

Bank of Maharashtra

March 13, 2019

Summary of rating action

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); Rating reaffirmed, outlook revised to Stable from Negative
Basel II Compliant Lower Tier II Bonds	1,130.00	1,130.00	[ICRA]A+; Rating reaffirmed, outlook revised to Stable from Negative
Basel II Compliant Upper Tier II Bonds	400.00	400.00	[ICRA]A; Rating reaffirmed, outlook revised to Stable from Negative
Basel II Compliant Innovative Perpetual Debt Instrument	70.00	70.00	[ICRA]A; Rating reaffirmed, outlook revised to Stable from Negative
Total	2,600.00	2,600.00	

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. The rated Basel III Tier II bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked.

Rationale

The revision in the outlook factors in the sizeable capital infusion of Rs. 4,703 crore by the Government of India (GoI) in FY2019 as a part of its recapitalisation programme for public sector banks (PSBs). In ICRA's view, Bank of Maharashtra (BOM) should be able to keep its net non-performing assets (NNPAs) below 6.00% while maintaining the capital ratios (including capital conservation buffer - CCB) above the regulatory requirement as on March 31, 2019. This has also supported the bank's exit from the prompt corrective action framework (PCA) framework of the RBI in January 2019. Further, with fresh slippages of 2-3% expected in FY2020 (6.5% - annualised in 9M FY2019) and a provision cover of 78-80% (70.04% as on December 31, 2018), ICRA expects the bank to report profitable operations in FY2020 even though the return on assets (RoA) will remain weak at <0.5-0.7%. With 8-9% growth in risk-weighted assets (RWA) in FY2020, ICRA expects BOM's capital requirement to be manageable. ICRA estimates BOM's equity capital requirement at Rs. 560-900 crore (16-26% of the current market capitalisation) in FY2020, assuming the bank maintains a cushion of 50 bps over the regulatory Tier I of 9.50%, as on March 31, 2020.

ICRA also takes into consideration the improvement in the bank's asset quality and solvency levels with NNPA's expected to fall below 4% by March 2019 and below 5% by March 2020. Meanwhile, the solvency levels are expected to improve to ~51% by March 31, 2019 and further to ~34% by March 2020 from 113.22% as on September 30, 2018.

The ratings continue to be supported by BOM's established presence and branch network in western India and its satisfactory deposit profile. The bank's deposit profile is supported by its widespread branch network and well-established retail franchise. This has helped increase the bank's current account and savings account (CASA) deposit share over the years along with the retail deposits. Moreover, with a steady decline in bulk deposits, BOM's cost of interest-bearing funds has improved (5.04% in 9M FY2019 against 5.49% in 9M FY2018).

Outlook: Stable

The Stable outlook factors in ICRA's expectations of reduced asset quality pressures, improving solvency levels and profitable operations in FY2020. The outlook will be revised to Positive if the bank demonstrates an improvement in the asset quality, capitalisation and solvency levels as expected above, by limiting fresh slippages. The outlook will, however, be revised to Negative on weaker-than-expected performance because of higher-than-estimated slippages, leading to weak profitability and deterioration of the capital profile, and if the same is not restored by sufficient capital infusion.

Key rating drivers

Credit strengths

Sovereign ownership with demonstrated capital support from Gol – The Gol is a majority shareholder in BOM with an 87.01% stake as on December 31, 2018. The bank received equity of Rs. 4,703 crore, Rs. 3,173 crore and Rs. 300 crore from the Government in FY2019, FY2018 and FY2017, respectively. A high Gol shareholding provides the bank with the ability to raise capital from market sources while maintaining a majority Gol shareholding. This has offset the challenges faced by the bank in the past while raising capital from the market due to its weak operating and financial profile. Moreover, with the estimated capital requirement for FY2020 being at manageable levels, ICRA expects dependence on the Gol for capital support to be low in FY2020.

Comfortable capital profile and capital requirement in FY2020 – Upon capital infusion by the Gol in FY2019, BOM's capital profile has improved significantly with the capital ratios getting restored above the regulatory requirement (including CCBs). The bank's capital ratios, i.e., CRAR, Tier I and CET I stood at 11.05%, 8.97% and 8.93%, respectively, as on December 31, 2018 against the regulatory requirement of 10.875%, 8.875% and 7.375%, respectively, for March 31, 2019.

Going forward, in a scenario of YoY growth of 8-9% in RWAs and a provision cover of 78-80%, ICRA estimates BOM's overall equity capital requirement at Rs. 560-900 crore (16-26% of the current market capitalisation) in FY2020, in order to maintain a capital cushion of 50 bps over the regulatory Tier I of 9.50% as on March 31, 2020. Since the estimated capital requirement is manageable, ICRA expects the bank to be able to raise capital through multiple channels (QIP, employee share purchase scheme (ESPS), etc). Even if the bank is unable to raise the required amount, it can conserve capital consumption by limiting RWA growth or by keeping the provision cover below the ICRA-assumed level stated earlier.

Stable deposit profile – As the bank was earlier under the RBI's PCA framework, advance growth remained muted, thereby resulting in need for lower deposit mobilisation. While BOM's CASA deposits have continued to grow, leading to an improvement in CASA share, the growth has been slow. As on December 31, 2018, the share of CASA in total deposits was 46.88% compared to 46.25% as on September 30, 2018 and 44.86% as on December 31, 2017. While this is in line with the CASA trend witnessed for PSBs, it remains stronger for BOM compared to the average CASA share of PSBs at ~39% as on December 31, 2018. BOM's term deposit profile largely remained stable at Rs. 72,246 crore as on December 31, 2018 compared to Rs. 73,666 crore as on December 31, 2017. This, coupled with the slowly increasing share of CASA in total deposits, has resulted in an improvement in the cost of interest-bearing funds (5.04% in 9M FY2019 against 5.49% in 9M FY2018). BOM's deposit profile is supported by its strong franchise, including a large network of 1,846 branches.

Credit challenges

Modest asset quality with adequate provision cover and declining slippage rate; incremental stress expected to reduce going forward – BOM's asset quality profile remained weak with fresh slippages of Rs. 1,126 crore (6.1% of standard advances) in Q3 FY2019 and Rs. 3,735 crore (6.5%) in 9M FY2019. However, supported by large write-offs of Rs. 4,842 crore and recoveries + upgrades of Rs. 1,817 crore, the GNPA's declined to Rs. 15,509 crore (17.32%) as on December 31, 2018 from Rs. 18,433 crore (19.49%) as on March 31, 2018.

Further, with a large capital infusion from the GoI, the bank was able to reduce its NNPA's to 5.91% as on December 31, 2018 compared to 11.24% as on March 31, 2018. Upon capital infusion from the GoI, BOM upfronted provisioning on its gross NPA. As a result, the provision coverage ratio (PCR; excluding TWO) increased to 70.04% as on December 31, 2018 from 47.70% as on March 31, 2018. With a decline in gross NPAs and an increased provision cover, the NNPA's declined to Rs. 4,647 crore as on December 31, 2018 from Rs. 9,641 crore as on March 31, 2018.

ICRA expects slippages to decline in FY2020 to 2-3% of standard advances from the estimated level of 8.5% in FY2019. With a high provision cover, the credit provision is likely to remain between 0.5% and 0.7% of average total assets (ATA; 8.3% in 9M FY2019).

Going forward, assuming a provision cover of 78-80% by March 2020, ICRA expects NPPAs to fall below 4% by March 31, 2020. With lower NPAs and higher net worth (due to improved internal capital generation), the solvency (NNPA/net worth) is expected to improve to ~34% by March 31, 2020 from 54.96% as on December 31, 2018 and ICRA's estimated level of ~51% as on March 31, 2019. Any capital raise in FY2020 will improve the solvency levels further.

Profitability expected to improve but remain modest in FY2020 – BOM's profitability profile remained weak with the bank reporting a loss before tax of Rs. 5,216 crore in 9M FY2019 against a loss before tax of Rs. 3,266 crore in FY2018 with credit costs surpassing the core operating profitability. The elevated losses were mainly due to high provisions of Rs. 4,538 crore (12.01% of ATA) in Q3 FY2019. This was on account of the upfronting of provisions to bring down the NNPA level to below 6%, i.e. the PCA level. This was supported by capital infusion from the GoI.

Despite reporting a loss before tax, BOM's operating profit improved to Rs. 1,561 crore (1.36% of ATA) in 9M FY2019 from Rs. 1,298 crore in 9M FY2018 (1.12% of ATA) aided by recoveries from NPA accounts. The improvement was mainly driven by moderate growth in the bank's net interest income (NII), which increased to Rs. 2,734 crore in 9M FY2019 from Rs. 2,509 crore in 9M FY2018. The growth in the NII was aided mainly by the lower cost of interest-bearing funds. As a result, net interest margins (NIMs¹) improved to 2.38% in 9M FY2019 from 2.17% in 9M FY2018.

Going forward, ICRA expects credit costs to moderate to ~0.9-1.3% of the net advances (~0.5-0.7% of ATA) in FY2020. With operating profits expected to improve, supported by an increase in earning assets, ICRA expects the bank to report profitable operations in FY2020 even though RoA will remain weak at <0.5-0.7%.

Liquidity position

Supported by high CASA deposits, the bank's daily average liquidity coverage ratio remained comfortable at 176.92% in Q3 FY2019 against the regulatory requirement of 100% as on January 01, 2019. The SLR holding stood at 22.06% of net demand and time liabilities as on December 31, 2018 and was marginally above the regulatory requirement of 19.5%. ICRA expects BOM to maintain satisfactory liquidity, which will depend on its ability to retain its deposit base. The bank can also avail liquidity support from the RBI (through reverse repo against excess SLR investments and the marginal standing facility scheme) in case of urgent liquidity needs.

¹ NIM = Net interest income/Average total assets

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 ²	The ratings factor in BOM's sovereign ownership and the demonstrated track record of capital infusion by the Gol. ICRA expects the Gol to support BOM with capital infusion, if required
Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Bank of Maharashtra

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.

As on December 31, 2018, the bank had a wide network of 1,846 branches largely spread across Maharashtra. In 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 in FY2017. In 9M FY2019, the bank reported a net loss of Rs. 4,856 crore on a total asset base of Rs. 1,50,617 crore.

Key financial indicators

	FY2017	FY2018	9M FY2018	9M FY2019
Net interest income	3,175	3,390	2,509	2,734
Profit before tax	-2,143	-3,266	-1,772	-5,216
Profit after tax	-1,373	-1,146	-1,032	-4,856
Net advances	95,515	85,797	87,666	78,692
Total assets	1,58,118	1,55,199	1,49,772	1,50,617
% CET I + CCB	7.28%	8.97%	7.23%	8.93%
% Tier I + CCB	9.01%	9.00%	9.07%	8.97%
% CRAR	11.18%	11.00%	11.29%	11.05%
% Net interest margin / Average total assets	2.0%	2.2%	2.17%	2.38%
% Net profit / Average total assets	-0.9%	-0.7%	-0.89%	-4.23%
% Return on net worth	-20.1%	-15.3%	-21.92%	-74.99%
% Gross NPAs	16.9%	19.5%	19.06%	17.32%
% Net NPAs	11.8%	11.2%	12.17%	5.91%
% Provision coverage excl. technical write-offs	34.7%	47.7%	41.14%	70.04%
% Net NPA/ Net worth	181.9%	109.4%	167.12%	54.96%

All ratios as per ICRA calculations

Amount in Rs. crore

Source: Bank, ICRA research

² Shareholding as on January 24, 2019

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years						
				FY2019	Mar-2019	FY2018		FY2017		FY2016		
					July 2018	Apr 2018	Aug 2017	Jun 2017	Nov 2016	Feb 2016	Nov 2015	
1	Basel II Compliant Lower Tier II Bonds	Long Term	1,130	1,130	[ICRA]A+ (Stable)	[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 (Stable)	[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 (Stable)	[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 Balance yet to be placed	[ICRA]A+ (hyb) (Stable)	[ICRA]A+ (hyb) (Negative)	[ICRA]AA- (hyb) (Negative)	[ICRA]AA- (hyb) (Negative)	[ICRA]AA- (hyb) (Negative)	[ICRA]AA (hyb) (Negative)	[ICRA]AA (hyb) (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	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+(Stable)
INE457A09199	Basel II compliant Lower Tier II Bonds	31-Dec-2012	9.00%	31-Dec-2022	1,000.00	[ICRA]A+(Stable)
INE457A09157	Basel II compliant Upper Tier II bonds	30-Sep-2009	8.95%	30-Sep-2024 (Call: 30-Sep-2019)	100.00	[ICRA]A (Stable)
INE457A09173	Basel II compliant Upper Tier II bonds	01-Feb-2010	8.65%	01-Feb-2025 (Call: 01-Feb-2020)	300.00	[ICRA]A (Stable)
INE457A09165	Basel II compliant Innovative Perpetual Debt Instrument	30-Sep-2009	9.25%	Perpetual (Call: 30-Sep-2019)	70.00	[ICRA]A (Stable)
INE457A08035	Basel III compliant Tier II bonds	27-Jun-2016	9.20%	27-Sep-2026	500.00	[ICRA]A+(hyb)(Stable)
Yet to be placed	Basel III Compliant Tier II Bonds Programme	-	-	-	500.00	[ICRA]A+(hyb)(Stable)

Source: Bank of Maharashtra

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