DECEMBER 26, 2016

CARE REAFFIRMS RATINGS OF ADDITIONAL TIER I PERPETUAL BONDS (UNDER BASEL III) OF BANK OF MAHARASHTRA, ASSIGNS NEGATIVE OUTLOOK

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Basel III Compliant Additional Tier I Perpetual Bonds ^^	1,000 (Rupees One Thousand crore only)	CARE A; Negative (Single A; Outlook: Negative)	Reaffirmed
Basel III Compliant Additional Tier I Perpetual Bonds ^^	1,000 (Rupees One Thousand crore only)	CARE A; Negative (Single A; Outlook: Negative	Reaffirmed
Total Facilities	**2,000 (Rupees Two Thousand crore only)**		

^^CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds after 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, ie, 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.

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 rating assigned to the Basel III Compliant Additional Tier I Perpetual Bonds of the bank factors in deterioration in the financial risk profile of the bank on account of sharp deterioration of asset quality leading to pressure on earnings profile and profitability.

The rating continues to derive strength from the majority ownership by the Government of India (GoI), adequate capitalisation parameters, moderate operating performance and stable proportion of Current Account Saving Account (CASA) deposits.

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

The rating is constrained by continued deterioration in asset quality of the bank during FY16 (refers to the period April 1 to March 31) and H1FY17 (refers to the period April 1 to September 30) resulting in stress on the profitability on account of increased cost of provisioning.

The continued ownership and support from the GoI, asset quality, capital adequacy and profitability are the key rating sensitivities.

The 'Negative' outlook is on account of the expected stressed on the earnings profile and further decline in the weak profitability of the bank due to continued deterioration in asset quality, which is expected to increase the level of Non Performing Assets (NPA) consequently impacting the solvency indicators of the bank.

Background

Bank of Maharashtra (BoM) (CIN: U99999MH1935PTC002399) was incorporated in the year 1935 and is headquartered in Pune (Maharashtra). The Government of India (GOI) holds majority of stake [81.61% as on March 31, 2016] in the bank. The bank had a network of 1,895 branches and 1,861 ATMs as on March 31, 2016. Around 61% of the bank's branches are in the state of Maharashtra. All the branches of the bank are Core Banking Solution (CBS) enabled.

The bank has one wholly-owned subsidiary, The Maharashtra Executor and Trustee Company Private Limited (METCO), which is primarily in the business of managing public charitable and private trusts. The bank has sponsored 'Maharashtra Gramin Bank' (MGB) which is a Regional Rural Bank (RRB) having its head office at Aurangabad (Maharashtra). The bank is headed by Mr. Ravindra Prabhakar Marathe who took over as the Managing Director and CEO of the bank in September, 2016.

During H1FY17, Bank of Maharashtra (BoM) saw growth in gross advances at 2.41% (y-o-y) while deposit growth was slow at 2.83% (y-o-y). The bank continued to have stable CASA base of 39.78% as on September 30, 2016.

The bank's earnings profile due to moderation in credit growth as well as deterioration in the asset quality and its Net Interest Income (NII) declined to Rs.1,709 crore during H1FY17 as compared to Rs.1,992 crore during H1FY16 showing a de-growth of 14.21% (y-o-y). As a result, the bank's operating profit to Rs.886 crore during H1FY17 as compared to Rs.1,224 crore during H1FY16 due. Further, due to higher provisioning for increase in NPAs the bank reported net loss of Rs.735 crore during H1FY17 as compared to PAT of Rs.131 crore during H1FY16. Further deterioration in profitability and deterioration remains a key rating sensitivity for the bank.

The asset quality of the bank continued to see significant deterioration during H1FY17 and the bank reported Gross NPA ratio of 14.08% (March 31, 2016: 9.34%) and Net NPA ratio of 9.94% (March 31, 2016: 6.35%) as on September 30, 2016 while its Net NPA to Net worth ratio stood at 143.75%

(March 31, 2016: 91.20%) as on September 30, 2016. Further deterioration in asset quality of the bank which would impact the profitability is a key rating sensitivity.

The bank reported Capital Adequacy Ratio (CAR) of of 11.14% (Tier I CAR: 8.48%) as on September 30, 2016 with Common Equity Tier I (CET I) of 7.31%.

Analyst Contact
Name: Leena Marne
Tel: +91-020-4000 9019
Email: leena.mare@careratings.com

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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.

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@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. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
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. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@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. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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