बैंक ऑफ़ बड़ौदा Bank of Baroda

BCC:ISD:116:16:423 04.12.2024

The Vice-President, B S E Ltd., Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001 BSE CODE-532134	The Vice-President, National Stock Exchange of India Ltd. Exchange Plaza, Bandra Kurla Complex, Bandra (E) Mumbai – 400 051 CODE-BANKBARODA

Dear Sir / Madam,

Re: Bank of Baroda – Credit Rating - Disclosure under Regulation 30 of SEBI (LODR), 2015.

We advise that Moody's Ratings has released its update on 'Credit Opinion' on Bank of Baroda. As per the report, Moody's has affirmed Bank of Baroda's (BoB's) Long Term Deposit Ratings at Baa3 and Baseline Credit Assessment (BCA) at ba2. The outlook on the BoB's ratings remains stable. The detailed report is enclosed.

We request you to take note of the above pursuant to Regulation 30 of SEBI (LODR) Regulations, 2015 and upload the information on your website.

Yours faithfully,

P K AGARWAL

Digitally signed by P K AGARWAL
Date: 2024.12.04 18:18:08 +05'30'

P K Agarwal
Company Secretary

बड़ौदा कार्पोरेट सेन्टर, सी-26, जी-ब्लॉक, बांद्रा-कुर्ला कॉम्पलेक्स, बान्द्रा (पू.), मुंबई - 400 051,भारत.
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CREDIT OPINION

4 December 2024

Update

Send Your Feedback

RATINGS

Bank of Baroda	
Domicile	Mumbai, India
Long Term CRR	Baa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100

Bank of Baroda

Update to credit analysis

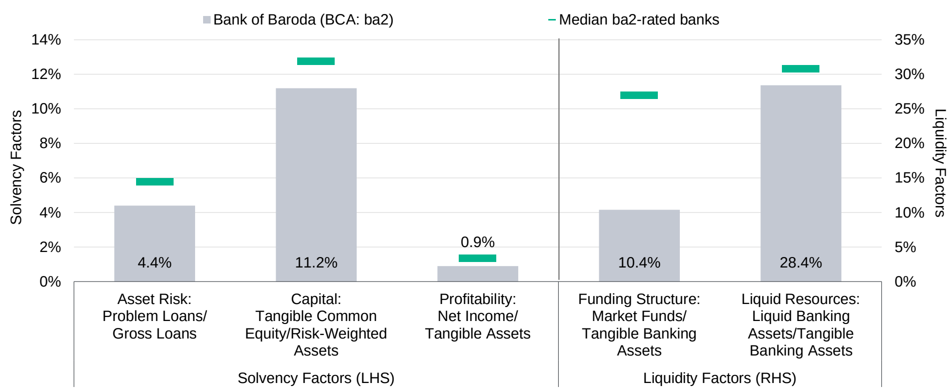
Summary

Bank of Baroda's (BOB) Baa3 long-term local- and foreign-currency bank deposit ratings reflect our expectation that India's strong operating environment will continue to support the bank's fundamentals over the next 12 to 18 months. The bank's solvency has improved, as reflected by a lower nonperforming loan (NPL) ratio, stronger capitalization and higher profitability. Meanwhile, BOB's credit strengths lie in its funding and liquidity, backed by its status as a public sector bank (PSB) and its extensive branch network in India (Baa3 stable).

BOB's Baa3 deposit ratings are two notches higher than the bank's ba2 Baseline Credit Assessment (BCA), reflecting our assessment that the Government of India will provide support to the bank in times of need.

The outlook on the ratings, where applicable, remains stable.

Exhibit 1
Key financial ratios



Data as of 31 March 2024.
Source: Moody's Financial Metrics

Credit strengths

» Strong funding franchise and good liquidity

» Very high probability of government support because of the government's ownership and the systemic importance of PSBs in India

Credit challenges

» Single-name borrower concentration risk

Outlook

The rating outlook is stable, in line with the stable outlook on India's sovereign rating and our view that the bank's standalone creditworthiness will be stable over the next 12-18 months.

Factors that could lead to an upgrade

» An upgrade of BOB's Baa3 deposit ratings is unlikely because they are at the same level as India's Baa3 sovereign rating.

» We could upgrade BOB's ba2 BCA if its tangible common equity/risk-weighted assets (TCE/RWA) improves to above 13% and net income/tangible assets increases to above 1.2% on a sustained basis.

Factors that could lead to a downgrade

» BOB's deposit ratings will be downgraded if the sovereign rating is downgraded or if its BCA is downgraded by more than one notch.

» A lowering of BOB's BCA is likely if its asset quality deteriorates, leading to higher credit costs and a decrease in its return on tangible assets to below 0.5% on a sustained basis; or if its TCE/RWA declines below 7%.

Key indicators

Exhibit 2

Bank of Baroda (Consolidated Financials) [1]

	03-24[2]	03-23[2]	03-22[2]	03-21[2]	03-20[2]	CAGR/Avg.[3]
Total Assets (INR Billion)	16,477.2	15,181.4	13,330.9	11,929.9	11,924.6	8.4[4]
Total Assets (USD Billion)	197.6	184.7	175.9	163.2	157.6	5.8[4]
Tangible Common Equity (INR Billion)	1,110.7	956.5	800.2	740.8	612.9	16.0[4]
Tangible Common Equity (USD Billion)	13.3	11.6	10.6	10.1	8.1	13.2[4]
Problem Loans / Gross Loans (%)	2.9	3.8	6.6	8.8	9.3	6.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.2	10.8	10.0	9.8	8.1	10.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	22.9	28.6	42.9	52.5	60.1	41.4[5]
Net Interest Margin (%)	3.1	3.2	2.8	2.6	2.9	2.9[5]
PPI / Average RWA (%)	4.1	3.7	3.2	3.2	3.1	3.5[6]
Net Income / Tangible Assets (%)	1.2	1.1	0.5	0.1	0.1	0.6[5]
Cost / Income Ratio (%)	46.5	50.6	50.1	47.0	53.0	49.4[5]
Market Funds / Tangible Banking Assets (%)	10.4	9.7	11.2	8.4	10.7	10.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	28.4	30.2	33.1	31.9	33.3	31.4[5]
Gross Loans / Due to Customers (%)	88.5	84.7	82.8	81.4	82.0	83.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

Bank of Baroda (BOB) is a public sector commercial bank. It provides retail, corporate and wholesale banking services, and treasury facilities. It caters to individuals, medium-sized and large companies, institutions, provident fund trusts, and central and state governments.

With operations mainly in India, BOB held deposit and loan market shares of 6.3% and 6.7%, respectively, as of September 2024. The bank reported total consolidated assets of INR17.2 trillion ($203.8 billion) as of the same date.

Incorporated in 1908 in Baroda, Gujarat state, India, BOB was nationalized in 1969 and was listed in December 1996. The bank's shares are traded on both the Bombay Stock Exchange and the National Stock Exchange of India Limited. As of March 2024, the largest shareholder in the bank was the Government of India, with a 63.97% stake.

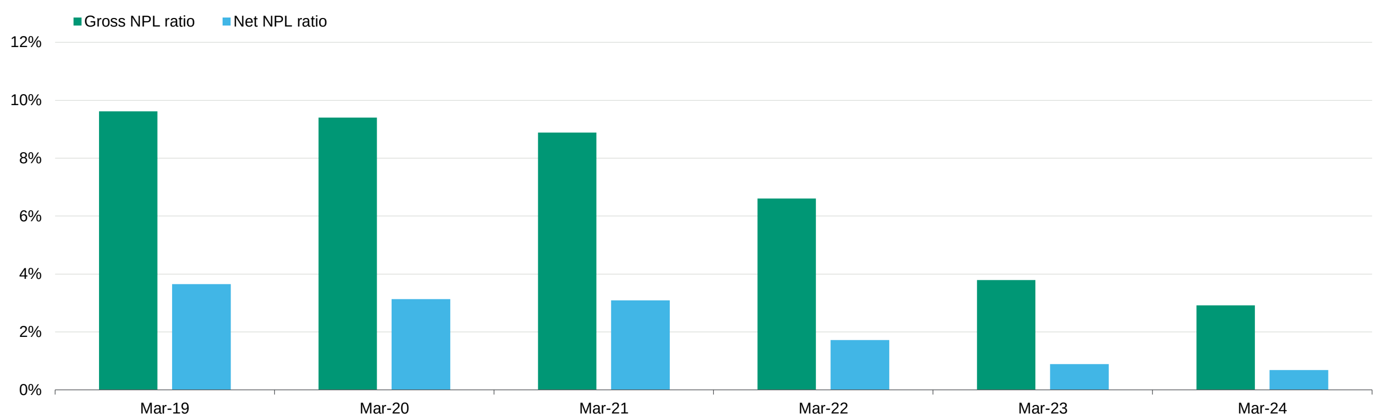
Detailed credit considerations

NPL ratio will be broadly stable

BOB's asset quality has been gradually improving over the past five years, as shown in Exhibit 3. The bank's gross NPL ratio was 2.5% as of September 2024, lower than the 3.3% a year earlier, because of lower slippages. Over the next 12 to 18 months, we expect its NPL ratio to be broadly stable due to limited recoveries in the corporate book. The decline in its NPL ratios was seen across all customer segments over the past few years but was mainly driven by the improvement in the asset quality of its corporate loans.

Exhibit 3

Gross and net NPL ratios have been steadily declining



Sources: The bank and Moody's Ratings

As of September 2024, the gross NPL ratio of corporate loans fell to 0.2% from 9.3% as of March 2021. While the bank continues to have a concentration in single-name borrowers, we expect the quality of corporate loans to remain strong, as the financial health of corporates has improved following a decade of declining leverage. BOB has also increased its exposure to strong corporate borrowers, as borrowers rated A and above accounted for 92% of large borrowings (above INR500 million) as of September 2024, up from 63% as of March 2021. At the same time, while capital spending will remain large for Indian companies, we expect a large part of these funding needs to be covered by earnings.

Looking ahead, BOB is focused on growing its retail, agriculture and MSME exposures. Within the retail book, the bank will focus on growing secured loans. Strong growth in personal loans will continue to pose challenges to asset quality. As of September 2024, nonperforming loans ratio for personal loans increased to 3.2% from 2% as of March 2024 and 0.9% as of March 2023. Yet, we expect the impact on the overall NPL ratio to be modest because of the bank's limited exposure to these loans. In addition, BOB will now focus its lending of personal loans mainly from existing borrowers and those who receive their salaries through BOB.

Meanwhile, agriculture and MSME borrowers will remain vulnerable if there is a change in the operating environment. Loans to these sectors have historically had higher NPL ratios, as they have lower buffers to withstand adverse shocks, such as an unexpected monsoon event. As of 30 September 2024, NPL ratios for agriculture and MSMEs were at 5.3% and 8.7%, respectively.

BOB remains adequately provisioned. Its provision coverage ratio was stable at 76.3% as of 30 September 2024, excluding technical write-off accounts. In addition, its provisioning coverage for accounts under the National Company Law Tribunal was sufficient at 99% as of the same date.

The assigned ba3 Asset Risk score takes into consideration the factors mentioned above.

Profitability will moderate because of tightening margins

BOB's return on assets (ROA) increased to 1.2% in the first half of the fiscal year ending March 2025 (H1 of fiscal 2025) from 1.1% a year earlier. We expect its ROA to decrease over the next 12 to 18 months, as its net interest margin (NIM) will soften from a high level. Meanwhile, the increase in its ROA for H1 of fiscal 2025 was also supported by major recoveries. For instance, recoveries from technical write-off accounts accounted for 19% of its operating profit in H1 of fiscal 2025.

Its NIM was at 3.18% in fiscal 2024, lower than 3.31% in the year earlier due to higher funding costs, partly offset by a stronger yield on advances. Its NIM continued to decline in H1 of fiscal 2025 to 3.14%. We expect its NIM to soften over the next 12 to 18 months, as BOB has an elevated loan-to-deposit ratio and will need to compete for deposits to support loan growth. We expect funding costs to remain high due to tight liquidity in the banking system. Meanwhile, BOB has fully repriced its loan book, and we expect the yield on advances to remain stable. The bank expects its NIM for fiscal 2025 to be between 3.1% and 3.15%. Looking ahead, BOB will improve its margins by reduce its low-yielding assets and high cost deposits, as well as will price more of its loans using MCLR[1], instead of EBLR[2].

The bank's loan loss provision expenses/gross loans was at 0.67% in fiscal 2024, higher than 0.53% in the year earlier. The increase in provisions was driven by the default of two large accounts, one of which is the low-cost airline, GoAir, and the bank has made full provisions for these accounts. Nonetheless, annualized credit costs declined to 0.55% in H1 of fiscal 2025. We expect the bank's credit costs to remain low over the next 12 to 18 months, in line with our expectation that the bank's asset quality will be broadly stable.

Indian banks will be transitioning to the Expected Credit Losses (ECL) framework in the coming years. As of now, the Reserve Bank of India (RBI) is yet to announce a firm timeline for the transition. However, it is expected that banks have around five years to transition fully to this framework, and profitability could be strained during this period.

We assign a ba1 Profitability score to reflect the factors mentioned above.

Capital has strengthened

As of September 2024, the bank's consolidated Common Equity Tier 1 (CET1) ratio was at 13.2%, higher than 12.1% a year earlier, driven by strong internal capital generation. During fiscal 2024, the RBI imposed a higher capital charge for banks' exposures to unsecured and non-bank finance companies, and this led to a decline in the CET1 ratio of around 65 basis points for BOB.

We expect the bank's CET1 ratio to remain broadly stable over the next 12 to 18 months in the absence of the transition to the ECL framework. If the transition occurs, we expect the day 1 impact of this implementation to reduce the bank's capitalization.

In line with the current RBI guidelines, BOB's dividend payout ratio is capped at a percentage of its net profit, and the actual amount will be dependent on the bank's asset quality and capitalization. For fiscal 2023 and fiscal 2024, BOB paid out 19% and 21% of its earnings as dividends, respectively.

The ba3 Capital score reflects the factors mentioned above.

Funding and liquidity will remain key credit strengths, as the bank benefits from a flight to safety

BOB is one of the largest PSBs in India by assets, with a market share of around 6.3% for deposits as of 30 September 2024. Similar to that of most PSBs, BOB's primary source of funding is retail deposits. The bank's domestic current and savings account deposit ratio was 40% as of the end of September 2024, moderately lower than 41% a year earlier because depositors turned to more attractive fixed deposits. The bank's domestic loan-to-deposit ratio was modest at 82% as of the same date.

Our baa2 Funding Structure score reflects the bank's stable funding and granular deposit base, as reflected by the ratio of the top 20 deposits to total deposits, which was at 4.6% as of March 2024.

BOB's stock of liquid assets, the bulk of which consists of cash, interbank assets and government securities, accounted for 29% of its total tangible assets as of 31 March 2024, a proportion that has been broadly stable over the past five years.

As of 31 March 2024, the bank reported a liquidity coverage ratio (LCR) of 121%. While the modification in calculation of LCR, as proposed by the central bank, will reduce BOB's LCR, we expect the impact to be modest and expect the bank's LCR to be in the range between 110% to 120%.

We assign BOB a baa2 Liquid Resources score, reflecting its large exposure to the Indian government through its mandatory holdings of government securities.

BOB's BCA is supported by India's Moderate+ macro profile

The macro profile is an analytical input used to determine each bank's BCA and is designed to capture the systemwide factors that are predictive of the propensity of banks to fail. Because BOB operates predominantly in India, we assigned a Moderate+ macro profile to the bank, in line with that assigned to India.

India's macro profile reflects a balance between its large, diverse economy with significant growth potential and challenges such as low per capita income and moderate institutional strength. With strong underlying momentum, India's economy is expected to grow at close to 7% annually over the next two fiscal years, outpacing all other G20 economies. India's institutional strength incorporates improvements in monetary and macroeconomic policy effectiveness, reflecting robust post-pandemic growth, commitment to inflation targeting, and financial system reforms. Additionally, India is poised to benefit from global trade and investment shifts as companies diversify away from China.

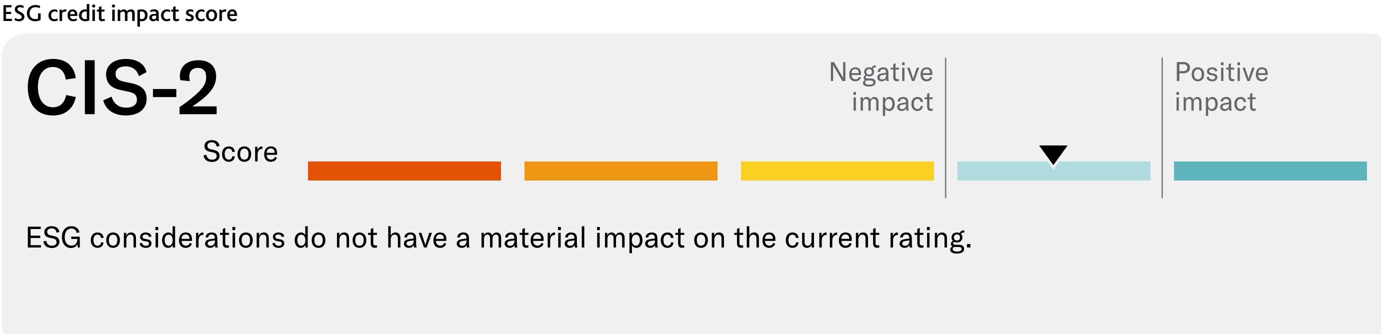
Credit conditions in India have gradually improved, with a significant reduction in the banks' stock of legacy problem loans over the past three years. Corporates' financial health has also improved following a decade of leverage reduction, although stress among non-bank financial institutions has abated. In addition, retail loans have performed well despite pandemic-induced economic stresses, indicating better underwriting quality and relatively low household leverage in India compared with those in many other Asian countries. However, concerns remain due to a modest decrease in household financial resilience and the unseasoned risk associated with the rapid growth in personal loans. High borrower concentration risk remains present among Indian banks, although the risk is currently mitigated by their strong fundamentals.

The funding and liquidity of Indian banks are stable because these banks continue to be largely funded by customer deposits, with limited reliance on confidence-sensitive market funds. Furthermore, all the Indian banks that we rate meet their current LCR requirements, although only a portion of the banks' holdings of government securities is included as high-quality liquid assets in LCR calculations. This factor underscores the robustness of the banks' liquidity.

ESG considerations

Bank of Baroda's ESG credit impact score is CIS-2

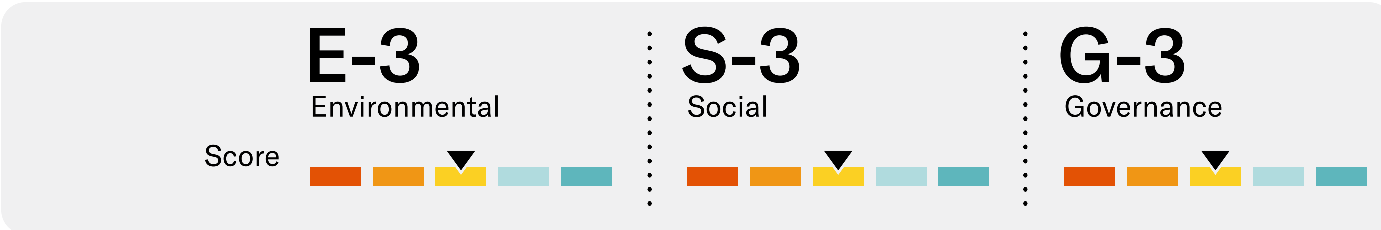
Exhibit 4
ESG credit impact score



Source: Moody's Ratings

Bank of Baroda's **CIS-2** indicates that ESG considerations are not material to the ratings because a very high level of government support mitigates the impact of ESG factors on the ratings to date.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Bank of Baroda faces moderate industrywide environmental risks from loan exposure to the agriculture sector, which is prone to water management issues, and to sectors subject to carbon transition risk. The environmental risks are partially offset by the bank's diversified loan book.

Social

Bank of Baroda faces moderate social risks related to customer relations, tightening regulatory and compliance standards, and the impact of potential technological disruptions associated with an increasingly digitally active customer base. However, the bank is generally focused on intermediation with simpler product ranges with few identified conduct issues and faces moderate risk from regulatory scrutiny on consumer protection. Furthermore, the bank benefits from India’s favorable demographic factors and low credit penetration.

Governance

Bank of Baroda faces moderate governance risks. Its financial strategy and risk management are modest, as reflected by the significant asset-quality challenges over the past decade. BOB also faces potential strategic risks because of its government ownership and status as a public sector bank in India, which may limit management flexibility and independence.

Support and structural considerations

Affiliate support

BOB's ratings do not benefit from affiliate support.

Government support considerations

Our assessment of a very high probability of support to BOB in the event of financial distress takes into consideration the bank's importance to the domestic banking industry and its close relationship with the government, which had a 63.97% stake in the bank as of 31 March 2024. Following this assessment, the bank's Baa3 deposit ratings receive a two-notch uplift from its ba2 BCA.

The government plays a key role in the management of the bank, including in the appointment of senior managers and in setting the bank's strategic direction. The government has also made significant capital infusions into all PSBs, including BOB, over the last few years.

For other junior securities held by PSBs in India, potential government support will be moderate. This assessment reflects the increasing international trend of selectively imposing losses on holders of junior-ranking securities (creditor bail-in) as a precondition for an ailing bank to receive public sector support. Although India does not have an explicit legal framework to impose losses on creditors outside of bankruptcy, the global financial crisis has demonstrated that bank recapitalization costs can be shared with subordinated creditors outside of the legal framework by means of distressed exchanges without triggering any contagion, as was previously feared.

Counterparty Risk (CR) Assessment

BOB's CR Assessment is positioned at Baa3(cr)/P-3(cr)

The CR Assessment, before government support, is positioned in line with the bank's deposit ratings, reflecting our expectation that in case of a bank rescue, Indian regulators will not differentiate between banks' operational creditors and depositors, as illustrated by the bailout of Yes Bank Limited (Ba3 positive, b1[3]). We then assign government support assumptions, in line with our support assumptions on deposits.

Counterparty Risk Ratings (CRRs)

BOB's CRRs are positioned at Baa3/P-3

The CRR, before government support, is positioned in line with the bank's deposit ratings, reflecting our expectation that in case of a bank rescue, Indian regulators will not differentiate between banks' operational creditors and depositors. We then assign government support assumptions, in line with our support assumptions on deposits.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 6

Rating Factors

Macro Factors		
Weighted Macro Profile	**Moderate +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.4%	baa3	↔	ba3	Single name concentration	Loan growth
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	11.2%	baa3	↔	ba3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.9%	baa3	↓	ba1	Expected trend	
Combined Solvency Score		baa3		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	10.4%	baa1	↔	baa2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	28.4%	baa2	↔	baa2	Stock of liquid assets	
Combined Liquidity Score		baa1		baa2		
Financial Profile				ba2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa3		
BCA Scorecard-indicated Outcome - Range				ba1 - ba3		
Assigned BCA				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	ba1	1	Baa3	Baa3
Counterparty Risk Assessment	1	0	ba1 (cr)	1	Baa3(cr)	
Deposits	0	0	ba2	2	Baa3	Baa3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 7

Category	Moody's Rating
BANK OF BARODA	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
BANK OF BARODA (UK) LIMITED	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured MTN	(P)Baa3

Source: Moody's Ratings

Endnotes

1 Marginal Cost of the Fund-Based Lending Rate

2 External Benchmark Lending Rate

3 The bank ratings shown in this report are Yes Bank Limited's deposit rating and BCA.

REPORT NUMBER 1426592

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454