

OCTOBER 15, 2015

CARE REVISES THE RATINGS ASSIGNED TO THE UPPER TIER II BONDS AND PERPETUAL BONDS OF BANK OF INDIA

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Upper Tier II Bonds (under Basel II)	3000	CARE AA+ (Double A Plus)	Revised from CARE AAA (Triple A)
Perpetual Bonds (under Basel II)	700	CARE AA+ (Double A Plus)	Revised from CARE AAA (Triple A)
Total	3700 (Rupees Three Thousand Seven Hundred crore only)		

CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds after taking into consideration their increased sensitiveness to Bank of India's Capital Adequacy Ratio (CAR), capital raising ability and 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 payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared to conventional subordinated debt instruments.

Rating Rationale

The rating revision is on account of deterioration in bank's asset quality parameters leading to sharp decline in profitability. The ratings continue to factor in the capital support and majority ownership by the Government of India (GoI), its long track record of operations with global presence and average capitalisation levels. Continued ownership and support from GoI, capital adequacy, asset quality and profitability are the key rating sensitivities.

Background

Bank of India (BOI) is a premier nationalized bank which was incorporated on September 07, 1906. Bank of India is one of the five largest public sector banks in India, with GoI holding of 64.43% as on June 30, 2015. The bank had an asset size of Rs.6,15,013 crore along with a pan India network of 4,892 branches and 6,771 ATMs as on March 31, 2015. The Bank has four domestic subsidiaries viz. BOI Shareholding Ltd (51% stake), BOI AXA Investment Managers Private Limited (stake of 51%), BOI AXA Trustee Services Private Limited (stake of 51%) & BOI Merchant Bankers Limited (stack of 100%). The bank has five overseas subsidiaries as well viz. PT Bank of India Indonesia Tbk (stake of 76%), Bank of India (Tanzania) Ltd. (stake of 100%), Bank of India (New Zealand) Ltd. (stake of 100%), Bank of India (Uganda) Ltd. (stake of 100%) and Bank of India (Botswana) Limited (stake of 100%). The Bank has sponsored four Regional Rural Banks operating in four States viz. Jharkhand Gramin Bank, Narmada Jhabua Gramin Bank, Vidharba Konkan Gramin Bank and Gramin Bank of Aryavart. The Bank's associates are Indo Zambia Bank Limited (stake of 20%), STCI Finance Ltd. (29.96%) and ASREC India Ltd. (26.02%). It has one joint venture viz. Star Union Dai-ichi Life Insurance Company Limited in which it holds 48% a stake. Mr Melwyn Rego took over as MD & CEO of the bank in August 2015.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

During FY15, the bank's deposits and advances registered a growth of 12% and 9% year-over-year, respectively. During FY15, the bank's total income grew by 13% to Rs.47,663 crore, whereas PAT reduced to Rs. 1,709 crore as against Rs. 2729 crore in FY14. The Gross NPA ratio and Net NPA ratio as on March 31, 2015 stood at 5.39% (P.Y.: 3.15%) and 3.36% (P.Y.:2.00%) respectively, while Net NPA to tangible net worth stood at 48.7% (P.Y.:28.5%). Outstanding standard restructured assets as a % of advances stood at 4.2% (FY14: 3.6%). For FY15 Bank's Return on Assets ratio stood at 0.29% (P.Y.:0.53). As per Basel III norms, the bank reported a Capital Adequacy Ratio of 10.73% (Tier I – 8.17%) as on March 31, 2015.

Bank reported a PAT of Rs.130 crore on a total income of Rs.11,659 crore in Q1FY16 as against PAT of Rs. 806 crore on a total income of Rs. 11,329 crore in Q1FY15. As on June 30, 2015, the total capital adequacy ratio (under Basel III) stood at 10.75% with a Tier I ratio at 8.23%. The Gross NPA ratio and Net NPA ratio stood at 6.80% and 4.11%, respectively as on June 30, 2015. As on June 30, 2015, banks standard restructured assets (domestic) as a percentage of total advances stood at 4.5%.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE 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.

Disclaimer: CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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