Bank of Maharashtra

July 19, 2017

Ratings

Instrument	Rated Amount (Rs. crore)	Ratings[1]	Rating Action
Lower Tier II Bonds (Basel II)	200 (Rupees Two hundred crore only)	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	Revised from CARE AA [Double A]
Tier II Subordinated Bonds (Basel III)	1,000 (Rupees One thousand crore only)	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	Revised from CARE AA [Double A]
Infrastructure Bonds^	1,000 (Rupees One thousand crore only)	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	Revised from CARE AA [Double A]
Upper Tier II Bonds (Basel II)- Series IV*	200 (Rupees Two hundred crore only)	**CARE A; Negative [Single A; Outlook: Negative]**	Revised from CARE AA- (Double A Minus)
Perpetual Bonds (Basel II)*	225 (Rupees Two hundred twenty five crore only)	**CARE A; Negative [Single A; Outlook: Negative]**	Revised from CARE AA- (Double A Minus)
Tier I Perpetual Bonds (Basel III)^^	2,000 (Rupees Two thousand crore only)	**CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**	Revised from CARE A; Negative [Single A; Outlook: Negative]
Upper Tier II Bonds (Basel II)- Series II*	0.00	-	Withdrawn@
Upper Tier II Bonds (Basel II)- Series III*	0.00	-	Withdrawn@

*CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds (under Basel II) 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 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.
^^CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds two notches lower than the Upper Tier II Bonds and the Perpetual Bonds (Basel II) in view of their increased sensitiveness to the bank 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, 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.

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.

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

@BoM exercised the call options dated March 21, 2017 and March 30, 2017 for series II and Series III respectively and fully redeemed the bonds.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to various debt instruments of Bank of Maharashtra (BoM) takes into account significant deterioration in the bank's financial risk profile during FY17 (refers to the period April 1 to March 31), marked by sharp deterioration of asset quality resulting in weak earnings profile coupled with lower income levels. The ratings also take a note of the Prompt Corrective Action (PCA) initiated by Reserve Bank of India (RBI) against BoM in view of high levels of non- performing assets (NPAs).

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

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

Outlook: Negative

The outlook is 'Negative' on account of the expected stress on the earnings profile due to continued deterioration in asset quality, impacting the solvency indicators of the bank. The outlook is also 'Negative' in the wake of the recent Prompt Corrective Action (PCA) initiated by the Reserve Bank of India (RBI). The outlook may be revised to 'Stable' if BoM is able to improve its asset quality and earnings profile through recovery of non- performing assets at a faster pace.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership and capital support by GoI

GoI holds the majority shareholding in BOM. As on March 31, 2017, GoI held 81.61%. After allotment of shares for fresh infusion of funds of Rs.300 crore during March 2017, the GOI holding will increase to 82.91%.

Average capitalisation parameters

BoM reported capital adequacy ratio (CAR) of 11.18% (Tier I CAR: 9.01%) (under Basel III) as on March 31, 2017 as compared to 11.20% (Tier I CAR: 9.02%) (under Basel III) as on March 31, 2016, with Common Equity Tier I Capital (CET I) ratio of 7.28% as on March 31, 2017 as compared to 7.88% as on March 31, 2016.

Strong base for low cost CASA Deposits

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.62,419 crore as on March 31, 2017 from Rs.50,967 crore as on March 31, 2016, registering a growth of 22.47% (y-o-y), resulting in proportion of CASA deposit of 44.89% as on March 31, 2017 as compared to 36.67% as on March 31, 2016.

Comfortable liquidity profile

The bank's liquidity profile remained comfortable as on March 31, 2017. The bank reported Liquidity Coverage Ratio (LCR) of 117.20% as on March 31, 2017 (against a minimum requirement of 70%).

Key Rating Weaknesses

Significant deterioration in profitability

During FY17, the bank reported a marginal de-growth of 3.57% in total income to Rs.13,570 crore from Rs.14,072 crore during FY16. Interest income reported a de- growth of 7.59% during FY17, while non- interest income increased by 48% during FY17. The growth in non-interest income was mainly driven by profit on sale of investments.

Net Interest Income (NII) declined by 18.15% during FY17 to Rs.3,175 crore as compared to Rs.3,879 crore during FY16. The bank's Net Interest Margin (NIM) during FY17 declined to 1.99% as compared to 2.55% for FY16. The bank's Return on Total Assets (ROTA) was negative 0.86% for FY17 as compared to 0.07% for FY6.

Weak asset quality with rise in slippages

Stressed assets[*] to net advances ratio stood at 20.64% as on March 31, 2017 as compared to 13.78% as on March 31, 2016 and stressed assets to net worth ratio stood at 319.32% as on March 31, 2017 as compared to 197.86% as on March 31, 2016. BoM reported Gross NPA ratio of 16.93% and Net NPA ratio of 11.76% as on March 31, 2017. Its Net NPA to Net worth ratio stood at 181.91% as on March 31, 2017.

Industry outlook

During FY17, the asset quality of the banks continued to show deterioration in general and public sector banks (PSB) in particular. During FY18, the stress on the asset quality of banks is expected to continue with the absolute amount of NPA is expected to increase, however, the pace of incremental NPA would be lower. Due to deterioration in asset quality, banks, especially public sector banks, saw sharp decline in profitability due to interest income reversal and high growth in provisioning requirements. During FY16, the banks reported high amount of losses while during FY17, there was some improvement. During FY18, the overall profitability is expected to see some improvement, although it would continue to remain subdued.

[*] Gross NPA + standard restructured assets + outstanding security receipts * Net NPA + standard restructured assets + outstanding security receipts

Though currently, the overall sector remains moderately capitalized, banks would continue to require further capital infusion especially the public sector banks. While credit growth has been subdued, increase in provisioning has impacted the capital adequacy of the banks.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's Rating Methodology for Banks
Rating framework for Basel III instruments

About the Company

About the Bank

Bank of Maharashtra (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, 2017] in the bank. The bank had a network of 1,897 branches and 1,878 ATMs as on March 31, 2017. Around 61% of the bank's branches are in the state of Maharashtra.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	14,072	13,570
PAT	101	(1,373)
Interest coverage (times)	1.26	1.21
Total Assets	159,662	158,118
Net NPA (%)	6.35	11.76
ROTA (%)	0.07	(0.86)

A: Audited

Status of non-cooperation with previous CRA:

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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Annexure-1: Details of Instruments/Facilities

Name of the	Date of	Coupon	Maturity	Size of the	Rating assigned

Instrument	Issuance	Rate	Date	Issue (Rs. crore)	along with Rating Outlook
Bonds-Perpetual Bonds Basel II-Series I (INE457A09124)	July 2007	10.65	-	225.00	CARE A; Negative
Bonds-Upper Tier II Series II (INE457A09090)	-	-	-	200.00	Withdrawn
Bonds-Upper Tier II Series III (INE457A09108)	-	-	-	150.00	Withdrawn
Bonds-Upper Tier II Series IV (INE457A09116)	July 2007	10.35	July 2022	200.00	CARE A; Negative
Bonds-Lower Tier II Series VIII (INE457A09132)	January 2008	9.20	April 2018	200.00	CARE A+; Negative
Bonds-Infrastructure Bonds (INE457A09207)	October 2014	9.40	October 2021	1000.00	CARE A+; Negative
Bonds-Tier I Bonds Basel III Series I- Perpetual (INE457A09215)	January 2015	9.48	-	1000.00	CARE BBB+; Negative
Bonds-Tier II Bonds Basel III (INE457A08035)	June 2016	9.20	September 2026	1000.00	CARE A+; Negative
Bonds-Tier I Bonds Basel III Series II Perpetual (INE457A08043)	December 2016	11.60	-	1000.00	CARE BBB+; Negative

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Perpetual Bonds	LT	225.00	CARE A; Negative	-	1)CARE AA- (14-Jul-16)	1)CARE AA- (13-Oct-15)	1)CARE AA (10-Oct-14)
2.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (16-Aug-16) 2)CARE AA (14-Jul-16)	1)CARE AA (13-Oct-15)	1)CARE AA+ (10-Oct-14)
3.	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (10-Nov-16) 2)CARE AA- (14-Jul-16)	1)CARE AA- (13-Oct-15)	1)CARE AA (10-Oct-14)
4.	Bonds-Upper Tier II	LT	-	-	-	1)CARE AA- (14-Jul-16)	1)CARE AA- (13-Oct-15)	1)CARE AA (10-Oct-14)
5.	Bonds-Upper Tier II	LT	-	-	-	1)CARE AA- (14-Jul-16)	1)CARE AA- (13-Oct-15)	1)CARE AA (10-Oct-14)
6.	Bonds-Upper Tier II	LT	200.00	CARE A; Negative	-	1)CARE AA- (14-Jul-16)	1)CARE AA- (13-Oct-15)	1)CARE AA (10-Oct-14)
7.	Bonds-Lower Tier II	LT	200.00	CARE A+; Negative	-	1)CARE AA (14-Jul-16)	1)CARE AA (13-Oct-15)	1)CARE AA+ (10-Oct-14)
8.	Bonds-Infrastructure Bonds	LT	1000.00	CARE A+; Negative	-	1)CARE AA (14-Jul-16)	1)CARE AA (13-Oct-15)	1)CARE AA+ (10-Oct-14)
9.	Bonds-Tier I Bonds	LT	1000.00	CARE BBB+; Negative	-	1)CARE A (10-Nov-16)	1)CARE A+ (13-Oct-15)	1)CARE AA- (18-Dec-14)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
						2)CARE A+ (14-Jul-16)		
10.	Bonds-Tier II Bonds	LT	1000.00	CARE A+; Negative	-	1)CARE AA (14-Jul-16)	1)CARE AA (12-Feb-16)	-
11.	Bonds-Tier I Bonds	LT	1000.00	CARE BBB+; Negative	-	1)CARE A (26-Dec-16) 2)CARE A (10-Nov-16)	-	-

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