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बैंक ऑफ इंडिया Bank of India BOI

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संदर्भ क्र Ref No.:HO:IRC:SD:2020-21:206

दिनांक Date: 15.10.2020

Script Code: BANKINDIA	Script Code : 532149
The Vice President – Listing Department, National Stock Exchange of India Ltd., Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai 400 051.	The Vice-President – Listing Department, BSE Ltd., 25, P.J. Towers, Dalal Street, Mumbai 400 001.

महोदय/महोदया Dear Sir/Madam,

Rating Action by India Rating & Research

In compliance of Regulation 30of the SEBI (Listing Obligations and Disclosure Requirements) Regulations,2015, this is to inform that India Rating & Research has vide its rating released dated 14th October,2020 has downgrades our long term Issuer Rating and **Basel III Bank of India Tier II Bond Rating** to AA'/Stable From AA+/Negative. The details of bond are as follows:

Name of the series	ISIN	Coupon Rate (%)	Date of Issue	Maturity Date	Value (Crore)
Series XIV	INE084A08110	8	27th of March,2017	27th of March,2027	1000

We are enclosing release issued by Credit Rating Agency.

भवदीय Yours faithfully,

(राजीव भाटिया Rajeev Bhatia)
कंपनी सचिव **Company Secretary**

बैंक ऑफ इंडिया BANK OF INDIA प्र.का. H.O. निवेशक संबंध कक्ष Investor Relations Cell

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India Ratings & Research
A Fitch Group Company

India Ratings Downgrades Bank of India to 'IND AA'; Outlook Stable

14

OCT 2020

By Ankit Jain

India Ratings and Research (Ind-Ra) has downgraded Bank of India's (BoI) Long-Term Issuer Rating to 'IND AA' from 'AA+'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel III tier 2 bonds	INE084A08110	27 March 2017	8	27 March 2027	INR10	IND AA/Stable	Downgraded

Analytical Approach: The downgrade reflects the BoI's inability to sustain its current position of systemic importance with the possibility of a further decline in its overall share of systemic assets and liabilities, mirroring the continuing pressure on its asset quality. In addition, the restructuring that is expected to be carried out post August 2020 and consistently decreasing common equity Tier 1 (CET1) levels (below FY19 levels) would continue to keep operational metrics under pressure in the medium term and thereby impact the bank's ability to maintain its systemic importance. BOI's Long-Term Issuer Rating reflects the bank's systemically important position and Ind-Ra's expectations that the bank would continue to receive support from the government of India (GoI).

During FY20, BoI reported a higher pre-provisioning operating buffer and an improved provision coverage ratio (excluding technical write-offs) than FY19; although continued to report losses, driven by an elevated slippage ratio and a higher credit cost. Consequently, BoI's capital ratios declined year-on-year in FY20 and 1QFY21, close to the minimum regulatory requirement. Ind-Ra expects the bank to continue to witness higher credit costs in FY21-FY22 on account of the ageing provisions in addition to the increasing credit costs due to the COVID-19 pandemic, which could impact its ability to maintain its position of relative systemic importance.

KEY RATING DRIVERS

Weakening Systemic Importance; Continuous Government Support Required: BoI is the sixth-largest public sector bank (fourth-largest earlier) and the ninth-largest bank in the country in terms of its assets. Although BoI continued to receive large capital support of INR261.2 billion from the GoI during FY18-FY19, high provisioning requirements due to worsening of its asset quality and a weak operational performance were mainly responsible for the combined losses of INR222 billion during FY16-FY20 and the resultant pressure on its capital buffers. Furthermore, the bank's decreasing advances market share to 3.8% in FY20 (FY16: 5%), is indicative of its weakening systemic importance.

Asset Quality, Credit Costs May Come Under Pressure due to COVID-19: Ind-Ra has revised its outlook on the public banking sector to negative for 2HFY21 from stable. This is in view of an expected spike in the delinquency levels, which could result in higher credit costs; weaker earnings on account of interest reversals and lower fee income; modest capital buffers especially for PSBs and muted growth prospects in the wake of measures taken to contain the spread of COVID-19.

BoI's gross non-performing asset ratio improved to 13.91% in 1QFY21 (FY20: 14.78%, FY19: 15.84%), primarily due to write-offs. Its provision coverage ratio (excluding technical write-offs) improved to 77.03% in 1QFY21 (FY20: 76.7%, FY19: 68.5%) and consequently, the net non-performing assets reduced to 3.58% (3.88%, 5.61%). The bank's slippage ratio remained elevated at 4.79% in FY20 (FY19: 5.24%). Ind-Ra expects BoI's high share of moratorium in loan book (46% by value as on 24 June 2020) to be the source of further slippages.

The bank's total exposure to National Company Law Tribunal (NCLT) cases stood at INR380.7 billion in 1QFY21 (NCLT-1 exposure at INR21.1 billion; NCLT-2 exposure at INR21.2 billion) with 100% provision cover for NCLT-1 and NCLT-2 accounts. Ind-Ra believes recoveries from these accounts could support the bank's profitability. The agency further expects the probabilities of such resolutions to be lower than in the past, especially in a post-COVID-19 scenario. BoI's special mention accounts (SMA)-1 and SMA-2 stock (greater than INR50 million) stood at 0.89% of advances in 1QFY21. Accordingly, Ind-Ra expects the bank's credit cost to remain elevated in FY21-FY22, driven by a post-COVID-19 scenario and ageing provisions in addition to the fresh slippages even from the non-corporate segments.

Weak Profitability: BoI's profitability improved in FY20 with pre-provisioning operating buffer of 1.8% (FY19: 1.3%), although remained weak. The bank continued to report losses of INR29.6 billion; its cumulative loss over FY16-FY20 stood at INR222 billion, higher than the profits made over FY08-FY15. Moreover, Ind-Ra expects credit cost of 2.6%-3.4% in FY21 for the overall banking sector, in majority driven by 2.9%-3.8% for PSBs due to the ageing provisions in addition to the asset quality stress from non-corporates.

Average Capital Buffers: The bank's CET1 capital decreased to 9.46% at 1QFY21 from a peak of 11.14% at 1QFY20. The COVID-19 led lockdown and its aftermath could result in incremental credit costs as the weaker borrower profiles could witness a default in almost all the business segments. The bank's tier-I capital ratio stood at 9.48% in 1QFY21 (1QFY20: 11.20%) and total capital adequacy ratio at 12.76% (14.35%). Within its comparable peer set, BoI had average capital buffers as of 1QFY21, thereby diminishing the ability to sustain capital erosion in case of a further asset quality deterioration. Furthermore, higher-than-estimated stress and the limited capital levels could impact the bank's growth plans and its ability to maintain its systemic importance.

CASA Ratio Rises While Deposit Market Share Declines: BoI's current account savings account (CASA) ratio improved to 34.8% in 1QFY21 (1QFY17: 26.4%). While the bank has tried to enhance its CASA franchise (especially savings account), it has hardly seen any material advance growth, and hence, the need for raising bulk deposits was low while the granular deposits kept accruing. However, Ind-Ra believes if the loan growth picks up, BoI's dependence on wholesale deposits and borrowings could increase, consequently diluting the CASA ratio.

However, the bank's overall deposit market share has declined over FY14-FY20 (FY20: 4.3%, FY14: 6.2%), higher than the deposit market share losses witnessed by its peers. While its peers have benefited from amalgamation, BoI has been left out from the process, thereby impacting the market share positioning among PSBs. Ind-Ra believes a continued loss of the market share will raise concerns over the sustained systematic importance of BoI over the medium term.

Liquidity Indicator - Adequate: BoI maintained a small cumulative funding deficit of 0.6% in the up-to-one-year bucket on the contractual asset liability management at end-1QFY21. It also maintained about 27.5% of the total assets in balances with the Reserve Bank of India, banks and in government securities in 1QFY21, which gives Ind-Ra the comfort that the bank is adequately placed to meet its short-term funding requirements. The bank's liquidity coverage ratio was 195.06% at end-1QFY21 on consolidated basis, higher than the minimum regulatory requirement.

RATING SENSITIVITIES

Positive: A significant increase in market share in advances and deposits in line with higher rated banks, leading to a material increase in its systemic importance and a consistent improvement in the bank's capital and profitability buffers, could lead to the revision of Outlook to Positive.

Negative: A material loss of franchise, higher-than-expected deterioration in the asset quality, weak equity buffers (close to minimum regulatory requirements) or sizeable loss could also lead to a negative rating action.

COMPANY PROFILE

BoI is the sixth-largest Indian PSB. As of FY20, it had net advances share of about 3.8% and deposit share of about 4.3%. BoI has 5,109 branches and 5,750 ATMs as of 1QFY21.

FINANCIAL SUMMARY

Particulars	1QFY21	FY20	FY19
Total assets (INR billion)	6,813.0	6,570.0	6,252.2
Total equity (INR billion)	447.0	438.2	463.2
Net profit/loss (INR billion)	8.4	-29.6	-55.5
Return on assets (%)*	0.50	-0.50	-0.90
Common equity tier 1 (%)	9.46	9.88	11.01
Capital adequacy ratio (%)	12.76	13.10	14.19
Source: BoI *Annualised for 1QFY21			

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	1 July 2020	17 June 2019	6 June 2018

Issuer rating	Long-term	-	IND AA/Stable	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative
Basel III tier 2 bonds	Long-term	INR10	IND AA/Stable	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Rating of Bank Legacy Hybrids and Sub-Debt

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