



Rating Rationale

Maharashtra Gramin Bank

17th July 2017

Brickwork Ratings (BWR) reaffirms “BWR A-” rating for Maharashtra Gramin Bank’s Perpetual Bond issue amounting to ₹ 10.25 Crores

Particulars

Instrument	Issue Date	Raised ₹ Cr	Interest Rate	Maturity Date	ISIN	Rating [^] (July 2017)
Perpetual Debt Instrument	31-Mar-2015	10.11 (out of the rated ₹ 10.25 Cr)	9.50%	Perpetual	INE419Q08015	BWR A- (Outlook: Stable) Reaffirmed

[^]For Definition of ratings please refer our website www.brickworkratings.com
Note: The Bank has raised ₹ 1010.60 lakhs of the aforesaid bond

Rating Reaffirmed

Brickwork Ratings has reaffirmed the rating of Maharashtra Gramin Bank’s (‘MGB’ or ‘the bank’) Perpetual Bond issue, as tabulated above.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

Brickwork Ratings have relied on Maharashtra Gramin Bank’s financial results for FY17, publicly available information and other information/clarifications provided by the Bank.

The rating reaffirmation, *inter alia*, factors the equity stakes of Government of India (GOI) of 50%, Government of Maharashtra (GOM) of 15% and the Sponsor Bank – Bank of Maharashtra (BOM) of 35% and its continued support to the Bank, improved CASA levels, increased capital adequacy, and overall profitable operations, though lower net profits than the previous year FY16. However, the rating is constrained by increased asset quality issue, farm loan waiver announced in the state and the impact of provisioning costs on the overall performance of the bank.

Perpetual Bond

The said Perpetual Bond issue of Rs.10.25 Cr is subscribed by the Sponsor Bank. It raised ₹ 8.28 Cr of the said Bonds in March 2014 and ₹ 1.83 Cr utilization in March 2015. The coupon @ 9.50% p.a. is serviceable annually. The redemption of these Bonds can be made with the approval of RBI, with the Bank having a call option at the end of 10 years from the date of allotment.



Rating Outlook: Stable

BWR believes Maharashtra Gramin Bank's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case there is improvement in the asset quality, profitability and the capital adequacy. The rating outlook may be revised to 'Negative' if the asset quality deteriorates significantly, resulting in higher provisions and lower profitability, or there is an impact on capital adequacy.

About the Company

Background: Maharashtra Gramin Bank came into existence on 20th July 2009 after amalgamation of erstwhile Maharashtra Godavari Gramin Bank and Marathwada Gramin Bank as per the notification issued by Government of India, Ministry of Finance, and Department of Financial Services. The head office of the Bank was shifted from Nanded to Aurangabad in July 2014. As of March 31, 2017, the Bank has 408 branches and 6 Regional offices across 17 districts in state of Maharashtra. All branches of this Bank are linked via Core Banking Solution (CBS).

Management: The Bank is led by Chairman Shri Unnam R V. The Board of Directors of the Bank comprises of members nominated by the Government of India, the Government of Maharashtra, RBI, NABARD and the Bank of Maharashtra. The Management personnel from the Sponsor Bank are Shri P N Desphande – Officer-On-Special Duty and Shri G G Wakade – General Manager.

Financial Performance

Business Performance: Total business of the Bank has increased by 15.09% from ₹ 9,515 Cr as on March 31, 2016 to ₹ 10,951 Cr as on March 31, 2017. Deposits have increased by 20.07% from ₹ 5,958 Cr in FY16 to ₹ 7,154 Cr in FY17. CASA ratio has improved from 53.52% in FY16 to 58.93% in FY17. Net Advances have increased by 6.75% from ₹ 3,557 Cr in FY16 to ₹ 3,797 Cr in FY17.

Gross advances of the bank have increased by 11.32% from 4,262 Cr in FY16 to 4,745 Cr in FY17. Of the gross advances of ₹ 4,745 Cr as of March 31, 2017, the Bank registered higher growth in loans to Kisan Credit Cards by 36%, followed by Agriculture Term loans by 31% and housing loans by 14%, MSME contributed 10% of the gross advances. The Credit - Deposit ratio has decreased from 71.54% on March 31, 2016 in FY16 to 66.33% on March 31, 2017. As per RBI extant guidelines on Inter Bank Participation certificate (IBPC), the bank sold ₹ 950 Cr of priority Sector advances to Sponsor Bank and purchased ₹ 200 Cr of Non Priority advances from Sponsor Bank, in March 2017.



Earnings Quality: Total Net Interest Income of the Bank during FY17 stood at ₹ 239 Cr from ₹ 204 Cr in FY16. Net Interest margin slightly decreased to 3.06% (FY16: 3.16%). Non-interest income stood at ₹ 50 Cr in FY17 against ₹ 47 Cr in FY16, contributed majorly by trading income - profit on sale of investment was ₹ 10 Cr (FY16: ₹ 7 Cr). In the wake of asset quality deterioration across banking sector, the Bank also notes similar challenge in its asset quality; Bank's total provisions in FY17 have increased to ₹ 77 Cr from ₹ 26 Cr in FY16. The Bank has declared profit after tax of ₹ 46 Cr for FY17 (₹ 63 Cr: FY16). Provision costs and non-interest income are key monitorables. Impact of the farm loan waiver recently announced in the state affecting the bank's provisions and profitability will be the other monitorables.

Asset Quality: In FY17, the Bank's Gross NPAs increased from ₹ 179 Cr in FY16 to ₹ 369 Cr. During FY17, Recovery and Upgradations were to the tune of ₹ 24 Cr and ₹ 5 Cr respectively while write offs were to the tune of ₹ 15 Cr. total additions to NPA amounted to ₹ 233 Cr in FY17 against total additions of ₹ 48 Cr in FY16. GNPA ratio for the Bank has increased to 9.263% (FY16:4.85%) and the NNPA ratio increased to 4.51% (FY16: 1.22%). The Bank's Standard Restructured advances as of March 31, 2017 stood at ₹ 3 Cr (FY16: ₹ 696 Cr), taking the total stressed assets to 9.30% (FY16:23.70%). Fresh additions/ slippages to NPA portfolio would be a key rating sensitivity. Provision Coverage Ratio stands improved at 53.62% (75.69% in FY16)

Capital Adequacy: As on March 31, 2017, the Bank's total CRAR as per BASEL III guidelines stands at 10.60% (FY16:10.44%) out of which Tier I capital adequacy ratio stood at 9.85% (FY16:9.63%) is within the regulatory requirement. The requirement from NABARD for RRBs is to maintain 9 % of CRAR. The Owned funds of the Bank have increased from ₹ 373 Cr in FY16 to ₹ 419 Cr in FY17 with retention of profits in the business. The Borrowings have increased from ₹ 968 Cr in FY16 to ₹ 1100 Cr in FY17 with the support from the Sponsor Bank and NABARD.

Maharashtra Gramin Bank	Amount Rs Cr	
	2016	2017
KEY Parameters – Rs Cr		
Total Deposits	5,958	7,154
<i>Deposit Growth (in %)</i>		20.07%
Advances	3,557	3,797
<i>Loans Growth (in %)</i>		6.75%
Total Business	9,515	10,951
<i>Business Growth (in %)</i>		15.09%
CASA Ratio %	53.52%	58.93%
Profitability Ratios (%)		
RoE (%)	15.30%	20.15%
RoA (%)	0.86%	0.58%

NIM (%)	3.16%	3.06%
Net Interest Income (NII)	204	239
Non-Interest Income	47	50
Operating profits	91	119
Provisions	26	77
PAT	63	46
Cost to Income Ratio (%)	63.78%	58.85%
Asset Liability Profile (%)		
Loans/Deposit Ratio	71.54%	66.33%
Gross NPAs to Advances	4.85%	9.23%
Net NPAs to Advances	1.22%	4.51%
Restructured Portfolio as a % of Gross Adv	18.85%	0.08%
Gross NPA+ Restructured (Stressed Adv%)	23.70%	9.30%
Provision Coverage Ratio	75.69%	53.62%
CRAR (%)	10.44%	10.60%
<i>Tier I</i>	9.63%	9.85%
<i>Tier II</i>	0.81%	0.75%
Amount of subordinated debt raised as Tier II Capital from Bank of Maharashtra	10.11	10.11
<i>GOI Stake (50%)</i>	105	105
<i>GOM Stake (15%)</i>	31	31
<i>BOM Stake (35%)</i>	73	73

Rating History for the last three years (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (July 2017)			Rating History		
		Type	Amount (₹ Crs)	Rating	15 Jul 2016	06 Apr 2015	26 Mar 2014
1	Perpetual Bond	Long term	10.25 (raised ₹ 10.11 Cr)	BWR A- Outlook: Stable Reaffirmed	BWR A- Outlook: Stable Reaffirmed	BWR BBB+ (Outlook:Stable) to BWR A- Outlook:Stable Revised	BWR BBB+ (Outlook: Stable) Reaffirmed (enhanced from ₹10.00 Cr to ₹10.25 Cr)

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)



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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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