Bank of India

Instrument/Facility	Outstanding Amount* (in INR Crores)	Rating Action (February 2016)
Rs 950 Lower Tier II Bonds	200	[ICRA]AA (Stable) Revised from [ICRA]AA+ (Stable)
Rs 1000 Upper Tier II Bonds	732	[ICRA]AA- (Stable) Revised from [ICRA]AA (Stable)
Rs 658 Innovative Perpetual Debt Instruments	655	[ICRA]AA- (Stable) Revised from [ICRA]AA (Stable)
Term Deposit Programme	-	MAA+ (stable) Revised from MAAA (stable)

**Outstanding as on February 22, 2016*

ICRA has revised the ratings outstanding on the Rs. 950 Crores Lower Tier II Bonds Programme of Bank of India (BoI) from [ICRA]AA+ (Pronounced ICRA Double A plus) to [ICRA]AA (Pronounced ICRA Double A); on the Rs. 1000 Crores Upper Tier II Bonds Programme from [ICRA]AA (Pronounced ICRA Double A) to [ICRA]AA- (Pronounced ICRA Double A minus) and on the Rs. 658 Crores Innovative Perpetual Debt Instruments from [ICRA]AA (Pronounced ICRA Double A) to [ICRA]AA- (Pronounced ICRA Double A minus). ICRA has also revised the ratings for Term Deposit Programme from MAAA(pronounced M triple A) to MAA+ (M double A plus). All ratings carry a stable outlook.

The rating revisions are on account of higher than anticipated stress, slower than expected pace of recovery and weak outlook for several credit intensive sectors which led to sharp deterioration in asset quality indicators of the bank and has impacted the earnings profile of the bank. Further, in ICRAs opinion, earnings profile of the bank over the medium term is likely to remain weak given the relatively high share of stressed assets (4.34% restructured advances as a percentage of standard assets and other weak assets), relatively high un-provided NPAs (Net NPA% of 5.25% as on December 31, 2015). Limited visibility on capital availability to fully support credit growth while meeting the regulatory minimum requirement also constrains the rating.

The ratings however continue to draw comfort from the bank's majority sovereign ownership with 70.13% stake held by Government of India (GoI) as on December 31, 2015, demonstrated support from its largest shareholder including the Rs 2455 crore capital infusion from the GoI in FY16, strong franchisee and branch network and a healthy proportion of overseas income.

In light of the challenges highlighted above and higher exposure of BOIs to stressed sectors, its asset quality indicators are likely to remain weak over the next 1-2 years; given that it would be a challenge to reduce the pace of fresh NPA generation as well as recover from a large stock of Gross NPAs and standard restructured advances (estimated at around 13.52% as on December 31, 2015). Recognition of stress was reflected in Q3, FY16 asset quality indicators for BOI, when RBI post its 'asset quality review' directed banks to bring consistency in NPA recognition for stressed accounts. BOI's Gross NPA % increased from 7.55% as on September 2015 to 9.18% as on December 2015. BOI's reported Gross NPAs % is expected to worsen in Q4, FY16.

With yields on advances witnessing a decline on account of interest reversal due to slippages, subdued non-interest income and high credit costs (credit provisions in relation to ATA* of around 1.80% in 9M, FY16) the bank reported a loss of 0.55% of ATA in 9MFY16. The bank's operating profits in relation to Net NPA of ~26% does not provide much cushion to absorb the expected losses. Sizeable Net NPAs (5.25% as on December 31, 2015) and other weak assets (standard restructured advances of around 4.34% and some other weak standard assets) are likely to keep credit costs

* Average Total Assets

elevated over next 2-3 years, leading to pressure on earnings and therefore internal capital generation. Furthermore, requirement to increase provisioning cover for some restructured advances could elevate credit cost further in FY17.

BOI's current capitalization profile is moderate as its Tier I capital stood at 7.88% and a CRAR of 11.28% as against regulatory minimum requirement of 7.625% and 9.625% respectively as on March 31, 2016[†]. Further, BOI's Net NPAs in relation to Net worth have increased to ~76% as on December 2015 from ~51% as on March 015, weakening the ability of the bank to withstand unexpected losses.

As for minimum regulatory requirement, the bank would need to raise sizeable capital to meet increasing regulatory minimum requirements as well as for growth. In ICRA's estimate, BOI would require to raise common equity capital of Rs 70-110[‡] billion and additional tier I capital (AT1) of Rs 30-40 billion during FY17-FY19 to meet increase in regulatory minimum capital requirement as well as for growth. BOI's common equity requirement is equivalent to 100-150% of its current market capitalisation. In case of lack of adequate investor appetite for AT1 capital raising, the gap would need to be met through further core capital raising, thereby increasing core capital raising requirements further. As for capital raising in current fiscal, the bank has received Rs 2455 Crores from GoI. Continued equity support from GOI would continue to remain a key driver for BOI's credit profile.

Profile of the Bank

Bank of India (BOI) was incorporated in 1906 and was under private ownership and control till July 1969 when it was nationalized along with 13 other banks. Government of India holds 70.13% stake in the bank as on Dec 31, 2015. The bank has a wide spread network of 4984 branches across India along with 7787ATMs as on Dec 31, 2015. During FY2015 the bank reported profit after tax of Rs.1709 Crores on total asset base of Rs.615,142 Crores as on March 31, 2015 against profit after tax of Rs.2729 Crores on total asset base of Rs.569,448 Crores as on March 31, 2014.The bank reported a capital adequacy of 10.73% under Basel III with a Tier I capital of 8.17% as on March 31, 2015.

Recent Results

BOI had a total deposit base of Rs. 528,772 Crores with a gross loan portfolio outstanding at Rs. 397,914 Crores as on Dec 31, 2015. The bank reported a loss of Rs 2,502 Crores in 9MFY2016 as compared to a PAT of Rs Rs 1,765 Crores in 9MFY2015.

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[†] Including capital conservation buffer of 0.625%

[‡] Assuming buffer of 0.5% over and regulatory minimum requirement and annualized growth of 7-10% in risk weighted assets during FY17-FY19

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