

Press Release
Bank of Maharashtra

December 19, 2022

Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
BOND	1000.00	ACUITE AA Stable Assigned	-
BOND	1000.00	ACUITE AA Stable Reaffirmed	-
BOND	3000.00	ACUITE AA+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	5000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

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

Acuite has reaffirmed the long-term rating to '**ACUITE AA+ (read as ACUITE double A plus)**' on the Rs. 3000.00 crore Basel III Additional Tier-II Bonds of Bank of Maharashtra. The outlook is '**Stable**'.

Rationale for the rating

The rating continues to take into account the strong ownership (Govt held 90.97 percent stake as on September 30, 2022) 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 56.27 percent as on September 30, 2022 (53.91 percent as on September 30, 2021). The bank's comfortable capitalization levels is marked by CAR and Tier I of 16.71 percent and 12.89 percent respectively as on September 2022 (CAR:14.67 percent and Tier I :11.38 percent as on September 30 ,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. Further the bank raised Rs 290 Cr AT-1 Bonds in March 2022, Rs 710 Cr AT-1 Bonds in September 2022, Rs. 2000 Cr Certificate of Deposit in October 2022, Rs 3000 Cr Certificate of Deposit in November 2022 and Rs 348 Cr Tier II bonds in December 2022 resulting in further improvement in capitalization levels. Driven by traction in credit growth in RAM segment and healthy margins, the bank has been reporting improvement in operating performance. The ratings further take into account improvement in asset quality due to lower slippages resulting in GNPA of 3.40 percent as on September 2022 (March 31, 2022: 3.94 percent). The Provision Coverage Ratio (PCR) (Including technical write-offs) stood at 96.06 percent as on September 2022 (92.38 percent as on September 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, and regional concentration in the state of Maharashtra. However, the bank is in the process of expanding their pan India presence by opening new branches. 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 2066 branches across India. Gol is a majority stakeholder with 90.97 percent stake in the bank as on September 30, 2022.

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 2066 spread across both rural and urban areas with a strong regional franchise and majority branches being in Maharashtra. As of September 30, 2022 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.

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 capitalization levels & resources profile

The support from Gol in the form of regular equity infusions aggregating to about Rs 8707 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 16.71 percent and 12.89 percent respectively as on September 2022 (CAR:14.67percent and Tier I:11.38percent as on September 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 96.06 percent (including tec write-offs) as on September 30, 2022. 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. Further the bank raised Rs 290 Cr AT-1 Bonds in March 2022, Rs 710 Cr AT-1 Bonds in September 2022, Rs. 2000 Cr Certificate of Deposit in October 2022, Rs 3000 Cr Certificate of Deposit in November 2022 and Rs 348 Cr Tier II bonds in December 2022 resulting in further improvement in capitalization levels and liquidity.

The resource profile derives strength from robust Current Account Savings Account (CASA) base at 56.27 percent as on September 30, 2022 which steadily improved from 53.91 percent as on September 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 (55.52 percent of the overall branches), the bank is able to mobilize small ticket deposits as reflected in healthy share of CASA and Term deposit Deposits has shown growth, the total deposits grew by 7.86 percent year-on-year to Rs. 1,95,849 Cr as on September 30, 2022. and CASA deposits increased by 12.58 percent year-on-year in September 2022. However the overall deposits and CASA have marginally declined from their levels as on March 31, 2022 which stood at Rs. 2,02,294 Cr & Rs. 1,17,035 Cr respectively.

Acuité believes that capital position will remain adequate in the near to medium term considering the bank's plan of raising Tier 1 capital through AT1 bonds ensuring the continuity of adequate capital position. Acuite also 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.

Improvement in asset quality & operating performance

The bank's GNPA levels have steadily improved to 3.40 percent as on September 30, 2022, from 5.56 percent as on September 30, 2021, 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. Further, the extent of the stress in the advance's portfolio has diminished in the current year, which is reflected in the low slippage ratio.

The rating continues to factor in high provision coverage (including technical write-offs) of 96.06 percent as on September 30, 2022, which provides adequate buffer to mitigate asset quality pressures in the near to medium term.

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 58.19 percent of the gross advances as on September 30, 2022. While Corporate and other advances has seen a growth of 38.56 percent 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. 987 Cr in H1FY23 (Rs 472 Cr in H1FY22). For FY2022 profit stood at Rs. 1152 Cr. as compared to Rs 550 Cr in FY2021 aided by 22 percent growth in pre- provisioning operating profits from FY2021 Rs 3,960 Cr to Rs. 4,848 Cr during FY2022. The yield on funds improved to 6.39 percent in September 2022 (September 2021: 6.32 percent), cost of funds stood at 3.25percent in H1FY23 which led to improvement in NIM to 3.41percent in H1FY23 as against 3.16percent in H1FY23.

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

Weakness

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 percent of its branch network and 69percent of its business in Maharashtra as on March 31, 2022. The high concentration 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.
- Movement in overall deposit base.
- Any sharp deterioration in capital position of the bank with capital adequacy coming closer to the regulatory minimum.

Material Covenants

None

Liquidity Position Strong

The bank's liquidity position is supported by robust deposit base. Its liquidity coverage ratio stood at 153.84 percent as on September 30, 2022 as against minimum regulatory requirement of 100percent . Further, excess SLR stood at Rs.12,172 Cr. and excess CRR stood at Rs 20.81 Cr as on September 30, 2022.

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	FY22 (Actual)	FY21 (Actual)
Interest Income	Rs. Cr.	13,019	11,869
Interest Expense	Rs.	6,975	6,971

	Cr.		
Profit After Tax (PAT)	Rs. Cr.	1,152	550
Deposits	Rs. Cr.	2,02,294	1,74,006
Net Advances	Rs. Cr.	1,31,170	1,02,405
Investments (Net)	Rs. Cr.	68,590	68,112
Capital Adequacy	(%)	16.48	14.49
Return on Average Assets (RoAA)	(%)	0.54	0.3
Gross NPA	(%)	3.94	7.23
Net NPA	(%)	0.97	2.48

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

None

Any other information

None

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Feb 2022	Bond	Long Term	100.00	ACUITE AA+ Stable (Upgraded from ACUITE AA Stable)
	Proposed Bond	Long Term	1000.00	ACUITE AA+ Stable (Upgraded from ACUITE AA Stable)
	Proposed Bond	Long Term	1000.00	ACUITE AA Stable (Upgraded from ACUITE AA- Stable)
	Bond	Long Term	205.00	ACUITE AA+ Stable (Upgraded from ACUITE AA Stable)
	Proposed Bond	Long Term	1000.00	ACUITE AA+ Stable (Assigned)
	Proposed Bond	Long Term	494.30	ACUITE AA+ Stable (Upgraded from ACUITE AA Stable)
	Bond	Long Term	200.70	ACUITE AA+ Stable (Upgraded from ACUITE AA Stable)

23 Sep 2021	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)
	Proposed Bond	Long Term	494.30	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	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE457A08100	Basel III AT1 Bonds	Mar 24 2022 12:00AM	8.75	Not Applicable	Highly Complex	290.00	ACUITE AA Stable Reaffirmed
Not Applicable	INE457A08118	Basel III AT1 Bonds	Sep 8 2022 12:00AM	8.74	Not Applicable	Highly Complex	710.00	ACUITE AA Stable Reaffirmed
Not Applicable	INE457A08068	Basel III Tier II Bonds	Dec 14 2020 12:00AM	7.75	Dec 13 2030 12:00AM	Highly Complex	200.70	ACUITE AA+ Stable Reaffirmed
Not Applicable	INE457A08076	Basel III Tier II Bonds	Feb 11 2021 12:00AM	8	Feb 11 2031 12:00AM	Highly Complex	205.00	ACUITE AA+ Stable Reaffirmed
Not Applicable	INE457A08084	Basel III Tier II Bonds	Mar 23 2021 12:00AM	8	Mar 23 2031 12:00AM	Highly Complex	100.00	ACUITE AA+ Stable Reaffirmed
Not Applicable	INE457A08126	Basel III Tier II Bonds	Dec 7 2022 12:00AM	8	Dec 7 2032 12:00AM	Highly Complex	348.00	ACUITE AA+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Basel III compliant Tier II Bonds	Not Applicable	Not Applicable	Not Applicable	Highly Complex	1000.00	ACUITE AA+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Basel III compliant Tier II Bonds	Not Applicable	Not Applicable	Not Applicable	Highly Complex	146.30	ACUITE AA+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Basel III compliant Tier II Bonds	Not Applicable	Not Applicable	Not Applicable	Highly Complex	1000.00	ACUITE AA+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Perpetual Additional Tier I Bonds	Not Applicable	Not Applicable	Not Applicable	Highly Complex	1000.00	ACUITE AA Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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