FEBRUARY 12, 2016

CARE ASSIGNS 'CARE AA' RATING TO BASEL III COMPLIANT TIER II BONDS OF BANK OF MAHARASHTRA

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Lower Tier II Bonds (Under Basel III)	**1,000 (Rupees One Thousand crore only)**	**CARE AA (Double A)**	Assigned

Outstanding Ratings

Facilities	Amount (Rs. crore)	Ratings[2]
Long term Bank Facilities Lower Tier II Bonds (Under Basel II)	**425.00 (Rs. Four hundred twenty five crore only)**	**CARE AA (Double A)**
Upper Tier II Bonds (Under Basel II)	**850.00 (Rs. Eight Hundred fifty crore only)**	**CARE AA- (Double A Minus)**
Perpetual Bonds Series I (Under Basel II)	**225.00 (Rs. Two hundred twenty five crore only)**	**CARE AA- (Double A Minus)**
Long Term Infrastructure Bonds	**1000.00 (Rs. One Thousand crore only)**	**CARE AA (Double A)**
Basel III Compliant Tier I Perpetual Bonds	**1000.00 (Rs. One Thousand crore only)**	**CARE A+ (Single A Plus)**

Rating Rationale

The ratings take into account the majority ownership by the Government of India (GoI), healthy capitalization parameters, good operating performance and stable proportion of Current Account Saving Account (CASA) deposits.

The rating is, however, constrained by the significant deterioration in asset quality of the bank during FY15 (refers to the period April 1 to March 31) and H1FY16 (refers to the period April 1 to September 30) resulting in stress on the profitability on account of increased cost of provisioning.

Continued ownership and support from the GoI, improvement in asset quality, capital adequacy and profitability are the key rating sensitivities.

Background

Bank of Maharashtra (CIN: U99999MH1935PTC002399) was incorporated in the year 1935 and is headquartered in Pune. The Government of India (GOI) holds majority of stake [79.8% as on June 30, 2015] in the bank. The bank had a network of 1,880 branches and 1,850 ATMs as on June 30, 2015 with 61.44% of the branches in the state of Maharashtra followed by 7.55% of the branches in the state of Madhya Pradesh. About 58% of branches are in rural and semi urban areas. All the branches of the bank are Core Banking Solution (CBS) enabled. During FY15, the bank's deposits grew by 4.55% (y-o-y) while its net advances grew by 10.88% (y-o-y).

BOM's total income for grew from Rs.12,851 crore during FY14 to Rs.13,671 crore during FY15 supported by growth in interest income as well as non-interest income. During FY15, the bank's reported a growth of 17.38% in its operating profit led by growth (10.43% y-o-y) in its Net Interest Income (NII) on account of stable credit growth as well as reduction in cost of deposits. However, due to increase in provisioning for NPAs, the growth in bank's Profit Before Tax (PBT) was

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

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only 8.70% during FY15. However, the bank reported Profit After Tax (PAT) of Rs.451 crore for FY15 as compared to PAT of Rs.386 crore for FY14.

During H1FY16, the bank reported PAT of Rs.131 crore on total income of Rs.7,030 crore as compared to PAT of Rs.281 crore on total income of Rs.6,706 crore. The decline in profit was largely on account of provisioning for rise in Non Performing Assets (NPAs).

The bank witnessed sharp deterioration in its asset quality during FY15. It reported Gross NPA ratio of 6.33% and Net NPA ratio of 4.19% as on March 31, 2015 as compared to Gross NPA ratio of 3.16% and Net NPA ratio of 2.03% as on March 31, 2014. Its Net NPA to Net worth ratio stood at 58.52% [P.Y.: 28.68%]. Further during H1FY16, the bank continued to witness net slippages (though at lower pace) due to which, the Gross NPA ratio stood at 7.98% and Net NPA ratio of 5.59% as on September 30, 2015. The proportion of CASA deposits to total deposits remained healthy at 35.46% as on September 30, 2015.

BOM's capital adequacy parameters were stable and it reported a Capital Adequacy Ratio (CAR) (as per Basel III) of 11.94% (Tier I – 8.76%) as on March 31, 2015. During FY15, the bank received fresh equity share capital of Rs.400 crore from Life Insurance Corporation of India (LIC) which helped the bank to improve its CAR. As on September 30, 2015, the bank reported CAR of 11.23% (Tier I CAR: 8.36%) (under Basel III).

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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.

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