Bank of Maharashtra

October 30, 2023

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

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 revision in the ratings assigned to the debt instruments of Bank of Maharashtra (BOM) factor in the continued improvement in the bank's financial risk profile with improvement in the profitability and asset quality parameters with comfortable capitalisation by the bank while scaling up its advances.

The ratings draw comfort from the majority ownership by the Government of India (GOI) and its continued support, the long track record of the bank with an established franchise, the strong depositor base, which helps the bank maintain a relatively high proportion of current account and savings account (CASA) deposits, and the comfortable capitalisation levels.

Post coming out of the Prompt Corrective Action (PCA) framework of the Reserve Bank of India (RBI), the bank has seen continued improvement in its profitability and asset quality parameters, which has continued in FY23 and H1FY24. The bank's capitalisation levels were supported by an improvement in internal accruals as well as mobilisation of fresh equity of ₹1,000 crore during Q1FY24 by way of qualified institutional placement (QIP) of equity shares.

BOM has witnessed significant growth in its advances over the last four years, with gross advances increasing from ₹93,467 crore as on March 31, 2019, to ₹1,75,120 crore as on March 31, 2023, and further to ₹1,83,122 crore as on September 30, 2023, with major focus on retail, agriculture, and the micro, small and medium enterprise (MSME) segment (RAM segment) and has also seen growth in the corporate lending book. The bank expects to continue growing its advances sizeably in the near term.

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 the relatively moderate size in terms of total business. Furthermore, maintaining the asset quality of the recently originated advances will be an important factor for the bank.

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 along with significant improvement in the size of the bank comparable to larger public sector banks (PSBs).
- Improved asset quality parameters, with net stressed assets/tangible net worth (TNW) below 10% 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 non-performing assets (NNPA) ratio of over 2.5% on a sustained basis.
- Deterioration in the capitalisation levels, with cushion over minimum regulatory requirement less than 1%.
- Deterioration in the resource profile, with decline in the CASA deposits ratio below 45%.
- Decline in profitability, with ROTA return on total assets (ROTA) below 0.60% on a sustained basis.

Analytical approach

The ratings are based on the standalone profile of the bank and factor in the strong support from the GOI, which holds the 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: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that BOM will continue to maintain its financial risk profile with improvement in profitability and asset quality parameters along with maintaining comfortable capitalisation while scaling up its advances.

Detailed description of the key rating drivers

Key strengths

Majority ownership and demonstrated support by the GOI

The GOI continues to be the majority shareholder, holding 86.46% stake in BOM as on September 30, 2023 (March 31, 2022: 90.97%). The GOI has been supporting PSBs with regular capital infusions and steps to improve capitalisation, operational efficiency, and asset quality. Given the majority ownership of the GOI, BOM is expected to receive timely and adequate support in the form of capital as and when required. The GOI had cumulatively infused equity capital of ₹9,007 crore between FY17 and FY20, which helped the bank come out of prompt corrective action (PCA) in Q4FY19. As the bank has been reporting profit and is sufficiently capitalised, the GOI has not infused any equity capital after FY20. However, capital support in case of requirement is expected from the GOI considering the majority shareholding and it continues to be a key rating sensitivity.

Long track record and established franchise helping the bank with a 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 the 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 deposits stood at ₹2,39,298 crore as on September 30, 2023. The bank's CASA deposits increased by 7% during FY23 as compared to 16% growth in the 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 continues to be the highest among all PSBs. During H1FY24, the bank saw a de-growth in CASA deposits by 3%, which was in line with the industry trend due to the higher difference between interest rates offered on term deposits vis-à-vis savings deposits, resulting in depositors preferring term deposits for higher returns. However, the proportion of CASA deposits to total deposits stood healthy at 50.71% as on September 30, 2023.

Comfortable capitalisation levels

The capitalisation levels of the bank have seen improvement post multiple capital infusions from the GOI, QIP of ₹403.70 crore in FY22, and improvement in profitability post the PCA. The bank reported a 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 a CAR of 16.48% (Tier I CAR: 12.38%) and a CET I ratio of 12.17% as on March 31, 2022.

Post the equity capital raise of ₹1,000 crore by way of QIP in June 2023, the bank's CAR stood at 17.61% with Tier I CAR at 13.72% and CET I ratio at 12.28% as on September 30, 2023. 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]). The bank expects to maintain a CAR of over 15% on a steady state basis.

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 a faster rise in the yields as compared to the cost of deposits, supported by significant improvement in the credit deposit ratio. However, non-interest income declined by 14% y-o-y 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 a significant rise in interest rates, whereas the bank was able to maintain its cost of deposits, resulting in the net interest income (NII) growing by 28% to ₹7,741 crore in FY23 as against ₹6,044 crore in FY22. The NIM expanded to 3.13% for FY23 vis-à-vis 2.85% for FY22. The opex to total assets reduced to 1.59% of the average total assets in FY23 as compared to 1.81% for the previous year. The cost-to-income ratio of the bank has been coming down fast and stood at 39.14% for FY23 (44.26% for FY22), which was the lowest among mid-sized PSBs. The operating profit increased by 25.81% to ₹6,099.21 crore for FY23 from ₹ 4,847.87 crore for FY22. The credit cost (provisions and write-offs/average assets) reduced from 1.36% in FY22 to 1.07% in FY23 due to an improvement in environment and asset quality.

The bank continues to hold COVID-19-related provisions 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 the ROTA improving from 0.54% in FY22 to 1.05% in FY23.

During H1FY24, the interest income increased by 36% from ₹7,273 crore in H1FY23 to ₹9,857 crore in H1FY24 while the interest expense of the bank during the period H1FY24 increased by 37% from ₹3,700 crore in 6MFY23 to ₹5,085 crore in 6MFY24. This led to a 34% increase in the NII during H1FY24 from ₹3,573 crore in H1FY23 to ₹4,772 crore in H1FY24. The NIM stood at 3.57% for H1FY24, up from 3.06% for H1FY23 due to higher increase in its yield-on-advances than cost of deposits.

The bank reported a significant increase of 58% in its non-interest income from ₹819 crore in H1FY23 to ₹1,296 crore in H1FY24, primarily on account of profits in treasury operations in H1FY24 as compared to losses in H1FY23 and higher recoveries from written off accounts worth ₹447 crore in H1FY24 as against ₹266 crore in H1FY23. As a result, the bank's total income has risen from ₹8,092 crore in H1FY23 to ₹11,153 crore in H1FY24, hence reporting a growth of 38% on a y-o-y basis. The bank's operating expenses have demonstrated a growth of 32% during the H1FY24 to ₹2,285 crore from ₹1,728 crore in H1FY23. As a result, the pre-provisioning operating profit (PPOP) of BOM has demonstrated a growth of 42% from ₹2,664 crore in H1FY23 to ₹3,784 crore in H1FY24.

However, the provisioning expense for the bank has increased by 56% during the period H1FY24 as compared to H1FY23 due to the bank making provisions for Expected Credit Loss (ECL) from now onwards, which will provide a cushion to the profitability in the coming years. Due to the continuous losses amounting to around ₹8,000 crore in the past years, the bank is benefitting from the lower tax expenses, which is expected to continue until FY25. The profit-after-tax (PAT) increased by 83% to ₹1,802 crore in H1FY24 from ₹987 crore in H1FY23. 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 a peak of ₹1,11,240 crore as on March 31, 2016, to ₹93,467 crore as on March 31, 2019, as under the 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 a modest growth in FY20, and the growth picked up from FY21 onwards. BOM's advances portfolio grew by 29.49% at ₹175,120 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 the RAM segment grew slower by 24.06% during FY23. Within retail, other retail segments including personal loans, other loans including loans-against-property (LAP) saw the highest growth at 30.33%, housing at 19.32%, vehicle loans at 14.18%, and education loans at 25.35%, respectively. A significant proportion of the corporate advances have been added during the last two financial years and has limited seasoning. The same is partly mitigated as BOM increased the proportion of government-guaranteed exposures and reduced the proportion of corporates having a credit rating of 'BBB' and below. During H1FY24, the bank has grown its advances by 4.57% from ₹175,120 crore as on March 31, 2023, to ₹183,122 crore as on September 30, 2023. As on September 30, 2023, the proportion of corporate advances stood at 41% while retail was at 25%, agriculture at 14%, and MSME at 20%.

Improving asset quality parameters over the past 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 (PCR) on its gross non-performing assets (GNPA), resulting in its NNPA ratio improving 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 among public-sector undertaking (PSU) banks. The bank's GNPA and NNPA stood at 2.19% and 0.23%, respectively, as on September 30, 2023. However, given the relatively high levels of advances growth witnessed by BOM in the last two fiscals, the ability of the bank to maintain its asset quality and control credit costs will remain a key rating monitorable.

BOM's standard restructured assets (including the RBI Resolution Framework 1.0 and 2.0) reduced from ₹5,547 crore, constituting 4.10% (of the gross advances) as on March 31, 2022, to ₹3,169 crore, constituting 1.73% of the gross advances as on September 30, 2023. The bank's special mention accounts (SMA), i.e., SMA 1 and SMA 2 (including restructured accounts) stood at 3.34% of the gross advances as on September 30, 2023, as against 2.87% as on March 31, 2022. The bank's net stressed advances to net worth ratio stood at 23% as on September 30, 2023, as compared to 29% as on March 31, 2023.

The bank has increased its exposure significantly to government owned or guaranteed entities that 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 a 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 its 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 the main focus on the city of Pune, where the bank is headquartered. Of the total 2,203 branches in India, 51% of the branches are located in the state of Maharashtra. Furthermore, the west region of India contributes around 79% of the deposits and 52% of the advances for the bank as of FY23 as compared to 79% of the deposits and 59% of the advances in FY21. The bank has started growing its branch network since coming out of the PCA, with most of the incremental branches being outside Maharashtra.

Relatively moderate size

BOM is one of the relatively smaller PSBs with a total business of around ₹4.22 lakh crore and an asset size of ₹2.7 lakh crore and ranks 11th of the 12 PSBs in terms of asset size and total business. Although the bank has the fastest growth among PSBs, it will take a reasonable time for the bank to achieve scale and become competitive to larger PSUs.

Liquidity: Adequate

According to the structural liquidity statement as on September 30, 2023, there are no negative cumulative mismatches as per the ALM in the time buckets up to two months. However, the bank had excess statutory liquidity ratio (SLR) investments worth ₹16,188 crore and high-quality non-statutory liquidity ratio (SLR) instruments, which can be readily used for TREPS and/or liquidated in the secondary market.

Furthermore, the bank has access to systemic liquidity like the RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with access to refinance from the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), the National Bank for Agriculture and Rural Development (NABARD), etc, and access to call money markets. BOM's liquidity coverage ratio (LCR) stood at 143% for the quarter-ended September 30, 2023, as against the regulatory requirement of 100%. Furthermore, it can also resort to Rupee borrowings in the form of Certificate of Deposits, term money, securitisation of the portfolio, and re-finance from various domestic financial institutions (FIs) like NABARD, SIDBI, Micro-Units Development and Refinance Agency (MUDRA), NHB, and others, in case of liquidity need. Also, the bank has availability of excess priority sector lending (PSL) portfolio over and above the regulatory requirement with the optionality to capitalise on the same through the right mix of securitisation and PSLCs.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

- The bank introduced 'Mahabank Green Financing' under retail housing, vehicle loans portfolio, and solar financing in order to promote lending to environment-friendly sectors.
- As part of the bank's ongoing efforts to adopt renewable energy, the company installed solar panels at the bank's head office and bank-owned premises.
- BOM 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, it undertook measures to recycle e-waste in an eco-friendly manner and reduced its 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

BOM, incorporated in 1935, is a Pune-based mid-sized PSB. The GOI holds the 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 branches as on March 31, 2022), 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 a 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 it also has an associate regional rural bank (RRB), 'Maharashtra Gramin Bank', wherein BOM is a sponsor bank with 35% ownership, GOI with 50%, and the Government of Maharashtra with 15%.

Post the asset quality review (AQR) by the RBI, the bank saw a significant increase in its non-performing assets (NPAs), resulting in the bank having to make provisions that impacted the profitability and capital adequacy of the bank. BOM was put into the PCA framework by the 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 AS 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 three years with a further extension of two years.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
	12M	12M	6M
Total income	15,672	18,179	11,153
PAT	1,152	2,602	1,802
Total assets	2,29,034	2,64,917	2,70,451
Net NPA (%)	0.97	0.25	0.23
ROTA (%)	0.54	1.05	1.35

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available. All Analytical ratios are as per CARE Ratings' calculations.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the 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+; Stable
Tier II Bonds (Basel III)	INE457A08050	06-03-2020	8.70	06-03-2030	600.00	CARE AA+; Stable
Tier II Bonds (Basel III)	INE457A08035	27-06-2016	9.20	27-09-2026	500.00	CARE AA+; Stable
Tier II Bonds (Basel III) (proposed)	-	-	-	-	1,500.00	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-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+; Stable	CARE AA; Positive (27-Jun-23)	1)CARE AA; Stable (28-Jun-22)	1)CARE AA-; Stable (28-Sep-21) 2)CARE AA-; Stable (05-Aug-21)	1)CARE A+; Positive (15-Sep-20)
3	Bonds-Tier II Bonds	LT	1000.00	CARE AA+; Stable	CARE AA; Positive (27-Jun-23)	1)CARE AA; Stable (28-Jun-22)	1)CARE AA-; Stable (28-Sep-21)	-

4	Bonds-Tier II Bonds	LT	1000.00	CARE AA+; Stable	CARE AA; Positive (27-Jun-23)	1)CARE AA; Stable (28-Jun-22)	-	-

*Long term/Short term.

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

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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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