Bank of Maharashtra

September 15, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Infrastructure Bonds^	1,600 (Rs. One Thousand six hundred crore only)	CARE A+; Positive (Single A Plus; Outlook: Positive)	Rating reaffirmed
Tier II Subordinated Bond Series (Basel III)@	1,000 (Rs. One Thousand crore only)	CARE A+; Positive (Single A Plus; Outlook: Positive)	Rating reaffirmed

^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.

@ Tier II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the various debt instruments of Bank of Maharashtra (BoM) continue to take into account its majority ownership by the Government of India (GoI) which stood at 92.49% as on June 30, 2020, supported by capital infusion of Rs.831 crore by GoI during Q4FY20. Additionally, the Bank has shown considerable improvement in its overall capital adequacy, asset quality and profitability parameters during FY20 after coming out of the PCA framework in January 2019. The Bank continued to display robust Current Account Saving Account (CASA) base at 49.65% as on June 30, 2020 and comfortable liquidity profile.

However, the ratings remain constrained due to geographical concentration and the uncertainty of COVID impact on the asset quality & profitability of the bank. The continued ownership and capital support from GoI, asset quality parameters and profitability metrics post expiry of moratorium are key rating sensitivities.

The COVID pandemic has increased the challenges for banks as their borrowers and businesses face job losses, slowed sales, and declining profits. While most banks have made provisions for COVID in the last 2 quarters the actual extent of the asset quality will depend on the gradual return to normalcy of businesses as well as the modalities of the restructuring scheme announced by the RBI. BoM has about 17% of its total loan portfolio under moratorium as at June 30, 2020 and have made an aggregate COVID provision of Rs.425 crore in the last two quarters. We believe the details of the restructuring scheme and the extent of restructuring amidst the pandemic shall be a key monitorable.

Rating Sensitivities:

Positive Factors: Factors that could, individually or collectively, lead to positive rating action/upgrade

- Demonstration of strong capital adequacy parameters with CET 1 ratio at 12% or more
- Improved asset quality parameters with Net NPA/Tangible Networth below 50%
- ROTA of 1% and more

Negative Factors: Factors that could, individually or collectively, lead to negative rating action/downgrade:

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

Outlook: Positive

The 'Positive' outlook factors in the trend of improvement in profitability since coming out PCA in January 2019, along with improvement in asset quality (NNPA/Networth of 67.1% in FY20 vs. 77.3% in FY19) and capitalisation levels, with overall CAR of 13.5% in FY20 vs. 11.9% in FY19). Outlook also factors in capital infusion by GoI amounting to Rs.4,703 crore in FY19 and an additional sum of Rs.831 crore in FY20 to support growth and maintain capital cushions over the regulatory levels. The outlook may be revised to 'Stable' in case of sustained deterioration of asset quality and profitability parameters of the Bank and any expectation of discontinuance of support from GoI.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership and capital support by GoI

Post capital infusion of Rs.4,703 crore in FY19 by GoI, BoM came out of PCA in Q3FY20. In FY20, BoM further raised total capital of Rs.1,563 crore. Out of this, BoM had raised Rs.831 crore from GoI in March 2020. On completion of allotment in August 2020, Government of India holding has increased from 92.49% to 93.33%. While the bank has tapped capital markets to raise debt in FY20, their share in overall capital is relatively less and being a PSB, it continues to remain dependent on the GoI to meet regulatory capital ratios. Going forward regular support from GoI is a key rating sensitivity.

Improved capitalization parameters among public sector banks

With the infusion of capital over the last 2 years the total CAR % stood at 13.52% as on March 31, 2020 and CET I % was 10.67% as compared to 11.86% and 9.91% respectively as on March 31, 2019. As on June 30, 2020, Total CAR % and CET I % were 13.21% and 10.23% as compared to 11.69% and 9.68% respectively as on June 30, 2019. However, with the outbreak of Covid-19 pandemic any incremental stress on the asset quality may increase credit cost and may impact the bank's internal capital generation capacity.

Robust CASA base

Owing to the regional nature of Bank and established retail franchise in the state of Maharashtra, BoM has been able to maintain consistently high CASA base compared to its peers in FY20. During FY20, BoM's CASA deposits increased in absolute terms to Rs.75,475 crore as on March 31, 2020 from Rs.69,830 crore as on March 31, 2019, registering a growth of 8.08% (y-o-y). In percentage terms, CASA (%) stood at 50.29% as on March 31, 2020 as compared to 49.65% as on March 31, 2019. The bank is uniquely placed in terms of its liability base with deposits accounting for 92% of its Total Liabilities and outside borrowings were around 3% in FY20.

(Rs. crore)

Particulars	As on		
	Jun-19	Mar-20	Jun-20
Total Business	2,31,973	2,44,955	2,49,608
Deposits	1,38,941	1,50,066	1,52,987
-Of which CASA	*66,801*	*75,475*	*75,824*
CASA Share (%) of Total deposit	*48.08%*	*50.29%*	*49.56%*
Gross advances	93,032	94,889	96,621
Gross Investments	52,861	58,171	61,150

Sustained profitability parameters in FY20 after major losses in FY19

After reporting losses amounting to Rs.4,784 crore in FY19 due to aggressive provisioning, BoM reported an overall profitable FY20. Improvement in profitability parameters was mainly on account of reduced credit costs, improved NIM and reduction in operating expenses. In FY20, BoM reported a PAT of Rs.389 crore on a Total Income of Rs.13,145 crore as compared to a loss of Rs.4,784 crore on a Total Income of Rs.12,397 crore. Net Interest Income (NII) increased by ~15% during FY20 to Rs.4,279 crore as compared to Rs.3,733 crore during FY19 on account of increase in loan portfolio as well as slight reduction in cost of funds. The Bank's Net Interest Margin (NIM) during FY20 was higher at 2.64% as compared to 2.39% for FY19. The Bank's Return on Total Assets (ROTA) was 0.24% in FY20 as compared to negative 3.06% in FY19. Continuing the growth momentum during Q1FY21, PAT stood at Rs.101 crore on a Total Income of Rs.3,265 crore as compared to a PAT of Rs. 81 crore on a Total Income of Rs.3,192 crore, registering a y-o-y growth of 25%. However, with the spread of Covid-19, borrower's earnings have been impacted with businesses remaining shut for a considerable period of time and it is expected to bring down profitability in FY21. Bank has made total COVID related provisioning of Rs.475 crore, out of which Rs.275 crore was done in Q1FY21 and Rs.150 crore in Q4FY20.

Robust asset quality, however, pressure to remain in post COVID environment

With noticeable improvement in FY19, Bank continued to witness enhanced asset quality parameters in FY20 too. During FY20, Gross NPA % decreased to 12.81% from 16.40% in FY19 mainly due to large write-offs of Rs.5,698 crore, recoveries of Rs.1,318 crore as well as slowdown in slippages over the quarters. Provision Coverage ratio (including write-offs) on non-performing loans improved to 83.97% as compared to 81.49% in FY19. Further, in FY20, Net NPA% and Net NPA/Tangible Net-worth improved to 4.77% and 67.09% respectively vis-à-vis 5.52% and 77.25% in FY19. Slippages in Q1FY21 declined to an all-time low of Rs.77 crore mainly because of moratorium offered to customers (Q1FY20: Rs.1,731 crore). As on June 30, 2020, Bank reported GNPA (%) and NNPA (%) of 10.93% and 4.10% as against 17.90% and 5.98% as on June 30, 2019. As on June 30, 2020, 17% of the loan portfolio was under moratorium, while the bank expects that about 5% of this portfolio may opt for restructuring. Although, as per the bank estimates they may not require additional provisioning the actual extend would depend on the modalities of the restructuring scheme as well as the actual performance of the portfolio.

Particulars	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Quarterly fresh slippages (Rs. Crore)	1,415	1,126	1,107	1,770	608	1328	942	77
Slippage Ratio (%)	2.14	1.53	1.49	2.27	0.80	1.75	1.21	0.09

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

Key Rating Weaknesses

Geographical Concentration

Being a well-established bank in Maharashtra, BoM has high concentration in the state in term of Advances and Deposits, with main focus on Pune. It is the only bank with nearly 60% of its branch network and 62 per cent of its business in Maharashtra. The COVID pandemic may impact each state differently and therefore the pace of return to normalcy may have a material impact on the asset quality of the bank.

Industry outlook

The asset quality pressure due to the AQR has been reducing in the last couple of years and FY20 has seen recoveries from few of large ticket size NPAs positively impacting the profitability of banks during FY20. Banks have done proactive provisioning for likely impact of Covid-19 impact which has some effect on the profitability of the banks. Going forward, the impact of moratorium given on the banks and expected slowdown in economy is to be seen; however, the banking sector remained adequately capitalized.

Liquidity profile: Adequate

The Bank's liquidity profile remained comfortable as on March 31, 2020 due to its strong deposit franchise. The Bank reported Liquidity Coverage Ratio (LCR) of 232.33% as on June 30, 2020 as compared to 215.13%% as on March 31, 2020 (against a minimum requirement of 80%). The bank also have access to systemic sources of funds such as the liquidity adjustment facility from RBI, access to the call money market and refinance limits from National Housing Bank and National Bank for Agriculture and Rural Development.

Analytical approach: CARE has considered the standalone business and financial profile of Bank of Maharashtra along with majority ownership of GoI.

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 Pune (Maharashtra). The Government of India (GOI) holds majority of stake [93.33% as on August 31, 2020] in the bank. The Bank had a network of 1,833 branches and 1,819 ATMs as on June 30, 2020. Around 62% of the Bank's branches are in the state of Maharashtra.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	12,397	13,145
PAT	-4,784	389
Interest coverage (times)	1.31	1.39
Total Assets*	1,57,238	1,60,200
Net NPA (%)	5.52	4.77
ROTA (%)	-3.06	0.24

*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	Amount (Rs. crore)	Rating assigned along with Rating Outlook
Bonds- Infrastructure Bonds	October 20, 2014	INE457A09207	9.40	October 2021	1000.00	CARE A+; Positive
Basel III-Tier II Bonds	March 06, 2020	INE457A08050	8.70	March 2025	600.00	CARE A+; Positive
Basel III-Tier II Bonds	June 01, 2016	INE457A08035	9.20	September 2026	500.00	CARE A+; Positive
Proposed Basel III-Tier II Bonds	-	-	-	-	500.00	CARE A+; Positive
Total					**2,600.00**	

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Perpetual Bonds	LT	-	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE A; Stable (05-Feb-18) 2)CARE A; Negative (19-Jul-17)
2.	Bonds-Upper Tier II	LT	-	-	-	-	-	1)Withdrawn (19-Jul-17)
3.	Bonds-Upper Tier II	LT	-	-	-	-	-	1)Withdrawn (19-Jul-17)
4.	Bonds-Upper Tier II	LT	-	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE A; Stable (05-Feb-18) 2)CARE A; Negative (19-Jul-17)
5.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (19-Jul-17)
6.	Bonds-Infrastructure Bonds	LT	1000.00	CARE A+; Positive	-	1)CARE A+; Positive (06-Jan-20)	1)CARE A+; Stable (03-Sep-18)	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (19-Jul-17)

7.	Bonds-Tier I Bonds	LT	-	-	-	-	1)Withdrawn (03-Sep-18)	1)CARE BBB+; Negative (05-Feb-18) 2)CARE BBB+; Negative (19-Jul-17)
8.	Bonds-Tier II Bonds	LT	1600.00	CARE A+; Positive	-	1)CARE A+; Positive (24-Feb-20) 2)CARE A+; Positive (06-Jan-20)	1)CARE A+; Stable (03-Sep-18)	1)CARE A+; Stable (05-Feb-18) 2)CARE A+; Negative (19-Jul-17)
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)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Infrastructure Bonds	Simple
2.	Bonds-Tier II Bonds	Complex

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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