Bank of Maharashtra

July 27, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Compliant Tier II Bonds Programme	1,000.00	1,000.00	[ICRA]A+(hyb)(Negative); downgraded from [ICRA]AA-(hyb)(Negative)
Basel II Compliant Lower Tier II Bonds	1,130.00	1,130.00	[ICRA]A+(Negative); downgraded from [ICRA]AA-(Negative)
Basel II Compliant Upper Tier II Bonds	400.00	400.00	[ICRA]A(Negative); downgraded from [ICRA]A+(Negative)
Basel II Compliant Innovative Perpetual Debt Instrument	70.00	70.00	[ICRA]A(Negative); downgraded from [ICRA]A+(Negative)
Total	**2,600.00**	**2,600.00**	

Rating action

ICRA has downgraded the long-term rating for the Rs. 1,000-crore Basel III compliant Tier II bonds to [ICRA]A+(hyb) (pronounced ICRA A plus hybrid) from [ICRA]AA-(hyb) (pronounced ICRA double A minus hybrid), the rating for the Rs. 1,130-crore Basel II compliant Lower Tier II bonds to [ICRA]A+ (pronounced ICRA A plus) from [ICRA]AA- (pronounced ICRA double A minus), the rating for the Rs. 400-crore Basel II compliant Tier II bonds and Rs. 70-crore Basel II compliant innovative perpetual debt instrument to [ICRA]A (pronounced ICRA A) from [ICRA]A+ (pronounced ICRA A plus) of Bank of Maharashtra (BOM)[1]. The outlook on the ratings is Negative.

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.

Rationale

The ratings downgrade factors in the bank's weak financial performance as reflected in its continued losses over nine consecutive quarters. The losses are expected to continue during FY2019, given the high level of net non performing assets (NPAs; 11.24% as on March 31, 2018), which will keep the credit provisions elevated in relation to operating profits. Supported by the capital infusion of Rs. 3,173 crore by the Government of India (GoI) and the qualified institutional placement (QIP) of equity of Rs. 313.55 crore in FY2018, the bank reported CRAR and Tier I of 11.00% and 9.01%[2], respectively, despite continued losses. The capital ratios were also supported by the regulatory dispensation of Rs. 601.72 crore (73 bps of risk-weighted assets - RWAs) that were availed by the bank in its FY2018 financials. Given the expected losses for FY2019, and the increasing regulatory capital requirements till March 31, 2019, its ability to meet the capital ratios, including CCBs, is contingent on fresh capital raising and reduction of RWAs.

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

[2] *Regulatory minimum requirement of 8.875% and 10.875%, respectively, (including capital conservation buffer – CCB of 1.875%) for March 31, 2018*

The bank's asset quality continues to deteriorate with high slippages of Rs. 5,735 crore during FY2018 (Rs. 10,429 crore in FY2017[3]) translating into gross NPAs of 19.49% as on March 31, 2018 compared to 16.94% as on March 31, 2017. Even though the bank has recognised a significant portion of stressed advances as NPAs during the last three years, ICRA believes the bank's fresh slippages will remain elevated during FY2019 with a slippage rate of ~4.9-6.5%. This, coupled with the ageing of existing NPAs, shall translate into credit provisions of ~2.7-3.8% of average total assets (ATA) for FY2019. This is expected to sharply exceed the bank's core operating profitability (1.14% of ATA during FY2018) and hence its internal capital generation will remain weak. For FY2018, the bank reported a loss before tax of Rs. 3,266 crore (-2.08% of ATA) due to high credit costs (3.39% of ATA).

Assuming a 5-10% decline in RWAs, ICRA expects that the bank will require a capital infusion of ~Rs. 2,600 – 4,500 crore (~82-143% of its market capitalisation) during FY2019 to report a minimum Tier I capital ratio of 9.5% (including CCB of 2.5%). In a scenario the bank does not maintain the CCB and meets only the Tier I capital ratio of 7.0%, and hence CRAR of 9.0%, the capital requirement will be lower at ~Rs. 800 – 2,600 crore (~25-82% of its market capitalisation). Timely capital raising and ability to maintain Tier I of 7.00%, and hence a CRAR of 9.0%, in the near term is critical for servicing its debt capital instruments[4] 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.

Outlook: Negative

In ICRA's view, with expected losses and sizeable capital requirement, even under a scenario of not maintaining the CCBs, the outlook remains Negative. The rating outlook may be revised to 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 - The GoI is a majority shareholder in BOM with an 87.01% stake as on March 31, 2018. The bank received equity from the Government of Rs. 3,173 crore and Rs. 300 crore in FY2018 and FY2017, respectively. A high GoI shareholding provides the bank with the ability to raise capital from market sources while maintaining a majority GoI shareholding. However, given the bank's weak operating and financial profile, its ability to raise capital from the market remains to be seen. In the absence of the same, the bank will remain significantly dependent on the GoI to meet regulatory capital ratios. During FY2019 (YTD), FY2018 and FY2017, the GoI infused Rs. 11,326 crore, Rs. 90,000 crore and Rs. 25,000 crore into public sector banks (PSBs) to support their capital requirements and ICRA expects, GoI to infuse sufficient capital into PSBs including BOM to meet the regulatory capital ratios.

Well-developed deposit franchise - BOM's deposit profile is supported by its strong franchise, including a large network of 1,846 branches and an ATM network of 1,864 across India. Post demonetisation, the bank witnessed a surge in current account (CA) and savings account (SA) deposits, and consequently its CASA ratio improved to 47.74% as on March 31, 2018, which is higher than the industry average for PSBs (45.98%).

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[3] *Fresh NPA generation rate of 6.8% and 10.6%, respectively, during FY2018 and FY2017*

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

Credit challenges

Slippages expected to remain high – The bank's fresh NPA generation rate remained elevated (6.8% in FY2018), resulting in the gross NPA increasing to 19.49% as on March 31, 2018 (16.94% as on March 31, 2017). However, with the increase in the provision cover to 47.70% as on March 31, 2018, from 34.67% as on March 31, 2017, the net NPA reduced marginally to 11.24% as on March 31, 2018 from 11.76% as on March 31, 2017. Given the high level of net NPAs, solvency (net NPAs/net worth) remains weak at 109% as on March 31, 2018. ICRA expects the bank's fresh slippages to remain elevated during FY2019 with a slippage rate of ~4.9-6.5%. This, coupled with the ageing of existing NPAs, shall translate into credit provisions of ~2.7-3.8% of ATA for FY2019.

Losses to continue during FY2019 on account of elevated credit provisioning requirements – Despite a reduction in advances, the bank's net interest income witnessed a healthy growth of 6.8% during FY2018, which was supported by a decline in the cost of interest-bearing funds and lower interest reversals driven by a reduction in fresh slippages. NIMs improved marginally to 2.15% in FY2018 compared to 2.09% of ATA in FY2017 with the improvement in NII though this was slightly offset by the reduction in the credit deposit ratio. With the reduction in operating expenses, core operating profitability (before treasury gains/losses and credit provisions) improved to 1.14% of ATA during FY2018 compared to 0.79% during FY2017. However, with continued deterioration in the asset quality, credit provisions remained high at 3.39% of ATA during FY2018 (2.40% in FY2017), resulting in a loss before tax of Rs. 3,266 crore (-2.08 % of ATA) and return on net worth (RoNW) of -15.29% during FY2018. Further, the bank availed various regulatory dispensations[5] adjusting for which the reported loss would have been higher. ICRA expects the credit provisions to remain high at 2.7-3.8% of ATA during FY2019, resulting in a high likelihood of a loss. Because of the high levels of NPAs and continued losses, the bank was placed under the prompt corrective action (PCA) framework by the RBI in FY2018. ICRA expects that the bank is likely to remain under the PCA framework, at least for the next 1-2 years.

Low capital cushion with sizeable capital requirement - The bank raised capital of Rs. 3,767 crore during FY2018, marginally above its losses before tax. This, coupled with the reduction in RWAs, resulted in an improvement in the reported capitalisation ratios, i.e. CET I and Tier I of 8.97% and 9.00%, respectively, as on March 31, 2018[6] compared to 7.28% and 9.01%, respectively, as on March 31, 2017. This was despite the bank exercising an early recall on its additional Tier 1 Bonds (AT-1 bonds) of Rs. 1,500 crore during Q4 FY2018 (impacting its Tier I ratio by 1.84%). The bank has, however, availed various regulatory dispensations[7], adjusting for which the reported loss would have been higher resulting in deterioration of the capital ratios. Adjusting for these losses, CET I and Tier I would have been lower by 73 bps (based on RWAs as on March 31, 2018).

As per ICRA's estimates, given the expected losses in FY2019, the bank will require capital infusion of ~Rs. 2,600-4,500 crore (~82-143% of its market capitalisation), assuming a 5-8% decline in RWAs, during FY2019 to report a minimum Tier I capital ratio of 9.5% including CCB of 2.5%. In the event of the bank not maintaining the CCB but maintaining a Tier I capital of 7.0%, the equity capital requirement is expected to be lower at Rs. 800-2,600 crore (~25-82% of the market capitalisation). Ability to raise capital and maintain Tier I of 7.00%, and hence CRAR of 9.0% in the near term is critical for servicing its debt capital instruments while adhering to the covenants for these instruments. Given its large capital requirements, ICRA expects the bank to face challenges in maintaining the CCBs in the near to medium term.

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

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[5] *The bank has deferred provisions totaling Rs. 601.72 crore (provision on NCLT accounts, MTM provisions and gratuity provisions)*

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

[7] *The bank has deferred provisions totaling Rs. 601.72 crore (provision on NCLT accounts, MTM provisions and gratuity provisions)*

Links to applicable criteria:
ICRA Rating Methodology for Banks

About the company

The bank was registered in 1935 in Pune (Maharashtra), as a public limited company named The Bank of Maharashtra Ltd., with the objective of assisting small business enterprises, traders and self-employed individuals. Subsequently, with an increasing scale of operations, it became a scheduled bank in 1944 and acquired four small banks (Bank of Konkan Ltd., Bank of Nagpur Ltd., Bharat Industrial Bank Ltd and Banthia Bank Ltd) to expand its operations. BOM was nationalised, along with 13 other banks, in July 1969.

The bank had a wide network of 1,846 branches largely spread across Maharashtra as on March 31, 2018. During FY2018, the bank reported a net loss of Rs. 1,146 crore on a total asset base of Rs. 1,55,199 crore compared to a net loss of Rs. 1,373 crore on a total asset base of Rs. 1,58,118 crore for FY2017. BOM's gross and net NPAs stood at 19.48% and 11.24% as on March 31, 2018. The bank reported Tier I capital of 9.01% and CRAR of 11.00% as on March 31, 2018.

Key financial indicators

	FY2017	FY2018	Q4FY2017	Q4FY2018
Net interest income	3,175	3,390	763	881
Profit/ (loss) before tax	-2,143	-3,266	-1.407	-1,494
Profit/ (loss) after tax	-1,373	-1,146	-455	-114
Net advances	95,515	85,797	95,515	85,797
Total assets^	158,118	155,199	158,118	155,199
% CET I	7.28%	8.97%	7.28%	8.97%
% Tier I	9.01%	9.00%	9.01%	9.00%
% CRAR	11.18%	11.00%	11.18%	11.00%
% Net interest margin / Average total assets	2.0%	2.2%	1.9%	2.3%
% Net profit (loss) / Average total assets	-0.9%	-0.7%	-1.1%	-0.3%
% Return on net worth	-20.1%	-15.3%	-28.6%	-6.0%
% Gross NPAs	16.9%	19.5%	16.9%	19.5%
% Net NPAs	11.8%	11.2%	11.8%	11.2%
% Provision coverage excl. technical write offs	34.7%	47.7%	34.7%	47.7%
% Net NPA/ Net worth	181.9%	109.4%	181.9%	109.4%

All ratios as per ICRA calculations
^ Net of revaluation reserves
Amount in Rs. crore; Source: Bank; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Current Rating (FY2019) Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	July 2018	Chronology of Rating History for the past 3 years FY2019 Apr 2018	FY2018 Aug 2017	FY2018 Jun 2017	FY2017 Nov 2016	FY2017 Feb 2016	FY2016 Nov 2015
1	Basel II compliant Lower Tier II Bonds	Long Term	1,130	1,130	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Basel II compliant Upper Tier II Bonds	Long Term	400	400	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA - (Stable)
3	Basel II compliant Innovative Perpetual Debt Instrument	Long Term	70	70	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA - (Stable)
4	Basel III Compliant Tier II Bonds Programme*	Long Term	1,000	500	[ICRA]A+(hyb) (Negative) downgraded)	[ICRA]AA-(hyb) (Negative)	[ICRA]AA-(hyb) (Negative)	[ICRA]AA-(hyb) (Negative)	[ICRA]AA(hyb) (Negative)	[ICRA]AA(hyb) (Stable)	-

**Balance amount unutilised*

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE457A09140	Basel II compliant Lower Tier II Bonds	30-Sep-2009	8.74%	30-Apr-2019	130.00	[ICRA]A+(negative)
INE457A09199	Basel II compliant Lower Tier II Bonds	31-Dec-2012	9.00%	31-Dec-2022	1000.00	[ICRA]A+(negative)
INE457A09157	Basel II compliant Upper Tier II bonds	30-Sep-2009	8.95%	30-Sep-2024 (Call: 30-Sep-2019)	100.00	[ICRA]A(negative)
INE457A09173	Basel II compliant Upper Tier II bonds	01-Feb-2010	8.65%	01-Feb-2025 (Call: 01-Feb-2020)	300.00	[ICRA]A(negative)
INE457A09165	Basel II compliant Innovative Perpetual Debt Instrument	30-Sep-2009	9.25%	Perpetual (Call: 30-Sep-2019)	70.00	[ICRA]A(negative)
INE457A08035	Basel III compliant Tier II bonds	27-Jun-2016	9.20%	27-Sep-2026	500.00	[ICRA]A+(hyb)(negative)

Source: BOM

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