

April 21, 2022

Bank of India: Rating upgraded to MAAA (Stable)

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the improvement in Bank of India's (BoI) solvency profile¹ and its capital position, driven by the capital raise of Rs. 2,550 crore via a qualified institutional placement (QIP) in August 2021, the reduction in its legacy stressed assets translating into lower ageing-related provisions, and the consequent improvement in the outlook on its profitability.

The rating continues to factor in the sovereign ownership of BoI and the continued support from the Government of India (GoI) in the form of regular capital infusions. Supported by large capital infusions and high provisions on stressed assets, the net non-performing advances (NPAs) declined to 2.7% as on December 31, 2021 from 3.4% as on March 31, 2021, resulting in an improvement in the solvency levels to 28.3% of the core equity capital as on December 31, 2021 (37.6% as on March 31, 2021). Further, the rating considers the strong resource profile of BoI on the back of its robust retail franchise, including the healthy share of low-cost current account and savings account (CASA) deposits, which translates into a granular deposit base and competitive cost of funds.

The above positives are, however, offset by the overdue loan accounts, i.e. (SMA)²-1 and SMA-2, stood at 5.7% of standard advances and the standard restructured book stood at 4.8% of standard advances as on December 31, 2021, which indicates the possible stress that could emanate from this book going forward. However, with high provisions on legacy stressed assets, ICRA expects that BoI is likely to absorb the incremental asset quality pressure through its operating profits, though the profitability indicators may remain average in the near term. ICRA also expects BoI to remain sufficiently capitalised with limited need for regulatory or growth capital requirements as it is expected to internally generate the requisite growth capital.

The Stable outlook on the rating factors in BoI's sovereign ownership and ICRA's expectation that the bank will largely be able to absorb incremental credit losses through its operating profits while continuing to improve its asset quality and solvency position and maintain sufficient capital cushion over the regulatory levels.

Key rating drivers and their description

Credit strengths

Sovereign ownership – BoI has a majority sovereign ownership with the GoI holding an equity stake of 81.4% as on December 31, 2021. BoI is the sixth largest public sector bank (PSB) in terms of the asset base as on December 31, 2021 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, amounting to Rs. 29,794 crore during FY2017-FY2021. Supported by a large capital infusion in

¹ Solvency defined as (Net NPAs + Net security receipts + Net non-performing investments) / Core capital)

² SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days. The SMA-level data is for the entire bank including exposures below Rs. 5 crore

FY2019, Bol exited the prompt corrective action (PCA) framework of the Reserve Bank of India (RBI) in January 2019 with an improvement in the provision coverage ratio (PCR) thereafter.

Going forward, as per our estimates, Bol will not require regulatory capital, though we expect the GoI to support the bank if needed. As a part of the Union Budget announcements in February 2021, the GoI had proposed the divestment of two PSBs. The rating will be reassessed in case of a change in the sovereign ownership.

Improved capitalisation and solvency profile; likely to sustain going forward – Supported by the capital raise of Rs. 2,550 crore via a QIP in August 2021 and the issuance of Tier II bonds of Rs. 1,800 crore in September 2021, the bank's capital position has improved with Tier I % and CRAR % of 13.60% and 16.66%, respectively, as on December 31, 2021 (9.44% and 12.51%, respectively, as on December 31, 2020). This was further supported by the rationalisation of the risk-weighted assets, which grew by 2.5% YoY as on December 31, 2021 against the growth of 9.0% in advances during the same period. Incremental lending towards higher rated entities and government and government-guaranteed exposures led to the lower risk-weighted density of the assets.

Accordingly, the overall solvency levels improved substantially to 28.3% as on December 31, 2021 (37.6% as on March 31, 2021 and 52.0% as on March 31, 2020). ICRA expects the same to improve further in FY2022 even without any incremental capital raise.

The GoI had infused Rs. 3,000 crore in Bol in FY2021 in the form of zero-coupon bonds (ZCBs). However, if Bol had to provide for the fair valuation of those bonds, its Tier I% and CRAR% would still remain comfortable against the regulatory requirement of 9.5% for Tier I and 11.5% for CRAR. ICRA also notes that some of the bank's subsidiaries could require capital, which has been factored into our estimates. We expect Bol to remain sufficiently capitalised with limited need for regulatory or growth capital as it is expected to internally generate the requisite growth capital. With the improved capital position and lower net NPAs, the bank's solvency profile has improved and this trend is likely to continue, given our expectations of a steady decline in the net NPAs.

Strong liability profile – Bol continues to derive strength from its granular deposit base, which is supported by its network of 5,107 branches as on March 31, 2021 with a deep presence in rural and semi-urban areas (>64% of total branches). Its liability profile has traditionally been dominated by deposits, driven by the low-cost CASA deposits, which stood above the PSB average. Despite the YoY growth of 10.7% in CASA deposits as on December 31, 2021, the overall deposit growth remained sluggish at 1.8% as the bank curtailed bulk deposits, which degrew by 53.9% during the same period. As a result, the domestic CASA share for the bank had increased to 43.62% as on December 31, 2021 from 40.07% as on December 31, 2020. While Bol has a relatively higher share of overseas deposits, which kept its cost of interest-bearing funds competitive at 3.68% for 9M FY2022 (4.18% for FY2021) compared to the PSB average of 3.78% (4.24% for FY2021), it is estimated to be competitive even in the absence of overseas deposits.

As credit growth picked up, Bol's credit-deposit ratio improved to 64.5% as on December 31, 2021 from 60.3% as on December 31, 2020, with the bank expecting further improvement to ~72-75% going forward. Bol's overall depositor concentration levels were modest compared to peers at 7.05% as on March 31, 2021 (6.39% as on March 31, 2020).

Credit challenges

Asset quality remains monitorable – Despite the challenges posed by the Covid-19 pandemic, Bol was able to control the gross slippages at Rs. 8,540 crore or 2.4% of standard advances in FY2021 (5.1% in FY2020). The favourable trend continued in 9M FY2022 as well with the bank reporting gross slippages of Rs. 7,094 crore or 2.4% of standard advances while net slippages (net of recoveries and upgrades) remained negative. Supported by the higher provision cover (PCR (including technical write-offs or TWO) of 86.9% as on December 31, 2021), the bank was able to reduce the net NPAs to 2.7% as on December 31, 2021 from 3.4% as on March 31, 2021.

Notwithstanding this, its SMA-1 and SMA-2 accounts stood high at Rs. 22,174 crore (5.7% of standard advances) and the standard restructured book stood at Rs. 18,826 crore as on December 31, 2021 (4.8% of standard advances). ICRA notes that a sizeable portion of the restructured book is under moratorium and is likely to exit the s by FY2024; hence, the performance

of this book will be ascertainable over a period. With high provisions on legacy stressed assets, ICRA expects that Bol is likely to absorb the incremental asset quality pressure in the coming years through its operating profits.

Profitability profile likely to remain average – Bol’s net interest margin (NIM) remained below the PSBs’ average mainly due to the relatively lower yields because of the excess liquidity carried by the bank, incremental lending towards higher rated entities, government and government-guaranteed exposures, and the higher share of foreign advances. Despite the lower operating costs compared to the PSBs’ average, the lower NIM remains a drag on the bank’s core operating profitability. Bol’s core operating profitability stood low at 1.12% of average total assets (ATA) in 9M FY2022 (1.21% in FY2021) compared to the PSBs’ average of 1.46% (1.87% for FY2021). As the bank has shored up the provision levels on its legacy stressed assets, incremental ageing-related credit costs on legacy NPAs are expected to remain at comparatively lower levels. Therefore, internal capital generation is likely to remain contingent upon the performance of the overdue and restructured loan book with the expectation of average operating profitability coupled with a moderation in treasury income.

Liquidity position: Strong

Bol’s liquidity profile remains strong, supported by the strength of its liabilities franchise and its sovereign ownership. As per ICRA’s estimates, the bank had excess statutory liquidity ratio (SLR) holdings of 4.0% of total deposits as on December 31, 2021, 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, Bol’s daily average liquidity coverage ratio (LCR) stood at 197% in Q3 FY2022, which remained well above the regulatory requirement of 100%.

Rating sensitivities

Positive factors – NA

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 50% 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 Bol’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 Bol. However, in line with ICRA’s limited consolidation approach, the capital requirement of the Bol 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 81.41% as on December 31, 2021. As per ICRA’s estimates, the bank had a market share of 3.7%, 4.1% and 3.8% in the total advances, deposits and assets of the Indian banking sector as on December 31, 2021. As on March 31, 2021, BoI had a widespread network of 5,107 branches and 5,551 ATMs across India.

For 9M FY2022, BoI reported a net profit of Rs. 2,798 crore on a total asset base of Rs. 7.18 lakh crore compared to a net profit of Rs. 1,910 crore in 9M FY2021 on a total asset base of Rs. 7.07 lakh crore. Bol’s asset quality indicators – GNPA% and NNPA% – stood at 10.46% and 2.66%, respectively as on December 31, 2021 compared to 14.56% and 3.73%, respectively, on a

proforma basis as on December 31, 2020. Its capital metrics – CET I%, Tier I% and CRAR% – stood at 13.16%, 13.60% and 16.66%, respectively, as on December 31, 2021, against 9.44%, 9.44% and 12.51%, respectively, as on December 31, 2020.

Key financial indicators (standalone)

Bank of India	FY2020	FY2021	9M FY2021	9M FY2022
Net interest income (Rs. crore)	15,257	14,270	11,334	10,076
Profit before tax (Rs. crore)	(4,603)	3,237	2,973	4,642
Profit after tax (Rs. crore)	(2,957)	2,160	1,910	2,798
Loan book (Rs. lakh crore)	3.68	3.66	3.69	4.03
Total assets (Rs. lakh crore)	6.50	7.20	7.07	7.18
% Net interest margin / Average total assets	2.40%	2.08%	2.23%	1.87%
% Return on assets	-0.47%	0.32%	0.38%	0.52%
% Return on net worth	-7.89%	5.09%	6.62%	8.27%
% Tier I	9.90%	11.96%	9.44%	13.60%
% CRAR	13.10%	14.93%	12.51%	16.66%
% Gross NPA	14.79%	13.79%	14.56%^	10.46%
% Net NPA	3.88%	3.35%	3.73%^	2.66%
%Net NPA/CET	49.28%	35.35%	48.33%^	26.34%

Note: All calculations are as per ICRA Research

Total assets and net worth exclude revaluation reserves

^ Proforma numbers adjusted for standstill on slippages as directed by the Hon'ble Supreme Court

Source: Bank of India, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2019		
					Apr-21-2022	Apr-29-2021	Apr-30-2020	Mar-13-2019	Jul-27-2018	Jun-13-2018
1	Term Deposit Programme	Medium Term	-	-	MAAA (Stable)	MAA+ (Stable)	MAA+ (Stable)	MAA+ (Stable)	MAA+ (Negative)	MAA+ (Negative)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Deposit Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's 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
NA	Term Deposit Programme	-	-	-	-	MAAA (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	100%	Limited consolidation
BOI AXA Trustee Services Private Limited	100%	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: BoI; *As on December 31, 2021

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Branches



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