Bank of Maharashtra (Revised)

January 06, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Infrastructure Bonds^	1,000 (Rs. One Thousand crore only)	CARE A+; Positive (Single A Plus; Outlook: Positive)	Rating reaffirmed and outlook revised from Stable to Positive
Tier II Subordinated Bond Series (Basel III)	1,000 (Rs. One Thousand crore only)	CARE A+; Positive (Single A Plus; Outlook: Positive)	Rating reaffirmed and outlook revised from Stable to Positive

^The long-term infrastructure 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. Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to various debt instruments of Bank of Maharashtra (BoM) takes into account the majority ownership by the Government of India (GoI), supported by capital infusion of ~Rs.4,700 crore by GoI during Q3FY19 and Q4FY19 along with satisfactory proportion of Current Account Saving Account (CASA) deposit base at 48.23% as on September 2019 and comfortable liquidity profile. CARE also takes note of the fact that the Bank has managed to come out of the PCA framework in January 2019.

However, the ratings remain constrained on account of significant deterioration in the bank's profitability during FY19 (refer to the period April 1 to March 31) owing to heavy provisioning during FY19 and geographical concentration of the bank branches in the state of Maharashtra (owing to the regional focus of the bank). The continued ownership and support from the GoI thereby aiding capitalisation, significant improvement in the asset quality and profitability, are the key rating sensitivities.

Rating Sensitivities:

Positive Factors

- Sustained profitable quarters will lead to an upgrade
- Demonstration of strong capital adequacy parameters with overall CAR at 14% or more.
- Improved asset quality parameters with Net NPA/Tangible Networth at 50% or less than that.

Negative Factors

- Deterioration in asset quality with Net NPA of 9% or more.
- Reduction in expectation of support from GoI

Outlook: Positive

The 'Positive' outlook is on account of the fact that the Bank has managed to come out of PCA in January 2019 and displayed a satisfactory proportion of Current Account Saving Account (CASA) deposit base in the past one year, with CASA ratio at 48.23% as on September 2019 along with a comfortable liquidity profile. The positive outlook also factors in expected improvement in key parameters of the Bank. The outlook may be revised to Stable in case of deterioration of asset quality and profitability parameters of the Bank and discontinuance of support from GoI.

Detailed description of the key rating drivers

Majority ownership and capital support by GoI:

During FY19, The GoI infused total additional capital of Rs.4,703 crore in two tranches; Rs.4,498 crore on on December 28, 2018 (accounted for as Share application money pending allotment as on March 31, 2019) and Rs.205 crore on February 21, 2019. As a result of this capital infusion the total shareholding of GOI has increased from 87.01% as on March 31, 2018 to 87.74% as on March 31, 2019 and further to 92.49% as on September 30, 2019 as the Bank issued and allotted equity shares to Government of India and adjusted the amounted of Rs.4,498 crore lying as Share application money during Q1FY20. BoM will remain significantly dependent on the GoI to meet regulatory capital ratios. Going forward regular support from GoI is a key rating sensitivity.

Moderate capitalization parameters among public sector banks

BoM reported capital adequacy ratio (CAR) of 11.86% (Tier I CAR: 9.91%) (under Basel III) as on March 31, 2019 as compared to 11.00% (Tier I CAR: 10.87%) (under Basel III) as on March 31, 2018, with Common Equity Tier I Capital (CET I) ratio of 9.8% as on March 31, 2018 as compared to 8.97% as on March 31, 2018. The bank reported CAR of 11.83% (Tier I CAR: 10.01%) (under Basel III) as on September 30, 2019 with CET I of 10.01% as on September 30, 2019. Considering the elevated provisioning requirements for the coming quarters and insufficient operating profits parameters, sufficient amount of capital infusion is required from Government of India in order to meet capital adequacy provisions as per BASEL III. BoM has indicated that it has applied for fresh equity worth Rs.2,000 crore to GoI which will be infused as and when needed as per discussion with the Bank. Ability to raise the funds in future and meet the regulatory requirements is a key rating monitorable.

Stable deposit base with growth in CASA deposit

The bank has an established deposit base with stable low cost Current Account Savings Account (CASA) deposits proportion. The bank's CASA deposits increased in absolute terms to Rs.69,830 crore as on March 31, 2019 from Rs.66,345 crore as on March 31, 2018, registering a growth of 5.25% (y-o-y), resulting in proportion of CASA deposit of 49.65% as on March 31, 2019 as compared to 47.74% as on March 31, 2018. During Q2FY19 CASA Share (%) to total deposit stood at 48.23% as compared to 46.25% during Q2FY19. The table depicting the key Business parameters is as follows.

(Rs.crore)

Particulars	As on		
	Sep 2018	March 2019	Sep 2019
Total Business	226069	234117	232847
Deposits	135527	140650	141440
Of which CASA	62675	69830	68212
CASA Share (%) of Total deposit	46.25%	49.65%	48.23%
Gross advances	90542	93467	91406
Gross Investments	51662	60164	60303

Stability in Profitability parameters during H1FY20 after loss reported during FY19:

BoM reported losses of Rs.4,783.88 crore for the year ended on March 31st, 2019 owing to Provisions (other than tax) and Contingencies (Net) of Rs 7,326.93 crore of which 60.35% provision was made during Q3FY19. This was mainly to reduce the NNPA level to below 6%, i.e. the PCA level. During FY19 the bank reported a marginal de-growth of 1.63% in total income to Rs.12,397 crore from Rs.12,602 crore during FY18. Interest income reported a de- growth of 2.22% during FY19, while non-interest income remained at similar levels at Rs.1,547 crore during FY19 (P.Y: 1,506 crore). Net Interest Income (NII) increased by ~10% during FY19 to Rs.3,733 crore as compared to Rs.3,390 crore during FY18. The bank's Net Interest Margin (NIM) during FY19 was seen higher at 2.43% as compared to 2.19% for FY18. The bank's Return on Total Assets (ROTA) was negative 3.11 for FY19 as compared to negative 0.74% for FY18. However, the bank saw improvement in it's profitability parameters as the bank reported a profit of Rs.114.66 crore during Q2FY20 as compared to Rs.27 crore during Q2FY19 mainly on account of increase in net interest income (which registered a y-o-y increase of 4.02%), reduced provisioning (which registered a y-o-y decline of 68.66%) and enhanced asset quality. BoM booked operating profit of Rs.1,410.24 crore for H1FY20 an incremental by 11.51% from Rs.1,264.44 crore for H1FY19 mainly due to increase of 8.49% in non-interest income. During H1FY20 the bank saw a decline in Provisions by 48.60% from Rs.2,490 crore during H1FY19 to Rs.1,280 crore during H1FY20 as majority of the provisioning was done by the bank during Q3FY19 to come out of PCA.

Moderation in asset quality in H1FY20

During FY19, the bank saw decline in slippages from Rs.5,735 crore as on March 31, 2018 to Rs.4,173 as on March 31, 2019. Supported by large write-offs of Rs.5,127 crore and recoveries + upgrades of Rs.2,286 crore, the GNPAs declined to Rs.15,324 crore as on March 31, 2019 from Rs.18,433 crore as on March 31, 2018. As a result, it reported Gross NPA ratio of 16.40% (P.Y.: 19.49%) as on March 31, 2019 and Net NPA ratio of 5.52% (P.Y.: 11.24%) as on March 31, 2019. Net NPA to Net worth ratio stood at 77.25% (P.Y.: 155.58%) as on March 31, 2019 but declined to 72.27% as on September 30, 2019. The bank's gross NPA stood at Rs.15,409 crore as on September 30, 2019 and reported the gross NPA ratio of 16.86% during the same period. Total Gross stressed assets (std. restr. Assets+ gross NPA + SR's) as a percentage of gross advances was 17.09% (P.Y.: 21.31%). The bank reported provision coverage ratio of 81.49% for its non-performing loans as on March 31, 2019 which improved to 82.71% as on September 30, 2019. Further more the bank had exposures (fund based exposures and non-fund based outstanding) to borrowers (excluding borrowers classified as non-performing or restructured) to NBFC, Infrastructure (Power, Telecom, Roads, Ports) and promoter entities. These exposures aggregated to Rs.21,992 crore as on March 31, 2019 and Rs.23,283 crore as on September 30, 2019. The bank expects recoveries of around Rs.750 crore through resolutions during FY19-20, this will give an upside to the profitability of the bank, provided there are no further slippages. BOM's asset quality profile showed moderation with fresh slippages of Rs.602 crore in Q2FY20 as compared to Rs.1,365 crore during Q2FY19. A trend in Slippages in the past one year and the corresponding slippage ratios is presented in the table below.

Particulars	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Quarterly fresh slippages (Rs. Crore)	1,415	1,126	1,107	1,770	608
Slippage Ratio (%)^	2.14	1.53	1.49	2.27	0.80

^Slippage ratio is Quarterly fresh slippages/Opening Standard Advances.

Industry outlook

Overall capital adequacy of the banks has improved post the bank recapitalisation of PSBs by the government. However, with the incremental growth envisaged, PSBs would be dependent on the government for incremental capital while large and mid-sized private sector banks remain adequately capitalised. With the estimated slowdown in economic activity, credit growth during FY20 is expected to be subdued as compared to FY19 and to be in the range of 8.5% to 10%. While the quantum of incremental slippages is expected to be lower, the sector would continue to face asset quality challenges with slow resolution in the NPAs. Further, incremental provisioning requirement as well as changes in tax regulations will impact the profitability of the banks in FY20.

Liquidity profile: Adequate

The bank's liquidity profile remained comfortable as on March 31, 2019. The bank reported Liquidity Coverage Ratio (LCR) of 184.74% as on March 31, 2019 as compared to 216.96% as on March 31, 2018 (against a minimum requirement of 100%). However, the bank has negative cumulative mismatch beyond 6 month period as roughly 48% of the deposits are getting matured within one year bracket.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning outlook to Credit Ratings
CARE's policy on default recognition
CARE's Rating Methodology for Banks
Financial Ratios-Financial Sector
Rating framework for Basel III instruments
Factor Linkages in Ratings

About the Bank

Bank of Maharashtra was incorporated in the year 1935 and is headquartered in Pun (Maharashtra). The Government of India (GOI) holds majority of stake [92.49% as on September 30, 2019] in the bank. The bank had a network of 1,832 branches and 1,860 ATMs as on September 30, 2019. Around 62% of the bank's branches are in the state of Maharashtra.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	12,602	12,397
PAT	(1,146)	(4,784)
Interest coverage (times)	1.28	1.31
Total Assets*	1,49,965	1,57,238
Net NPA (%)	11.24	5.52
ROTA (%)	(0.74)	(3.11)

*A: Audited. *Total Assets are net off Deferred Tax Assets and Revaluation Reserves. All ratios are as per CARE calculations.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN No.	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Infrastructure Bonds	October 20, 2014	INE457A09207	9.40	October 2021	1000.00	CARE A+; Positive
Bonds-Tier II Bonds	June 01, 2016	INE457A08035	9.20	September 2026	1000.00	CARE A+; Positive

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Perpetual Bonds	LT	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE A; Stable (05-Feb-18) 2)CARE A; Negative (19-Jul-17)	1)CARE AA- (14-Jul-16)
2.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (16-Aug-16) 2)CARE AA (14-Jul-16)
3.	Bonds-Upper Tier II	LT	-	-	-	-	-	1)Withdrawn (10-Nov-16) 2)CARE AA- (14-Jul-16)
4.	Bonds-Upper Tier II	LT	-	-	-	-	1)Withdrawn (19-Jul-17)	1)CARE AA- (14-Jul-16)
5.	Bonds-Upper Tier II	LT	-	-	-	-	1)Withdrawn	1)CARE AA-

							(19-Jul-17)	(14-Jul-16)
6.	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE A; Stable (05-Feb-18) 2)CARE A; Negative (19-Jul-17)	1)CARE AA- (14-Jul-16)
7.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (19-Jul-17)	1)CARE AA (14-Jul-16)
8.	Bonds-Infrastructure Bonds	LT	1000.00	CARE A+; Positive	-	1)CARE A+; Stable (03-Sep-18)	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (19-Jul-17)	1)CARE AA (14-Jul-16)
9.	Bonds-Tier I Bonds	LT	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE BBB+; Negative (05-Feb-18) 2)CARE BBB+; Negative (19-Jul-17)	1)CARE A (10-Nov-16) 2)CARE A+ (14-Jul-16)
10.	Bonds-Tier II Bonds	LT	1000.00	CARE A+; Positive	-	1)CARE A+; Stable (03-Sep-18)	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (19-Jul-17)	1)CARE AA (14-Jul-16)
11.	Bonds-Tier I Bonds	LT	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE BBB+; Negative (05-Feb-18) 2)CARE BBB+; Negative (19-Jul-17)	1)CARE A (26-Dec-16) 2)CARE A (10-Nov-16)

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. –+91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1
Group Head Name - Mr. Abhijit Urankar
Group Head Contact no.- 022-6754 3669
Group Head Email ID- abhijit.urankar@careratings.com

Analyst Contact 2
Mr. Sanjay Kumar Agarwal
Contact no. : (022) 6754 3500 / 582
Email ID- sanjay.agarwal@careratings.com

Business Development Contact
Name: : Ankur Sachdeva
Contact no. : 91 98196 98985
Email ID : ankur.sachdeva@careratings.com

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