

Press Release

Bank of India

January 18, 2021

Rating Assigned



Total Facilities Rated	Rs.1500.00 Cr.
Proposed BASEL III Compliant Additional Tier-I Bonds	ACUITE AA/Stable (Assigned)

Rating Rationale

Acuite has assigned the long term rating of 'ACUITE AA' (read as ACUITE double A) on the Rs.1500.00 Cr Proposed Basel III Additional Tier-I Bond Programme of Bank of India (BoI). The outlook is '**Stable**'.

The rating takes into account the bank's strong ownership and the demonstrated capital support from the Government of India, its large franchise with pan India presence and its solid retail liability profile. The rating also factors in the expected improvement in BoI's earnings profile through increased focus on higher yielding retail and MSME loans. However, these strengths are partly offset by the uncertainty on asset quality improvement in the near term with the gross NPA levels continuing to be high at 14.78% as on March 2020.

For Additional Tier-I (AT1) bond ratings in banks, Acuite has considered 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 Bank

Mumbai based Bank of India (BoI) was founded in 1906 and nationalised in 1969. The bank is engaged in retail banking, corporate/wholesale banking, priority sector banking, treasury operations and other banking services. The bank operates through a network of 5083 branches across India and 23 overseas branches across 18 countries as on September 30,2020. Of the total domestic branches, 36% are located in rural areas, 29% in semi-urban and balance 35% in urban and metro areas. GoI is a majority stakeholder with 89.10% stake in the bank as on September 30,2020.

Analytical Approach

Acuite has adopted the standalone approach while assessing the business and financial risk profile of the Bank of India. 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**

BoI 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 5083 branches spread across India and 23 overseas branches spread across 18 countries. Of the total domestic branches, 36% are located in rural areas, 29% in semi-urban and balance 35% in urban and metro areas. The Government holds 89.10% stake in the bank and has demonstrated its support to the bank through a regular equity infusion of funds in the past, underlining its strategic importance in furthering the objective of financial inclusion.

In FY2018, the bank was placed within the purview of Prompt Corrective Action (PCA) framework by RBI due to a significant deterioration in its key operating metrics. GoI has infused an aggregate equity amount of about Rs.27,944 Cr in the bank since FY2017, helping it to make adequate provisions against stressed assets while attaining a stable capital position and emerge out of PCA framework in FY2019.

Acuite believes that the Gov will continue to provide significant support to large public sector banks like Bol, which plays a critical role in penetration of financial services and social development. Nonetheless, any material dilution in stake by the Government as part of the divestment programme will be a key monitorable.

- **Stable retail liability franchise**

Bol has a pan India presence as reflected by its vast network of 5083 branches and 23 overseas branches across 18 countries. Of the total domestic branches, Bol has 65 percent of its branches in the rural and semi urban regions, which facilitates the mobilisation of small ticket deposits. Retail deposits account for 82 percent of the total deposits as on September 30, 2020. On the strength of the extensive branch network, the retail deposits increased to Rs.324086 Cr. as on September 30, 2020 from Rs.286085 Cr. as on March 31, 2018. The bank has benefitted from a strong Current Account Saving Account (CASA) base, which accounted for 39.49 percent of the total domestic deposits as on September 30, 2020 (41.5 percent as on March 31, 2020). This compares favorably with its peers among mid-sized public sector banks. Despite a significant reduction in deposit rates, including savings rates, the total deposits grew by 12.2 percent and low cost deposits increased by 4.6 percent in six months ended FY2021. This was partly also contributed by the increased risks perceived by depositors in the smaller private sector and cooperative banks.

Acuite expects Bank of India 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.

- **Partial recovery in profitability**

Acuite also takes note of improving profitability of the bank as reflected in Return on Average Assets (ROAA) of negative 0.46 percent as on March 31, 2020 as against negative 0.98 percent as on March 31, 2018. This is on account of improving operational performance as depicted by steady rise in NIM to 3.12 percent as on March 31, 2020, from 2.43 percent as on March 31, 2018, partially offset by higher credit costs. Furthermore, Bol turned profitable, reporting Profit After Tax (PAT) of Rs.1,369 Cr. in H1FY2020 supported by high treasury income and low credit costs.

Weaknesses

- **Moderate Asset Quality**

Asset quality will remain a concern for the bank given the past legacy and expected increase in credit costs as a result of COVID-19 pandemic.

The bank's GNPA levels nonetheless, have steadily improved over the past few years to 13.79 percent as on September 30, 2020 from 16.58 percent as on March 31, 2018 primarily due to an aggressive write off and provisioning policy, coupled with moderate recoveries. Moreover, fresh slippages dropped to 4.8% of opening net advances in FY2020 from 7.0% in FY2018 supporting overall decline in Gross NPAs. Slippages further declined to 0.37 percent in H1FY2021 on account of moratorium on asset classification.

The proportion of large corporate book declined from 42.8 percent as on March 31, 2020 to 38.2 percent as on September 30, 2020. The management's current underwriting strategy involves additional exposures to Retail, Agricultural and micro, small and medium enterprises (MSME) segments which collectively accounted for about 49.4 percent of domestic advances. As regards the NBFC (including HFC) exposure, the current exposure is 23.7 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 indicated that about 24 percent of its gross advances were under moratorium as on August 31, 2020 and post the expiry of the moratorium, the requests for restructuring under RBI asset resolution framework have been limited and the bank expects restructuring mainly from corporates segment.

While Bol 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.

Rating Sensitivity Factors

- 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 sovereign ownership and stable liability franchise. Its liquidity coverage ratio stood at 261.27% as on September 30, 2020 as against minimum regulatory requirement of 100%. Further, excess SLR stood at Rs.39,549 Cr. as on September 30, 2020.

Outlook: Stable

Acuite believes that Bank of India will maintain a 'Stable' outlook on the back of continuing support from the Government of India and its stable liability franchise. The outlook may be revised to 'Positive' in case Bank of India 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 India- Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Interest Income	Rs. Cr.	42,353	40,768
Interest Expense	Rs. Cr.	27,096	27,110
Profit After Tax (PAT)	Rs. Cr.	(2,957)	(5,547)
Deposits	Rs. Cr.	5,55,505	5,20,862
Net Advances	Rs. Cr.	3,68,883	3,41,006
Investments	Rs. Cr.	1,58,573	1,47,639
Capital Adequacy	(%)	13.52	11.86
Return on Average Assets (RoAA)	(%)	(0.47)	(0.91)
Gross NPA	Times	14.78%	15.84%
Net NPA	Times	3.88%	5.61%

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

None

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)

Not Applicable

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 Additional Tier-I Bonds	-	-	-	1500.00	ACUITE AA/Stable (Assigned)

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About Acuité Ratings & Research:

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