Bank of India

June 13, 2018

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Medium Term Deposit Programme	-	MAA+(negative)
Total	**-**	

Material Event

Bank of India (BOI) has reported a loss before taxes of Rs. 5,502 crore during Q4FY2018 while the whole year FY2018 loss before taxes stood at Rs. 8,633 crore. The high quantum of loss was largely on account of elevated credit provisions during the year due to the increased slippages and increased mark to market provisions (MTM) on the investment portfolio due to hardening of yields in H2FY2018.

ICRA has a rating outstanding of MAA+ (pronounced M double A plus) for the term deposit programme of BOI. The outlook on the rating is negative.

Update

BOI has reported a loss before tax of Rs. 5,502 crore in Q4FY2018 and accordingly its full year FY2018 loss before taxes stood at Rs. 8,633 crore. The bank received a capital infusion of Rs. 9,232 crore from Government of India during FY2018 which is marginally higher than the losses, which coupled with reduction in risk weighted assets (RWA) resulted in an improvement in reported capitalisation ratios, i.e. CET 1 and Tier 1 of 7.87%, 9.73% as on March 31, 2018[1] as against 7.17% and 8.90% as on March 31, 2017. However, subsequently, the bank has redeemed its Additional Tier I (AT1) bonds during April 2018 by exercising the early call option under a regulatory event as the bank was placed under the prompt corrective action (PCA) framework by the Reserve Bank of India (RBI). In addition, the bank has also availed various regulatory dispensations[2] adjusting for which the reported loss would have been higher resulting in deterioration of capital ratios. Adjusting for these losses and recall of AT1 bonds, the CET1 would have been lower by 56bps while the Tier1 would have been lower by 229bps (at March 31, 2018 RWAs). Given the adjusted capital ratios (after taking into account the above adjustments) are weak, the continued degrowth in risk-weighted assets (RWAs) and fresh capital raisings will be required to meet the increased regulatory requirement. Further, ability to maintain Tier 1 of 7.00% and, hence, CRAR of 9.0% in near term is critical for servicing of its debt capital instruments[3], while adhering to the covenants for these instruments. The ratings continue to factor in the majority sovereign ownership by the GoI, demonstrated support for capital infusion, the bank's established presence and branch network and satisfactory deposit profile.

[1] Regulatory requirement (including CCB of 1.875%) of 7.375% and 8.875% respectively as on March 31, 2018
[2] The bank has deferred provisions totaling Rs. 1,774 crore (provision on NCLT accounts, MTM provisions and gratuity provisions)
[3] Such as Upper Tier II instruments and Tier I instruments under Basel II

Outlook: Negative

In ICRA's view, the bank's adjusted capital ratios are weak, and the capital requirement is sizeable with high dependence of capital infusion by the GoI and hence the outlook remains negative. The rating outlook will be made stable if the bank can raise sufficient capital to improve the capital ratios during FY2019 along with improvement in profitability and asset quality indicators.

Key rating drivers

Credit strengths

Sovereign ownership with established market position – The rating factors in the BOI's majority sovereign ownership with GoI shareholding at 83.09% as on March 31, 2018 and the regular capital infusion from GoI (Rs. 9,232 crore in FY2018 and Rs 2,838 crore in FY2017). BOI remains one of the key players in the financial sector, being the fifth largest PSB in terms of assets and deposits base. The bank's market position is supported by its strong franchise, including a large network of 5,127 branches and 7,423 ATMs as on March 31, 2018. Given BOI's market position and its importance to the Indian financial system, ICRA expects that the GoI will provide capital to PSBs including BOI to meet regulatory capital ratios

De-growth in advances driven by overseas business; well-developed deposit franchise with adequate CASA deposit base - The gross advances decreased by ~5% YoY to Rs. 3,75,995 crore as on March 31, 2018 mainly on account of decrease in foreign advances in accordance with the bank's strategy to reduce the overseas business. Retail, Agriculture and MSME Loans comprised 51.42% of the domestic advances as on March 31, 2018 (48% as on March 31, 2017). The bank has a well-developed deposit franchise resulting into comfortable CASA. During FY2018, the share of CASA in the bank's domestic deposit profile improved, driven by a growth in both current account (CA) and savings account (SA) deposits. As on March 31, 2018, the share of domestic CASA stood at 41.34% vis-à-vis 39.84% as on March 31, 2017. The bank's foreign deposits have also come down during the year with the reduction in foreign advances.

Credit challenges

Large capital requirements despite sizeable infusion of capital by GoI – Despite large losses during FY2018, the impact on capital ratios was moderated by 8% reduction in RWAs and capital infusion of Rs. 9,232 crore; consequently, BOI reported improvement in capitalisation ratios as on March 31, 2018 as against March 31, 2017. However, the Basel III compliant Additional Tier I (AT1) bonds amounting to Rs. 5,500 crore have been redeemed by the bank on April 21, 2018 by exercising the early call option under a regulatory event as the bank was placed under the PCA framework by the RBI. In addition, the bank the bank has availed various regulatory dispensations[4] barring which the reported loss would have been higher resulting in deterioration of capital ratios. Adjusting for these, the CET1 would have been lower by 56bps while the Tier1 and CRAR would have been lower by 229bps (at March 31, 2018 RWAs). Given that capital cushions have significantly reduced (after taking into account the above adjustments), continued degrowth in risk-weighted assets (RWAs) and fresh capital raisings will be required to improve the capital position so as to meet the regulatory requirement. In a scenario of a 5-10% decline in RWAs during FY2019, ICRA expects that the bank will require sizeable capital of Rs. 4,500 –5,500 crore (~28-35% of its market capitalisation) during FY2019 to achieve a Tier 1 capital ratio of 9.5% (including CCB of 2.5%). Further, ability to maintain Tier 1 of 7.00% and, hence, CRAR of 9.0% is critical for servicing of its debt capital instruments[5], while adhering to the covenants for these instruments.

[4] The bank has deferred provisions totaling Rs. 1,774 crore (provision on NCLT accounts, MTM provisions and gratuity provisions)

[5] Such as Upper Tier II instruments and Tier I instruments under Basel II

Weakened asset quality - The asset quality deteriorated during FY2018, particularly in Q4FY2018 with the discontinuance of all the earlier schemes for the resolution of stressed assets leading to their slipping into NPAs. BOI also reported a divergence of Rs. 14,057 crore in GNPAs in the RBI's risk-based supervision audit for FY2017 in Q3FY2018 results following which the bank was included under the prompt corrective framework (PCA) by RBI. Consequently, its gross NPAs and net NPAs stood at 16.58% and 8.26% respectively as on March 31, 2018 (13.22% and 6.90% respectively as on March 31, 2017). The bank had a total exposure of ~Rs. 8,800 crore and ~Rs. 3,300 crore towards both the lists of accounts identified by the RBI for insolvency proceedings against which it had a provision of ~71% and ~64% respectively as on March 31, 2018. The bank has also availed the dispensation on 2 accounts in NCLT 1 list. Further, BOI has a stressed assets exposure of ~Rs. 12,000 crore (~3.2% of gross advances) consisting of stressed standard restructured advances and SMA2 accounts as on March 31, 2018. Given the high amount of stressed exposure, ICRA expects the asset quality for the bank to remain weak in FY2019.

Profitability to remain weak because of elevated credit provisioning requirements – During FY2018, on account of interest reversals with increased slippages, the yields for the bank declined to 7.15% as compared to 7.49% during FY2017. The decline in yields coupled with stable cost of funds (4.82% during FY2018 as compared to 4.80% during FY2017) and credit-deposit (CD) ratio (66% as on March 31, 2018 as compared to 68% as on March 31, 2017) led to decline in the net interest margins (NIMs) to 1.72% during FY2018 as compared to 1.93% during FY2017. Decline in NIMs and contraction of loan book resulted in a decline in NII from Rs. 11,826 crore in FY2017 to Rs. 10,506 crore in FY2018. However, the operating profits improved marginally (Rs. 6,607 crore or 1.08% of ATA in FY2018 as compared to Rs. 6,437 crore or 1.05% of ATA in FY2017) with the increase in non-interest income. With the hardening of yields in H2FY2018, the bank faced mark to market (MTM) losses on its investment portfolio and Rs. 348 was charged to the profit and loss account while the bank availed the RBI dispensation to spread the balance loss of Rs. 1,043 crore in the subsequent 3 quarters. The bottom-line was further affected by elevated credit costs (Rs. 6,581 crore or 4.33% of ATA in Q4FY2018 and Rs. 15,681 crore or 2.56% of ATA in FY2018) on account of higher slippages and the bank reported a net loss of Rs. 6,044 crore (return on average total assets and net worth of -0.99% and -21.28% respectively) as compared to a net loss of Rs. 1,558 crore during FY2017 (return on average total assets and net worth of -0.25% and -6.08% respectively). ICRA expects the bank's profitability to remain weak in FY2019 on account of elevated credit provisions driven by high level of Net NPAs and further expected slippages from stressed assets.

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

Links to applicable criteria:

[ICRA Rating Methodology for Banks]

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 83.09% stake in the bank as on March 31, 2018. The bank has a wide spread network of 5,127 branches and 7,423 ATMs across India as on March 31, 2018. During FY2018, the bank reported a net loss of Rs. 6,044 crore on a total asset base of Rs. 6.10 lakh crore as on March 31, 2018 as against a net loss of Rs. 1,558 crore on a total asset base of Rs. 6.26 lakh crore as on March 31, 2017. The bank reported a capital adequacy of 12.94% with a Tier I capital of 9.73% (CET-1 of 7.87%) as on March 31, 2018 while the GNPA% and NNPA% stood at 16.58% and 8.26% respectively as on March 31, 2018.

Key financial indicators (audited) – Standalone

	FY2017	FY2018	Q4FY2017	Q4FY2018
Net interest income	11,826	10,506	908	1,409
Profit before tax	(2,373)	(8,633)	(1,609)	(5,502)
Profit after tax	(1,558)	(6,044)	(1,046)	(3,969)
Net advances	366,482	3,41,380	366,482	3,41,380
Total assets (excluding revaluation reserves)	620,623	6,04,026	620,623	6,04,026
% CET 1	7.17%	7.87%	7.17%	7.87%
% Tier 1	8.90%	9.73%	8.90%	9.73%
% CRAR	12.14%	12.94%	12.14%	12.94%
% Net interest margin / Average total assets	1.93%	1.72%	2.23%	1.69%
% Net profit / Average total assets	-0.25%	-0.99%	-0.67%	-2.61%
% Return on net worth	-6.08%	-21.28%	-15.66%	-52.10%
% Gross NPAs	13.22%	16.60%	13.22%	16.60%
% Net NPAs	6.90%	8.26%	6.90%	8.26%
% Provision coverage excl. technical write offs	51.38%	54.74%	51.38%	54.74%
% Net NPA/ Net worth	94.42%	94.05%	94.42%	94.05%

Amount is Rs. crore; All ratios are as per ICRA calculations

Source: BOI; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years					
						FY2018		FY2017		FY2016	
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	June 2018	Nov 2017	Jun 2017	Aug 2016	July 2016	Feb 2016	Nov 2015
1	Term Deposits Programme	Medium Term	-	-	MAA+ (negative)	MAA+ (negative)	MAA+ (negative); Outlook revised to negative	MAA + (stable)	MAA + (stable)	MAA+ (stable); downgraded from MAAA (stable)	MAA A (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

ISIN No	Instrument Name	Issuing Bank	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Deposits Programme		-	-	-	-	MAA+(negative)

Source: BOI

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anil.gupta@icraindia.com

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

Prateek Mittal
+91 22 6114 3425
prateek.mittal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999