Bank of Maharashtra

September 28, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Tier II Bonds@	1,000.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Assigned
Tier II Bonds@	1,600.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Infrastructure Bonds^	1,000.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	**3,600.00 (Rs. Three thousand six hundred crore only)**		

^The long-term infrastructure bonds are unsecured and would rank pari-passu along with other uninsured, unsecured creditors. These bonds are senior to the subordinated bonds of the bank. RBI vide its circular dated July 15, 2014, has allowed banks to raise these bonds to finance their long-term loans to infrastructure as well as affordable housing with minimum regulatory pre-emption such as CRR, SLR and priority sector lending. Details of instruments/facilities in Annexure-1.

@Tier II Bonds under Basel III are characterized 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.

Detailed Rationale & Key Rating Drivers

The ratings assigned to various debt instruments of Bank of Maharashtra (BOM) factors in overall improvement in the financial risk profile of the bank with consistent improvement in capitalization levels, asset quality parameters and profitability.

The ratings continue to factor in majority ownership by Government of India (GOI), demonstrated capital infusion as and when required and expectation of continued support from GOI. The ratings also factor in long track record of the bank with established franchise and strong depositor base which helps the bank to garner relatively lower cost Current Account and Saving Account (CASA) deposits and comfortable liquidity profile. The bank has seen significant improvement in its operational parameters over the last two years, post coming out of the Prompt Corrective Action (PCA) framework of RBI during FY20 (refers to the period April 01 to March 31) with improvement in income profile and profitability. The bank's capitalization levels have seen significant improvement post infusion of equity capital by GOI during FY18 to FY21. During FY20, GOI infused equity capital of Rs.831 crore through preferential allotment. Furthermore, the bank has raised equity capital during the current financial year of around Rs.404 crore by way of Qualified Institutional Placement (QIP) which would help strengthen the capitalization of the bank. Additionally, 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. Although the bank has seen increase in its restructured accounts during FY21 and remain exposed to the covid-induced macro-economic challenges, the asset quality parameters remain comfortable. The bank has raised Tier II capital of Rs.506 crore in FY21.

The ratings remain constrained due to geographical concentration of the bank branches in the state of Maharashtra (owing to the regional focus of the bank), although improving but moderate profitability and the continued uncertainty of COVID-19 which may impact the asset quality and profitability of the bank.

Rating Sensitivities:

Positive Factors

- Robust profitability on a sustained basis with ROTA of 1% or more on sustained basis
- Demonstration of strong capital adequacy parameters with overall CET I Ratio of 12% or more
- Improved asset quality parameters with Net NPA/Tangible Net worth below 25% on a sustained basis

Negative Factors

- Inadequate GOI support and shareholding below 51%
- Deterioration in asset quality with Net NPA of 5% or more on a sustained basis

COVID-19 Impact

The Covid-19 pandemic has increased the challenges for banks as their borrowers and businesses faced job losses, slower sales and declining profits. During FY21, BOM has introduced Covid relief schemes, viz., Mahabank Kisan Rahat Yojana (MKRY) for farmers, MKRY for Agro-based industries/ units and Mahabank SHG Rahat Yojana to support the borrowers to cope with the situation arisen due to outbreak of the pandemic. The bank has disbursed total loan of Rs.325 crore under the aforesaid schemes. Under the Emergency Credit Line Guarantee Scheme, the bank has been offering working capital loan up to 20% of the borrowers total outstanding credit (max up to Rs.25 crore) to all business accounts with annual turnover up to Rs.100 crore for FY20.

The bank has been making Covid-19-related provisioning each quarter of FY21 and Q1FY22. As on June 30, 2021, it stood at Rs.973 crore. The bank has implemented Covid restructuring of Rs.1,706 crore (1.66% of standard advances) under Resolution Plan 1.0 of RBI and Rs.1,487 crore (1.45% of standard advances) under Resolution Plan 2.0 as on June 30, 2021.

The bank had built sufficient capital cushion and has seen improvement in operating profits, which would help BOM to absorb asset quality pressures that may arise from the second wave of COVID-19. However, uncertainty on the duration of pandemic and its impact continues and higher than expected impact on asset quality and profitability would be a key monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by GOI and continued support

The bank's credit profile derives considerable comfort and demonstrated support from GoI in terms of capital infusion, management and governance. CARE Ratings expects GoI to continue support to BOM in times of stress on account of its majority shareholding which stood at 90.97% as on July 17, 2021 (March 31, 2021: 93.33%). The bank has received continuous capital support from GoI including infusion of Rs.4,703 crore of equity capital in FY19 and additional Rs.831 crore during FY20 by way of preferential allotment of equity capital as a part of GOI's Rs.2.11 lakh recapitalization programme for public sector banks. GOI is expected to continue its majority shareholding in the bank and continued support is a key rating sensitivity.

Improved capitalization profile

The bank has received significant amount of capital infusion by GOI over the last few years which along with internal capital generation has helped improve the capitalisation levels of BOM which now stands comparable among well-capitalised PSBs. The bank received equity capital of over Rs.5,500 crore from GOI during FY19 and FY20. In addition, the bank raised Rs.132 crore of equity capital through employee stock option plan during FY20 and Tier II capital of Rs.506 crore by way of issuance of bonds in FY21.

The bank reported capital adequacy ratio (CAR) of 14.49% (Tier I CAR: 10.98%) and Common Equity Tier I (CET I) Ratio (and Tier I CAR) of 10.98% as on March 31, 2021, as compared with CAR of 13.52% and CET I Ratio (and Tier I CAR) of 10.67% as on March 31, 2020. As on June 30, 2021, the bank reported CAR of 14.46% (Tier I CAR / CET I Ratio: 11.00%).

During July 2021, the bank has raised equity capital of around Rs.404 crore through qualified institutional placement (QIP) of equity shares to investors which would help further strengthen the capitalisation profile.

Long track record and established franchise helping the bank with robust CASA base

BOM has been regional 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 FY21, the bank's CASA deposits saw growth by 24% to reach Rs.93,945 crore as on March 31, 2021, constituting 53.99% of the total deposits. Consistently high share and improvement in CASA proportion has helped the bank reduce its cost of deposits to 4.17% for

FY21 from 4.65% for FY20. CASA (%) stood at 53.04% as on June 30, 2021, and compares well among other PSBs.

Improvement in asset quality parameters

The bank has seen improvement in its asset quality parameters with Gross NPA Ratio improving to 7.23% (P.Y.: 12.81%) and Net NPA ratio improving to 2.48% (P.Y.: 4.77%) as on March 31, 2021, supported by lower slippages, but recoveries as well as write-off of NPAs over the last three years. Against net slippages of Rs.25,401 crore in the last five years, the bank has seen recoveries of Rs.7,375 crore, upgrades of Rs.1,059 crore and write-offs of Rs.19,573 crore. The bank has been providing for NPAs and has cumulatively provided Rs.37,362 crore over the last five years resulting in Net NPA ratio declining from 11.76% as on March 31, 2017 to 2.48% as on March 31, 2021. The bank's PCR increased to 62.29% as on March 31, 2021. The bank's Net NPA to Tangible Net worth ratio declined from 181.91% as on March 31, 2017, to 31.59% as on March 31, 2021. The standard restructured assets have increased from Rs.80 crore as on March 31, 2021 to Rs.257 crore as on June 30, 2021.

Key Rating Weaknesses

Geographical concentration

Being a well-established bank in Maharashtra, BoM has high concentration in the state in term of Advances and Deposits, with main focus on Pune. It is the only bank with nearly 60% of its branch network and 62% of its business in Maharashtra. The COVID pandemic may impact each state differently and therefore the pace of return to normalcy may have a material impact on the asset quality of the bank.

Moderate profitability

After reporting losses amounting to Rs.4,784 crore in FY19 due to aggressive provisioning, BoM reported an overall profits during FY20 and FY21. The bank's Net Interest Margin (NIM) stood at 2.68% for FY21 showing marginal improvement from 2.64% for FY20 as the bank maintained its yield on advances vis-à-vis decrease in the cost of deposits by around 48bps with overall decline in interest rates as well as improvement in proportion of low cost CASA deposits. The bank also saw significant increase in the non-interest income from Rs.1,649 crore for FY20 to Rs.2,625 crore on account of increase in the fee-based income as well as recovery from two corporate NPAs (amounting to Rs.508 crore) which helped the bank report 10% increase in the total income to Rs.14,494 crore as compared with Rs.13,145 crore for FY20. The bank reported Pre Provisioning Operating Profit (PPOP) of Rs.3,958 crore for FY21 as compared with Rs.2,847 crore for FY20.

The bank's improvement in asset quality along with lower slippages helped decrease provisioning by 12% helping the bank to report Profit Before Tax (PBT) of Rs.1,231 crore as compared with loss of Rs.260 crore for FY20. During FY21, the bank reported Profit After Tax (PAT) of Rs.550 crore on total income of Rs.14,494 crore as compared with PAT of Rs.389 crore on total income of Rs.13,145 crore for FY20. Its return on total assets (ROTA) for FY21 stood at 0.30% as compared with ROTA of 0.23% for FY20.

During Q1FY22, the bank's profitability continued to improve and the bank reported PAT of Rs.208 crore on total income of Rs.3,795 crore.

Liquidity profile: Strong

The bank's liquidity profile remained comfortable as on March 31, 2021. The bank reported liquidity coverage ratio (LCR) of 306.25% as on March 31, 2021, as compared with 215.13% as on March 31, 2020 (against a minimum requirement of 80%). The ALM profile of the bank as on March 31, 2021 no negative cumulative mismatches up to three months. The bank also maintained excess SLR investments and being a bank has access to liquidity adjustment facility from RBI, access to the call money market and refinance limits from National Housing Bank (NHB) and National Bank for Agriculture and Rural Development (NABARD).

Analytical approach: Standalone and factoring in sovereign ownership and support.

Applicable Criteria

Criteria on assigning outlook to Credit Ratings
CARE's policy on default recognition
CARE's Rating Methodology for Banks
Financial Ratios-Financial Sector
Rating framework for Basel III instruments
Factor Linkages in Ratings
Rating Methodology: Notching by factoring linkages with Government

About the Bank

Bank of Maharashtra (BoM) is a Pune-based public sector bank which was incorporated in 1935. The Government of India (GOI) holds majority of stake of 90.97% as on July 17, 2021 (93.33% as on March 31, 2021. As on March 31, 2021, the bank had a network of 1,915 branches (1,833 as on March 31, 2020), out of which 1,044 branches are in rural and semi-urban areas. All the branches of the bank are Core Banking Solution (CBS)-enabled. The bank has one subsidiary and one associate as on March 31, 2021. The Maharashtra Executor & Trustee Company Pvt. Ltd. (METCO) is a 100% subsidiary of Bank of Maharashtra. It was established in 1946 with an aim to provide services auxiliary to banking. Maharashtra Gramin Bank is an Associate, wherein Bank of Maharashtra is a sponsor bank with 35% ownership, Government of India (50%) and Government of Maharashtra (15%). The bank is headed by Mr A. S. Rajeev, Managing Director (MD) and Chief Executive Officer (CEO) of the bank.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total Income	13,145	14,494
PAT	389	550
Total Assets	1,60,200	1,92,584
Net NPA (%)	4.77	2.48
ROTA (%)	0.23	0.30

*A: Audited. *Total Assets are net off Deferred Tax Assets and Revaluation Reserves. All ratios are as per CARE Ratings calculations.*

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: 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	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Infrastructure Bonds	October 20, 2014	INE457A09207	9.40	October 20, 2021	1000.00	CARE AA-; Stable
Bonds-Tier II Bonds	June 27, 2016	INE457A08035	9.20	September 27, 2026	1000.00	CARE AA-; Stable
Bonds-Tier II Bonds	March 06, 2020	INE457A08050	8.70	March 06, 2030	600.00	CARE AA-; Stable
Bonds-Tier II Bonds	Proposed	-	-	-	1000.00	CARE AA-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds-Perpetual Bonds	LT	-	-	-	-	-	1)Withdrawn (03-Sep-18)
2	Bonds-Upper Tier II	LT	-	-	-	-	-	1)Withdrawn (03-Sep-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
3	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (03-Sep-18)
4	Bonds-Infrastructure Bonds	LT	1000.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Aug-21)	1)CARE A+; Positive (15-Sep-20)	1)CARE A+; Positive (06-Jan-20)	1)CARE A+; Stable (03-Sep-18)
5	Bonds-Tier I Bonds	LT	-	-	-	-	-	1)Withdrawn (03-Sep-18)
6	Bonds-Tier II Bonds	LT	1600.00	CARE AA-; Stable	1)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)	1)CARE A+; Stable (03-Sep-18)
7	Bonds-Tier I Bonds	LT	-	-	-	-	-	1)Withdrawn (03-Sep-18)
8	Bonds-Tier II Bonds	LT	1000.00	CARE AA-; Stable				

Annexure-3: Detailed explanation of covenants of the rated instrument

Tier II Bonds (Basel III)	Detailed explanation
Covenants	
Tenor	10 years
Call / Put / Coupon Option	• No step-up option • No put option • Call option subject to conditions only after the instrument has run for at least 5 years with approval of RBI

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

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

Note on complexity levels of the rated instrument: *CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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