
Press Release for Bank of Baroda's INR 10 billion Bonds Issue Rating

Brickwork Ratings assigns "BWR AAA+" for Bank of Baroda's Upper Tier II Capital Bonds Issue of INR 10 billion

Issue Rating: BWR AAA+

Outlook: Stable

Brickwork Ratings has assigned BWR AAA+ (Pronounced BWR Triple A Plus) for Bank of Baroda's proposed Upper Tier II Capital Bonds issue of INR 1000 crore or INR 10.00 billion. Brickwork ratings' 'BWR AAA+' stands for an instrument that is considered to offer the BEST credit quality in terms of timely serving of debt obligations. The rating factored higher operating profits, improving asset quality, well diversified credit deployment, comfortable capital adequacy & low cost deposits, healthy earning assets, profitable overseas operation, and the Government of India's equity stake.

The bank has performed really well despite the fact that financial year 2009 has witnessed many challenges of financial crises in the domestic as well as overseas. Bank of Baroda however managed to maintain its growth momentum and overall progress achieved in the recent past. The bank's global business had increased by 30.00% (as against 24.07% in FY08) during FY 09 to reach INR 3363.82 billion from INR 2587.35 billion for the same period in 2008. Similarly, the bank's global gross advances and deposits grew by 34.90% and 26.60% respectively during FY 09.

Over the years, the bank's asset quality has been improving through the bank's relatively better credit culture and monitoring. As a result, the bank's gross NPAs have come down to 1.27% as on 31st March 2009 from 1.84% for the same period a year ago. The bank's net NPAs have shown a similar trend, which has declined to 0.31% in FY09 from 0.47% in FY08. When compared with its peers, the bank's gross NPAs about 66 bps lower than that of peers' 1.93%. Similarly, the bank's net NPAs 35 bps lower than the peers' average of 0.66%. Further, the bank's overseas business gross and net NPAs stood at 0.51% and 0.04% respectively during the year.

During FY 09, the bank's low cost deposits mix was stable, with its domestic CASA deposits at 34.87%, which is 217 bps higher than its peer's average of 32.70%, mainly driven by the bank's aggressive savings and current account marketing during the year and also branch expansion in rural and semi urban areas. However, the bank's global CASA deposits decreased from 31.22% in FY08 to 29.59% in FY 09. Further, the bank had comfortable capital adequacy ratio at 14.05% under Basel II norms during the year, which is significantly higher than its peers' average of 13.51%. Similarly, the bank's Tier I capital stood at 8.49%, which is 13 bps higher than that of peers.

The bank has been very consistent in generating profit over the years. Despite a noticeable deterioration in credit growth in the banking industry during FY 09, the bank posted excellent revenues and profit figures. With total income of INR 178.49 billion during FY 09 (as against INR 138.64 billion in FY 08), reflecting the significant improvement in core banking operations, and improved fee based activities. During FY 09, the bank's Return on Assets (ROA) had improved to 1.15% as compared to 0.89% in FY08. Similarly, the bank's Return on Equity (ROE) stood at 19.56% as on 31st March 2009 as against 15.07%. Further, the bank's overseas business contributes 21.2% of the bank's gross profits during FY09. Similarly, it contributed 34.66% to the bank's income

from commission. The bank has used its banking technology skillfully in overseas operations thereby keeping its cost to income ratio at 20.75%.

In the analysis of the Bank of Baroda's performance for FY 09, Brickwork Rating found a few shortcomings have been noticed such as the bank has restructured nearly 40,423 accounts, amounting to total outstanding INR 26.59 billion during FY09. The bank's restructured loan amount is one of the lowest amounts reported in the industry so far, which is only 1.85% of the total advances. Brickwork expects that the bank's restructured loans likely to affect the asset quality in near future.

Brickwork expects that current liquidity situation; huge borrowing programs of the Government of India and continuing financial crises in the international markets are likely to affect the bank's operations. However, the bank's improved earning assets, robust growth in advances and deposits, decline in NPAs, comfortable capital adequacy, efficient risk management system, and higher domestic low cost deposits would enable the bank to sustain its current growth momentum in domestic and overseas operations. As such Brickwork has assigned Stable outlook for the bank's issue.

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