AX1/ISD/STEX/2021-22 **Date: 02nd August, 2021**

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: Change in Ratings - Disclosure under Regulation 30 of SEBI (LODR) Regulations, 2015.

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:

Instrument	Rated Amount (Rs. Crore)	Rating
BASEL II Lower Tier II Bonds	1,000	[ICRA] AA- (Stable); upgraded from [ICRA] A+(Positive)
BASEL III Tier II Bonds	1,600	[ICRA] AA- (Stable); upgraded from [ICRA] A+(hyd)(Positive)
Total	**2,600**	

Please find enclosed the Rating Rationale issued by ICRA Limited dated 02nd August, 2021 received by the Bank today, in relation to the ratings on the Bank's Tier II Bonds.

Thanking you.

Yours faithfully,

(Chandrakant Bhagwat)
Company Secretary & Compliance Officer

Encl: As above

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August 02, 2021

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]A+(Positive)
Basel III Tier II Bonds	1,600.00	1,600.00	[ICRA]AA-(Stable); Upgraded from [ICRA]A+(hyb)(Positive)
Total	**2,600.00**	**2,600.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the improvement in Bank of Maharashtra's (BoM) solvency profile[1], capital position and profitability, which is likely to sustain going forward in our view. The improvement was driven by the reducing legacy stressed assets and the consequent improvement in the core operating profitability and net operating profitability, which is likely to continue going forward.

The overdue loan accounts, i.e. (SMA)[2]-1 and SMA-2, at 4.5% of standard advances and the standard restructured loan book of 3.1% of standard advances remained high as on June 30, 2021. This, coupled with the impact of the second wave of the Covid-19 pandemic, could translate into elevated asset quality pressure and higher provisioning requirements over the next few quarters. However, ICRA expects the bank to be well placed to absorb the incremental credit provisions through its operating profits. We also expect BoM to incrementally remain profitable, though the profitability indicators may remain modest in the near term. The bank was carrying Covid provisions of Rs. 973 crore (0.94% of standard advances) as on June 30, 2021, which provide a cushion for the incremental stress that could emanate on account of the pandemic. 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 maintain sufficient capital cushion over the regulatory levels.

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[1] Solvency defined as (Net non-performing advances + 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

Key rating drivers and their description

Credit strengths

Sovereign ownership – BoM has a majority sovereign ownership with the Government of India (GoI) holding an equity stake of 90.97% as on July 25, 2021 (post equity capital raise of Rs. 403.7 crore in July 2021). The bank has received regular capital support from the GoI in the past with infusions of Rs. 9,007 crore during FY2017-FY2020 (including Rs. 831 crore in 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. Going forward, as per our estimates, BoM does not require regulatory capital, though we expect the GoI to support the bank in case of any requirements. As a part of the Union Budget announcements 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.

Improved capitalisation and solvency profile; likely to sustain going forward – Despite a strong year-on-year (YoY) growth of 18% in net advances as on June 30, 2021, the risk-weighted assets grew by 5% on account of the incremental lending towards higher-rated entities, government and government-guaranteed exposures, resulting in a lower risk-weighted density of assets. With profitable operations and internal capital generation, the bank's CET I/Tier I ratio improved to 11.00% as on June 30, 2021 from 10.23% as on June 30, 2020. The CET I/Tier I ratio is estimated to have improved further to 11.47% on the back of the recent qualified institutional placement (QIP) of Rs. 403.7 crore in July 2021.

Moreover, the increase in the provision coverage ratio (PCR; including write-offs) to 90.70% as on June 30, 2021 (89.86% and 83.97% at the end of FY2021 and FY2020, respectively) resulted in a decline in the net non-performing advances (NPAs) to 2.22% as June 30, 2021 (4.10% as on June 30, 2020). Accordingly, the overall solvency levels improved substantially to 28.51% as on June 30, 2021 (31.26% as on March 31, 2021 and 55.60% as on March 31, 2020). ICRA expects the same to improve further in FY2022 even without any incremental capital raise. ICRA 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.

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 1,915 branches (~58% located in Maharashtra) as on March 31, 2021. With growth ambitions, the bank started expanding its branch network in FY2021 with most of the new branches being opened outside Maharashtra, with the same likely to continue over the next few years.

The established retail franchise, coupled with the increased focus on government business, has supported a strong growth in the deposit base. BoM's low-cost CASA deposits grew ~22% YoY as on June 30, 2021 and accounted for 53.04% of the total deposit base, which is much higher than the CASA deposit share of PSBs. With the increase in deposits from government departments, the overall depositor concentration levels for the bank increased and the top 20 depositors accounted for 7.05% of the total deposits as on March 31, 2021 compared to 4.5% as of March 31, 2020. Notwithstanding the increase in concentration, the deposit base is granular. Moreover, with a high share of CASA deposits, BoM's cost of interest-bearing funds remained very competitive at 3.95% in Q1 FY2022 and 4.20% in FY2021 and was better than the industry average.

Credit challenges

Asset quality remains monitorable – Despite the challenges posed by the pandemic, BoM was able to control the slippages at Rs. 2,202 crore or 2.66% of standard advances in FY2021 (5.17% in FY2020). With the increase in the PCR, the bank was able to reduce the net NPAs to 2.22% as on June 30, 2021. However, its SMA-1 and SMA-2 accounts stood high at Rs. 4,637 crore (4.5% of standard advances) as on June 30, 2021 and the standard restructured book stood at Rs. 3,193 crore as on June 30, 2021 (3.1% of standard advances), which indicates the possible stress that could emanate from the book going forward. In addition, BoM has exposure to stressed infrastructure finance companies, which accounted for 0.53% of its standard exposures as on June 30, 2021. With the increase in the exposure towards state government owned entities, the share of the top 20 borrowers as a percentage of the Tier I capital also increased to 257% as on March 31, 2021 from 167% as on March 31, 2020.

Given the impact of the second wave of the pandemic, ICRA expects that some of the overdue loans could incrementally get restructured in the coming quarters. Hence, the overall restructured book could increase, though it is likely to remain below 5% of standard advances. Of the total restructured book, the corporate restructured book is likely to be ~1% of the standard advances, while the retail and micro, small and medium enterprise (MSME) segments will account for the balance. The bank was carrying Covid provisions of 0.94% of standard advances as on June 30, 2021, which provide a cushion for incremental stress. With high provisions on legacy stressed assets, ICRA expects that BoM is likely to absorb the incremental asset quality pressure in the coming years through its operating profits.

Earnings profile likely to remain average – Supported by the competitive cost of funds, lower slippages and recovery from written-off accounts, the bank's operating profit improved to 1.87% of average total assets (ATA) in FY2021 from 1.51% in FY2020 despite the increase in the operating expenses on account of wage revision arrears. This, coupled with the strong gains on the bond portfolio amid declining yields, resulted in a return on assets (RoA) of 0.30% in FY2021 (0.23% in FY2020). BoM has used the one-off income from NPA recoveries and bond gains to shore up its provision levels on its legacy stressed assets and to make Covid-19 provisions for incremental stress. While the incremental ageing-related credit costs on legacy NPAs are expected to remain at comparatively lower levels, the credit costs could remain elevated for a few more quarters given the expectation of incremental stress on the asset quality. This could result in a modest earnings profile with RoA of 0.3-0.5% over the next couple of years.

Liquidity position: Strong

BoM has a low credit-to-deposit ratio (~59% as on March 31, 2021 vs ~64% for PSBs), driving excess liquidity that has been deployed in Government securities. As a result, it had excess statutory liquidity ratio (SLR) holdings of Rs. 13,000 crore (7.5% of total deposits) as on March 31, 2020. This, in turn, supported BoM's strong liquidity coverage ratio (LCR), which stood at 306% for FY2021. As per the structural liquidity statement (SLS) as on June 30, 2021, the bank has positive cumulative mismatches up to the 6-month maturity buckets, though it has a negative cumulative mismatch of 11.17% (of total outflows) up to the 1-year bucket. As the bank is likely to pursue strong credit growth, the excess SLR holdings are likely to decline, which will widen the 1-year cumulative gaps going forward. 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 >0.5%, coupled with an improvement in the solvency profile with net stressed assets/core equity improving to less than 30% on a sustained basis while maintaining Tier I cushions of >1% over the regulatory Tier I levels (including capital conservation buffers).

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, thereby weakening the solvency profile with net stressed assets/core equity exceeding 70% on a sustained basis.

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 ratings factor in BoM's sovereign ownership and the demonstrated track record of capital infusion by the GoI
Consolidation/Standalone	The ratings are 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, 2021, BoM had a wide network of 1,915 branches, most of which are spread across Maharashtra. In FY2021, the bank reported 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 compared to a net profit of Rs. 389 crore (RoA of 0.23%) on a total asset base of Rs. 1.68 lakh crore as on March 31, 2020.

Key financial indicators (audited)

Bank of Maharashtra	FY2020	FY2021	Q1 FY2021	Q1 FY2022
Net interest income	4,279	4,897	1,088	1,406
Profit before tax	-260	1,231	101	460
Profit after tax	389	550	101	208
Net advances	86,872	1,02,405	89,740	1,05,909
Total assets (Rs. lakh crore)	1.68	1.95	1.80	1.99
% CET I/Tier I	10.67%	10.98%	10.23%	11.00%
% CRAR	13.52%	14.49%	13.21%	14.46%
% Net interest margin	2.59%	2.70%	2.50%	2.85%
% PAT / ATA	0.23%	0.30%	0.23%	0.42%
% Return on net worth	4.09%	5.02%	4.24%	7.52%
% Gross NPAs	12.81%	7.23%	10.93%	6.35%
% Net NPAs	4.77%	2.48%	4.10%	2.22%
% Provision coverage excl. technical write-offs	62.00%	67.30%	65.18%	66.49%
% Net NPA/ Core equity capital	49.96%	44.33%	31.28%	25.10%

Note: *Amount in Rs. crore; 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

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
					Aug-02-2021	Sep-14-2020	Feb-26-2020	Mar-13-2019	Jul-27-2018	Apr-19-2018
1	Basel II Lower Tier II Bonds	Long Term	1,000	1,000	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)
2	Basel II Lower Tier II Bonds	Long Term	-	-	-	-	[ICRA]A+ (Positive); Withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)
3	Basel II Upper Tier II Bonds	Long Term	-	-	-	[ICRA]A (Positive) Withdrawn	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)
4	Basel II Tier I Bonds	Long Term	-	-	-	[ICRA]A (Positive) Withdrawn	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)
5	Basel III Tier II Bonds	Long Term	1,600	1,100#	[ICRA]AA- (Stable)	[ICRA]A+(hyb) (Positive)	[ICRA]A+(hyb) (Positive); Assigned	[ICRA]A+(hyb) (Stable)	[ICRA]A+(hyb) (Negative)	[ICRA]AA- (hyb) (Negative)

Balance yet to be placed

In compliance with the circular issued by the Securities and Exchange Board of India (SEBI) on July 16, 2021 for standardising the rating scales used by credit rating agencies, ICRA has discontinued its practice of affixing the (hyb) suffix alongside the rating symbols for hybrid instruments.

Accordingly, ICRA has removed the (hyb) suffix that was earlier being placed alongside the rating symbol for the hybrid instruments issued by BoM. The earlier and revised denotation of the rating for various instruments can be seen in the table above. This rating action only involves the removal of the (hyb) suffix and should not be construed as a change in the credit rating.

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

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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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