

Press Release

Bank of India

November 24, 2021

Rating Reaffirmed



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

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE AA**' (**read as ACUITE double A**) on the Rs.1500.00 crore Basel III Additional Tier-I Bonds of Bank of India. The outlook is '**Stable**'.

The rating reaffirmation continues to factor in Bol's strong parentage and demonstrated capital support from the Government of India. This is well reflected in the bank's healthy capitalization levels of 17.05% as on Sept. 30, 21 [Tier I CAR: 13.88%] which has also been supported by recent capital raising via QIP and Basel III issuances. The rating also takes into account an improvement in the bank's financial performance primarily led by decline by slippages and overall credit costs. The ratings continue to factor in Bol's healthy liability profile characterized by CASA mix of 43.11% as on Sept. 30, 21. Additionally, the bank's high provision cover of 87.91% as on Sept. 30, 21 provides adequate buffer against near to medium term asset quality risks.

These strengths are offset by the bank's moderate asset quality and profitability metrics. While Acuite takes cognizance of the bank turning profitable after a period of 5 years, its overall profitability characterized by ROAA continues to remain low. During Q2FY22, the bank reported ROAA of 0.28% [FY21: 0.28%]. On the asset quality front, GNPA and NNPA stood at 12.00% and 2.79% respectively. While the bank continues to have healthy provision cover, performance of restructured portfolio and assets in softer buckets continues to be critical. Assets in SMA stood at Rs. 30,945 Cr. (collectively accounting for 7.39% of gross advances) while restructured assets stood at Rs.21,275 Cr. (5.62 percent of standard advances) as on September 30,2021. Going forward, bank's ability to maintain upward trajectory in the overall financial performance as well contain asset quality risks will be key monitorables.

For AT1 bond ratings, Acuité 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 (Bol) 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 5084 branches across India and 23 overseas branches across 18 countries as on September 30,2021. Of the total domestic branches, 36% are located in rural areas, 29% in semi-urban and balance 35% in urban and metro areas. Gol is a majority stakeholder with 81.40 % stake in the bank as on September 30,2021.

Analytical Approach

Acuité 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**

Bol 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 5084 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. As on Sept. 30, 21, the Government held 81.40 % stake in the bank and has demonstrated its proactive support to the bank through regular equity infusion underlining the strategic importance of the bank in furthering the objective of financial inclusion.

During FY21, GoI infused Rs.3000 crore into the bank resulting in the bank achieving capitalisation levels of 14.93% [P.Y.: 13.10%]. Continued GoI support, turnaround in financial performance and ability to raise capital via market route has further augmented the bank's capitalisation position. As on Sept. 30, 2021, the bank reported CAR of 17.05% with Tier I CAR of 13.88%. Acuité believes that the GoI will continue to provide significant support to large public sector banks like Bol which plays critical role in penetration of financial services and social development.

- **Stable liability franchise**

Bol has significant presence in semi urban and rural areas (64 percent of the overall branches) which facilitates mobilisation of small ticket/ CASA deposits. 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 41.27 percent as on March 31, 2021 and to further 43.11% as on Sept. 30, 21 aided by steady accretion of savings deposits coupled with a considerable reduction of bulk deposits over this period. The total deposits base of the bank grew by 13.61 percent year-on-year while CASA deposits increased by 17.5 percent year-on-year at the end of FY2021.

Acuité 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.

- **Improvement in Financial Performance**

The bank turned profitable during FY2021 after 5 years of losses, reporting profits (Profits After Tax) of Rs.2,160 Cr. as against losses of Rs.2,957 Cr. during FY2020. This improvement was majorly on account of rise in other income, reduction in overall slippages and associated credit costs. During FY21, NPA provisions reduced to Rs.6613 crore vis a vis Rs.14415 crore in the previous year. While operating profits of the bank have declined during FY21, the same has been on account of certain one-time expenses. Profitability during H1FY22 continues to be supported by other income and lower credit provisions. During H1FY22, the bank reported profits of Rs.1771 crore [H1FY21: Rs.1369 crore].

Acuité believes that the ability of the bank to maintain upward trajectory in the overall financial performance will be key monitorable.

Weaknesses

- **Moderate Asset Quality & Profitability**

Over the last few quarters, the bank's asset quality has been improving led by falling slippages and higher recoveries/ write-offs. While the bank's GNPA levels have steadily improved to 12.00 percent as on September 30, 2021 from 14.78 percent as on March 31, 2020, the NPA levels continue to be on higher side. While the bank continues to have healthy provision cover, performance of restructured portfolio and assets in softer buckets continues to be important. Assets in SMA portfolio stood at Rs.30,945 Cr. respectively (collectively accounting for 7.39% of gross advances) while restructured assets stood at Rs.21,275 Cr. (5.62 percent of standard advances) as on September 30, 2021.

Acuite takes cognizance of the bank turning profitable after a period of 5 years, its overall profitability characterized by ROAA continues to remain low. During Q2FY22, the bank reported ROAA of 0.28% [FY21: 0.28%]. While Acuité does not expect the bank to witness any major surge in delinquencies in the near to medium term, bank's ability to maintain upward trajectory in the overall financial performance as a well contain asset quality risks will be key monitorables.

- **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 and 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 India 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 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. The bank has taken initiatives and programmes for improvement of business ethics; these include full, accurate timely and meaningful disclosures in the periodic reports required to be filed by the Bank with government and regulatory agencies. In the environmental category, the bank has financing products or services that help develop clean or renewable energy. Further in the social category, the bank continues to take initiatives towards career development of its employees by bridging the skill gap and imparting training through its 7 training colleges. The bank has recognised the importance of data privacy and has taken several initiatives towards it; it has put in place Captive Security Operation Centre (SOC) at Data Center and has also employed information security tools for Real-time monitoring of Information Security breach attempts / incidents / events on 24x7 basis. Some of the programmes of the bank under Corporate Social Responsibility (CSR) include engagement in Swachh Bharat Abhiyan, Beti Bachao Beti Padhao Abhiyan, rural socioeconomic development and health care to poor and underprivileged.

Rating Sensitivity

- Continued ownership & support from GoI
- Movement in asset quality and profitability metrics

- Movement in capitalization adequacy levels

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 254.70% as on June 30, 2021 as against minimum regulatory requirement of 100%. Excess SLR stood at Rs.28,495 Cr. as on June 30, 2021 comprising 4.57 % of total net deposits.

Outlook: Stable

Acuite believes that Bank of India will maintain a 'Stable' outlook on the back of continuing support from the Government of India, Improved Profitability 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	FY21 (Actual)	FY20 (Actual)
Interest Income	Rs. Cr.	40,599	42,353
Interest Expense	Rs. Cr.	26,330	27,096
Profit After Tax (PAT)	Rs. Cr.	2,160	(2,957)
Deposits	Rs. Cr.	6,27,114	5,55,505
Net Advances	Rs. Cr.	3,65,687	3,68,883
Investments	Rs. Cr.	1,87,253	1,58,573
Capital Adequacy	(%)	14.93	13.10
Return on Average Assets (RoAA)	(%)	0.32	(0.47)
Gross NPA	Times	13.77%	14.78%
Net NPA	Times	3.35%	3.88%

*

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Jan-2021	Proposed BASEL III Compliant Additional Tier-I Bonds	Long Term	1500.00	ACUITE AA/Stable (Assigned)

Annexure- Details of Instruments rated

Lender Name	ISIN	Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (Rs. Cr.)	Recommended Rating
Not Applicable	INE084A08 136	BASEL III Compliant Additional Tier-I Bonds	28-01-2021	9.04%	Not Applicable	750.00	ACUITE AA/Stable (Reaffirmed)
Not Applicable	INE084A08 144	BASEL III Compliant Additional Tier-I Bonds	30-03-2021	9.30%	- Not Applicable	602.00	ACUITE AA/Stable (Reaffirmed)
Not Applicable	Not Applicable	Proposed BASEL III Compliant Additional Tier-I Bonds	Not Applicable	Not Applicable	Not Applicable	148.00	ACUITE AA/Stable (Reaffirmed)
						1,500.00	

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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 8,850 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 Kanjurmarg, Mumbai.

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