
June 16, 2010

CARE ASSIGNS 'CARE AAA' RATING TO UPPER TIER II BOND ISSUE OF BANK OF BARODA

CARE has assigned 'CARE AAA' [Triple A] rating to proposed issue of Upper Tier II Bonds of Bank of Baroda (BoB) amounting to Rs.500 crore.

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Upper Tier II Bonds Issue	500	'CARE AAA' (Triple A)	Assigned

The rating for the aforesaid hybrid instrument factors in the additional risk arising due to existence of the lock-in clause in these instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in clause, would constitute as an event of default as per CARE's definition of default, and as such these instruments may exhibit somewhat sharper migration of rating as compared to conventional subordinated debt instruments.

Rating Rationale

The rating factors in the majority ownership by Government of India (GoI), the bank's long-standing track record of operations, extensive branch network, healthy profitability metrics, sound asset quality, robust international operations and strong capitalisation levels. Going forward, its ability to sustain low-cost deposit base, maintain asset quality and spreads would be the key rating sensitivities.

Company Profile

Bank of Baroda (BoB) is amongst the oldest commercial banks in India. GoI is the major stakeholder in BoB with shareholding of 53.81%. The bank has global presence in 25 countries with nine overseas subsidiaries along with a banking associate Indo Zambia Bank Ltd. As on March 2010, BoB had a strong network of around 3100 domestic branches. The overall global business of BoB grew by slower 24% during FY10 vis-à-vis 30% during previous year mainly due to weak domestic credit demand during H1FY10. As on March 31, 2010, overseas business constituted 23.8% of the overall business [P.Y: 22.6%].

¹ Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications

During FY10, the total income of the bank grew by sluggish 9.4% to Rs.19,423 crore mainly due to lower yield on advances led by benign interest rates and slower credit offtake. Other income mostly remained flat as trading gains started declining during H2FY10 due to changes in interest rate environment and hardening yields. Lower provisioning, declining cost of deposits coupled with prudent control over operating expenses pepped up net profit which recorded 37% y-o-y growth to Rs.3058 crore during FY10.

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CARE classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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