June 23, 2017

Bank of India

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Rating Action
Innovative Perpetual Debt Instruments	658	655	[ICRA]AA-; reaffirmed; outlook revised to negative from stable
Term Deposit Programme	-	-	MAA+; reaffirmed outlook revised to negative from stable

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the rating of [ICRA]AA- (pronounced ICRA double A minus) for the Rs. 658 crore innovative perpetual debt instruments and the rating of MAA+ (pronounced M triple A plus) for the term deposits programme of Bank of India (BOI)[1]. The outlook on the ratings has been revised to negative from stable.

Rationale

The revision in outlook to negative from stable takes into account the weak operating and financial performance of the bank during FY2017, its relatively lower capital cushion as compared to similar rated peer banks and the continued asset quality concerns and consequent high credit costs.

The rating derives comfort from the BOI's majority sovereign ownership and its strong franchise which has resulted into a healthy and stable deposits base. The ratings are, however, constrained by the continued weakness in the bank's asset quality on the back of high slippages. The bank's profitability also remained subdued in FY2017 on account of the high incremental slippages leading to a decrease in earning assets and an increase in credit costs. ICRA expects BOI's credit costs to remain elevated for the next two years on account of both incremental slippages and ageing of current NPAs. Consequently, the bank's profitability is likely to remain subdued. ICRA however takes comfort from BOI's high provision coverage ratio[2] (51.38% as on March 31, 2017 as against public sector bank (PSB) average of 43.8% and banking sector average of 44.3%). Going ahead, the bank's ability to curtail incremental slippages and demonstrate recoveries from the current pool of NPA accounts will remain a key rating consideration.

ICRA also takes into account the bank's favourable deposit profile (CASA of 39.84% as on March 31, 2017 as against 36.7% PSB average) which has resulted in a lower cost of funds. While the bank's capitalisation levels (CET-1 of 7.17%, Tier 1 of 8.90% and CRAR of 12.14% as on March 31, 2017 as against regulatory requirement including CCB of 6.75%, 8.25% and 10.25% respectively for March 2017) meet the regulatory minimum levels, they remain weaker than those of other similar rated peer banks. As per ICRA's estimates, BOI would need to raise CET of around Rs. 10,500-11,000 crore[3] (about 70-75% of its current market capitalisation) during FY2018-19 to meet the minimum regulatory capital requirements. With a Government of India (GoI) shareholding of 73.72%[4] as on March 31, 2017, the bank

[1] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.
[2] Excluding prudential and technical write-offs
[3] Assuming an RWA growth of 10% during FY2018-19 and a buffer of 0.5% over regulatory capital requirements
[4] Excluding Rs. 1,500 crore infused by the GoI in March 2017

has headroom to raise capital from non-government sources; ICRA notes that the bank's ability to raise capital from government and non-government sources will have a strong bearing on its credit growth going forward.

Key rating drivers

Credit strengths

- Standing in the Indian financial system being one of the large PSBs, with a total asset base of Rs. 6.26 lakh crore as on March 31, 2017
- Majority GoI ownership (73.72%[4] as on March 31, 2017) provides implicit sovereign support; GoI's demonstrated support by way of capital infusion (Rs. 2,838 crore in FY2017 and Rs. 3,605 crore in FY2016) imparts comfort
- Strong retail franchise with widespread branch network of over 5,000 strengthens the deposits profile (CASA of 39.84% as on March 31, 2017 as against 36.7% PSB average)

Credit weaknesses

- Significant deterioration in asset quality over the past two years, with gross NPAs increasing to 13.22% as on March 31, 2017 from 5.39% as on March 31, 2015; however, high provision coverage ratio[2] provides some comfort (51.38% as on March 31, 2017 as against PSB average of 43.8% and banking sector average of 44.3%)
- Weak profitability with net losses reported in FY2017 (PAT/ATA of -0.25%) largely on account of high credit costs
- Weak current capitalisation compared to similar rated peers; with CET-1 of 7.17%, Tier 1 of 8.90% and CRAR of 12.14% as on March 31, 2017, the bank would need to raise sizeable capital to meet the regulatory requirement under Basel III norms and for growth

Description of key rating drivers

The bank's domestic loan book stood at Rs. 285,725 crore as on March 31, 2017 as compared with Rs. 268,579 crore as on March 31, 2016, reporting a moderate growth of 6% (as compared with a degrowth of ~7% in FY2016). The slow growth was largely on account of the bank's cautious approach to incremental lending to the corporate segment and the subdued credit demand in the domestic market. With the subdued corporate credit offtake and the bank's focus on the retail segment, its retail credit growth stood at 11% in FY2017 as compared with a 7% growth in the corporate segment. As on March 31, 2017, the corporate segment constituted 51% of the bank's overall advances (51% as at March 31, 2016), retail advances constituted 15% (14% as at March 31, 2016), agriculture advances accounted for 16% (17% as on March 31, 2016) and SME advances accounted for 18% (18% as at March 31, 2016). The overseas book declined by 4% during the year, as the bank increased its focus on domestic advances following asset quality concerns in its overseas book. Consequently, despite a 6% growth in domestic advances, the bank's overall credit growth stood at 3% during FY2017.

The headline asset quality of the bank continued to be under stress, with fresh slippages remaining high during FY2017 (6.14% in FY2017 and 10.14% in FY2016). While there was an improvement in recoveries and upgradations, the bank's gross and net NPAs remained elevated at 13.22% and 6.90% respectively as on March 31, 2017 (13.07% and 7.79% respectively as on March 31, 2016). ICRA however takes comfort from the bank's high provision coverage ratio[2] (51.38% as on March 31, 2017 as against PSB average of 43.8% and banking sector average of 44.3%); this strengthens the bank's ability to absorb any significant future losses. With higher provisioning, the bank's solvency has improved, with net NPAs/net worth of 94.42% as on March 31, 2017 as compared with 114.42% as on March 31, 2016. ICRA will continue to monitor the bank's asset quality and earning profile closely, over the near to medium term. ICRA notes that given the bank's high exposure (fund based plus non-fund based) to stressed sectors such as iron and steel, power and infrastructure, which together stood at ~15% as on March 31, 2017, its ability to curtail incremental slippages and demonstrate recoveries from the current pool of NPA accounts will remain a key rating consideration.

Supported by the increase in deposits post demonetisation, the CASA ratio improved to 39.34% as on March 31, 2017 (33.90% as on March 31, 2016). The bank's CASA ratio remains higher than the PSB average of 36.7% as on March 31, 2017 which has translated into a lower cost of borrowings. The bank's deposit base is supported by its established franchise and wide branch network. As on March 31, 2017, the bank had 5,123 branches and 7,717 ATMs. Its cost of interest bearing funds stood at 4.8% in FY2017 as compared with 5.7% PSB average.

BOI's NIMs remained subdued at 1.93%[5] during FY2017 (1.95% in FY2016) on account of the subdued credit growth and decline of earning assets. While the NIMs were also impacted by the increasing share of non-corporate advances, they were supported by the bank's healthy deposit profile and lower cost of borrowings. BOI's NIMs nevertheless remained lower than the PSB average of 2.14% for FY2017. The bank's credit costs remained high leading to a significant dilution in earnings. While the bank's operating profit/ ATA stood at 1.05% in FY2017 (0.87% in FY2016), its high credit cost (credit provisions/ ATA of 1.94% in FY2017 and 2.23% in FY2016) resulted in continued net losses (PAT/ATA of -0.25% in FY2017 and -1.00% in FY2016).

Notwithstanding the regular capital infusion from the GoI (Rs. 2,838 crore in FY2017 and Rs. 3,605 crore in FY2016), the bank's capitalisation (CET-1 of 7.17%, Tier 1 of 8.90% and CRAR of 12.14% as on March 31, 2017 as against regulatory requirement including CCB of 6.75%, 8.25% and 10.25% respectively for March 2017) remained weaker than that of other similar rated peer banks. The bank's capitalisation was also supported by the Rs. 2,500 crore additional tier I bonds raised during FY2017. As per ICRA's estimates, BOI would need to raise CET of around Rs. 10,500-11,000 crore[3] (about 70-75% of its current market capitalisation) during FY2018-19 to meet the minimum regulatory capital requirements. While ICRA takes note of the demonstrated support from the GoI in the past, the limited visibility on the commitment for FY2018 remains a concern.

Analytical approach:
For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria
<u>ICRA Rating Methodology for Banks</u>

About the company
Bank of India (BOI) was incorporated in 1906 and was nationalised along with 13 other banks, in July 1969. The Government of India held a 73.72%[4] stake in the bank as on March 31, 2017. The bank has a wide spread network of 5,123 branches and 7,717 ATMs across India as on March 31, 2017. During FY2017, the bank reported a net loss of Rs. 1,558 crore on a total asset base of Rs. 6.26 lakh crore as on March 31, 2017 as against a net loss of Rs. 6,089 crore during FY2016 on a total asset base of Rs. 6.08 lakh crore as on March 31, 2016.The bank reported a capital adequacy of 12.14% with a Tier I capital of 8.90% (CET-1 of 7.17%) as on March 31, 2017.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

[5] All ratios as per ICRA calculations

Rating history for last three years:

Table:

Sr. No.	Instrument	Current Rating (FY2018)			Chronology of rating history for the past 3 years			
		Type	Rated amount (Rs. crore)	June 2017	FY2017		FY2016	FY2015
					Aug 2016	July 2016	Feb 2016	Oct 2015
1	Innovative Perpetual Debt Instruments	Long Term	658	[ICRA]AA-(negative)	[ICRA]AA-(stable)	[ICRA]AA-(stable)	[ICRA]AA-(stable); downgraded from [ICRA]AA(stable)	[ICRA]AA(stable); downgraded from [ICRA]AA+(stable)
2	Term Deposits Programme	Long Term	-	MAA+ (negative)	MAA+ (stable)	MAA+ (stable)	MAA+(stable); downgraded from MAAA(stable)	MAAA(stable)
3	Lower Tier II Bonds Programme	Long Term	-	-	-	[ICRA]AA (stable); withdrawn	[ICRA]AA(stable); downgraded from [ICRA]AA+(stable)	[ICRA]AA+(stable); downgraded from [ICRA]AAA(stable)
4	Upper Tier II Bonds Programme	Long Term	-	-	[ICRA]AA-(stable); withdrawn	[ICRA]AA-(stable)	[ICRA]AA-(stable); downgraded from [ICRA]AA(stable)	[ICRA]AA(stable); downgraded from [ICRA]AA+(stable)

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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
Innovative Perpetual Debt Instruments	Yet to be placed	Yet to be placed	Yet to be placed	3	[ICRA]AA-(negative)
Innovative Perpetual Debt Instruments	27-Jul-2007	10.55%	Perpetual (Call: 27-Jul-2017)	400	[ICRA]AA-(negative)
Innovative Perpetual Debt Instruments	27-Sep-2007	10.45%	Perpetual (Call: 27-Sep-2017)	100	[ICRA]AA-(negative)
Innovative Perpetual Debt Instruments	11-Oct-2007	10.40%	Perpetual (Call: 11-Oct-2017)	155	[ICRA]AA-(negative)
Term Deposits Programme	-	-	-	-	MAA+(negative)

Source: BOI

ICRA

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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.
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