June 01, 2022

Bank of Baroda: Migration of the rating outstanding on the medium-term rating scale to the long-term rating scale

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III - Tier I Bonds	3,325.00	3,325.00	[ICRA]AA+ (Stable); outstanding
Basel III - Tier II Bonds	2,450.00	2,450.00	[ICRA]AAA (Stable); outstanding
Fixed Deposit Programme	-	-	[ICRA]AAA (Stable); migrated from MAAA (Stable)
Total	**5,775.00**	**5,775.00**	

**Instrument details are provided in Annexure-1*

Rationale

In compliance with the circular [SEBI/HO/MIRSD/MIRSD_CRADT/P/CIR/2021/594] issued by the Securities and Exchange Board of India (SEBI) on July 16, 2021 and the subsequent circular (SEBI/HO/MIRSD/MIRSD_CRADT /P/CIR/2022/43) of April 1, 2022, for standardising the rating scales used by credit rating agencies, ICRA has discontinued the medium-term rating scale which was being used to assign ratings to the fixed deposit programmes of entities.

Accordingly, ICRA has migrated the rating currently outstanding for the fixed deposits programme of Bank of Baroda (BoB) from the medium-term rating scale to the long-term rating scale. The medium-term rating scale of ICRA was a 14-point scale, while the long-term rating scale is a 20-point scale. The migration of the rating has resulted in a change in the rating symbol; however, this is to be construed only as a recalibration of the rating from one scale to another and not as a reflection of a change in the credit risk of the fixed deposit programme.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position, rating sensitivities and key financial indicators: Click Here

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 BoB's sovereign ownership and the demonstrated track record of capital infusion by the Government of India (GoI). ICRA expects the GoI to support BoB with capital infusions, if required.
Consolidation/Standalone	The ratings are based on the standalone financial statements of BoB. However, in line with ICRA's limited consolidation approach, the capital requirements of BoB's key subsidiaries have been factored in while assessing its credit profile.

About the company

Bank of Baroda was incorporated in 1908 and nationalised in 1969, along with 13 other major commercial banks of India, by the GoI. BoB is headquartered in Vadodara while its corporate office is in Mumbai.

On September 17, 2018, the GoI announced the merger of Vijaya Bank and Dena Bank with BoB. The merger came into effect on April 01, 2019. As of March 31, 2021, the bank had 8,214 branches and 10,033 ATMs across India, of which ~60% are rural/semi-urban branches. It has an international presence spanning 96 overseas offices across 19 countries. Post-merger, BoB is the fourth largest PSB in the Indian banking sector in terms of total business (advances and deposits cumulatively as on June 30, 2021). The GoI held a 63.97% stake in the bank as on March 31, 2022.

BoB reported a net profit of Rs. 7,272 crore in FY2022 on a total asset book of Rs. 12.70 lakh crore[3]. Its gross non-performing advances (GNPA)% and net non-performing advances (NNPA)% stood at 6.61% and 1.72%, respectively, as on March 31, 2022. The regulatory capital adequacy ratio stood at 15.98% as on March 31, 2022 (CET I: 11.74% and Tier I of 13.49%).

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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[3] *Excluding revaluation reserves*

Rating history for past three years

Sr. No.	Name of Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore) ^	FY2023	FY2022		FY2021	FY2020
					June-01-2022	Nov-17-2021	Jun-30-2021	Jun-12-2020	Apr-26-2019
1	Basel III - Tier II Bonds	Long Term	2,450.0	2,450.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA(hyb) (Stable)	[ICRA]AAA(hyb) (Stable)	[ICRA]AAA(hyb) (Stable)
2	Fixed Deposits Programme	Long Term	NA	NA	[ICRA]AAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)
3	Basel III - Tier I Bonds	Long Term	3,325.0 *	2,749.0#	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-

^ Outstanding as on May 26, 2022, Call option exercised on Rs. 325-crore AT-I bonds on January 17, 2022, to be withdrawn*

 # Balance yet to be placed – Basel III - Tier I bonds of Rs. 251.00 crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Basel III Compliant Tier II Bonds	Highly Complex
Basel III Compliant AT-I Bonds	Highly Complex
Fixed 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: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE705A08037	Basel III - Tier II Bonds	Oct-30-2014	9.15%	Oct-30-2024	500.00	[ICRA]AAA (Stable)
INE705A08052	Basel III - Tier II Bonds	Feb-18-2015	8.62%	Feb-18-2025	500.00	
INE705A08078	Basel III - Tier II Bonds	Jan-22-2016	8.64%	Jan-22-2026	450.00	
INE028A08059	Basel III - Tier II Bonds	Dec-17-2013	9.73%	Dec-17-2023	1,000.00	
INE705A08094	Basel III - Tier I Bonds	Jan-17-2017	10.49%	Jan-17-2022	325.00*	[ICRA]AA+ (Stable)
INE028A08265	Basel III - Tier I Bonds	Nov-26-2021	7.95%	Nov-26-2026#	1,997.00	[ICRA]AA+ (Stable)
INE028A08273	Basel III - Tier I Bonds	Jan-31-2022	8.00%	Jan-31-2027#	752.00	[ICRA]AA+ (Stable)
Yet to be issued	Basel III - Tier I Bonds	-	-	-	251.00	[ICRA]AA+ (Stable)
NA	Fixed Deposit programme	-	-	-	-	[ICRA] AAA (Stable)

** Call option exercised on January 17, 2022, to be withdrawn*

 # First call option date; First call option after five years from issuance date

Source: *BoB*

Key features of the rated instruments

The servicing of the Basel III - Tier II bonds is not subject to any capital ratios and profitability. However, the Basel III - Tier II Bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked.

The rated Basel III Compliant Tier I Bonds (AT-I bonds) have the following loss-absorption features that make them riskier:

- Coupon payments are non-cumulative and discretionary, and the bank has full discretion at all times to cancel coupon payments. Cancellation of discretionary payments shall not be an event of default.
- Coupons can be paid out of the current year's profits. However, if the current year's profit is not sufficient or if the payment of the coupon is likely to result in a loss, the coupon payment can be made through the reserves and surpluses created through the appropriation of profits (including statutory reserves). The coupon payment is subject to the bank meeting the minimum regulatory requirements for CET I, Tier I and total capital ratios (including CCB) at all times as prescribed by the Reserve Bank of India (RBI) under the Basel III regulations.

These Tier I bonds are expected to absorb losses through the write-down mechanism at the objective prespecified trigger point fixed at the bank's CET I ratio as prescribed by the RBI, i.e. 6.125% of the total risk-weighted assets (RWAs; w.e.f. October 1, 2021) of the bank or when the PONV trigger is breached in the RBI's opinion.

Given the above distinguishing features of the AT-I bonds, ICRA has assigned a one notch lower rating on these than the rating on the Tier II instruments. The distributable reserves (DRs) that can be used for servicing the coupon, in case of inadequate profit or a loss during the year, stood at a comfortable 6.85% of RWAs as on March 31, 2022. The rating on the Tier I bonds continues to be supported by the bank's capital profile (CET I: 11.74%, Tier I: 13.49% and CRAR: 15.98% as on March 31, 2022), which is likely to remain comfortable, given the outlook on BoB's profitability and its healthy capital-raising ability.

Annexure-2: List of entities considered for consolidated analysis

Name of the entity	Ownership	Consolidation Approach
BOB Financial Solutions Limited	100.00%	Limited Consolidation
BOB Capital Markets Limited	100.00%	Limited Consolidation
Baroda Global Shared Services Limited	100.00%	Limited Consolidation
Baroda Sun Technologies Limited	100.00%	Limited Consolidation
Baroda BNP Paribas Asset Management India Private Limited	50.10%	Limited Consolidation
Baroda BNP Paribas Trustee India Private I India Limited (formerly known as Baroda Trustee India Private Limited)	50.10%	Limited Consolidation
Bank of Baroda (Botswana) Limited	100.00%	Limited Consolidation
Bank of Baroda (Guyana) Limited	100.00%	Limited Consolidation
Bank of Baroda (New Zealand) Limited	100.00%	Limited Consolidation
Bank of Baroda (Tanzania) Limited	100.00%	Limited Consolidation
Bank of Baroda (UK) Limited	100.00%	Limited Consolidation
Nainital Bank	98.57%	Limited Consolidation
Bank of Baroda (Kenya) Limited	86.70%	Limited Consolidation
Bank of Baroda (Uganda) Limited	80.00%	Limited Consolidation
India First Life Insurance Company Limited	65.00%	Limited Consolidation
India Infradebt Limited	40.99%	Limited Consolidation
India International Bank (Malaysia), Berhad	40.00%	Limited Consolidation
Baroda Uttar Pradesh Bank	35.00%	Limited Consolidation
Baroda Rajasthan Gramin Bank	35.00%	Limited Consolidation
Baroda Gujarat Gramin Bank	35.00%	Limited Consolidation
Indo-Zambia Bank Limited	20.00%	Limited Consolidation

Source: *BoB*

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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.

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