# Bank of India

April 04, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Tier II Bonds | 3,000.00 | CARE AA+; Stable | Reaffirmed |
| Fixed Deposit | 0.00 | 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

Ratings assigned to the Tier-II bonds (Basel III) and fixed deposits (FD) of Bank of India (BOI) factor in demonstrated and expected support from Government of India (GOI), which holds majority (73.38% as on December 31, 2023) shareholding in the bank, along with comfortable capitalisation, diversified advances portfolio, and granularity of deposits.

Ratings also factor in the bank's established franchise through its pan India branch network, which has helped it build a depositor base, improvement in asset quality parameters and financial performance over the last few years ended December 31, 2023. These strengths are partly offset by its 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 of above 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 credit cost, which would improve the bank's overall profitability 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 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 through capital infusions in the past, when the bank was classified under prompt corrective action (PCA) framework of RBI. In 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. Post capital infusion through a QIP of equity shares in Q3FY24, GoI's shareholding came down to 73.38% as on December 31, 2023. However, GoI continues to hold a significant majority shareholding in the bank. Considering the bank's significance as one of the largest PSBs, and with a majority shareholding, CARE Ratings expects timely and regular support from GoI, to maintain capitalisation, 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 ₹5.4 lakh crore and total business (Advances + Deposits) of ₹12.5 lakh crore as on December 31, 2023. Its pan India geographical presence has risen substantially, furthering its existing strong franchise with a network of 5,129 branches in India and 21 branches overseas, catering to a larger customer base, as on March 31, 2023. Around 65% of its total domestic branches caters to rural and semi-urban areas. The bank has a strong liability profile, as depicted by increasing deposit base and increasing proportion of Current Account Savings Account (CASA) year-on-year. The bank's CASA deposit ratio marginally decreased from 44.73% as on March 31, 2023, to 43.88% as on December 31, 2023, due to surge in deposit interest rates, which led to the customers shifting from CASA to term deposits which was observed across banks.

**Comfortable capitalisation levels**
As on December 31, 2023, the capital adequacy ratio (CAR) of the bank stood at 16.06% with Common Equity Tier-(CET) I Ratio of 13.16% and Tier-I CAR of 13.87% (March 31, 2023: 16.28%, 13.6% and 14.41%, respectively). The reduction in the CAR is due to the RBI guidelines on increase in the risk weights of personal loans and NBFCs. Even though there's a reduction, there is a sufficient capital cushion to absorb asset quality pressures as well as support growth in the near term. In Q3FY24, the bank had raised ₹4,500 crore through a qualified institutional placement (QIP) of equity shares which helped the bank improve its capitalisation. 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 bank's gross advances stand at ₹5.65 lakh crore as on December 31, 2023. Exposure to Retail, Agriculture and MSME (RAM) is 55.23% of domestic advances. In FY23, exposure to government and government-guaranteed advances reduced from 10.47% in FY22 to 8.56% in FY23 in line with the bank's strategy to reduce low-yielding loans. Its international portfolio grew from 13.79% of the total advances as on March 31, 2022, to 16.33% of the total advances as on March 31, 2023 (15.94% as on December 31, 2023). The overseas bank branches are spread across 15 countries. A major part of overseas exposure is towards oil marketing companies and remaining are given to the companies from diversified sectors. In case of deposits, overall deposits have grown by 8.28% in 9MFY24 (y-o-y), (6.6% in FY23 y-o-y). While CASA deposits grew at a slower pace of 5.92% (y-o-y) in 9MFY24, term deposits grew by 9.71% (y-o-y) in the same period, leading to the decline in CASA proportion to 36.92% as on December 31, 2023.

### Key weaknesses

**Improvement in asset quality parameters; however, its sustenance is to be seen**

Although the bank's asset quality parameters improved over the years with gross non-performing assets (GNPA) ratio and net NPA (NNPA) ratio of 5.35% and 1.41% as on December 31, 2023 (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. Reduction in GNPA was mainly due to higher write-offs of ₹8,168 crore and cash recoveries of ₹3,823 crore. The bank's slippage ratio reduced from 1.94% in FY23 to 1.54% in 9MFY24. The gross stressed assets and net stressed assets though decreased y-o-y, continued to remain high at 7.27%% of the gross advances (March 31, 2023: 9.53%) and 34.54% of the net worth as on December 31, 2023 (March 31, 2022: 47.44%), respectively.

**Moderate profitability**

After consistent losses in prior years due to provisioning led by high GNPA levels, the bank reported profits in FY21 and FY22. Post removal from the PCA framework, in January 2019, the bank has seen continuous improvement in its profitability, due to reducing cost of deposits y-o-y 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. The bank reported profit after tax (PAT) of ₹4,023 crore on total income of ₹54,747 crore for FY23 as compared to PAT of ₹3,405 crore on total income of ₹45,955 crore for FY22. In FY23, even though PPOP improved to ₹13,392 crore, the profit after tax (PAT) remained lower due to provisioning of ₹7,163 crore, which majorly constituted normal provisioning and additional provisioning of 20% being made on stressed assets, where 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. The bank's return on total assets (ROTA) for FY23 was at 0.52%.

In 9MFY24, the bank saw marginal improvement in NIM to 2.74% (annualised) due to pass on of interest cost despite increase in cost of deposits. Due to moderate operating cost and credit cost, BOI reported PAT of ₹4,879 crore in 9MFY24 as compared to ₹4,023 crore in entire FY23. This was due to reduced provisioning of ₹2,144 crore in 9MFY24. The bank's ROTA for 9MFY24 was at 0.78% (annualised). In Q4FY24, the bank received Income Tax demand of ₹1,127.72 crore pertaining to Assessment Year 2016-17 and a penalty of ₹564.44 crore pertaining to Assessment Year 2018-19 on various disallowances made. The bank intimated that it is in the process of filing an appeal and believes that it has adequate factual and legal grounds to reasonably substantiate its position in the matter.

Thus, the bank's ability 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 was 148.08% as on December 31, 2023, as against minimum regulatory requirement of 100%. The bank also had an excess statutory liquidity ratio (SLR) of ₹34,939.07 crore as on December 31, 2023, which provides a liquidity buffer, and allows the bank to borrow against it, in case of liquidity requirement for contingencies. Further, the bank has access to RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with access to refinancing from SIDBI, NHB, NABARD, among others, and access to call money markets.

**Assumptions/ Covenants**

| 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:<br>(i) a decision that a principal write-down, without which the bank would become non-viable, is necessary, as determined by the RBI; and<br>(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 |

### Environment, social, and governance (ESG) risks:

Bank's Board has adopted ESG Policy (Environment, Social and Governance) for the Bank. ESG policy include the governance structure for taking the cause ahead and also set deliverables for the various departments in the Bank. The ESG policy outlines the Banks intent to move in the direction of net zero as per the country's commitment and also enable to comply with all the regulatory requirement on ESG & related disclosures. Bank has taken various staff welfare initiatives to improve cordial working atmosphere under ESG (Environmental Social Governance) programme launched by Human Resources.

## Applicable criteria

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

## About the company and industry

### Industry classification

| Macro-economic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Financial services | Financial services | Banks | Public sector bank |

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 and 13 other banks. BOI is the sixth-largest public sector bank (PSB) in India in terms of advances, with net advances of ₹5.42 lakh-crore as on December 31, 2023. The bank's franchise is spread across 5,129 branches in India and 21 branches overseas as on March 31, 2023. Around 65% of its total domestic branches cater to rural and semi-urban areas.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023(A) | 9MFY24 (UA) |
|---|---|---|---|
| Total income | 45,955 | 54,747 | 48,891 |
| PAT | 3,405 | 4,023 | 4,879 |
| Total Assets | 7,18,980 | 8,02,021 | 8,73,114 |
| Net NPA (%) | 2.34 | 1.66 | 1.41 |
| ROTA (%) | 0.48 | 0.52 | 0.78 |

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/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 |
| Fixed deposits | - | - | - | - | 0.00 | CARE AA+; Stable |

## Annexure-2: Rating history for 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-Tier II Bonds | LT | 3000.00 | CARE AA+; Stable | - | 1)CARE AA+; Stable (06-Jun-23) | - | - |
| 2 | Fixed Deposit | LT | 0.00 | CARE AA+; Stable | - | - | - | - |

LT-Long term

**Annexure-3: Detailed explanation of covenants of 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 |
| 2 | Fixed Deposit | Simple |

## Annexure-5: Lender details:

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

**Contact us:**

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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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