.79% of the total advances as on March 31, 2022, to 16.33% of the total advances as on March 31, 2023. The overseas branches of the bank are spread across 15 countries. A major part of the overseas exposure is towards oil marketing companies and remaining are given to the companies from diversified sectors. In case of deposits, bank's CASA ratio has improved from 41.27% in FY21 to 45.02% and 44.73% in FY22 and FY23, respectively. In trend with the industry, the bank's deposit grew by 6.6%, while CASA deposits grew by 2.72% leading to decline in CASA proportion to 44.73% as on March 31, 2023. Furthermore, the bank's overall domestic deposits have increased marginally in FY23 in line with the bank's strategy of shedding of bulk deposits, and raising funds through refinance from the Small Industries Development

Bank of India (SIDBI), the National Bank for Agriculture and Rural Development (NABARD) and the National Housing Bank (NHB) for lending instead of deposits.

Key weaknesses

Improvement in asset quality parameters in FY23; however, sustenance of the same to be seen

Although the asset quality parameters of the bank have improved over the years with gross non-performing assets (GNPA) ratio and net NPA (NNPA) ratio of 7.31% and 1.66% as on March 31, 2023, as against 9.98% and 2.34% as on March 31, 2022, it is still relatively high than its peers. The reduction in GNPA in FY23 and FY22 was mainly on account of higher write-offs of ₹8,655 crore and cash recoveries of ₹6,029 crore. Furthermore, though the slippage ratio has reduced to 1.94% in FY23 from 2.15% in FY22, an increase in the slippages is seen in Q4FY23, due to the non-repayment of loans from the end of COVID-19 moratorium, in case of Agri (Kisan Credit Cards [KCC]) loans, thus leading to the recognition in NPA. The gross stressed assets and net stressed assets though decreased year-on-year, continued to remain high at 9.53% of the gross advances (March 31, 2022: 13.64%) and 47.44% of the net worth as on March 31, 2023 (March 31, 2022: 67.26%), respectively.

Moderate profitability

After consistent losses in the prior years due to provisioning led by high GNPA levels, the bank reported profits in FY21 and FY22. Post removal of the bank from the PCA framework, i.e., from January 2019, the bank has seen continuous improvement in its profitability, due to the reduction in the cost of deposits year-on-year led by increase in the proportion of CASA deposits, and increase in the gross advances. The bank's net interest margin (NIM) has improved to 2.64% in FY23 from 1.97% in FY22. During FY23, even though the PPOP improved to ₹13,392 crore, the profit after tax (PAT) remained lower at ₹4,023 crore on account of provisioning of ₹7,163 crore, which majorly constituted normal provisioning and additional provisioning of 20% being made on the stressed assets wherein Resolution Plan was not implemented, in accordance with the RBI Circular of June 7, 2019, and classification of security receipts as non-performing investment as the tenor of these receipts had crossed the eight-year threshold. Thus, the ability of the bank to contain credit cost will remain key to improve its profitability.

Liquidity: Strong

The bank's liquidity profile is supported by the bank's strong retail and CASA depositor base. The liquidity coverage ratio of the bank is 181.3% as on March 31, 2023, as against the minimum regulatory requirement of 100%. The bank also had an excess statutory liquidity ratio (SLR) of ₹19,318 crore as on March 31, 2023, which provides a liquidity buffer, and allows the bank to borrow against it, in case of any liquidity requirement during contingency. Furthermore, the bank also has access to RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with access to refinancing from SIDBI, NHB, NABARD, etc, and access to call money markets.

Applicable criteria

Policy on default recognition
Factoring Linkages Government Support
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Bank
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

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

Bank of India (BOI) was incorporated in September 1906 by a group of eminent businessmen from Mumbai. The bank was under private ownership and control till July 1969 when it was nationalised along with 13 other banks. BOI is the sixth-largest public sector bank (PSB) in India in terms of advances, with net advances of ₹485,900 crore as on March 31, 2023. The bank's franchise is spread across 5,105 branches in India and 22 branches overseas as on December 31, 2022. Around 64.62% of its total domestic branches cater to rural and semi-urban areas.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023(A)
Total operating income	47,441	45,955	54,747
PAT	2,160	3,405	4,023
Gross advances	410,436	457,014	515,852
Total deposits	627,114	627,896	669,585
Net NPA (%)	3.35	2.34	1.66
ROTA (%)	0.32	0.48	0.52

A: Audited; 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/facilities:

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Tier II Bonds	INE084A08060	December 31, 2015	8.52%	December 31, 2025	3,000.00	CARE AA+; Stable

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-Upper Tier-II	LT	-	-	-	-	-	1)Withdrawn (06-Jan-21)
2	Bonds-Upper Tier-II	LT	-	-	-	-	-	1)Withdrawn (06-Jan-21)
3	Bonds-Perpetual Bonds	LT	-	-	-	-	-	1)Withdrawn (06-Jan-21)

*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	Tier-II Bonds	Complex

Annexure-5: Lender details: Not applicable

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.

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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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