Bank of India

January 07, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Upper Tier II Bonds (Basel II)	2,000 (Rupees Two Thousand Crore only)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Perpetual Bonds (Basel II)	300 (Rupees Three Hundred Crore only)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Upper Tier II Bonds (Basel II)	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds after taking into consideration their increased sensitivity to Bank of India's Capital Adequacy Ratio (CAR), capital raising ability, asset quality and profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, 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 to conventional subordinated debt instruments.
CARE has withdrawn the rating assigned to the Upper Tier II Bonds – Series III issue of Bank of India worth Rs.500 crore with immediate effect, as the company has executed the call option and made payment of principal and broken interest in full and there is no amount outstanding under the issue as on date.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Bank of India (BOI) continue to factor in majority ownership by the Government of India (GoI) and its demonstrated capital support as well as support in terms of management and governance, long track record of operations, improved capitalization levels, comfortable resource profile with established national presence and strong franchise and liquidity profile.
The ratings remain constrained by the bank's weak asset quality and low profitability.
Continued ownership and support from GoI, asset quality, profitability and capital adequacy are the key rating sensitivities.

Rating Sensitivities

Positive Factors

- Continued majority shareholding and support by GOI
- Improvement in asset quality parameters on a sustained basis
- Improvement in profitability on a sustained basis

Negative Factors

- Deterioration in asset quality parameters on a sustained basis
- Deterioration in capitalisation levels

Deterioration in profitability on a sustained basis

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by GoI, continued capital support and support in terms of management and governance

The ratings factor in majority ownership of Government of India (GoI) which held 89.10% shareholding as on September 30, 2019 [**87.05%** as on March 31, 2019]. GOI has infused equity capital of Rs.9,232 crore during FY18 (refers to period from April 01 to March 31) and additional equity capital of Rs.14,724 crore during FY19 by way of preferential allotment of equity shares. GOI has been providing support to Public Sector Banks (PSBs) by way of recapitalization in order to enable banks to meet the minimum regulatory requirement as well as to fund credit growth.
Over the last five financial years, PSBs have been recapitalised to the extent of Rs.3.19 lakh crore, with infusion of Rs.2.5 lakh crore by the Government and mobilisation of over Rs.66,000 crore by PSBs themselves. The government announced recapitalization of state lenders to the tune of Rs.70,000 crore in 2019-20 as it looks to strengthen their balance sheets to enable them to step up lending, as announced in the Union Budget of FY20. Further, GOI has undertaken governance

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

reforms in order to empower the Boards of the PSBs, strengthen the Board Committee system, develop leadership at PSBs, enhancing effectiveness of Non-Official Directors.

The Board of Directors of BOI is headed by Mr. G. Padmanabhan who was appointed as the Non-Executive Chairman on August 14, 2015 for a period of three years which has been extended for a further period of two years. The bank had Mr. Dinabandhu Mohapatra as its Managing Director and Chief Execitive Officer (MD & CEO) whose tenure ended on June 30, 2019 on account of his attaining age of superannuation. Further, considering the asset size, BOI is a systemically important bank and is expected to be supported by the government and continued GOI support would be a key rating sensitivity.

Long track record of operations with a strong national franchise and global presence

BOI is a premier nationalized bank which was incorporated on September 07, 1906. Over the years, BOI has established a strong franchise pan India and has a stable depositor base.

BOI currently is the fifth largest public sector bank in Indian and post amalgamation of the six PSBs into four anchor PSBs, would be the sixth largest public sector bank in India. As on September 30, 2019, the Bank has a network of 5,113 branches (5,088 domestic branches) and 5,825 ATMs. The bank's rural and semi-urban branches constituted around 65% of the domestic branches. As part of its rationalization measures, the bank undertook closure/merger of 36 domestic branches and 1,269 ATMs in FY19 (refers to period from April 01 to March 31).

As part of the cost-cutting measures being undertaken by the bank, 1,269 unviable and loss-making ATMs were closed down during FY19. The bank has undertaken rationalization of domestic and overseas branches, and 36 domestic branches were closed down/merged. The rationalisation of overseas offices is in process. Out of 12 offices identified for closure, 5 offices have been closed down/merged so far and closure of other identified offices is in process. In consonance with the GOI directives and as a part of strategic initiatives for rationalization of overseas operations, the bank has decided to exit from certain foreign operations. In December, 2019, the bank surrendered the banking license for Bank of India (Botswana) Ltd.

Improvement in capital adequacy post significant capital infusion by GOI

BOI has received significant amount of capital infusion by GOI during the last two years. During FY18, the bank received equity capital of Rs.9,232 crore and during FY19, GOI infused equity capital of Rs.14,724 crore. In addition, the bank raised equity capital of Rs.661 crore through ESOP to employees and whole-time directors with participation by 95% of employees. As the result of significant capital infusion, the bank reported improvement in its capitalization ratios. Capital Adequacy Ratio (CAR) of the bank under Basel III stood at 14.09% as on September 30, 2019 as against the minimum regulatory requirement of 10.875% as on March 31, 2019 and 11.50% as on March 31, 2020. The Tier I CAR as on September 30, 2019 stood at 11.06%, within which Common Equity Tier 1 (CET I) ratio stood at 11.00% compared to regulatory minimum of 7.375% as on March 31, 2019 and 8% as on March 31, 2020.

Comfortable resource & liquidity profile

As a result of its strong national franchise, the bank has displayed good granularity in deposits with its top 15 depositors contributing to 0.55% of its total deposits as on June 30, 2019. The bank had global deposits of Rs.5,18,037 crore as on September 30, 2019, registering a growth of 1.15% on a year-on-year basis. The average cost of deposits for the bank stood at 4.41% for FY19 as compared to 4.59% for FY18. Further, stable Current Account Savings Account (CASA) deposits provide comfort. CASA deposits registered y-on-y growth of 5.20% leading to domestic CASA proportion of 43.36% as on March 31, 2019 as against 41.44% as on March 31, 2018. As on September 30, 2019, bank reported a CASA Ratio of 42.35% and y-o-y growth was 7.75%. As on September 30, 2019, bank reported a CASA Ratio of 42.35% and y-o-y growth was 7.75%. The bank's liquidity profile is comfortable with the ALM profile as on September 30, 2019 showing positive cumulative mismatches in up to 5 years' time buckets. Historically, the bank has average rollover rate of 70-80% in term deposits. The bank maintains adequate liquid investments over and above the regulatory requirements which help them to manage liquidity. Excess SLR maintained by the bank is Rs.6,238 crore as on September 30, 2019. The bank's total deposits as on March 31, 2019 stood at Rs.520,862 crore vis-à-vis Rs.5,20,854 crore as on March 31, 2018. Further, stable CASA deposits provide comfort.

Key Rating Weaknesses

Moderate profitability

BOI reported net loss of Rs.5,547 crore in FY19 as against net loss of Rs.6,044 crore in FY18. The net interest income has improved by 30%, primarily driven by increase in interest income by 7% in FY19. Operating profit of Rs,8,092 crore for the year ended March 31, 2019 improved by 13.35% on a year-on-year basis as against Rs.7,139 crore for the year ended March 31, 2018. In H1FY20 (refers to period from April 01 to September 30), the bank reported a net profit of Rs.509 crore as against loss of Rs.1,061 crore in H1FY19. NIM for the year ended March 31, 2019 has improved to 2.27% vis-à-vis 1.74% for

the immediately preceding year. The cost of deposits has come down to 4.41% for FY19 as against 4.59% for FY18, while the yield of advances has improved to 7.99% for FY19 as against 7.15% for FY18.
On November 18, 2019, the bank disclosed on stock exchanges that there was a divergence for reporting and provisioning of NPA for FY19 ascertained by RBI at Rs.1,446 crore, post SEBI's directive to all listed banks to disclose any divergence in bad loan provisioning. SEBI noted that disclosures in respect of divergence and provisioning are in the nature of material events and hence necessitate immediate disclosure. Considering the divergent provisioning, its adjusted (notional) loss would be Rs.6,993 crore for FY19 from Rs.5,547 crore earlier. The net impact of the incremental provisioning of approximately Rs.1,200 crore shall be taken in Q3FY20. However, the bank made significant recoveries in Q3FY20 from written-off accounts, which shall compensate for the incremental provisioning.

Weak asset quality indicators
The bank reported improved asset quality parameters in FY19 as compared to FY18. The Gross NPA ratio as on March 31, 2019 stood at 15.84% as against 16.58% as on March 31, 2018. Net NPA ratio as on March 31, 2019 improved to 5.61% as against 8.26% as on March 31, 2018, whereas the Net NPA to net worth improved to 67.90% as on March 31, 2019 as against 135.44% as on March 31, 2018, due to capital infusion. However, the bank saw some slippages in the first two quarters of FY20. As on September 30, 2019, the bank reported Gross NPA ratio of 16.31% [P.Y.: 16.36%], Net NPA ratio of 5.87% [P.Y.: 7.64%] and Net NPA to net worth ratio of 47.99%.
About 15.83% of the domestic credit lending as on September 30, 2019 was towards the infrastructure sector, as compared to 15.56% as on March 31, 2019. Approximately 12% of the domestic advances as on September 30, 2019 are towards unrated borrowers, while 51% fall in the rating category of 'A and above'.
The bank, on November 18, 2019, disclosed on stock exchanges that there was a divergence for reporting and provisioning of NPA for FY19 ascertained by RBI at Rs.1,446 crore. For the year ended March 31, 2019, the bank reported a net loss of Rs.5,547 crore as against a loss of Rs.6,044 crore for FY18. Considering the divergent provisioning, its adjusted (notional) loss would be Rs.6,993 crore for FY19 from Rs.5,547 crore earlier.

Liquidity Strong
The bank's liquidity profile is comfortable with the ALM profile as on September 30, 2019 showing positive cumulative mismatches in up to 5 years' time buckets. Historically, the bank has average rollover rate of 70-80% in term deposits. The bank maintains adequate liquid investments over and above the regulatory requirements which help them to manage liquidity. Excess SLR maintained by the bank stood at Rs.6,238 crore as on September 30, 2019. Further, stable CASA deposits provide comfort. Further, the bank has access to systemic liquidity in the terms of borrowing from RBI's LAF and MSF schemes which provide additional comfort.
The bank's Liquidity Coverage Ratio (LCR) stood at 134.58% as on September 30, 2019 (March 31, 2019: 123.52%) and its High Quality Liquid Assets (HQLA) stood at Rs.88,799 crore as on September 30, 2019 (Rs.81,407 crore as on March 31, 2019).

Analytical approach: CARE has analysed the bank on a standalone basis, factoring in expected support from GOI.
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 Bank
Bank of India (BOI) was incorporated on September, 1906 by a group of eminent businessmen from Mumbai. The bank was under private ownership and control till July 1969 when it was nationalized along with 13 other banks. The Government of India (GOI) holds majority stake of 89.10%, while Life Insurance Corporation of India (LIC) holds 4.56% shares as on September 30, 2019. The bank was put under the Prompt Corrective Action (PCA) of RBI in December, 2017 on account of high net NPA, insufficient CET I capital and negative ROA for two consecutive years. On January 31, 2019, RBI came out with a press release for removal of BOI along with Bank of Maharashtra and Oriental Bank of Commerce out of the PCA framework.
As on September 30, 2019, the bank had an overseas network of 25 branches, 2 Representative Offices, 5 Subsidiaries and 1 Joint Venture over 21 countries. As on September 30, 2019, the bank had a pan India network of 5,088 branches and 5,825 ATMs. The bank's rural and semi-urban branches constituted around 65% of the domestic branches.
The bank has four domestic subsidiaries viz. BOI Shareholding Ltd (100% stake), BOI AXA Investment Managers Private Limited (stake of 51%), BOI AXA Trustee Services Private Limited (stake of 51%) & BOI Merchant Bankers Limited (100%

stake). The bank is in the process of disinvesting shareholding in these subsidiaries to enable the bank to raise capital. The bank is in the process of monetization of its non- core assets and plans to sell its stake in Star Union Dai-ichi Life Insurance Company Limited, a joint venture with Union Bank of India viz. in which it holds a stake of 28.96%. The bank has four overseas subsidiaries as well viz. wholly owned subsidiaries: Bank of India (Tanzania) Ltd., Bank of India (New Zealand) Ltd., Bank of India (Uganda) Ltd. and PT Bank of India Indonesia Tbk. BOI surrendered its banking license for Bank of India (Botswana) Ltd. on December 05, 2019. The bank has sponsored four Regional Rural Banks operating in four states viz. Jharkhand Gramin Bank, Narmada Jhabua Gramin Bank, Vidharba Konkan Gramin Bank and Gramin Bank of Aryavart. The bank's associates are Indo Zambia Bank Limited (stake of 20%), STCI Finance Ltd. (29.96%) and ASREC India Ltd. (26.02%).

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Income	43,805	45,900
PAT	(6,044)	(5,547)
Total Assets	594,860	6,07,061
Net NPA (%)	8.26	5.61
ROTA (%)	(1.00)	(0.92)

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate		Maturity Date		Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
			With Call	Without Call	With Call	Without Call		
Bonds-Upper Tier II	INE084A09175	28-Jul-2009	8.45%	8.95%	28-Jul-2019	28-Jul-2024	-	Withdrawn
Bonds-Upper Tier II	INE084A09209	20-Jan-2010	8.54%	9.04%	20- Jan-2020	20-Jan-2025	1000.00	CARE AA-; Stable
Bonds-Upper Tier II	INE084A09217	11-Jun-2010	8.48%	8.98%	11-Jun-2020	11-Jun-2025	1000.00	CARE AA-; Stable
Bonds-Perpetual Bonds	INE084A09225	09-Sep-2010	9.05%	9.55%	09-Sep- 2020	-	300.00	CARE AA-; 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-Upper Tier II	LT	-	-	-	1)Withdrawn (28-Dec-18)	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)
2.	Bonds-Perpetual Bonds	LT	-	-	-	1)Withdrawn (15-Feb-19) 2)CARE AA-; Stable (28-Dec-18)	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)
3.	Bonds-Upper Tier II	LT	-	-	-	1)CARE AA-; Stable (28-Dec-18)	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)
4.	Bonds-Upper Tier II	LT	1000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (28-Dec-18)	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)
5.	Bonds-Upper Tier II	LT	1000.00	CARE AA-; Stable	-	1)CARE AA-;	1)CARE AA-;	1)CARE AA-;

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
						Stable (28-Dec-18)	Stable (25-Jan-18)	Stable (29-Dec-16) 2)CARE AA- (17-Nov-16)
6.	Bonds-Perpetual Bonds	LT	300.00	CARE AA-; Stable	-	1)CARE AA-; Stable (28-Dec-18)	1)CARE AA-; Stable (25-Jan-18)	1)CARE AA-; Stable (29-Dec-16) 2)CARE AA- (17-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.*

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