Bank of Maharashtra (Revised)

June 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier II Bonds (Basel III) & (Proposed)	1,000.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Tier II Bonds (Basel III) &	2,600.00	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Infrastructure bonds	-	-	Withdrawn
Total long-term instruments	**3,600.00 (₹ Three thousand six hundred crore only)**		

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. 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 the 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.

Detailed rationale and key rating drivers

The revision of the rating assigned to the debt instruments of Bank of Maharashtra (BOM) factors in continued improvement in the financial risk profile of the bank with sustained improvement in profitability and asset quality parameters along with adequate capitalisation levels post coming out of the Prompt Corrective Action (PCA) framework of RBI during FY19 (refers to the period April 01 to March 31). The bank's capitalisation levels have seen improvement post qualified institutional placement (QIP) of ₹404 crore in July 2021 and internal accruals, which has helped the bank report adequate cushion in capital adequacy ratio (CAR) over the minimum regulatory requirement.

The ratings continue to factor in majority ownership by Government of India (GOI) and its continued support and long track record of the bank with established franchise and strong depositor base which helps it to garner relatively lower-cost current account and saving account (CASA) deposits and comfortable liquidity profile.

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).

The bank has shown considerable improvement in its asset quality parameters through recovery and write-off of non-performing asset (NPAs) and increased its provision coverage; however, the bank's proportion of restructured accounts and stressed accounts (i.e. special mention accounts (SMA)) during FY22 remain high. The bank's adequate capitalisation levels, improved profitability and contingent provisions held by the bank (around ₹1,200 crore as on March 31, 2022) provide ability to absorb the expected slippages from its stressed advances.

Higher-than-expected slippages due to macro-economic challenges and rise in the resultant credit costs impacting the profitability would remain a key monitorable in the near term.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to Infrastructure Bonds of ₹1,000 crore, as these bonds have been redeemed by the bank.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improved asset quality parameters with net non-performing assets (NNPA)/tangible net worth below 10% on a sustained basis.
- Improvement in profitability with return on total assets (ROTA) of 1% or more.

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

Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in expectation of support from GOI.
- Deterioration in the asset quality with NNPA of 5% or more on a sustained basis resulting in higher-than-expected credit costs.
- Deterioration in capitalisation levels to CET I ratio of less than 11% on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Majority ownership and support by GOI and demonstrated support: GOI continues to be the majority shareholder holding 90.97% stake in BOM as on March 31, 2022 (March 31, 2021: 93.33%). GOI has been supporting public sector banks (PSBs) with regular capital infusions and steps to improve capitalisation, operational efficiency and asset quality. Given the majority ownership of GOI, BOM is expected to receive timely and adequate support in the form of capital as and when required. GOI has cumulatively infused equity capital of ₹5,703 crore over FY19 and FY20 which helped the bank come out of the RBI's PCA in Q3FY20. As the bank has been reporting profit and is sufficiently capitalised, GOI has not infused any equity capital after FY20. However, capital support in case of requirement is expected from GOI considering the majority shareholding and continues to be a key rating sensitivity.

Improvement in capitalisation levels post equity infusion: On account of weak asset quality, leading to higher credit cost, BOM reported net losses during FY17 to FY19, which impacted the capitalisation levels of the bank requiring GOI support. Post multiple infusions of equity by GOI and a QIP of ₹404 crore during FY22, the bank saw significant improvement in its capitalisation ratios supported by consistently improving internal accruals and has made BOM amongst the well-capitalised mid-sized PSBs. The bank reported capital adequacy ratio (CAR) of 16.48% (Tier I CAR: 12.38%) and common equity tier I (CET I) ratio (and Tier I CAR) of 11% as on March 31, 2022, as compared with CAR of 14.49% and CET I Ratio (and Tier I CAR) of 10.98% as on March 31, 2021. 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]).

Long track record and established franchise helping the bank with 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 FY22, BOM's CASA deposits grew faster at around 25% from ₹93,945 crore as on March 31, 2021 to ₹117,035 crore as on March 31, 2022, compared with around 16% growth of total deposits thereby improving the already high CASA ratio 54% to 58% during the same period thus lowering the cost of deposits. The rise in CASA was on account of bulk deposits made by Government entities after BOM installed interface/software to park their funds. The CASA ratio of BOM is the highest amongst all the PSBs, which helped the bank to maintain lower cost of deposits which stood at 3.70% for FY22 as against 4.17% for FY21.

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 improved in FY22 as compared with FY20 and FY21 despite the interest rates falling. This was due to faster fall in the cost of deposits (high CASA) as compared to the fall in yields on advances supported by significant growth in advances. Furthermore, recoveries from written-off accounts helped in improvement of profitability despite BOM providing family pension liability in FY22, which could be amortised over a period of five years. BOM's pre-provision operating profit (PPOP) rose to 2.28% of average assets for FY22 as compared with 2.20% for FY21. The credit cost for FY22 was lower at 1.36% as compared with 1.67% for the previous year due to comparatively lower slippages. The bank's ROTA improved to 0.54% in FY22 as compared with 0.31% in FY21. BOM's ability to manage its asset quality and thereby credit cost and eventually profitability will be a key rating sensitivity.

Strong advance growth: The advances book of BOM saw a de-growth from peak of ₹111,240 crore as on March 31, 2016, to ₹93,467 crore as on March 31, 2019, as under 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 modest growth in FY20 and the growth picked up from FY21 onwards. BOM's advances portfolio grew by 25.62% at ₹135,239 crore as on March 31, 2022, higher than the banking industry. The growth was largely driven by corporate loans and retail, which grew by 37.57% and 23.63%, respectively, whereas Agriculture and micro small and medium enterprises (MSME) grew by 17.07% and 13.60%, respectively, during FY22. With retail, other retail segment including personal loans, loans against property saw the highest growth at 40.71%, housing by 17.83% and vehicle loans at 16.11%, respectively. Within the corporate loans, BOM increased the proportion of Government-guaranteed exposures and reduced the proportion of corporates having and credit rating of 'BBB' and below. Furthermore, the top 10 exposures constitute only 4.41% of gross advances as on March 31, 2022, indicating granularity of large exposures. As on March 31, 2022, corporate lending constituted 40% (PY: 37%) of total advances, while retail constituted 26% (PY: 27%), agriculture constituted 14% (PY: 15%) and MSME constituted 19% (PY: 21%) of gross advances as on March 31, 2022.

Key rating weaknesses

Improving asset quality parameters; however, proportion of stressed portfolio continues to be at elevated level: The asset quality parameters have seen improvement since it peaked in FY18 with gross NPA (GNPA) ratio of 19.48%, NNPA ratio of 11.23% and NNPA to net worth ratio of 155.58% as on March 31, 2018, largely on account of exposure to weaker large-ticket corporate accounts.

The GNPA declined from FY19 onwards owing to lower slippages (total of ₹12,729 crore for FY19 to FY22 as against ₹20,578 crore from FY16 to FY18) and higher write-offs (₹18,873 crore for FY19 to FY22 as against ₹4,720 crore from FY16 to FY18). As a result, the bank was able to bring down the GNPA ratio significantly to 3.94% as on March 31, 2022. The bank's NNPA, provision coverage ratio (excluding TWO) and NNPA to net worth stood at 0.97%, 76.04% and 10.37%, respectively, as on March 31, 2021 (2.48%, 67.30% and 23.21%, respectively, as on March 31, 2021).

Furthermore, BOM continues to have high proportion of standard restructured book (including the RBI Resolution Framework 1.0 and 2.0) and Special Mention Accounts 1 and 2 pools (SMA 1 and SMA 2) constituting 4.10% and 2.67% of gross advances, respectively, as on March 31, 2022.

BOM had created COVID-19 provisions of ₹1,200 crore as on March 31, 2022, over and above NPA-specific provisions, which provides a cushion for any future asset quality shocks. The higher-than-expected slippages would further deteriorate the asset quality parameters and profitability and will be a key rating monitorable.

Geographical concentration: Being a well-established bank in Maharashtra, BOM has high concentration in the state in terms of advances and deposits, with main focus on Pune. Out of the total 2,022 branches in India, 56% of branches are located in the state of Maharashtra. Furthermore, the west region of India contributes around 80% of deposits and 54% of the advances for the bank.

Liquidity: Strong

According to the Structural Liquidity Statement as on March 31, 2022, there were no negative cumulative mismatches as per the asset-liability management (ALM) in time buckets upto six months. The bank manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. The bank's average liquidity coverage ratio (LCR) stood at 173.05% for the quarter ended March 31, 2022, as against the regulatory requirement of 100%. Comfort can be drawn from the excess statutory liquidity ratio (SLR) maintained by BOM at 13.76% of net demand and time liabilities as on March 31, 2022. Furthermore, the bank has access to systemic liquidity like RBI's liquidity adjustment facility (LAF) and marginal standing facility (MSF) facility along with access to refinance from Small Industries Development Bank of India (SIDBI), National Housing bank (NHB), National Bank for Agriculture and Rural Development (NABARD), etc, and access to call money markets.

Analytical approach

The ratings are based on a standalone profile of the bank and continue to factor in strong support from GOI, which holds majority shareholding in the bank.

Applicable criteria

Rating Outlook and Credit Watch
Policy on Withdrawal of Ratings
Policy on default recognition
Financial Ratios - Financial Sector
Rating Methodology: Notching by factoring linkages with Government
Rating Basel III - Hybrid Capital Instruments issued by Banks
Bank

About the company

Bank of Maharashtra (BoM), incorporated in 1935, is a Pune-based mid-sized public sector bank, and the Government of India (GOI) holds majority of stake of 90.97% (as on March 31, 2022 and 93.33% as on March 31, 2021).

The bank had a network of 2,022 branches as on March 31, 2022 (1,964 as on March 31, 2021), out of which 1,122 branches are in rural and semi-urban areas. All the branches of the bank are Core Banking Solution (CBS)-enabled.

The bank has one 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 one associate Regional Rural Bank (RRB) 'Maharashtra Gramin Bank', wherein BoM is a sponsor bank with 35% ownership, Government of India (50%) and Government of Maharashtra (15%).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	14,494	15,672
PAT	550	1,152
Total assets	195,492	229,034
Net NPA (%)	2.48	0.97
ROTA (%)	0.31	0.54

A: Audited

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds-Infrastructure Bonds	INE457A09207	October 20, 2014	9.40	October 20, 2021	-	Withdrawn
Tier II Bonds (Basel III)	INE457A08092	October 21, 2021	7.86	October 20, 2031	1000.00	CARE AA; Stable
Tier II Bonds (Basel III)	INE457A08050	March 06, 2020	8.70	March 06, 2030	600.00	CARE AA; Stable
Tier II Bonds (Basel III)	INE457A08035	June 27, 2016	9.20	September 27, 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds-Infrastructure Bonds	LT	-	-	-	1)CARE AA-; Stable (28-Sep-21) 2)CARE AA-; Stable (05-Aug-21)	1)CARE A+; Positive (15-Sep-20)	1)CARE A+; Positive (06-Jan-20)
2	Bonds-Tier II Bonds	LT	1600.00	CARE AA; Stable	-	1)CARE AA-; Stable (28-Sep-21) 2)CARE AA-; Stable (05-Aug-21)	1)CARE A+; Positive (15-Sep-20)	1)CARE A+; Positive (24-Feb-20) 2)CARE A+; Positive (06-Jan-20)

3	Bonds-Tier II Bonds	LT	1000.00	CARE AA; Stable	-	1)CARE AA-; Stable (28-Sep-21)	-	-
4	Bonds-Tier II Bonds	LT	1000.00	CARE AA; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the 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 various instruments rated for this company

Sr. No	Name of Instrument	Complexity Level
1	Bonds-Infrastructure Bonds	Simple
2	Bonds-Tier-II Bonds	Complex

Annexure-5: Bank lender details for this company

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

Note on 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:
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