

Vijaya Bank

September 28, 2018

Summary of rated instruments

Bank of Baroda

| Instrument | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|---|
| Basel III Compliant Tier II Bond Programme | 1,000.00 | 1,000.00 | [ICRA]AAA (hyb) &, placed on rating watch with developing implication |
| Medium Term Fixed Deposit Programme | - | - | MAAA &, placed on rating watch with developing implication |
| Total | 1,000.00 | 1,000.00 | |

For the last rating rationale for Bank of Baroda, please click [here](#).

Vijaya Bank

| Instrument | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|---|
| Basel III Compliant Tier II Bond Programme | 1,450.00 | 1,450.00 | [ICRA]AA+ (hyb) &, placed on rating watch with developing implication |
| Basel III Compliant Additional Tier I Bond Programme | 1,325.00 | 1,325.00 | [ICRA]AA- (hyb) &, placed on rating watch with developing implication |
| Total | 2,775.00 | 2,775.00 | |

For the last rating rationale for Vijaya Bank, please click [here](#).

& Under Rating Watch with Developing Implications

Update

On September 17, 2018, the Ministry of Finance proposed the merger of Bank of Baroda (BoB), Vijaya Bank (Vijaya) and Dena Bank (Dena) as advised by the 'Alternative Mechanism' subject to the approval by the respective Boards of the banks.

The merger, upon implementation is expected to create the third largest bank in India (after State Bank of India¹ and HDFC Bank) and second largest public sector bank with total assets of Rs.10.08 lakh crore & total business of Rs. 14.82 lakh crore (as on June 30, 2018). While the amalgamated entity would have large scale (with 7.8% share total advances and 7.6% share in total deposits as on June 30, 2018); and wider geographic spread, the operational synergies are expected to accrue only over the medium term given the immediate challenges related to integration and focus of management on improving the asset quality of the combined entity. The asset quality related issues and the consequent elevated credit costs are likely to maintain pressure on the amalgamated entity's performance. Given the weak financial position of one of the merged entities – Dena Bank, capital support from the Government of India will be an important determinant of the credit profile of the merged entity.

¹ Rated [ICRA]AAA/[ICRA]A1+ for Tier II bonds and certificate of deposit programme

While the Board of Dena has approved the merger on September 24, 2018, it is still in a nascent stage. Subsequent to the Board approvals by BOB and Vijaya, the share swap ratios will be determined, and the merger would be subject to shareholder, parliamentary and regulatory approvals which is expected to take at least few months. Given the initial stages of the proposed merger, ICRA has placed the ratings under Rating Watch with Developing Implications and will take an appropriate rating action as and when more clarity emerges.

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

Links to applicable criteria:

[ICRA Rating Methodology for Banks](#)

About the company:

Bank of Baroda

BOB was incorporated in 1908 and was under private ownership and control till July 1969 when it was nationalised along with 13 other banks. The Government of India held a 64.03% stake in the bank as on March 31, 2018. The bank has a widespread domestic network of 5,467 branches (as on March 31, 2018) and a large overseas presence with 105 offices. During the year ended March 31, 2018, BOB reported a loss of Rs. 2,432 crore on total assets of Rs. 7.17 lakh crore compared to a net profit of Rs. 1,383 crore on total assets of Rs. 6.91 lakh crore during the previous year. The bank's gross and net NPA stood at 12.26% and 5.49%, respectively, as on March 31, 2018, against 10.46% and 4.72%, respectively, as on March 31, 2017. The regulatory capital adequacy ratio stood at 12.13% as on March 31, 2018 (Tier 1: 10.46% and CET 1 of 9.23%).

Key financial indicators (audited)

| Instrument | FY2017 | FY2018 | Q1FY2018 | Q1FY2019 |
|---|----------|----------|----------|----------|
| Net Interest Income | 13,513 | 15,522 | 3,405 | 4,381 |
| Profit before tax | 2,473 | -2,791 | 280 | 840 |
| Profit after tax | 1,383 | -2,432 | 203 | 528 |
| Net advances | 3,83,259 | 4,27,432 | 377,607 | 414,517 |
| Total assets (adjusted for revaluation reserves) | 6,91,299 | 7,16,843 | 660,906 | 711,003 |
| % CET 1 | 8.98% | 9.23% | 8.83% | 9.27% |
| % Tier 1 | 9.93% | 10.46% | 9.77% | 10.50% |
| % CRAR | 12.24% | 12.13% | 11.81% | 12.13% |
| % Net interest margin / Average total assets | 1.99% | 2.20% | 2.01% | 2.45% |
| % Net profit/Average total assets | 0.20% | -0.35% | 0.12% | 0.30% |
| % Return on net worth | 3.80% | -6.32% | 2.21% | 5.22% |
| % Gross NPAs | 10.46% | 12.26% | 11.40% | 12.46% |
| % Net NPAs | 4.72% | 5.49% | 5.17% | 5.40% |
| % Provision coverage ratio excl. technical write offs | 57.68% | 58.42% | 57.73% | 59.94% |
| % Net NPA/ Net worth | 49.23% | 58.36% | 52.85% | 54.91% |

Amount in Rs. crore; All ratios are as per ICRA calculations

Source: BOB; ICRA research

Vijaya Bank

Vijaya Bank is a mid-sized commercial bank, with the GoI holding a majority stake of 68.8% as on March 31, 2018. The bank had a share of about 1.4% in the banking system advances and deposits as on March 31, 2018. Headquartered in Bangalore, Vijaya Bank has a strong presence in South India, even as it has been extending its reach across India. The bank had 2,136 branches and 2,155 ATMs as on March 31, 2018.

For FY2018, the bank reported a net profit of Rs. 727 crore (Rs. 750 crore in FY2017) on a total asset base of Rs. 1.76 lakh crore as on March 31, 2018 (Rs. 1.54 lakh crore as on March 31, 2017).

Key financial indicators (audited)

| | FY2017 | FY2018 | Q1 FY2018 | Q1 FY2019 |
|---|------------|------------|------------|------------|
| Net Interest Income (Rs. crore) | 3,506.44 | 4,302.89 | 943.80 | 1,206.72 |
| Profit before Tax (Rs. crore) | 147.87 | 440.29 | 329.35 | 192.79 |
| Profit after Tax (Rs. crore) | 750.48 | 727.03 | 254.69 | 144.32 |
| Net Advances (Rs. crore) | 94,548.89 | 116,165.44 | 91,327.00 | 119,666.27 |
| Total Assets (Rs. crore) (adjusted for revaluation reserve) | 154,051.11 | 176,841.53 | 152,118.04 | 177,646.20 |
| % CET 1 | 8.44% | 10.36% | 8.47% | 10.35% |
| % Tier 1 | 9.96% | 11.71% | 10.01% | 11.70% |
| % CRAR | 12.73% | 13.90% | 12.73% | 13.91% |
| % Net Interest Margin / Average Total Assets | 2.34% | 2.60% | 2.47% | 2.72% |
| % Net Profit / Average Total Assets | 0.50% | 0.44% | 0.67% | 0.32% |
| % Return on Net Worth | 10.25% | 7.39% | 13.68% | 5.40% |
| % Gross NPAs | 6.59% | 6.34% | 7.30% | 6.19% |
| % Net NPAs | 4.36% | 4.32% | 5.24% | 4.10% |
| % Provision Coverage incl Technical Write-offs | 58.15% | 59.39% | 56.01% | 61.18% |
| % Net NPA / Net Worth | 56.25% | 51.04% | 63.15% | 45.57% |

Note: Amounts in Rs. crore

Source: Vijaya Bank, ICRA research

All ratios are as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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

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