



Rating Rationale

27 March 2024

Maharashtra Gramin Bank

Brickwork Ratings downgrades the rating of BWR A-/Stable to BWR BBB+ / Stable and migrates the rating to Issuer Non-Cooperation for the perpetual debt instruments (Basel II) amounting to Rs. 100.11 Crs of Maharashtra Gramin Bank.

Particulars

| Instrument# | Amount (₹ Crores) | | Tenure | Rating** | |
|---|-------------------|---------------|--|--------------------------------|---|
| | Previous | Present | | Previous (23 December 2022) | Present |
| Innovative Perpetual Debt Instrument (Under Basel II) | 10.11 | 10.11 | Long Term | BWR A-/Stable (Reaffirmed) | BWR BBB+ / Stable /ISSUER NOT COOPERATING*/ Downgraded |
| Perpetual Debt Instrument (Under Basel II) | 90.00 | 90.00 | | BWR A-/Stable (Reaffirmed) | BWR BBB+ / Stable /ISSUER NOT COOPERATING*/ Downgraded |
| | 100.11 | 100.11 | Rupees One hundred Crores and Eleven Lakhs Only | | |

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

* Issuer did not cooperate; based on best available information

#Complete details of bond issues with outstanding ratings in Annexure II.

RATING ACTION / OUTLOOK:

Brickwork Ratings downgrades the ratings assigned to the Perpetual Debt Instruments (under Basel II) amounting to Rs. 100.11 crore of Maharashtra Gramin Bank and migrates the same to ISSUER NOT COOPERATING category as tabulated above.

The rating draws comfort from the sovereign ownership and sponsor bank's support, healthy resource profile and moderate overall financial risk profile. However, the rating is constrained by inherent regulatory risks associated with regional rural banks (RRBs) and modest asset quality. BWR believes MGB's credit risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term.

LIMITATIONS OF THE RATING

Information availability risk is a key factor in the assessment of credit risk as generally, noncooperation by the rated entities to provide required information for a review of the assigned rating may also be accompanied by financial stress. The current rating action has been taken on the basis of the limited information on the issuer's performance. Accordingly, the lenders, investors and other market participants are advised to exercise appropriate caution while using this rating as it may not adequately reflect the credit risk profile of the company, despite the downgrade.



The descriptions that follow are based on the information available in the public domain.

Description of Key Rating Drivers

- **Credit Strengths-:**

Sovereign ownership and sponsor bank's support: Maharashtra Gramin Bank draws comfort from the co-ownership of the Government of India with a 50% shareholding, state government of Maharashtra with a 15% shareholding and balance 35% of the sponsor bank, Bank of Maharashtra. The sovereign ownership provides it with the required support in building and retaining the depositors trust and enables it to meet credit requirements for economic activities under the rural sector. The bank is able to avail refinance from entities such as National Bank for Agriculture and Rural Development (NABARD), National Safai Karamcharis Finance & Development Corporation (NSKFDC) and National Backward Classes Finance & Development Corporation (NBCFDC) for meeting the rural credit requirement. The sponsor bank's support with its senior leadership in MGB provides it with the requisite managerial support and guidance.

Healthy resource profile and growth in the business: MGB has an established network of 421 branches and 7 Regional offices across 17 districts in the state of Maharashtra. All branches of this Bank are linked via Core Banking Solution (CBS). The high penetration supported by the nature of regional rural banks has assisted a healthy resource profile and steady deposit base. The bank's total deposits grew by 6.14% for the year ending 31 March 2023. Although the CASA deposits (that contribute to lower cost of funds) have declined for the bank the CASA ratio is still healthy at 49.33% as of Mar. 31, 2023. The total business of the bank has been increasing and stood at Rs. 25279 crore as of March 31, 2023 recording a y-o-y growth of 11.33% from Rs. 22706 crore as of March 31, 2022. The increase has been supported by advances which grew by 20.82% during the year while deposits grew by 6.14%.

Improved financial risk profile, however higher provisioning results in subdued profitability: The tangible net worth of the bank has been increasing Y-O-Y and stood at Rs. 682.11 Crs as on 31 March 2023 as against Rs. 644.05 crore as of March 31, 2022. The capital adequacy ratio was slightly lower at 10.18% as of March 31, 2023 (10.99% as of March 31, 2022). The bank's net interest income (NII) increased considerably to Rs. 399.82 crore (Rs. 248.18 Crs for FY22); while PAT was higher at Rs. 6.3 crore (Rs. 5.12 Crs in FY22). The PAT is as such lower on account of higher provisions which includes provision for pension liability of Rs. 103 crore. Also provision against bad and doubtful debt stood at Rs. 93.11 crore in FY23 as against nil provisions made in FY22.

- **Credit Risks-:**

Moderate Asset quality: Asset quality has marginally improved from GNPA of 7.19% as of March 31, 2022 to 6.84% GNPA as of March 31, 2023. Similarly, NNPA was also better 3.97% as of March 31, 2023 as against 4.8% as on 31 Mar 2022. However in spite



of marginal improvement in NPA; the asset quality parameters remain a concern for the bank. Of the total absolute GNPA of Rs. 663.96 crore, agricultural sector NPAs constituted 67% of the absolute GNPA number as of March 31, 2023, followed by other priority / MSME NPA of Rs. 173.43 crore (26% of the absolute GNPA as of March 31, 2023). The movement in asset quality continues to remain a monitorable.

Inherent risks associated with RRBs: The purpose of RRBs is to meet the funding requirement of rural and semi-urban areas. The area of operation of RRBs is limited to the area as notified by the Government of India, covering one or more districts in the state of operation. Due to the limited permissible area of operation, the bank faces geographical concentration risk, which provides a limited avenue for business growth. The majority of the advances are given to the agriculture and allied activities sector and inherently, the sector is dependent on seasons and natural resources. MGB's advances are exposed to agro-climatic risks, and the resulting frequent loan waivers impinge performance of the bank.

Analytical Approach

BWR has analyzed MGB on a standalone basis taking into consideration 50% ownership by Government of India, 35% by Maharashtra State Government and 15% by Bank of Maharashtra. For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

Innovative Perpetual Debt Instruments (under Basel II)

Debt instruments of this nature are covered under the Basel II norms. The key distinguishing feature of such instruments is the triggering of the default from a rating perspective in the event of a breach of the minimum capital adequacy ratios of 9% or the CAR goes below 9% on the payment of the coupon (as per regulators extant Basel II guidelines). Another feature is that, provided the CAR is greater than 9%, prior approval from the RBI is mandated if the coupon payment results in a net loss or increases the net loss. Generally, such instruments are perpetual in nature and have a call option on the completion of 5 years. To factor in these risks, BWR notches down the rating on these instruments from the bank's corporate credit rating.

RATING SENSITIVITIES

The bank's ability to significantly recover from non-performing assets and grow its portfolio while improving asset quality and profitability will be key rating sensitivities.

Positive: Significant growth in the portfolio with a sustained improvement in the asset quality and profitability and the strengthening of the balance sheet through the infusion of additional capital will be key positives for the bank.

Negative: Further deterioration in the asset quality or weakening in the financial risk profile will be key monitorables.

Since the rating action has resulted in migration to the INC Category, quantitative stipulations have not been made.



Liquidity Profile: NA

BWR has not received any information on the liquidity from MGB and hence it is not possible to comment on the same.

Key Covenants of the Issue: Not applicable as these are already-issued instruments.

About the Bank

Background: Maharashtra Gramin Bank (MGB) is a Regional Rural Bank sponsored by Bank Of Maharashtra. MGB came into existence on 20 July 2009 after the amalgamation of erstwhile Maharashtra Godavari Gramin Bank and Marathwada Gramin Bank as per the notification issued by the Government of India, Ministry of Finance, and Department of Financial Services.

As of March 31, 2023, the Bank has 421 branches and 7 Regional offices across 17 districts in the state of Maharashtra. All branches of this Bank are linked via Core Banking Solution (CBS). The main purpose of RRBs is to mobilize financial resources from rural/ semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans.

- The area of operation of RRBs is limited to the area as notified by the Government of India, covering one or more districts in the state. RRBs also perform a variety of different functions. Providing Para-Banking facilities like locker facilities, debit and credit cards
- RRBs perform various functions under the following heads:
 - Providing banking facilities to rural and semi-urban areas
 - Carrying out government operations such as the disbursement of MGNREGA workers' wages
 - The distribution of pensions.

Management: Mr. M G Gharad is the Chairman of MGB. The Board of Directors of the bank include Shri N. B. Kalyankar (RBI Nominee); Smt. Maria Smilin (NABARD Nominee); Shri R. D. Deshmukh (Sponsor Bank - BOM Nominee); Shri V. M. Nachane (Sponsor Bank - BOM Nominee); ; Shri Nilesh Sagar (State Government Nominee Director).



Bank's Financial Performance

| Result type | Audited | Audited | Audited |
|--------------------------------------|----------------------|----------------------|----------------------|
| KEY Parameters – Rs Cr | FY21 | FY22 | FY23 |
| Total Deposits | 13,541 | 14,677.75 | 15578.76 |
| <i>Deposit Growth (in %)</i> | <i>18.52%</i> | <i>8.39%</i> | <i>6.14%</i> |
| Gross Advances | 6,983 | 8,028.96 | 9700.76 |
| <i>Loans Growth (in %)</i> | <i>38.07%</i> | <i>14.97%</i> | <i>20.82%</i> |
| Total Business | 20,524 | 22,706.71 | 25279.52 |
| <i>Business Growth (in %)</i> | <i>24.52%</i> | <i>10.63%</i> | <i>11.33%</i> |
| CASA Ratio % | 57.13% | 51.54% | 49.33% |
| Profitability Ratios (%) | | | |
| RoE (%) | 25.62% | 1.64% | 1.92% |
| RoA(%) | 0.39% | 0.03% | 0.03% |
| NIM(%) | 3.38% | 1.71% | 2.25% |
| Net Interest Income (NII) | 433 | 248 | 399.82 |
| Non Interest Income | 132 | 171 | 187 |
| Operating profits | 287 | 117 | 221 |
| Provisions | 213 | 80.26 | 215 |
| PAT | 53.64 | 5.12 | 6.3 |
| Cost to Income Ratio(%) | 49.22% | 72.15% | 62.29% |
| CRAR (%) | 9.3% | 10.99% | 10.18% |
| <i>Tier I</i> | <i>7.33%</i> | <i>9.09%</i> | <i>8.57%</i> |
| <i>Tier II</i> | <i>1.97%</i> | <i>1.90%</i> | <i>1.61%</i> |

Rating History for the last three years [including withdrawn and suspended ratings]

| Facilities | Current Rating | | | Rating History | | |
|--|----------------|--------|--|-------------------------------|----------------------------------|----------------------------------|
| | Type | | Rating | 2022 (23 - Dec-2022) | 2021 (22-Dec-2021) | 2021 (29-Jan-2021) |
| Perpetual Debt Instrument (Under Basel II) | Long Term | 10.11 | BWR BBB+/Stable/ ISSUER NOT COOPERATING*/ /Downgraded | BWR A- / Stable/Reaffirmed | BWR A-/Stable (Reaffirmed) | BWR A-/Stable (Reaffirmed) |
| Perpetual Debt Instrument (Under Basel II) | | 90.00 | BWR BBB+/Stable/ ISSUER NOT COOPERATING*/ Downgraded. | BWR A- / Stable/Reaffirmed | BWR A-/Stable (Reaffirmed) | BWR A-/Stable (Reaffirmed) |
| Total | | 100.11 | INR One Hundred Crores and Eleven Lakhs Only | | | |

Status of non-cooperation with previous CRA: NA



COMPLEXITY LEVELS OF THE INSTRUMENTS- Perpetual Debt : Highly Complex

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to financial Ratios](#)
- [Banks & Financial Institutions](#)
- [Capital Instruments Issued by banks & FIs](#)
- [Policy on Issuer Non Cooperation](#)

| Analytical Contacts | |
|--|---|
| Kunjan Shah Senior Analyst - Ratings kunjandevang.s@brickworkratings.com | Vidya Shankar Principal Director- Ratings vidya.shankar@brickworkratings.com |
| 1-860-425-2742 | media@brickworkratings.com |

ANNEXURE I

Details of Bank Facilities rated by BWR: NIL

ANNEXURE II

INSTRUMENT (NCD) DETAILS:

| Instrument | Issue Date | Amount Rs. Crs | Interest Rate | Maturity Date | ISIN |
|---|---------------|-------------------|--|---------------|--------------|
| Innovative Perpetual Debt Instrument (Under Basel II) | 24 March 2014 | 10.11 | 9.50% | Perpetual | INE419Q08015 |
| Perpetual Debt Instrument (Under Basel II) | 28 Dec 2021 | 90 | 10.00% | Perpetual | INE419Q08023 |
| Total | | 100.11 | Rupees One Hundred Crore and Eleven lakhs Only | | |

ANNEXURE III

List of entities consolidated : NIL



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 11,560 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner.

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.