

Rating Rationale

December 13, 2023 | Mumbai

Bank of Baroda

'CRISIL AAA/Stable' assigned to Tier II Bonds (Under Basel III)

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Rating Action

Rs.5000 Crore Tier II Bonds (Under Basel III)	CRISIL AAA/Stable (Assigned)
Rs.500 Crore Upper Tier-II Bonds (under Basel II)	CRISIL AAA/Stable (Reaffirmed)
Rs.3500 Crore Tier I Bonds (Under Basel III)	CRISIL AA+/Stable (Reaffirmed)
Rs.2132 Crore Tier I Bonds (Under Basel III)	CRISIL AA+/Stable (Reaffirmed)
Rs.4500 Crore Tier I Bonds (Under Basel III)	CRISIL AA+/Stable (Reaffirmed)
Rs.1000 Crore Tier II Bonds (Under Basel III)	CRISIL AAA/Stable (Reaffirmed)
Rs.10000 Crore Infrastructure Bonds	CRISIL AAA/Stable (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned 'CRISIL AAA/Stable' rating to Rs.5000 Crore Tier II Bonds (under BASEL III) of Bank of Baroda (BoB) and has reaffirmed its rating on the bank's existing debt instruments at 'CRISIL AAA/CRISIL AA+/Stable'.

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The ratings on the debt instruments of BoB continue to factor in the expectation of strong support from majority owner, Government of India (GoI), established franchise and strong market position in the Indian banking sector, adequate capitalization and resource profile. The ratings also factor in BoB's improving asset quality metrics which however continue to be elevated in the MSME & Agriculture portfolio; as well as the bank's moderate profitability metrics.

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CRISIL Ratings has taken note of the Reserve Bank of India (RBI)'s Press Release dated October 10, 2023, directing the bank to suspend further onboarding of customers onto its 'BoB World' mobile application, based on certain supervisory concerns observed by it, until further strengthening of related processes by the bank to the satisfaction of RBI. CRISIL Ratings understands from the management that while the bank has been carrying out corrective measures to address RBI's concerns, there is no disruption on the app's services to its existing customers and there is no impact on all other digital banking channels for servicing its existing customers as well as onboarding new customers. Around one third of new fixed deposits and recurring deposits opened during the first half of fiscal 2024 (H1 FY24) were through the 'bob World' application. The existing customers can continue to use the 'BoB World' application and the management has identified alternate channels for the use of the new customers. Therefore, the bank's management does not foresee any significant impact of the above direction on the bank's ability to mobilize new deposits; however, the same remains a monitorable.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profile of BoB and its subsidiaries. This is because of majority shareholding, business and financial linkages and shared brand. The ratings on BoB's debt instruments continue to factor in strong support expected from its majority owner, the GoI (63.97% shareholding as on September 30, 2023). This is because GoI is both the majority shareholder in public sector banks (PSBs) and the guardian of India's financial system. The stability of the banking sector is of prime importance to GoI, given the criticality of the sector to the economy, the strong public perception of sovereign backing for PSBs, and the severe implications of any PSB failure in terms of political fallout, systemic stability, and investor confidence in public sector institutions

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Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths:

Strong expectation of support from Government of India (GoI)

The ratings continue to factor in an expectation of strong government support, both on an ongoing basis and in the event of distress. This is because GoI is both the majority shareholder in PSBs and the guardian of India's financial system. The stability of the banking sector is of prime importance to GoI, given the criticality of the sector to the economy, the strong public perception of sovereign backing for PSBs and the severe implications of any PSB failure in terms of political fallout, systemic stability and investor confidence in public sector institutions. CRISIL Ratings believes that the majority ownership creates a moral obligation on GoI to support PSBs including BoB. As a part of 'Indradhanush' framework, government had pledged to infuse at least Rs 70,000 crore in PSBs during fiscal 2015 to 2019. Further in October 2017, the government had outlined a recapitalisation package of Rs 2.11 lakh crores over fiscals 2018 and fiscal 2019. The government allocated Rs 70,000 crore for capital infusion in fiscal 2020. BoB was allocated Rs 5375 crore in fiscal 2018 and Rs 7,000 crore in fiscal 2020. In fiscal 2021, BoB has raised capital of Rs 4500 crore via QIP. CRISIL Ratings believes that GoI will continue to provide distress support to all PSBs including BoB and will not allow any of them to fail. It will also support them in meeting Basel III capital regulations.

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Established franchise and strong market position in the Indian banking sector

Currently BoB is among India's top five banks by asset size with total assets of Rs 15,23,506 crore as on September 30, 2023 (Rs 14,58,562 crore as on March 31, 2023) with a share of >6% as on June 30, 2023. On the deposits front too, the bank has Rs 12,49,647 crores of deposits as of September 30, 2023, reflecting a share of >6% as on the same date. It is one of the most geographically diversified public sector banks (PSBs) with international presence spanning across 93 offices in 17 countries and the bank's international operations contributing to 16.1% of the global business as on September 30, 2023 (15.2% as on end March 31, 2023).

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The bank reported growth of 18.5% in the gross advances in fiscal 2023. The gross advances of the bank thereafter grew by 3.4% sequentially and 17.3% Y-o-Y to Rs 10,24,501 crore as on September 30, 2023. This growth was largely driven by retail book which

grew by 22% Y-o-Y as well as international advances which grew by 21% Y-o-Y. Within retail book, major contributors to growth were personal loans, home loans and auto loans. The share of international book grew to 19% as on September 30, 2023 (18% as on March 31, 2023) from 15% as on March 31, 2021.

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Adequate capitalisation

BoB remains adequately capitalized with Tier I and overall CAR (under Basel III) at 13.19% and 15.30% respectively as on September 30, 2023 (13.99% and 16.24% respectively as on March 31, 2023). The bank's net worth coverage for net NPA improved to 14.0 times as on September 30, 2023 (11.7x as on March 31, 2023) from 3.5 times as on March 31, 2021. BoB had raised capital via QIP of Rs 4500 crore during fiscal 2021. Capitalisation has been supported by regular infusion from GoI. CRISIL Ratings believes that BoB will be able to maintain adequate capitalisation over the medium term, backed by capital support from GoI.

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The recent regulation by RBI on revised risk weights on unsecured consumer loans, including credit card receivables and loans to NBFs beyond a specific threshold is expected to have an impact on the capital ratios of the bank, however, the capitalisation levels will remain comfortable.

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Stable resource profile

BoB has a large, stable and diversified resource profile. The bank has a large deposit base that grew by 14.6% Y-o-Y to Rs 12,49,647 crore as on September 30, 2023 (Rs 12,03,688 crore as on March 31, 2023). Owing to strong international presence, BoB generates about 12% of its deposits from overseas that adequately support and provide geographical diversity to the bank's resource profile. Overall, the bank's domestic current and savings account (CASA) deposits grew by 4.4% Y-o-Y translating into CASA ratio of 39.9% as on September 30, 2023 (42.2% as on March 31, 2023). The bank's CASA ratio has witnessed a decline over last one year in line with the banking industry from 44.2% as on June 30, 2022, however, the bank has been actively focusing on growing its CASA deposits going forward. The average cost of deposits for the quarter ending September 30, 2023 was 5.0% (4.7% for Q1 FY24, 3.9% for fiscal 2023, 3.5% for fiscal 2022). Share of retail deposits (Savings account + retail term deposits) as a share of domestic deposits stood healthy at 75.8% as on June 30, 2023 (74.7% as on March 31, 2023).

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CRISIL Ratings believes that BoB will maintain an adequate resource profile over the medium term given its well spread branch network, diversified investor base and access to international deposits.

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Weaknesses:

Average yet improving asset quality

BOB has reported considerable improvement in the asset quality with Gross non-performing assets (GNPA) improving to 3.3% as on September 30, 2023 (3.8% as on March 31, 2023) from 6.6% as on March 31, 2022. The improvement has been across segments but especially in the corporate book, as evidenced by absolute GNPA reduction of ~Rs 10,900 crore in fiscal 2023 and Rs 2,100 crore in Q1 FY24, resulting in GNPA ratio of corporate book at 0.65% as on September 30, 2023. GNPA ratios of MSMEs and Agriculture, however, still remain elevated at 9.7% and 5.3% respectively as on September 30, 2023. Overall slippage ratio (calculated as Additions to NPA as proportion of Opening Gross Advances) was 1.4% in H1 FY24 (annualized) (1.4% in fiscal 2023) from 1.9% in fiscal 2021. As the PCR increased to 78% as on September 30, 2023, the Net NPA ratio improved to 0.8% as on September 30, 2023 (0.9% as on March 31, 2023) from 1.2% a year ago.

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Collections for the bank were impacted during the pandemic period. Collection efficiency (excluding agriculture) has improved since then to 99% in Q2 FY24 (averaged at 98% in FY23). The SMA 1 and SMA 2 accounts as a proportion to standard advances (with exposure above Rs 5 crore as per CRILC data) improved to 0.22% as on September 30, 2023 (0.32% as on March 31, 2023).

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Total restructured standard book (all inclusive) as on June 30, 2023 stood at ~Rs 13,192 crore (1.3% of gross advances), out of which MSME accounted for 25% and large corporates accounted for 48%. The bank's exposure to NCLT accounts stood at Rs 52,277 crore as on September 30, 2023 with an average provision coverage of 98.5%. The bank's ability to further bring down GNPA especially for MSME and Agriculture segment will remain key monitorable.

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Improving, yet moderate profitability

Profitability was impacted in the past (with net losses reported in fiscal 2016 and fiscal 2018) owing to elevated GNPA metrics leading to higher credit costs. However, in the recent years, with improvement in the asset quality, BoB's earnings profile has improved with the bank reporting PAT of Rs 14,110 crore in fiscal 2023 (Rs 7,272 crore in fiscal 2022) and ROA of 1.03% in fiscal 2023 (as compared to 0.60% ROA in fiscal 2022).

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Owing to increased cost of deposits, Net Interest Margin (NIM) for H1 FY24 contracted to 2.9% as compared to 3.0% for fiscal 2023. With steady operating expense ratio at 1.8% and credit costs at 0.6% for H1 FY24, the bank reported ROA of 1.1% for H1 FY24 (1.03% for FY23) supported by increased fee income.

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Going forward, CRISIL Ratings expects the profitability in terms of RoA to hold at current levels in the medium term.

Liquidity: Superior

The Liquidity Coverage Ratio of the Bank stood at 146.6% (consolidated basis) as on September 30, 2023, as against statutory minimum of 100%. The bank's liquidity also benefits from access to systemic sources of funds, such as the liquidity adjustment facility from RBI and access to the call money market.

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ESG profile

CRISIL Ratings believes that BoB's Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile.

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The ESG profile for financial sector entities typically factors in governance as a key differentiator between them. The sector has reasonable social impact because of its substantial employee and customer base and can play a key role in promoting financial inclusion. While the sector does not have a direct adverse environmental impact, the lending decisions may have a bearing on the environment.

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BoB has an ongoing focus on strengthening various aspects of its ESG profile.

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BoB's key ESG highlights:

- As a policy, the Bank does not extend finance to borrowers for setting up new units producing / consuming Ozone Depleting Substances (ODS) and small / medium scale units engaged in the manufacturing of aerosol units using Chlorofluorocarbons (CFC), which enables reduction in greenhouse effect.
- To reduce carbon footprint, 175 branches of the bank in rural/semi urban areas are being run on Solar Energy only. As a result

of using renewable energy sources, there was a reduction of total 2400 Tons of Carbon Dioxide Emission till fiscal 2023.

- Of the total workforce, around 26% comprised of women as on March 31, 2023. Further, the bank has taken initiatives to promote gender equity within the organization.
- 42% of the board members are independent directors, and none of them have tenure exceeding 10 years. The bank also has a dedicated investor grievance redressal mechanism.
- ESG disclosures of the bank are evolving; and it is in the process of further strengthening the disclosures going forward.

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There is growing importance of ESG among investors and lenders. BoB's commitment to ESG will play a key role in enhancing stakeholder confidence, given shareholding by foreign portfolio investors and access to both domestic and foreign capital markets.

Outlook: Stable

CRISIL Ratings believes BoB will maintain its strong market position in the financial services sector in India and will continue to benefit from strong support from GoI,

Rating Sensitivity factors

Downward Factors

- Material change in shareholding and/or expectation of support from GoI
- Substantial deterioration in asset quality metrics, thereby also impacting earnings profile
- Decline in capital adequacy ratios below minimum regulatory requirements (including capital conservation buffer, which is Tier I of 9.5% and overall CAR of 11.5%) for an extended period
- Significant deterioration in the eligible reserves available with the bank
- Downward revision in Tier-II bonds will result in corresponding change in rating of Tier-I bonds (under Basel III).

About the Bank

Incorporated in 1908 as a privately owned institution headquartered in Vadodara, BoB expanded its operations through mergers and acquisitions before being nationalized in 1969. GoI shareholding in BoB stood at 63.97% as on September 30, 2023. Presently, BoB is amongst the five largest banks in India with a domestic branch network of 8209 branches, of which 60% are located in rural and semi urban areas. BoB also has a large international presence amongst Indian banks with 93 overseas offices across 17 countries.

Key Financial Indicators: Bank of Baroda-Standalone

As on / for the	^	Half year ended September 30, 2023	Year ended March 31, 2023	Year ended March 31, 2022
Total Assets	Rs crore	15,23,506	14,58,562	12,78,000
Total income (net of interest expenses)	Rs crore	29,321	51,382	44,105
Profit after tax	Rs crore	8,323	14,110	7,272
Gross NPA	%	3.32	3.79	6.61
Overall capital adequacy ratio (for Banks)	%	15.30	16.24	15.68
Return on assets	%	1.12	1.03	0.60

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Bank of Baroda-Consolidated

As on / for the	^	Half year ended September 30, 2023	Year ended March 31, 2023	Year ended March 31, 2022
Total Assets	Rs crore	15,91,752	15,25,879	13,40,137
Total income (net of interest expenses)	Rs crore	35,496	60,836	48,965
Profit after tax	Rs crore	8,846	14,905	7,850
Overall capital adequacy ratio (for Banks)	%	15.74	16.73	16.19
Return on assets	%	1.14	1.04	0.62

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Any other information:

Note on non-equity Tier 1 capital instruments (Under Basel III)

The distinguishing features of non-equity Tier-I capital instruments (under Basel III) are the existence of coupon discretion at all times, high capital thresholds for likely coupon non-payment and principal write-down (on 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 and capital instruments under Basel II. To factor in these risks, CRISIL Ratings notches down the rating on these instruments from the bank's corporate credit rating. The rating on BoB's tier-I bonds (under Basel III) has, therefore, been lowered by one notch from its corporate credit rating to 'CRISIL AA+/Stable', in line with CRISIL Ratings' criteria (refer to 'CRISIL Ratings' rating criteria for BASEL III compliant instruments of banks').

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Factors that could trigger a default event for non-equity Tier-I capital instruments (under Basel III), resulting in non-payment of coupon, include: i) the bank exercising coupon discretion, ii) inadequacy of eligible reserves to honour coupon payment if the bank reports low profit or a loss or iii) the bank breaching the minimum regulatory CET I, including capital conservation buffer, ratios. Moreover, given their additional risk attributes, the rating transition for non-equity Tier-I capital instruments (under Basel III) can potentially be higher than that for Tier-II instruments.

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Note on Tier-II Instruments (under Basel III)

The distinguishing feature of Tier-II capital instruments under Basel II, is the existence of the point of non-viability (PONV) trigger, occurrence of which may result in loss of principal to the investors, and hence, to default on the instrument by the issuer. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. CRISIL Ratings 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.

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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 complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Instrument	Date of Allotment	Coupon rate (%)	Maturity Date	Amount (Rs.in Crore)	Complexity Levels	Rating assigned with Outlook
NA	Basel III Additional Tier I Bond^	NA	NA	NA	148	Highly Complex	CRISIL AA+/Stable
INE028A08216	Basel III Additional Tier I Bond	17-Jul-2020	8.25%	Perpetual (Call option date 17 th Jul, 2025)	764	Highly Complex	CRISIL AA+/Stable
INE028A08224	Basel III Additional Tier I Bond	28-Jul-2020	8.50%	Perpetual (Call option date 28 th Jul, 2025)	981	Highly Complex	CRISIL AA+/Stable
INE028A08232	Basel III Additional Tier I Bond	17-Nov-2020	8.50%	Perpetual (Call option date 13 th Nov, 2025)	833	Highly Complex	CRISIL AA+/Stable
INE028A08240	Basel III Additional Tier I Bond	13-Jan-2021	8.15%	Perpetual (Call option date 13 th Jan, 2026)	969	Highly Complex	CRISIL AA+/Stable
INE028A08257	Basel III Additional Tier I Bond	28-Jan-2021	8.15%	Perpetual (Call option date 28 th Jan, 2026)	188	Highly Complex	CRISIL AA+/Stable
INE028A08182	Basel III Additional Tier I Bond	18-Dec-2019	8.99%	Perpetual (Call option date 18 th Dec, 2024)	1747	Highly Complex	CRISIL AA+/Stable
INE028A08174	Basel III Additional Tier I Bond	28-Nov-2019	8.70%	Perpetual (Call option date 28 th Nov, 2024)	1650	Highly Complex	CRISIL AA+/Stable
INE028A08059	Tier-II Bond Issue	17-Dec-2013	9.73%	17-Dec-2023	1,000	Complex	CRISIL AAA/Stable
INE028A09123	Upper Tier II Bonds	08-Jul-2009	8.54%	08-Jul-2024	500	Highly Complex	CRISIL AAA/Stable
INE028A08265	Basel III Additional Tier I Bond	26-Nov-2021	7.95%	Perpetual (Call option date 26 th Nov, 2026)	1,997	Highly Complex	CRISIL AA+/Stable
INE028A08273	Basel III Additional Tier I Bond	31-Jan-2022	8.00%	Perpetual (Call option date 30 th Jan, 2027)	752	Highly Complex	CRISIL AA+/Stable
NA	Basel III Additional Tier I Bond^	NA	NA	NA	103	Highly Complex	CRISIL AA+/Stable
INE028A08307	Infrastructure bonds	01-Dec-2023	7.68%	01-Dec-2033	5,000	Simple	CRISIL AAA/Stable
NA	Infrastructure bonds^	NA	NA	NA	5,000	Simple	CRISIL AAA/Stable
	Tier II Bonds						

NA	(under BASEL III)^	NA	NA	NA	5,000	Simple	CRISIL AAA/Stable
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^Not yet issued

Annexure - List of Entities Consolidated

Names of Entities Consolidated	% held	Rationale for Consolidation
BoB Financial Solutions Limited	100%	Subsidiary
BoB Capital Markets Limited	100%	Subsidiary
Baroda Global Shared Services Limited	100%	Subsidiary
Baroda Sun Technologies Ltd	100%	Subsidiary
Baroda BNP Paribas Asset Management India Private Limited	50.1%	Subsidiary
Baroda BNP Paribas Trustee India Private Limited	50.1%	Subsidiary
Bank of Baroda (Botswana) Limited	100%	Subsidiary
Bank of Baroda (Guyana) Inc	100%	Subsidiary
Bank of Baroda (New Zealand) Limited	100%	Subsidiary
Bank of Baroda (Tanzania) Limited	100%	Subsidiary
Bank of Baroda (UK) Limited	100%	Subsidiary
Bank of Baroda (Kenya) Limited	86.7%	Subsidiary
Nainital Bank Limited	98.57%	Subsidiary
Indo-Zambia Bank Limited	20%	Associate
India First Life Insurance Company Limited	65%	Subsidiary
India Infradebt Limited	40.99%	Joint Venture
India International Bank (Malaysia), Berhad	40%	Joint Venture
Baroda UP Bank	35%	Associate
Baroda Rajasthan Kshetriya Gramin Bank	35%	Associate
Baroda Gujarat Gramin Bank	35%	Associate
Bank of Baroda (Uganda)	80%	Subsidiary
Baroda Capital Markets (Uganda) Limited.	100%	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Infrastructure Bonds	LT	10000.0	CRISIL AAA/Stable	20-11-23	CRISIL AAA/Stable	^	--	^	--	^	--	--
Lower Tier-II Bonds (under Basel II)	LT	^	--	^	--	04-11-22	CRISIL AAA/Stable	16-11-21	CRISIL AAA/Stable	13-07-20	CRISIL AAA/Stable	CRISIL AAA/Stable
^	^	^	--	^	--	^	--	30-07-21	CRISIL AAA/Stable	^	--	--
Perpetual Tier-I Bonds (under Basel II)	LT	^	--	^	--	^	--	30-07-21	Withdrawn	13-07-20	CRISIL AAA/Stable	CRISIL AAA/Stable
Tier I Bonds (Under Basel III)	LT	10132.0	CRISIL AA+/Stable	20-11-23	CRISIL AA+/Stable	04-11-22	CRISIL AA+/Stable	16-11-21	CRISIL AA+/Stable	13-07-20	CRISIL AA+/Negative	CRISIL AA+/Negative
^	^	^	--	31-10-23	CRISIL AA+/Stable	^	--	30-07-21	CRISIL AA+/Stable	^	--	--
Tier II Bonds (Under Basel III)	LT	6000.0	CRISIL AAA/Stable	20-11-23	CRISIL AAA/Stable	04-11-22	CRISIL AAA/Stable	16-11-21	CRISIL AAA/Stable	13-07-20	CRISIL AAA/Stable	CRISIL AAA/Stable
^	^	^	--	31-10-23	CRISIL AAA/Stable	^	--	30-07-21	CRISIL AAA/Stable	^	--	--
Upper Tier-II Bonds (under Basel II)	LT	500.0	CRISIL AAA/Stable	20-11-23	CRISIL AAA/Stable	04-11-22	CRISIL AAA/Stable	16-11-21	CRISIL AAA/Stable	13-07-20	CRISIL AAA/Stable	CRISIL AAA/Stable
^	^	^	--	31-10-23	CRISIL	^	--	30-07-21	CRISIL	^	--	--

All amounts are in Rs.Cr.

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Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Banks and Financial Institutions
Rating criteria for Basel III - compliant non-equity capital instruments
Rating Criteria for Hybrid Capital instruments issued by banks under Basel II guidelines
Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support
CRISILs Criteria for Consolidation

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