

Press Release

Bank of Maharashtra

November 20, 2020

Rating Reaffirmed & Assigned



Total Facilities Rated*	Rs.2000.00 Cr.
Total BASEL III Compliant Tier-2 Bonds	Rs.1000.00 Cr.
Long Term Rating	ACUITE AA/Stable (Reaffirmed)
Total BASEL III Compliant Additional Tier-I Bonds	Rs.1000.00 Cr.
Long Term Rating	ACUITE AA-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs.1000.00 Cr Basel III Compliant Additional Tier-1 (AT1) Bond Programme of Bank of Maharashtra. The outlook is '**Stable**'.

Further, Acuité has reaffirmed the long term rating of '**ACUITE AA**' (read as **ACUITE double A**) on the Rs.1000.00 Cr Basel III Compliant Tier-2 Bond Programme of Bank of Maharashtra. The outlook is '**Stable**'.

The rating takes into account the strong ownership and demonstrated capital support from the Government of India, the bank's favourable and stable liability profile and its improved capitalisation levels. However, these strengths are partly offset by the bank's relatively moderate scale of operations, its regional concentration as also the uncertainty regarding the extent of improvement in its asset quality and profitability expected over the near to medium term. Acuité has assigned a lower rating on the AT1 bond programme as compared to that of the Tier-2 bonds in line with its criteria of notch down for such instruments. Under Basel III guidelines, AT1 bonds carry higher risk features including the discretion of coupon payments in a weak capital scenario and principal loss absorption in part or full at the 'point of non-viability (PONV)' of a bank.

About the entity

Established in 1935, Bank of Maharashtra (BoM) is a public sector bank engaged in retail banking, corporate/wholesale banking, priority sector banking, treasury operations and other banking services. BoM was nationalised by the Government of India (GoI) along with 14 other major commercial banks in 1969. The bank is headquartered in Pune and operates through a network of 1850 branches across India. GoI is a majority stakeholder with 93.33% stake in the bank as on September 30, 2020.

Analytical Approach

Acuité has adopted the standalone approach while assessing the business and financial risk profile of the Bank of Maharashtra. The standalone approach, however, also duly factors in the support expectations from the parent, i.e. Government of India. In case of the AT1 bond programme, the rating has been appropriately notched down as per the specific rating criteria for these instruments.

Key Rating Drivers

Strengths

- Ownership and demonstrated capital support from the Government**

BoM remains one of the 12 public sector banks in India subsequent to the consolidation exercise undertaken by the GoI in FY19-20. The bank operates through an extensive network of 1850 branches spread across both rural and urban areas with a strong regional franchise and 61 percent of the overall branches being located in Maharashtra. The Government holds 93.33% stake in the bank and demonstrated its proactive support to

the bank through a regular equity infusion of funds underlining its strategic importance of the bank in furthering the objective of financial inclusion.

In FY17-18, the bank was placed within the purview of Prompt Corrective Action (PCA) framework by RBI due to continued deterioration in its key operating metrics such as Capital Adequacy, Profitability and Asset Quality. Gol has infused an aggregate equity amount of about Rs.9000 Cr in the bank since FY16-17, helping it to make adequate provisions against stressed assets while attaining a stable capital position and emerge out of PCA framework in FY18-19. It may also be noted that the bank was able to recall outstanding AT1 bonds in 2017-18 during the PCA phase on account of the steady infusion of equity capital from Gol.

Acuité believes that the Government will continue to provide significant support not only for the large and consolidated public sector banks but also for the smaller and regional banks such as BoM which have a significant presence in particular states and play a key role in the penetration of financial services and social development therein. Nonetheless, any material dilution in stake by the Government as part of the divestment programme will be a key monitorable. In our opinion, such a likelihood is low in the near to medium term.

- **Healthy base of low cost deposits**

BoM has a healthy resource profile as reflected in stable retail deposits at over 95 percent of the overall deposits since FY17-18 driven by bank's significant presence in semi urban and rural areas (57 percent of the overall branches) which facilitates mobilisation of small ticket deposits. Bank's granularity of deposits is further highlighted by share of top 20 depositors declining to 4.3 percent of deposits as on March 31,2020 as against 6.3 percent as on March 31,2018. The resource profile also derives significant strength from robust Current Account Savings Account (CASA) base steadily improving from 37.1 percent as on March 31, 2015 to 50.5 percent as on September 30,2020 aided by steady accretion of savings deposits coupled with a considerable reduction of bulk deposits over this period. Despite a significant reduction in deposit rates including savings rates, the total deposits grew by 12.2 percent year-on-year and CASA deposits increased by 17.5 percent year-on-year at the end of HFY2021 partly also contributed by the increased risks perceived by depositors in the smaller private sector and cooperative banks.

Acuité expects Bank of Maharashtra to continue to benefit by way of access to lower cost of funds on the back of its sovereign parentage, stable retail deposit base and robust CASA share.

- **Adequate capitalization levels**

BoM had witnessed an erosion in capital due to aggressive provisioning leading to weakening in the bank's capitalization metrics with CAR and Tier I ratio at 11.0 percent and 9.0 percent as on March 31,2018. However, support from Gol in the form of regular equity infusions aggregating to about Rs. 9,000 Cr over FY2017-20 have contained further slippage in the bank's capitalisation metrics and improved capital adequacy with CAR and Tier I ratio at 13.2 percent and 10.3 percent as on September 30,2020 reflecting an adequate cushion to withstand incremental losses without further capital infusion. The capital position is further reinforced by a strong provision coverage of 87.2% (including technical write-offs) and a networth coverage of net NPAs at 3.7 times as on September 30, 2020 which is relatively healthy as compared to most other public sector banks.

Acuité believes that capital position will remain adequate in the near to medium term, given the significant provisions already made for stressed assets, including those induced by the pandemic. Over the next 1-2 years, the bank may consider raising equity or Tier-1 capital through AT1 bonds to ensure the continuity of the adequate capital position. While the government has announced its plans to infuse an additional Rs20,000 Cr in public sector banks in the current year, BoM's share from this pool is uncertain.

Weaknesses

• Moderate Asset Quality

Given the past legacy and the uncertain economic environment due to the Covid pandemic, asset quality will remain a concern for the bank. While the bank's GNPA levels have steadily declined to 8.8 percent as on September 30, 2020 from 19.5 percent as on March 31, 2018 due to an aggressive write off and provisioning policy, the actual recoveries have not been that significant except for a few historical NCLT cases. However, the extent of the stress in the advances portfolio has diminished, which is reflected in the fresh slippages, which has dropped from 5.7 percent in FY17-18 to 4.3 percent in FY19-20.

The proportion of large corporate book has steadily declined from 49.8 percent as on March 31, 2018 to 40.3 percent as on September 30, 2020. The management's current underwriting strategy involves additional exposures to CPSU/SPSUs and established corporate groups only. As regards the NBFC sector, the current exposure is 11.3 percent of gross advances but with limited exposure to NBFCs rated below A category. The bank does continue to have high legacy NPAs in the SME and the agricultural sector, although the likelihood of further deterioration from these levels is limited in the near term.

The bank has reported that 17 percent of its advances were under moratorium as on June 30, 2020 and post the expiry of the moratorium, the requests for restructuring under RBI asset resolution framework may start to increase given the concerns on increased delinquencies in a slow post pandemic economic revival environment.

While BoM will continue to witness a broader level of stress across its various asset classes in the current operating environment, Acuite does not expect the bank to witness any major surge in delinquencies and NPAs in the near term. Nevertheless, the recovery from the legacy stock of NPAs is likely to be slow over the medium term and may continue to constrain its profitability levels.

• Regional Concentration

While Maharashtra is one of the more economically developed states in India, BoM has a high concentration in the state in term of advances and deposits. It is the only bank with nearly 61 percent of its branch network and 62 per cent of its business in Maharashtra. The intensity of the COVID pandemic is one of the highest in Maharashtra and that may have an impact on not only asset quality but also on the growth of deposits and advances in the near term.

Rating Sensitivities

- Ownership of GoI and continuing support by way of capital infusion
- Any significant changes in asset quality and profitability from the current levels
- Any sharp deterioration in capital position of the bank with capital adequacy coming closer to the regulatory minimum

Material Covenants

Not Applicable

Liquidity Position: Strong

The bank's liquidity position is supported by robust deposit base. Its liquidity coverage ratio stood at 221.51% as on September 30, 2020 as against the minimum regulatory requirement of 100%. Further, excess SLR stood at Rs.15,258 Cr. as on September 30, 2020.

Outlook: Stable

Acuite believes that Bank of Maharashtra will maintain a 'Stable' outlook on the back of continuing support from the Government of India and its adequate capital position. The outlook may be revised to 'Positive' in case Bank of Maharashtra is able to demonstrate a significant and sustainable recovery in profitability and asset quality. The

outlook may be revised to 'Negative' in case the bank faces challenges in maintaining the adequacy in its capital position and witnesses increased asset quality challenges in a post pandemic environment.

About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Interest Income	Rs. Cr.	11,496	10,850
Interest Expense	Rs. Cr.	7,217	7,116
Profit After Tax (PAT)	Rs. Cr.	391	(4,784)
Deposits	Rs. Cr.	1,50,066	1,40,650
Net Advances	Rs. Cr.	86,872	82,666
Investments	Rs. Cr.	57,741	59,697
Capital Adequacy	(%)	13.52	11.86
Return on Average Assets (RoAA)	(%)	0.23	(2.98)
Gross NPA	Times	12.81	16.40
Net NPA	Times	4.77	5.52

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Banks and Financial Institutions:- <https://www.acuite.in/view-rating-criteria-45.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-Nov-20	Proposed Basel-III Compliant Tier-II Bonds	Long Term	1000.00	ACUITE AA/Stable (Assigned)

*Annexure – Details of instruments rated

ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
-	Proposed Basel-III Compliant Tier-II Bonds	-	-	-	1000.00	Acuite AA/Stable (Reaffirmed)
-	Proposed Basel-III Compliant Additional Tier-I Bonds	-	-	-	1000.00	Acuite AA-/Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury Chief Analytical Officer - Rating Operations Tel: 022-49294029 suman.chowdhury@acuite.in</p> <p>Shrey Khandelwal Analyst - Rating Operations Tel: 022-49294072 shrey.khandelwal@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022 - 49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.