Bank of India

December 28, 2018

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Upper Tier II Bonds (Basel II)	2,500.00 (reduced from Rs.3,000 crore) (Rupees Two Thousand Five Hundred Crore Only)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Perpetual Bonds (Basel II)	700.00 (Rupees Seven Hundred Crore Only)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds after taking into consideration their increased sensitivity to Bank of India's Capital Adequacy Ratio (CAR), capital raising ability, asset quality 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.

CARE has withdrawn the rating assigned to the Upper Tier II Bonds – Series II issue of Bank of India worth Rs.500 crore with immediate effect, as the company has executed the call option and made payment of principal and broken interest in full and there is no amount outstanding under the issue as on date.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Bank of India (BOI) continue to factor in majority ownership by the Government of India (GoI) and its demonstrated capital support, long track record of operations, comfortable resource profile with established franchise and liquidity profile. The rating remains constrained by the bank's weak asset quality, moderate capitalisation levels and low profitability. Continued ownership and support from GoI, asset quality, profitability and capital adequacy are the key rating sensitivities.

Key Developments

The Reserve Bank of India (RBI) vide its letter dated December 19, 2017 placed Bank of India (BOI) under Prompt Corrective Action Framework, consequent to the onsite inspection under the Risk Based Supervision model carried out for the year ended March 2017.

The bank has received Rs.9,232 crore from GOI on March 27, 2018 by way of preferential allotment of equity shares. Further, the bank raised Rs.221.92 crore on June 14, 2017 from Life Insurance Corporation of India (LIC) towards share application money. The bank further raised Rs.500 crore by issue of Basel III compliant AT-I bonds in November 2017. However, during H1FY19, the bank exercised call option on AT-I bonds under a regulatory event of being placed under PCA framework of RBI and redeemed the AT- bonds.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by GoI and continued capital support

GOI is the majority shareholder in the bank with a stake of 83.09% as on September 30, 2018 [73.71% on March 31, 2017]. GOI has been supporting the bank through periodic capital infusion and infused Rs.9,232 crore of equity capital in FY18 (refers to the period from April 01 to March 31). BOI, being a systemically important bank due to its large size, is expected to receive continued supported from GOI.

Long track record of operations with established domestic franchise and global presence

BOI is a premier nationalized bank which was incorporated in 1906. The bank has a pan India presence with a network of 5,102 branches spread across metro, urban, semi urban and rural geographies and 6,940 ATMs as on September 30, 2018. It has overseas presence with overseas presence with 26 branches, The bank has 5 Subsidiaries and 1 Associate/Joint Venture spread across 21 countries.

Comfortable resource & liquidity profile

The bank's total deposits as on March 31, 2018 stood at Rs.520,854 crore, registering a decline of 3.55% over March 31, 2017. The bank's domestic Current Account Savings Account (CASA) deposits registered y-o-y growth of 3.71% leading to

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

domestic CASA proportion of 41.43% as on March 31, 2018 [P.Y.: 39.84%] and 41.44% as on September 30, 2018. The bank displayed good granularity in deposits and its liquidity profile as on September 30, 2018 remained comfortable with no negative mismatches up to one year time bucket. The bank reported Liquidity Coverage Ratio (LCR) of 173.70% as on March 31, 2018 and 129.21% as on September 30, 2018 and had excess SLR investments of Rs.6,161 crore.

Liquidity Profile
The bank's Liquidity Coverage Ratio (LCR) stood at 129.21% as on September 30, 2018 (March 31, 2018: 173.70%) as compared to RBI's prescribed requirement of 90% by January 01, 2018 and 100% by January 01, 2019. The ALM profile as on September 30, 2018 had no negative cumulative mismatches in time buckets up to 3 years. In addition, the bank had excess SLR investments of Rs.6,161.27 crore as on September 30, 2018. In addition, the bank has access to borrowing from RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with cash reserves with RBI which provide comfort in meeting any liquidity pressures. Further, considering the stable franchise of the bank, the bank is expected to roll over its deposits.

Key Rating Weakness
Weak profitability
During FY18, the bank saw deterioration in profitability and reported net loss of Rs.6,044 crore as compared to net loss of Rs.1,558 crore during FY17. The profitability of the bank was largely impacted by significant rise in Gross NPAs consequent to the new regulatory norms, resulting in 30% increase in the amount of provisioning during the year. In addition, the banks saw decline in income on account of interest reversals on NPAs as well as impact on treasury income due to reversal of interest rate cycle. During FY18, the bank has availed several dispensations, in absence of which, the net loss for FY18 would have been higher. The bank booked MTM loss of Rs.347.55 crore and the balance loss of Rs.1,042.65 crore was deferred to subsequent quarters and also charged Rs.108.78 crore of liability on account of enhancement in gratuity limits and deferred Rs.326.34 crore to subsequent quarters. Further, the bank has availed the relaxation of provision coverage to 40% from 50% in respect of 2 accounts amounting to Rs.4,048 crore under NCLT List I. Further in H1FY19, bank reported a net loss of Rs.1,061 crore as against a PAT of Rs.267 crore in H1FY18 primarily owing to higher operating cost and higher provisioning for MTM losses and NPAs.

Moderate capital adequacy
Owing to capital infusion during FY18 and moderate growth in advances the bank saw increase in its capitalization levels; however, the same continued to remain moderate. The bank reported Capital Adequacy Ratio (CAR) (under Basel III) of 12.94% (Tier I CAR: 9.73%) as compared to CAR 12.14% (Tier I CAR: 8.90%) as on March 31, 2017. The Bank's CET I Ratio stood at 7.87% (P.Y.: 7.17%).

During H1FY19, the bank redeemed it's AT-I bonds and reported loss which impacted the Tier I capital of the bank resulting in the bank's CAR declining to 10.93% (Tier I CAR: 7.66%) and CET I Ratio of 7.53% as on September 30, 2018, the bank total CAR and Tier I CAR stood at 10.93% and 7.66% respectively, while CET I ratio stood at 7.53%.
While the overall CAR and CET I ratio was above the minimum regulatory requirement, the Tier I CAR was lower than the minimum regulatory prescription of 8.875% (including capital conservation buffer). Although, the bank has been taking steps to reduce its Credit Risk Weighted Assets (RWA) by shifting its advances to higher rated accounts, going forward, the bank would require equity capital from GOI to meet the minimum regulatory capital requirements as well as to fund growth and would be a key rating sensitivity.

Weak asset quality Indicators
The bank's asset quality parameters continued to be weak in FY18. The bank's Gross NPA ratio increased to 16.58% as on March 31, 2018 as compared to 13.22% at the end of FY17. Net NPA ratio deteriorated further to 8.26% [P.Y.: 6.90%] and Net NPA to Net worth also deteriorated at 135.44% [P.Y.: 118.97%]. The bank's fresh slippages in FY18 stood at Rs.25,580 crore as compared to Rs.20,321 crore in FY17. During FY18, the bank saw reduction in NPAs of Rs.15,296 crore by way of recoveries, upgrades and write-offs as against Rs.14,556 crore during FY17. As on September 30, 2018, the bank reported Gross NPA ratio of 16.36% and Net NPA ratio of 7.64%.

Analytical approach: CARE has analysed the bank on a standalone basis, factoring in expected support from GOI.

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE Policy on Default Recognition]
[CARE's Rating Methodology For Banks]
[Bank - Rating framework for Basel III instruments (Tier I & Tier II)]
[Financial ratios - Financial Sector]
[Rating Methodology: Factoring Linkages in Ratings]

About the Bank

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 83.09% as on September 30, 2018. The bank had an asset size of Rs.5,94,860 crore as on March 31, 2018. The Bank has four domestic subsidiaries viz. BOI Shareholding Ltd (100% stake), BOI AXA Investment Managers Private Limited (stake of 51%), BOI AXA Trustee Services Private Limited (stake of 51%) & BOI Merchant Bankers Limited (stake 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 a stake of 28.96%.

The bank is headed by Mr. Dinabandhu Mohapatra (Managing Director) (w.e.f. May, 2017) and Mr. G. Padmanabhan (Chairman).

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Income	46,063	43,805
PAT	(1,558)	(6,044)
Total Assets	615,217	594,860
Net NPA (%)	6.90	8.26
ROTA (%)	(0.26)	(1.00)

A: Audited

Note: All Analytical ratios are as per CARE's calculations.

Total Assets exclude deferred tax assets, intangible assets and are net of revaluation reserve

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate		Maturity Date		Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
		With Call	Without Call	With Call	Without Call		
Bonds-Upper Tier II	-	-	-	-	-	500.00	Withdrawn
Bonds-Perpetual Bonds	February 10, 2009	8.90%	9.40%	February 10, 2019	-	400.00	CARE AA-; Stable
Bonds-Upper Tier II	July 28, 2009	8.45%	8.95%	July 28, 2019	July 28, 2024	500.00	CARE AA-; Stable
Bonds-Upper Tier II	January 20, 2010	8.54%	9.04%	January 20, 2020	January 20, 2025	1000.00	CARE AA-; Stable
Bonds-Upper Tier II	June 11, 2010	8.48%	8.98%	June 11, 2020	June 11, 2025	1000.00	CARE AA-; Stable
Bonds-Perpetual Bonds	September 09, 2010	9.05%	9.55%	September 09, 2020	-	300.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Upper Tier II	LT	-	-	-	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)
2.	Bonds-Perpetual Bonds	LT	400.00	CARE AA-; Stable	-	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)
3.	Bonds-Upper Tier II	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)
4.	Bonds-Upper Tier II	LT	1000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)
5.	Bonds-Upper Tier II	LT	1000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)
6.	Bonds-Perpetual Bonds	LT	300.00	CARE AA-; Stable	-	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)	1)CARE AA- (21-Mar-16) 2)CARE AA+ (15-Oct-15)

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