Bank of Baroda

September 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier II Bonds (Basel III)[&]	500.00 (Reduced from 2,456.50)	CARE AAA; Stable	Reaffirmed
Tier II Bonds (Basel III)[&]	500.00	CARE AAA; Stable	Reaffirmed
Tier II Bonds (Basel III)[&]	450.00	CARE AAA; Stable	Reaffirmed
Tier II Bonds (Basel III)[&]	400.00	CARE AAA; Stable	Reaffirmed
Tier II Bonds (Basel III)[&]	500.00	CARE AAA; Stable	Reaffirmed
Tier II Bonds (Basel III)[&]	2,920.00	CARE AAA; Stable	Reaffirmed
Tier II Bonds (Basel III)[&]	-	-	Withdrawn
Tier II Bonds (Basel III)[&]	-	-	Withdrawn
Upper Tier II (Basel II)[#]	-	-	Withdrawn

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. 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.

[#]The rating assigned to the Upper Tier II Bonds (Basel II) factors in the increased sensitiveness to the bank's capital adequacy ratio (CAR), the capital-raising ability, and the profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in the payment of interest or principal (as the case may be) following the invocation of the lock-in clause will constitute as an event of default as per CARE Ratings Limited's (CARE Ratings') definition of default and, as such, these instruments may exhibit a somewhat sharper migration of the rating as compared to conventional subordinated debt instruments.

Rationale and key rating drivers

The ratings assigned to the various debt instruments of Bank of Baroda (BOB) continue to factor in the majority ownership and the continued and expected support by the Government of India (GoI) to the bank considering the systemic importance and the position of BOB in the Indian banking sector being one of the largest public sector bank (PSB) in India in terms of total business (advances and deposits) and the total assets.

The ratings continue to derive strength from BOB's strong and established franchise through its pan-India branch network, helping it garner deposits at competitive rates, and its sizeable international presence, the comfortable capitalisation of the bank with buffer over and above the minimum regulatory requirement, which will help the bank fund its credit growth in the near future. Over the past few years, the bank has seen improvement in asset quality parameters with lower incremental slippages, leading to lower credit costs, which along with strong credit growth, have helped improve the profitability. However, the ability of the bank to contain incremental slippages and maintain its asset quality remains a monitorable.

Care Rating has withdrawn the ratings of 'CARE AAA; Stable' assigned to the Tier II Bonds and Upper Tier II Bonds with immediate effect. The above action has been taken on account full redemption of Tier II Bonds and 'No Due Certificate' received from the debenture trustees.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Not applicable

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

Negative factors:

- Reduction in GOI support and ownership below 51%.
- Deterioration in the asset quality parameters: net non-performing assets (NNPA) ratio of over 3% on a sustained basis.
- Decline in profitability, with return on total assets (ROTA) below 0.50% on a sustained basis.
- Moderation in capitalisation cushion levels of less than 2.5% over and above the minimum regulatory requirement.

Analytical approach: Standalone
The ratings are based on the standalone profile of the bank and factor in the strong and continued support from the GoI, which holds the majority shareholding in the bank.

Outlook: Stable
The 'stable' outlook reflects CARE Ratings' expectation that BOB will continue to maintain its steady growth in advances, deposits, and a healthy profitability profile over the medium term while maintaining stable asset quality and comfortable capitalisation levels.

Detailed description of the key rating drivers:

Key strengths
Majority ownership and expected continued support from the GoI
The GoI continues to be the majority shareholder, holding 63.97% stake in BOB as on June 30, 2024. 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 and BOB's systemic importance being one of the largest PSBs in the domestic banking system, the bank is expected to receive timely adequate capital and operational support from the GoI as and when required and will remain a key rating sensitivity.

Long track record of operations with an established franchise and sizeable international presence
BOB has a long and established operational track record of more than eleven decades and is one of the largest nationalized banks in terms of assets, business and outreach. Post the amalgamation of Vijaya Bank and Dena Bank with BOB with effect from April 01, 2019, the pan India geographical presence of BOB has risen substantially thereby furthering its existing strong franchise with a network of 8,334 branches (91 international and 8,243 domestic branches of which rural branches were 2,872) and 9,426 ATMs and 1,607 cash re-cyclers and 74,227 employees as on March 31, 2024. BOB has a sizeable international presence with overseas deposits and advances contributing 15.42% and 17.72% of total deposits and total advances respectively as on June 30, 2024.

The bank has a stable depositor base which helps it raise deposits at competitive rates. During FY24, the bank's total deposits grew by 10% from ₹12,03,688 crore as on March 31, 2023 to ₹13,26,958 crore as on March 31, 2024 (domestic deposits grew 7.7% whereas international deposits grew by 27%) which was lower than the industry growth of around 13.5%. The bank's low-cost current account savings account (CASA) deposits grew slower at 8% over the previous year from ₹4,75,097 crore as on March 31, 2023 to ₹5,14,366 crore as on March 31, 2024.

As a result, the proportion of CASA deposits to total deposits fell to 38.76% as on March 31, 2024 as compared to 39.47% for the corresponding date of previous year. The bank's cost of deposits for FY24 increased to 4.92% from 3.89% for FY23.
Indian banks have been facing a challenge in raising deposits especially low-cost CASA due to rising interest rate scenario and shift of deposits to other investment avenues. As on June 30, 2024, the bank's CASA proportion stood at 40.62% which was comparable to peer PSBs.

Comfortable capitalisation levels supported by internal accruals
BOB raised equity of ₹4,500 crore through qualified institutional placement (QIP) in FY21, post which the profitability has since improved significantly, leading to the bank maintaining a higher cushion despite growing its advance book significantly.
The bank reported Capital Adequacy Ratio(CAR) of 16.31% (P.Y.: 16.24%), Tier I CAR of 14.07% (P.Y.: 13.99%), and Common Equity Tier I (CET I) of 12.54% (P.Y.: 12.24%) as on March 31, 2024, as against the minimum regulatory requirement of 11.5% for CAR, 9.5% for Tier I, and 8% for CET I ratio (including capital conservation buffer), respectively.
The comfortable capital cushion has enhanced its ability to absorb asset quality pressures as well as support advance growth in the near term.

The bank reported CAR of 16.82% (Tier I CAR: 14.65%) and CET I Ratio of 13.08% as on June 30, 2024. BOB has board approvals to raise capital from bonds up to ₹10,000 crore for FY25. CARE Ratings expects BOB to keep sufficient cushion over the minimum regulatory requirements over the medium term, in line with similar PSB peers.

Strong advance growth with focus on retail

BOB's gross advances grew by 12.48% (domestic: 13% and international: 11%) during FY24. The bank has been focusing on the retail, agriculture and micro, small and medium enterprise (MSME) (RAM) segments, which together constituted 43% of the gross advances as on March 31, 2024, and 45% as on June 30, 2024 (March 31, 2023: 42%). The retail loan, agriculture loan, and MSME loan segments grew by 20.73%, 11.58%, and 10.37% on a y-o-y basis during FY24 whereas the wholesale segment (corporate: 11.56% and international: 10.58%) witnessed a growth of 11.23%. The bank is targeting advance growth for FY25 to be in the range of 14-15%, led by the growth in the retail segment of around 18-20% and the corporate segment growing around 12-13%. BOB intends to increase the proportion of RAM to around 65% and corporate advances to around 35% over the medium term.

Improvement in earnings and profitability

The interest income increased by 26% in FY24 as compared to previous year due to 12% growth in advances book and also the rise in yield on advances. The non-interest income grew significantly by 45% y-o-y due to increase in commission and fees income in FY24. The total income of the bank stood at ₹1,27,101 crore in FY24 as compared to ₹99,614 crore in FY23 registering a growth of 28%.

The interest expense of the bank increase 41% y-o-y from ₹48,233 crore in FY23 to ₹67,884 crore in FY24 due to increase in cost of deposit resulting in Net Interest Income (NII) to grow by 8% to ₹44,722 crore in FY24 as against ₹41,356 crore in FY23. NIM contracted to 3.18% for FY24 vis-à-vis 3.31% for FY23. Operating expenses to total assets remained stable at 1.86% of average total assets in FY24 as compared to 1.80% for the previous year. Cost to income ratio of the bank has also remained stable at 47.71% for FY24 (47.72% for FY23).

The bank's pre-provision operating profit (PPOP) increased 15% to ₹30,965 crore for FY24 from ₹26,864 crore for FY23. Credit cost (provisions and write-offs/ average assets) reduced from 0.52% in FY23 to 0.40% in FY24 due to improvement in lower slippages and improvement in asset quality parameters resulting in lower provisioning. The Net Profit of BOB has increased by 26% to ₹17,789 crore in FY24 as against ₹14,110 crore in FY24 resulting in Return on Total Assets (ROTA) to improve from 1.03% in FY23 to 1.17% in FY24.

BOB reported a net profit of ₹4,458 crore for the Q1FY25 on total income of ₹32,116 crore as against a net profit of ₹4,070 crore on a total income of ₹29,878 crore for Q1FY24 improvement is on account of rise in interest rates and advances book growth. The interest expense of the bank also increased from ₹15,559 crore in Q1FY24 to ₹18,029 crore in Q1FY25. The increase in interest expense was on account of increase in cost of deposits. As a result NIM for Q1FY25 stood 3.18% as against 3.27% in Q1FY24. The bank has reclassified its investment books in line with the recent RBI guidelines resulting in lower trading gains. However, it has classified part of its trading portfolio into Available for Sale (AFS) category resulting in gain of ₹3,200 crore being transferred to AFS reserves in line with the guidelines. The classification has helped increase in the CET I ratio of the bank.

Key weaknesses

Moderate but improving asset quality

The bank has seen improvement in its asset quality parameters with a reduction in the Gross NPAs, due to lower slippages, write-offs, and recoveries. The bank has done provisioning resulting in reduction in Net NPA ratio over the years The bank has written-off NPAs of ₹10,518 crore and recoveries of ₹4,729 crore during FY24. The Gross NPA ratio improved to 2.92% as on March 31, 2024 from 3.79% as on March 31, 2023 (June 2024: 2.88%) and NNPA improved to 0.68% as on as on March 31, 2024 as against 0.89% as on March 31, 2023, respectively. The Slippages ratio stood at 1.11% during FY24 (Q1FY25: 1.14%).as against 1.46% for FY23.

The bank's net stressed assets (NNPA + standard restructured assets + security receipts) to net worth have also fallen from 27.52% as on March 31, 2023, 14.16% as on March 31, 2024, respectively.

The provision coverage ratio (PCR), excluding the technically written-off (TWO) accounts, stood at 77.34% as on March 31, 2024 (June 30, 2024: 76.58%) as compared to 77.19% as on March 31, 2023. Including written-off accounts, the reported PCR stood at 93.30% as on March 31, 2024 (June 30, 2024: 93.32%). Furthermore, the SMA 1 and 2 positions have improved over the previous year and constitute around 0.15% of the gross advances as on March 31, 2024.

The bank has improved the quality of wholesale exposure by increasing the exposure to better-rated corporates. Therefore, the ability of BOB to contain slippages, going forward, and maintain asset quality will be a key rating monitorable.

Liquidity: Strong

The bank's liquidity profile is supported by the bank's strong retail and CASA depositor base. The asset liability maturity (ALM) profile as on June 30, 2024 had positive cumulative mismatches in the time buckets up to 2 months. The bank had excess SLR of ₹93,093 crore (8.13% excess over regulatory requirement) as on June 30, 2024, which provides adequate liquidity. In addition, the bank has access to borrowing from RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with option to refinance from SIDBI, NHB, NABARD, etc and access to call money markets. Liquidity Coverage Ratio as on June 30, 2024 stood at 138.01%, as against the minimum regulatory requirement of 100%. Further, considering the stable franchise of the bank, the bank is expected to roll over its deposits.

Environment, social, and governance (ESG)

- Approximately 4,000 tonne of carbon dioxide emission is reduced because of using solar energy for 178 branches (approximate) in rural and semi-urban areas.
- The bank has digitised the approval process through the paperless office initiative, thereby reducing the usage of paper and conserving the environment.
- Waterless urinals installed in the corporate office building, saving approximately 30 lakh litres of water a year.
- The bank finances solar powered pump sets to individual salt farmers in the area of the Little Rann of Kutch.
- The bank plants a fruit-bearing tree on behalf of its customers for every auto loan or home loan disbursed.
- The bank has a 'Code of Ethics', which is a landmark initiative for a PSB.
- In order to embed the sustainability culture across the organisation, the bank has constituted an independent CSR & Sustainability Committee of the Board to oversee the implementation of corporate social responsibility (CSR) initiatives, sustainable strategies, policies and practices.
- The bank also has a comprehensive 'Business Responsibility & Sustainable Development Manual (BRSD)' available on the website, which emphasises on the bank's commitment towards various ESG 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
Withdrawal

About the company and industry

Industry classification

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

About the company and industry

BOB, established in 1908 and nationalised in 1969 is a PSB with substantial footprint in the domestic and international markets. The government announced the amalgamation of Vijaya Bank and Dena Bank with BOB, which came into effect on April 1, 2019. In terms of asset size and total business, the combined bank is the second-largest PSB in India. The bank has over 140 million customers across the globe through its network of 8,224 branches, 11,033 ATMs, and 75,515 employees as on March 31, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total income	99,614	1,27,101	32,116
PAT	14,110	17,789	4,458
Total Assets	14,52,701	15,85,797	15,76,964
Net NPA (%)	0.89	0.68	0.69
ROTA (%)	1.04	1.17	1.17*

A: Audited; UA: Unaudited. *annualised. All analytical ratios are as per CARE Ratings' calculations
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
Basel III Compliant Tier – II Bonds Series XVIII	INE028A08125	07-Dec-18	8.42%	7-Dec-28 (Call Date 7-Dec-23)	0.00	Withdrawn
Basel III Compliant Tier – II Bonds Series XIX	INE028A08133	20-Dec-18	8.40%	20-Dec-28 (Call Date 20-Dec-23)	0.00	Withdrawn
Basel III Compliant Tier – II Bonds Series XX	INE028A08141	10-Jan-19	8.60%	10-Jan-29 (Call date 10-Jan-24)	0.00	Withdrawn
Basel III Compliant Tier – II Bonds Series XXI	INE028A08158	14-Feb-19	8.55%	14-Feb-29 (Call date 14-Feb-24)	0.00	Withdrawn
Basel III Compliant Tier – II Bonds Series XXII	INE028A08166	11-Sep-19	7.75%	11-Sep-34 (call date 11-Sep-29)	500	CARE AAA; Stable
Tier II Basel III Series IX	INE705A08037	30-Oct-14	9.15%	30-Oct-24	500	CARE AAA; Stable
Tier II Basel III Series XI	INE705A08078	22-Jan-16	8.64%	22-Jan-26	450	CARE AAA; Stable
Bonds-Tier II Bonds (Series XIII)	INE077A08064	26-Feb-14	9.86%	26-Feb-24	0.00	Withdrawn
Bonds-Tier II Bonds (Series XIV)	INE077A08098	20-Sep-16	8.76%	20-Sep-26	400	CARE AAA; Stable
Tier II Basel III Series VIII	INE705A08029	23-Dec-13	9.73%	23-Dec-23	0.00	Withdrawn
Tier II Basel III Series X	INE705A08052	18-Feb-15	8.62%	18-Feb-25	500	CARE AAA; Stable
Basel III Compliant Tier – II Bonds Series XXIII	INE028A08190	03-Jan-20	7.44%	03-Jan-30 (call date 03-Jan-25)	920	CARE AAA; Stable
Basel III Compliant Tier – II Bonds Series XXIV	INE028A08208	15-Jan-20	7.84%	15-Jan-35 (call date 15-Jan-30)	2,000	CARE AAA; Stable
Upper Tier II (Series XII)	INE028A09123	08-Jul-09	8.54%	08-Jul-24	0.00	Withdrawn

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 2024-2025	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
1	Bonds-Upper Tier II	LT	-	-	-	1)CARE AAA; Stable (04-Sep-23)	1)CARE AAA; Stable (06-Sep-22)	1)CARE AAA; Stable (07-Sep-21)
2	Bonds-Perpetual Bonds	LT	-	-	-	-	-	1)Withdrawn (07-Sep-21)
3	Bonds-Perpetual Bonds	LT	-	-	-	-	1)Withdrawn (06-Sep-22)	1)CARE AA+; Stable (07-Sep-21)
4	Bonds-Tier II Bonds	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Sep-23)	1)CARE AAA; Stable (06-Sep-22)	1)CARE AAA; Stable (07-Sep-21)
5	Bonds-Tier I Bonds	LT	-	-	-	-	-	1)Withdrawn (07-Sep-21)
6	Bonds-Tier II Bonds	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Sep-23)	1)CARE AAA; Stable (06-Sep-22)	1)CARE AAA; Stable (07-Sep-21)
7	Bonds-Tier II Bonds	LT	450.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Sep-23)	1)CARE AAA; Stable (06-Sep-22)	1)CARE AAA; Stable (07-Sep-21)
8	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (06-Sep-22)	1)CARE AAA; Stable (07-Sep-21)
9	Bonds-Tier II Bonds	LT	-	-	-	1)CARE AAA; Stable (04-Sep-23)	1)CARE AAA; Stable (06-Sep-22)	1)CARE AAA; Stable (07-Sep-21)
10	Bonds-Tier II Bonds	LT	400.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Sep-23)	1)CARE AAA; Stable (06-Sep-22)	1)CARE AAA; Stable (07-Sep-21)
11	Bonds-Tier II Bonds	LT	-	-	-	1)CARE AAA; Stable	1)CARE AAA; Stable (06-Sep-22)	1)CARE AAA; Stable (07-Sep-21)

						(04-Sep-23)		
12	Bonds-Tier II Bonds	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Sep-23)	1)CARE AAA; Stable (06-Sep-22)	1)CARE AAA; Stable (07-Sep-21)
13	Bonds-Tier I Bonds	LT	-	-	-	-	1)Withdrawn (06-Sep-22)	1)CARE AA+; Stable (07-Sep-21)
14	Bonds-Tier II Bonds	LT	2920.00	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Sep-23)	1)CARE AAA; Stable (06-Sep-22)	1)CARE AAA; Stable (07-Sep-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of 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
2	Bonds-Upper Tier II	Highly 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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