Bank of Maharashtra

September 03, 2018

Ratings

Instrument	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Infrastructure Bonds^	1,000	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Total amount rated (Infrastructure Bonds)	**1,000 (Rs. One Thousand crore only)**		
Tier II Subordinated Bond Series (Basel III)	1,000	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Total amount rated (Tier II Subordinated Bond Series (Basel III))	**1,000 (Rs. One Thousand crore only)**		
Tier II Subordinated Bond Series VIII	**0.00 (Reduced from 200.00 crore)**	-	**Withdrawn**
Upper Tier II Bond Series IV	**0.00 (Reduced from 200.00 crore)**	-	**Withdrawn**
Perpetual Bond Series I	**0.00 (Reduced from 225.00 crore)**	-	**Withdrawn**
Basel III Compliant Tier I Perpetual Bond Series I	**0.00 (Reduced from 1000.00 crore)**	-	**Withdrawn**
Basel III Compliant Tier I Perpetual Bond Series II	**0.00 (Reduced from 1000.00 crore)**	-	**Withdrawn**
Total	**2000.00 (Rs. Two Thousand Crore Only)**		

^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.
@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and March 30, 2017 for series II and Series III respectively and fully redeemed the bonds In addition to this CARE has withdrawn Tier II Subordinated bonds Series VIII of Rs.200 crore, Upper Tier II Bond Series IV of Rs.200 crore and Perpetual bonds (Basel II) Series I of Rs.225 crore with immediate effect as the bank has fully repaid the amounts under the said issue and there is no amount outstanding under the issue as on date.

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

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 3173 crore by GOI during Q3FY19 and Q4FY19 and satisfactory proportion of Current Account Saving Account (CASA) deposits.
However, the rating of the bank is constrained by the significant deterioration in the bank's profitability during FY18 (refer to the period April 1 to March 31) and Q1FY19 (Refer to the period April 1 to June 30), sharp deterioration in the asset quality resulting in weak earning profile coupled with lower income levels and geographical concentration of the bank branches in the state of Maharashtra.
The continued ownership and support from the GoI and thereby maintaining capital adequacy, significant improvement in the asset quality and profitability, are the key rating sensitivities.

Detailed description of the key rating drivers

Majority ownership and capital support by GoI

The GoI has infused total additional capital of Rs.3173 crore in two tranches; Rs.650 crore on December29, 2017 and Rs.2523 crore as on March 27, 2018. As a result of this capital infusion the total shareholding of GOI has increased from 81.61% as on March 31, 2017 to 87.01% as on March 31, 2018. BoM will remain significantly dependent on the GoI to meet regulatory capital ratios.

Moderate capitalization parameters among public sector banks

BoM reported capital adequacy ratio (CAR) of 11.00% (Tier I CAR: 9.01%) (under Basel III) as on March 31, 2018 as compared to 11.18% (Tier I CAR: 9.01%) (under Basel III) as on March 31, 2017, with Common Equity Tier I Capital (CET I) ratio of 8.97% as on March 31, 2018 as compared to 7.28% as on March 31, 2017. Bank has also repaid Basel III compliant Additional Tier I (AT1) bonds of Rs.1500 crore by exercising call option under regulatory event (PCA) in March 2018 as per advice of GoI. The bank reported CAR of 10.14% (Tier I CAR: 8.85%) (under Basel III) as on June 30, 2018 with CET I of 8.03% as on June 30, 2018.

Considering the elevated provisioning requirements for the coming quarters and insufficient operating profits parameters, sufficient amount of capital infusion from GOI is expected during FY19 in order to meet capital adequacy provisions as per BASEL III.

Ability to raise the funds by March 31, 2019 and meet the regulatory requirements is a key rating monitorable.

Strong 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.66,345 crore as on March 31, 2018 from Rs.62,419 crore as on March 31, 2017, registering a growth of 6.29% (y-o-y), resulting in proportion of CASA deposit of 47.74% as on March 31, 2018 as compared to 44.89% as on March 31, 2017. During Q1FY19 CASA Share (%) to total deposit stood at 46.33% as compared to 44.09% during Q1FY18.

(Rs.crore)

Particulars	As on		
	June 2017	March 2018	June 2018
Total Business	2,33,725	2,33,626	21,9458
Deposits	1,36,629	1,38,981	1,35,411
Of which CASA	60,235	66,345	62,737
CASA Share (%) of total deposit	44.09	47.74	46.33
Gross advances	97,096	94,645	84,047
Gross Investments	40,563	44,163	51,900

Liquidity profile

The bank's liquidity profile remained comfortable as on March 31, 2018. The bank reported Liquidity Coverage Ratio (LCR) of 216.96% as on March 31, 2018 (against a minimum requirement of 90%). However, The bank has negative cumulative mismatch beyond 6 month period as roughly 40% of the deposits are getting matured within one year bracket.

Profitability Parameters

Significant deterioration in profitability and higher provisioning resulting in continued net losses During FY18, the bank reported a significant de-growth of 7.13% in total income to Rs.12,602 crore from Rs.13,570 crore during FY17. Interest income reported a de- growth of 8.00% during FY18, while non- interest income remained flat at Rs.1506 crore during FY18.

Net Interest Income (NII) increased by ~7% during FY18 to Rs.3,389 crore as compared to Rs.3,175 crore during FY17. The bank's Net Interest Margin (NIM) during FY18 was seen higher at 2.16% as compared to 2.32% for FY17. The bank's Return on Total Assets (ROTA) was negative 0.73% for FY18 as compared to 0.86% for FY17. In addition to this the bank reported a loss of Rs.1119 crore during Q1FY19. However, the bank reported PBT of negative 1163 crore as compared to negative Rs.1494 crore during Q4FY18. Increase in losses was mainly on account of higher provisions and slippages which further elevated on account of agricultural sector NPAs which increased from Rs.2094 crore in FY17 to Rs.2490 crore in FY18.

Deterioration in asset quality

During FY18, the bank saw increase in slippages with gross NPA increasing to Rs.18,433 crore as on March 31, 2018 from Rs.17,189 crore as on March 31, 2017. As a result the bank reported gross NPA ratio of 19.48% (P.Y.: 16.93%) as on March 31, 2018 and Net NPA ratio of 11.24% (P.Y.: 11.76%) as on March 31, 2018. Net NPA to Net worth ratio stood at 109.39% (P.Y.: 181.91%) as on March 31, 2018. The bank gross NPA stood at Rs.17,800 crore as on June 30, 2018 and reported the gross NPA ratio of 21.18% during the same period. Total gross stressed assets (std. restr. Assets + gross NPA + SR's + SDR + 5/25 + S4A) as a percentage of gross advances was 21.14% (P.Y.: 19.39%) and total net stressed assets as a percentage of total net worth was 15.44% (P.Y.:38.80%) as on March 31, 2018. The bank had provision coverage of 58.71% for its non-performing loans as on March 31, 2018 which improved to 62.19% as on June 30, 2018. Furthermore 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.25,340 crore as on March 31, 2018 and Rs.19,184 crore as on June 30, 2018.

Industry outlook

During FY18, 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 numbers due to interest income reversal and enhanced provisioning requirements. During Q1FY19, the banks reported high amount of losses in line with the FY18 performance. During FY19, the overall profitability is expected to see some improvement, although it would continue to remain subdued / under pressure.

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
Rating Methodology : Factoring Linkages in Rating
CARE's Policy on Default Recognition
CARE's Rating Methodology for Banks
Rating framework for Basel III instruments

About the Bank

Bank of Maharashtra was incorporated in the year 1935 and is headquartered in Pune (Maharashtra). The Government of India (GOI) holds majority of stake [87.01% as on March 31, 2017] in the bank. The bank had a network of 1,846 branches and 1,864 ATMs as on March 31, 2018. Around 60% of the bank's branches are in the state of Maharashtra.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)	Q1FY19
Total operating income	13,570	12,602	2,987
PAT	(1,373)	(1,146)	(1119)
Interest coverage (times)	1.21	1.28	1.26
Total Assets (net of revaluation reserves)	158,118	1,55,199	149931
Net NPA (%)	11.76	11.24	12.20
ROTA (%)	(0.86)	(0.73)	(2.83)

A: Audited

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 Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Perpetual Bonds	July 31, 2007	10.65	July 2017	225.00	Withdrawn
Bonds-Upper Tier II	July 19, 2007	10.35	July 2017	200.00	Withdrawn
Bonds-Lower Tier II	January 15, 2008	9.20	April 2018	200.00	Withdrawn
Bonds-Infrastructure Bonds	October 20, 2014	9.40	October 2021	1000.00	CARE A+; Stable
Bonds-Tier I Bonds	January 12, 2015	9.48	March 2018	1000.00	Withdrawn
Bonds-Tier II Bonds	June 01, 2016	9.20	September 2026	1000.00	CARE A+; Stable
Bonds-Tier I Bonds	June 12, 2015	9.48	March 2018	1000.00	Withdrawn

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-Perpetual Bonds	LT	-	-	-	1)CARE A; Stable (05-Feb-18) 2)CARE A; Negative (19-Jul-17)	1)CARE AA- (14-Jul-16)	1)CARE AA- (13-Oct-15)
2.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (16-Aug-16) 2)CARE AA (14-Jul-16)	1)CARE AA (13-Oct-15)
3.	Bonds-Upper Tier II	LT	-	-	-	-	1)Withdrawn (10-Nov-16) 2)CARE AA- (14-Jul-16)	1)CARE AA- (13-Oct-15)
4.	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (19-Jul-17)	1)CARE AA- (14-Jul-16)	1)CARE AA- (13-Oct-15)
5.	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (19-Jul-17)	1)CARE AA- (14-Jul-16)	1)CARE AA- (13-Oct-15)
6.	Bonds-Upper Tier II	LT	-	-	-	1)CARE A; Stable (05-Feb-18) 2)CARE A; Negative (19-Jul-17)	1)CARE AA- (14-Jul-16)	1)CARE AA- (13-Oct-15)
7.	Bonds-Lower Tier II	LT	-	-	-	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (19-Jul-17)	1)CARE AA (14-Jul-16)	1)CARE AA (13-Oct-15)
8.	Bonds-Infrastructure Bonds	LT	1000.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (19-Jul-17)	1)CARE AA (14-Jul-16)	1)CARE AA (13-Oct-15)
9.	Bonds-Tier I Bonds	LT	-	-	-	1)CARE BBB+; Negative	1)CARE A (10-Nov-16)	1)CARE A+ (13-Oct-15)

						(05-Feb-18) 2)CARE BBB+; Negative (19-Jul-17)	2)CARE A+ (14-Jul-16)	
10.	Bonds-Tier II Bonds	LT	1000.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (19-Jul-17)	1)CARE AA (14-Jul-16)	1)CARE AA (12-Feb-16)
11.	Bonds-Tier I Bonds	LT	-	-	-	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)	-

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