

## India Ratings Assigns Bank of Baroda's Additional CDs 'IND A1+'; Affirms Existing Ratings

Feb 29, 2024 | Public Sector Bank

India Ratings and Research (Ind-Ra) has taken the following rating actions on Bank of Baroda (BOB):

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	-	IND AAA/Stable	Affirmed
Certificate of deposits (CDs)	-	-	-	1-365 days	INR100	IND A1+	Assigned
CDs	-	-	-	1-365 days	INR500	IND A1+	Affirmed
Basel III Tier 2 instrument#	-	-	-	-	INR85.43(reduced from INR 95.28 )	IND AAA/Stable	Affirmed
Basel III AT1 bonds#	-	-	-	-	INR110	IND AA+/Stable	Affirmed
Infrastructure and Affordable Housing Bonds#	-	-	-	-	INR110	IND AAA/Stable	Affirmed
Fixed deposit	-	-	-	-	-	IND AAA/Stable	Affirmed

#Details in Annexure

**Analytical Approach:** Ind-Ra continues to take a consolidated view of BOB and its subsidiaries while arriving at the ratings, because of a similar nature of operations.

The ratings continue to reflect BOB's high-systemic importance to the government of India (GoI; 63.97% stake as of December 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 6.4% and 6.5% at end-9MFY24, respectively, (FY23: 6.7%/6.9%, FY22: 6.5%/6.7%), making it the third-largest PSB in terms of deposit market share and the second-largest PSB with respect to net advances market share. 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 165 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 11.11% in 3QFY24 (FY23: 12.24%, FY22: 11.42%), Tier-1 of 12.67% (13.99%, 13.18%) and a total capital adequacy ratio of 14.72% (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, provide it the adequate leeway to target a 14%-15% yoy credit growth rate in FY24 and absorb a higher-than-expected credit costs.

**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 146.59% in 2QFY24 (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 77.7% in 3QFY24 (3QFY23: 78.8%), at the higher end of the PSB peer group (excluding technical write-offs). BOB also carried 99.4% and 99.7% PCR against its exposures to the National Company Law Tribunal (NCLT)-1 and -2 lists, respectively, and 98.4% against the overall NCLT exposure at end-3QFY24. Its gross non-performing assets (NPAs) and net NPAs stood at 3.08% and 0.70%, respectively, at end-3QFY24 (end-3QFY23: 4.53% and 0.99%, respectively). The management has guided credit costs of around 1.0% in FY24, higher than the 0.53% reported in FY23. The management has further guided that in case of the credit costs trending lower than the management's expectations, the bank is likely to create floating provisions, which are likely to be utilised when the movement to the 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 the levels seen in FY23. The agency believes while the quantum of special mention accounts (SMA; SMA1 and SMA2) (outstanding of INR50 million and higher) remains subdued, slippages from the COVID-19 restructuring pool and micro, small and medium enterprises are likely to result in continuing slippages.

The incremental addition to the portfolio continues to be in better-rated categories with the share of standard domestic advances with rating of A and above with outstanding above INR500 million at 89% in 3QFY24 (3QFY23: 83%). However, the agency remains cautious with respect to BOB's significant exposure to the non-banking financial companies (NBFC) sector (13.6% of gross domestic advances) as any regulatory change with respect to a higher provisioning requirement for the exposure to the NBFC sector is also likely to impact the provisioning expectation for BOB. From a rating mix perspective, in 3QFY24, 97.9% of the NBFC portfolio was rated 'A' and above and 66.7% 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 38.2% in 3QFY24 (3QFY23: 38.6%). 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 0.9% yoy in 3QFY24 with the savings account balances growing 4.9% yoy and the overall deposit rising 8.3% yoy. Consequently, the cost of deposits also increased 95bp yoy to 4.96% in 3QFY24. The tightening of liquidity conditions and an uptick in the system credit offtake are likely to result in heightened competition between banks for garnering CASA deposits. Therefore, a continuing improvement in the 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 32.1% in 3QFY24 (3QFY23: 30.1%) 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 a through-the-cycle stable performance.

**RBI's Regulatory Action Highlights Process Deficiencies:** The Reserve Bank of India (RBI), in a press release during October 2023, citing material supervisory concerns regarding lapses in internal audit, has directed BOB to suspend onboarding of new customers through its mobile application, Bob World. As of 3QFY24, around 28% of fixed deposit/recurring deposits were booked through Bob World. Ind-Ra believes the move is likely to have a limited impact on the bank's ability to sustain its liability growth. In terms of assets too, the impact will be limited as cross-selling for retail products (personal loans and credit cards) to existing Bob World customers would be sufficient to meet growth requirements in the medium term. The continuing of transactions through internet banking, tab banking and branch banking would remain unaffected. The agency understands that BOB has already taken remedial measures and is awaiting a review of the measures taken by the RBI to resolve the issue.

## 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 Gol is unlikely to change, unless there is a change in the Gol'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](http://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.

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## APPLICABLE CRITERIA

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**Rating Bank Subordinated and Hybrid Securities**

**Rating FI Subsidiaries and Holding Companies**

**Evaluating Corporate Governance**

**The Rating Process**

**Financial Institutions Rating Criteria**

## Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook								
	Rating Type	Rated Limits (billion )	Rating	13 December 2023	10 November 2023	3 November 2023	23 August 2023	24 August 2022	3 August 2022	3 September 2021	7 September 2020	9 July 2020
Issuering	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	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	-	-	-	-	WD	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 AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	tAAA/S table	tAAA/S table
Basel III Tier 2 instrument	Long-term	INR85.43	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	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	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	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	INR110	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	-	-	-
CDs	Short-term	INR600	IND A1+	IND A1+	IND A1+	IND A1+	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	INE028A08133	20 December 2018	8.4	20 December 2028	INR2.40	WD (paid in full)
Basel III Tier 2 instrument	INE028A08141	10 January 2019	8.6	10 January 2029	INR2.85	WD (paid in full)
Basel III Tier 2 instrument	INE028A08158	14 February 2019	8.55	14 February 2029	INR4.60	WD (paid in full)
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
Basel III Tier 2 instruments	INE028A08315	21 December 2023	7.75	21 December 2033	INR25.00	IND AAA/Stable
Basel III Tier 2 instruments	INE028A08331	22 February 2024	7.57	22 February 2034	INR25.00	IND AAA/Stable
<b>Total unutilised</b>					<b>INR1.23</b>	
<b>Total</b>					<b>INR85.43</b>	
Additional Tier-1 Basel III bonds Series X	INE028A08174	28 November 2019	8.7	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	8.5	Perpetual	INR9.81	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XIV	INE028A08232	17 November 2020	8.5	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
<b>Total unutilised</b>					<b>INR13.94</b>	
<b>Total</b>					<b>INR110.00</b>	
Infrastructure and affordable housing bonds	INE028A08281	17 August 2022	7.39	17 August 2029	INR10	IND AAA/Stable
Infrastructure and affordable housing bonds	INE028A08307	1 December 2023	7.68	1 December 2033	INR50	IND AAA/Stable
Infrastructure and affordable housing bonds	INE028A08323	25 January 2024	7.57	25 January 2034	INR50	IND AAA/Stable
<b>Total unutilised</b>					<b>NIL</b>	
<b>Total</b>					<b>INR110.00</b>	

## Complexity Level of Instruments

Instrument Type	Complexity Indicator
Basel III Tier 2 instrument	Moderate
CDs	Low
Term deposit programme	Low
Basel III AT1 bonds	High

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

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