ICRA

August 10, 2017

Bank of Maharashtra

Bank of Maharashtra (BOM) has announced its Q1FY2018 results on July 31, 2017.

Advances & Deposits: The bank's gross advances stood at Rs. 97,096 crore as on June 30, 2017 as compared with Rs.1,03,148 crore as on June 30, 2016, representing a significant de-growth of 6% on a YoY basis. The slowdown in advances followed the bank's cautious approach in lending to the corporate segment amid the high non-performing assets (NPAs); its focus on recoveries and capital preservation; and the subdued credit demand in the domestic market. Supported by the deposit inflow following demonetisation, the bank's CASA improved on a YoY basis to 44.09% as on June 30, 2017 from 38.82% as on June 30, 2016.

NIMs & NII: With high NPAs and the consequent decline in earning assets, the bank's net interest income (NII) declined by 19.86% in Q1FY2018 on a YoY basis. Consequently, the net interest margins (NIMs) declined to 1.8% of the average total assets (ATA) during Q1FY2018 from 2.3% in Q1FY2017 (2.0% during FY2017). ICRA expects the NIMs to remain under pressure with the repricing of existing floating rate loans and the lower income earning assets on account of continued slippages. ICRA also expects the bank's NII to remain under pressure both on account of the subdued credit growth and the pressure on NIMs.

Asset Quality: The bank's asset quality deteriorated further in Q1FY2018 with gross and net NPAs of 18.59% and 12.48% respectively as on June 30, 2017 in comparison with 12.64% and 8.73% as on June 30, 2016 (16.93% and 11.76% as on March 31, 2017). At 37.6% as on June 30, 2017, the bank provision coverage ratio[1] remained low. Given the current low provisioning coverage, ICRA expects the bank's credit costs to remain high over the next two years on account of both incremental slippages and ageing of current NPAs. The bank's stock of standard assets under standstill clause under various schemes for resolution of stressed assets[2] is estimated at 4.7% of net advances as on March 31, 2017; ICRA hence, expects the bank's asset quality pressures to remain elevated in the near to medium term.

Profitability: With continued increase in NPAs and the consequent decline in earning assets and high credit costs, the bank reported a loss of Rs. 412 crore in Q1FY2018 as compared with Rs. 455 crore in Q4FY2017 and Rs. 397 crore in Q1FY2017. High levels of losses have also significantly eroded the bank's distributable reserves, which can be used to service the coupon on its Additional Tier-I (AT-I) bonds. As per ICRA's estimates, BOM's distributable reserves[3] stood at ~1.9% of RWA as on June 30, 2017 as against 2.2% as on March 31, 2017. While the bank's profitability is expected to remain under pressure in the near to medium term, any further erosion of the distributable reserves will be an additional rating sensitivity for the AT-1 bonds.

Capitalisation: While the bank's capitalisation levels (CET-1 of 7.00%, Tier 1 of 8.85% and CRAR of 11.08% as on June 30, 2017 as against regulatory requirement of 6.75%, 8.25% and 10.25% respectively) meet the regulatory minimum, there is limited cushion available. The bank's solvency ratio[4] remained weak at 182% as on June 30, 2017 (182% as on March 31, 2017 and 121% as on June 30, 2016) and is also among the weakest in the industry. The deterioration in BOM's solvency profile reflects its lower ability to withstand profitability pressures, going forward. BOM's ability to resolve stressed accounts and create a capital buffer would be critical for its credit profile.

[1] Excluding prudential and technical write-offs; ~47% including prudential and technical write-offs
[2] Standard restructured, 5/25 refinancing, SDR and S4A as on March 31, 2017
[3] As per RBI guidelines revised on February 2, 2017
[4] Net NPA/Net worth

- The results continue to remain weak in line with expectations of likely losses during FY2018, which is also reflected in a negative outlook on the bank's bond programme. As highlighted earlier, the bank will require significant capital during FY2018 and FY2019 and ICRA is monitoring the capital position. A weakening in capital levels or deterioration in asset quality will remain a near-term rating sensitivity.

ICRA currently has outstanding ratings of [ICRA]AA-(negative) for the Basel II Compliant Lower Tier II Bonds, [ICRA]AA-(hyb)(negative) for the Basel III Compliant Tier II Bonds, [ICRA]A+(negative) for the Basel II Compliant Upper Tier II Bonds and the Basel II Compliant Innovative Perpetual Debt Instruments and [ICRA]A-(hyb)(negative) for the Basel III Compliant Tier I Bonds programmes of the bank.

The previous rating rationale is available on the following link: Click here

Key Financial Indicators:

	FY2016	**FY2017**	**Q1FY2017**	**Q1FY2018**
Net Interest Income	3,879	3,175	864	693
Profit before tax	418	-2,143	-384	-618
Profit after tax	101	-,1373	-397	-412
Net advances	1,05,673	95,515	98,602	90,249
Total assets^	1,59,067	1,58,118	1,47,791	1,52,552
%CET 1	7.88%	7.28%	7.69%	7.00%
%Tier 1	9.02%	9.01%	8.86%	8.85%
% CRAR	11.20%	11.18%	11.53%	11.08%
% Net Interest Margin / Average total assets	2.55%	2.00%	2.25%	1.77%
%Net Profit / Average total assets	0.07%	-0.87%	-1.03%	-1.05%
%Return on Net Worth	1.38%	-20.09%	-21.80%	-27.63%
% Gross NPAs	9.34%	16.93%	12.64%	18.59%
% Net NPAs	6.35%	11.76%	8.73%	12.48%
% Provision coverage excl. technical write offs	34.22%	34.67%	33.97%	37.62%
% Net NPA/ Net worth	91.20%	181.91%	121.36%	195.44%

Source: Bank's investor presentation and ICRA research; Amounts in Rs. crore

^Total Assets excluding revaluation reserve

All ratios are as per ICRA calculations

Contact Details

Analyst Contacts
Karthik Srinivasan
+91 22 61143 444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Akshay Kumar Jain
+91 22 6114 3430
akshay.jain@icraindia.com

Relationship Contact
Mr. L. Shivakumar
+91 22 61143406
shivakumar@icraindia.com

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For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500