April 26, 2024

Bank of India: Rating reaffirmed and put on notice of withdrawal

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit programme	-	-	[ICRA] AA+ (Stable); reaffirmed and put on notice of withdrawal
Total	-	-	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation continues to factor in Bank of India's (BoI) strong capital position as well as the steady improvement in its solvency[1] level on the back of the declining net stressed assets level. Further, the capital cushions were strengthened by a capital raise via a qualified institutional placement (QIP) amounting to Rs. 4,500 crore in Q3 FY2024. While the bank has shown its ability to raise capital, the rating continues to factor in its sovereign ownership and the demonstrated track record of capital support from the Government of India (GoI), which is expected to be forthcoming if required. Moreover, the rating considers BoI's strong resource profile on the back of its robust retail franchise, including the healthy share of low-cost current account and savings account (CASA) deposits, which translates into a granular deposit base and competitive cost of funds.

The bank's overall potential stress book, comprising the overdue and restructured book, has declined gradually from the higher level during the Covid-19 pandemic, though it remains elevated in relation to the core capital. Further, profitability has remained at sub-optimal levels so far and below the public sector banks' (PSBs) average. A sustained improvement will continue to depend on BoI's ability to keep slippages and credit costs at lower levels. Moreover, any material weakening in macroeconomic conditions will be a monitorable as it could potentially impact the asset quality and profitability levels.

BoI has confirmed that there are no deposits outstanding, which have been mobilised using ICRA's ratings. Hence, at the bank's request and in accordance with ICRA's withdrawal policy, the rating is being placed on notice of withdrawal.

Key rating drivers and their description

Credit strengths

Sovereign ownership with demonstrated capital support from GoI – The rating continues to factor in the bank's majority sovereign ownership (73.38% as on December 31, 2023) and the demonstrated track record of capital infusions by the GoI of ~Rs. 29,784 crore during FY2017-FY2021, which supported a meaningful reduction in the net non-performing advances (NNPAs) over the last few years. Accordingly, BoI is not expected to require further capital in the near term, though its rating will be reassessed in case of a change in the sovereign ownership.

Strong capitalisation levels – The bank's core equity capital (CET I) and Tier I capital stood at 13.16% and 13.87% (excluding 9M FY2024 profit), respectively, as on December 31, 2023 (12.77% and 13.61%, respectively, as on December 31, 2022). While the capitalisation profile was supported by infusions in the past, BoI remained profitable during FY2021-9M FY2024, supporting its capital ratios despite the growth in assets. The capital position was also supported by an equity raise of Rs. 2,550 crore via a QIP in FY2022 and Rs. 4,500 crore via a QIP in Q3 FY2024. Better capitalisation levels, along with a decline in the net stressed levels, supported the gradual improvement in the solvency level to 14.6% as on December 31, 2023 (16.7% as on March 31, 2023, 23.4% as on March 31, 2022).

[1] *Solvency is defined as (NNPAs + Net security receipts + Net non-performing investments) / Core capital)*

ICRA also notes that some of the bank's subsidiaries have required capital support in recent years. Capital infusions may be required by regional rural banks in the near to medium term, which has been factored into ICRA's estimates. This is expected to remain at a manageable level. ICRA expects BoI to remain sufficiently capitalised as its internal capital generation is likely to provide the requisite growth capital.

The Reserve Bank of India (RBI) issued a discussion paper for transitioning to the expected loss framework for credit exposures in January 2023. 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 that these provisions should 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.

Well-developed deposit franchise, leading to competitive cost of funds – BoI continues to derive strength from its granular deposit base, which is supported by its network of 5,161 branches as on December 31, 2023, with a deep presence in rural and semi-urban areas (64% of total branches). Its liability profile has traditionally been dominated by deposits, driven by the low-cost domestic CASA deposits, which stood above the PSB average at 43.88% of total deposits as on December 31, 2023. The overall deposit growth of 8.3% YoY in December 2023 remained weak in relation to the strong growth of 13.9% in advances. The deposit base remains granular, with the share of the top 20 depositors at 7.67% as on March 31, 2023 (6.42% as on March 31, 2022, 7.05% as on March 31, 2021). Going forward, ICRA expects BoI's liability profile to remain a significant positive for supporting its credit growth while maintaining strong liquidity and profitability.

Credit challenges

Asset quality remains monitorable – The annualised fresh NPA generation rate moderated to 1.54% of standard advances in 9M FY2024 from 1.94% in FY2023 (2.50% in FY2022). Further, BoI's headline asset quality metrics have improved steadily, supported by high recoveries, upgrades, and write-offs. As a result, the gross NPA (GNPA) and NNPA declined to 5.35% and 1.41%, respectively, as on December 31, 2023 (7.31% and 1.66%, respectively, as on March 31, 2023). Despite the improvement in the headline asset quality metrics, the overall vulnerable book [special mention account (SMA-1 + SMA-2) + standard restructured book] continues to be high in relation to the core capital. Slippages from this pool could remain elevated in the near term, leading to higher credit costs and lower profitability.

Modest, albeit improving, profitability – With the improvement in the yield on assets and the competitive cost of funds, the net interest margin (NIM) increased to 2.72% of average total assets (ATA) in 9M FY2024 (2.64% of ATA in FY2023), though it continued to lag the PSB average of 2.76%. Besides the improvement in margins, the operating expense was lower at 1.74% of ATA in 9M FY2024 compared to the PSB average of 2.00%. This helped the bank report operating profitability of 1.63% of ATA, in line with the PSB average of 1.61% in 9M FY2024. As the improvement in the operating profitability was supported by one-off items, the sustainability of the same remains to be seen. Moreover, the bank has shifted to the new tax regime, resulting in a one-time additional charge of Rs. 1,460 crore in 9M FY2024. Thus, its return on assets (RoA) stood at 0.78% in 9M FY2024compared to the PSB average of 0.92%. BoI's ability to improve its operating profitability and contain the slippages from the vulnerable pool will be a key driver of internal capital generation.

Environmental and social risks

Given the service-oriented nature of its business, the bank's direct exposure to environmental risks is not material, though it faces asset quality risks from regulatory changes that affect its borrowers. BoI's business strategy encompasses efforts and investments towards energy conservation, carbon management, water conservation, waste reduction and reuse. The bank is guided by RBI-prescribed guidelines on priority sector lending and government-led initiatives to improve the access of disadvantaged, vulnerable and marginalised stakeholders to financial services. Performance-related evaluation of various initiatives is conducted at regular intervals and the initiatives are fine-tuned accordingly.

Liquidity position: Strong

BoI's liquidity profile remains strong, supported by its robust liabilities franchise and sovereign ownership. Further, the bank has excess statutory liquidity ratio (SLR) holdings of 5% of total deposits as on December 31, 2023, which can be utilised to avail liquidity support from the RBI (through repo against excess SLR investments and the marginal standing facility mechanism) in case of urgent liquidity requirement. Moreover, the liquidity coverage ratio of 148.1% and net stable funding ratio of 133.2% for the quarter ending December 31, 2023 were well above the regulatory requirement of 100%.

Rating sensitivities

Positive factors – BoI's ability to enhance its profitability, with an RoA of more than 1%, and an improvement in the solvency profile with net stressed assets/core equity of less than 20% on a sustained basis, while maintaining Tier I cushions of more than 2% over the regulatory Tier I levels (including capital conservation buffers), will be positive factors.

Negative factors – The rating will be reassessed in case of a change in the sovereign ownership. Deterioration in the asset quality or capitalisation profile, thereby weakening the solvency profile with net stressed assets/core equity exceeding 30% on a sustained basis will lead to a negative impact on the rating. Further, a sustained RoA of less than 0.3% and/or a decline in the capital cushions over the regulatory levels to less than 1% on a sustained basis will remain negative factors.

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 Rating Approach – Consolidation Policy on Withdrawal of Credit Ratings
Parent/Group support	The rating factors in BoI's sovereign ownership and the demonstrated track record of capital infusions by the GoI.
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of BoI. However, in line with ICRA's limited consolidation approach, the capital requirement of the BoI Group's key subsidiaries/associates/joint ventures, going forward, has been factored in.

About the company

Bank of India (BoI) was incorporated in 1906 and was nationalised, along with 13 other banks, in July 1969. The GoI's stake in the bank was 73.38% as on December 31, 2023. As per ICRA's estimates, BoI had a market share of 3.4% and 3.6%, respectively, in the total advances and deposits of the Indian banking sector as on December 31, 2023 and a widespread network of 5,161 branches across India.

For 9M FY2024, BoI reported a net profit of Rs. 4,879 crore on a total asset base of Rs. 8.66 lakh crore as on December 31, 2023 compared to a net profit of Rs. 2,673 crore in 9M FY2023 on a total asset base of Rs. 7.84 lakh crore as on December 31, 2022.

Key financial indicators (standalone)

Bank of India	FY2022	FY2023	9M FY2024
Total income	20,534	25,540	21,212
Profit after tax	3,405	4,023	4,879
Total assets (Rs. lakh crore)	7.28	8.09	8.66
CET I	13.49%	13.60%	13.16%^
CRAR	16.51%	16.28%	16.06%^
PAT/ATA	0.47%	0.52%	0.78%
Gross NPA	9.99%	7.31%	5.35%
Net NPA	2.34%	1.66%	1.41%

Note: All calculations are as per ICRA Research; ^Excluding 9M FY2024 profit
Source: Bank of India, ICRA Research
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

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
					Apr-26-2024	Apr-24-2023	Jun-08- 2022	Apr-21- 2022	Apr-29-2021
1	**Fixed deposit programme**	Long term	-	-	**[ICRA]AA+ (Stable); reaffirmed and put on notice of withdrawal**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**MAAA (Stable)**	**MAA+ (Stable)**

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fixed deposit programme	Very Simple

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
NA	**Fixed deposit programme**	-	-	-	-	[ICRA]AA+ (Stable): put on notice of withdrawal

Source: Bank of India

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership*	Consolidation approach
BOI Shareholding Limited	100.00%	Full consolidation
BOI Investment Managers	100.00%	Full consolidation
BOI Trustee Services	100.00%	Full consolidation
BOI Merchant Bankers Limited	100.00%	Full consolidation
PT Bank of India Indonesia Tbk	86.04%	Full consolidation
Bank of India (Tanzania) Limited	100.00%	Full consolidation
Bank of India (New Zealand) Limited	100.00%	Full consolidation
Bank of India (Uganda) Limited	100.00%	Full consolidation
STCI Finance Limited	29.96%	Full consolidation
ASREC (India) Limited	26.02%	Full consolidation
Indo Zambia Bank Limited	20.00%	Full consolidation
Star Union Dai-Ichi Life Insurance Co. Limited	28.96%	Full consolidation
Madhya Pradesh Gramin Bank	35.00%	Full consolidation
Vidharbha Konkan Gramin Bank	35.00%	Full consolidation
Aryavart Bank (erstwhile Gramin Bank of Aryavart)	35.00%	Full consolidation

*Source: BoI; *As on December 31, 2023*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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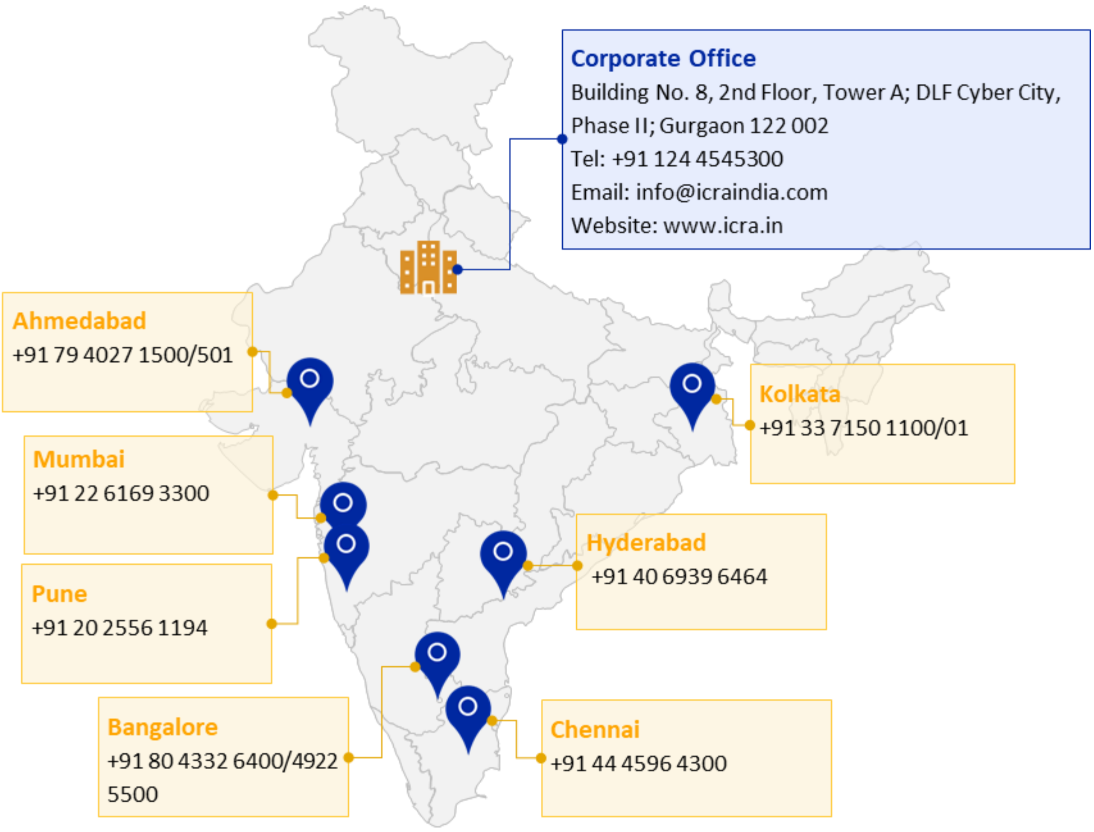

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