April 24, 2023 (Revised)

Bank of India: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit programme	-	-	[ICRA] AA+ (Stable); reaffirmed
Total	-	-	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation continues to factor in Bank of India's (BoI) comfortable capital position as well as the steady improvement in its solvency[1] level on the back of the declining net stressed assets level. 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 in the past, although the bank raised equity capital in FY2022. This helped shore up the capital positions further and BoI is not expected to require capital support from the GoI in the near to medium term. Further, the rating considers BoI's strong resource profile 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.

While the bank's overall potential stress book, comprising the overdue and restructured book, has seen a gradual decline from the higher level during the Covid-19 pandemic, it remains elevated in relation to the core capital. Further, the profitability has remained at sub-optimal levels so far and below the public sector bank's average. A sustained improvement will remain dependent on the bank's ability to keep slippages and credit costs at lower levels. Moreover, any material weakening in the macroeconomic conditions will be a monitorable as it could potentially impact the asset quality and profitability levels.

Key rating drivers and their description

Credit strengths

Sovereign ownership with demonstrated capital support from GoI – The rating continues to factor in the bank's majority sovereign ownership (81.41% as on December 31, 2022) and the demonstrated track record of capital infusions by the GoI of ~Rs. 29,784 crore during FY2017-FY2021. Given the meaningful capital support during the aforementioned period, the overall net non-performing advances (NNPAs) could be brought down to a much lower level while improving the overall capitalisation profile. Accordingly, BoI is not expected to require further capital in the near term although its rating will be reassessed in case of a change in the sovereign ownership.

Comfortable capitalisation levels – The bank's core equity capital (CET-I) and Tier I capital stood at 12.77% and 13.61% (excluding 9M FY2023 profits), respectively, as on December 31, 2022 (13.16% and 13.60%, respectively, as on December 31, 2021). While the capitalisation profile was supported by infusions in the past, BoI remained profitable during FY2021-9M FY2023, supporting its capital ratios despite the growth in assets. The capital ratios were further supported by the rationalisation of the risk-weighted assets, which grew by 10.3% YoY as on December 31, 2022 against the growth of 16.1.% in advances during the same period. The bank's capital position was also supported by an equity raise of Rs. 2,550 crore via a qualified institutional placement (QIP) in FY2022 and it plans to raise up to Rs. 4,500 crore via a QIP/Tier I bonds in FY2024. Better capitalisation levels, along with a decline in the net stressed levels, supported the gradual improvement in the solvency level to 17.7% as on December 31, 2022 (23.4% as on March 31, 2022, 37.6% as on March 31, 2021).

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

ICRA also notes that some of the bank's subsidiaries have required capital support in recent years and capital infusion may be required by regional rural banks in the near to medium term, which has been factored into ICRA's estimates. This is expected to remain at a manageable level. ICRA expects BoI to remain sufficiently capitalised as it is expected to internally generate the requisite growth capital.

Well-developed deposit franchise, leading to competitive cost of funds – BoI continues to derive strength from its granular deposit base, which is supported by its network of 5,139 branches as on December 31, 2022, 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 public sector banks' (PSB) average at 44.56% of total deposits as on December 31, 2022. The overall deposit growth was weak at 4.91% YoY in December 2022, which continued to lag the stronger growth in advances. The bank's deposit base remains granular, with the share of the top 20 depositors at 6.42% as on March 31, 2022 (7.05% as on March 31, 2021, 6.39% as on March 31, 2020). Going forward, ICRA expects BoI's liability profile to remain a significant positive for supporting its credit growth while maintaining strong liquidity and profitability.

Credit challenges

Asset quality remains monitorable – The annualised fresh NPA generation rate moderated to 1.73% of standard advances in 9M FY2023 from 2.50% in FY2022 (2.41% in FY2021). Further, BoI's headline asset quality metrics have improved steadily, supported by high recoveries, upgrades, and write-offs. As a result, the gross NPA (GNPA)% and NNPA% declined to 7.66% and 1.61%, respectively, as on December 31, 2022 (9.98% and 2.34%, respectively, as on March 31, 2022). Despite the improvement in the headline asset quality metrics, the overall vulnerable book [special mention account (SMA-1 + SMA-2) + standard restructured book] continues to be high in relation to its core capital. Slippages from this pool could remain elevated in the near term, leading to higher credit costs and lower profitability.

Profitability remains weaker than industry average – BoI's core operating profitability level of 1.60% of average total assets (ATA) in 9M FY2023 (1.15% in FY2022) remained below the PSBs' average of 1.77% (1.51% for FY2022). This was mainly due to the relatively lower yields because of incremental lending towards higher rated entities, the higher share of foreign advances and lower non-interest income vis-à-vis the sector average. 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. However, the performance of the vulnerable pool will be a key driver of internal capital generation.

Environmental and social risks

Given the service-oriented nature of its business, the bank's direct exposure to environmental risks is not material, though it faces asset quality risks from regulatory changes that affect its borrowers. BoI's business strategy encompasses efforts and investments towards energy conservation, carbon management, water conservation, waste reduction and reuse. The bank is guided by Reserve Bank of India (RBI)-prescribed guidelines on priority sector lending and government-led initiatives to improve the access of disadvantaged, vulnerable and marginalised stakeholders to financial services. Performance-related evaluation of various initiatives is conducted at regular intervals and the initiatives are fine-tuned based on the findings.

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, the bank had excess statutory liquidity ratio (SLR) holdings of 3.45% of total deposits as on December 31, 2022, which can be utilised to avail liquidity support from the RBI (through repo against excess SLR investments and the marginal standing facility mechanism) in case of urgent liquidity requirement. Moreover, the liquidity coverage ratio remained strong at 187.7% for Q3 FY2023, while the net stable funding ratio (NSFR) stood at 134.9%, with both remaining well above the minimum regulatory requirement of 100%.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive and/or upgrade the rating if the bank is able to enhance its profitability, with a return on assets (RoA) of >1%, coupled with an improvement in the solvency profile with net stressed assets/core equity improving to less than 20% on a sustained basis while maintaining Tier I cushions of >2% over the regulatory Tier I levels (including capital conservation buffers).

Negative factors – The rating will be reassessed in case of a change in the sovereign ownership. ICRA could also 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 30% on a sustained basis. Further, a sustained RoA of <0.3%/and/or a decline in the capital cushions over the regulatory levels to less than 1% on a sustained basis will remain negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions Impact of Parent or Group Support on an Issuer's Credit Rating Rating approach – Consolidation
Parent/Group support	The rating factors in BoI's sovereign ownership and the demonstrated track record of capital infusions 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 BoI 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, 2022. As per ICRA's estimates, BoI had a market share of 3.7% and 3.8%, respectively, in the total advances and deposits of the Indian banking sector as on December 31, 2022 and a widespread network of 5,139 branches across India.

For 9M FY2023, BoI reported a net profit of Rs. 2,673 crore on a total asset base of Rs. 7.84 lakh crore as on December 31, 2022 compared to a net profit of Rs. 2,798 crore in 9M FY2022 on a total asset base of Rs. 7.18 lakh crore as on December 31, 2021.

Key financial indicators (standalone)

Bank of India	FY2021	FY2022	9M FY2022	9M FY2023
Net interest income	14,270	14,062	10,076	14,751
Profit before tax	3,237	5,567	4,642	4,096
Profit after tax	2,160	3,405	2,798	2,673
Net advances (Rs. lakh crore)	3.66	4.20	4.03	4.76
Total assets (Rs. lakh crore)	7.20	7.28	7.18	7.84
CET-I	11.51%	13.49%	13.16%	12.77%^
Tier I	11.96%	13.92%	13.60%	13.61%^
CRAR	14.93%	16.51%	16.66%	15.60%^
Net interest margin / Average total assets	2.08%	1.94%	1.87%	2.60%
Return on assets	0.32%	0.47%	0.52%	0.47%
Return on net worth	5.09%	7.06%	8.27%	7.19%

Bank of India	FY2021	FY2022	9M FY2022	9M FY2023
% Gross NPA	13.77%	9.99%	10.46%	7.66%
% Net NPA	3.35%	2.34%	2.66%	1.61%
%Net NPA/Core capital	35.35%	23.08%	26.34%	17.58%

Note: All calculations are as per ICRA Research; ^Excluding 9M FY2023 profits
Source: Bank of India, ICRA Research
Amount in Rs. crore unless mentioned otherwise

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Apr-24-2023	Jun-08- 2022	Apr-21- 2022	Apr-29-2021	Apr-30-2020
1	**Fixed deposit programme**	Long term	-	-	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**MAAA (Stable)**	**MAA+ (Stable)**	**MAA+ (Stable)**

Complexity level of the rated instrument

Instrument	Complexity Indicator
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 I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fixed deposit programme**	-	-	-	-	[ICRA]AA+ (Stable)

Source: Bank of India

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership*	Consolidation approach
BOI Shareholding Limited	100%	Limited consolidation
BOI Star Investment Managers(Erstwhile BOI AXA)	100%	Limited consolidation
BOI Star Trustee Services (Erstwhile BOI AXA)	100%	Limited consolidation
BOI Merchant Bankers Limited	100%	Limited consolidation
PT Bank of India Indonesia Tbk	86%	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, 2022*

Corrigendum

Rationale dated April 24, 2023, has been revised with changes as below:

Addition of "Rating Approach- Consolidation" in the analytical approach section

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