

RATING RATIONALE

16 Nov 2022

Bank of Baroda

Brickwork Ratings reaffirms the rating of the Upper Tier II bonds (under Basel II) and Tier II Bonds (under Basel III) at BWR AAA (Stable) and withdraws the rating of Additional Tier I Bonds (under Basel III) on redemption.

Particulars

Instruments**	Amount Rs.Crs.		Tenor	Rating*	
	Previous	Present		Previous (August, 2022)	Present
Upper Tier II Bond – Tranche II (under Basel II)	500.00	500.00	Long Term	BWR AAA (Stable)	BWR AAA (Stable) Reaffirmed
Tier II Bonds (under Basel III)	250.00	250.00		BWR AAA (Stable)	BWR AAA (Stable) Reaffirmed
Additional Tier I Bonds (under Basel III)	325.00	0.00		BWR AA+ (Stable)	Withdrawn on Redemption
Total	2075.00	750.00	Rupees Seven Hundred and Fifty Crores only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of bonds are provided in Annexure-I & II

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) has reaffirmed the rating of BWR AAA/Stable for the upper Tier II bonds (under Basel II) of Rs.500.00 crores and Tier II Bonds (under Basel III) of Rs.250.00 crores of Bank of Baroda (BOB or the bank). BWR has also withdrawn the rating of BWR AA+/Stable for the additional tier I bonds (under Basel III) of Rs.325.00 crores on its full redemption through exercise of call option, as confirmed by the debenture trustee and notified by the bank in public domain. The rating withdrawal is as per BWR policy on withdrawal of rating.

The rating reaffirmation continues to factor in strong support from the Government of India (GOI) as the bank's promoter and a major shareholder with a 63.97% stake as of 30 September 2022, along with the continued support in the form of capital infusion and a comfortable capitalisation and resource profile. The ratings also factor in the asset quality improvement in the corporate sector and modest earnings profile. BWR maintains a stable outlook for the bank as the



bank's business risk profile is expected to remain unchanged over the medium term, indicating a low likelihood of a rating change over the medium term.

Note on Tier-II Instruments (under Basel III)

The distinguishing feature of Tier-II capital instruments under Basel III is the existence of the point of non-viability (PONV) trigger, and the occurrence of such a situation may result in the loss of principal to investors, entailing default on the instrument by the issuer. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. BWR believes that the PONV trigger is a remote possibility in the Indian context, given the robust regulatory and supervisory framework and the systemic importance of the banking sector. The inherent risk associated with the PONV feature is adequately factored into the rating on the instrument.

Additional Tier I Bonds Basel III

The differentiating features of non-equity Tier I capital instruments (under Basel III) are the discretionary payment of coupons by the bank and the principal write down upon the breach of a pre-specified trigger. These features increase the risk attributes of non-equity Tier I instruments over those of Tier II instruments under Basel III. To factor in these risks, BWR notches down the rating on these instruments from the bank's Tier II Bonds. The rating on BOB's Tier I Bonds (under Basel III) has, therefore, been lowered by one notch from its Tier II bonds (under Basel III) ratings. The factor based on which the rating of Tier I capital instruments (under Basel III) is lowered by one notch is the modest profitability of the bank for FY22. Nevertheless, the bank's revenue reserves are comfortable, and the bank is ensuring timely coupon payments.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED - NIL

KEY RATING DRIVERS

Credit Strengths:-

- **GOI's shareholding and support:** The GOI held a 63.97% stake in the bank as of 30 September 2022. The GOI is expected to provide capital support to the bank as and when required for business growth, as well as to strengthen the balance sheet cover for asset side risks. The bank had raised capital through Additional Tier -1 (AT-1) bonds of Rs. 2,749 Crores in FY22. On 16 July 2022, the board approved the raising of Rs.1000 Crores towards Long-Term Bonds for the Financing of Infrastructure and Affordable Housing. During the half year ended September 30, 2022, the Bank issued Basel III AT-1 Bonds amounting to ~ Rs.2474 Crs and Long Term Bonds for Financing of Infrastructure and Affordable Housing amounting to ~Rs.1000 Crs.
- **Strong capital adequacy ratio:** BOB remains strongly capitalised with the consolidated capital adequacy ratio at 15.77% (16.33% as on 31 March 2022) and 13.39% (13.89% as on 31 March 2022) at the Tier I capital ratio as on 30 September 2022. On a standalone basis, as of 30 September 2022 the total CRAR was 15.25% (15.68% as of 31 March 2022), tier I capital ratio was 12.81% (13.18% as of 31 March 2022). BWR believes that the capitalisation will continue to remain strongly supported by the GOI. The networth cover for net non-performing assets (NPAs) was 9.5 times as on 30 September 2022.



- **Comfortable CASA ratio:** BOB has become the third largest public sector bank after the mergers and amalgamations. The Global CASA ratio stood at 39.83% as of 30 September 2022 compared to 41.7% as of 30 September 2021, BOB also gets sizable deposits from its large overseas branch presence. The deposits from overseas grew by 38% from Rs.94,881 crores on 30 September 2021 to Rs.1,31,205 Crores on 30 September 2022, and the total deposits grew by 13.6% from Rs.9,59,483 crores as of 30 September 2021 to Rs.10,90,172 crores as of 30 September 2022. The bank has 94 branches/Offices outside India at strategic locations across the globe.
- **Established brand and strong position:** The bank has established a strong brand presence across the country and also overseas through its network of branches, ATMs and cash recyclers. Over the years, the bank has grown to be the third largest in India.

Credit Risks:-

- **Improving asset quality, though slippages from SMA2 book remain monitorable:** The bank made recoveries and write-offs during Q2FY23 to improve its asset quality, and fresh slippages remain at Rs.5833 crores in H1FY23 compared to Rs.8382 crores in H1FY22. BOB has reported a gross NPA ratio of 5.31% and net NPA ratio of 1.16% as on 30 September 2022 as against an 8.11% gross NPA ratio and 2.83% net NPA ratio as on 30 September 2021. SMA1 and SMA2 as a percent of the standard advances stood at 0.42 as of Q2FY23 against 1.87% in Q2FY22, and their movement through improved collections or slippages shall be monitorable. The collection efficiency (excluding agriculture) stood at 98% as of September 2022. The bank's provision coverage ratio stood at 91.73% including the technical write-off (TWO) and 19.14% excluding the TWO in Q2FY23. The slippage ratio decreased to 1.77% for Q2FY23 as against 3.22% in Q2FY22.
- **Modest earnings:** In the last couple of years, the bank had seen pressure on the profitability due to provisioning costs, followed by asset quality. During FY21, the bank made the provision of Rs.15,643 crores, which moderated its net profits during the year, and in FY22, the profit stood at Rs.7,272 crores (Rs.829 crores in FY21) due to a lower provision of Rs.13,002 crores. BWR believes that the earnings would further increase during FY23 due to lower provisioning and improving asset quality. An improvement in profitability through improved collections and a reduction in the provisioning cost will remain monitorable.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at the ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Negative: A substantial deterioration in the asset quality from the current level and any major impact on the performance of BOB during FY23 will be a rating negative.



LIQUIDITY: ADEQUATE

As of 30 September 2022, the bank had cash and bank balances of Rs.95,977.62 crores and investments of Rs.3,81,277 crores on total borrowings of Rs. 1,17,332 crores, at consolidated levels indicating adequate liquidity to meet its debt requirements.

About the Company

Bank of Baroda (BOB), established on 20 July 1908, is a large public sector bank with a 63.97% stake of the GOI as of 30 September 2022. It had a relatively strong presence in western India and major metros, apart from a global presence with 94 overseas branches/offices spanning 17 countries. The bank has been operating its business through 8207 branches and 11,475 ATMs as on 30 June 2022.

Dr. Hasmukh Adhia has been the non-executive chairman of the bank since 01 March 2019. Shri Sanjiv Chadha has been the bank’s managing director and chief executive officer since January 2020. The bank also had strong support from four executive directors, Shri Ajay K Khurana, Shri Debadatta Chand and Shri Joydeep Dutta Roy.

Bank’s Financial Performance - Standalone

Key Financial Indicators	Units	FY2020	FY2021	FY2022
Result Type		Audited	Audited	Audited
Total Assets	Rs.Crs.	11,57,915	11,55,365	12,78,000
Total Business	Rs.Crs.	16,84,053	17,18,586	18,64,058
CASA Ratio (Domestic)	%	39.07	42.87	44.24
RoA	%	0.06	0.07	0.60
NIM	%	2.73	2.71	3.03
Net Interest Income (NII)	Rs.Crs.	27,451	28,809	32,622
PAT	Rs.Crs.	546	829	7,272
CRAR	%	13.30	14.99	15.68
<i>Tier 1</i>	%	10.71	12.67	13.18
<i>CET-I</i>	%	9.44	10.94	11.42
Gross NPA ratio	%	9.40	8.87	6.61
Net NPA Ratio	%	3.13	3.09	1.72
PCR	%	81.3	81.8	88.71

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY -
NA**

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]

Sn	Instrument	Current Rating (2022)				Rating History			
		Type	Amount (Rs Crs)	2022		2021	2020	2019	
				16-Nov-22	19-Aug-22	4-Aug-21	5-Aug-20	22-Jul-19	30-Mar-19
1	Upper Tier II Bond – Tranche 1	Long term	-		-	-	-	BWR AAA/ (Stable) Withdrawn on redemption	BWR AAA/ Stable/ Reaffirmed
2	Upper Tier II Bond – Tranche 2	Long term	500	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed			
3	Basel III Tier II Bond #	Long term	250	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Assigned	-			
4	Basel III Additional Tier I Bonds-Series I #	Long term	0		-	Withdrawn on redemption	BWR AA+/ Stable/ Reaffirmed (Rs.100 Crs)	BWR AA+/ Stable/ Assigned (Rs.100 Crs)	-
5	Basel III Additional Tier I Bonds-Series II #	Long term	0		-	Withdrawn on redemption	BWR AA+/ Stable/ Reaffirmed (Rs.400 Crs)	BWR AA+/ Stable/ Assigned (Rs.400 Crs)	-
6	Basel III Additional Tier I Bonds-Series III #	Long term	0		-	Withdrawn on redemption	BWR AA+/ Stable/ Reaffirmed (Rs.500 Crs)	BWR AA+/ Stable/ Assigned (Rs.500 Crs)	-



7	Basel III Additional Tier I Bonds-Series IV #	Long term	0	Withdrawn on Redemption	Fully redeemed. Awaiting documents for withdrawal	BWR AA+/ Stable/ Reaffirmed	BWR AA+/ Stable/ Reaffirmed	BWR AA+/ Stable/ Assigned	-
Total			750	Rupees seven hundred and fifty crore only					

these bond issues were from erstwhile Vijaya Bank

COMPLEXITY LEVELS OF THE INSTRUMENTS - HIGHLY COMPLEX

For more information, visit

www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks and Financial Institutions](#)
- [Capital Instruments Issued by Banks and Financial Institutions](#)

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Bank of Baroda
ANNEXURE I
Details of Bank Loan Facilities rated by BWR: NA

ANNEXURE II
INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS:

Instrument	Issue Date	Amount in Crs.	Coupon Rate	Maturity Date	ISIN Particulars
Upper Tier II Bonds Tranche II (Basel II)	8-Jul-2009	500.00	8.54%	8-Jul-2024	INE028A09123
Tier II Bonds (Basel III)	23-Dec-2013	250.00	9.73%	23-Dec-2023	INE705A08029
Additional Tier I Bonds (Basel III) Series IV	17-Jan-2017	0.00	10.49%	redeemed	INE705A08094
Total		750.00			

ANNEXURE III

List of entities consolidated:

Sl No	Entities	Percentage of Holding
Subsidiaries		
Domestic Subsidiaries		
1	The Nainital Bank Limited	98.57%
2	BOB Capital Markets Limited.	100%
3	BOB Financial Solutions Limited	100%
4	Baroda Global Shared Services Limited	100%
5	Baroda Sun Technologies Ltd	100%
6	Baroda BNP Paribas Asset Management India Private Limited	50.10%
7	Baroda BNP Paribas Trustee India Private Limited	50.10%
8	IndiaFirst Life Insurance Company Limited*	65%

Overseas Subsidiaries (Banking)		
9	Bank of Baroda (Botswana) Limited	100%
10	Bank of Baroda (Kenya) Limited	86.70%
11	Bank of Baroda (Uganda) Limited	80%
12	Bank of Baroda (Guyana) Inc.	100%
13	Bank of Baroda (Tanzania) Limited	100%
14	Bank of Baroda (New Zealand) Limited	100%
15	Bank of Baroda (UK) Limited	100%
16	Baroda Capital Markets (Uganda) Limited. (Subsidiary of Bank of Baroda Uganda Limited)	100%
Associates		
1	Indo Zambia Bank Limited	20%
2	Baroda U P Bank (Regional Rural Bank)	35%
3	Baroda Rajasthan Kshetriya Gramin Bank (Regional Rural Bank)	35%
4	Baroda Gujarat Gramin Bank (Regional Rural Bank)	35%
Joint Ventures		
1	India First Life Insurance Company Limited*	65%
2	India International Bank (Malaysia) Bhd	40%
3	India Infradebt Limited	40.99%

* The Bank has increased its stake in IndiaFirst Life Insurance Company Limited from 44% to 65% after receiving all statutory and regulatory approvals. Hence the same will be considered as subsidiary w.e.f 31.03.2022



For print and digital media

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