April 30, 2020

Bank of India: Rating reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers the majority sovereign ownership of Bank of India (BoI) and its strong resource profile on the back of a robust retail franchise depicted by a pan-India presence. This supports healthy traction in the low-cost current account and savings account (CASA) deposits, which translates into a granular deposit base, resulting in a lower cost of funds with respect to the average cost of funds for public sector banks (PSBs). The steadily growing deposit base, the sovereign ownership and excess SLR holdings aid the bank's comfortable liquidity profile. Moreover, after exiting the Reserve Bank of India's (RBI) prompt corrective action framework (PCA) in January 2019, BoI has maintained a healthy cushion over the regulatory capital levels, supported by improved internal capital generation and calibrated growth of risk-weighted assets (RWAs).

The rating, however, remains constrained by the bank's weak asset quality profile, reflected in the high fresh slippages that stood at 5.6% of standard advances on an annualised basis in 9M FY2020. The bank's stock of bad loans (NPAs) inched up with the net NPA% increasing to 5.97% as on December 31, 2019 from 5.61% as on March 31, 2019. As a result, its solvency profile[1] deteriorated marginally to 59.6% as on December 31, 2019 from 56.8% as of March 2019. ICRA notes that the improved operating profitability, coupled with the moderation in credit costs, supported BoI's earnings profile in FY2020. However, the same remained weak with a low return on assets (RoA) of 0.13% in 9M FY2020 (negative RoA in FY2019).

ICRA expects pressure on the asset quality to persist in FY2021 as well, a direct consequence of the adverse impact of the Covid-19 pandemic on the borrower's ability to service debt obligations amid the macroeconomic slowdown. Accordingly, the gross fresh slippages will remain high at 5.0-6.0% in FY2021, resulting in elevated net NPAs of ~5% (of net advances) as of March 2021. Moreover, the high credit costs of 1.5-1.8% of average total assets (ATA), estimated for FY2021, are expected to be largely similar to the bank's operating profit during the fiscal, resulting in weak earnings indicators in FY2021 as well. BoI's capital requirement may, however, remain limited despite the expected stress on the asset quality because of the comfortable capitalisation profile at present, muted credit growth as well as expectations that it will be able to absorb the credit losses through its operating profits. A higher-than-expected deterioration in the asset quality, resulting in weaker-than-expected solvency and capital ratios on a sustained basis, will be a credit negative.

[1] *Calculated as net NPA/core equity*

Key rating drivers and their description

Credit strengths

Sovereign ownership with demonstrated capital support – BoI has a majority sovereign ownership with the GoI holding an equity stake of 89.10% as on March 31, 2020. BoI, being a key player in the Indian financial system, as depicted by its asset base (fifth largest PSB in India as on December 31, 2019), has received regular capital support from the GoI. The GoI infused Rs. 2,838 crore in FY2017, Rs. 9,232 crore in FY2018 and Rs. 14,724 crore in FY2019 in the bank. Supported by regular capital infusions by the GoI, BoI was able to provide adequately against its stock of stressed assets while restoring its capital ratios above the regulatory levels and it exited the RBI's PCA framework in January 2019. Given its healthy capital cushions, the bank did not receive any capital support from the GoI in FY2020. Though the GoI has not budgeted any capital infusion for PSBs in FY2021, as per ICRA's estimates, the banks' capital requirements are likely to remain limited in FY2021.

Comfortable capitalisation profile – After having restored the capital ratios above the regulatory levels in FY2019, the bank has maintained healthy capital cushions. BoI's capital metrics – CET I%, Tier I% and CRAR% – stood at 11.14%, 11.17% and 14.20%, respectively, against the regulatory requirement of 7.375%, 8.875% and 10.875%, respectively, as on December 31, 2019[2]. The capital ratios continue to be supported by the improved capital generation and limited growth in RWAs. Despite the improved capital levels, the bank's solvency profile, depicted by net NPA/core equity capital, remained weak at 59.6% as on December 31, 2019 (56.8% as on March 31, 2019) because of high slippages in 9M FY2020.

ICRA expects BoI's internal capital generation to remain weak in FY2021 because of the stress build-up in its asset quality. However, the muted credit growth outlook is likely to lead to limited capital requirements even in a scenario of 5-6% growth in RWAs. The net NPAs are expected to remain high at ~5%, thereby leading to a limited improvement in the solvency profile over the next one year.

Strong liability profile – As on December 31, 2019, BoI's total deposits base registered a muted YoY growth of ~1.4%, largely because of a sharp decline of ~15% YoY in the overseas deposits (part of the bank's strategy for preserving capital by reducing the risk-weighted capital charge through shrinking overseas operations). While the overseas deposits declined, BoI's domestic deposits grew at 10% YoY (similar to the banking sector average) to Rs. 4.53 lakh crore as on December 31, 2019 from Rs. 4.13 lakh crore as on December 31, 2018. Given the expansive retail presence across India, as depicted by the vast network of 5,089 branches as on December 31, 2019, the low-cost CASA deposits registered a good YoY growth of 10% as on December 31, 2019. BoI's domestic CASA share remains above the average CASA share for PSBs and stood at 42.7% as on December 31, 2019 (PSB average of ~39%). With a high CASA share and low bulk deposit mobilisation, the bank's deposit base remains granular. The share of the top 20 depositors stood at 3.8% as on March 31, 2019 compared to 4.4% as on March 31, 2018 (much better than the average PSB deposit concentration). Supported by the low deposit concentration and high CASA share, BoI's cost of funds, at 4.80% for 9M FY2020, remains competitive with respect to the average cost of funds of 5.07% for PSBs in 9M FY2020.

Credit challenges

Asset quality profile to remain weak – The bank's gross slippages remained high in 9M FY2020 at Rs. 13,565 crore (annualised slippage rate of 5.6%) compared to gross fresh slippages of Rs. 17,904 crore in FY2019 (slippage rate of

[2] *As per Basel III Capital Regulations (July 2015), a CCB of 2.5% was to be applicable from March 31, 2020. However, as per the new directives of the RBI on March 27, 2020, the CCB of 2.5% has been deferred to September 30, 2020. Thus, the regulatory CET, Tier I and CRAR as on March 31, 2020 were 7.375%, 8.875% and 10.875%, respectively, each of which would increase by 0.625% from September 30, 2020*

5.7%). The slippages spiked sharply in Q3 FY2020 on account of a large-ticket exposure to a housing finance company (which accounted for 30% of the fresh slippages in 9M FY2020). Adjusting for this, the slippage rate was moderate vis-à-vis previous fiscals. Furthermore, apart from a recovery from one large steel sector exposure, recoveries and upgrades remained largely muted in 9M FY2020. Thus, the gross NPAs inched up to Rs. 61,730 crore (16.30%) as on December 31, 2019 from Rs. 60,661 crore (15.84%) as on March 31, 2019.

Although the bank maintains a high provision cover for its stock of NPAs (77.15%; including technical write-offs as on December 31, 2019 and similar to the PSB average), given the uptick in gross NPAs, the net NPAs also increased to Rs. 20,113 crore (5.97%) as on December 31, 2019 from Rs. 19,119 crore (5.61%) as on March 31, 2019.

Despite the high slippages, the bank's SMA[3] (1 and 2) book (exposures above Rs. 5 crore) remained high at Rs. 10,160 crore (3.2% of standard advances) as on December 31, 2019 and remain a source of potential slippages going forward. Moreover, ICRA expects the overhang of the slowing economic growth and the Covid-19 related nationwide lockdown to increase the stress on the asset quality. As per current estimates, ICRA expects a slippage rate of 5.0-6.0% in FY2021 and the credit provisions to increase to 1.5-1.8% of ATA while the NNPA% could remain elevated at ~5%.

Earnings to remain weak – After reporting losses during FY2016-FY2019, the bank has reported profitable operations thereafter, supported by a large capital infusion from the GoI and the accelerated provision on stressed assets in Q3 FY2019. With a lower share of non-earning assets, BoI's yield on assets and net interest margins improved in 9M FY2020 vs 9M FY2019. Accordingly, its net interest income (NII) increased at a healthy 19.3% YoY in 9M FY2020. Additionally, the increased recovery from written-off accounts (driving non-interest income) aided growth in the bank's operating profitability, which improved to 1.83% in 9M FY2020 from 1.41% in 9M FY2019. Due to high slippages, the credit costs remained elevated at 1.52% of ATA in 9M FY2020. However, this was lower than 3.14% in 9M FY2020 when BoI had made accelerated provisions to exit the PCA framework. Due to the high credit costs, the bank's RoA remained weak at 0.13% in 9M FY2020 compared to a net loss of Rs. 5,799 crore and RoA of (-1.28%) in 9M FY2019. Going forward, with credit provisions estimated to be 1.5-1.8% of ATA in FY2021, similar to the bank's core operating profitability, ICRA expects BoI to report a weak RoA of < 0.2%.

Liquidity position: Strong

BoI's liquidity profile remains strong, supported by its strong liability franchise and sovereign ownership. With modest growth in domestic deposits and a low credit-to-deposit ratio, the bank has been maintaining the SLR investments above the regulatory requirement. As per ICRA's estimates, as on December 31, 2019, the bank's excess SLR investments stood at 5.9% of total deposits, thus providing further comfort to its liquidity profile. Moreover, BoI's liquidity coverage ratio (LCR) stood at an adequate 127.8% (daily average for Q3 FY2020), well above the regulator requirement of 100%[4].

Rating sensitivities

Positive triggers – ICRA could revise the outlook to Positive and/or upgrade the rating if the bank is able to reduce its net NPA to less than 5%, while improving its solvency profile (net NPA/core equity declining below 50%) with at least a 1% cushion for the CET I and Tier I capital ratios over the regulatory requirements, on a sustainable basis.

---

[3] *SMA stands for special mention account and is bucketed into three categories - SMA0 (overdue by 1-30 days), SMA1 (overdue by 31-60 days) and SMA2 (overdue by 61-90 days)*

[4] *On April 17, 2020, the RBI relaxed the regulatory LCR to 80%, with immediate effect, from 100% previously; the LCR will be restored to 100% by April 1, 2021 in a phased manner - it would increase to 90% from October 1, 2020 and to 100% from April 1, 2021*

Negative triggers – ICRA could revise the outlook to Negative and/or downgrade the rating if the asset quality or capitalisation profile deteriorates, thereby weakening the solvency profile with net NPA/core equity exceeding 65-70% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[ICRA Rating Methodology for Banks](#) [Impact of Parent or Group Support on an Issuer's Credit Rating](#)
Parent/Group Support	The rating factors in BoI's sovereign ownership and the demonstrated track record of capital infusion by the GoI
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of BoI

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, 2020. As on December 31, 2018, the bank had a widespread network of 5,113 branches and 5,750 ATMs across India. In 9M FY2020, BoI reported a net profit of Rs. 614 crore on a total asset base of Rs. 6.24 lakh crore compared to a net loss of Rs. 5,799 crore in 9M FY2019 on a total asset base of Rs. 6.06 lakh crore.

BoI's asset quality indicators – GNPA% and NNPA% – stood at 16.30% and 5.97%, respectively, as on December 31, 2019 compared to 15.84% and 5.61%, respectively, as on March 31, 2019. Its capital metrics – CET I%, Tier I% and CRAR% – stood at 11.14%, 11.17% and 14.20%, respectively, as on December 31, 2019, against 11.01%, 11.07% and 14.19%, respectively as on March 31, 2019.

Key financial indicators (audited) – Bank of India

	FY2018	FY2019	9M FY2019	9M FY2020
Net interest income	10,506	13,658	9,613	11,464
Profit before tax	-8,633	-8,713	-9,119	887
Profit after tax	-6,044	-5,547	-5,799	614
Net advances	3,41,380	3,41,006	3,31,114	3,36,661
Total assets	6,04,026	6,18,950	6,05,683	6,23,961
% CET I	7.87%	11.01%	9.10%	11.14%
% Tier I	9.73%	11.07%	9.24%	11.17%
% CRAR	12.94%	14.19%	12.47%	14.20%
% Net interest margin	1.72%	2.23%	2.12%	2.46%
% PAT / ATA	-0.99%	-0.91%	-1.28%	0.13%
% Return on net worth	-21.28%	-15.84%	-24.06%	2.02%
% Gross NPAs	16.58%	15.84%	16.31%	16.30%
% Net NPAs	8.26%	5.61%	5.87%	5.97%
% Provision coverage excl. technical write-offs	54.74%	68.48%	68.03%	67.42%
% Net NPA/ CET	112.86%	56.76%	71.89%	59.63%

Note: Amount in Rs. crore; All calculations are as per ICRA research
Total assets and net worth exclude revaluation reserves
Source: BoI, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating FY2021	Chronology of Rating History for the Past 3 Years FY2019			FY2018		FY2017	
					30-Apr-20	13-Mar-19	27-Jul-18	13-Jun-18	21-Nov-17	23-Jun-17	10-Aug-16	21-Jul-16
1	Term Deposit Programme	MT	-	-	MAA+ (Stable); Reaffirmed	MAA+ (Stable); Outlook revised to Stable from Negative	MAA+ (Negative)	MAA+ (Negative)	MAA+ (Negative)	MAA+ (Negative)	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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Deposit Programme	-	-	-	-	MAA+(Stable)

Source: Bank of India

Analyst Contacts

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

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

Mr. Shashank Singh
+91 124 4545 367
shashank.singh@icraindia.com

Mr. Aashay Choksey
+91 22 6114 3430
aashay.choksey@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:

+91-9354738909 (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) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents