बैंक ऑफ़ इंडिया
Bank of India BOI

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FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Outlook on 9 Indian Banks' IDRs to Stable; Affirms IDRs

Wed 15 Jun, 2022 - 5:47 AM ET

Fitch Ratings - Singapore - 15 Jun 2022: Fitch Ratings has revised the Outlook to Stable from Negative on the Long-Term Issuer Default Ratings (IDR) of the following India-based banks, while affirming their IDRs.

State Bank of India (SBI)

Bank of Baroda (BOB)

Bank of Baroda (New Zealand) Limited (BOBNZ)

Bank of India (BOI)

Canara Bank (Canara)

Punjab National Bank (PNB)

ICICI Bank Limited (ICICI)

Axis Bank Limited (Axis)

Fitch has also affirmed the Government Support Ratings (GSRs) for seven of them and the Shareholder Support Rating (SSR) on Bank of Baroda (New Zealand) Limited.

At the same time, Fitch has revised the Outlook on Union Bank of India's (UBI) IDR to Stable from Negative, while affirming its IDR. We have assigned UBI a Government Support Rating (GSR) of 'bbb-', in line with the updated Bank Rating Criteria. A full list of rating actions is below.

Fitch has also withdrawn UBI's Support Rating and Support Rating Floor as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on 12 November 2021.

KEY RATING DRIVERS

The rating actions follow Fitch's revision of the Outlook on the 'BBB-' rating on the Indian sovereign to Stable from Negative on 10 June 2022 due to diminished downside risks to India's medium-term growth, which is underscored by its rapid economic recovery and easing financial-sector weaknesses.

The IDRs for all the above Indian banks are support-driven and anchored to their respective GSRs. They are based on Fitch's assessment of high to moderate probability of extraordinary state support for these banks, which takes into account our assessment of the sovereign's ability and propensity to provide extraordinary support. It factors in the government's consistent record of supporting systemically important banks, the banks' relative systemic importance and their different ownership.

SBI

SBI's IDR of 'BBB-' is at the same level as its GSR. It reflects Fitch's expectation that SBI is highly likely to receive extraordinary state support, if required. This is based on SBI's very high systemic importance because of its significant market shares (around 23% of system assets and deposits), its pan-India franchise, the state's 57.6% controlling stake in the bank, and its broader policy-like role than peers. Fitch believes that a default by SBI would lead to complete loss of confidence in India's banking sector and pose serious reputational and political risks for the state.

BOB, PNB, CANARA, UBI AND BOI

The 'BBB-' IDRs of BOB, PNB, Canara, UBI and BOI are at the same level as their GSRs, which, in Fitch's assessment, reflects a high probability of extraordinary state support for these banks. It is based on the banks' high systemic importance, which stems from their significant market share (relative to much of the system), their large retail-deposit franchises, majority government ownership and roles in policy-like lending. Fitch believes that a default by any of these large banks could result in a general loss of confidence in the sector and pose high reputational risk for the state.

ICICI AND AXIS

The 'BB+' IDRs of ICICI and Axis are driven by their GSRs, which is one notch below the sovereign rating, reflecting Fitch's expectation of a moderate probability of extraordinary state support for these banks, due to their systemic importance, market position and private ownership.

The probability of extraordinary state support for the two large private banks will be lower than for large state banks, which are likely to have priority due to their differences in ownership and linkages to the state. Nevertheless, we view both ICICI and Axis to be systemically important banks and the state has a record of supporting such banks, although neither ICICI nor Axis has required support to date.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

SBI, BOB, PNB, CANARA, UBI AND BOI

The GSRs of the above banks are most sensitive to the agency's assessment of the government's propensity and ability to support them, based on their size, systemic importance and linkages to the state. Weakening of the government's ability to provide extraordinary support - reflected in negative action on India's sovereign ratings - would likely lead to negative action on the IDRs.

Negative action on the IDRs is also likely should Fitch perceive any reduction in the government's propensity to extend timely support, in which case the agency will reassess the GSRs, and in turn, the banks' IDRs and senior debt ratings, although that is not our base case.

Similarly, any change in the sovereign rating Outlook would lead to a corresponding revision in the Outlooks on the banks' IDRs.

ICICI AND AXIS

Fitch would downgrade the GSRs, and in turn, the banks' IDRs, if we believe that the sovereign's ability and propensity to support the banks have weakened, which could be the case if the sovereign rating was downgraded.

Similarly, any change in the sovereign rating Outlook would lead to a corresponding revision in the Outlooks of the banks' IDRs.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

SBI, BOB, PNB, CANARA, UBI AND BOI

An upgrade in SBI's GSR is more probable in the event of a sovereign upgrade than for the other large state banks, even though the government's ability and propensity to support those banks would be high - the latter due to their systemic importance. This is because of SBI's much higher systemic importance and policy roles, making it more strategically important to the state. However, an upgrade of the sovereign rating appears less likely in the near term.

Similarly, any change in the sovereign rating Outlook would lead to a corresponding revision in the Outlooks of the banks' IDRs, provided the sovereign's propensity to support remains unchanged.

ICICI AND AXIS

ICICI's and Axis's IDRs are driven by their GSRs. A sovereign rating upgrade, which appears unlikely in the near term, would not lead to an upgrade in the banks' IDRs unless a sovereign rating upgrade coincided with a strengthening of the sovereign's ability and more importantly, propensity to support the banks, in Fitch's view.

Similarly, any change in the sovereign rating Outlook would lead to a corresponding revision in the Outlook of the banks' IDRs, provided the sovereign's propensity to extend support remains unchanged.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

The banks' medium-term note programmes and senior notes, where applicable, are rated at the same level as their Long-Term IDRs, in line with Fitch's criteria. The notes constitute direct, unsubordinated and unsecured obligations of the banks, and rank equally with all their other unsecured and unsubordinated obligations.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The senior debt ratings for all banks would be downgraded if their Long-Term IDRs were downgraded.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

All the banks' senior debt ratings will move in tandem with the IDRs should they be upgraded, though we view this to be unlikely in the near term.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

BOBNZ is a fully owned subsidiary of BOB and its IDR is driven by a high probability of support from its parent and, ultimately, from the Indian government. There is strong integration between the two entities, and BOBNZ's small size relative to the parent makes potential support manageable. Therefore, we expect government support for BOB to flow to the subsidiary.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Any downgrade of BOB's IDR or revision of its Outlook to Negative would have a similar impact on BOBNZ, but the latter's IDR could also be downgraded by a weaker propensity of its parent and, ultimately, the government, to support the subsidiary.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade in BOB's IDR - though highly unlikely - or revision in its Outlook to Positive would have a similar effect on BOBNZ's IDR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

SBI, BOB, PNB, CANARA, UBI, BOI, ICICI and AXIS

These banks' Long-Term IDRs and Outlooks are linked to India's sovereign Long-Term IDR via the GSR, which reflects our view of the probability of extraordinary state support, should there be a need.

BOBNZ

BOBNZ's Long-Term IDR and the Outlook are the same as those of BOB, and its IDR is indirectly linked with the sovereign IDR via the SSR, which reflects our view of the high probability of extraordinary state support for BOB being extended to BOBNZ, should there be a need.

ESG CONSIDERATIONS

SBI, BOB, PNB, CANARA, UBI AND BOI

The above-mentioned banks have an ESG Relevance Score of '4' for Governance Structure, in line with similarly rated state banks. It reflects our assessment that key governance aspects, in particular board independence and effectiveness, ownership concentration and protection of creditor or stakeholder rights, have a moderate, yet negative influence, on their credit profiles, and are relevant to the ratings in conjunction with other factors.

Fitch views Indian state banks' governance to be less developed, which is evident from significant lending to higher-risk borrowers and segments that have led to above-average levels of poorly performing loans and credit losses. The board is typically dominated by government appointees, and business models often focus on supporting government strategy with lending directed towards promoting socioeconomic and macroeconomic policies, which may include lending to government-owned companies. These factors also drive our view on the bank's state linkages that affect support prospects that drive the long-term ratings.

SBI, BOB, PNB, CANARA, UBI, BOI, ICICI AND AXIS

The above-mentioned banks have an ESG Relevance Score of '4' for Financial Transparency. It reflects our assessment that the quality and frequency of financial reporting and the auditing process have a moderate, yet negative influence, on their credit profiles, and are relevant to the ratings in conjunction with other factors.

Occurrences of material asset-quality divergence have been minimal in recent years, but government and regulatory pandemic-related relief measures pose a risk to

transparent recognition of impaired loans, even though we expect private banks to be reasonably placed among peers. Still, financial transparency is considered pivotal for general business and depositor confidence and can lead to significant reputational risk if not managed well.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Axis Bank Limited	LT IDR BB+ Rating Outlook Stable Affirmed	BB+ Rating Outlook Negative
	ST IDR B Affirmed	B
	Government Support bb+ Affirmed	bb+
senior unsecured	LT BB+ Affirmed	BB+
Union Bank of India	LT IDR BBB- Rating Outlook Stable Affirmed	BBB- Rating Outlook Negative
	ST IDR F3 Affirmed	F3
	Support WD Withdrawn	2
	Support Floor WD Withdrawn	BBB-
	Government Support bbb- New Rating	

ICICI Bank Limited	LT IDR Affirmed	BB+ Rating Outlook Stable	BB+ Rating Outlook Negative

VIEW ADDITIONAL RATING DETAILS

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The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure: ICICI Bank Limited

APPLICABLE CRITERIA

Bank Rating Criteria (pub. 13 Nov 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Axis Bank Limited	EU Endorsed, UK Endorsed
Bank of Baroda	EU Endorsed, UK Endorsed
Bank of Baroda (New Zealand) Limited	EU Endorsed, UK Endorsed
Bank of India	EU Endorsed, UK Endorsed
Canara Bank	EU Endorsed, UK Endorsed
ICICI Bank Limited	EU Endorsed, UK Endorsed
Punjab National Bank	EU Endorsed, UK Endorsed
State Bank of India	EU Endorsed, UK Endorsed
Union Bank of India	EU Endorsed, UK Endorsed

UNSOLICITED ISSUERS

ICICI Bank Limited (Unsolicited)

With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

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UNSOLICITED ISSUERS

ENTITY/SECURITY	ISIN/CUSIP	RATING TYPE	SOLICITATION STATUS
ICICI Bank Limited	-	Long Term Issuer Default Rating	Unsolicited
ICICI Bank Limited USD 300 mln 3.25% bond/note 09-Sep-2022	XS1576750951	Long Term Rating	Unsolicited
ICICI Bank Limited	-	Short Term Issuer Default Rating	Unsolicited
ICICI Bank Limited	-	Government Support Rating	Unsolicited

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Banks Asia-Pacific India New Zealand