April 29, 2021

Bank of India: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Deposit Programme	-	-	MAA+(Stable); Reaffirmed
Total	**-**	**-**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in the sovereign ownership of Bank of India (BoI) and the continued support from the Government of India (GoI) in the form of regular capital support. Including the recent infusion of Rs. 3,000-crore equity capital in FY2021, the GoI has infused a total capital of Rs. 29,794 crore during FY2017-FY2021. Supported by large capital infusions and high provisions on stressed assets, the bank's solvency levels have improved steadily with the proforma net non-performing advances (NPAs) declining to 3.73% as on December 31, 2020 from 5.97% as on December 31, 2019. The net stressed assets including net security receipts and net non-performing investments now stand reduced to 51% of the core equity capital compared to 65% as on December 31, 2019. Further, the rating takes into account the strong resource profile of BoI on the back of a robust retail franchise, including a satisfactory share of low-cost current account and savings account (CASA) deposits, which translates into a granular deposit base and competitive cost of funds.

Despite the Covid-19 pandemic-induced stress on the asset quality, the gross fresh slippages on a proforma basis[1] stood at 2.5% of standard advances in 9M FY2021 (5.1% in FY2020) supported by various regulatory measures. The bank has guided towards Covid-19 restructuring of 1.73% of standard advances. Including the loan book restructured earlier, the overall standard restructured book for the bank is estimated at 4.03% of standard advances. Given the asset quality stress in the past, BoI has incrementally focused on fresh loan sanctions to government-owned entities/government-guaranteed exposures and better rated non-banks and housing finance companies, which has also reduced the capital consumption. However, with the resurgence of Covid-19 cases, the asset quality pressure for lenders, including BoI, is expected to remain high. Nevertheless, the high level of provision on stressed assets and improved solvency and capital position should provide better loss-absorption cushions to the bank even as internal capital generation could remain under pressure.

The Stable outlook on the rating factors in BoI's sovereign ownership and ICRA's expectation that the bank's capital requirements for regulatory requirement will remain limited and that it will maintain its solvency levels above the negative rating triggers.

---

[1] *Including slippages in the absence of a standstill on asset quality directed by the Hon'ble Supreme Court of India*

Key rating drivers and their description

Credit strengths

Sovereign ownership – BoI has a majority sovereign ownership with the GoI holding an equity stake of 89.10% as on December 31, 2020, which is estimated to further increase to 90.34% following the capital infusion of Rs. 3,000 crore from the GoI in March 2021. BoI is the sixth largest public sector bank (PSB) in terms of asset base as on December 31, 2020 and has received regular capital support from the GoI. It received Rs. 2,838 crore in FY2017, Rs. 9,232 crore in FY2018, Rs. 14,724 crore in FY2019 and Rs. 3,000 crore in FY2021, thereby totalling Rs. 29,794 crore over FY2017-FY2021. Supported by a large capital infusion in FY2019, BoI exited the prompt corrective action (PCA) framework of the Reserve Bank of India (RBI) in January 2019 with improvement in the provision coverage ratio (PCR) thereafter.

Regulatory capital requirement likely to remain limited as capital position and solvency position is likely to improve – The CET I and Tier I ratios, including the Rs. 3,000-crore capital infusion by the GoI in March 2021 and the Additional Tier – I (AT-I) bonds of Rs. 1,352 crore raised in Q4 FY2021, are estimated at 10.44% and 10.89%, respectively, as on December 31, 2020 (9.44% and 9.44%, respectively, reported by the bank). Additionally, despite a YoY growth of 9.52% in net advances as on December 31, 2020, the risk-weighted assets degrew by 0.49% on account of incremental lending towards higher rated entities, government and government-guaranteed exposures, resulting in a lower risk-weighted density of assets, which, in turn, supported the bank's capital ratios. Further, the increase in the PCR (including write-offs) to 84.8% (inclusive of proforma NPA) as on December 31, 2020 (77.2% as on December 31, 2019) resulted in a decline in the net NPA to 3.73% (proforma) as December 31, 2020 (5.97% as on December 31, 2019). Accordingly, the overall solvency[2] levels improved to 51% as on December 31, 2020 (65% as on December 31, 2019). Going forward, ICRA expects the regulatory capital requirements for the bank to remain limited, though it may raise capital for growth requirements as internal capital generation is likely to remain weak in FY2021. Moreover, the increased uncertainty regarding the asset quality because of the second wave of Covid-19 could also pose a challenge for internal capital generation in FY2022.

Strong liability profile – BoI's domestic deposit base grew at 18.24% on a YoY basis to Rs. 5.36 lakh crore and the overseas deposit base grew at 10.23% on a YoY basis to Rs. 75,708 crore as on December 31, 2020. This resulted in a strong total deposit base growth of 17.2% on a YoY basis. The growth in the domestic deposit base was higher than the banking sector average of ~11% and was driven by the strong growth in saving deposits as well as bulk deposits. BoI continues to derive strength from its granular deposit base, which is supported by its network comprising 5,106 branches as on December 31, 2020. The overall depositor concentration levels for the bank remained low at 6.12% of total deposits as on December 31, 2020 (6.39% as on March 31, 2020) despite a recent increase in the share of bulk deposits. Furthermore, the share of low-cost CASA (domestic) stood at ~40% as on December 31, 2020 (~42% as on December 31, 2019), which remains in line with the PSB average. Supported by the relatively higher share of overseas deposits, BoI's cost of interest-bearing funds is competitive and stood at 4.27% for Q3 FY2021 (4.67% for FY2020) compared to the PSB average of 4.12% for Q3 FY2021 (4.93% for FY2020). The bank's credit deposit ratio stood at 60% as on December 31, 2020 as its credit growth has been muted, given the limited capital cushions. The healthy deposit growth and low credit deposit ratio also drive BoI's strong liquidity profile.

---

[2] *Solvency - Net stressed assets (including NNPAs, net non-performing investments and net security receipt) / Core equity capital*

Credit challenges

Asset quality pressure to remain high – Despite the sharp impact of the first wave of the pandemic, the overall slippages (including proforma slippages) are estimated at Rs. 6,670 crore (2.5% of standard advances) for 9M FY2021 compared to Rs. 16,329 crore or 5.1% in FY2020. The impact on the asset quality was lower because of various regulatory/policy measures such as moratorium on loan repayments for borrowers, liquidity enhancement through the Emergency Credit Line Guarantee Scheme (ECLGS) and one-time restructuring of loans. The loan book under moratorium for the bank was high at 66% in June 2020 and 33% at the exit of the moratorium period in August 2020. In addition, BoI disbursed ~Rs. 4,800 crore of ECLGS loans (7.75% of the MSME loan book) as on December 31, 2020. Further, it has guided towards Covid-19 restructuring of Rs. 6,133 crore or 1.73% of standard advances. Including the loan book restructured earlier, the overall standard restructured book for the bank is estimated at 4.03% of standard advances. BoI's collection efficiency stood at 75% for Q3 FY2021 and was much lower than other banks. Excluding proforma NPAs, the overdue book (SMA-1 and SMA-2) remains relatively high at Rs. 6,276 crore (1.77% of standard advances) as on December 31, 2020 and could remain a source of potential stress in the near to medium term. While various policy measures prevented a sharp deterioration in the asset quality in 9M FY2021, the recent surge in Covid-19 cases could keep the asset quality pressure high in the near term.

With lower slippages in 9M FY2021 and increased PCR (including technical write-offs; TWO) of 84.8% (inclusive of proforma NPA) as on December 31, 2020 (77.2% as on December 31, 2019), the net NPA declined to 3.73% as on December 31, 2020 (5.97% as on December 31, 2019). With high provisions on legacy stressed assets, the bank is likely to absorb the incremental asset quality pressure in FY2022 through its operating profits.

Credit costs expected to remain at elevated levels in the near term; return metrics to remain weak – The bank has shored up provision levels on its legacy stressed assets and the incremental ageing related credit costs on legacy NPAs are expected to remain at comparatively lower levels. However, given the expectation of incremental stress on the asset quality, the credit costs are likely to remain elevated in relation. Further, BoI's core operating profitability was weaker at 1.28% of the average total assets (ATA) for 9M FY2021 compared to the PSB average of 1.45% because of a decline in the yield on advances and spreads. As a result, despite an expected moderation in credit provisions in FY2022, the overall profitability and return metrics are likely to remain weak.

Liquidity position: Strong

BoI's liquidity profile remains strong, supported by the strength of its liabilities franchise and its sovereign ownership. As per ICRA's estimates, as on December 31, 2020, the bank held excess statutory liquidity ratio (SLR) holdings of 3.39% of total deposits, which can be utilised to avail liquidity support from the RBI (through reverse repo against excess SLR investments and the marginal standing facility mechanism) in case of urgent liquidity requirement. Furthermore, BoI's daily average liquidity coverage ratio (LCR) stood at 229% in Q3 FY2021 (161.11% for Q1 FY2021, 261.27% for Q2 FY2021), which remained well above the regulatory requirement of 100% from April 1, 2021.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive and/or upgrade the rating if the bank is able to improve its solvency profile (net stressed assets/core equity below 50%) with at least a 1% cushion for the CET I and Tier I capital ratios over the regulatory requirements on a sustainable basis. In addition, improvement in internal capital generation to support growth requirements will be a positive trigger.

Negative factors – The rating will be reassessed in case of a change in the sovereign ownership. ICRA could revise the outlook to Negative and/or downgrade the rating if the asset quality or capitalisation profile deteriorates, thereby weakening the solvency profile with net stressed assets/core equity exceeding 65-70% on a sustained basis.

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 rating factors in BoI's sovereign ownership and the demonstrated track record of capital infusion by the GoI.
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of BoI. However, in line with ICRA's limited consolidation approach, the capital requirement of the Bank of India Group's key subsidiaries/associates/joint ventures, going forward, has been factored in.

About the company

Bank of India (BoI) was incorporated in 1906 and was nationalised, along with 13 other banks, in July 1969. The GoI's stake in the bank was 89.10% as on December 31, 2020. As on December 31, 2020, the bank had a widespread network of 5,106 branches and 5,690 ATMs across India. For 9M FY2021, BoI reported a net profit of Rs. 1,910 crore on a total asset base of Rs. 7.07 lakh crore compared to a net profit of Rs. 614 crore in 9M FY2020 on a total asset base of Rs. 6.24 lakh crore.

BoI's asset quality indicators – GNPA% and NNPA% – stood at 14.56% and 3.73%, respectively, on a proforma basis as on December 31, 2020 compared to 16.32% and 5.97%, respectively, as on December 31, 2019. Its capital metrics – CET I%, Tier I% and CRAR% – stood at 9.44%, 9.44% and 12.51%, respectively, as on December 31, 2020, against 11.14%, 11.17% and 14.20%, respectively, as on December 31, 2019.

Key financial indicators (audited)

Bank of India	FY2019	FY2020	9MFY2020	9M FY2021
Net interest income (Rs. crore)	13,658	15,257	11,464	11,334
Profit before tax (Rs. crore)	(8,713)	(4,603)	887	2,973
Profit after tax (Rs. crore)	(5,547)	(2,957)	614	1,910
Loan book (Rs. crore)	341,006	368,883	336,611	368,711
Total assets (Rs. crore)	618,950	650,673	623,971	707,189
% Net interest margin / Average total assets	2.23%	2.40%	2.46%	2.23%
% Return on assets	-0.91%	-0.47%	0.13%	0.38%
% Return on net worth	-13.85%	-7.89%	2.02%	6.62%
% Tier I	10.96%	9.79%	11.14%	9.44%
% CRAR	14.05%	12.96%	14.20%	12.51%
% Gross NPA	15.86%	14.79%	16.32%	14.56%^
% Net NPA	5.61%	3.88%	5.97%	3.73%^
%Net NPA/CET	56.76%	49.28%	59.63%	48.33%^

Source: *Bank of India, ICRA research*

^ Proforma numbers including standstill slippages as directed by the Hon'ble Supreme Court

All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2022	FY2021	FY2019			FY2018	
					Apr-29- 2021	Apr-30-2020	Mar-13-2019	Jul-27-2018	Jun-13-2018	Nov-21-2017	Jun-23-2017
1	Term Deposit Programme	Medium Term	-	-	**MAA+ (Stable); Reaffirmed**	**MAA+ (Stable); Reaffirmed**	**MAA+ (stable) Outlook revised to Stable from Negative**	**MAA+ (Negative)**	**MAA+ (Negative)**	**MAA+ (Negative)**	**MAA+ (Negative) Outlook revised to Negative**

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Deposit Programme	-	-	-	-	MAA+(Stable)

Source: *Bank of India*

Annexure-2: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation approach
BOI Shareholding Limited	100%	Limited consolidation
BOI AXA Investment Managers Private Limited	51%	Limited consolidation
BOI AXA Trustee Services Private Limited	51%	Limited consolidation
BOI Merchant Bankers Limited	100%	Limited consolidation
PT Bank of India Indonesia Tbk	76%	Limited consolidation
Bank of India (Tanzania) Limited	100%	Limited consolidation
Bank of India (New Zealand) Limited	100%	Limited consolidation
Bank of India (Uganda) Limited	100%	Limited consolidation
STCI Finance Limited	29.96%	Limited consolidation
ASREC (India) Limited	26.02%	Limited consolidation
Indo Zambia Bank Limited	20%	Limited consolidation
Star Union Dai-Ichi Life Insurance Co. Limited	28.96%	Limited consolidation
Madhya Pradesh Gramin Bank	35%	Limited consolidation
Vidharbha Konkan Gramin Bank	35%	Limited consolidation
Aryavart Bank (erstwhile Gramin Bank of Aryavart)	35%	Limited consolidation

Source: *Bank of India*

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Aashay Choksey
+91 22 6114 3430
aashay.choksey@icraindia.com

Aayush Behal
+91 124 4545 300
aayush.behal@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches