



RATING RATIONALE

23 Nov 2023

Bank of Baroda

Brickwork Ratings reaffirms the ratings of Bank of Baroda's 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 (16-Nov-2022)	Present
Upper Tier II Bonds – Tranche II (under Basel II)	500.00	500.00	Long Term	BWR AAA/ Stable (Reaffirmed)	BWR AAA / Stable (Reaffirmed)
Tier II Bonds (under Basel III)	250.00	250.00		BWR AAA/ Stable (Reaffirmed)	BWR AAA / Stable (Reaffirmed)
Total	750.00	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 II

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) has reaffirmed the rating of BWR AAA/Stable for the upper Tier II bonds – Tranche II (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).

The rating reaffirmation continues to factor in strong support from the Government of India (GOI) as the Bank's promoter and major shareholder with a 63.97% stake as of 30 September 2023, along with the continued support in the form of capital infusion, and a comfortable capitalisation and resource profile. The ratings also factor in the Bank's asset quality improvement and modest earnings profile. BWR maintains a stable outlook for the bank as the bank's business risk profile is likely to remain unchanged over the medium term, indicating a low likelihood of a rating change over the medium term.



KEY RATING DRIVERS

Credit Strengths:-

- **GOI's shareholding and support:** The GOI held a 63.97% stake in the bank as of 30 September 2023. 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.
- **Comfortable capitalisation:** BOB remains comfortably capitalised with the standalone capital adequacy ratio at 15.30% as on 30 September 2023 (15.25% as on 30 September 2022). As on 30 September 2023, the Bank's Common Equity Tier I capital ratio was 11.57% (10.95% as on 30 September 2022), the tier I capital ratio was 13.19% (12.81% as of 30 September 2022) and the total CRAR was 15.30% (15.25% as of 30 September 2022). BWR believes that the Bank's capitalisation will continue to remain strongly supported by the GOI. The networth cover for net non-performing assets (NPAs) was 14.0 times as on 30 September 2023.
- **Reasonable CASA ratios:** The Domestic CASA ratio stood at 39.88% as of 30 September 2023 compared with 42.77% as of 30 September 2022. BOB also gets sizable deposits from its large overseas branch presence. The deposits from overseas grew by 33.8% from Rs. 1,31,205 Crores as on 30 September 2022 to Rs. 1,75,533 crores on 30 September 2023. The Bank's total deposits grew by 14.6% from Rs. 10,90,172 crores as of 30 September 2022 to Rs. 12,49,647 crores as of 30 September 2023.
- **Established brand and strong position:** Bank of Baroda has established a strong brand presence across the country through its network of 8,200 branches and 11,401 ATMs & cash recyclers, as of 31 March 2023. The Bank had 93 branches / offices outside India as of 31 March 2023. Over the years, the Bank has grown to be the second largest in India by way of total business (gross advances + total deposits) size as of 31 March 2023.

Credit Risks:-

- **Improving asset quality, though slippages remain monitorable:** Bank of Baroda's gross NPA ratio improved to 3.32% at 30 September 2023, from 5.31% at 30 September 2022, and 3.51% at 30 Jun 2023. The Net NPA improved to 0.76% at 30 September 2023, from 1.16% at 30 September 2022, and 0.78% at 30 June 2023. The provision coverage ratio (excluding technical write-offs) stood at 77.64% as at 30 September 2023 as against 79.14% as at 30 September 2022. The slippage ratio deteriorated (increased) to 1.81% at 30 September 2023 from 1.77% at 30 September 2022 and 1.05% at 30 Jun 2023.

In Q2FY24, the Bank had total cash recoveries of Rs. 2,207 crores as against Rs. 5,360 crores during Q2FY23 and Rs. 1,937 crores during Q1FY24. The write-offs stood at Rs. 3,402 crores for Q2FY24 as against Rs. 5,279 crores for Q2FY23 and Rs. 2,730 crores for Q1FY24. As on 30 September 2023, the Bank's SMA 1 and SMA 2 accounts amounted to 0.22% of total standard advances; as on 30 September 2022, these



amounted to 0.42%. The Bank's collection efficiency (excluding agriculture) stood at 99% as of September 2023.

- **Modest earnings profile:** BOB's domestic Net Interest Margin (NIM) stood at 3.30% for the half-year ended 30 September 2023 (H1FY24), as against 3.25% for H1FY23. In H1FY24, employee cost (salaries) rose by 24.9% YoY to Rs. 5,876 crores as against Rs. 4,704 crores for H1FY23. Provisions (excluding taxes) for Q2FY24 were Rs. 2,161 crores, up 32.7% YoY from Rs. 1,628 crores at 30 September 2022. Furthermore, in Q2FY24, other interest income dropped by 22.4% YoY to Rs. 759 crores as against Rs. 978 crores for Q2FY23. In H1FY24, forex income dropped by 10.7% YoY to Rs. 117 crores as against Rs. 131 crores for H1FY23.
The net profit for FY23 stood at Rs. 14,110 crores against a net profit of Rs. 7,272 crores for FY22. Net profits for H1FY24 stood at Rs. 8,323 crores against Rs. 5,482 crores for H1FY23. The Bank's RoAA was 1.14% at 30 September 2023 as against 1.01% on 30 September 2022. BWR believes that maintaining the NIMs, controlling operating costs, and improving the asset quality, are likely to remain key for Bank of Baroda to improve its earning profile over the near-to-medium term.
- **RBI's Regulatory Action on BOB's mobile application:** The Reserve Bank of India recently directed the Bank of Baroda to suspend the onboarding of customers through its mobile application, 'bob World'. RBI, in a press release, cited supervisory concerns regarding lapses in BOB's internal audit. BWR understands from disclosures by BOB that the RBI ban on onboarding new customers via the 'bob World' app is likely to have little financial impact on BOB, and that BOB has already taken action in terms of compliance. BWR will monitor the developments.

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

Positive: Not applicable since the ratings are at the highest end of the rating scale.

Negative: A reduction in government support and the GoI's stake in the bank falling below 51% could negatively impact the ratings and/or outlook. A substantial deterioration in Bank of Baroda's asset quality, resulting in an adverse impact on the profitability and capitalization metrics, could also adversely impact the ratings and/or outlook.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:

NCDs:

- For the Upper Tier II Bonds – Tranche II (under Basel II) (ISIN INE028A09123), coupon rate is 8.54%, the date of maturity is 8 July 2024. Frequency of interest payment: interest is payable annually on 8 July every year till maturity.



- For the Tier II Bonds (under Basel III) (ISIN INE705A08029), coupon rate is 9.73%, the date of maturity is 23 Dec 2023. Frequency of interest payment: interest is payable annually on 31 March every year till maturity.

Note on Hybrid Instruments (under Basel II)

Given that hybrid capital instruments (tier-I perpetual bonds and upper tier-II bonds; under Basel II) have characteristics that set them apart from lower tier-II bonds (under Basel II), the ratings on the two instruments may not necessarily be identical. The factors that could trigger a default event for hybrid instruments include: the bank breaching the regulatory minimum capital requirement, or the regulator's denial of permission to the bank to make payments of interest and principal if the bank reports losses. Hence, the transition from one rating category to another may be significantly sharper for these instruments than in the case of Lower Tier-II bonds; this is because debt servicing on hybrid instruments is far more sensitive to the bank's overall capital adequacy levels and profitability.

Note on TIER-II Instruments (under BASEL III): The key features of Tier-II capital instruments under Basel III is the existence of the Point of Non-Viability (PONV) trigger. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. The triggering of the PONV may result in the loss of principal to the investors and a default of the instrument. Given the robust regulatory and supervisory framework and the systemic importance of the banking sector, BWR believes that the PONV getting triggered is a remote possibility. The inherent risk associated with the PONV feature is adequately factored into the rating of the instrument. The rating for such instruments is generally at par with the base rating of the issuer and may be lower in the case of any adverse rating sensitivity.

LIQUIDITY INDICATOR: ADEQUATE

As of 30 September 2023, the bank had cash and bank balances of Rs. 55,671.62 crores and liquid investments (available for sale) of Rs. 1,09,240 crores on total borrowings of Rs. 1,19,282.96 crores, indicating adequate liquidity to meet its debt requirements. The Bank's liquidity coverage ratio (LCR) as on 31 March 2023 was 146%, above the minimum regulatory requirement of 100%.

COMPANY PROFILE

Bank of Baroda (BOB), established on 20 July 1908, is a large public sector bank. The GOI has a 63.97% stake in BOB as of 30 September 2023. Bank of Baroda has established a strong brand presence across the country through its network of 8,200 branches and 11,401 ATMs & cash recyclers, as of 31 March 2023. The Bank had 93 branches / offices outside India as of 31 March 2023. Over the years, the Bank has grown to be the second largest in India by way of total business (gross advances + total deposits) size as of 31 March 2023.

Dr. Hasmukh Adhia has been the non-executive chairman of the bank since 1 March 2019. Shri Debadatta Chand, former Executive Director of Bank of Baroda, assumed charge as Managing Director and Chief Executive Officer of Bank of Baroda w.e.f. 1st July 2023.



KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY22 (31 Mar 2022)	FY23 (31 Mar 2023)	Q2FY24 (30 Sep 2023)
Result Type		Audited	Audited	Un-Audited
Total Assets	Rs. in Crs.	12,78,000	14,58,562	15,23,506
Business (Global Deposit + Global Gross Advance)	Rs. in Crs.	18,64,059	21,73,236	22,74,148
CASA ratio (Domestic)	%	44.24	42.25	39.88
Gross NPA ratio	%	6.61	3.79	3.32
Net NPA ratio	%	1.72	0.89	0.76
PCR (Excluding technical write-offs)	%	75.28	77.19	77.64
NIM (Global)	%	3.03	3.31	3.07
RoAA	%	0.60	1.03	1.14
Net Profit	Rs. in Crs.	7,272	14,110	4,253
CET I ratio	%	11.42	12.24	11.57
Tier I ratio	%	13.18	13.99	13.19
Tier II ratio	%	2.50	2.25	2.11
Total CRAR	%	15.68	16.24	15.30

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY):

- NA

ANY OTHER INFORMATION: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

S. No.	Instrument	Type	Amount (Rs Crs)	Current Rating (2023)	Rating History			
					2023	2022		2021
				22-Nov-23	16-Nov-22	19-Aug-22	04-Aug-21	05-Aug-20
1	Upper Tier II Bond – Tranche 1	Long term	0	-	-	-	-	-
2	Upper Tier II Bond – Tranche 2	Long term	500	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	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed	BWR AAA/ Stable/ Reaffirmed
4	Basel III Additional Tier I Bonds- Series I #	Long term	0	-	-	-	Withdrawn on redemption	BWR AA+/ Stable/ Reaffirmed (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)
6	Basel III Additional Tier I Bonds- Series III #	Long term	0	-	-	-	Withdrawn on redemption	BWR AA+/ Stable/ Reaffirmed (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
Total			750	Rupees seven hundred and fifty crore only				

these bond issues were from the 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 & Financial Institutions](#)
- [Complexity levels](#)
- [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 (Bonds) DETAILS:

Instrument	Issue Date	Amount in Crs.	Coupon Rate	Maturity Date	ISIN Particulars
Upper Tier II Bonds - Tranche II (under Basel II)	8-Jul-2009	500.00	8.54%	8-Jul-2024	INE028A09123
Tier II Bonds (under Basel III)	23-Dec-2013	250.00	9.73%	23-Dec-2023	INE705A08029
Total		750.00			

Total: Rupees Seven Hundred Fifty Crores Only

ANNEXURE III

List of entities consolidated:

S. No.	Entities	Percentage of Holding as on 31 March 2023
Subsidiaries		
Domestic Subsidiaries		
1	The Nainital Bank Limited	98.57%
2	BOB Capital Markets Limited	100%
3	BOB Financial Solutions Limited (formerly known as BOB Cards Ltd)	100%
4	Baroda Global Shared Services Limited	100%
5	Baroda Sun Technologies Ltd	100%
6	Baroda BNP Paribas Asset Management India Private Limited (formerly known as BNP Paribas Asset Management India Private Limited)	50.10%
7	Baroda BNP Paribas Trustee India Private Limited (formerly known as Baroda Trustee India Private Limited)	50.10%
8	India First 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%
Overseas Non- Banking Step-down Subsidiary		
1	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 International Bank (Malaysia) Bhd.	40%
2	India Infradebt Limited	40.99%

BWR has followed a standalone approach and aforesaid details are shared for reference



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