

Bank of Baroda

September 13, 2019

Ratings

Instruments/Facilities	Amount (Rs crore)	Ratings	Rating Action
Tier II Bonds (Basel III compliant) ^{&}	3,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned

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 rating assigned to the debt instruments of Bank of Baroda (BOB) factor in majority ownership and support by the Government of India (GoI) and adequate capitalization level of the bank, long track record and post-merger position as one of the largest public sector bank, experienced management, strong and established franchise with pan-India network and overseas presence and adequate liquidity profile. The rating also factors in the bank's moderation in profitability largely on account of increase in credit costs due to weakening in asset quality.

With effect April 01, 2019, the amalgamation of Dena Bank and Vijaya Bank into BOB has been completed and further GOI has infused equity capital of Rs.5,042 crore in March, 2019 into the bank to support the capitalization of the merged bank.

Continued ownership and support by the GoI, asset quality, capital adequacy and profitability parameters along with BOB's ability to manage the integration of the functions, staff and systems of the merged banks are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership and support by GOI

GOI is the majority shareholder in Bank of Baroda holding 63.26% stake (excluding capital infusion of Rs.5,042 crore) as on March 31, 2019. The bank made preferential allotment of 4,285.59 lakh shares of Rs.2 paid up value at an issue price of Rs. 117.65 per share amounting to Rs. 5,042 crore to Government of India, in March, 2019. The issue and allotment was done in June 17, 2019, pending which it was shown as Share Application money pending allotment as on March 31, 2019. The shareholding of GoI as on June 18, 2019 stands at 69.23% as on June 30, 2019. CARE expects BOB to continue to receive support from GoI considering the majority shareholding and systemic importance of BOB being one of the large sized banks in India.

The bank is headed by Dr. Hasmukh Adhia who was appointed as the Non-Executive Chairman of the Bank w.e.f. March 01, 2019. Dr. Adhia is an officer of Indian Administrative Service, retired on 30.11.2018 as Union Finance Secretary & Revenue Secretary in Government of India. Mr. P. S. Jayakumar is the Managing Director and Chief Executive Officer (MD & CEO) of the bank. Mr. Jayakumar has been a career banker with over 30 years of experience.

Post the merger, the bank has put in place a dedicated team to manage the integration of human resources and systems, headed by the Managing Director (MD) and Executive Director (ED) level people heading the transition and has hired industry experts for advising on the amalgamation process.

Adequate capitalization levels

During FY19, GOI infused equity capital of Rs.5,042 crore by way of preferential allotment and the bank raised Tier II capital of Rs.1,956 crore which helped the bank in reporting Capital Adequacy Ratio (CAR) of 13.42% (standalone) [Tier I CAR: of 11.55% and Common Equity Tier I (CET I) ratio of 10.38%] as on March 31, 2019..

The bank (merged entity) reported CAR of 11.77% with Tier I CAR of 9.72% and CET I Ratio of 8.63% as on April 01, 2019 including the Rs.5,042 crore of equity capital as CET I capital. As on June 30, 2019, the bank reported CAR of 11.50% with Tier I CAR of 9.56% and CET I ratio of 8.49%. The decline in CAR was on account of implementation of a new guideline by RBI which is effective from June 2019 quarter that states that a higher risk weight of 150% will be applicable on all unrated claims on corporates having aggregate exposure of more than Rs.200 crore from the banking system thereby increasing overall RWA.

Further, in August, 2019, the Capital Raising Committee of the Bank has approved issuance of Tier II Bonds under Basel III for aggregate issue size of Rs.500 crore (including green shoe option of Rs.250 crore) as well as issuance of AT-1 Bonds under Basel III for aggregate issue size of Rs.1,650 crore (including green shoe option of Rs.1,150 crore).

Considering the increased scale of the merged bank, BOB would require timely capital infusion to fund its credit growth and continued capital support from GOI would remain a key rating sensitivity.

Long track record, pan India network and sizeable overseas presence

BOB has a long standing track record of over 110 years and over the years has developed a strong franchise with a pan India and international presence. The merged bank has over 120 million+ customers across the globe through its network of 9,444 branches and 13,158 ATMs and 86,644 employees as on June 30, 2019.

Post the merger with Dena Bank and Vijaya Bank, the bank is the second largest public sector bank and the third largest bank in India with total assets of Rs.10,61,908 crore as on June 30, 2019 which has further increased the bank's systemic importance. The bank also has international presence across 100 overseas offices spanning 21 countries as on June 30, 2019. In the last couple of years, the bank has been rationalizing its overseas branches to achieve cost efficiencies and synergies in overseas market as well as impact on account of discontinuation of Letters of Understanding (LOU) in Buyers Credit. During FY19 (refers to period from April 01 to March 31), the bank shut its operations in Bahamas, Bahrain and surrendered subsidiary banking license at Ghana while its branch in Muttrah (Oman) was merged with the Greater Muttrah branch, while the branch in Durban (South Africa) was merged with the branch in Johannesburg due to. Further, during FY19, the bank's subsidiary in UK started operations.

Moderation in Advances portfolio

Net advances of the bank (BOB standalone) increased by 9.68% during FY19 to Rs.4,68,819 crore (PY: Rs.4,27,432 crore). The merged advances (gross) portfolio as on April 01, 2019 stood at Rs.6,51,384 crore, which came down to Rs.6,33,181 crore as on June 30, 2019. Overseas advances saw a growth of 1.52% from Rs.1,05,727 crore as on April 01, 2019 to Rs.1,07,341 crore as on June 30, 2019 while the domestic book contracted by 3.56% from Rs.5,52,750 crore as on April 01, 2019 to Rs.5,33,054 crore as on June 30, 2019. The domestic advances profile of the bank largely constituted of corporate lending at ~46% of total domestic advances while retail loans constituted 20%, agricultural loans constituted 14% and MSME loans constituted 16% of total domestic advances as on June 30, 2019.

Moderate profitability

The bank witnessed growth of 11.45% in total income during FY19 supported by a 14.49% growth in interest income. The net interest income grew by 20.37% while the non-interest income declined by 8.50% due to decline in treasury gains on account of adverse interest rate scenario.

During Q4FY19 (refers to period from January 01 to March 31), the bank (standalone BOB) reported net loss of Rs.991 crore on total income of Rs.15,285 crore largely on account of credit provisioning. For entire FY19, the bank reported PAT of Rs.434 crore on total income of Rs.56,065 crore as compared to net loss of Rs.2,432 crore on total income of Rs.50,306 crore. For the quarter ended June 30, 2019, the bank reported PAT of Rs.710 crore on total income of Rs.20,861 crore. Operating profit for the quarter ended June 30, 2019 of Rs.4,276 crore improved from Rs.3,182 crore for the immediately preceding quarter, on account of higher treasury income and net interest income.

Deterioration in asset quality

Gross NPA and Net NPA ratios stood at 10.28% and 3.95% respectively as on June 30, 2019, as against 9.61% and 3.33% as on March 31, 2019. The bank reported Gross NPA ratio of 10.73% and Net NPA ratio of 3.66% on a merged basis as on April 01, 2019 with provision coverage ratio of 65.97%. The slippage ratio for the combined entity stood at 3.29% for the quarter ended June 30, 2019. The bank's total exposure to NCLT cases as on June 30, 2019 stood at Rs.37,144 crore (Rs.25,108 crore as on March 31, 2019), with exposure of Rs.5,820 crore in NCLT-1 List and Rs.6,957 crore in NCLT-2 List. The provision coverage ratio for NCLT-1 cases stood at 97.42% whereas the same for NCLT-2 cases was 84.86%.

All stressed accounts under SMA and restructured accounts aggregate to Rs.16,501 crore as on June 30, 2019 (Rs.10,410 crore as on March 31, 2019). 70% of slippages in the quarter ended June 30, 2019 have been from the watchlist accounts of quarter ended March 31, 2019. 26.7% of the watchlist accounts as on June 30, 2019 belong to the NBFC sector, while 15.15% belong to the Textile sector and about 14.91% to the Road & EPC sector. The watchlist accounts constituted around 26.15% of the net worth and 2.60% of advances as on June 30, 2019.

Liquidity Profile:

The bank's liquidity profile is supported by the bank's strong retail and CASA depositor base. The asset liability maturity (ALM) profile as on June 30, 2019 had cumulative mismatches in the time buckets beginning from 3 months to 5 years, however the mismatches are well within the RBI / Board defined tolerance limits. The bank had excess SLR of Rs.41,069.97 crore as on June 30, 2019 which provided the bank adequate liquidity. 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.

Analytical approach: The ratings are based on standalone profile of the bank (merged entity) and continue to factor in strong support from Government of India (GOI) which holds majority shareholding in the bank.

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 Company

Bank of Baroda (BOB), established in 1908, is amongst the oldest commercial banks in India with a substantial footprint in domestic and international markets. During FY19, the government announced first three-way amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda as a step towards consolidation of public sector banks. In terms of scale, the combined bank which came into operations from April 1, 2019, is now the second largest PSB in India, further increasing its systemic importance. The merged bank has over 120 million+ customers across the globe through its network of 9,444 branches and 13,158 ATMs and 86,644 employees as on June 30, 2019.

The Bank has wholly owned subsidiaries including BOB Financial Solutions Limited (erstwhile BOBCARDS Limited), BOB Capital Markets, Baroda Global Shared Services Ltd. and Baroda Asset Management India Limited. BOB has a joint venture for life insurance with India First Life Insurance (44% shareholding). The Bank owns 98.57% in The Nainital Bank Ltd. The Bank has also sponsored three Regional Rural Banks namely Baroda Uttar Pradesh Gramin Bank, Baroda Rajasthan Gramin Bank and Baroda Gujarat Gramin Bank as on March 31, 2019. The bank has international presence across 100 overseas offices spanning 21 countries as on June 30, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	50,306	56,065
PAT	(2,432)	434
Total Assets	7,20,000	7,76,473
Net NPA (%)	5.49	3.33
ROTA (%)	(0.35)	0.06

A: Audited; UA: Unaudited

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 I- Instrument Details

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Rating assigned along with Rating Outlook
Basel III Compliant Tier – II Bonds	-	-	-	3,000.00	CARE AAA; 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 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 (11-Feb-19) 2)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (09-Oct-17)	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (28-Oct-16)
2.	Bonds-Upper Tier II	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (03-Jul-19) 2)CARE AA+; Stable (16-May-19)	1)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (09-Oct-17)	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (28-Oct-16)
3.	Bonds-Lower Tier II	LT	0.00	CARE AAA; Stable	1)CARE AAA; Stable (16-May-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16) 2)CARE AAA (28-Oct-16)
4.	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (06-Jul-18)	1)CARE AA+; Stable (09-Oct-17)	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (28-Oct-16)
5.	Bonds-Upper Tier II	LT	-	-	-	1)Withdrawn (27-Mar-19) 2)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (09-Oct-17)	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (28-Oct-16)
6.	Bonds-Perpetual Bonds	LT	900.00	CARE AA+; Stable	1)CARE AA+; Stable (03-Jul-19) 2)CARE AA+; Stable (16-May-19)	1)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (09-Oct-17)	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (28-Oct-16)
7.	Bonds-Upper Tier II	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (03-Jul-19) 2)CARE AA+; Stable (16-May-19)	1)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (09-Oct-17)	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (28-Oct-16)
8.	Bonds-Upper Tier II	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (03-Jul-19) 2)CARE AA+; Stable (16-May-19)	1)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (09-Oct-17)	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (28-Oct-16)
9.	Bonds-Upper Tier II	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (03-Jul-19) 2)CARE AA+; Stable (16-May-19)	1)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (09-Oct-17)	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (28-Oct-16)

10.	Bonds-Perpetual Bonds	LT	711.50	CARE AA+; Stable	1)CARE AA+; Stable (03-Jul-19) 2)CARE AA+; Stable (16-May-19)	1)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (09-Oct-17)	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (28-Oct-16)
11.	Bonds-Perpetual Bonds	LT	1500.00	CARE AA; Stable	1)CARE AA; Stable (03-Jul-19) 2)CARE AA; Stable (16-May-19)	1)CARE AA; Stable (06-Jul-18)	1)CARE AA; Stable (09-Oct-17)	1)CARE AA; Stable (31-Dec-16) 2)CARE AA (28-Oct-16)
12.	Bonds-Perpetual Bonds	LT	2000.00	CARE AA; Stable	1)CARE AA; Stable (03-Jul-19) 2)CARE AA; Stable (16-May-19)	1)CARE AA; Stable (06-Jul-18)	1)CARE AA; Stable (09-Oct-17)	1)CARE AA; Stable (31-Dec-16) 2)CARE AA (28-Oct-16)
13.	Bonds-Tier II Bonds	LT	2500.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Jul-19) 2)CARE AAA; Stable (16-May-19)	1)CARE AAA; Stable (28-Jan-19) 2)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (23-May-17)	-
14.	Certificate Of Deposit	ST	-	-	1)Withdrawn (08-Aug-19) 2)CARE A1+ (03-Jul-19) 3)CARE A1+ (16-May-19)	-	-	-
15.	Bonds-Tier I Bonds	LT	500.00	CARE AA; Stable	1)CARE AA; Stable (03-Jul-19) 2)CARE AA; Stable (16-May-19)	-	-	-
16.	Bonds-Tier I Bonds	LT	500.00	CARE AA; Stable	1)CARE AA; Stable (03-Jul-19) 2)CARE AA; Stable (16-May-19)	-	-	-
17.	Bonds-Tier II Bonds	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Jul-19) 2)CARE AAA; Stable (16-May-19)	-	-	-
18.	Bonds-Tier II Bonds	LT	450.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Jul-19) 2)CARE AAA; Stable (16-May-19)	-	-	-
19.	Bonds-Lower Tier II	LT	1200.00	CARE AAA; Stable	1)CARE AAA; Stable	-	-	-

					(03-Jul-19) 2)CARE AAA; Stable (16-May-19)			
20.	Bonds-Tier II Bonds	LT	780.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Jul-19) 2)CARE AAA; Stable (16-May-19)	-	-	-
21.	Bonds-Tier II Bonds	LT	400.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Jul-19) 2)CARE AAA; Stable (16-May-19)	-	-	-
22.	Bonds-Perpetual Bonds	LT	-	-	1)Withdrawn (11-Jun-19) 2)CARE AA+; Stable (16-May-19)	-	-	-
23.	Bonds-Tier II Bonds	LT	250.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Jul-19) 2)CARE AAA; Stable (16-May-19)	-	-	-
24.	Bonds-Tier II Bonds	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Jul-19) 2)CARE AAA; Stable (16-May-19)	-	-	-
25.	Bonds-Tier I Bonds	LT	325.00	CARE AA; Stable	1)CARE AA; Stable (03-Jul-19) 2)CARE AA; Stable (16-May-19)	-	-	-
26.	Bonds-Upper Tier II	LT	-	-	1)Withdrawn (14-Jun-19)	-	-	-

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

Group Head Name - Aditya Acharekar

Group Head Contact no.- + 91-9819013971

Group Head Email ID- aditya.acharekar@careratings.com

Business Development Contact

Name: Ankur Sachdeva

Contact no. : + 91 98196 98985

Email ID : ankur.sachdeva@careratings.com

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