OCTOBER 13, 2015

CARE REVISES THE RATINGS ASSIGNED TO THE VARIOUS DEBT INSTRUMENTS OF BANK OF MAHARASHTRA

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities Lower Tier II Bonds (Under Basel II)	**425.00 (Rs. Four hundred twenty five crore only)**	**CARE AA (Double A)**	Revised from CARE AA+ (Double A Plus)
Upper Tier II Bonds (Under Basel II)*	**850.00 (Rs. Eight Hundred fifty crore only)**	**CARE AA- (Double A Minus)**	Revised from CARE AA (Double A)
Perpetual Bonds Series I (Under Basel II)*	**225.00 (Rs. Two hundred twenty five crore only)**	**CARE AA- (Double A Minus)**	Revised from CARE AA (Double A)
Long Term Infrastructure Bonds^	**1000.00 (Rs. One Thousand crore only)**	**CARE AA (Double A)**	Revised from CARE AA+ (Double A Plus)
Basel III Compliant Tier I Perpetual Bonds ^^	**1000.00 (Rs. One Thousand crore only)**	**CARE A+ (Single A Plus)**	Revised from CARE AA- (Double A Minus)

**CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds one notch lower than the Lower Tier II Bonds in view of their increased sensitiveness to the bank Capital Adequacy Ratio (CAR), capital-raising ability and profitability during the long tenure of the instruments.*

The ratings for these hybrid instruments factor in the additional risk arising due to the existence of the lock-in clause in these instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in-clause, would constitute 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.

^The long-term 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.

^^CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds one notch lower than the Upper Tier II Bonds and the Perpetual Bonds (Basel II) in view of their increased sensitiveness to the bnakafter taking into consideration its key features as below:

- *The bank has full discretion at all times to cancel coupon payments.*
- *The coupon is to be paid out of current year's profits. However, if the current year's profits are not sufficient, i.e., the payment of such coupon is likely to result in losses during the current year, the balance of coupon payment may be made out of revenue reserves and/or credit balance in profit and loss account provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios and capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].*
- *The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019, or written-off / converted into common equity shares on occurrence of trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.*

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

Any delay in the payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above 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 with the conventional subordinated debt instruments.

Rating Rationale

The revision in ratings takes into account of significant deterioration in asset quality of the bank during FY15 (refers to the period April 1 to March 31) and Q1FY16 (refers to the period April 1 to June 30) resulting in stress on the profitability on account of increased cost of provisioning.

The ratings continue to derive strength from the majority ownership by the Government of India (GoI), healthy capitalisation parameters, good operating performance and stable proportion of Current Account Saving Account (CASA) deposits.

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-operating 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 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 Q1FY16, the bank reported PAT of Rs.59 crore on total income of Rs.3,526 crore as compared to PAT of Rs.118 crore on total income of Rs.3,286 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 Q1FY16, the bank saw high amount of slippages resulting in deterioration in Gross NPA ratio to 7.86% and Net NPA ratio of 5.04% as on June 30, 2015. The proportion of CASA deposits to total deposits has improved and remained healthy at 37.09% as on March 31, 2015 as compared to 35.89% as on March 31, 2014.

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.400.00 crore from Life Insurance Corporation of India (LIC) which helped the bank to improve its CAR. As on June 30, 2015, the bank reported CAR of 11.61% (Tier I CAR: 8.57%) (under Basel III).

Analyst Contact

Name: Ms Leena Marne
Tel: 020-40009019
Email: leena.marne@careratings.com

****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.

CONTACT

Head Office Mumbai

Mr. Sanjay Kumar Agarwal
Mobile: + 91 8108007676
E-mail: sanjay.agarwal@careratings.com

Mr. Amod Khanorkar
Mobile: + 91 9819084000
E-mail: amod.khanorkar@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Dinesh Sharma
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-99000 41975
Tel: +91-80-4115 0445, 4165 4529
E-mail: dinesh.sharma@careratings.com

CHANDIGARH
Mr. Sajan Goyal
2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Saikat Roy
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 9820998779
Tel: +91-40-4010 2030
E-mail: saikat.roy@careratings.com

JAIPUR
Mr. Rakesh Jayaraman
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 76655 96136
Tel: +91-141-402 0213 / 14
E-mail: rakesh.jayaraman@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Rahul Patni
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-78754 33355
Tel: +91-20- 4000 9000
E-mail:rahul.patni@careratings.com

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