

Press Release

Bank of Maharashtra

September 23, 2021



Rating Reaffirmed & Assigned

Total Facilities Rated	Rs.3000.00 Cr.
Total BASEL III Complaint Tier-2 Bonds	Rs.2000.00 Cr.
BASEL III Complaint Tier-2 Bonds	Rs.1000.00 Cr.
Long Term Rating	ACUITE AA/Stable (Reaffirmed)
BASEL III Complaint Tier-2 Bonds	Rs.1000.00 Cr.
Long Term Rating	ACUITE AA/Stable (Assigned)
Total BASEL III Complaint Additional Tier-I Bonds	Rs.1000.00 Cr.
BASEL III Compliant Additional Tier-I Bonds	ACUITE AA-/Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE AA** (**read as ACUITE double A**) on the Rs.1000.00 crore proposed Basel III Compliant Tier-2 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 and '**ACUITE AA-** (**read as ACUITE double A minus**) on the Rs.1000.00 crore Basel III Additional Tier-I Bonds 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 comfortable resource profile with higher than industry average CASA ratio of 53.0 percent as on June 30,2021. The rating also derives strength from improved capitalisation levels with CRAR at 14.5 percent as on June 30,2021 aided by improving financial performance and capital infusion in the form of Tier II bonds during FY2021. The rating continues to factor in high provision coverage (including technical write-offs) of 90.7 percent as on June 30, 2021, which provides adequate buffer to mitigate asset quality pressures in the near to medium term.

These strengths are partly offset by the bank's relatively moderate scale of operations, its regional concentration (61 percent branch network in Maharashtra). While the asset quality has witnessed steady improvement (GNPA and NNPA at 6.4 percent and 2.2 percent respectively as on June 30,2021), the ability of the bank to contain asset quality pressure given SMA-1 and SMA-2 advances at 4.4 percent of standard advances and restructured portfolio at 3.0 percent of standard advances as on June 30,2021 coupled with likelihood of resurgence of the Covid-19 will be key monitorable.

The lower rating of the AT1 bond programme as compared to that of the Tier II 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 1915 branches across India as on March 31,2021. GoI is a majority stakeholder with 90.97 percent stake in the bank as on July 31,2021.

Analytical Approach

Acuité has adopted a standalone approach while assessing the business and financial risk profile of 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 1915 branches spread across rural, semi urban and urban areas with a strong regional franchise and 61 percent of the overall branches being located in Maharashtra. The Government holds 90.97 percent 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. GoI 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 GoI.

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.

- **Comfortable resource profile**

The resource profile derives strength from robust Current Account Savings Account (CASA) base at 53.0 percent as on June 30,2021, which steadily improved from 47.7 percent as on March 31, 2018 aided by steady accretion in low cost deposits coupled with subdued growth in bulk deposits over this period. Given the sizeable presence in semi urban and rural areas (56 percent of the overall branches), the bank is able to mobilise small ticket deposits as reflected in healthy share of retail deposits constituting 83.0 percent of overall deposits as on June 30,2021 . Despite a significant reduction in deposit rates including savings rates, the total deposits grew by 14.0 percent year-on-year and CASA deposits increased by 22.0 percent year-on-year in Q1FY2022 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 GoI 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 14.46 percent and 11.0 percent as on June 30,2021 reflecting an adequate cushion to withstand incremental losses without further capital infusion. The capital position is further reinforced by a strong provision coverage of 90.70 percent (including technical write-offs) and a networth coverage of net NPAs at 3.6 times as on June 30, 2021 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. The bank may consider raising equity or Tier-1 capital through AT1 bonds to ensure the continuity of the adequate capital position in the near to medium term.

- **Financial Performance**

The bank's profits (PAT) of Rs.550 Cr. during FY2021 (FY2020: Rs.389 Cr.) aided by 27 percent growth in operating income to Rs.7,522 Cr. While yield on funds declined to 6.4 percent in FY2021 (FY2020: 6.8 percent), higher contraction in cost of funds to 3.77 percent in FY2021 (FY2020: 4.26 percent) led to improvement in NIM to 2.84 percent in FY2021 as against 2.60 percent in FY2020. Concomitantly, Net Interest Income (NII) rose 14 percent to Rs.4898 Cr. during FY2021. Further, the bank saw improvement in operating efficiency with cost to income ratio improving to 47.4 percent (FY2020: 51.9 percent) translating into higher operating profits at Rs.3958 Cr. (FY2020: Rs.2847 Cr.). However, higher provisions (including income tax) at Rs.3407 Cr. (FY2020: Rs.2458 Cr.) partly offset the improved operational performance with Return on Average Assets (ROAA) at 0.3 percent as on March 31, 2021 as against 0.2 percent as on March 31, 2020.

For Q1FY2022, the Bank reported PAT of Rs.208 Cr. on total income of Rs.3,795 Cr. as against PAT of Rs.101 Cr. on total income of Rs.3,265 Cr.

Weaknesses

- **Moderate Asset Quality**

The bank's GNPA levels have steadily declined to 7.2 percent as on March 31, 2021 from 19.5 percent as on March 31, 2018 due to an aggressive write off and provisioning policy, while recoveries have not been relatively modest. 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 FY2018 to 3.7 percent in FY2021. The provision coverage ratio has improved to 89.7 percent (including technical write-offs) as on March 31, 2021 from 84.0 percent (including technical write-offs) as on March 31, 2020.

The proportion of large corporate book has declined from 49.8 percent as on March 31, 2018 to 36.85 percent as on March 31, 2021. The corporate exposure rose to 39.9 percent with exposure (excluding investments and non-funded exposure) to BB and below at Rs.5,168 Cr. as on June as against Rs.4,388 Cr. as on March 31, 2021. 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.

As on June 30, 2021, the GNPA and NNPA stood at 6.35 percent and 2.22 percent respectively. Assets in SMA-1 and SMA-2 as a percentage of standard advances stood at 4.4 percent of standard advances. The restructured book stood at Rs.3,193 Cr., translating to 3.0 percent of standard advances. Acuite believes the ability of the bank to contain asset quality pressure given the likelihood of resurgence of the COVID-19 will be key monitorable. The rating continues to factor in high provision coverage (including technical write-offs) of 90.7 percent as on June 30, 2021, which provides adequate buffer to mitigate asset quality pressures in the near to medium term.

- **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 as on March 31, 2021. The uncertainty regarding easing of restrictions by states in the light of evolving economic environment may hinder growth of deposits and advances in the near term.

Rating Sensitivities

- Ownership of Gol 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 309.4 percent as on June 30, 2021 as against minimum regulatory requirement of 100 percent. Further, excess SLR stood at Rs.24,308 Cr. as on June 30, 2021.

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	FY21 (Actual)	FY20 (Actual)
Interest Income	Rs. Cr.	11,869	11,495
Interest Expense	Rs. Cr.	6,971	7,217
Profit After Tax (PAT)	Rs. Cr.	550	389
Deposits	Rs. Cr.	1,74,006	1,50,066
Net Advances	Rs. Cr.	1,02,405	86,872
Investments	Rs. Cr.	68,112	57,741
Capital Adequacy	(%)	14.49	13.52
Return on Average Assets (RoAA)	(%)	0.30	0.23
Gross NPA	Times	7.23	12.81
Net NPA	Times	2.48	4.77

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
20-Nov-20	Proposed Basel III Compliant Tier-II Bonds	Long Term	1000	ACUITE AA/Stable (Reaffirmed)
	Proposed Basel III Compliant Additional Tier-I Bonds	Long Term	1000	ACUITE AA-/Stable (Assigned)
03-Nov-20	Proposed Basel III Compliant Tier-II Bonds	Long Term	1000	ACUITE AA/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Not Applicable	Proposed Basel-III Compliant Tier-II Bonds	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE AA/Stable (Assigned)
Not Applicable	INE457A08068	Basel-III Compliant Tier-II Bonds	14-Dec-2020	7.75%	Not available	200.7	ACUITE AA/Stable (Reaffirmed)
Not Applicable	INE457A08076	Basel-III Compliant Tier-II Bonds	11-Feb-2021	8%	Not available	205	ACUITE AA/Stable (Reaffirmed)
Not Applicable	INE457A08084	Basel-III Compliant Tier-II Bonds	23-Mar-2021	8%	Not available	100	ACUITE AA/Stable (Reaffirmed)
Not Applicable	Not Applicable	Proposed Basel-III Compliant Tier-II Bonds	Not Applicable	Not Applicable	Not Applicable	494.3	ACUITE AA/Stable (Reaffirmed)
Not Applicable	Not Applicable	Proposed Basel-III Compliant Additional Tier-I Bonds	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE AA-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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