बैंक ऑफ़ बड़ौदा Bank of Baroda

BCC:ISD:116:16:289 14.08.2024

The Vice-President, B S E Ltd., Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001 BSE CODE-532134	The Vice-President, National Stock Exchange of India Ltd. Exchange Plaza, Bandra Kurla Complex, Bandra (E) Mumbai – 400 051 CODE-BANKBARODA

Dear Sir / Madam,

Re: Bank of Baroda – Credit Rating - Disclosure under Regulation 30(LODR)

We advise that India Ratings & Research assigns Bank of Baroda's Infrastructure and Affordable Housing Bonds 'IND AAA'/Stable; Affirms Existing Ratings.

The detailed report is enclosed.

We request you to take note of the above pursuant to Regulation 30 of SEBI (LODR) Regulations, 2015 and upload the information on your website.

Yours faithfully,

P K AGARWAL

Digitally signed by P K AGARWAL
Date: 2024.08.14 15:42:53 +05'30'

P K Agarwal
Company Secretary

India Ratings Assigns Bank of Baroda's Infrastructure and Affordable Housing Bonds 'IND AAA'/Stable; Affirms Existing Ratings

Aug 13, 2024 | Public Sector Bank

India Ratings and Research (Ind-Ra) has taken the following rating actions on Bank of Baroda (BOB) and its debt instruments:

Details of Instruments

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	-	IND AAA/Stable	Affirmed
Certificate of deposits (CDs)	-	-	-	1-365 days	INR600	IND A1+	Affirmed
Basel III Tier 2 instrument#	-	-	-	-	INR85.43	IND AAA/Stable	Affirmed
Basel III additional tier-1(AT1) bonds#	-	-	-	-	INR110	IND AA+/Stable	Affirmed
Infrastructure and Affordable Housing Bonds#	-	-	-	-	INR110	IND AAA/Stable	Affirmed
Infrastructure and Affordable Housing Bonds#	-	-	-	-	INR100	IND AAA/Stable	Assigned
Fixed deposit	-	-	-	-	-	IND AAA/Stable	Affirmed

#Details in Annexure

Analytical Approach

Ind-Ra continues to take fully consolidate BOB's [subsidiaries] while arriving at the ratings, because of a similar nature of operations.

Detailed Rationale of the Rating Action

The ratings continue to reflect BOB's high-systemic importance to the government of India (GoI; 63.97% stake as of June 2024), and hence, a high probability of support from the GoI, if required. The ratings also reflect BOB's large franchise with a pan-India and relatively large international presence, strong capitalisation, and superior liquidity and asset quality metrics, which are better than comparable public sector banks (PSBs).

For AT1 instruments, the agency considers the discretionary component, coupon omission risk and the write-down/conversion risk as key parameters to arrive at the rating. The agency recognises the unique going-concern loss absorption features that these bonds carry and differentiates them from the bank's senior debt, factoring in a higher probability of an ultimate loss for investors in these bonds.

List of Key Rating Drivers

Strengths

- High systemic importance - large pan-India franchise
- Strong capital buffers well placed to support near-term credit growth plans
- High provision coverage ratio (PCR) provides comfort
- Stability in operational metrics - key monitorable

Weaknesses

- Decline in low-cost liability franchise at higher-end of peer group

Detailed Description of Key Rating Drivers

High Systemic Importance - Large Pan-India Franchise: BOB's systemic importance is reflected in its total deposit and net advances market share of about 6.4% and 6.5% at FYE24, respectively, (FYE23: 6.7% and 6.9%, FY22: 6.5% and 6.7%), making it the third-largest public sector bank (PSB) in terms of deposit market share and the second-largest PSB with respect to net advances market share. The bank also has a sizeable network of about 8,243 branches, 11,033 ATMs and cash recyclers, and a large customer base of about 173 million as of FY24. BOB continues to hold a high systemic importance for the GoI, resulting in a high probability of ordinary and extraordinary support from the GoI, if required.

Strong Capital Buffers Well Placed to Support Near-term Credit Growth Plans: BOB is among the better-capitalised PSBs, with a common equity tier-I (CET-I) ratio of 13.08% in 1QFY25 (FY24: 12.54%, FY23: 12.24%,), tier-1 of 14.65% (14.07%,13.99%) and a total capital adequacy ratio of 16.82% (16.31%, 16.24%). The agency believes BOB's current capital buffers, along with its operating profits, the run-rate for which has also improved over the last few quarters, and the ability to raise funds from the equity markets, provide it the adequate leeway to target a 12%-14% yoy credit growth rate in FY25 and absorb higher-than-expected credit costs.

High PCR Provides Comfort: BOB maintained a (PCR) of 76.6% in 1QFY25 (FY24: 77.3%, FY23: 77.2%), at the higher end of the PSB peer group (excluding technical write-offs). BOB also carried 100% PCR against its exposures to the National Company Law Tribunal (NCLT)-1 and -2 lists, respectively, and 99% against the overall NCLT exposure at end-1QFY25. Its gross non-performing assets (NPAs) and net NPAs stood at 2.88% and 0.69% respectively, at end-1QFY25 (FY24: 2.92% and 0.68%, FY23: 3.79% and 0.89%, respectively). The management has guided credit costs of around 0.75%in FY25, higher than 0.61% reported in FY24. The management has further guided that in case of the credit costs trending lower than the management's expectations, the bank is likely to create floating provisions, which are likely to be utilised when the movement to the expected credit loss model comes into play, subject to regulatory approvals. With this, the return on assets is likely to be maintained at around 1.1% in FY25, slightly lower than return of assets of 1.17% in FY24 (FY23: 1.03%, FY22: 0.60%). The agency believes while the quantum of special mention accounts (SMA; SMA1 and SMA2; outstanding of INR50 million and higher) remains subdued, slippages from the COVID-19 restructuring pool and micro, small and medium enterprises are likely to result in continuing slippages.

The incremental addition to the portfolio continues to be in better-rated categories with the share of standard domestic advances with a rating of 'A' and above with outstanding above INR500 million at 92% in 1QFY25 (1QFY24: 87%). However, the agency remains cautious with respect to BOB's significant exposure to the non-banking financial companies (NBFC) sector (13.6% of gross domestic advances) as any regulatory change with respect to a higher provisioning requirement for the exposure to the NBFC sector is also likely to impact the provisioning expectation for BOB. From a rating mix perspective, in 1QFY25, 98.4% of the NBFC portfolio was rated 'A' and above and 68.8% of the portfolio was rated 'AAA'.

Stability in Operational Metrics - Key Monitorable: Directionally, BOB's operating metrics have been improving since its amalgamation with Dena Bank and Vijaya Bank; however, there has been a fair amount of volatility on a quarterly basis, some of which can be attributed to the impact of the COVID-19 pandemic. The profitability over the quarters has been volatile, primarily on account of BOB's provisioning requirements and movement in treasury income. The agency believes

BOB's ability to further capitalise on its strategy to increase its retail exposure, improve its low-cost CASA franchise further, maintain a stable margin and strengthen its fee income generation, while increasing digital adoption, will be key to demonstrate a through-the-cycle stable performance.

Decline in Low-cost Liability Franchise at Higher End of Peer Group: The bank's current account and saving account (CASA) deposit ratio declined to 34.4% in 1QFY25 (FY24: 35.1%, FY23: 36.8%). The agency believes competitive intensity among banks will remain high in the near term as banks compete to accrete these low-cost deposits. BOB's domestic current account balances increased 5.8% yoy in 1QFY25 with the savings account balances growing 6.0% yoy, thereby leading to a 5.3% yoy growth in overall domestic deposits, however, with a 34.7% yoy growth international deposits, the overall deposits growth stood at 8.9% yoy. Consequently, the cost of deposits also increased 38bp yoy to 5.06%in 1QFY25. The tightening of liquidity conditions and an uptick in the system credit offtake are likely to result in heightened competition between banks for garnering CASA deposits. Therefore, a continuing improvement in the CASA franchise by BOB will be a strong reflection of its sustainable low-cost liability franchise. The share of bulk deposits (INR30 million and above) in BOB's term deposits stood at 15.3% in 1QFY25 (1QFY24: 16.9%) and is a likely reflection of its loan growth appetite where it is targeting to grow, at least in line with system credit growth and possibly higher.

Liquidity

Superior: At 1QFY25, BOB maintained an overall funding gap of 6.8% in the cumulative one-year bucket as a percentage of the total assets. As estimated by the agency previously, this gap, which was a result of the weak liquidity position of Vijaya Bank and Dena Bank with large asset funding gaps in the short-term buckets, has been declining progressively. Ind-Ra expects these gaps to minimise further over the next few quarters. BOB maintains 22.4% of its total assets in balances with the RBI and in government securities to meet its short-term funding requirements. BOB also had a comfortable average consolidated liquidity coverage ratio of 138% in 1QFY25 (FY24: 120.6%, FY23: 145.78%, FY22: 152.36%), significantly above the regulatory requirement of 100%.

Rating Sensitivities

Positive: Not applicable

Negative: BOB's Basel III Tier 2 bond ratings have been equated to its Long-Term Issuer Rating, which could change if, in Ind-Ra's opinion, there is a change in the GoI's support stance for PSBs or there is material drop in the banks' systemic importance, which could, among other things, reflect in a material decline in BOB's market share or loss of deposit franchise.

The notching of the AT1 bonds could be widened from its anchor ratings if Ind-Ra believes that there is a dilution in the government's support stance towards hybrid instruments of PSBs or any delay in the timeliness of extending this support. This could reflect among other things in capital buffers continuing to be close to the regulatory levels. Ind-Ra also expects that for banks with weaker unsupported profiles, the capital buffers would be higher; if not, it could reflect in wider notching from the Long-Term Issuer Rating. These capital buffers could be important as the banks' ability to service the instrument could be impaired in the event of the bank making losses and/or if the capital levels are lower than the regulatory minimum levels.

Any Other Information

RBI's Regulatory Ban Removed in May 2024: The RBI, in a press release during October 2023, citing material supervisory concerns regarding lapses in internal audit, has directed BOB to suspend onboarding of new customers through its mobile application, Bob World. Furthermore, as of 3QFY24, around 28% of the fixed deposit/recurring deposits were booked through Bob World, however, transactions through internet banking, tab banking and branch banking would remain unaffected. After strict supervision of concerns, the RBI, on 8 May 2024, conveyed to BOB its decision to lift the abovementioned restrictions on Bob World with immediate effect. The bank is allowed to onboard customers through Bob World application in accordance with the applicable guidelines and extant laws/regulations.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on BOB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

BOB had a network of 8,243 branches within India, 91 overseas offices across 17 countries, 9,426 ATMs and 1,607 cash recyclers as of FY24. Of the advances book, 34.8% consisted of loans to the corporate segment, 19.7% to retail, 11.0% to micro, small and medium enterprises, 12.7% to agriculture and 4.2% were others in FY24. International advances constituted 17.6% of the gross advances in FY24.

Key Financials Indicators

Particulars	FY24	FY23
Total assets (INR billion)	15,858	14,585
Total equity (INR billion)	1,122	982
Net income/loss (INR billion)	177.9	141.1
Return on average assets (%)	1.17	1.03
Capital adequacy ratio (%)	16.31	16.24
Source: BOB, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook							
	Rating Type	Rated Limits (billion)	Rating	29 February 2024	13 December 2023	10 November 2023	3 November 2023	23 August 2023	24 August 2022	3 August 2022	3 September 2021
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Short-term debt programme	Short-term	-	-	-	-	-	WD	IND A1+	IND A1+	IND A1+	IND A1+
Fixed deposit	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND tAAA/Stable
Basel III Tier 2 instrument	Long-term	INR85.43	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Basel III additional tier 1 bonds	Long-term	INR110	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
Infrastructure and Affordable Housing bonds	Long-term	INR210	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	-
Certificate of deposits	Short-term	INR600	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Basel III Tier 2 instrument	Medium
Certificate of deposits	Low
Fixed deposit programme	Low
Basel III additional tier 1 bonds	High
Infrastructure and affordable housing bonds	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Basel III Tier 2 instrument	INE028A08166	11 September 2019	7.75	11 September 2034	INR5.00	IND AAA/Stable
Basel III Tier 2 instruments	INE028A08190	3 January 2020	7.44	3 January 2030	INR9.20	IND AAA/Stable
Basel III Tier 2 instruments	INE028A08208	15 January 2020	7.84	15 January 2035	INR20.00	IND AAA/Stable
Basel III Tier 2 instruments	INE028A08315	21 December 2023	7.75	21 December 2033	INR25.00	IND AAA/Stable
Basel III Tier 2 instruments	INE028A08331	22 February 2024	7.57	22 February 2034	INR25.00	IND AAA/Stable
Total unutilised				**INR1.23**		
Total				**INR85.43**		
Additional Tier-1 Basel III bonds Series X	INE028A08174	28 November 2019	8.7	Perpetual	INR16.50	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XI	INE028A08182	18 December 2019	8.99	Perpetual	INR17.47	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XII	INE028A08216	17 July 2020	8.25	Perpetual	INR7.64	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XIII	INE028A08224	28 July 2020	8.5	Perpetual	INR9.81	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XIV	INE028A08232	17 November 2020	8.5	Perpetual	INR8.33	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XV	INE028A08240	13 January 2021	8.15	Perpetual	INR9.69	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XVI	INE028A08257	28 January 2021	8.15	Perpetual	INR1.88	IND AA+/Stable
Additional Tier-1 Basel III bonds Series XIX	INE028A08299	2 September 2022	7.88	Perpetual	INR24.74	IND AA+/Stable
Total unutilised					**INR13.94**	
Total					**INR110.00**	
Infrastructure and Affordable Housing Bonds	INE028A08281	17 August 2022	7.39	17 August 2029	INR10	IND AAA/Stable
Infrastructure and Affordable Housing Bonds	INE028A08307	1 December 2023	7.68	1 December 2033	INR50	IND AAA/Stable
Infrastructure and Affordable Housing Bonds	INE028A08323	25 January 2024	7.57	25 January 2034	INR50	IND AAA/Stable
Total unutilised						**INR100.00**
Total						**INR210.00**
Source: BOB, NSDL						

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APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Rating FI Subsidiaries and Holding Companies

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

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