

Rating Report

Brickwork Ratings reaffirms “BWR AAA” rating for Bank of India’s IPDI issues of ₹ 400 Cr and ₹ 325 Cr and revises the rating from “BWR AAA” to “BWR AA+” for Additional Tier I Bonds (under Basel III) issue of ₹ 2500 Cr

Brickwork Ratings revises the rating¹ Bank of India’s Bond issues as follows

Instruments	Amount	Rating	Assigned/ Reaffirmed/ Revised	Rating History		
IPDI	₹ 400 Cr	BWR AAA (Stable)	Reaffirmed June 2015	BWR AAA (Stable) July 2014	BWR AAA (Stable) May 2014	BWR AAA (Stable) March 2013
IPDI	₹ 325 Cr	BWR AAA (Stable)	Reaffirmed June 2015	BWR AAA (Stable) July 2014	BWR AAA (Stable) May 2014	BWR AAA (Stable) March 2013
Additional Tier I Bonds (under Basel –III)	₹ 2500 Cr	BWR AA+ (Stable)	Revised June 2015	BWR AAA (Stable) July 2014 Assigned	-	-

¹Please refer to BWR website www.brickworkratings.com for definition of the rating assigned

Brickwork Ratings have relied on the Bank’s financial results up to FY15, publicly available information and other information/clarifications provided by the Bank.

The rating action continues to factor in the bank’s global presence and overall size among Public Sector Banks in India, Government of India’s equity stake (64.43%) and its continued support to the bank. However the rating revision in respect of Basel III Additional Tier I bonds (Perpetual Debt) factors in Q4FY15 losses, steep decline in profits for FY15 due to high provisioning cost, apart from concerns on asset quality as reflected by increasing restructured loan portfolio and declining Provision Coverage Ratio. Basel III bonds indicated above have a higher risk profile in terms of extant guidelines of RBI, and hence this revision.

Business Performance: Total business of the Bank increased to ₹ 9,46,633 Cr as on 31st March 2015 (as compared to ₹ 8,53,202 Cr during the previous year), registering an increase of 10.6% over the last year. Deposits have grown from ₹ 4,76,974 Cr during FY14 to ₹ 5,31,907 Cr in FY15, registering a growth of 11.52 %. Credit portfolio has shown 9.44% growth from ₹ 3,76,228 Cr in FY14 to ₹ 4,11,726 Cr during FY15. Of the total domestic credit, the Bank registered a higher growth in loans to MSME and Retail sectors, which is positive.

Earnings Quality: Total Net Interest Income for the Bank during FY 15 increased to ₹ 11,344 Cr recording a growth of 4.74% compared to growth of 20.02% achieved in its previous year FY14. However, Bank had to make provisions for Bad and Doubtful debts amounting to ₹ 5,227 Cr in FY15, as against ₹ 3,970 Cr in FY14, of which, the provision

for Q4FY15 alone was steep at ₹ 2,240 Cr, as against ₹ 1,135 Cr in Q4FY14. As a consequence in Q4FY15 the bank incurred a loss of ₹ 56 Cr, and overall net profit for the year declined by 38% from ₹ 2,729 Cr in FY14 to ₹ 1,709 Cr in FY15.

Asset Quality: In FY15, bank's asset quality deteriorated significantly, with Gross NPAs increasing from ₹ 11,868 Cr to ₹ 22,193 Cr. GNPA and NNPA Ratios increased to 5.39% (3.36% PY) and 3.36% (2.0%) respectively. In addition Bank also has close to ₹ 20,180 Cr of standard restructured domestic advances. Majority of restructuring has come from Infrastructure, Aviation and Engineering sectors. Potential slippages from the restructured portfolio would be a key rating sensitivity. Despite high provisions made in Q4FY15, the Provision Coverage Ratio declined during the year from 58.68% to 52.40%.

Capital Adequacy: As on FY15, the Bank's total CRAR as per BASEL III guidelines stands at 10.73% out of which Tier I capital adequacy ratio stood at 8.17% which is above regulatory requirement, but lower than most banks in the peer group.

Outlook: Most Public Sector Banks in the country have shown similar tendencies in respect of restructured debts, asset quality, increasing provision requirements and consequent impact on profitability. Basel III instruments have certain characteristics which make their risk profile higher, and the rating revision based on current performance, reflects this reality. Strengthening monitoring of restructured portfolio, improving recoveries from substandard assets, and enhancing profitability and capital adequacy will be the key rating sensitivities.

KEY Parameters (₹ Cr)	2013	2014	2015
Total Deposits	381,839	476,974	531,907
Deposit Growth (in %)		24.91%	11.52%
Total Advances	292,968	376,228	411,726
Loans Growth		28.42%	9.44%
Total Business	674,807	853,202	943,633
Business Growth		26.44%	10.60%
CASA Ratio (in %)	32.79 %	29.97 %	29.48%
Profitability Ratios (%)			
RoE	13.62%	11.73%	6.70%
RoA	0.65%	0.51%	0.27%
NIM	2.38%	2.34%	2.11%
Net Interest Income (NII)	9024	10831	11344
Non Interest Income	3766	4292	4233
Profit after tax	2749	2729	1709
Cost to Income Ratio	41.69%	44.30%	51.93%
Asset Liability Profile (%)			
Loans/Deposit Ratio	76.73%	78.88%	77.41%

Gross NPAs to Advances	2.99%	3.15%	5.39%
Net NPAs to Advances	2.06%	2.00%	3.36%
Provision Coverage Ratio	60.92%	58.68%	52.40%
Restructured Portfolio as a % of Gross Advances	6.43%	3.60%	5.30%
Gross NPA% + Restructured	9.42%	6.75%	10.69%
CRAR	11.02%	9.97%	10.73%
<i>Tier 1</i>	8.20%	7.23%	8.17%
<i>CET -I</i>	NA	6.84%	7.18%
<i>AT-I</i>	NA	0.39%	0.99%

Note: Aforesaid as per BWR calculations

Rating Outlook: Though the asset quality of the Bank has slightly suffered in FY15, its performance in reigning in non-performing assets has been comparatively better than its peers in PSU. Improvement in asset quality is quite a challenging task. Notwithstanding the Government's ownership and the support it is expected to give the Bank in the form of infusion of capital when necessary, the Bank's ability to bring about significant improvement in asset quality & profitability, adequately maintain its CRAR and improving the share of low cost deposits are the key rating sensitivities.

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Annexure I: Bank of India - Profit and Loss Statement (₹ Cr)

INCOME STATEMENT	Audited	Audited	Audited	Audited	Audited
Y/E MARCH	2011	2012	2013	2014	2015
Interest Income	21,752	28,481	31,909	37,910	43,429
Interest Expended	13,941	20,167	22,885	27,079	32,086
Net Interest Income	7,811	8,313	9,024	10,831	11,343
<i>Change (%)</i>	<i>35.7</i>	<i>6.4</i>	<i>8.5</i>	<i>20.0</i>	<i>4.73%</i>
Other Income	2,642	3,321	3,766	4,292	4,233
Net Income	10,452	11,635	12,790	15,123	15,576
<i>Change (%)</i>	<i>24.8</i>	<i>11.3</i>	<i>9.9</i>	<i>18.2</i>	<i>3.0%</i>
Operating Expenses	5,068	4,941	5,332	6,700	8,089
Operating Income	5,384	6,694	7,458	8,423	7,487
<i>Change (%)</i>	<i>14.4</i>	<i>24.3</i>	<i>11.4</i>	<i>12.9</i>	<i>-11.1%</i>
Other Provisions	1,889	3,116	4,451	4,878	5,692
PBT	3,495	3,578	3,007	3,545	1,795
Tax	1,007	900	259	816	86.13
PAT	2,489	2,678	2,749	2,729	1,709
<i>Change (%)</i>	<i>42.9</i>	<i>7.6</i>	<i>2.6</i>	<i>-0.73</i>	<i>-37.4%</i>

Annexure II: Bank of India – Balance Sheet (₹ Cr)

BALANCE SHEET	Audited	Audited	Audited	Audited	Audited
Y/E MARCH	2011	2012	2013	2014	2015
Capital	547.22	574.52	596.64	643.00	665.65
Reserves and Surplus	16743.46	20387.26	23321.51	29280.08	30781.09
Net Worth	15499.50	18759.40	21620.66	24542.73	31446.74
Deposits	298885.81	318216.03	381839.59	476974.05	531906.63
<i>Change (%)</i>	<i>30.10</i>	<i>6.47</i>	<i>19.99</i>	<i>24.91</i>	<i>11.52%</i>
CASA Deposits	73139.00	81352.00	93800.00	105467.00	114386.00
Borrowings	22021.37	32114.23	35367.58	48427.51	40057.14
Other Liabilities and Provisions	12974.68	13243.43	11477.39	17865.55	15287.25
Total Liabilities	351172.54	384535.47	452602.71	573190.19	618697.76
Current Assets	37309.99	34711.26	54835.85	61382.29	76403.69
Investments	85872.41	86753.59	94613.43	114152.43	119792.05
Net Advances	213096.18	248833.34	289367.50	370733.54	402025.55
<i>Change (%)</i>	<i>26.47</i>	<i>16.77</i>	<i>16.29</i>	<i>28.12</i>	<i>8.44%</i>
Net Fixed Assets	2480.74	2771.59	2870.13	5786.06	5885.54
Other Assets	12413.22	11465.69	10915.80	21135.87	14590.93
Total Assets	351172.54	384535.47	452602.71	573190.19	618697.76