Bank of Baroda

Instrument	Amount In Rs Crore	Rating Action (July 2016)
Tier II Bonds Programme	1000.00	[ICRA]AAA (stable) withdrawn
Tier II Bonds Programme – BASEL III	1000.00	[ICRA]AAA (hyb) (stable) reaffirmed
Certificate of Deposit Programme	20,000	[ICRA]A1+ reaffirmed
Term Deposit Programme	-	MAAA (stable) reaffirmed

ICRA has reaffirmed the rating of MAAA (pronounced M triple A) with a stable outlook on the Term Deposit Programme and [ICRA]A1+ (pronounced ICRA A one plus) to the Rs 20,000 crores Certificate of Deposit Programme of Bank of Baroda (BOB) [1]. ICRA has also reaffirmed the [ICRA]AAA(hyb) (pronounced ICRA triple A hybrid) rating with stable outlook to the Basel III compliant Tier II Bonds Programme of Rs 1,000 crores of BOB. 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 Tier 2 bonds are expected to absorb losses once "Point of Non Viability" (PONV) trigger is invoked. ICRA has withdrawn the [ICRA]AAA (stable) rating on Rs 1000 crores Tier II bonds programme of Bank of Baroda.

The ratings factor in BOB's majority sovereign ownership (59.24% equity shares are held by Government of India or GoI), its relatively better current capitalisation level (Core Tier 1 capital 10.29%) vs. other public sector banks or PSBs, its strong franchise imparting healthy and stable deposits base and sound liquidity profile. BOB has a healthy deposits profile supported by its wide spread branch network and well established brand franchise, BOB's domestic CASA deposits were ~34% as on Mar-16 which is a positive from cost of funds as well as liquidity perspective. ICRA has taken note of the significant increase in Gross NPA% of the bank over the last two quarters from 5.57% as on Sep 30, 2015 to 10.01% as on Mar 31, 2016 as a result of slippages arising out of RBI's asset quality review exercise (AQR) and BOB's exposure to stressed sectors.

Recognition of stress was reflected in Q3, FY16 asset quality indicators for BOB, when RBI post its 'asset quality review' directed banks to bring consistency in NPA recognition for stressed accounts. BOB's Gross NPA % increased from 5.57% as on September 2015 to 9.68% as on December 2015. Gross NPA% for the bank further deteriorated to 10.01% as on Mar-16. In addition to current reported Gross NPAs & standard restructured advances (3.39% of Gross Advances), there are other vulnerable exposures of ~Rs 13200 crores (~3.3%) which are part of SMA2 accounts as of now and some of these could slip to NPA / restructured category over next one-two years. Going ahead, pace of fresh NPA is likely to remain elevated, though lower than FY16 as BOB has recognized a significant weak proportion of weak assets as on March 31, 2016. Also, BOB's focus on recoveries is also expected to help in moderation of credit costs. However, higher than anticipated stress, and weak outlook for several credit intensive sectors may impact NPA generation pace adversely. The fresh NPA generation rate and credit costs will continue to remain a key monitorable.

BOB's current capitalisation level is comfortable with CRAR of 13.17% and tier I capital of 10.79% as on Mar-16 (as per Basel III) supported by regular equity infusions from GOI. In FY2016, the bank received Rs 1786 crores of equity from GOI. . Expectation of strong support from GOI, given its systemic importance provides support for the rating. As per ICRA estimate, BOB would need to raise total tier 1 capital of Rs 18,000-21,000 crore (~48-58% of its market cap[2]) over FY17-FY20 to meet increase in regulatory minimum capital requirement as well as for growth. Ability to secure capital in a timely manner would be a key driver for BOB's growth.

[1] "For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications"

[2] Including buffer of 1% over and above minimum regulatory required core capital and growth in Risk weighted assets at 12%-14%.

The profitability of BOB significantly deteriorated with the bank reporting loss in FY16 on account of interest reversals on account of high slippages and increased credit provisioning (1.96% of ATA in FY16 against 0.66% in FY15). Anticipated higher credit costs over next 2-3 years is likely to exert pressure on earnings and therefore internal capital generation. Furthermore, requirement to increase provisioning cover for some restructured advances could result in high credit costs in FY2017.

Bank Profile

BOB was incorporated in 1908 and was under private ownership and control till July 1969 when it was nationalized along with 13 other banks. Government of India held 59.24% stake in the bank as on Mar 31, 2016. The bank has a wide spread domestic network of 5,330 across India (as on Mar 31, 2016) and a large overseas presence with 106 branches. BOB has an asset base of Rs 671,376 Crore as on Mar 31, 2016.

During the year ended March 31, 2016, BoB reported a net loss of Rs. 5,396 crore on a total income of Rs. 49,060 crore as compared to a net profit of Rs.3,398 crore on a total income of Rs. 47,366 crore during the previous year. The bank's asset quality deteriorated significantly in FY16 with Gross NPA% at 10.0% and Net NPA% at 5.1% as on March 31, 2016 against 3.7% and 1.9%, respectively, as on March 31, 2015. The regulatory capital adequacy ratio stood at 13.17% as on March 31, 2016 (Tier 1: 10.79%).

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For further details please contact:
Analyst Contacts:
Mr. Karthik Srinivasan (Tel No +91 22 6114 3444)
karthiks@icraindia.com

Relationship Contacts:
Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	