बैंक ऑफ़ बड़ौदा
Bank of Baroda

BCC:ISD:115:16:184 24.08.2023

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(LODR)

We advise that India Ratings and Research Pvt. Ltd. has affirmed Bank of Baroda's (BOB) Long-Term Issuer Rating at 'IND AAA' with a Stable Outlook.

Further, the Rating agency ICRA Ltd has Re-affirmed Bank of Baroda's (BOB) Rating as follows:

1) [ICRA]AA+(Stable) for existing Rs. 5,500.00 crore Basel III Tier I Bonds programme
2) [ICRA]AAA(Stable) for Rs. 2,450.00 crore Basel III Tier II Bonds programme
3) [ICRA]AAA(Stable) for Fixed Deposit programme
4) [ICRA]AAA(Stable) on Rs. 1,000.00 crore Infrastructure Bonds

Press Release issued by India Ratings and Research Pvt. Ltd. and ICRA Ltd. are 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: 2023.08.24 12:07:05 +05'30'

P K Agarwal
Company Secretary

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India Ratings Affirms Bank of Baroda at 'IND AAA'; Outlook Stable

Aug 23, 2023 | Public Sector Bank

India Ratings and Research (Ind-Ra) has affirmed Bank of Baroda's (BOB) Long-Term Issuer Rating at 'IND AAA' with a Stable Outlook. The instrument-wise rating action is given below:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Infrastructure and Affordable Housing Bonds	INE028A08281	17 August 2022	7.39	17 August 2029	INR10	IND AAA/Stable	Affirmed
Short-term debt programme	-	-	-	-	-	IND A1+	Affirmed
Fixed deposit	-	-	-	-	-	IND AAA/Stable	Affirmed
Basel III Tier 2 instrument#	-	-	-	-	INR55	IND AAA/Stable	Affirmed
Basel III AT1 bonds#	-	-	-	-	INR110	IND AA+/Stable	Affirmed
Certificate of deposits#	-	-	-	-	INR400	IND A1+	Affirmed

#Details in Annexure

Analytical Approach: Ind-Ra continues to take a consolidated view of BOB and its subsidiaries while arriving at the ratings. The ratings continue to reflect BOB's high-systemic importance to the government of India (GoI; 63.97% stake as of June 2023), and hence, a high probability of support from the GoI, if required. The ratings also reflect BOB's large franchise with a pan-India and relatively large international presence, strong capitalisation, and superior liquidity and asset quality metrics, which are better than comparable public sector banks (PSBs).

For AT1 instruments, the agency considers the discretionary component, coupon omission risk and the write-down/conversion risk as key parameters to arrive at the rating. The agency recognises the unique going-concern loss absorption features that these bonds carry and differentiates them from the bank’s senior debt, factoring in a higher probability of an ultimate loss for investors in these bonds.

Key Rating Drivers

High Systemic Importance - Large Pan-India Franchise: BOB’s systemic importance is reflected by its total deposit and net advances market share of about 6.7% and 6.9% at FYE23, respectively, (FY22: 6.5% and 6.7%, respectively), making it the third-largest PSB in terms of deposit market share and the second-largest PSB with respect to net advances market share. Further, among its PSB peers, it is the only bank to have reported a year-on-year gain in both deposit and net advances market share in FY23. The bank also has a sizeable network of about 8,200 branches, 11,401 ATMs and cash recyclers, and a large customer base of about 140 million as of FY23. BOB continues to hold a high systemic importance for the GoI, resulting in a high probability of ordinary and extraordinary support from the GoI, if required.

Strong Capital Buffers Well Placed to Support Near Term Credit Growth Plans: BOB is among the better-capitalised PSBs, with a common equity tier-I (CET-I) ratio of 11.94% in 1QFY24 (FY23: 12.24%, FY22: 11.42%), Tier-1 of 13.64% (, 13.99%, 13.18%) and a total capital adequacy ratio of 15.84% (16.24%, 15.68%). BOB had also raised INR45 billion during 4QFY21 through a qualified institution placement, which added about 200bp to its CET-I ratio. The agency believes BOB’s current capital buffers, along with its operating profits, the run-rate for which has also improved over the last few quarters, and the ability to raise funds from the equity markets, provides it adequate leeway to target a 14%-15% yoy credit growth in FY24 and absorb a higher-than-expected credit costs. For FY24, BOB has a board approval in place to raise INR50.0 billion through bonds, which could add about 70bp to capital adequacy, if raised.

Liquidity Indicator - Superior: At FYE23, BOB maintained an overall funding gap of 4.9% in the cumulative one-year bucket as a percentage of the total assets (FY22: 7.5%). As estimated by the agency previously, this gap, which was a result of the weak liquidity position of Vijaya Bank and Dena Bank with large asset funding gaps in the short-term buckets, has been declining progressively. Ind-Ra expects these gaps to minimise further over the next few quarters. BOB maintains 20.1% of its total assets in balances with the Reserve Bank of India and in government securities to meet its short-term funding requirements. BOB also had a comfortable average consolidated liquidity coverage ratio of 135.4% in 1QFY24 (FY23: 145.78%, FY22: 152.36%), significantly above the regulatory requirement of 100%.

High PCR Provides Comfort: BOB maintained a provision coverage ratio (PCR) of 78.5% in 1QFY24 (1QFY23: 75.9%), at the higher end of the PSB peer group (excluding technical write-offs). BOB also carried 99.2% and 98.5% PCR against its exposures to the National Company Law Tribunal (NCLT)-1 and -2 lists, respectively, and 96.4% against the overall NCLT exposure at 1QFYE24. Its gross non-performing assets (NPAs) and net NPAs stood at 3.51% and 0.78%, respectively, at 1QFYE24 (1QFYE23: 6.26% and 1.58%, respectively). The management has guided credit costs of around 1.0%, higher than FY23 at 0.53%. The management has further guided that in case of credit costs trending lower than the management’s expectations, the bank is likely to create floating provisions, which are likely to be utilised when movement to expected credit loss model comes into play, subject to regulatory approvals. With this, the return on assets is likely to be maintained at around 1.0% in the medium term, similar to levels seen in FY23. The agency believes that while the quantum of special mention accounts (SMA; SMA1 and SMA2) accounts (outstanding of INR50 million and higher) currently remains subdued, slippages from COVID-19 restructuring pool of INR130 billion (1.3% of net advances) and the micro, small and medium enterprises is likely to result in continuing slippages.

The incremental addition to the portfolio continues to be in better-rated categories with the share of standard advances with outstanding of INR500 million or more at 87% in 1QFY24 (1QFY23: 78%). However, the agency remains cautious with respect to BOB’s significant exposure to the non-banking financial companies (NBFC) sector (14.1% of net advances) as any regulatory change driven by the Reserve Bank of India with respect to higher provisioning requirement for exposure to the NBFC sector is also likely to impact the provisioning expectation for BOB. From a rating mix perspective, in 1QFY24, 98.2% of the NBFC portfolio was rated 'A' and above and 72.4% of the portfolio was rated 'AAA'.

Decline in Low-Cost Liability Franchise at Higher-End of Peer Group: The bank's current account and saving account (CASA) deposit ratio declined to 35.3% in 1QFY24 (1QFY23: 38.9%), which is at the higher end of its PSB peer group. The agency believes competitive intensity among banks will remain high in the near term as banks compete to accrete these low-cost deposits. BOB's current account balances declined 0.7% yoy in 1QFY24 (1QFY23: up 10.0% yoy) with savings account balances growing at 6.6% yoy (1QFY23: up 11.1% yoy) and an overall deposit growth of 16.1% yoy in 1QFY24 (up 10.9% yoy). Consequently, the cost of deposits also increased 122bp yoy to 4.68% in 1QFY24. The tightening of liquidity conditions and an uptick in the system credit offtake is likely to result in heightened competition between banks for garnering CASA deposits. Therefore, a continuing improvement in CASA franchise by BOB will be a strong reflection of its sustainable low-cost liability franchise. The share of bulk deposits in BOB's term deposits increased to 27.2% in 1QFY24 (1QFY23: 15.9%) and is a likely reflection of its loan growth appetite where it is targeting to grow, at least in line with system credit growth and possibly higher.

Stability in Operational Metrics Will be Key: Directionally, BOB's operating metrics have been improving since its amalgamation with Dena Bank and Vijaya Bank; however, there has been a fair amount of volatility on a quarterly basis, some of which can be attributed to the impact of the COVID-19 pandemic. The profitability over the quarters has been volatile, primarily on account of BOB's provisioning requirements and movement in treasury income. The agency believes BOB's ability to further capitalise on its strategy to increase its retail exposure, improve its low-cost CASA franchise further, maintain a stable margin and strengthen its fee income generation, while increasing digital adoption, will be key to demonstrate through-the-cycle stable performance.

Rating Sensitivities

Negative: The Basel III Tier 2 bond, and infrastructure and affordable housing bonds ratings are linked to BOB's Long-Term Issuer Rating, which has been derived from the bank's strong standalone credit profile and Ind-Ra's expectation of support from the GoI is unlikely to change, unless there is a change in the GoI's support stance.

The notching of the AT1 bonds could be higher than its anchor ratings if Ind-Ra believes there is a dilution in the government's support stance towards hybrid instruments of PSBs or if there is any delay in the timeliness of extending this support. This could reflect, among other things, in capital buffers coming close to the regulatory levels. Ind-Ra also expects that for banks with weaker unsupported profiles, the capital buffers would be higher; if not, it could reflect in a higher notching from the Long-Term Issuer Rating. These capital buffers could be important as BOB's ability to service the instrument could be impaired in the event of the bank making losses and/or if its capital levels fall below the regulatory minimum.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on BOB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

BOB had a network of 8,200 branches within India, 93 overseas offices across 17 countries, 9,764 ATMs and 1,637 cash recyclers at FYE23. Of the advances book, 35.1% consisted of loans to the corporate segment, 18.4% to retail, 11.2% to micro, small and medium enterprises, 12.8% to agriculture and 4.6% were others in FY23. International advances constituted 17.9% of the gross advances in FY23.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Total assets (INR billion)	14,585	12,780
Total equity (INR billion)	982	858
Net income/loss (INR billion)	141.1	72.7
Return on average assets (%)	1.0	0.6
Capital adequacy ratio (%)	16.24	15.68
Source: BOB, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (billion)	Rating	24 August 2022	3 August 2022	3 September 2021	7 September 2020	9 July 2020
Issuer rating	Long-term	-	IND AAA/ Stable	IND AAA/Stable/ IND A1+	IND AAA/ Stable/ IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Short-term debt programme	Short-term	-	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
Fixed deposit	Long-term	-	IND AAA/ Stable	IND AAA/Stable	IND AAA/ Stable	IND tAAA/Stable	IND tAAA/Stable	IND tAAA/Stable
Basel III Tier 2 instrument	Long-term	INR55	IND AAA/ Stable	IND AAA/Stable	IND AAA/ Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable

Basel III AT1 bonds	Long-term	INR110.0	IND AA+/ Stable	IND AA+/Stable	IND AA+/ Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
Infrastructure and Affordable Housing bonds	Long-term	INR10	IND AAA/ Stable	IND AAA/Stable	IND AAA/ Stable	-	-	-
Certificate of deposits	Short-term	INR400	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+

Annexure

Issue Name/Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Basel III Tier 2 instrument	INE028A08125	7 December 2018	8.42	7 December 2028	INR9.72	IND AAA/Stable
Basel III Tier 2 instrument	INE028A08133	20 December 2018	8.40	20 December 2028	INR2.40	IND AAA/Stable
Basel III Tier 2 instrument	INE028A08141	10 January 2019	8.60	10 January 2029	INR2.85	IND AAA/Stable
Basel III Tier 2 instrument	INE028A08158	14 February 2019	8.55	14 February 2029	INR4.60	IND AAA/Stable
Basel III Tier 2 instrument	INE028A08166	11 September 2019	7.75	11 September 2034	INR5.00	IND AAA/Stable
Basel III Tier 2 instruments	INE028A08190	3 January 2020	7.44	3 January 2030	INR9.20	IND AAA/Stable
Basel III Tier 2 instruments	INE028A08208	15 January 2020	7.84	15 January 2035	INR20.00	IND AAA/Stable
Total unutilised					INR1.23	
Total					INR55.00	
Additional Tier-1 Basel III bonds Series X	INE028A08174	28 November 2019	8.70	Perpetual	INR16.50	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XI	INE028A08182	18 December 2019	8.99	Perpetual	INR17.47	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XII	INE028A08216	17 July 2020	8.25	Perpetual	INR7.64	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XIII	INE028A08224	28 July 2020	8.50	Perpetual	INR9.81	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XIV	INE028A08232	17 November 2020	8.50	Perpetual	INR8.33	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XV	INE028A08240	13 January 2021	8.15	Perpetual	INR9.69	IND AA+/Stable

Additional Tier-1 Basel III bonds Series XVI	INE028A08257	28 January 2021	8.15	Perpetual	INR1.88	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XIX	INE028A08299	2 September 2022	7.88	Perpetual	INR24.74	IND AA+/Stable
Total unutilised					INR13.94	
Total					INR110.00	
Certificate of deposits	-	-	-	1-365 days	INR400.00	IND A1+

Complexity Level of Instruments

Complexity Indicator	Complexity Indicator
Basel III Tier 2 instrument	Moderate
Certificate of deposits	Low
Term deposit programme	Low
Basel III AT1 bonds	High
Infrastructure and Affordable Housing bonds	Low

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

Contact

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APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Financial Institutions Rating Criteria

Rating FI Subsidiaries and Holding Companies

Evaluating Corporate Governance

The Rating Process

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August 11, 2023

Bank of Baroda: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Tier-I Bonds	5,500.00	5,500.00	[ICRA]AA+ (Stable); reaffirmed
Basel III Tier II Bonds	2,450.00	2,450.00	[ICRA]AAA (Stable); reaffirmed
Infrastructure Bonds#	1,000.00	1,000.00	[ICRA]AAA (Stable); reaffirmed
Fixed Deposit Programme	-	-	[ICRA]AAA (Stable); reaffirmed
Total	8,950.00	8,950.00	

**Instrument details are provided in Annexure I; #Long-term bonds for financing infrastructure and affordable housing*

Rationale

The ratings factor in Bank of Baroda's (BoB) sovereign ownership, its strong franchise, translating in a steady deposit growth, while maintaining a competitive cost of funds and superior liquidity. Moreover, BoB is the second largest public sector bank (PSB) in terms of advances and the fourth largest in the Indian financial system as on March 31, 2023. The ratings factor in the improvement in BoB's profitability and solvency profile, which is expected to be maintained going forward, while the overall capitalisation profile remains comfortable. ICRA expects the bank to remain self-sufficient for its capital requirements for absorbing incremental stress as well as for growth requirements while maintaining more than the desired cushion on the capital above the regulatory levels (including capital conservation buffers; CCB), driving the Stable outlook on the ratings.

While the headline asset quality indicators have improved, the ratings take note of the residual vulnerable book, comprising overdue (SMA[1]-1, SMA-2) and standard restructured advances, although it has witnessed a sustained moderation from the comparatively higher levels a year back. Given the high provision cover for the legacy stressed assets, ICRA expects that BoB's internal capital generation will continue to be strong along with its asset quality and solvency position. The rating for the Tier-I (AT-I) bonds factors in the healthy level of distributable reserves (DRs), which can be used to service the coupon on these bonds in the unforeseeable event of a loss.

The Stable outlook on the ratings factors in the expectation of an improvement in the solvency profile and internal capital generation and the strong liability profile, apart from the bank's sovereign ownership.

Key rating drivers and their description

Credit strengths

Second largest PSB with majority sovereign ownership – The GoI remains the largest shareholder of BoB with a 63.97% equity stake as on June 30, 2023 and an aggregate equity infusion of Rs. 21,739 crore between FY2018 and FY2020 [including e-Dena Bank (e-DB) and e-Vijaya Bank (e-VB)] reflects GoI's support. BoB is the second largest PSB in the Indian banking sector as on March 31, 2023, in terms of advances with a 7.0% market share as well as a 6.7% share in the total deposits as on March 31, 2023. Further, ICRA expects BoB to receive support from the GoI in terms of capital as and when required, given its significant importance in the system.

Comfortable capital position while solvency profile improves – The bank's CET I and Tier I capital ratios were comfortable at 11.94% and 13.64%, respectively, as on June 30, 2023 despite the strong 20% year-on-year (YoY) growth in net advances to

[1] 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

Rs. 9.6 lakh crore as on June 30, 2023. This was mainly due to the comparatively lower increase in the risk-weighted assets (RWAs), which grew by 12% during the same period, as well as the improvement in internal capital generation. In ICRA's view, BoB remains well placed, in terms of its capital position for growth while absorbing any incremental stress and maintaining more than the desired cushion of 1% on the capital above the regulatory levels.

With the improved capital position as well as the decline in the net non-performing advances (NNPA) level, the solvency[2] level improved to 10.5% as on March 31, 2023 from 19.1% as on March 31, 2022. Going forward, the solvency profile is expected to improve further even without any incremental capital raise. BoB also infused capital, amounting to Rs. 700 crore in FY2023, into BoB Financial Solutions Limited {rated [ICRA]AAA (Stable)} to support the growth in its credit cards business, although the size of the capital support remains limited in relation to the bank's CET I level. Besides this, the subsidiaries largely remain self-sufficient in meeting their capital requirements in the near-to-medium-term and will require limited capital support from BoB.

Notwithstanding the improvement in the capitalisation profile, the RBI recently issued a discussion paper for transitioning to the expected loss framework for credit exposures. As highlighted by ICRA, banks with a high share of overdue/restructured loans could see a one-time impact on their capital position upon transitioning. While the RBI has proposed these provisions to be spread over a five-year period for the computation of the regulatory capital ratios, the impact on the capital position (without taking regulatory forbearance) will remain a monitorable.

Well-developed deposit franchise, leading to competitive cost of funds – Supported by its large branch network across India and well-developed customer franchise coupled with its widespread deposit franchise, the bank's domestic current account and savings account (CASA) deposit base remained close to the PSB average. As it is the second largest PSB in terms of deposits, BoB's CASA share remains strong with the CASA ratio at ~35% of total deposits as on June 30, 2023. BoB operates with a low cost of interest-bearing funds, which stood at 4.75% in Q1 FY2024 (3.9% in FY2023 and 3.4% in FY2022). Going forward, ICRA expects BoB's liability profile to remain a significant positive for supporting its credit growth while maintaining superior liquidity and profitability.

Earnings profile improves – The stronger growth in advances and the relatively lower interest reversals on fresh NPAs supported the improvement in the net interest margin (NIM) to 3.04% in FY2023 (2.69% in FY2022), although as the cost of funds steadily rose, NIMs witnessed a mild moderation to 3.01% of average total assets (ATA) in Q1 FY2024. Nonetheless, the core operating profitability (before divestments and trading income) witnessed a steady improvement to 2.05% of ATA in Q1FY2024 (1.97% in FY2023, 1.70% in FY2022). Lower slippages, in addition to recoveries as well as the reversal of proactive provisions on certain large corporate exposures, drove down the credit costs in recent years. As a result, annualised credit costs moderated and stood at 0.36% in FY2023 from 0.99% in FY2022, although it rose slightly to 0.53% in Q1 FY2024. While gains on the bond portfolios resulted in an improvement in the profit after tax to 0.60% of ATA in FY2022 (0.07% in FY2021), lower credit costs helped more than offset the impact of the lower treasury gains in FY2023, with the return on assets strengthening to 1.04% in FY2023 and further to 1.12% (annualised) in Q1 FY2024. Going forward, ICRA expects that the credit costs shall remain at a moderate level because of the high provision cover on legacy stressed assets, which shall support net profitability.

Credit challenges

Asset quality remains monitorable – The overall gross fresh NPA generation eased to 1.2% (annualised) in Q1FY2024 (1.5% in FY2023, 2.1% in FY2022) and was materially lower than the elevated levels seen in the past (~3-7% during FY2016-FY2020). Healthy recoveries, elevated write-offs (Rs. 18,347 crore in FY2023 and Rs. 18,419 crore in FY2022) and upgrades also supported the headline asset quality metrics with the gross NPA (GNPA) and NNPA moderating to 3.51% and 0.78%, respectively, as on June 30, 2023 (6.26% and 1.58%, respectively, as on June 30, 2022). Moreover, the share of the vulnerable book in relation to the total standard assets and the core capital has continued to moderation, although the performance of the residual vulnerable book (~1.8% of standard advances) as well as the bank's ability to limit slippages will remain a near-to-

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

medium-term monitorable. Further the impact of the weakening macro-economic factors could also affect the debt-servicing ability of borrowers and remains a monitorable.

Environmental and social risks

While banks like BoB do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, it could translate into credit risks for banks. However, such risk is not material for BoB as it benefits from adequate portfolio diversification. Further, the lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure. BoB has not faced material lapses over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. BoB has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Superior

BoB's liquidity profile remains superior supported by a high statutory liquidity ratio (SLR) of 22.26% of the net demand and time liabilities (NDTL) as on June 16, 2023 (above the regulatory requirement of 18%). ICRA expects BoB to maintain superior liquidity, given the large proportion of retail deposits and the high portfolio of liquid investments. It can also avail liquidity support from the Reserve Bank of India (RBI; through reverse repo against excess SLR investments and the marginal standing facility mechanism) in case of urgent requirement.

Rating sensitivities

Positive factors – Not applicable as all the ratings are at the highest level for the respective instruments

Negative factors – Given its sovereign ownership and its position as the second largest PSB, ICRA expects BoB to receive the requisite capital support from the GoI, if required. Any dilution in the expected stance will be a credit negative. Solvency[1] weaker than 40% on a sustained basis could also be a credit negative for the bank. A sharp deterioration in the profitability, leading to a weakening in the DRs eligible for the coupon payment on the AT-I bonds, will be a negative trigger for the rating on these bonds.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Banks and Financial Institutions Impact of Parent or Group Support on an Issuer's Credit Rating ICRA's Rating Methodology on Consolidation.
Parent/Group support	The ratings factor in BoB's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to support BoB with capital infusions, if required.
Consolidation/Standalone	The ratings are based on the standalone financial statements of BoB. However, in line with ICRA's limited consolidation approach, the capital requirements of BoB's key subsidiaries have been factored in while assessing its credit profile.

About the company

Bank of Baroda was incorporated in 1908 and nationalised in 1969, along with 13 other major commercial banks of India, by the GoI. BoB is headquartered in Vadodara while its corporate office is in Mumbai.

On September 17, 2018, the GoI announced the merger of Vijaya Bank and Dena Bank with BoB. The merger became effective on April 01, 2019. As of March 31, 2023, BoB had 8,200 branches and 9,764 ATMs across India, of which ~60% are rural/semi-urban branches. It has an international presence with 93 overseas offices in 17 countries. Post-merger, BoB became the fourth largest PSB in the Indian banking sector in terms of total business (advances and deposits cumulatively as on June 30, 2023). The GoI held a 63.97% stake in the bank as on June 30, 2023.

BoB reported a net profit of Rs. 4,070 crore in Q1 FY2024 on a total asset book of Rs. 14.67 lakh crore[3]. Its GNPA and NNPA stood at 3.51% and 0.78%, respectively, as on June 30, 2023. The regulatory capital adequacy ratio stood at 15.84% as on June 30, 2023 (CET I: 11.94% and Tier I of 13.64%).

Key financial indicators (standalone)

	FY2022	FY2023	Q1 FY2023	Q1 FY2024
Net interest income	32,621	41,356	8,838	10,997
Profit before tax	9,386	19,727	2,843	5,878
Profit after tax	7,272	14,110	2,168	4,070
Net advances (Rs. lakh crore)	7.77	9.41	7.99	9.63
Total assets* (Rs. lakh crore)	12.71	14.53	12.85	14.67
Net interest margin / Average total assets	2.69%	3.04%	2.77%	3.01%
Return on assets	0.60%	1.04%	0.68%	1.12%
Return on net worth	9.23%	15.28%	10.37%	17.25%
CET I	11.42%	12.24%	11.24%	11.94%
Tier I	13.18%	13.99%	12.97%	13.64%
CRAR	15.68%	16.24%	15.46%	15.84%
Gross NPA	6.61%	3.79%	6.26%	3.51%
Net NPA	1.72%	0.89%	1.58%	0.78%
PCR (excl. TWO)	75%	77%	76%	79%
Solvency (NNPA/CET)	18.22%	9.82%	17.61%	8.73%

Source: BoB, ICRA Research; Amount in Rs. crore unless mentioned otherwise
** Excluding revaluation reserve; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[3] *Excluding revaluation reserves*

Rating history for past three years

Sr. No.	Name of Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years						
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021
					Aug-11-2023	Aug-25-2022	Aug-05-2022	Jun-01-2022	Nov-17-2021	Jun-30-2021	Jun-12-2020
1	Basel III Tier II Bonds	Long Term	1,000.00	1,000.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA(hyb) (Stable)	[ICRA]AAA(hyb) (Stable)
2	Fixed Deposit Programme	Long Term	NA	NA	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)
3	Basel III Tier II Bonds	Long Term	1,450.00	1,450.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA(hyb) (Stable)	[ICRA]AAA(hyb) (Stable)
4	Basel III Tier-I Bonds	Long Term	-	-	-	-	-	-	-	[ICRA]AA+(hyb) (Stable)	[ICRA]AA(hyb) (Stable)
5	Basel III Tier-I Bonds	Long Term	-	-	-	-	[ICRA]AA+ (Stable);	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+(hyb) (Stable)	[ICRA]AA(hyb) (Stable)
6	Basel III Tier-I Bonds	Long Term	3,000.00	2,749.00^	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
7	Infrastructure Bonds	Long Term	1,000.00	1,000.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-
8	Basel III Tier-I Bonds	Long Term	2,500.00	2,474.00^	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-	-	-

Source: ICRA Research; ^ Balance yet to be issued; 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.

Complexity level of the rated instrument

Instrument	Complexity Indicator
Basel III Tier II Bonds	Highly Complex
Basel III Tier-I Bonds	Highly Complex
Fixed Deposits	Very Simple
Infrastructure Bonds	Very Simple

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE705A08037	**Tier II Bonds – Basel III**	Oct-30-2014	9.15%	Oct-30-2024	500.00	[ICRA]AAA (Stable)
INE705A08052	**Tier II Bonds – Basel III**	Feb-18-2015	8.62%	Feb-18-2025	500.00	
INE705A08078	**Tier II Bonds – Basel III**	Jan-22-2016	8.64%	Jan-22-2026	450.00	
INE028A08059	**Tier II Bonds – Basel III**	Dec-17-2013	9.73%	Dec-17-2023	1,000.00	
INE028A08265	**AT-I Bonds – Basel III**	Nov-26-2021	7.95%	Nov-26-2026^	1,997.00	[ICRA]AA+ (Stable)
INE028A08273	**AT-I Bonds – Basel III**	Jan-31-2022	8.00%	Jan-31-2027^	752.00	[ICRA]AA+ (Stable)
INE028A08281	**Infrastructure Bonds**	Aug-17-2022	7.39%	Aug-17-2029	1,000.00	[ICRA]AAA (Stable)
INE028A08299	**AT-I Bonds – Basel III**	Sep-02-2022	7.88%	Sep-02-2027^	2,474.00	[ICRA]AA+ (Stable)
Yet to be issued	**AT-I Bonds – Basel III**	-	-	-	277.00	[ICRA]AA+ (Stable)
NA	**Fixed Deposits**	-	-	-	-	[ICRA]AAA (Stable)

^First call option date; first call option after five years from issuance date
Source: BoB

Key features of the rated instruments

The servicing of the Basel III Tier II bonds is not subject to any capital ratios and profitability. However, the Basel III Tier II bonds and Basel III Tier-I bonds (AT-I bonds) are expected to absorb losses once the point of non-viability (PONV) trigger is invoked.

Further, the exercise of the call option on the Basel III Tier-II and Tier-I bonds is contingent upon the prior approval of the RBI. Moreover, the bank will need to demonstrate that the capital position is well above the minimum regulatory requirement, post the exercise of the said call option.

The rated Tier-I bonds have the following loss-absorption features that make them riskier:

- Coupon payments are non-cumulative and discretionary, and the bank has full discretion at all times to cancel coupon payments. Cancellation of discretionary payments shall not be an event of default.
- Coupons can be paid out of the current year's profits. If the current year's profit is not sufficient or if the payment of the coupon is likely to result in a loss, the coupon payment can be made through the reserves and surpluses[4] created via the appropriation of profits (including statutory reserves). However, the coupon payment is subject to the bank meeting the minimum regulatory requirements for CET I, Tier I and total capital ratios (including CCB) at all times as prescribed by the RBI under the Basel III regulations.

These Tier-I bonds are expected to absorb losses through the write-down mechanism at the objective prespecified trigger point fixed at the bank's CET I ratio as prescribed by the RBI, i.e. 6.125% of the total RWAs of the bank or when the PONV trigger is breached in the RBI's opinion.

Given the above distinguishing features of the Tier I bonds, ICRA has assigned a one notch lower rating to these than the rating for the Tier II instruments. The DRs that can be used for servicing the coupon in a situation of inadequate profit or a loss during the year stood at a comfortable 6.68% of RWAs as on March 31, 2023.

The rating on the Tier I bonds continues to be supported by the bank's capital profile, which is likely to remain comfortable, given the outlook on BoB's profitability. However, the transition to the expected credit loss (ECL) framework and its impact on the capital and DRs remain monitorable.

[4] Calculated as per the amendment in Basel III capital regulations for Tier-I bonds by the RBI, vide its circular dated February 2, 2017. As per the amended definition, DRs include all reserves created through appropriations from the profit and loss account

Annexure II: List of entities considered for consolidated analysis

S. No.	Name of the entity	Ownership	Consolidation Approach
1	BOB Financial Solutions Limited	100.00%	Limited Consolidation
2	BOB Capital Markets Limited	100.00%	Limited Consolidation
3	Baroda Global Shared Services Limited	100.00%	Limited Consolidation
4	Baroda Sun Technologies Limited	100.00%	Limited Consolidation
5	Bank of Baroda (Botswana) Limited	100.00%	Limited Consolidation
6	Bank of Baroda (Guyana) Inc.	100.00%	Limited Consolidation
7	Bank of Baroda (New Zealand) Limited	100.00%	Limited Consolidation
8	Bank of Baroda (Tanzania) Limited	100.00%	Limited Consolidation
9	Bank of Baroda (UK) Limited	100.00%	Limited Consolidation
10	The Nainital Bank Ltd	98.57%	Limited Consolidation
11	Bank of Baroda (Kenya) Limited	86.70%	Limited Consolidation
12	Bank of Baroda (Uganda) Limited	80.00%	Limited Consolidation
13	IndiaFirst Life Insurance Company Limited	65.00%	Limited Consolidation
14	Baroda BNP Paribas Asset Management India Ltd	50.10%	Limited Consolidation
15	Baroda BNP Paribas Trustee India Private Limited	50.10%	Limited Consolidation
16	India Infradebt Limited	40.99%	Limited Consolidation
17	India International Bank (Malaysia), Berhad	40.00%	Limited Consolidation
18	Baroda U P Bank	35.00%	Limited Consolidation
19	Baroda Rajasthan Kshetriya Gramin Bank	35.00%	Limited Consolidation
20	Baroda Gujarat Gramin Bank	35.00%	Limited Consolidation
21	Indo-Zambia Bank Limited	20.00%	Limited Consolidation

Source: BoB; Stake as on March 31, 2023

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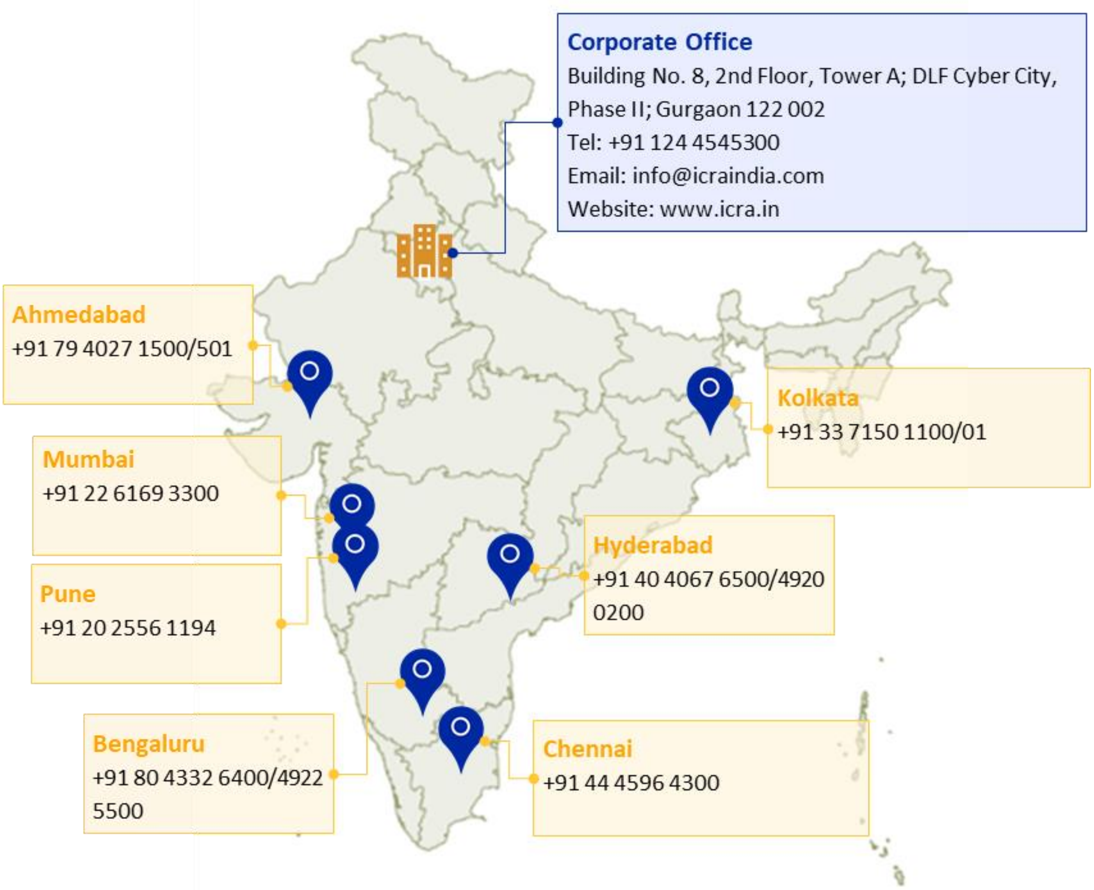

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