

February 26, 2020

Bank of Maharashtra: Ratings reaffirmed, and outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel II Compliant Lower Tier II Bonds Programme	1,000.00	1,000.00	[ICRA]A+ (Positive); Rating reaffirmed and outlook revised to Positive from Stable
Basel II Compliant Upper Tier II Bonds Programme	400.00	400.00	[ICRA]A (Positive); Rating reaffirmed and outlook revised to Positive from Stable
Basel II Compliant Innovative Perpetual Debt 70.00 Instrument		70.00	[ICRA]A (Positive); Rating reaffirmed and outlook revised to Positive from Stable
Basel III Compliant Tier II Bonds Programme	1,000.00	1,000.00	[ICRA]A+ (hyb) (Positive); Rating reaffirmed and outlook revised to Positive from Stable
Basel III Compliant Tier II Bonds Programme	-	600.00	[ICRA]A+ (hyb) (Positive); Assigned
Basel II Compliant Lower Tier II Bonds Programme	130.00	0.00	[ICRA]A+ (Positive); Outlook revised to Positive and rating withdrawn
Total	2,600.00	3,070.00	

*Instrument details are provided in Annexure-1

The letters 'hyb', in parenthesis, suffixed to a rating symbol stand for hybrid, indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features. Such features may translate into higher levels of rating transition and loss severity vis-à-vis conventional debt instruments. The rated Tier II bonds under Basel III are expected to absorb losses once the point of non-viability (PONV) trigger is invoked.

Rationale

The rating reaffirmation considers the majority sovereign ownership of Bank of Maharashtra (BoM) and the above-average resource profile, supported by an established retail network with a strong presence in Maharashtra. Moreover, the steady resource profile aids healthy traction in low-cost current account and savings account (CASA) deposits, which translates into a granular deposit base and low cost of funds.

The revision in the outlook factors in the expectations of an improvement in the bank's financial profile, with an improvement in its solvency levels (net non-performing assets (NNPA)/core equity), and the limited equity capital requirement to support growth and maintain capital cushions over the regulatory levels. Supported by a sizeable capital infusion of Rs. 4,703 crore by the Government of India (GoI) in FY2019, BoM increased the provision cover on its stressed assets, reduced its NNPA's and improved its capital ratios to exit the prompt corrective action (PCA) framework of the Reserve Bank of India (RBI). Subsequently, the bank reported an improved but weak profitability with a return on assets (RoA) of 0.27% (annualised) in 9M FY2020, while maintaining the financial parameters below the PCA thresholds.

In ICRA's view, for a 7-9% growth in risk-weighted assets (RWAs) in FY2020 and a 50-bps cushion over the regulatory capital requirements, BoM's capital requirements are expected to remain limited at 5-8% of the current market capitalisation. With expectations of further improvement in the profitability going forward, ICRA expects the bank's solvency profile to continue to improve. Moreover, BoM will be able to maintain its capital ratios above the regulatory levels.

The ratings, however, remain constrained by the weak asset quality profile with NNPA's of 5.46% of advances, the weak solvency profile of 60.17% as on December 31, 2019 and the continued high fresh slippage rate of 6.4% of standard advances (annualised) in 9M FY2020 although this was lower than 7.5% in FY2019. Despite the high slippages, the SMA¹ 1 and SMA2 advances remained elevated at 3.7% and 2.4% of the standard advances as on December 31, 2019 compared to 3.2% and 2.2%, respectively, as on March 31, 2019. Accordingly, ICRA expects the slippages to remain high at 3.0-3.5% during FY2021 as well, though the same will be lower than the estimated level of 5.0-5.5% for FY2020. As a result, BoM's credit provisions will remain elevated, thereby remaining a drag on its earnings profile.

Key rating drivers and their description

Credit strengths

Sovereign ownership – BoM has a majority sovereign ownership with the GoI holding an equity stake of 92.49% as on December 31, 2019. The bank has received regular capital support from the GoI in the past with infusions of Rs. 300 crore in FY2017, Rs. 3,173 crore in FY2018 and Rs. 4,703 crore in FY2019. This helped the bank to provide adequately against stressed assets, while improving its capital ratios above the regulatory levels, and to exit the RBI's PCA framework in January 2019. Given its improved capital position, the bank has not received any capital from the GoI in FY2020 and the GoI has not budgeted any capital infusion into public sector banks (PSBs) for FY2021. However, as per ICRA's estimates, BoM's capital requirements are likely to remain limited for its growth requirements. Moreover, given the expectation of improved profitability, the bank's ability to raise capital from market sources will remain a growth driver.

Above-average resource profile with strong CASA share – BoM has an established retail franchise with a strong regional presence in Maharashtra, depicted by its network of 1,832 branches (~61% located in Maharashtra) and 1,859 ATMs as on December 31, 2019. This has supported a healthy resource profile with the bank being able to maintain a steady deposit base. The bank's low-cost CASA deposits grew 7.0% YoY to Rs. 68,246 crore as on December 31, 2019 and accounted for 48.1% of the total deposit base, up from 46.9% as on December 31, 2018, and above the average CASA share for PSBs. Supported by the steady growth in the CASA deposits in addition to the limited need for raising large ticket bulk deposits (given the modest YoY credit growth as on December 31, 2019), BoM maintained a granular deposit base with the top 20 depositors accounting for 5.6% of the total deposits as of March 31, 2019 against 6.3% as on March 31, 2018. This was better than the peers and the PSB average top 20 deposit share of 9.2% as on March 31, 2019. Supported by the granular deposit base with an increased CASA share, BoM's cost of interest-bearing funds remained low at 4.82% for 9M FY2020 against 5.04% for 9M FY2019 and was better than the industry average.

¹ SMA stands for special mention account and is bucketed into three categories - SMA0 (overdue by 1-30 days), SMA1 (overdue by 31- 60 days) and SMA2 (overdue by 61-90 days)

Credit challenges

Asset quality pressure to continue in FY2021 as well – BoM continued to face asset quality pressure as depicted by the high slippage rate of 6.4% (annualised) in 9M FY2020 compared to the slippage rate of 7.5% in FY2019. While the bank continued reporting fresh slippages, cash recoveries remained muted in 9M FY2020 (7.7% of opening gross advances) due to the delay in recovery upon the resolution of a few large cases under the National Company Law Tribunal (NCLT). High slippages and limited resolutions translated into a continued high level of gross NPAs of Rs. 15,746 crore (16.77%) as on December 31, 2019 compared to Rs. 15,324 crore (16.40%) as on March 31, 2019.

Despite the increase in the stock of gross NPAs, BoM's NNPA's remained stable at Rs. 4,507 crore (5.46%) as on December 31, 2019 compared to Rs. 4,559 crore (5.52%) as on March 31, 2019, as the bank continued to maintain a high provision cover to keep its NNPA's below the PCA threshold of 6.0%. Hence, despite the high slippages, the provision coverage ratio (PCR)² remained high at 71.38% as on December 31, 2019 compared to 70.25% as on March 31, 2019.

Despite the high slippages in 9M FY2020, the bank's SMA 1 and 2 book outstanding remained sizeable at Rs. 2,926 crore (3.7% of standard advances) and Rs. 1,886 crore (2.4%), respectively, as on December 31, 2019 compared to Rs. 2,384 crore (3.2%) and Rs. 1,651 crore (2.2%), respectively, as on March 31, 2019. This, therefore, represents a potential source of slippages going forward. ICRA expects the asset quality pressure for BoM to continue in FY2021 with a slippage rate of 3.0-3.5% compared to 5.0-5.5% in FY2020. Despite the expectation of high slippages, the bank may be able to sufficiently provide for the fresh slippages and maintain its net NPA% below 6.0% going forward, supported by steady operating profitability.

Weak earnings profile, though likely to improve in FY2021 – After reporting loss-making operations during FY2017-FY2019, BoM reported a net profit in 9M FY2020. The improvement in profitability in 9M FY2020 was supported by the large capital infusion by the GoI and the aggressive provisioning by the bank in FY2019 for its stressed assets. This has resulted in a reduction in the credit provisions in 9M FY2020 to 1.83% of ATA compared to 4.54% in FY2019. While the credit provisions have reduced, these remained sizeable in relation to the operating profit of 1.65% (of ATA) in 9M FY2020. The net profitability (RoA) of 0.27% during the period was primarily supported by a treasury gain on the bond portfolio. Given the elevated level of NNPA's of 5.46% as on December 31, 2019 and the expectation of continued asset quality pressure in FY2021, ICRA expects the credit provisions to remain high in FY2021. This will translate into a modest RoA of 0.6-0.7%, though it will be better than ~0.1% in FY2020 and -3.01% in FY2019.

Modest capitalisation profile – BoM's capital metrics remained modest with CET I%, Tier I% and CRAR% of 9.44%, 9.44% and 11.21%, respectively, as on December 31, 2019 compared to 9.88%, 9.91% and 11.86%, respectively, as on March 31, 2019³. Despite the improved capital generation in 9M FY2020 and the capital raise of Rs. 132 crore via the employee stock purchase scheme (ESPS), the Tier I ratio has declined because of an increase in the RWA.

² Excluding technical write-offs (TWO)

³ Minimum regulatory CET I, Tier I and CRAR stood at 7.375%, 8.875% and 10.875%, respectively, as on March 31, 2019; with the capital conservation buffer (CCB) increasing to 2.50% from 1.875% effective March 31, 2020, the regulatory CET I, Tier I and CRAR requirements will be 8.0%, 9.5% and 11.5%, respectively, as on March 31, 2020

With an increase in the core equity capital and the steady NNPA's, the bank's solvency profile, as reflected by NNPA/core equity improved, albeit marginally, to 60.17% as on December 31, 2019 from 63.97% as on March 31, 2019 and 70.96% as on December 31, 2018.

In ICRA's view, for a 7-9% growth in RWAs in FY2020 and a 50-bps cushion over the regulatory capital requirements, BoM's capital requirements are expected to remain limited at 5-8% of the current market capitalisation. Going forward, ICRA expects BoM to continue to improve its solvency profile and maintain the capital ratios above the regulatory levels, given the expectations of further improvement in the profitability.

Liquidity position – Strong

The structural liquidity statement (SLS), as on December 31, 2019, indicates moderate cumulative mismatches with a negative cumulative mismatch of ~7.6% (as a percentage of total outflows) in the up to 1-year bucket. ICRA expects the bank's retail liability franchise to support its deposit rollover and drive liquidity. BoM's credit growth has also remained muted. As a result, it has been maintaining large excess SLR investments, with average excess SLR holdings during July-December 2019 at Rs. 13,000 crore (~9% of average net demand and time liabilities during the period). This has, in turn, supported the bank's strong liquidity coverage ratio (LCR), which stood at 216.88% as on December 31, 2019. Furthermore, the bank can avail liquidity support from the RBI (through reverse repo against excess SLR investments and the marginal standing facility) in case of urgent liquidity needs.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings if BoM is able to improve its solvency profile with NNPA/core equity of less than 60%, while maintaining capital cushions of ~50-75bps over the regulatory Tier I level (including CCBs) on a sustained basis.

Negative triggers – Given the Positive outlook, the ratings are unlikely to be downgraded. However, ICRA could revise the outlook to Stable if the bank does not maintain the capital ratios above the regulatory level (including CCBs) or if the NNPA's exceed 6.0% on a sustained basis. Additionally, the weakening of the solvency profile with NNPA/core equity exceeding 65-70% on a sustained basis will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Banks Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The ratings factor in BoM's sovereign ownership and the demonstrated track record of capital infusion by the GoI
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the standalone financials of BoM

About the company

The bank was registered in 1935 in Pune (Maharashtra) as a public limited company, named The Bank of Maharashtra Ltd., with the objective of assisting small business enterprises, traders and self-employed individuals. Subsequently, with an increasing scale of operations, it became a scheduled bank in 1944 and acquired four small banks (Bank of Konkan Ltd., Bank of Nagpur Ltd., Bharat Industrial Bank Ltd. and Banthia Bank Ltd.) to expand its operations. BoM was nationalised, along with 13 other banks, in July 1969.

As on December 31, 2019, the bank had a wide network of 1,832 branches largely spread across Maharashtra. In 9M FY2020, the bank reported a net profit of Rs. 331 crore (RoA of 0.27%) on a total asset base of Rs. 1.62 lakh crore as on December 31, 2019 compared to a net loss of Rs. 4,784 crore on a total asset base of Rs. 1.63 lakh crore as on March 31, 2019.

Key financial indicators (audited) – Bank of Maharashtra

	FY2018	FY2019	9M FY2019	9M FY2020
Net interest income	3,390	3,733	2,734	3,256
Profit before tax	-3,266	-5,129	-5,216	55
Profit after tax	-1,146	-4,784	-4,856	331
Net advances	85,797	82,666	78,692	82,618
Total assets	1,55,199	1,62,981	1,50,617	1,62,070
% CET I	8.97%	9.88%	8.93%	9.44%
% Tier I	9.01%	9.91%	8.97%	9.44%
% CRAR	11.00%	11.86%	11.05%	11.21%
% Net interest margin	2.16%	2.35%	2.38%	2.67%
% PAT / ATA	-0.73%	-3.01%	-4.23%	0.27%
% Return on net worth	-15.29%	-54.68%	-74.99%	4.90%
% Gross NPAs	19.48%	16.40%	17.31%	16.77%
% Net NPAs	11.24%	5.52%	5.91%	5.46%
% Provision coverage excl. technical write-offs	47.70%	70.25%	70.04%	71.38%
% Net NPA/ CET	131.44%	63.97%	70.96%	60.17%

Note: Amount in Rs. crore; Net worth and total assets exclude revaluation reserves

Source: BoM, ICRA research

All calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable
Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated	Current Rating (FY2020)		Chronology of Rating History for the Past 3 Years							
			Amount Outstanding	26-Feb-2020	FY2019	FY2018			FY2017			
					Mar-2019	July 2018	Apr 2018	Aug 2017	Jun 2017	Nov 2016	Feb 2016	
1	Basel II Compliant Lower Tier II Bonds	Long Term	1,000	1,000	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)
2	Basel II Compliant Lower Tier II Bonds	Long Term	130	0	[ICRA]A+ (Positive); Withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)
3	Basel II Compliant Upper Tier II Bonds	Long Term	400	400	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)
4	Basel II Compliant Innovative Perpetual Debt Instrument	Long Term	70	70	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)
5	Basel III Compliant Tier II Bonds Programme	Long Term	1,000	500 (Balance yet to be placed)	[ICRA]A+(hyb) (Positive)	[ICRA]A+(hyb) (Stable)	[ICRA]A+(hyb) (Negative)	[ICRA]AA- (hyb) (Negative)	[ICRA]AA- (hyb) (Negative)	[ICRA]AA- (hyb) (Negative)	[ICRA]AA(hyb) (Negative)	[ICRA]AA(hyb) (Stable)
6	Basel III Compliant Tier II Bonds Programme	Long Term	600	0 (Yet to be placed)	[ICRA]A+(hyb) (Positive); Assigned	-	-	-	-	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE457A09140	Basel II - Lower Tier II Bonds	30-Sep-2009	8.74%	30-Apr-2019	130.00	[ICRA]A+ (Positive); Withdrawn
INE457A09199	Basel II - Lower Tier II Bonds	31-Dec-2012	9.00%	31-Dec-2022	1,000.00	[ICRA]A+(Positive)
INE457A09157*	Basel II - Upper Tier II bonds	30-Sep-2009	8.95%	30-Sep-2024	100.00	[ICRA]A (Positive)
INE457A09173*	Basel II - Upper Tier II bonds	01-Feb-2010	8.65%	01-Feb-2025	300.00	[ICRA]A (Positive)
INE457A09165*	Basel II - Innovative Perpetual Debt Instrument	30-Sep-2009	9.25%	Perpetual	70.00	[ICRA]A (Positive)
INE457A08035	Basel III - Tier II Bonds	27-Jun-2016	9.20%	27-Sep-2026	500.00	[ICRA]A+ (hyb) (Positive)
-	Basel III - Tier II Bonds Programme	-	-	-	1,100.00 [^]	[ICRA]A+ (hyb)(Positive)

[^]Yet to be issued

*the bank has redeemed these bonds by exercising call option. The ratings on these will be withdrawn as part of the next rating exercise

Source: BoM

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