

Vijaya Bank

September 26, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Basel III Tier II Bonds	1,700.0	CARE AA+; Stable (Double A Plus); Outlook: Stable	Reaffirmed
Basel III Additional Tier I Bonds	1,325.0	CARE AA-; Stable (Double A Minus); Outlook: Stable	Reaffirmed
Certificate of Deposits	25,000.0	CARE A1+ (A one Plus)	Reaffirmed
Lower Tier II Bonds*	-	-	Withdrawn
Upper Tier II Bonds*	-	-	Withdrawn
Proposed-Basel III Additional Tier I Bonds#	-	-	Withdrawn
Total	28025.0 (Rs. Twenty Eight Thousand Twenty five crore Only)		

@Details of Instruments in Annexure I *based on the confirmation from the debenture trustee on the full payment of principal along with the interest #withdrawal request received from bank

The ratings factor in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in the 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 rating compared to conventional subordinated debt instruments.

Tier-II Bonds under Basel III are characterised 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 Common Equity Tier-I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

In CARE's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier-II instruments even under Basel II. CARE has rated the Tier-II bonds under Basel III after factoring in the additional feature of PONV.

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 continue to take into account the majority ownership of Vijaya Bank by the Government of India (GoI) as well as its demonstrated support in the past and comfortable capitalisation levels witnessing further improvement during FY18 (refers to the period April 1 to March 31) owing to equity infusion and profit accretion during the year. The bank has consistently been reporting profits. The ratings strengths are off-set by the moderate asset quality though it compares well among its peers. The asset quality ratios witnessed marginal improvement during FY18 though slippages were higher. The ratings are also constrained by the moderate resource profile with modest CASA proportion and modest provision

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

coverage ratio which continues to be low compared to its peers. CARE also takes note of the announcement of GOI for merger of three Public sector banks-Bank of Baroda, Dena Bank and Vijaya Bank, subject to various approvals. Going forward continued ownership and support from GoI, the bank's ability to 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. CARE will also continue to monitor the developments in the announced merger and structural benefits from the same before taking appropriate view on the rating.

Detailed description of the key rating drivers

Majority ownership by the Government of India: Government of India (GoI) continues to hold majority stake of 68.77% in the bank (PY: 70.33%). The rating derives comfort from demonstrated GoI support by way of regular equity capital infusion and GoI owned dominant insurer, Life Insurance Corporation (LIC). During FY18, GoI infused equity of Rs.1,277 crore in the bank by way of preferential allotment.

Comfortable capitalisation levels: The bank's capitalisation levels are comfortable with Vijaya Bank having the highest CAR among all the PSBs in India as on March 31, 2018. Supported by the accretion of profits and raising of equity of Rs.1977 crore during FY18, capitalization levels improved with Basel III CAR at 13.90%, Tier I CAR at 11.71% and CET I at 10.35% as on March 31, 2018. (Basel III CAR at 12.73%, Tier I CAR: 9.96%, CET 1: 8.44% as on Mar'17) and the same have remained stable with CAR at 13.91%, Tier I CAR at 11.70% and CET I at 10.35% as on June 30, 2018.

Moderate Asset Quality: GNPA and NNPA, continued to be moderate, improving marginally to 6.34% (FY17: 6.59%) and 4.32% (FY17: 4.36%) respectively which has further improved to 6.19% and 4.10% respectively as on June 30, 2018. Slippage ratio was however higher at 4.85% in FY18 as against 3.41% in FY17. Net NPA to Net worth, though high continued to improve and stands at 52.35% as on June 30, 2018 as against 59.02% as on March 31, 2017. Bank's exposure to infrastructure segment remains high at Rs.27773 crore as on March 31, 2018 as against Rs.21298 crore which has further increased to Rs.30385 crore as on June 30, 2018 constituting 24.83% of gross advances of which majority of exposure is to central and state government undertakings, however NPA from infrastructure segment have been lower compared to peer banks. Provision coverage ratio continues to remain moderate at 35.30% as on June 30, 2018 as against 35.47% as on March 31, 2017.

Total stressed assets aggregated to Rs.6709 crore constituting 72.73% (FY17:95.63%) of the bank's net worth and 5.77% (FY17: 7.06%) of the advances. Bank has made adequate provisioning to the extent of 61.05% on the aggregate exposure to the NCLT referred accounts as on March 31, 2018 and the bank has not availed any of the option of dispensation to spread the provisioning.

Moderate profitability: The total income of the bank remained stable at Rs.14,190 crore in FY18 as against Rs.14,031 crore in FY17. Of the non-interest income of Rs.1,600.61 crore (PY: Rs.1,651.26), Rs.544.25 crore (PY: Rs.768.99 crore) was from profit on sale of investments.

Bank's profitability parameters, witnessed an improvement during FY18. NIM improved to 2.60% of Average Total Assets (ATA)(PY: 2.34%) supported by the 22.86% growth in advances, decline in cost of funds and improved credit to deposit ratio. Cost to income for the bank decreased from 53.06% in FY17 to 47.53% in FY18. With decline in cost-to-income ratio, the bank reported an operating profit of Rs.3098 crore (increase of 27.95% over FY17). But on account of higher provisioning in FY18 of Rs.2115 crore (FY17: Rs.1507 crore) the bank reported lower net profit of Rs.727 crore as against net profit of Rs.750 crore in FY17. As a result, ROTA witnessed a slight decline to 0.44% (PY: 0.50%).

Moderate resource profile with decline in CASA proportion: The bank's CASA deposit proportion of total deposits declined to 25.04% as on Mar'18 from 28.10% as on Mar'17 which had further declined to 24.91% as on June 30, 2018, which is low compared to its peers. CASA deposits increased to Rs.39,390 crore as on Mar'18 from Rs. 37,398 crores as on Mar'17, which was supported by savings bank deposits growth of 6.36%. CASA deposits as on Jun'18 stood at Rs.39,189 crore.

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 (VB) is a Bengaluru-based mid-sized public sector bank which was set up in 1931 and nationalized in 1980. The Government of India (GoI) holds majority stake of 68.77% and LIC of India holds 8.15% in the bank as on June 30,

2018. As on Jun'18, the bank had a network of 2129 branches, 15 extension counters, and 2171 ATMs spread across 28 states and 4 union territories. All the branches of the Bank are Core Banking Solutions (CBS) enabled. Total Capital Adequacy of the Bank stood at Basel III CAR at 13.91 % and CET I of 10.35% as on June 30, 2018 as against CAR of 12.73% and CET I of 8.44% as on March 31, 2017.

(Rs. Crore)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Income	14031	14190
PAT	750	727
Interest coverage (times)	1.27	1.37
Total Assets	154,163	176,229
Net NPA (%)	4.36	4.32
ROTA (%)	0.50	0.44

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**

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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 II Bonds	December 13, 2013	9.73%	December 23, 2023	250.00	CARE AA+; Stable
Bonds-Tier II Bonds	October 30, 2014	9.15%	October 30, 2024	500.00	CARE AA+; Stable
Bonds-Tier II Bonds	February 18, 2015	8.62%	February 18, 2025	500.00	CARE AA+; Stable
Bonds-Tier I Bonds	March 27, 2015	10.4%	Perpetual	500.00	CARE AA-; Stable
Bonds-Tier II Bonds	January 22, 2016	8.64%	January 22, 2026	450.00	CARE AA+; Stable
Bonds-Tier I Bonds	March 30, 2016	11.25%	Perpetual	500.00	CARE AA-; Stable
Bonds-Tier I Bonds	January 17, 2017	10.49%	Perpetual	325.00	CARE AA-; Stable
Bonds-Tier I Bonds	-	-	-	0.00	Withdrawn
Bonds-Lower Tier II	March 30, 2008	9.5%	March 30, 2018	0.00	Withdrawn
Bonds-Upper Tier II	March 17, 2008	9.5%	March 17, 2018	0.00	Withdrawn
Bonds-Lower Tier II	October 31, 2007	9.5%	October 31, 2017	0.00	Withdrawn
Certificate Of Deposit	-	-	-	25000.00	CARE A1+

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-Lower Tier II	LT	-	-	-	-	1)Withdrawn (20-Jul-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (17-Jul-15)
2.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (29-Nov-16) 2)CARE AA+ (08-Jul-16)	1)CARE AA+ (17-Jul-15)
3.	Bonds-Lower Tier II	LT	-	-	-	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)
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)
5.	Bonds-Upper Tier II	LT	-	-	-	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)
6.	Bonds-Lower Tier II	LT	-	-	-	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)
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)
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)
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)
10.	Bonds-Tier II Bonds	LT	500.00	CARE	-	1)CARE AA+;	1)CARE AA+;	1)CARE AA+

				AA+; Stable		Stable (13-Jul-17)	Negative (26-Dec-16) 2)CARE AA+ (08-Jul-16)	(17-Jul-15)
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)
12.	Bonds-Tier II Bonds	LT	450.00	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	325.00	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	-	-	-	1)CARE AA-; Stable (12-Jan-18)	-	-

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