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S&P trims outlook on Bank of India to negative on weak asset quality

By PTI | Updated: Feb 16, 2016, 07:32 PM IST

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NEW DELHI: S&P Ratings today revised the outlook on [Bank of India](#) to negative from stable as it sees the asset quality of the state-run lender weakening over 12-18 months, straining its profitability.

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The US-based rating agency, however, affirmed 'BBB-' long-term and 'A-3' short-term issuer credit ratings on Bol, which reflects sound franchise and a very high likelihood of support from the government.

"We revised the outlook to negative because we expect Bank of India's asset quality to continue to weaken over the next 12-18 months, further straining the bank's [capitalisation](#) and profitability," Standard & Poor's credit analyst Amit Pandey said.

S&P said it expects Bol's credit costs to remain high because of continued pressure on asset quality, given the tough operating conditions for the corporate sector in India.

About 70 per cent of the bank's loans are in the domestic market, and about 71 per cent of these loans are to the corporate and micro and small and mid-size enterprise.

"The rising stress in these exposures led to an increase in the bank's stand-alone gross non-performing loan (NPL) ratio to 9.18 per cent as of December 31, 2015, from 5.39 per cent as of March 31, 2015.

In addition, Bol has sizable exposure to the infrastructure and metal sectors, which "we view as having high risk". These sectors have come under stress in the current business cycle.

"The increase in Bol's NPLs has been the highest among the peer banks that we rate in India; year-over-year NPLs shot up more than 100 per cent by end-December 2015," it added.

The agency said it may downgrade Bol if the bank's risk adjusted capital ratio dips below 5 per cent or its capitalisation is not commensurate with the regulatory minimum.

This could happen if the bank can't raise sufficient capital to support its balance sheet, its profitability continues to remain weak, or India's economic risk rises.

S&P could revise Bol's outlook to stable if it raises a large amount of capital wherein the risk adjusted capital ratio is above 5 per cent even if India's economic risk worsens, and if the asset quality pressure subsides.

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