



RATING RATIONALE

19 August 2022

Bank of Baroda

Brickwork Ratings reaffirms the rating for the Upper Tier II bonds (under Basel II) and Tier II Bonds (under Basel III) at BWR AAA (Stable).

Particulars

Instruments**	Amount Rs.Crs.		Tenor	Rating*	
	Previous	Present		Previous (August, 2021)	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)	Fully redeemed. Awaiting documents for withdrawal
Total	2075.00	750.00	Rupees Seven Hundred and Fifty Crore 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 BWR AAA/Stable rating 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, and the BWR AA+/Stable rating for the additional Tier I bonds (under Basel III) of Rs.325.00 crores of Bank of Baroda (BOB or the bank) is to be withdrawn, as tabulated above.

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 June 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 June 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 has raised capital through Additional Tier –1 (AT-1) bonds of Rs. 2,749 Crores in FY22. No funds were raised in Q1FY23 by the bank. On 16 July 2022, the board approved the raising of Rs.1000.00 crores towards Long-Term Bonds for the Financing of Infrastructure and Affordable Housing out of the board-approved limit of Rs.5000.00 crores.
- **Strong capital adequacy ratio:** BOB remains strongly capitalised with the consolidated capital adequacy ratio at 16.03% (16.33% as on 31 March 2022) and 13.6% (13.89% as on 31 March 2022) at the Tier I level as on 30 June 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, however, low at 5.02 times as on 30 June 2022.
- **Comfortable CASA ratio:** BOB has become the third largest public sector bank after the mergers and amalgamations. The Global CASA ratio stood at 41.14% as of 30 June 2022 compared to 41.03% as of 30 June 2021, supported by a well-diversified branch network, including an overseas presence. BOB also gets sizable deposits from its large overseas



branch presence. The deposits from overseas grew by 32% from Rs.93,514 crores on 30 June 2021 to Rs.1,23,619 Crores on 30 June 2022, and the total deposits grew by 10.9% from Rs.9,31,317 crores as of 30 June 2021 to Rs.10,32,714 crores as of 30 June 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 Q1FY23 to improve its asset quality, and fresh slippages remain at Rs.3,266 crores in Q1FY23 compared to Rs.5129 crores in Q1FY22. BOB has reported a gross NPA ratio of 6.26% and net NPA ratio of 1.58% as on 30 June 2022 as against an 8.86% gross NPA ratio and 3.03% net NPA ratio as on 30 June 2021. SMA1 and SMA2 as a percent of the standard advances stood at 0.48 as of Q1FY23 against 2.68 in Q1FY22, and their movement through improved collections or slippages shall be monitorable. The collection efficiency (excluding agriculture) stood at 98% as of June 2022. The bank's provision coverage ratio stood at 89.38% including the technical write-off (TWO) and 75.94% excluding the TWO in Q1FY23. The slippage ratio decreased to 1.71% for Q1FY23 as against 3% in Q1FY22.
- **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 June 2022, the bank had cash and bank balances of Rs.1,01,251 crores and investments of Rs.3,61,671 crores on total borrowings of Rs. 1,25,893 crores, 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 June 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

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

Sn	Instrument	Current Rating (2022)			Rating History				
		Type	Amount (Rs Crs)	Rating	4 Aug 2021	05 Aug 2020	22 Jul 2019	30 Mar 2019	26 Mar 2018
1	Upper Tier II Bond – Tranche 1	Long term	-	-	-	-	BWR AAA/ (Stable) Withdrawn on redemption	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed
2	Upper Tier II Bond – Tranche 2	Long term	500.00	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed
3	Basel III Tier II Bond #	Long term	250.00	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed	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	0.00	Fully redeeme d.Awaiti ng documen ts for withdra wal	BWR AA+/ Stable/ Reaffirme d	BWR AA+/ Stable/ Reaffirme d	BWR AA+/ Stable/ Assigned	-	-
Total			750.00	Rupees seven hundred and fifty crore only					

these bond issues were from erstwhile Vijaya Bank

COMPLEXITY LEVELS OF THE INSTRUMENTS

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**

Analytical Contacts	
Koppula Shyam Sundar Rating Analyst shyamsundar.k@brickworkratings.com	Vidya Shankar Principal Director - Ratings B :+91 80 4040 9940 Ext: 312 vidyashankar@brickworkratings.com
1-860-425-2742	media@brickworkratings.com



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:

SI 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

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER : Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or



losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.