

**RATING RATIONALE**

09 Oct 2024

**Maharashtra Gramin Bank**

**Brickwork Ratings upgrades the rating for Perpetual Debt Instruments (Basel II) amounting to Rs. 100.11 Crs of Maharashtra Gramin Bank. The rating is removed from ISSUER NOT COOPERATING\* category**

**Particulars:**

Instruments**	Amount Rs. Crs.		Tenure	Rating^	
	Previous	Present		Previous (27-March-2024)	Present
Innovative Perpetual Debt Instrument	10.11	<b>10.11</b>	Long Term	BWR BBB+/Stable/Downgraded/ Issuer Not Cooperating*	<b>BWR A-/Stable/ Upgrade and removal from Issuer Not Cooperating* category</b>
Perpetual Debt Instrument	90.00	<b>90.00</b>		BWR BBB+/Stable/Downgraded/ Issuer Not Cooperating*	<b>BWR A-/Stable/ Upgrade and removal from Issuer Not Cooperating* category</b>
<b>Total</b>	100.11	<b>100.11</b>	<b>Rupees One Hundred Crores and Eleven Lakhs Only</b>		

\*\* Details of Instruments are provided in Annexure-II

^Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*Issuer did not cooperate; based on best available information

**RATING ACTION / OUTLOOK: UPGRADE/ STABLE**

Brickwork Ratings (BWR) upgrades the ratings for Innovative Perpetual Debt Instrument of Rs. 10.11 Crs and rating for Perpetual Debt Instrument amounting to Rs. 90.00 Crs to BWR A-/Stable with removal from ISSUER NOT COOPERATING\* category of Maharashtra Gramin Bank, as tabulated above.

BWR notes that the Bank’s management had resumed cooperation with BWR and shared the requisite information and documents to complete the rating review, hence BWR has removed the rating from the ISSUER NOT COOPERATING\* category.

The rating draws comfort from the sovereign ownership and sponsor bank’s support, healthy and comfortable resource profile and improving profitability. However, the rating is constrained by its modest asset quality and average capitalization levels while operating in a competitive environment. The upgrade in the rating factors in the continued support of the Government of India (GoI), State Government of Maharashtra (GoM) and the sponsor bank Bank of Maharashtra (BoM). 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. Bank's comfortable resource profile remains supported by its core low cost current and savings account deposits which is on the increasing trend yoy. The borrowings from the banks were Rs. 1194 Crs. The rating also factors in the improving profitability of the bank with NIMs at 2.74% in FY24, profit before tax growth by ~117% in FY24. While the bank's net profits and returns had improved for FY24, the asset quality remained a concern. The asset quality of the bank had improved with GNPA reducing to 5.79% for FY24 as compared to 6.84% in FY23. NNPA levels also improved from 3.97% in FY23 to 2.39% in FY24 but with the majority lending done towards the agriculture sector and the bank's ability to improve upon its portfolio mix shall be a key rating monitorable on its asset quality movement over the near to medium term. During FY25, the Bank has initiated increasing its lending towards non-priority sectors and stabilizing its loan book. The Bank also informs BWR of having adopted strategic measures to improve on diversifying its loan book further with increasing lending in other assets as well. With the diversification the bank will have better yielding and secured product mix which may assist in improving its earnings profile and improving its asset quality as well. Bank is planning to raise capital through Tier I Bonds and strengthen its total capital adequacy ratios (CAR) in FY25. The increase in capital along with improvement in asset quality would help in improving its CAR, which remains a key monitorable in the near future.

Noting this, BWR upgrades the rating of Perpetual Debt Instruments of the Bank. BWR believes that the bank will maintain its growth trajectory in its credit profile, while focus on improving its asset quality through various measures i.e. decline in slippages and better recoveries, and the strengthening of its capitalization levels, shall remain monitorable.

BWR believes Maharashtra Gramin Bank's risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term

#### **KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:**

- **Perpetual Bond**

The perpetual bond issue of Rs.10.11 Cr is subscribed by the Sponsor Bank - Bank of Maharashtra. It raised Rs.8.28 Cr of the said bonds in March 2014 and Rs.1.83 Cr utilization in March 2015. The coupon @ 9.50% p.a. is serviceable annually. The redemption of these bonds can be made with the approval of the RBI, with the bank having a call option at the end of 15 years from the date of allotment.

The perpetual bond issue of Rs.90 Cr is also subscribed by the Sponsor Bank - Bank of Maharashtra. It was raised in December 2021 @ coupon rate of 10% p.a. serviceable annually. The redemption of these bonds can be made with the approval of the RBI, with the bank having a call option at the end of 5 years from the date of allotment.

#### **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. To factor in these risks, BWR notches down the rating on these instruments from the bank's corporate credit rating.

## 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 shareholding of 50%, state government of Maharashtra holding 15% shareholding and Bank of Maharashtra holding 35% as the sponsor bank. The sovereign ownership provides the bank 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 also 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.
- **Comfortable and improving resource profile:** The MGB's business grew by 12.54% standing at Rs. 28450 Crs. as of 31 March 2024. The increase in business is majorly accounted by the increase in advances by 17.66% at Rs. 11414 Crs as of 31 March 2024 from Rs. 9701 Crs as of 31 March 2023. MGB has an established network of 424 branches, more than 1207 BCs and 7 regional offices across 17 districts in the state of Maharashtra. The high penetration supported by the nature of regional rural banks has assisted a healthy resource profile and steady deposit base. The bank maintains a healthy deposit base of Rs. 17037 Crs which grew by 9.36% for the year ending 31 March 2024. The low cost current and savings account (CASA) deposits have a significant share in the total deposits, the ratio which has increased to 55.91% as on 31 March 2024 has dropped further to 54.8% as on 30 June 2024. MGB's CASA ratio is one of the highest among its peers.
- **Improved profitability, expected to continue:** As of 31 March 2024, PBT has shown a significant growth at Rs. 57.55 Crs in FY24 as against Rs. 26.50 Crs in FY23. This improvement was on account of significant increase in net interest income and stable operating expenses. Net interest income of the bank has increased by ~25% from Rs. 400 Crs in FY23 to Rs. 500 Crs in FY24. In view of the same, the bank has shown some improvement in its NIM at 2.74% as of 31 March 2024 (FY23:2.25%). The improvement in NIM has been due to increased Yield of Advances at 7.88% as of 31 March 2024 (FY23: 7.16) with not much increase in cost of funds which stood at 4.55% as of 31 March 2024 (FY23: 4.08%). MGB's cost to income ratio has been reduced to 69.56% in FY24 from 80.44% in FY23. Bank has recorded its Return on Assets & Return on Equity is at 0.25% and 5.73% respectively during FY24 as against 0.03% and 0.97% in FY23. Weakening of the profitability metrics below the current year shall be a key rating sensitivity.

### Credit Risks:-

- Asset Quality improving, albeit remains monitorable::** MGB's GNPA improved to 5.79% at Rs. 661 Crs as on 31 March 2024 and NNPA also improved to 2.39% at Rs. 263 Crs as on 31 March 2024. The improvement in NPA is on account of reduction in additions of accounts to NPA even with lower recovery as visible with the GNPA reducing to Rs. 661 Crs in FY24 from RS. 664 Crs in FY23. The PCR% of the Bank has also improved at 60.26% as of 31 March 2024 from 43.67% as of 31 March 2023. GNPA and NNPA has improved in FY24 but it is still the highest as compared to its peers and hence the same remains monitorable. The level of NPA write-off stood at Rs. 37.66 Crs as of 31 March 2024 as against zero write-offs as of 31 March 2023. The NPA has increased in June 2024, as GNPA increasing to 7.31% and NNPA to 3.33%. This is mainly on account of the crop season yielding results from Q3. Further this has generally been the trend wherein the first two quarters performance is slower compared to subsequent two quarters, thereby improvement is displayed in the annual performance of the Bank. Going forward, improvement in asset quality through decline in slippages and improved recoveries on an annual basis shall remain a rating monitorable.
- Adequate capitalisation, needs further strengthening:** MGB has adequate Capitalisation, with capital adequacy ratio (CAR) at 9.79%, respectively, as of 31 March, 2024, against CAR of 10.18% as on 31st March 2023 with minimum CAR requirement of 9% for the RRBs as per the RBI. The bank has constant support from its stakeholders which provides support by infusing capital from time to time. Based on the performance of the Bank for FY 2022-23, the Ministry of Finance, Department of Financial Services has released recapitalization assistance of Rs. 90.72 Crs. Bank has received the Bank of Maharashtra (Sponsor Bank) portion of Rs. 31.75 Crs (35%) on 31 March 2023, Rs. 13.61 Crs (15%) from Govt. of Maharashtra on 25 May 2023 and Rs. 45.36 Crs (50%) from Govt. of India on dated 28 Feb 2024. The bank is also expecting to raise additional funds by the end of FY25 through Tier I Bonds and strengthen its total CAR. With further infusion of the capital, the bank will be improving its CAR to more than 10%, but with the bank lending towards the priority sector, the CAR remains monitorable in near future.
- 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 - Standalone

For arriving at its ratings, BWR has considered the standalone financial profile of the Maharashtra Gramin Bank and has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).



**RATING SENSITIVITIES**

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

**Negatives:** Substantial deterioration in asset quality in the near to medium term and its impact on the net profits and capital adequacy level.

**LIQUIDITY POSITION - ADEQUATE**

The bank has sufficient cash and liquid investments to pay the debt obligation and meet debt repayments and short-term liabilities. As of 30 June 2024 Bank holds Cash and cash Balances with RBI of Rs. 897.05 Crs and Investments of Rs. 4281.42 Crs. Liquidity is further supported by sovereign ownership.

**COMPANY PROFILE**

Maharashtra Gramin Bank (MGB or The Bank) is a Regional Rural Bank sponsored by Bank Of Maharashtra. MGB came into existence on 20th July 2009 after amalgamation of erstwhile Maharashtra Godavari Gramin Bank and Marathwada Gramin Bank as per the notification issued by Government of India, Ministry of Finance, and Department of Financial Services. The Head office of the Bank was shifted from Nanded to Aurangabad, Maharashtra in July 2014. As of June 30, 2024, the Bank has 425 branches and 7 Regional offices across 17 districts in the state of Maharashtra. The share capital of MGB is contributed by GoI, GoM and BoM in proportion to 50:15:35. All branches of this Bank are linked via Core Banking Solution (CBS).

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

**KEY FINANCIAL INDICATORS – Standalone**

Key Parameters	Units	FY 23	FY 24	3MFY25
Result Type		Audited	Audited	Unaudited (Reviewed)
<b>Total Business</b>	Rs. in Crs	25280	28450	27758
<b>CASA ratio</b>	%	49.33	55.91	54.8
<b>Gross NPA</b>	%	6.84	5.79	7.31
<b>Net NPA</b>	%	3.97	2.39	3.33
<b>PCR</b>	%	43.67	60.26	56.32
<b>Net Interest Income</b>	Rs. in Crs	400	500	91
<b>Net Profits</b>	Rs. in Crs	26	58	5
<b>Net Interest Margin</b>	%	2.25	2.74	2.24

<b>ROA</b>	%	0.03	0.25	0.08
<b>ROE</b>	%	0.97	5.73	2.04
<b>CRAR</b>	%	10.18	9.79	9.84

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY:**

No non-cooperation rating with other Credit Rating Agencies.

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

S. N	Instruments	Current Rating (Oct 2024)			Rating History		
		Type	Amount Outstanding (Rs in Cr)	Rating	2024	2022	2021
					27 March 2024	23 Dec 2022	22 Dec 2021
1	Innovative Perpetual Debt Instrument (Under Basel II)	Long Term	10.11	BWR A-/Stable/ Upgrade and removal from Issuer Not Cooperating* category	BWR BBB+ / Stable /ISSUER NOT COOPERATING*/ Downgraded	BWR A-/ Stable (Reaffirmed)	BWR A-/ Stable (Reaffirmed)
2	Perpetual Debt Instrument (Under Basel II)	Long Term	90.00	BWR A-/Stable/ Upgrade and removal from Issuer Not Cooperating* category	BWR BBB+ / Stable /ISSUER NOT COOPERATING* / Downgraded	BWR A-/Stable (Reaffirmed)	BWR A-/ Stable (Reaffirmed)
<b>Total</b>			<b>100.11</b>	<b>Rupees One Hundred Crores and Eleven Lakhs Only</b>			

**Hyperlink/Reference to applicable Criteria:**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Capital Instruments issued by Banks and Financial Institutions](#)

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**Maharashtra Gramin Bank**

**ANNEXURE I**

**Details of Bank Loan Facilities rated by BWR:**

Lender Name	Type of Facility	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs)	Total (Rs. Crs)	Complexity Level
NIL	NIL	NIL	NIL	NIL	NIL	NIL

**ANNEXURE II**

**(NCD/Bonds/CP/FDs) DETAILS**

Instrument	Issue Date	Amount Raised (Rs. Crs)	Coupon Rate	Maturity Date	ISIN Particulars	Complexity
Innovative Perpetual Debt Instrument (Under Basel II)	24-Mar-2014	10.11	9.50%	Perpetual	INE419Q08015	Highly Complex
Perpetual Debt Instrument (Under Basel II)	28-Dec-2021	90.00	10.00%	Perpetual	INE419Q0802	Highly Complex
<b>Total</b>		<b>100.11</b>	<b>Rupees One Hundred Crores and Eleven Lakhs Only</b>			

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Highly Complex**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**ANNEXURE-III**

**List of Entities Consolidated - None**



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