

Press Release

Bank of India

November 22, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
BOND	1500.00	ACUITE AA Positive Reaffirmed Stable to Positive	-
Total Outstanding Quantum (Rs. Cr)	1500.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 has been revised to **Positive** from **Stable**.

Rationale for the rating

The revision in outlook is on account of improvement in profitability metrics, capital position and credit growth. The bank’s NIM improved from 2.42% as on H1FY22 to 3.04% as on H1FY23 further the PAT increased to Rs 3,405 Cr in FY2022 as compared to Rs 2,160 Cr in FY2021. For H1FY23, the PAT stood at Rs 1,521 Cr supported by healthy operational performance and lower provisions. The bank’s CRAR improved from 14.93% in FY2021 to 16.51% in FY2022. The revision also factors in credit growth predominantly in RAM segment in FY2022 (8.73% growth YOY), the bank has been reporting improvement in operational performance.

The rating 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 15.51% as on Sept. 30, 22 [Tier I CAR: 13.38%]. 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 44.12% as on Sept. 30, 22. Additionally, the bank’s high provision cover of 88.96% as on Sept. 30, 22 provides adequate buffer against near to medium term asset quality risks.

These strengths are offset by the bank’s modest albeit improving asset quality. The bank’s GNPA and NNPA stood at 8.51% and 1.92% respectively as on Sept. 30, 2022. 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. 37,778.57 Cr. (collectively accounting for 7.65% of gross advances) while restructured assets stood at Rs.14,167 Cr. (3.14 percent of standard advances) as on September 30,2022. Going forward, bank’s ability to maintain upward trajectory in the overall financial performance as a well contain asset quality risks will be key monitorables.

For AT1 bond ratings, 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 company

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 5101 branches across India and 21 overseas branches across 18 countries as on September 30,2022. 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 81.41 % stake in the bank as on September 30,2022.

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

Strength

- **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 Gol in FY19-20. The bank operates through an extensive network of 5101 branches spread across India and 21 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, 22, 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. The Bank received capital support aggregating to Rs. 29,794 crore over FY17- FY21 (Rs. 2,838 crore in FY17, Rs. 9,232 crore in FY18, Rs. 14,724 crore in FY19 and Rs. 3,000 crore in FY2021) from Gol. Continued Gol 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, 2022, the bank reported CAR of 15.51% with Tier I CAR of 13.38%.

Acuité believes that the Gol will continue to provide significant support to large public sector banks like BoI which plays critical role in penetration of financial services and social development.

- **Stable liability franchise**

BoI 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 45.02 percent as on March 31,2022. The CASA improved 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 remained static while CASA deposits increased by 6.88 percent year-on-year at the end of FY2022.

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. 3,450 Cr. in FY2022 as compared to Rs. 2,160 Cr. in FY2021. For H1FY23, the PAT stood at Rs. 1,521 Cr. This improvement was majorly on account of rise in other income, reduction in overall slippages and associated credit costs. During FY22, NPA provisions reduced to Rs. 4,421 crore vis a vis Rs. 8,712 crore in the previous year. While operating profits of the bank have declined during FY22, the same has been on account of certain one-time expenses. Profitability during H1FY23 continues to be supported by other income and lower credit provisions. During H1FY23, the bank reported profits of Rs. 1,521 crore [H1FY22: Rs.1,771 crore]. Acuité believes that the ability of the bank to maintain upward trajectory in the overall financial performance will be key monitorable.

Weakness

- **Moderate Asset Quality**

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 8.51 percent as on September 30, 2022 as compared to 12.00 percent. 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 stood at Rs. 37,778.57 Cr. (collectively accounting for 7.65% of gross advances) while restructured assets stood at Rs.14,167 Cr. (3.14 percent of standard advances) as on September 30,2022.

Acuite takes cognizance of the bank turning profitable after a period of 5 years, during Q2FY23, the bank reported ROAA of 0.47% for Q2FY23. 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 under privileged.

Rating Sensitivity

- Continued ownership & support from Gol
- Movement in asset quality and profitability metrics
- Movement in capitalization adequacy levels

Material Covenants

Not Applicable

Liquidity Position

Adequate

The bank's liquidity position is supported by sovereign ownership and stable liability franchise. Its liquidity coverage ratio stood at 212.83 % as on March 31, 2022 as against minimum regulatory requirement of 100%.

Outlook - Positive

The rating will be upgraded if the bank is able to demonstrate a sustained and higher than expected improvement in profitability and asset quality. The outlook may be revised to 'Stable' in case the bank faces challenges in maintaining asset quality, profitability and capital adequacy parameters or there is significant divestment in Gol ownership.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Interest Income	Rs. Cr.	38,076	40,599
Interest Expense	Rs. Cr.	24,014	26,330
Profit After Tax (PAT)	Rs. Cr.	3,405	2,160
Deposits	Rs. Cr.	6,27,896	6,27,114
Net Advances	Rs. Cr.	4,20,842	3,65,687
Investments	Rs. Cr.	1,74,448	1,87,253
Capital Adequacy	(%)	16.51	14.93
Return on Average Assets (RoAA)	(%)	0.47	0.32
Gross NPA	(%)	9.98	13.77%
Net NPA	(%)	2.34	3.35%

*Total income equals to Net Interest Income plus other income.

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>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.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
24 Nov 2021	Perpetual Additional Tier I Bonds	Long Term	602.00	ACUITE AA Stable (Reaffirmed)
	Proposed Perpetual Additional Tier I Bonds	Long Term	148.00	ACUITE AA Stable (Reaffirmed)
	Perpetual Additional Tier I Bonds	Long Term	750.00	ACUITE AA Stable (Reaffirmed)
18 Jan 2021	Proposed Bond	Long Term	1500.00	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	INE084A08136	Basel III AT1 Bonds	Jan 28 2021 12:00AM	9.04	Not Applicable	Highly Complex	750.00	ACUITE AA Positive Reaffirmed Stable to Positive
Not Applicable	INE084A08144	Basel III AT1 Bonds	Mar 30 2021 12:00AM	9.30	Not Applicable	Highly Complex	602.00	ACUITE AA Positive Reaffirmed Stable to Positive
Not Applicable	Not Applicable	Proposed Perpetual Additional Tier I Bonds	Not Applicable	Not Applicable	Not Applicable	Highly Complex	148.00	ACUITE AA Positive Reaffirmed Stable to Positive

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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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