बैंक ऑफ महाराष्ट्र
Bank of Maharashtra
भारत सरकार का उद्यम
एक परिवार एक बैंक

AX1/ISD/STEX/2022-23 **Date: June 13, 2022**

The General Manager,
Department of Corporate Services,
BSE Ltd.,
P.J Towers,
Dalal Street, Fort,
Mumbai - 400 001

The Vice President,
Listing Department,
National Stock Exchange of India Ltd.,
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East), Mumbai - 400 051

BSE Scrip Code: 532525

NSE Symbol: MAHABANK

Dear Sir / Madam,

Sub: Revision in Ratings on Bonds.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform that ICRA Limited has upgraded its ratings on the Bank's Tier II Bonds as below:

ISIN	Instrument	Rated amount (Rs. Crore)	Rating Action
INE457A09199	BASEL II Lower Tier II Bonds	1000.00	[ICRA] AA (Stable); upgraded from [ICRA] AA- (Stable)
INE457A08035	BASEL III Tier II Bonds	500.00	[ICRA] AA (Stable); upgraded from [ICRA] AA- (Stable)
INE457A08050	BASEL III Tier II Bonds	600.00	[ICRA] AA (Stable); upgraded from [ICRA] AA- (Stable)
-	BASEL III Tier II Bonds#	500.00	ICRA] AA (Stable); upgraded from [ICRA] AA- (Stable)
	Total	**2600.00**	

#yet to be placed by Bank.

Please find the enclosed Rating rationale issued by ICRA Limited dated June 13, 2022 with respect to the ratings on above Bonds.

Thanking you.

Yours faithfully,
For **Bank of Maharashtra**

CBhagwat

(Chandrakant Bhagwat)
Company Secretary & Compliance Officer

बैंक ऑफ महाराष्ट्र निवेशक सेवाएँ विभाग प्रधान कार्यालय, पुणे-5

Encl: As above

June 13, 2022

Bank of Maharashtra: Rating upgraded to [ICRA]AA (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel II Lower Tier II Bonds	1,000.00	1,000.00	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)
Basel III Tier II Bonds	1,600.00	1,600.00	[ICRA]AA (Stable); Upgraded from [ICRA]AA-(Stable)
Total	**2,600.00**	**2,600.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the sustained improvement in Bank of Maharashtra's (BoM) solvency profile[1], led by the improvement in its earnings profile along with a capital raise via a qualified institutional placement (QIP) in July 2021, and lower net non-performing advances (NPA) levels, driven by the high provision cover on its legacy stressed assets. While the vulnerable loan accounts remain relatively high, with (SMA)[2]-1 and SMA-2 at 2.6% of standard advances and the standard restructured book at 4.3% of standard advances as on March 31, 2022, the high provision coverage and prudent/Covid provisions of Rs. 1,200 crore (0.92% of standard advances), over and above the provisions held against the restructured book, remain a source of comfort. Besides this, BoM is expected to largely absorb the incremental credit cost through its operating profits if the same materialises in the foreseeable future. ICRA also expects BoM to remain sufficiently capitalised with limited need for regulatory or growth capital requirements as it is expected to internally generate the requisite growth capital.

The rating also considers the majority sovereign ownership of BoM and its above-average resource profile, supported by an established retail network with a strong presence in Maharashtra. The bank has a fairly high level of low-cost current account and savings account (CASA) deposits, which translates into a granular deposit base and competitive cost of funds. This is expected to support a steady improvement in its operating profitability.

The Stable outlook on the rating factors in ICRA's expectations that BoM will largely be able to absorb incremental credit losses through its operating profits, while continuing to improve its asset quality and solvency position, and will maintain sufficient capital cushion over the regulatory levels.

Key rating drivers and their description

Credit strengths

Sovereign ownership – The rating continues to factor in BoM's majority sovereign ownership with the Government of India (GoI) holding an equity stake of 90.97% as on March 31, 2022 (93.33% as on March 31, 2021). Furthermore, BoM had received regular capital support from the GoI in the past with infusions of Rs. 9,007 crore during FY2017-FY2020. This enabled the bank to increase its provision cover on legacy stressed assets, while improving its capital ratios above the regulatory levels, and helped it exit the Reserve Bank of India's (RBI) prompt corrective action (PCA) framework in January 2019. Following its exit from the PCA framework, BoM's profitability witnessed a steady improvement over FY2020-FY2022, led by strong growth in

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

[2] SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days. The SMA-level data is for the entire bank including exposures below Rs. 5 crore

advances and lower credit costs. Going forward, a sustained improvement in internal capital generation is likely to limit the near-term requirement for capital support from the GoI, although the same is expected in case any growth or regulatory capital requirements arise.

As a part of the Union Budget announcement in February 2021, the GoI has proposed the divestment of two public sector banks (PSBs) and the rating will be reassessed in case of a change in the sovereign ownership.

Capitalisation profile and solvency continue to improve – BoM's capitalisation profile improved with the CET I (as a percentage of risk-weighted assets-RWA) at 12.17% as on March 31, 2022 (10.98% as on March 31, 2021), supported by the improvement in internal capital accretion along with the capital raise of Rs. 403.7 crore via a QIP in FY2022. Furthermore, deferred tax assets (DTA) reversals after returning to profitability supported the CET levels during the previous two years. The bank also raised Tier-I bonds (Rs. 290 crore) and Tier-II bonds (Rs. 1,000 crore) in FY2022, which further helped shore up the Tier I and CRAR metrics to 12.38% and 16.48%, respectively, as on March 31, 2022 (10.98% and 14.49%, respectively, as on March 31, 2021). While the year-on-year (YoY) RWA growth remained strong at 14.91% in FY2022, the same was driven by the exposure towards higher rated entities and government and government-guaranteed exposures, which led to a moderation in the overall risk-weighted density of the assets.

Besides this, an increase in the provision coverage ratio resulted in a decline in the net NPAs to 0.97% as March 31, 2022 (2.48% as on March 31, 2021). Accordingly, the overall solvency levels improved to 13.62% as on March 31, 2022 (31.26% as on March 31, 2021 and 55.60% as on March 31, 2020). Furthermore, the solvency level, net of ~Rs. 1,200 crore of the prudent/floating provisions held by the bank, was lower at 3.34% as on March 31, 2022. Going forward, ICRA expects the solvency level to remain below the negative trigger.

Above-average resource profile with strong CASA share in overall deposits – BoM has an established retail franchise with a strong regional presence in Maharashtra, depicted by its network of 2,022 branches (~57% in Maharashtra as on March 31, 2022).

The established retail franchise, coupled with the increased focus on government business supported a strong growth in the deposit base. BoM's low-cost CASA deposits registered a strong growth of 24.58% in FY2022 and accounted for 57.85% of the total deposit base, which is much higher than the CASA deposit share of PSBs. With the increase in deposits from government departments, it is likely that a large portion of the incremental deposits would have been in the form of non-core bulk deposits. This would have further increased the overall depositor concentration levels for the bank to 9.71% as on March 31, 2022 from 7.05% of the total deposits as on March 31, 2021. Nevertheless, the high share of CASA deposits allows BoM's cost of interest-bearing funds to remain very competitive at 3.59% in FY2022 and 4.20% in FY2021, better than the industry average.

Credit challenges

Asset quality remains monitorable – Given the challenges posed by the Covid-19 pandemic, slippages remained elevated at Rs. 3,077 crore or 3.08% of standard advances in FY2022, which was higher than 2.66% in FY2021, although it remains below the levels seen in recent years (4.77-11.76% during FY2017-FY2020). However, this was offset by high recoveries and upgrades (partly attributable to restructuring), which, in turn, kept the net slippages at Rs. 609 crore in FY2022 (Rs. 559 crore in FY2021).

Furthermore, BoM shored up its provision cover ratio {PCR; including technical write-offs (TWOs)} to 94.79% as on March 31, 2022 (89.86% as on March 31, 2021), leading to a moderation in the net NPAs to 0.97% as on March 31, 2022 from 2.48% as on March 31, 2021. This was the lowest among PSBs as on March 31, 2022.

Notwithstanding this, the bank's SMA-1 and SMA-2 book stood at Rs. 3,400 crore (2.62% of standard advances), while the standard restructured book remained significant at Rs. 5,547 crore as on March 31, 2022 (4.27% of standard advances). ICRA notes that as a sizeable portion of the restructured book is under moratorium, the same is likely to exit the moratorium only by FY2024. The performance of the vulnerable book will be crucial to maintain an improvement in the asset quality levels. However, BoM is carrying a Covid provision of Rs. 1,200 crore (0.92% of standard advances) as on March 31, 2022, which is expected to mitigate any incremental stress that could emanate from this book. Moreover, with high provisions on legacy stressed assets and improving operating profitability, ICRA expects BoM to be better prepared to absorb the incremental asset quality pressure if the same materialises.

Sustained improvement in profitability remains to be seen – BoM's operating profit improved to 2.02% of average total assets (ATA) in FY2022 from 1.87% in FY2021, supported by the strong growth in advances while maintaining a competitive cost of funds (lower than the PSB average), the comparatively lower slippages compared to the levels seen in past years and a lumpy one-off recovery from written-off accounts. The improvement was despite the bank fully providing for the family pension liability in FY2022, even while the current dispensation allows the amortisation of the same over five years. This helped offset the impact of the elevated credit costs that stood at 1.21% of ATA in FY2022, although the same is expected to moderate, supported by the high provision cover on legacy NPAs as well as the sizeable floating provisions. While BoM's return metrics {return on assets (RoA)} improved to 0.54% in FY2022 from 0.30% in FY2021, its ability to contain the credit costs at lower levels will be key to sustain the improvement in internal capital generation seen over the last two years.

Liquidity position: Strong

BoM had excess statutory liquidity ratio (SLR) holdings of Rs. 17,241 crore {9.4% of net demand and time liabilities (NDTL)} as on December 31, 2021. This supported its strong liquidity coverage ratio (LCR), which stood at 210% for Q3 FY2021 (216% for FY2022). Furthermore, the cumulative gaps as per the structural liquidity statement (SLS) as on January 31, 2022, up to the 6-month maturity buckets stood at 6.28%, though it has a negative cumulative mismatch of 7.34% (of total outflows) in the up to 1-year bucket. As the bank has intended to pursue strong credit growth, the excess SLR holdings are likely to decline, which will widen the 1-year cumulative gaps going forward. However, it can also avail liquidity support from the RBI (through reverse repo against excess SLR investments and the marginal standing facility mechanism) in case of urgent liquidity needs. Moreover, with a strong liability franchise, ICRA expects BoM to roll over its deposits and maintain strong liquidity.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive and/or upgrade the rating if the bank is able to improve its profitability, with an RoA of >0.80%, coupled with an improvement in the solvency profile with net stressed assets/core equity improving to <25%, while maintaining Tier I cushions of >150 basis points (bps) over the regulatory Tier I levels (including capital conservation buffers) on a sustained basis.

Negative factors – The rating will be reassessed in case of a change in the sovereign ownership. ICRA could also revise the outlook to Negative and/or downgrade the rating if the asset quality or capitalisation profile deteriorates with a Tier I cushion of <100 bps, thereby weakening the solvency profile with net stressed assets/core equity exceeding 30% on a sustained basis. Further, a sustained RoA of <0.3% would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Banks Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The rating factors in BoM's sovereign ownership and the demonstrated track record of capital infusions by the GoI
Consolidation/Standalone	The rating is based on the standalone financial statements of BoM. However, in line with ICRA's limited consolidation approach, the capital requirements of BoM's subsidiary and associate have been factored in while assessing its credit profile

About the company

Bank of Maharashtra was registered in 1935 in Pune (Maharashtra) as a public limited company, named The Bank of Maharashtra Ltd., with the objective of assisting small business enterprises, traders and self-employed individuals. Subsequently, with an increasing scale of operations, it became a scheduled bank in 1944 and acquired four small banks (Bank of Konkan Ltd., Bank of Nagpur Ltd., Bharat Industrial Bank Ltd. and Banthia Bank Ltd.) to expand its operations. BoM was nationalised, along with 13 other banks, in July 1969 and has remained a mid-sized public sector bank.

As on March 31, 2022, BoM had a wide network of 2,022 branches, most of which are spread across Maharashtra. In FY2022, the bank reported a net profit of Rs. 1,152 crore (RoA of 0.54%) on a total asset base of Rs. 2.29 lakh crore as on March 31, 2022 compared to a net profit of Rs. 550 crore (RoA of 0.30%) on a total asset base of Rs. 1.95 lakh crore as on March 31, 2021.

Key financial indicators (standalone)

Bank of Maharashtra	FY2020	FY2021	FY2022
Net interest income	4,279	4,897	6,044
Profit before tax	-260	954	1,956
Profit after tax	389	550	1,152
Net advances	86,872	1,02,405	1,31,170
Total assets (Rs. lakh crore)	1.68	1.95	2.29
% CET I	10.67%	10.98%	12.17%
% Tier I	10.67%	10.98%	12.38%
% CRAR	13.52%	14.49%	16.48%
% Net interest margin	2.59%	2.70%	2.85%
% PAT / ATA	0.23%	0.30%	0.54%
% Return on net worth	4.09%	5.02%	9.76%
% Gross NPAs	12.81%	7.23%	3.94%
% Net NPAs	4.77%	2.48%	0.97%
% Provision coverage excl. technical write-offs	65.89%	67.30%	76.04%
% Net NPA/ Core equity capital	49.96%	27.77%	10.94%

Note: *All calculations are as per ICRA Research*
Total assets and net worth exclude revaluation reserves
Source: *BoM, ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun-13-2022	Aug-02-2021	Sep-14-2020	Feb-26-2020
1	Basel II Lower Tier II Bonds	Long Term	1,000	1,000	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
2	Basel II Lower Tier II Bonds	Long Term	-	-	-	-	-	[ICRA]A+ (Positive);
3	Basel II Upper Tier II Bonds	Long Term	-	-	-	-	[ICRA]A (Positive)	[ICRA]A (Positive)
4	Basel II Tier I Bonds	Long Term	-	-	-	-	[ICRA]A (Positive)	[ICRA]A (Positive)
5	Basel III Tier II Bonds	Long Term	1,600	1,100#	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+(hyb) (Positive)	[ICRA]A+(hyb) (Positive)

Balance yet to be placed

Complexity level of the rated instrument

Instrument	Complexity Indicator
Basel II Lower Tier II Bonds	Simple
Basel III Tier II Bonds	Highly Complex

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE457A09199	Basel II Lower Tier II Bonds	Dec-31-2012	9.00%	Dec-31-2022	1,000.00	[ICRA]AA (Stable)
INE457A08035	Basel III Tier II Bonds	Jun-27-2016	9.20%	Sep-27-2026	500.00	[ICRA]AA (Stable)
INE457A08050	Basel III Tier II Bonds	Mar-06-2020	8.70%	Mar-06-2030[&]	600.00	
-	Basel III Tier II Bonds[#]	-	-	-	500.00	

Source: *BoM; [#]Yet to be placed; [&] First call option on March 06, 2025 and then annually on coupon payment dates*

Key features of rated debt instruments

The servicing of the Basel II Lower Tier II Bonds and Basel III Tier II Bonds is not subject to any capital ratios and profitability. However, the Basel III Tier II Bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked by the RBI. The Basel III Tier II Bonds have equity-like loss-absorption features. Such features may translate into higher loss severity vis-à-vis conventional debt instruments.

Annexure-2: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation approach
The Maharashtra Executor & Trustee Co. Pvt. Limited	100%	Limited consolidation
Maharashtra Gramin Bank	35%	Limited consolidation

Source: *BoM*

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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.

For more information, visit www.icra.in

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Branches

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