Bank of Maharashtra

Instrument/Facility	Amount In INR Crores	Rating Action (October 2016)
Basel III Compliant Additional Tier I Bonds Programme	1,000	[ICRA]A (hyb) Assigned with a Negative Outlook
Lower Tier II Bonds Programme	1,150	[ICRA]AA Reaffirmed; Outlook revised to Negative from Stable
Upper Tier II Bonds Programme	450	[ICRA]AA- Reaffirmed; Outlook revised to Negative from Stable
Innovative Perpetual Debt Instrument Programme	100	[ICRA]AA- Reaffirmed; Outlook revised to Negative from Stable
Basel III Compliant Tier II Bonds Programme	1,000	[ICRA]AA (hyb) Reaffirmed; Outlook revised to Negative from Stable

ICRA has assigned the rating of [ICRA]A (hyb) with a negative outlook to the Rs. 1,000 Crore Basel III Compliant Additional Tier I Bond Issuance Programme of Bank of Maharashtra (BoM). ICRA has reaffirmed the [ICRA]AA rating for the Rs. 1,150 Crore Lower Tier II Bonds Programme, the [ICRA]AA- rating for the Rs. 450 Crore Upper Tier II Bonds Programme, the rating of [ICRA]AA- to the Rs. 100 Crore Innovative Perpetual Debt Instrument Programme and the rating of [ICRA]AA (hyb) to the Rs. 1,000 Crore Basel III Compliant Tier II Bonds Programme of the bank. The outlook on existing long term ratings have been revised to negative from stable. 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 Basel III Tier - II bonds are expected to absorb losses once "Point of Non Viability" (PONV) trigger is invoked.

The rating for the Basel III compliant tier I bonds is three notches lower than the Basel III complaint tier II bonds as these instruments have the following loss absorption features that make them riskier:

- The bank has full discretion at all times to cancel the distribution or payments and cancellation shall not be an event of default
- The minimum capital conservation ratio applicable to commercial banks may restrict the bank from servicing these tier I bonds in case the common equity tier-I falls below the limit prescribed by the RBI

These tier I bonds are expected to absorb losses through the write-down mechanism at the objective pre-specified trigger point fixed at the bank's common equity tier-I ratio as prescribed by the RBI. The ratio is 5.5% till March 2019 and thereafter 6.125% of the total risk weighted assets of the bank or when the point of non-viability" (PONV) trigger is breached in the RBI's opinion.

The revision in the outlook factors in the continued stress expected on the NPA generation in the near term and consequently the solvency indicators for the bank. There has been a sharp deterioration in the bank's asset quality indicators in the recent past with gross NPA worsening to 12.64% as of Jun-16 from 7.86% as of Jun-15 (9.34% as on Mar-16) and steep decline in profitability with the bank reporting loss of Rs 397 crore (-1.03% of ATA) during QFY17 as compared to profit of Rs 59 crore (0.17% of ATA) in Q1FY16 and Rs 101 crore (0.07% of ATA) during FY16. With restructured loans (excluding Air India and SEBs) amounting to around 3.4% of total advances as on Jun-16 and also presence of few more weak exposures that are currently classified as standard assets, the NPA generation is likely to remain high in the near term, even though it is expected to be lower than that observed in the recent quarters. With the provision cover as on Jun-16 being moderate at around 34%, the credit costs would remain high as the pace of recovery remains weak amidst challenging environment. The solvency (Net NPA in relation to Net worth) ratio of the bank has deteriorated sharply to 121% as on Jun-16 from 66% as on Jun-15 and 91% as on Mar-16.

The ratings however continue to derive comfort from the bank's ownership structure as ~82% is owned by the Government of India (GoI), the periodic capital infusions made by the GoI (which reflect a strong inclination of the parent to provide timely and adequate support), long track record and the bank's relatively healthy CASA base. The ratings are constrained by the large capital infusion requirements to meet Basel III guidelines and modest fee income profile of the bank. Going forward, the bank's ability to prevent further asset quality deterioration while growing the loan book, will remain a key rating sensitivity.

BoM's loan book has remained largely stable in the last 5-6 quarters and as on June 30, 2016 stood at Rs. 98,619 Crores (vis-à-vis Rs. 93,415 Crores as on June 30, 2015). The low bank credit demand from corporations as well as deterioration in the bank's asset quality indicators adversely impacted its ability to grow the loan book. The bank's exposure to the infrastructure sector continues to remain high at 11% as on June 30, 2016. Going forward, the management expects to grow the loan book by 10% (on a YoY basis) in FY2017 with focus mainly on retail and SME segments and corporate customers with external ratings between AA and BBB+.

The last round of equity infusion into BOM was made in Q3 FY2016 when the bank received capital of Rs. 394 Crores. The bank did not receive any capital from the latest round of capital infusion by the GoI as part of the umbrella *Indradhanush* scheme with its CRAR and Tier 1 capital at 11.53% and 8.86% respectively as on Jun-16 which are above the current regulatory levels. As per ICRA's estimates BoM would need to raise total capital of around Rs. 3,400-3,800 crore (around 105-115% of the bank'cs current capitalisation levels) during FY2017-20. The investor appetite amidst an improvement in financial performance will be crucial for the bank to raise this quantum over the medium term.

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