

July 25, 2024

## Bank of Maharashtra: [ICRA]AA+ (Stable) assigned to infrastructure bonds; Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Tier II bonds	2,600.00	2,600.00	[ICRA]AA+ (Stable); Reaffirmed
Infrastructure bonds	-	10,000.00	[ICRA]AA+ (Stable); Assigned
<b>Total</b>	<b>2,600.00</b>	<b>12,600.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The long-term rating on Bank of Maharashtra's (BoM) bonds programmes factors in the sustained improvement in its earnings profile, driven by the healthy growth in the loan book along with contained slippages, keeping its credit costs at a manageable level. Additionally, its capital buffers and solvency<sup>1</sup> metrics improved, aided by the healthy profitability and capital raise in FY2024. The rating remains supported by BoM's majority sovereign ownership and its above-average resource profile, driven by its established retail network with a strong presence in Maharashtra. The bank has a high level of low-cost current account and savings account (CASA) deposits, translating into a granular deposit base and competitive cost of funds. This is expected to support its profitability, even though it may moderate from the current levels, going forward.

Though BoM witnessed a slight increase in its slippage rate, recoveries/upgrades and write-offs remained meaningful, helping it report a decline in the gross non-performing advances (GNPAs). The vulnerable book (SMA-1, SMA-2<sup>2,3</sup> and standard restructured book) declined to 1.15% of standard advances as on June 30, 2024 (1.22% as on March 31, 2024; 2.55% as on March 31, 2023). Nonetheless, given the significant credit growth witnessed by the bank in the recent past, the asset quality will remain monitorable as the loan book seasons. Additionally, macro-economic shocks and a high interest rate environment could impact BoM's asset quality and profitability. In this regard, the bank continues to hold contingency/prudent provisions that can absorb some of the incremental impact if the same materialises.

ICRA has also taken note of the Reserve Bank of India's (RBI) recent draft circular, which, besides other changes, would lead to higher provisioning requirement, given BoM's exposure to infrastructure financing. Nevertheless, the impact on its profitability and capitalisation metrics is expected to be limited. On an overall basis, ICRA expects BoM to remain sufficiently capitalised with expected internal accruals likely to be adequate for its growth capital requirements. Nevertheless, the bank may need to raise equity to reduce the sovereign ownership to less than 75% and to offset the likely impact of the transition to provisioning based on the expected credit loss (ECL) framework.

The Stable outlook on the rating factors in ICRA's expectation that BoM will continue to maintain a healthy earnings profile despite the likely pressure on its margins in the near term, given the probability of rate cuts from H2 FY2025. It is also expected to maintain healthy asset quality, stable solvency and comfortable capitalisation.

<sup>1</sup> Solvency = (Net NPAs + Net non-performing investments + Net security receipts) / Core capital

<sup>2</sup> SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days

<sup>3</sup> The reported amount refers to SMAs with amount outstanding of Rs. 5 crore and above

## Key rating drivers and their description

### Credit strengths

**Sovereign ownership** – The rating continues to factor in BoM's majority sovereign ownership with the Government of India (GoI) holding an equity stake of 86.46% as on June 30, 2024. Further, it had received regular capital support from the GoI in the past with infusions of Rs. 9,007 crore during FY2017-FY2020, which enabled its provision to cover the legacy stressed assets while keeping its capital ratios above the regulatory levels. Following its exit from the prompt corrective action (PCA) framework in January 2019, BoM's profitability improved steadily, driven by the strong growth in advances and lower credit costs.

Given ICRA's estimates for internal capital generation, BoM is not likely to need any capital support from the GoI in the near to medium term, although the same is expected if required. However, a dilution in the GoI's stake in the bank's shareholding may be necessitated to ensure compliance to the minimum public shareholding norms mandated by the Securities and Exchange Board of India (SEBI). Nonetheless, that would not affect the GoI's ability and willingness to support the bank.

**Healthy capitalisation profile and solvency** – BoM's capitalisation profile has remained comfortable with the CET I {as a percentage of risk-weighted assets (RWA)} at 12.20% as on June 30, 2024 (12.50% as on March 31, 2024; 12.66% as on March 31, 2023), supported by sufficient internal capital accretion.

Furthermore, with the decline in the GNPA's and the provision coverage remaining high, BoM witnessed lower net NPAs. Accordingly, the overall solvency level improved to 1.96% as on June 30, 2024 (2.24% as on March 31, 2024 and 3.06% as on March 31, 2023). The bank is also holding prudent/contingency provisions of Rs. 1,200 crore, which is much higher than the stock of net NPAs of Rs. 415 crore as on June 30, 2024.

Notwithstanding the sufficient internal accruals for growth, the RBI's implementation of the ECL framework for credit exposures and additional provisioning on infrastructure financing could lead to a one-time impact on the capital position. However, adequate internal accruals, supporting the creation of provisions for such transition(s), provide comfort regarding the capitalisation profile.

**Above-average resource profile with strong share of CASA in overall deposits** – BoM has an established retail franchise with a strong regional presence in Maharashtra, depicted by its network of 2,499 branches as on June 30, 2024 (~46% of branches located in Maharashtra).

Its low-cost CASA deposits increased at a compound annual growth rate (CAGR) of 12.97% during the 3-year period ended June 30, 2024 (14.25% in FY2024; slight decline of 7% in Q1 FY2025), accounting for 50.14% of the total deposits (52.73% as on March 31, 2024), which is significantly higher than the CASA deposit share of public sector banks (PSBs).

Despite increasing slightly to 4.43% in Q1 FY2025 from 4.34% in Q4 FY2024 (4.08% in FY2024), the cost of interest-bearing funds remains competitive compared to the industry average. This is driven by the bank's healthy share of CASA deposits and the low depositor concentration level with the top 20 depositors contributing 11.45% to the deposits as on June 30, 2024 (10.66% as on March 31, 2024, 11.80% as on March 31, 2023).

**Earnings profile improves** – BoM's operating profit improved further to 2.92% of average total assets (ATA) in Q1 FY2025 (2.82% in FY2024 and 2.50% in FY2023). This was supported by the healthy net interest margin due to the competitive cost of funds. Driven by the decline in the GNPA's, the credit cost moderated to 0.77% of ATA in Q1 FY2025 from 0.79% in FY2024 (0.91% in FY2023 and 1.30% in FY2022), resulting in an improvement in the return on assets (RoA) to 1.69% (1.42% in FY2024; 1.05% in FY2023). Additionally, the profitability was supported by recoveries from written-off accounts during this period and low taxes due to write-off of carried forward losses.

Given the relative decline in the vulnerable book and the carrying of prudent provisions, the bank's overall credit cost outlook remains benign. Going forward, the ability to contain the credit cost at this level will be key for maintaining the current level of internal capital generation as the tight liquidity environment may constrain the expansion in net interest income as well as the operating profit.

## Credit challenges

**Asset quality remains monitorable** – The overall gross fresh NPA generation improved to 1.19% in Q1 FY2025 from 1.34% in FY2024 (1.25% in FY2023 and 2.64% in FY2022), trending significantly below the elevated levels seen in the past (~5-11% during FY2017-FY2020). Further, the bank continues to maintain a healthy provision cover, also witnessed by the lower net NPAs compared to previous periods. Besides this, BoM's stressed assets (SMA-1 and SMA-2<sup>4</sup> book + standard restructured book) moderated to Rs. 2,359 crore as on June 30, 2024 (1.15% of standard advances) from Rs. 2,447 crore as on March 31, 2024 (1.22%) and Rs. 4,356 crore as March 31, 2023 (2.55%).

ICRA notes that while the potential stress book levels have eased, the bank has seen a significantly high growth in advances compared to the PSB average with infrastructure sector loans accounting for the majority of this growth. Moreover, the share of exposures outstanding towards state government owned entities, which have weak credit profiles, remains high. Any macro-economic shocks due to geopolitical tensions, high interest rates or otherwise may affect the debt-servicing ability of such borrowers and remain monitorable.

## Environmental and social risks

While banks like BoM do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, it could translate into credit risks for banks. However, such risk is not material for BoM as it benefits from adequate portfolio diversification. Further, the lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure as has been seen for other regulated entities in the recent past. BoM has not faced material lapses over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. BoM has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

## Liquidity position: Strong

BoM's liquidity profile remains characterised by a high liquidity coverage ratio (LCR) of 121.25% for the quarter ended June 30, 2024 against the regulatory requirement of 100% and excess statutory liquidity ratio (SLR) holdings of roughly Rs. 15,000 crore as of even date.

Given the strong growth in the advances book and the rising credit-deposit (CD) ratio, negative cumulative mismatches in the asset-liability mismatch (ALM) bucket for up to 1 year have widened to a certain extent. However, given the robust liability franchise, ICRA expects BoM to roll over its deposits and maintain strong liquidity.

## Rating sensitivities

**Positive factors** – BoM's ability to increase its scale of operations meaningfully, while maintaining healthy profitability, a comfortable solvency profile, and cushions of more than 3% over the regulatory Tier I levels (including capital conservation buffers), will be a positive factor.

**Negative factors** – ICRA could downgrade the rating on a material deterioration in the asset quality metrics or the weakening of the capitalisation profile with the Tier I cushions falling below 2%. Further, weakening of the solvency profile with net NPA/core equity exceeding 20% and/or the RoA declining below 0.5% on a sustained basis would be negative factors. The rating will also be reassessed in case of a significant change in the sovereign ownership.

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<sup>4</sup> Rs. 5. crore and above

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA's Rating Methodology for Banks and Financial Institutions</a> <a href="#">Rating Approach – Implicit Parent or Group Support</a> <a href="#">Rating Approach – Consolidation</a>
Parent/Group support	The rating factors in BoM's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to support the bank with capital infusions if required.
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of BoM. However, in line with ICRA's consolidation approach, the capital requirement of BoM's subsidiary and associate has been factored in.

## About the company

Bank of Maharashtra (BoM) 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. With the 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 and has remained a mid-sized public sector bank. Its market share in the advances and deposits of the banking system stood at 1.22% and 1.32%, respectively, as on March 31, 2024.

As on June 30, 2024, BoM had a wide network of 2,499 branches, with Maharashtra accounting for a large share (~46%). The bank reported a net profit of Rs. 1,293 crore (annualised RoA of 1.69%) on a total asset base of Rs. 3.05 lakh crore compared to Rs. 4,055 crore (RoA of 1.42%) in FY2024 on a total asset base of Rs. 3.05 lakh crore as on March 31, 2024 {Rs. 2,602 crore (RoA of 1.05%) on a total asset base of Rs. 2.66 lakh crore as on March 31, 2023}.

### Key financial indicators (standalone)

Bank of Maharashtra	FY2023	FY2024	Q1 FY2025
Total operating income <sup>^</sup>	9,915	12,469	3,631
Profit after tax	2,602	4,055	1,293
Total assets (Rs. lakh crore)	2.66 <sup>@</sup>	3.05 <sup>@</sup>	3.05
Return on average total assets	1.05%	1.42%	1.69%*
CET I	12.66%	12.50%	12.20%
CRAR	18.14%	17.38%	17.04%
Gross NPAs	2.47%	1.88%	1.85%
Net NPAs	0.25%	0.20%	0.20%

Source: Bank of Maharashtra, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore unless mentioned otherwise;

\*Annualised; <sup>^</sup> Includes net interest income and non-interest income; <sup>@</sup> total asset base is calculated excluding the revaluation reserves as on the reported date.

**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)	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
			Date & Rating in FY2025			Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			Jul-25-2024	Jun-24-2024	May-14-2024	Jun-05-2023	Jun-13-2022	Aug-02-2021
1 Basel III Tier II bonds	Long term	2,600	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
2 Infrastructure bonds	Long term	10,000	[ICRA]AA+ (Stable)	-	-	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Basel III Tier II bonds	Highly Complex
Infrastructure bonds	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE457A08035	Basel III Tier II bonds	Jun-27-2016	9.20%	Sep-27-2026	500.00	[ICRA]AA+ (Stable)
INE457A08050	Basel III Tier II bonds	Mar-06-2020	8.70%	Mar-06-2030 <sup>&amp;</sup>	600.00	
INE457A08167	Basel III Tier II bonds	Jul-04-2024	7.89%	Jul-04-2034 <sup>*</sup>	1,000.00	
-	Basel III Tier II bonds <sup>#</sup>	-	-	-	500.00	
-	Infrastructure bonds <sup>#</sup>	-	-	-	10,000.00	

Source: Bank of Maharashtra; <sup>#</sup> Yet to be placed

<sup>&</sup> First call option on March 06, 2025, and then annually on coupon payment dates

<sup>\*</sup> First call option on July 04, 2029, and then annually on coupon payment dates

**Key features of rated debt instruments**

The servicing of the infrastructure bonds is not subject to any capital ratios or profitability. However, the Basel III Tier II bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked by the RBI. These bonds have equity-like loss-absorption features. Such features may translate into higher loss severity vis-à-vis conventional debt instruments.

**Annexure II: List of entities considered for consolidated analysis**

Company Name	BoM Ownership	Consolidation Approach
The Maharashtra Executor & Trustee Co. Pvt. Limited	100%	Full consolidation
Maharashtra Gramin Bank	35%	Full consolidation

Source: Bank of Maharashtra

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