June 05, 2023 (Revised)

Bank of Maharashtra: Rating reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel II Lower Tier II Bonds	1,000.00	-	[ICRA]AA (Positive); reaffirmed and withdrawn; outlook revised to Positive from Stable
Basel III Tier II Bonds	1,600.00	1,600.00	[ICRA]AA (Positive); reaffirmed and outlook revised to Positive from Stable
Total	**2,600.00**	**1,600.00**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook on the long-term rating of Bank of Maharashtra (BoM) factors in the sustained improvement in its earnings profile, driven by the pick-up in growth as well as the steady moderation in the fresh non-performing assets (NPA) generation. With the increase in the core operating profitability and moderation in credit costs, the bank's return metrics have improved, with the same expected to sustain in the near to medium term. The vulnerable book (SMA-1, SMA-2[1] and standard restructured book) has also seen a relative moderation from the higher level a year ago and hence the overall solvency profile is expected to remain comfortable. Nonetheless, the asset quality will remain a monitorable as any macro-economic shock could impact it and the profitability profile of the bank. In this regard, BoM continues to hold on to floating/prudent provisions that can absorb some of the incremental impact if the same materialises.

ICRA also expects BoM to remain sufficiently capitalised with no need for regulatory or growth capital requirements as it is expected to internally generate the requisite growth capital. However, the impact of transitioning to provisioning based on the expected credit loss (ECL) framework will also remain a monitorable. The rating remains supported by the majority sovereign ownership of BoM and its above-average resource profile, aided by the 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, which translates into a granular deposit base and competitive cost of funds. This is expected to support a steady improvement in its operating profitability.

The Positive outlook on the rating factors in ICRA's expectations that BoM will continue to maintain its earnings profile and asset quality, thereby leading to further improvement in its solvency and capital cushion over the regulatory levels.

ICRA has also withdrawn the rating for the Rs. 1,000-crore Basel II Lower Tier II bonds as these bonds have been fully redeemed and no amount is outstanding against the same. The rating was withdrawn in accordance with ICRA's policy on withdrawal (click here for the policy).

[1] *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*

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 90.97% as on March 31, 2023. Furthermore, it had received regular capital support from the GoI in the past with infusions of Rs. 9,007 crore during FY2017-FY2020. This enabled the bank to increase its provision cover on the legacy stressed assets, while improving its capital ratios above the regulatory levels, and helped it exit the Reserve Bank of India's (RBI) prompt corrective action (PCA) framework in January 2019. Following its exit from the PCA framework, BoM's profitability improved steadily, led by the strong growth in advances and lower credit costs.

Given ICRA's estimate for internal capital generation, BoM is not expected to require any capital support from the GoI in the near to medium term, although the same is expected if required. As a part of the Union Budget announcement in February 2021, the GoI has proposed the divestment of two public sector banks (PSBs). The rating will be reassessed in case of a change in the sovereign ownership.

Capitalisation profile and solvency continue to improve – BoM's capitalisation profile improved with the CET I {as a percentage of risk-weighted assets (RWA)} at 12.66% as on March 31, 2023 (12.17% as on March 31, 2022), supported by the improvement in internal capital accretion. The expansion in the Tier I capital to 14.25% as on March 31, 2023 (12.38% as on March 31, 2022) was, however, supported by Tier-I bonds (Rs. 1,590 crore in FY2023). While the year-on-year (YoY) growth in advances and the RWA growth remained high in FY2023, the same was driven by the exposure towards higher-rated entities and government and government-guaranteed exposures, which kept the risk-weighted density of the assets at a relatively lower level. Besides this, the increase in the provision coverage ratio resulted in a decline in the net NPAs. Accordingly, the overall solvency levels (Net NPA + Net non-performing investments (NPI) + Net security receipts (SRs) / Core capital) improved to 3.06% as on March 31, 2023 (13.70% as on March 31, 2022). Furthermore, the bank is also holding prudent/floating provisions of Rs. 1,200 crore, which is much higher than the stock of net NPA stock of Rs. 435 crore as on March 31, 2023.

Notwithstanding the expected improvement in the capitalisation profile, the RBI recently issued a discussion paper for transitioning to the expected loss framework for credit exposures. As highlighted by ICRA, banks with a high share of overdue/restructured loans could see a one-time impact on their capital position upon transitioning. While the RBI has proposed these provisions to be spread over a five-year period for the computation of the regulatory capital ratios, the impact on the capital position (without taking regulatory forbearance) will remain a monitorable.

Above-average resource profile with strong CASA share in overall deposits – BoM has an established retail franchise with a strong regional presence in Maharashtra, depicted by its network of 2,203 branches as on March 31, 2023 (~51% in Maharashtra as on March 31, 2023). Given its growth ambitions, the bank had started expanding its branch network from FY2021 with most of the new branches being opened outside Maharashtra. This is likely to continue over the next few years.

The established retail franchise, along with the increased focus on government business, has supported a strong growth in the deposit base. BoM's low-cost CASA deposits grew 6.8% in FY2023 and accounted for 53.4% of the total deposit base, which was much higher than the CASA deposit share of PSBs. With the increase in deposits from government departments and certificates of deposit, a large portion of incremental deposits was in the form of bulk deposits. This led to a further increase in the overall depositor concentration levels (top 20) to 11.80% of the total deposits as on March 31, 2023 from 9.71% as on March 31, 2021. Nevertheless, the high share of CASA deposits allowed BoM's cost of interest-bearing funds to remain very competitive at 3.58% in FY2023, better than the industry average.

Earnings profile improves – BoM's operating profit continued to witness a sustained improvement to 2.50% of average total assets (ATA) in FY2023 from 2.23% in FY2022 and 1.89% in FY2021, supported by the strong growth in advances while maintaining a competitive cost of funds. Additionally, the decline in gross fresh slippages, along with healthy recoveries and upgrades, resulted in a moderation in the credit costs to 0.91% of ATA in FY2023 from 1.30% in FY2022. Given the relative decline in the vulnerable book and the prudent provisions held by the bank, its overall credit cost outlook remains benign. This apart, profitability was supported by recoveries from written-off accounts during the year. As a result of these factors, BoM's return metrics {return on assets (RoA)} improved to 1.05% in FY2023 from 0.58% in FY2022 and 0.31% in FY2021. Going forward, the ability to contain the credit costs at these levels will be key to maintaining this level of internal capital generation.

Credit challenges

Asset quality remains monitorable – The overall gross fresh NPA generation eased to 1.25% in FY2023 (2.64% in FY2022) and was materially lower than the elevated levels seen in the past (~5-11% over FY2017-FY2020). The provision cover ratio also improved significantly, leading to a moderation in the net NPAs. Besides this, the bank's SMA-1 and SMA-2[2] book saw a relative moderation to Rs. 793 crore (0.46% of standard advances from 0.84% as on March 31, 2022), while the standard restructured book declined to Rs. 4,188 crore as on March 31, 2023 (2.45% of standard advances) from Rs. 5,547 crore as March 31, 2022 (4.27% as of standard advances). While the potential stress book level has eased, the bank has also seen a significantly high growth in advances compared to the PSB average. A sizeable share of this growth was also driven by loans to state government owned entities, which have weak credit profiles, and has also resulted in the concentration of exposures. Further, there has been a sharp increase in inflation levels recently, leading to the weakening of the Indian currency, faster monetary policy tightening and a sharp rise in the interest rates. The impact of the weakening macro-economic factors could also affect the debt-servicing ability of borrowers and remains a 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. 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 held excess statutory liquidity ratio (SLR) holdings of Rs. 16,838 crore {7.2% of net demand and time liabilities (NDTL)} as on March 31, 2023. This, in turn, supported its strong liquidity coverage ratio (LCR), which stood at 157% for FY2023. However, as the growth picked up strongly in FY2023, the negative cumulative mismatches in the up to 1 year bucket have seen a relative widening. Nonetheless, the bank can also avail liquidity support from the RBI (through marginal standing facility mechanism) in case of urgent liquidity needs. Moreover, with a strong liability franchise, ICRA expects BoM to roll over its deposits and maintain strong liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the bank is able to maintain its profitability with RoA of more than 0.8% while maintaining the solvency profile with NNPA/core equity at or below 20% and Tier I cushions of more than 200 basis points (bps) over the regulatory Tier I levels (including capital conservation buffers) on a sustained basis.

[2] *Rs 1. crore and above*

Negative factors – ICRA could also revise the outlook to Stable and/or downgrade the rating if the asset quality or capitalisation profile deteriorates, weakening the solvency profile with net stressed assets/core equity exceeding 30% on a sustained basis. Further, a sustained RoA of less than 0.3% and/or a decline in the capital cushions over the regulatory levels to less than 100 bps on a sustained basis will remain negative triggers. The rating will also be reassessed in case of a change in the sovereign ownership.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions Impact of Parent or Group Support on an Issuer's Credit Rating ICRA's Policy on Withdrawal of Credit Ratings Rating Approach- Consolidation
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 limited consolidation approach, we have factored in the capital requirement of BoM's subsidiary and associate.

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. 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 and has remained a mid-sized public sector bank.

As on March 31, 2023, BoM had a wide network of 2,203 branches, most of which are spread across Maharashtra. In FY2023, the bank reported a net profit of Rs. 2,602 crore (RoA of 1.05%) on a total asset base of Rs. 2.66 lakh crore as on March 31, 2023 compared to a net profit of Rs. 1,152 crore (RoA of 0.58%) on a total asset base of Rs. 2.29 lakh crore as on March 31, 2022.

Key financial indicators (standalone)

Bank of Maharashtra	FY2021	FY2022	FY2023
Net interest income	4,897	6,044	7,741
Profit before tax	954	1,956	3,445
Profit after tax	550	1,152	2,602
Net advances (Rs. lakh crore)	1.02	1.31	1.71
Total assets (Rs. lakh crore)	1.95	2.29	2.66
CET I	10.98%	12.17%	12.66%
Tier I	10.98%	12.38%	14.25%
CRAR	14.49%	16.48%	18.14%
Net interest margin	2.73%	3.05%	3.13%
PAT / ATA	0.31%	0.58%	1.05%
Return on net worth	5.02%	9.36%	18.41%
Gross NPAs	7.23%	3.94%	2.47%
Net NPAs	2.48%	0.97%	0.25%
Provision coverage excl. technical write-offs	67.30%	76.04%	89.96%
Net NPA / Core equity capital	27.77%	10.94%	3.05%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jun-05-2023	Jun-13-2022	Aug-02-2021	Sep-14-2020
1	Basel II Lower Tier II Bonds	Long Term	1,000	-	[ICRA]AA (Positive); Withdrawn	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)
2	Basel II Upper Tier II Bonds	Long Term	-	-	-	-	-	[ICRA]A (Positive)
3	Basel II Tier I Bonds	Long Term	-	-	-	-	-	[ICRA]A (Positive)
4	Basel III Tier II Bonds	Long Term	1,600	1,100#	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+(hyb) (Positive)

Balance amount yet to be placed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Basel II Lower Tier II Bonds	Simple
Basel III Tier II Bonds	Highly Complex

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
INE457A09199	**Basel II Lower Tier II Bonds**	Dec-31-2012	9.00%	Dec-31-2022	1,000.00	[ICRA]AA (Positive); Withdrawn
INE457A08035	**Basel III Tier II Bonds**	Jun-27-2016	9.20%	Sep-27-2026	500.00	[ICRA]AA (Positive)
INE457A08050	**Basel III Tier II Bonds**	Mar-06-2020	8.70%	Mar-06-2030[&]	600.00	
-	**Basel III Tier II Bonds[#]**	-	-	-	500.00	

Source: Bank of Maharashtra

[&] First call option on March 06, 2025, and then annually on coupon payment dates; [#] Yet to be placed

Key features of rated debt instruments

The Basel III Tier II Bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked by the RBI. The Basel III Tier II 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%	Limited consolidation
Maharashtra Gramin Bank	35%	Limited consolidation

Source: Bank of Maharashtra

Corrigendum

Rationale dated June 5, 2023, has been revised with changes as below:

– Addition of "Rating Approach- Consolidation" in the analytical approach section.

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