Bank of India

November 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Infrastructure Bonds	5,000.00	CARE AA+; Stable	Reaffirmed
Infrastructure Bonds	5,000.00	CARE AA+; Stable	Reaffirmed
Tier II Bonds	3,000.00	CARE AA+; Stable	Reaffirmed
Tier II Bonds	2,500.00	CARE AA+; Stable	Reaffirmed
Fixed Deposit	0.00	CARE AA+; Stable	Reaffirmed
Tier I Bonds	2,500.00	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.

[#]CARE Ratings Limited (CARE Ratings) has rated the mentioned Basel-III compliant additional Tier-I bonds after taking into consideration following key features:

- The bank has full discretion, at all times, to cancel coupon payments. The coupon is to be paid from the current year's profits. However, if the current year's profits are not sufficient, the payment of such coupon is likely to result in losses in the current year, balance coupon payment may be made from revenue reserves, including statutory reserves and/or credit balance in profit and loss account and excluding share premium, revaluation reserve, foreign currency translation reserve, investment reserve, and reserves created on amalgamation, provided the bank meets the minimum regulatory requirements for CET I, Tier-I and total capital ratios, and capital buffer frameworks as prescribed by the RBI.
- The instrument may be written down on CET I breaching pre-specified trigger of 5.5% before September 30, 2020, 6.125% on and after October 01, 2021, or written off/converted into common equity shares on the occurrence of the trigger event called PONV. PONV trigger will be determined by the RBI.

Delays in payment of interest or principal (as the case may be) due to invocation of features mentioned will constitute an event of default per CARE Ratings' definition of default, and as such these instruments may exhibit somewhat sharper migration of the rating compared to other subordinated debt instruments.

Rationale and key rating drivers

Ratings assigned to debt instruments of Bank of India (BOI) factor in demonstrated and expected support from Government of India (GOI), which holds majority (73.38% as on September 30, 2024) shareholding in the bank, the bank's established franchise through its pan India branch network, which has helped the bank build a depositor base allowing it deposits to be granular. Ratings further factor in the bank's comfortable capitalisation supported by periodic capital infusion, diversified advances portfolio, improvement in asset quality parameters and financial performance over the last few years.

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

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

Outlook: Stable

Stable outlook is considering expectation of bank's continued stable financial performance with gradual improvement in asset quality parameters and reduction in credit cost, which would improve the bank's overall profitability in the medium term while maintaining healthy capitalisation.

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 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 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 over a century and is the sixth-largest nationalised bank in terms of advances with advances of ₹5.85 lakh crore and total business (Advances + Deposits) of ₹13.24 lakh crore as on March 31, 2024. Its pan India geographical presence has risen substantially, furthering its existing strong franchise with a network of 5,148 branches in India and 22 branches overseas, catering a larger customer base, as on March 31, 2024. ~64% of its total domestic branches caters 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-over-year (y-o-y). The bank's CASA deposit ratio marginally decreased from 44.73% as on March 31, 2023, to 43.21% as on March 31, 2024, to, due to surge in deposit interest rates, which led to customers shifting from CASA to term deposits and other investment avenues which was observed across banks.

Comfortable capitalisation levels

The bank has been maintaining adequate cushion over the minimum regulatory requirement and support credit growth. As on March 31, 2024, the bank's capital adequacy ratio (CAR) stood at 16.96% with Common Equity Tier-(CET) I Ratio of 14.24% and Tier-I CAR of 14.93% (March 31, 2023: 16.28%, 13.6% and 14.41%, respectively). There is a sufficient capital cushion to absorb asset quality pressures and support growth in the near term. In Q3FY24, the bank had raised ₹4,500 crore through QIP of equity shares and accretion to profit helped the bank improve its core capitalisation. The bank raised Tier II capital through bond issuances of ₹2,000 crore in FY24 which helped the bank's overall capitalisation level. The bank raised Infrastructure bonds and Tier II bonds of ₹5,000 and ₹2,500 in the quarter ended September 30, 2024. 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. The bank reported CAR of 16.63% with CET I Ratio of 13.52% as on September 30, 2024.

Diversified advances profile and deposit growth

The bank's gross advances stand at ₹5.85 lakh crore as on March 31, 2024. Exposure to Retail, Agriculture and MSME (RAM) is 55.61% of domestic advances. In FY24, exposure to government and government-guaranteed advances has reduced which is aligned with the bank's strategy to reduce low-yielding loans. Its international portfolio (which is largely corporate) constituted ~16.43% of the total advances as on March 31, 2024. The overseas bank branches are across 15 countries. 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 10.21% in FY24 (y-o-y), (6.6% in FY23 y-o-y). While CASA deposits grew at a slower pace of 7.03% (y-o-y) in FY24, term deposits grew by 12.42% (y-o-y) in this period, leading to decline in CASA proportion to 36.57% as on March 31, 2024. CASA proportion stood at 35.56% as on September 30, 2024. In H1FY25, the bank saw 15.59% (y-o-y) growth in advances and 10.15% growth in deposits.

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 non-performing assets (NNPA) ratio of 4.98% and 1.22%, respectively, as on March 31, 2024 (7.31% and 1.66% as on March 31, 2023) against 9.98% and 2.34%, respectively, as on March 31, 2022, it is still relatively high than its peers. Reduction in GNPA was mainly due to higher write-offs of ₹9,749 crore and cash recoveries of ₹5,261 crore. The bank's slippage ratio reduced from 1.94% in FY23 to 1.58% in FY24.

In Q4FY24, the bank saw slippages in few state government backed accounts and one corporate account; however, the bank has recovered from some accounts and expects recovery over the coming quarters resulting in improvement in asset quality parameters.

Gross stressed assets* and net stressed assets* though decreased y-o-y, continued to remain high at 6.65%% of the gross advances (March 31, 2023: 9.53%) and 28.02% of the net worth as on March 31, 2024 (March 31, 2023: 52.27%), respectively. The bank has special team looking at Special Mention Accounts (SMA) which has resulted in significant decline in SMAs in FY24. The SMA (above ₹5 crore) declined from 3.55% of net standard advances as on March 31, 2023, to 1.28% of net standard advances as on March 31, 2024. In quarter ended September 2024, the bank witnessed increase in slippages which were largely considering a large corporate exposure which resulted in increase in provisions in the quarter. BOI reported GNPA ratio of 4.41% and NNPA ratio of 0.94% as on September 30, 2024, compared to GNPA ratio of 5.84% and NNPA ratio of 1.54% as on September 30, 2023. Going forward, improvement in asset quality parameters aligned with peer banks is a key rating monitorable.

**Gross Stressed Asset = Gross NPA + Standard Restructured Assets + Security Receipts*

**Net Stressed Assets = Net NPA + Standard Restructured Assets + Security Receipts*

Moderate profitability

The bank has seen continuous improvement in its profitability over the last five years, due to reducing cost of deposits y-o-y led by increase in the proportion of CASA deposits and increase in the gross advances post coming of the PCA framework.

The bank's net interest margin (NIM) has improved to 2.70% in FY24 from 2.64% in FY23 as the bank was able to pass on its incremental cost of deposits. The bank's total income increased by 22% to ₹66,804 crore for FY24 from ₹54,748 for FY23. The bank saw increase in operating expenses by 8% to ₹15,079 crore for FY24 from ₹13,982 crore largely due to increase in employee cost on account by wage revision. BOI's pre provisioning operating profit (PPOP) increased by 5% to ₹14,069 crore for FY24 compared to ₹13,393 crore for FY23. The bank's credit cost (provisioning) declined by 45% to ₹3,970 crore for FY24 from ₹7,163 crore for FY23 which helped the bank report profit after tax (PAT) of ₹6,318 crore for FY24 compared to PAT of ₹4,023 crore for FY23.

The bank's return on total assets (ROTA) increased to 0.74% for FY24 compared to 0.53% for FY23. While increasing, ROTA remained lower compared to larger public sector banks. The bank is expected to have ROTA of ~0.90% for FY25 with continued margin, lower operating cost and credit cost.

In H1FY25, the bank reported PAT of ₹4,076 crore on total income of ₹38,113 crore compared to PAT of ₹3,010 crore on total income of ₹32,480 crore in H1FY24 with ROTA of 0.89% (annualised) for H1FY25. The bank's ability to contain credit cost and improve its profitability in line with peers is a key rating monitorable.

Liquidity: Strong

The bank's liquidity profile is supported by the bank's strong retail and CASA depositor base. The bank's reported liquidity coverage ratio (LCR) was 153.12% for quarter ended March 31, 2024, against minimum regulatory requirement of 100%. The bank also had an excess statutory liquidity ratio (SLR) of ₹39,230.03 crore as on March 31, 2024, 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) and access to refinancing from SIDBI, NHB, and NABARD, among others, and access to call money markets.

Environment, social, and governance (ESG) risks

The bank's board has adopted ESG Policy (Environment, Social and Governance). ESG policy includes the governance structure for taking the cause ahead and also set deliverables for the departments in the bank. The ESG policy outlines the banks intent to move in the direction of net zero per the country's commitment and also enable to comply with regulatory requirement on ESG and related disclosures. The bank has taken staff welfare initiatives to improve cordial working atmosphere under ESG (Environmental Social Governance) programme launched by human resources.

Applicable criteria

Definition of Default
Factoring Linkages Government Support
Rating Outlook and Rating Watch
Bank
Financial Ratios - Financial Sector
Rating Basel III - Hybrid Capital Instruments issued by Banks

About the company and industry

Industry classification

Macroeconomic 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 ₹5.86 lakh-crore as on June 30, 2024. The bank's franchise is across 5,155 branches in India and 22 branches overseas as on June 30, 2024. ~65% of its total domestic branches cater rural and semi-urban areas.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total income	54,747	66,804	38,113
PAT	4,023	6,318	4,076
Total Assets	8,02,021	9,02,899	9,77,158
Net NPA (%)	1.66	1.22	0.94
ROTA (%)	0.52	0.74	0.89*

A: Audited UA: Unaudited; Note: these are latest available financial results *annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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
Tier II Bonds	INE084A08193	September 26, 2024	7.49	September 26, 2034	2,500.00	CARE AA+; Stable
Infrastructure Bonds	INE084A08185	July 19, 2024	7.54%	July 19, 2034	5,000.00	CARE AA+; Stable
Infrastructure Bonds (proposed)	-	-	-	-	5,000.00	CARE AA+; Stable
Bonds-Tier I Bonds (proposed)	-	-	-	-	2500.00	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 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-Tier II Bonds	LT	3000.00	CARE AA+; Stable	1)CARE AA+; Stable (12-Sep-24) 2)CARE AA+; Stable (04-Jul-24) 3)CARE AA+; Stable (04-Apr-24)	1)CARE AA+; Stable (06-Jun-23)	-	-
2	Fixed Deposit	LT	0.00	CARE AA+; Stable	1)CARE AA+; Stable (12-Sep-24) 2)CARE AA+; Stable (04-Jul-24) 3)CARE AA+; Stable (04-Apr-24)	-	-	-
3	Bonds-Infrastructure Bonds	LT	5000.00	CARE AA+; Stable	1)CARE AA+; Stable (12-Sep-24) 2)CARE AA+; Stable (04-Jul-24)	-	-	-

4	Bonds-Infrastructure Bonds	LT	5000.00	CARE AA+; Stable	1)CARE AA+; Stable (12-Sep-24)	-	-	-
5	Bonds-Tier II Bonds	LT	2500.00	CARE AA+; Stable	1)CARE AA+; Stable (12-Sep-24)	-	-	-
6	Bonds-Tier I Bonds	LT	2500.00	CARE AA; Stable				

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

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Infrastructure Bonds	Simple
2	Bonds-Tier I Bonds	Highly Complex
3	Bonds-Tier II Bonds	Complex
4	Fixed Deposit	Simple

Annexure-5: Lender details

To view 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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 044-28501001 E-mail: pradeep.kumar@careedge.in	Sanjay Agarwal Senior Director **CARE Ratings Limited** Phone: +91-22-67543500 E-mail: Sanjay.Agarwal@careedge.in Vineet Jain Senior Director **CARE Ratings Limited** Phone: 912267543623 E-mail: vineet.jain@careedge.in Aditya R Acharekar Associate Director **CARE Ratings Limited** Phone: 912267543528 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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