# Bank of India

July 27, 2018

## Summary of rated instrument

| Instrument | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Term Deposit Programme | - | - | MAA+(Negative); reaffirmed |
| **Total** | **-** | - | |

## Rating action

ICRA has reaffirmed the rating of MAA+ (pronounced M double A plus) for the term deposit programme of Bank of India (BOI)[1]. The outlook on the rating is Negative.

## Rationale

The rating reaffirmation takes into account BOI's majority sovereign ownership with the Government of India (GoI) holding 83.09% as on March 31, 2018 and its systemic importance as one of the key players in the Indian financial sector, being the fifth-largest public sector bank (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, resulting in a comfortable share of domestic CASA at 41.34% as on March 31, 2018. During FY2018, the bank received capital infusion of Rs. 9,232 crore from the GoI, which was marginally above the losses (loss before tax of Rs. 5,502 crore in Q4 FY2018 and Rs. 8,633 crore for FY2018). This, coupled with the reduction in risk-weighted assets (RWAs), resulted in an improvement in the reported capitalisation ratios, i.e. CET I, Tier I and CRAR of 7.87%, 9.73% and 12.94%, respectively, as on March 31, 2018[2], compared to 7.17%, 8.90% and 12.14%, respectively, as on March 31, 2017.

However, subsequent to March 2018, the bank redeemed its Additional Tier I (ATI) bonds 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 January 2018. In addition, the bank availed various regulatory dispensations[3], adjusting for which the reported loss would have been higher resulting in deterioration in the capital ratios reported in March 2018. Adjusting for these losses and the recall of the ATI bonds, the CET I would have been lower by 56 bps while Tier I would have been lower by 229 bps (based on RWAs as on March 31, 2018). Given that the adjusted capital ratios (after considering the above adjustments) were weak, continued de-growth in RWAs and fresh capital raisings will be required to meet the increased 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. 6,500 – 9,000 crore (~47-65% of its market capitalisation) during the year to achieve a Tier I capital ratio of 9.5% (including CCB of 2.5%). Further, ability to maintain Tier I of 7.00% and, hence, CRAR of 9.0% is critical for servicing its debt capital instruments[4] while adhering to the covenants for these instruments. Given the large capital requirements, timely capital raising, in the form of GOI capital infusion or through the equity capital markets to maintain the regulatory capital ratios, will be a rating sensitivity.

---

[1] *For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications*

[2] *Regulatory requirement (including CCB of 1.875%) of 7.375% and 8.875%, respectively, as on March 31, 2018*

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

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

The rating also considers the deterioration in BOI's asset quality during FY2018, particularly in Q4 FY2018, with the discontinuance of all the earlier schemes for the resolution of stressed assets leading to their slipping into NPAs. Consequently, its gross 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). Increased slippages led to increased credit costs. This, coupled with decreasing net interest margins (NIMs) and high mark-to-market (MTM) losses on the investment portfolio, led to further weakening of the profitability profile with the bank reporting a loss before tax of Rs. 8,633 crore in FY2018 (return on average total assets and net worth of -0.99% and -21.28%, respectively).

## Outlook: Negative

In ICRA's view, the bank's adjusted capital ratios are weak, and the capital requirement is sizeable with high dependence on the GoI for capital infusion. Hence, the outlook remains Negative. The outlook may be revised to Stable if the bank can raise sufficient capital to improve the capital ratios as well as the profitability and asset quality indicators during FY2019.

## Key rating drivers

## Credit strengths

**Sovereign ownership with established market position** – The rating factors in BOI's majority sovereign ownership with GoI shareholding at 83.09% as on March 31, 2018 and regular capital infusion from the GoI (Rs. 9,232 crore in FY2018 and Rs. 2,838 crore in FY2017). BOI remains one of the key players in the Indian 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 the regulatory capital ratios.

**De-growth in advances because of overseas business; well-developed deposit franchise** - The global gross advances decreased by ~5% YoY to Rs. 3,75,995 crore as on March 31, 2018 mainly on account of a decrease in foreign advances, in accordance with the bank's strategy of reducing the overseas business. Further, the share of the corporate loan portfolio declined to 49% of domestic advances as on March 31, 2018 (52% as on March 31, 2017), reflecting the bank's cautious stance on incremental corporate lending. Consequently, the share of retail, agriculture and MSME loans (RAM) increased to 51% of the domestic advances as on March 31, 2018 (48% as on March 31, 2017). The bank has a well-developed deposit franchise resulting in 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 was 41.34% vis-à-vis 39.84% as on March 31, 2017. The bank's foreign deposits also declined during the year with the reduction in foreign advances.

## Credit challenges

**Large capital requirements despite sizeable capital infusion by GoI** – Despite large losses during FY2018, the impact on the capital ratios was moderated by an 8% reduction in RWAs and capital infusion of Rs. 9,232 crore by the GoI under its recapitalistion plan. Consequently, BOI reported an improvement in its capitalisation ratios with CET I, Tier I and CRAR at 7.87%, 9.73% and 12.94%, respectively, as on March 31, 2018, compared to 7.17%, 8.90% and 12.14%, respectively, as on March 31, 2017. However, Basel III compliant ATI bonds, amounting to Rs. 5,500 crore (1.73% of RWA), were 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 has availed various regulatory dispensations[5], barring which the reported loss would have been higher resulting in deterioration of the capital ratios. Adjusting for these, the CET I would have been lower by 56 bps while Tier I and CRAR would have been lower by 229 bps (based on RWAs as on March 31, 2018). Given that capital cushions have reduced significantly (after considering the above adjustments), continued de-growth in RWAs and fresh capital raisings will be required to improve the capital position 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 infusion of Rs. 6,500 – 9,000 crore (~47-65% of its market capitalisation) to achieve a Tier I capital ratio of 9.5% (including CCB of 2.5%). In the event of the bank not maintaining CCB but maintaining Tier I capital of 7.0%, the equity capital requirement is expected to be lower at Rs. 2,000-2,500 crore (~15-17% of the market capitalisation). Further, ability to maintain Tier I of 7.00% and, hence, CRAR of 9.0% is critical for servicing its debt capital instruments[6], while adhering to the covenants for these instruments. Given the large capital requirements, timely capital raising in the form of GOI capital infusion or through the equity capital markets to maintain the regulatory capital ratios, will be a rating sensitivity.

**Weakened asset quality** - The asset quality deteriorated during FY2018, particularly in Q4 FY2018, 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 Q3 FY2018 results. Following this, the bank was included in the PCA framework by the RBI. Consequently, its gross 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 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 dispensation on two accounts in the National Company Law Tribunal (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 bank's asset quality to remain weak in FY2019.

**Profitability to remain weak on elevated credit provisioning requirements** –On account of interest reversals with increased slippages, the bank's yields declined to 7.15% during FY2018 from 7.49% during FY2017. This, coupled with a stable cost of funds (4.82% during FY2018 compared to 4.80% during FY2017) and credit-deposit (CD) ratio (66% as on March 31, 2018 compared to 68% as on March 31, 2017), led to a decline in NIMs to 1.72% during FY2018 from 1.93% during FY2017. The decline in NIMs and the contraction in the loan book resulted in a decline in NII to Rs. 10,506 crore in FY2018 from Rs. 11,826 crore in FY2017. However, the operating profits improved marginally (Rs. 6,607 crore or 1.08% of ATA in FY2018 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 H2 FY2018, the bank faced MTM losses on its investment portfolio and Rs. 348 crore was charged to the profit and loss account while it availed the RBI dispensation to spread the balance loss of Rs. 1,043 crore in the subsequent three quarters. The bottom line was further affected by elevated credit costs (Rs. 6,581 crore or 4.33% of ATA in Q4 FY2018 and Rs. 15,681 crore or 2.56% of ATA in FY2018) on account of higher slippages and it reported a net loss of Rs. 6,044 crore during FY2018 (return on average total assets and net worth of -0.99% and -21.28%, respectively) 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 the 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.

---

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

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

**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 GoI's stake in the bank was 83.09% as on March 31, 2018. The bank has a widespread 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 compared to a net loss of Rs. 1,558 crore on a total asset base of Rs. 6.26 lakh crore during FY2017. The bank reported a capital adequacy ratio of 12.94% with Tier I capital of 9.73% (CET I 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 | 3,66,482 | 3,41,380 | 3,66,482 | 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% | 16.58% | 13.22% | 16.58% |
| % 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:

| | Instrument | Current Rating (FY2019) | | | | Chronology of Rating History for the past 3 years | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs crore) | | FY2019 | FY2018 | | FY2017 | | FY2016 | |
| | | | | | July 2018 | Jun 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) | MAA+ (negative); Outlook revised to negative | MAA+ (stable) | MAA+ (stable) | MAA+ (stable); downgraded from MAAA (stable) | MAAA (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 |