

Press Release

Bank of Maharashtra

February 28, 2022



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
BOND	1000.00	ACUITE AA Stable Upgraded	-
BOND	1000.00	ACUITE AA+ Stable Assigned	-
BOND	1494.30	ACUITE AA+ Stable Upgraded	-
BOND	505.70	ACUITE AA+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	4000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE AA+(read as ACUITE double A plus)**' from '**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**'.

Acuite has upgraded the long-term rating to '**ACUITE AA+(read as ACUITE double A plus)**' from '**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**'.

Acuite has upgraded the long term rating to '**ACUITE AA' (read as ACUITE double A)**' from '**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**'.

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

The revision in ratings takes into account noticeable and sustained improvement in profitability, asset quality and capitalization metrics of the bank. Driven by traction in credit growth in RAM segment and healthy margins, the bank has been reporting improvement in operating performance. The ratings upgrade further take into account sequential improvement in the asset quality metrics and high provisioning buffers. The asset quality has shown improving trends due to lower slippages with slippage ratio of 1.91% as on December 2021 (March 2021:3.65%) resulting in GNPA at 4.73 % as on December 2021 (March 31, 2021:7.23%). The Provision Coverage Ratio (PCR)(Including technical write-offs) stood at 93.77 % as on December 2021(December 2020:89.55%) while PCR(excluding technical write offs) stood at 75.05% as on December 2021(December 2020:68.31 %). The bank's comfortable

capitalization levels is marked by CAR and Tier I of 14.85% and 10.61% respectively as on December 2021 (CAR:14.49% and Tier I:10.98% as on March 31,2021). The bank raised Rs. 403.70 Cr via QIP route in July 2021 and Rs.1000 Cr from Tier II bonds issued in October 2021, resulting in further improvement in capitalization levels.

The rating continues to factor in strong ownership (Gol held 90.97% stake as on December 31, 2021) and demonstrated capital support from the Government of India . The rating also factors bank's favorable and stable liability profile with better than industry average CASA share of 55.05% as on December 31,2021 (53.99% as on March 31,2021).

However, these strengths are partly offset by the bank's relatively moderate scale of operations, moderate profitability and regional concentration in the state of Maharashtra. Going forward, continued Gol support, the bank's ability to maintain improvement in credit profile are key monitorable.

About the Bank

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 (Gol) along with 14 other major commercial banks in 1969. The bank is headquartered in Pune and operates through a network of 2004 branches across India. Gol is a majority stakeholder with 90.97% stake in the bank as on December 31,2021.

Analytical Approach

Acuité has adopted a standalone approach while assessing the business and financial risk profile of Bank of Maharashtra and considered features of AT-I Bonds viz. discretion in coupon payment, coupon omission risk and principal write down/loss absorption and in arriving at the rating.

Key Rating Drivers

Strength

- **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 Gol in FY19-20. The bank operates through an extensive network of 2004 spread across both rural and urban areas with a strong regional franchise and 56.14% %

of the overall branches being in Maharashtra. As of December 31,2021, the Government holds 90.97% 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.

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.

- **Comfortable resources profile**

The resource profile derives strength from robust Current Account Savings Account (CASA) base at 55.05 % as on December 31,2021, which steadily improved from 53.04 % as on June 30, 2021, 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 (55.54 % of the overall branches), the bank is able to mobilize small ticket deposits as reflected in healthy share of CASA and Term deposit constituting 97.25 % of overall deposits as on

December 31, 2021. Deposits has shown significant growth, the total deposits grew by 15.2 % year-on-year and CASA deposits increased by 24.6 % year-on-year in December 2021 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.

- **Comfortable capitalization levels**

The support from Gol in the form of regular equity infusions aggregating to about Rs. 9,000 Cr over FY2017-20 along with recent infusion of amount 403.70 from investors via QIP route in July 2021 has helped bank in maintaining healthy capitalisation metrics . The capital adequacy and Tier I ratio stood at 14.85 % and 10.61 % respectively as on December 31, 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 93.77% (including tec write-offs) and net NPAs stood at 1.24 times as on December 31, 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. 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.

- **Improvement in operating performance**

The bank has been able to improve its resources profile by focusing on CASA deposits. Healthy CASA franchise coupled with focus on improving RAM (retail, agriculture and MSME) advances has led to healthy margins. RAM (retail, agriculture and MSME) advances stood at 58.85 % of the overall advances as on December 31, 2021. While Corporate and other advances has seen a growth of 30.75 % y-o-y which largely came from incremental exposures taken into state government undertakings.

The bank has witnessed noticeable and sustained improvement in financial performance marked by profits (PAT) of Rs. 325 Cr in Q3FY2022 (Q2 FY2022: Rs.264 Cr and Q1 FY2022: Rs 208 Cr).

For 9MFY2022 profit stood at Rs.796 Cr. (9MFY2021: Rs.385 Cr.) aided by 51.68 % growth in pre-provisioning operating profits from 9MFY2021 Rs2,419 Cr to Rs.3,669 Cr during 9MFY2022. While yield on funds moderated to 6.25 % in December 2021 (December 2020: 6.40 %), moderate contraction in cost of funds to 3.36 % in 9MFY2022 (9MFY2021: 3.84 %) led to improvement in NIM to 3.14 % in 9MFY2022 as against 2.75 % in 9MFY2021.

While Acuité take cognizance of improvement in profitable parameter it continues to remain moderate.

Weakness

- **Moderate Asset Quality: albeit improving**

The bank's GNPA levels have steadily declined to 4.73 % as on December 31, 2021, from 16.40 % as on March 31, 2019, due to an aggressive write off and provisioning policy, however the actual recoveries have not been that significant except for a few historical NCLT cases. Future, the extent of the stress in the advance's portfolio has diminished in the current year, which is reflected in the fresh slippages, which has dropped to 1.91 % in December 31, 2021 from 2.53 % in June 30, 2021.

As regards the NBFC sector, the current exposure is 11.3 % 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.

As on December 31, 2021, the GNPA and NNPA stood at 4.73 % and 1.24 % respectively. Assets in SMA-1 and SMA-2 as a %age of standard advances stood at 4.11 % of standard advances. The restructured book stood at Rs.6,611Cr., translating to 5.38 % 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 93.77 % as on December 31, 2021, which provides adequate buffer to mitigate asset quality pressures in the near to medium term. 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 terms of advances and deposits. It is the only bank with nearly 57 % of its branch network and 69% of its business in Maharashtra as on March 31, 2021. 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.

ESG Factors Relevant for Rating

Public sector banks play a significant role in promoting financial inclusion in the country including facilitation of banking services in unbanked areas. Healthy corporate governance practices are important for sustainability in a bank's long-term performance. Some of the critical governance factors in the banking sector include board independence and diversity, effectiveness of the board sub committees, shareholders' rights as well as policies on KMP compensation and business ethics. Further, for the financial services sector, data privacy, security of financial instruments and responsible investments are relevant social factors. Other material social factors involve employee management and talent retention given the manpower intensive nature of banking operations as also various initiatives for community support and development. While the banking sector has low exposure to environmental risks, energy efficiency and electronic waste management carry moderate materiality.

Bank of Maharashtra's board comprises of eight directors. Bank of Maharashtra maintains adequate disclosures for business ethics which can be inferred from its policies relating to Grievance Redressal, corruption mitigation, whistle blower protection, Credit risk mitigation techniques and related party transactions. Bank has taken multiple steps towards enhancement of shareholder rights. The bank has formed a stakeholders' relationship committee for redressal of grievances of shareholders and investors. The bank has formed customers service committees at branch level. The bank board also has a committee for performance evaluation of MD & CEO, Executive Directors and General Managers; this committee is constituted as per Government of India, Ministry of Finance, Department of Financial Services directives. On the social aspect, the bank has taken initiatives towards career development of its employees such as conducting training programs and sponsoring senior employees in reputed training institutes. The bank has put in place cyber security policy and periodically carries out assessment on cyber security awareness through online tests, online surveys etc. Further, as part of Corporate Social Responsibility (CSR), Bank is undertaking various social activities through its various centers and trusts like Rural Development Centre (RDCs), Mahabank Agricultural Research and Rural Development Foundation (MARDEF) and Gramin Mahila Va Balak Vikas Mandal (GMBVM) in the areas of Agriculture, Rural development & women empowerment.

Rating Sensitivity

- Ownership of Gol and continuing support by way of equity infusion.
- Significant movements in asset quality and profitability parameters.
- 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 210.01% as on December 31, 2021 as against minimum regulatory requirement of 100%. Further, excess SLR stood at Rs.17,241 Cr. as on December 31, 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 Bank of Maharashtra- 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	(%)	7.23	12.81
Net NPA	(%)	2.48	4.77

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

None

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Sep 2021	Proposed Bond	Long Term	494.30	ACUITE AA Stable (Reaffirmed)
	Proposed Bond	Long Term	1000.00	ACUITE AA Stable (Assigned)
	Proposed Bond	Long Term	1000.00	ACUITE AA- Stable (Reaffirmed)
	Bond	Long Term	205.00	ACUITE AA Stable (Reaffirmed)
	Bond	Long Term	200.70	ACUITE AA Stable (Reaffirmed)
	Bond	Long Term	100.00	ACUITE AA Stable (Reaffirmed)
20 Nov 2020	Proposed Bond	Long Term	1000.00	ACUITE AA Stable (Reaffirmed)
	Proposed Bond	Long Term	1000.00	ACUITE AA- Stable (Assigned)
03 Nov 2020	Proposed Bond	Long Term	1000.00	ACUITE AA Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	INE457A08068	Basel III Tier II Bonds	14-12-2020	7.75	Not Applicable	200.70	ACUITE AA+ Stable Upgraded (from ACUITE AA)
Not Applicable	INE457A08076	Basel III Tier II Bonds	11-02-2021	8	Not Applicable	205.00	ACUITE AA+ Stable Upgraded (from ACUITE AA)
Not Applicable	INE457A08084	Basel III Tier II Bonds	23-03-2021	8	Not Applicable	100.00	ACUITE AA+ Stable Upgraded (from ACUITE AA)
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	Not Applicable	Proposed Basel III compliant Tier II Bonds	Not Applicable	Not Applicable	Not Applicable	494.30	ACUITE AA+ Stable Upgraded (from ACUITE AA)
Not Applicable	Not Applicable	Proposed Basel III compliant Tier II Bonds	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE AA+ Stable Upgraded (from ACUITE AA)
Not Applicable	Not Applicable	Proposed Perpetual Additional Tier I Bonds	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE AA Stable Upgraded (from ACUITE AA-)

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About Acuité Ratings & Research

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