Indian Bank

May 11, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Tier II Bonds (Basel III) #	1,000	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Assigned**
Additional Tier I Perpetual Bonds (Basel III) @	500	**CARE AA; Stable (Double A; Outlook: Stable)**	**Assigned**
Total	**1,500 (Rs. One thousand five hundred crore only)**		

Details of instruments/facilities in Annexure-1

#Tier II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

In CARE's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier II instruments even under Basel II. CARE has rated the Tier II bonds under Basel III after factoring in the additional feature of PONV.

@CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds after taking into consideration its key features as below:

- *The bank has full discretion at all times to cancel coupon payments.*
- *The coupon is to be paid out of current year profits. However, if the current year's profits are not sufficient, coupon payment may be paid subject to availability of sufficient revenue reserves and/or credit balance in profit and loss account provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Ratios at all times and subject to the requirements of capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].*
- *The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125%, on and after October 1, 2021, or written-off / converted into common equity shares on occurrence of trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.*
- *Any delay in the payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with the conventional subordinated debt instruments.*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Indian Bank derive strength from majority ownership by the Government of India (GoI), the bank's strong capital adequacy level, improved resource profile with relatively higher proportion of low-cost deposits of amalgamated entity, improved asset quality indicators, comfortable liquidity and resource profile. The ratings also take into account the bank's improvement in the overall business during 9MFY21 (refers to the period April 01 to December 31) supported by growth in both the deposit and the advances. It is to be noted that, the bank has set off the accumulated losses with share premium account, thus enhancing the net distributable reserves for AT1 coupon payment.

Rating Sensitivities

Negative Factors-Factors that could lead to negative rating action/downgrade

- Significant slippages impacting earnings profile and deterioration in Net NPA to Net worth
- Deterioration in GNPA levels on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by GoI

The ratings of Indian Bank factor in the majority shareholding of GoI. During FY20 (refers to the period April 1 to March 31), GoI has infused fresh equity capital of Rs.2,534 crore in Indian Bank and Rs.2,153 crore in Allahabad Bank thus, aggregating to a total infusion of Rs.4,687 crore in the combined entity. Furthermore, post amalgamation of Allahabad Bank, GoI stake in the amalgamated bank increased to 88.06% as on June 30, 2020, from 83.46% as on March 31, 2020 (88.06% as on December 31, 2020). CARE expects Indian Bank to continue to receive support from GoI considering the majority shareholding and systemic importance of Indian Bank being one of the large-sized banks in India.

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

Stable growth in advances with focus on retail, agriculture and MSME
Indian Bank has witnessed continuous growth in advances in the past three years ended March 2020. The amalgamated bank's total business stood at Rs.857,499 crore as on March 31, 2020. Total advances stood at Rs.368,664 crore as on March 31, 2020. As on March 31, 2020, RAM sector advances stood at 53% of the total domestic advances aggregating to Rs.191,356 crore, whereas corporate advances stood at 47% of the total domestic advances aggregating to Rs.168,899 crore.
In 9MFY21, total advances grew by 7% y-o-y and stood at Rs.389,646 crore as on December 31, 2020, supported by higher growth in RAM sector advances. As on December 31, 2020, RAM sector advances grew by 12% y-o-y and stood at 56% of the total domestic advances. The share of corporate advances decreased to 44% of domestic advances as on December 31, 2020.

Resource profile characterised by relatively higher proportion of low-cost deposits
Post amalgamation with benefits of high CASA ratio of AB, CASA deposits of amalgamated entity increased to 42% as on June 30, 2020 (34.6% as on March 31, 2020 for IB). CASA deposits further grew by 6% and is maintained at 41% of the total deposits as on December 31, 2020. Term Deposits grew by 7% in 9MFY21 and stood at Rs.308,204 crore as on December 31, 2020. In 9MFY21, Total Deposits witnessed a growth of 8% y-o-y and stood at Rs.521,248 crore as on December 31, 2020 (Rs.488,835 crore as on March 31, 2020).

Relatively strong capital adequacy levels
Indian Bank is among the well-capitalised public sector banks as on December 31, 2020. Total CAR of the combined entity stood at 13.27% as on April 01, 2020. Total CAR improved to 13.45% as on June 30, 2020. The bank has raised Additional Tier 1 bonds and Tier 2 bonds of Rs.2,000 crore each in FY21. As on December 31, 2020, total CAR and Tier 1 CAR further improved and stood at 14.06% and 11.18%, respectively. CET 1 CAR also continues to be relatively strong at 10.35% as on December 31, 2020. Going forward, the bank is also expected to raise capital which shall further provide cushion for the bank to manage risks.

Moderate asset quality; increase in proforma GNPA is lesser than expected
GNPA and NNPA of amalgamated bank stood at 11.39% and 4.19% as on March 31, 2020. However, in 9MFY21, GNPA and NNPA of the bank improved and stood at 9.04% and 2.35%, respectively, as on December 31, 2020. The pro-forma GNPA and NNPA stood at 10.38% and 3.49% as on December 31, 2020. The bank holds provisioning of 21.50% against pro-forma NPA. The total Provision Coverage stood at 75.77% as on December 31, 2020 (66.02% as on March 31, 2020).
The bank is expected to restructure 1.62% of standard advances on account of covid-19-induced pandemic. However, the bank's ability to control slippages and maintain asset quality will remain key monitorable.

Improvement in financial performance of amalgamated entity in 9MFY21
The amalgamated entity reported loss of Rs.4,643 crore in FY20. While pre-provision profit stood at Rs.9,587 crore, on account of higher provisions which stood at Rs.13,261 crore, the amalgamated entity reported losses in FY20.
During 9MFY21, the amalgamated Indian Bank has reported PAT of Rs.1,296 crore as against loss of Rs.3,001 crore in 9MFY20. Supported by growth in both net interest income and non-interest income, the pre-provision profit witnessed improvement in 9MFY21 to Rs.8,847 crore from Rs.7,185 crore in 9MFY20. Furthermore, supported by relatively lower credit costs, the bank reported improvement in profitability with ROTA of 0.30%.
Integration status
The bank has recently completed the process of technical migration of Core Banking Solutions (CBS) of erstwhile Allahabad Bank with CBS of Indian Bank. As on December 31, 2020, total branches stood at 6,006 branches (6,062 branches as on June 30, 2020) as the bank has merged 167 branches. In addition, Indian Bank has also merged 12 currency chests, 5 service branches, 6 stressed asset management branches, 3 large corporate branches and 5 staff-training centres.

Liquidity: Adequate
During 9MFY21, Indian Bank maintained average HQLA of Rs.144,298 crore resulting in a liquidity coverage ratio of 168.66% as on December 31, 2020, well above the minimum LCR requirement of 90%. The bank has excess SLR investments of Rs.43,880.66 crore i.e. (8.9% of NDTL) as on January 31, 2021.

Analytical approach: Standalone. Factoring in GoI ownership.
Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Banks
Financial ratios – Financial sector
Criteria for Rating Basel III - Hybrid Capital Instruments issued by Banks
Factoring Linkages Government Support

About Indian Bank

Indian Bank was established on August 15, 1907, as a part of the Swadeshi movement. The Ministry of Finance (MoF), in consultation with Reserve Bank of India (RBI), decided that Indian Bank and Allahabad Bank may consider amalgamation of the Allahabad Bank into Indian Bank, on August 30, 2019, with Indian Bank being the anchor bank. Amalgamation of Allahabad Bank into Indian Bank came into effect on April 1, 2020. The amalgamation of Allahabad Bank into Indian Bank has placed Indian Bank as the seventh-largest bank with a total business of Rs.855,895 crore as on June 30, 2020 (Rs.910,894 crore as on December 31, 2020).

Post amalgamation, GoI's stake stood at 88.06% in the bank followed by HDFC Trustee Company Limited 1.91%, LIC 1.85% as on June 30, 2020. As on December 31, 2020, GoI continues to hold 88.06% stake in the bank. The bank had 6,003 branches as on December 31, 2020. The bank also has three overseas branches located at Singapore, Colombo and Jaffna. The bank has two subsidiaries, viz., Indbank Merchant Banking Services Ltd and Indbank Housing Ltd. and two joint ventures, namely, Universal Sompo General Insurance Co Ltd and ARSEC (India) Limited. As on December 31, 2020, the bank had net advances of Rs.362,817 crore and deposits of Rs.521,248 crore.

Brief Financials (Rs. crore)	**FY20***	**9MFY21(P)**
Total operating income	44,099	34,537
PAT	-4643	1,296
Total Assets	5,62,489	6,08,390
Net NPA (%)	4.19	2.35
ROTA (%)	-	0.30

**Combined Indian Bank and Allahabad Bank*

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Additional Tier I Perpetual Bonds (Basel III)	-	-	-	-	500.00	CARE AA; Stable
Proposed Tier II Bonds (Basel III)	-	-	-	-	1000.00	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Bonds-Tier II Bonds	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (18-Mar-21) 2)CARE AAA; Negative (30-Sep-20)	1)CARE AAA (CWD) (04-Oct-19) 2)CARE AAA (CWD) (11-Sep-19)	1)CARE AAA; Stable (11-Sep-18)
2.	Bonds-Tier I Bonds	LT	1000.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Mar-21) 2)CARE AA; Negative (30-Sep-20)	1)CARE AA+ (CWD) (04-Oct-19) 2)CARE AA+ (CWD) (11-Sep-19)	1)CARE AA+; Stable (11-Sep-18)
3.	Bonds-Infrastructure Bonds	LT	-	-	1)Withdrawn (01-Apr-21)	1)CARE AAA; Stable (18-Mar-21)	1)CARE AAA (CWD) (04-Oct-19)	1)CARE AAA; Stable (11-Sep-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
						2)CARE AAA; Negative (30-Sep-20)	2)CARE AAA (CWD) (11-Sep-19)	
4.	Bonds-Tier II Bonds	LT	600.00	CARE AAA; Stable	-	1)CARE AAA; Stable (18-Mar-21) 2)CARE AAA; Negative (30-Sep-20)	1)CARE AAA (CWD) (04-Oct-19) 2)CARE AAA (CWD) (11-Sep-19)	1)CARE AAA; Stable (28-Dec-18)
5.	Bonds-Tier II Bonds	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (18-Mar-21) 2)CARE AAA; Negative (30-Sep-20) 3)CARE AAA (CWD) (25-Aug-20)	-	-
6.	Bonds-Tier I Bonds	LT	2000.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Mar-21) 2)CARE AA; Negative (30-Sep-20) 3)CARE AA+ (CWD) (25-Aug-20)	-	-
7.	Bonds-Tier II Bonds	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (18-Mar-21) 2)CARE AAA; Negative (30-Sep-20)	-	-
8.	Bonds-Tier I Bonds	LT	500.00	CARE AA; Stable	-	-	-	-
9.	Bonds-Tier II Bonds	LT	1000.00	CARE AAA; Stable	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Tier I Bonds	Complex
2.	Bonds-Tier II Bonds	Simple

Note on complexity levels of the rated instrument: *CARE has 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.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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