Indian Overseas Bank

October 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II Bonds (Basel III) – I	665.00	CARE AA-; Positive	Reaffirmed; Outlook revised from Stable
Tier-II Bonds (Basel III) – II	1,000.00	CARE AA-; Positive	Reaffirmed; Outlook revised from Stable
Certificate of deposit	10,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1

Tier-II bonds under Basel-III are characterised by a 'point of non-viability' (PONV) trigger due to which the investor may suffer a loss of principal. The 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 the most appropriate way to prevent the bank from turning non-viable.

Rationale and key rating drivers

The ratings assigned to the debt instruments of Indian Overseas Bank (IOB) continue to factor-in the majority ownership by Government of India (GoI) and its demonstrated funding support. CARE Ratings Limited (CARE Ratings) expects continuation of the strong support by GoI.

The ratings also factor-in the long track record of operations with strong presence in south India, comfortable capitalisation levels, diversified advances book and deposit base with comfortable current account savings account (CASA).

The ratings are constrained by moderate asset quality despite improvement seen in gross non-performing assets (GNPA) and stressed assets position over the past few years. GNPA and net NPA (NNPA) improved from 9.82% and 2.65% as on March 31, 2022 to 7.44% and 1.83% as on March 31, 2023, and further improved to 7.13% and 1.44% as on June 30, 2023. Gross stressed assets (GNPA+Standard Restructured advances+Security receipts outstanding) as a % of gross advances stood 10.09% as on March 31, 2023 and 9.62% as on June 30, 2023. CARE Ratings notes that although the bank's earnings profile has seen considerable improvement in the last two years ended March 31, 2023, as against the earlier years, the level of profitability continues to be moderate.

Rating sensitivities: Factors likely to lead to rating actions

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

- Sustenance of profitability parameters.
- Improved asset quality parameters, with net stressed assets/tangible net worth (TNW) below 25% on a sustained basis.

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

- Significant change in GoI support or shareholding.
- Deterioration in asset quality, with NNPA of 5% or more on a sustained basis.

Analytical approach: Standalone, factoring in the expected support from the GoI.

Outlook: Positive

The revision in the outlook to 'Positive' reflects CARE Ratings' expectation that IOB will continue to sustain the improvement in asset quality and profitability. Profitability levels of the bank witnessed improvement over the last 3 years and the momentum is expected to continue in the medium term. The revision also factors in comfortable capitalisation levels which will aid in growth going forward. The outlook will be revised to Stable if the bank is not able to sustain the improvement in asset quality parameters.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key strengths

Majority ownership and support by GoI

IOB's credit profile mainly derives strength from the GoI ownership and its demonstrated support from the GoI in terms of capital infusion, management and governance. CARE Ratings expects the GoI to continue its support to the bank. The GoI has been supporting public sector banks (PSBs) with regular capital infusions, and has been taking steps to improve capitalisation and asset quality. During the period from FY16 (refers to the period April 01 to March 31) to FY21, the bank raised equity to the tune of ₹28,359 crore, of which ₹27,634 crore is being infused by the GoI. With continuous equity infusion, the shareholding of the GoI has increased from 73.80% as on March 31, 2015, to 96.38% as on March 31, 2023.

Diversified advances profile with a relatively high proportion of retail, agri and MSME in total advances

IOB reported growth in gross advances of 21.3% during FY23 with advances growing from ₹155,801 crore as on March 31, 2022, to ₹189,009 crore as on March 31, 2023 and further increased to ₹191,263 crore as on June 30, 2023. The retail, agri and MSME (RAM) advances continue to constitute the major portion of advances, forming 64.15% of the advances as on March 31, 2023 and 65.11% of the advances as on June 30, 2023. The share of corporate advances increased as on March 31, 2023 to 27.74% as compared with 24.50% as on March 31, 2022. As on March 31, 2023, RAM constituted 22.43%, 23.27%, and 18.44%, respectively. Exposure to the top 20 individual borrowers constituted about 141% of the net worth and 18.82% of the gross advances as on March 31, 2023. Notably, most of the top borrowers were government-owned entities and highly-rated corporate accounts. CARE Ratings expects the proportion of RAM to remain at similar levels in the medium term.

Strong deposit base with comfortable CASA proportion

The deposit base of IOB has been steadily growing over the years; however, there has been a marginal de-growth in FY23 to ₹260,883 crore as on March 31, 2023 as against ₹262,159 crore as on March 31, 2022. The deposits have seen a growth in Q1FY24 to ₹264,401 crore as on June 30, 2023. The CASA deposits remained stable comprising 43.7% as on March 31, 2023 as against 43.4% as on March 31, 2022. CASA deposits stood at 44.1% as on June 30, 2023. Bulk term deposits and overseas term deposits have witnessed growth during the year. The proportion of bulk term deposits has increased from 2.92% as on March 31, 2022 to 4.57% of the total deposits as on March 31, 2023 and 5.04% as on June 30, 2023.

Comfortable capitalisation levels

The bank was placed under prompt corrective action (PCA) in October 2015, considering the high NNPA and loss reported during FY15. After the bank was placed into the PCA framework, it has been continuously raising equity, mainly from the GoI, to bring back capital adequacy levels above the regulatory requirement. In September 2021, the bank was moved out of the PCA framework. The capital adequacy ratio (CAR) and Tier-I stood at 13.83% and 10.71%, as on March 31, 2022. Furthermore, the bank raised ₹1,000 crore via Tier-II Bonds (Basel-III) issue and the capitalisation levels improved with total CAR and Tier-I CAR at 16.10% and 12.88%, respectively, as on March 31, 2023 and 16.56% and 13.34%, respectively, as on June 30, 2023 as against the regulatory requirement of 11.5% and 9.50%, respectively. Furthermore, the bank has raised ₹4,100 crore equity from GoI in the form of zero coupon bonds during FY21 and unwinding of the same every year would also improve CAR gradually.

Key weaknesses

Moderate asset quality parameters albeit improvement witnessed

The bank's asset quality parameters have witnessed improvement during FY23 with the GNPA improving from 9.82% as on March 31, 2022, to 7.44% as on March 31, 2023. NNPA improved to 1.83% as on March 31, 2023 as against 2.65% as on March 31, 2022. CARE Ratings notes that the bank has written-off a portfolio amounting to ₹3,413 crore and sold a portfolio to ARC amounting to ₹11 crore during FY23 and has SR outstanding of ₹506 crore as on March 31, 2023. The slippage ratio has improved to 3.18% in FY23 as against 4.16% in FY22. GNPA and NNPA further improved and stood at 7.13% and 1.44% as on June 30, 2023.

The bank's provision coverage ratio (including technically written off accounts) also stood healthy at 92.63% as on March 31, 2023, as against 91.66% as on March 31, 2022. The gross stressed assets position of the bank (GNPA+ Standard restructured assets+ Security Receipts) as a percentage of gross advances also witnessed improvement from 15.39% as on March 31, 2022 to 10.09% as on March 31, 2023. Gross stressed assets as a percentage of gross advances stood at 9.62% as on June 30, 2023. Net stressed assets as a percentage of the net worth stood at 34.74% as on March 31, 2023 (58.16% as on March 31, 2022).

Improvement in profitability levels during FY23

The bank's net interest margin (NIM) has improved from 2.22% in FY22 to 2.72% in FY23. The net interest income (NII) has witnessed increase to ₹8,255 crore in FY23 as against ₹6,311 crore during FY22, in line with the increase in the loan portfolio. However, non-interest income witnessed a decline from ₹4,903 crore in FY22 to ₹4,109 during FY23, which is mainly because of the decrease in profit on sale of investments. CARE Ratings notes that the recovery from technically written-off accounts stood at ₹1,711 crore in FY23 as against ₹1,757 in FY22.

The bank's operational expenses increased to 2.11% in FY23 as against 1.92% in FY22. Furthermore, the bank's credit cost also stood lower at 1.18% in FY23 as against 1.40% in FY22 with an improvement in asset quality parameters. Consequently, the bank's ROTA witnessed improvement to 0.69% in FY23 as against 0.60% in FY22. The bank's ability to improve asset quality by limiting credit cost, thereby protecting the earnings profile, will be a key rating monitorable. NIM improvement is also led by improvement in the credit deposit (CD) ratio. The CD ratio (net advances/ deposits) stood improved at 68% as on March 31, 2023, as against 55% as on March 31, 2022, aided by healthy loan book growth during FY23. During Q1FY24, IOB reported a profit after tax (PAT) of ₹500 crore on a total income of ₹6,227 crore as against a PAT of ₹392 crore on a total income of ₹5,028 crore during Q1FY23. CARE Ratings expects the bank to sustain the profitability levels in the medium term, with credit costs remaining moderate in line with the industry.

Liquidity: Strong

The liquidity profile of the bank remains strong, with no cumulative negative mismatches upto one year as per the asset and liability management (ALM) statement submitted by the bank as on June 30, 2023. The liquidity coverage ratio of the bank remained comfortable at 168% as on June 30, 2023, as against the regulatory requirement of 100%. In addition, the bank had excess statutory liquidity ratio (SLR) investments of ₹15,854 crore as on June 30, 2023.

Environment, social, and governance (ESG) risks

The bank believes in fair treatment of not only its customers but also all its value chain partners. The bank has in place anti-corruption anti-bribery policy, whistle blower policy as well as grievance redressal policy. A strong emphasis on ethical behaviour will help the bank to retain its existing customers as well as gain new-to-bank customers.

The bank has put in place several data security measures to minimise the risk of data breaches and other cyber security issues. It recognises its responsibility as a leading PSB to identify and mitigate systemic risk resulting from the interconnectedness of the economy. These risks could be financial, technological or a result of climate change. The bank has put in place stress testing system which helps in timely identification and mitigation of systemic risks.

The bank has taken several ESG initiatives like launching green loan facilities for E-Bike/Car (IOB Vehicle), renewable solar equipment and wind mills. It has also taken several initiatives for paperless banking like online account opening with video KYC, electronic bank guarantee and national & cross-border payment system with Bhim UPI. The bank has also launched special credit products for women. It has taken several initiatives for improving the financial literacy and improving access to credit for women borrowers and digitising the products and processes. The bank believes in effective monitoring, improved compliance with regulations & guidelines and effective customer complaints.

Applicable criteria

Policy on default recognition
Factoring Linkages Government Support
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Rating Basel III - Hybrid Capital Instruments issued by Banks
Bank
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Public Sector Bank

IOB was founded by M. Ct. M. Chidambaram Chettiyar during 1937 and was nationalised by GoI in 1969. Currently, IOB is one of the 12 PSBs in India. As on March 31, 2023, GoI holds 96.38% in IOB followed by institutional investors, public and others.

As on March 31, 2023, IOB was operating in India through 3,220 branches, 3,477 ATMs and 3,190 Business Correspondence (BC) relationships. The bank also has presence in overseas countries through four branches, namely, Singapore, Hong Kong, Colombo and Bangkok. As on March 31, 2023, IOB has a total business (Deposits + Advances) of ₹449,892 crore through its domestic (3220 branches) and overseas presence (four countries).

IOB has two joint ventures (JVs), namely, Universal Sompo General Insurance Company Limited (USGI) with equity participation of 18%, and Indian International Bank (Malaysia), Berhad, with equity participation of 35%. In addition, the bank is also a sponsor for an RRB, Odisha Gramya Bank (35% shareholding).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	21,633	23,509	6,227
PAT	1,710	2,099	500
Total assets*	296,628	310,993	315,050
Net NPA (%)	2.65	1.83	1.44
ROTA (%)	0.60	0.69	0.64

A: Audited UA: Unaudited; Note: The above results are the latest financial results available
*Total assets adjusted for revaluation reserve.

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Tier-II Bonds (Basel III)-I	INE565A08043	31-03-2022	8.60%	31-03-2032	665.00	CARE AA-; Positive
Tier-II Bonds (Basel III)-II	INE565A08050	24-03-2023	9.00%	24-03-2033	1000.00	CARE AA-; Positive
Certificate Of deposit	-	-	-	7 days to 1 year	10000.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds-Tier-II Bonds	LT	665.00	CARE AA-; Positive	1)CARE AA-; Stable (10-Aug-23)	1)CARE AA-; Stable (16-Dec-22)	1)CARE AA-; Stable (08-Mar-22)	-
2	Bonds-Tier-II Bonds	LT	1000.00	CARE AA-; Positive	1)CARE AA-; Stable (10-Aug-23)	1)CARE AA-; Stable (16-Dec-22)	-	-
3	Certificate Of deposit	ST	10000.00	CARE A1+	1)CARE A1+ (10-Aug-23)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities : NA

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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