

Vijaya Bank

January 12, 2018

Ratings

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Basel III Additional Tier-I Bonds	1300	CARE AA –;Stable (Double A Minus; Outlook:Stable)	Assigned
Total Facilities	1300 (Rupees One thousand Three hundred crore only)		

@Details of Instruments in Annexure I

Additional Tier-I Bonds (AT 1) under Basel III are characterised by the existence of banks having coupon discretion at all points of time, capital thresholds for coupon non-payment, and principal write-down (on breach of a pre-specified trigger). As prescribed by RBI, the pre-specified trigger for AT 1 bonds before March 31, 2019, will be CET-1 ratio of 5.5% and 6.125% after March 31, 2019, or the Point of Non-viability (PONV) trigger is breached in RBI's opinion. These features increase the risk attributes of AT 1 bonds compared with Tier-II instruments under Basel III and capital instruments issued under Basel II.

In CARE's opinion, these loss absorption features increase the risk parameters associated with AT 1 bonds compared to the parameters considered to assess rating of Tier-II instruments under Basel III and capital instruments under Basel II. Thus, CARE has rated the Additional Tier-I bonds under Basel III two notches below the rating of Tier-II instruments under Basel III.

Detailed Rationale & Key Rating Drivers

The ratings takes into account the majority ownership of Vijaya Bank by the Government of India (GoI) as well as its demonstrated support in the past and adequate capitalisation levels during FY17 (refers to the period April 1 to March 31) witnessing further improvement in H1FY18 (refers to the Period April 1 to September 30) post equity infusion. The ratings strengths are off-set by the moderate asset quality notwithstanding lower slippages during FY17 and H1FY18 and moderate profitability. The ratings are also constrained by the moderate resource profile with modest CASA proportion though the same had registered improvement during FY17. Going forward continued ownership and support from GoI, the bank's ability to harbor any incremental credit cost with regard to NCLT identified accounts without impacting the profitability, bolster credit growth while controlling incremental slippages, improve its asset quality parameters amidst weak demand outlook and challenging operating environment would be the key rating sensitivities.

Detailed description of the key rating drivers

Majority ownership by the Government of India

Government of India (GoI) continues to hold majority stake of 63.30% in the bank as on September 30, 2017. The shareholding of GoI reduced to the present level from 70.33% as on March 31, 2017, post equity infusion of Rs. 700 crore through QIP during H1FY18. The ratings derive comfort from demonstrated GoI support by way of regular equity capital infusion from GoI and GoI owned dominant insurer, Life Insurance Corporation (LIC).

Moderate capitalisation levels

The bank's capitalisation, supported by the accretion of profits and raising of Tier I capital of Rs.325 crore during the year, improved with Basel III CAR at 12.73%, Tier-I CAR at 9.96% and CET I at 8.44% as on March 31, 2017. During H1FY18, the

bank had issued equity shares aggregating to Rs. 700 crore through Qualified Institutional Placement (QIP), thereby augmenting banks Tier I capital. Resultantly, VB's CAR and Tier I CAR improved further to 13.31% and 10.62% as on September 30, 2017. The bank's eligible reserves available for servicing coupon payment for AT1 bonds vis-à-vis provisions and distributable reserve to risk weighed assets were satisfactory.

Moderate Asset Quality

During FY17, GNPA and NNPA of VB, though continued to be high, improved marginally to 6.59% (PY:6.64%) and 4.36%(PY: 4.81%) respectively. This was supported by lower slippages (slippage ratio of 3.41% in FY17 as against the slippage ratio of 6.86% in FY16) and higher write-offs.

The asset quality of the bank, however slipped during H1FY18 with Gross NPA% and Net NPA% of 7.06% and 4.86% respectively as on September 30, 2017. However, the Net NPA to Tangible Networth stood at 55.11% as on September 30, 2017, aided by accretion of profits and infusion of Rs. 700 crore of equity. However, going forward, with the increase in recovery efforts and upgradation, limiting fresh slippages in H2FY18, the gross NPA is expected to be maintained at FY17 levels. As such bank's asset quality ratios compare favorably with other PSU peers.

Moderate profitability

The total income of the bank grew by 8.29% in FY17 supported by 2.44% growth in interest income and 88.93% growth in non-interest income. During FY17, the bank witnessed a business growth of 6.12%, supported by advances growth of 6.25% and deposit growth of 6.04%. Retail advances constituted 30% of bank's advances as on March 17 which has been on an increasing trend and helping improve its yield on advances.

With the increasing share of CASA deposits, the interest expenses declined by 4.83% resulting in the growth in Net Interest Income (NII) by 27.00% to Rs.3506 crore in FY17 from Rs.2761 crore in FY16. Accordingly, NIM improved to 2.34% in FY17 from 1.92% in FY16. The bank reported a PAT of Rs.750.49 crore registering a growth of 96.47% (FY16: Rs.381.79 crore). Consequently, RoTA improved to 0.50% from 0.27% as on March 31, 2016, reversing the declining trend in ROTA in three previous years.

During H1FY18, the bank registered a PAT of Rs. 440 crore registering a 39% growth on y-o-y basis.

Moderate resource profile with improvement in CASA proportion

The bank's CASA deposit proportion although improved from previous levels remains low. With the bank conscious effort to shed high cost deposits, the bank's CASA deposit proportion of total deposits improved to 28.12% as on March 31, 2017 from 23.22% as on March 31, 2016. During H1FY18, the bank's CASA proportion declined to 27.03% (FY17: 28.10%) due to 10.62% decline in current deposits on a sequential basis.

Analytical approach: Standalone

Applicable Criteria:

[CARE's Policy on Default Recognition](#)

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[Bank - CARE's Rating Methodology for Banks](#)

[Financial Sector - Financial Ratios](#)

Background

Vijaya Bank is a Bangalore-based mid-sized public sector bank which was set up in 1931 and nationalised in 1980. As on March 31, 2017, Government of India (GoI) holds majority stake of 70.33% and LIC of India holds 12.92% stake in the

bank. As on March 31, 2017, the bank had a network of 2031 branches, 13 extension counters and 2001 ATMs spread across 28 states and 4 union territories.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	12,957	14,031
PAT	382	750
Interest coverage (times)	1.17	1.27
Total Assets	145,172	154,163
Net NPA (%)	4.81	4.36
ROTA (%)	0.27	0.50

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Tier I Bonds*	-	-	-	1300.00	CARE AA-; Stable

*yet to be raised

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-Lower Tier II	LT	-	-	-	1)Withdrawn (20-Jul-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (17-Jul-15)	1)CARE AA+ (15-Oct-14)
2.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (29-Nov-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (17-Jul-15)	1)CARE AA+ (15-Oct-14)
3.	Bonds-Lower Tier II	LT	200.00	CARE AA+; Stable	1)CARE AA+; Stable (13-Jul-17)	1)CARE AA+; Negative (26-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (17-Jul-15)	1)CARE AA+ (15-Oct-14)
4.	Bonds-Upper Tier II	LT	-	-	1)Withdrawn (13-Jul-17)	1)CARE AA; Negative (26-Dec-16) 2)CARE AA (08-Jul-16)	1)CARE AA (17-Jul-15)	1)CARE AA (15-Oct-14)
5.	Bonds-Upper Tier II	LT	300.00	CARE AA; Stable	1)CARE AA; Stable (13-Jul-17)	1)CARE AA; Negative (26-Dec-16) 2)CARE AA (08-Jul-16)	1)CARE AA (17-Jul-15)	1)CARE AA (15-Oct-14)
6.	Bonds-Lower Tier II	LT	200.00	CARE AA+; Stable	1)CARE AA+; Stable (13-Jul-17)	1)CARE AA+; Negative (26-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (17-Jul-15)	1)CARE AA+ (15-Oct-14)
7.	Certificate Of Deposit	ST	25000.00	CARE A1+	1)CARE A1+ (13-Jul-17)	1)CARE A1+ (26-Dec-16) 2)CARE A1+ (08-Jul-16)	1)CARE A1+ (17-Jul-15)	1)CARE A1+ (15-Oct-14)
8.	Bonds-Tier II Bonds	LT	250.00	CARE AA+; Stable	1)CARE AA+; Stable (13-Jul-17)	1)CARE AA+; Negative (26-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (17-Jul-15)	1)CARE AA+ (15-Oct-14)
9.	Bonds-Tier II Bonds	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (13-Jul-17)	1)CARE AA+; Negative (26-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (17-Jul-15)	1)CARE AA+ (15-Oct-14)

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		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
10.	Bonds-Tier II Bonds	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (13-Jul-17)	1)CARE AA+; Negative (26-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (17-Jul-15)	1)CARE AA+ (24-Dec-14)
11.	Bonds-Tier I Bonds	LT	500.00	CARE AA-; Stable	1)CARE AA-; Stable (13-Jul-17)	1)CARE AA-; Negative (26-Dec-16) 2)CARE AA- (08-Jul-16)	1)CARE AA- (17-Jul-15)	1)CARE AA- (06-Jan-15)
12.	Bonds-Tier II Bonds	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (13-Jul-17)	1)CARE AA+; Negative (26-Dec-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (14-Jan-16)	-
13.	Bonds-Tier I Bonds	LT	500.00	CARE AA-; Stable	1)CARE AA-; Stable (13-Jul-17)	1)CARE AA-; Negative (26-Dec-16) 2)CARE AA- (08-Jul-16)	1)CARE AA- (22-Feb-16)	-
14.	Bonds-Tier I Bonds	LT	750.00	CARE AA-; Stable	1)CARE AA-; Stable (13-Jul-17)	1)CARE AA-; Negative (26-Dec-16) 2)CARE AA- (04-Nov-16)	-	-
15.	Bonds-Tier I Bonds	LT	1300.00	CARE AA-; Stable	-	-	-	-

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