Indian Bank

November 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Additional Tier-I perpetual bonds (Basel III)[@] - I	500.00	CARE AA+; Stable	Reaffirmed
Additional Tier-I perpetual bonds (Basel III)[@] - II	2,000.00	CARE AA+; Stable	Reaffirmed
Additional Tier-I perpetual bonds (Basel III)[@] - III	500.00	CARE AA+; Stable	Reaffirmed
Tier-II bonds (Basel III)[#] - II	600.00	CARE AAA; Stable	Reaffirmed
Tier-II bonds (Basel III)[#] - III	2,000.00	CARE AAA; Stable	Reaffirmed
Tier-II bonds (Basel III)[#] - IV	1,000.00[$]	CARE AAA; Stable	Reaffirmed
Tier-II bonds (Basel III)[#] - V	1,000.00	CARE AAA; Stable	Reaffirmed
Tier-II bonds (Basel III)[#] - VI	1,500.00	CARE AAA; Stable	Reaffirmed
Tier-II bonds (Basel III)[#] - I	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

$-Transferred from erstwhile Allahabad Bank pursuant to its amalgamation with Indian Bank.

[#]Tier-II bonds under Basel III are characterised 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 Ratings Limited's (CARE Ratings') 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 Ratings has rated the Tier-II bonds under Basel III after factoring in the additional feature of PONV.

[@]CARE Ratings 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 Ratings' definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with the conventional subordinated debt instruments.

Rationale and key rating drivers

The ratings of various debt instruments of Indian Bank (IB) continue to derive strength from majority ownership by the Government of India (GoI), the bank's strong capital adequacy level, stable growth in advances, and the diversified resource profile with a relatively higher proportion of low-cost deposits. The ratings also take note of the improvement in the profitability during FY23 (refers to the period from April 01 to March 31) and H1FY24 (refers to the period from April 01 to September 30). IB is one of the largest public sector banks (PSB) with more than ₹10.94 lakh crore business and an over 5,787 branch network

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

as on March 31, 2023 with a strong current account saving accounts (CASA) base. The ratings are, however, constrained by moderate asset quality indicators albeit showing improvement in FY23 and H1FY24.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the Tier-II Bonds (Basel III)-I of IB with immediate effect, as the company has exercised its call option and there is no amount outstanding under the said issue.

Rating sensitivities: Factors likely to lead to rating actions

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

- Not applicable

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

- Reduction in government support and GoI's stake in the bank falling below 51%.
- Deterioration in capitalisation levels on a sustained basis and the inability to maintain cushion of 1% over the regulatory requirement.
- Deterioration in the asset quality parameters, with net non-performing assets (NNPA)-to-net worth ratio of over 30% on a sustained basis.
- Decline in profitability on a sustained basis.

Analytical approach: Standalone, along with expected support from the GoI.

Outlook: Stable
The stable outlook factors in the majority government shareholding in the bank and the bank is expected to maintain stable growth in advances over the medium term while maintaining healthy capitalisation.

Detailed description of the key rating drivers:

Key strengths

Majority ownership by Government of India:
The GoI made a total infusion of ₹16,427 crore in the IB (including infusion in Allahabad Bank) over the two years ended March 31, 2021. During FY22, IB raised equity aggregating to ₹1,650 crore by way of qualified institutional placement (QIP). GoI's shareholding stood at 79.86% as on March 31, 2023 with remaining shares held by mutual funds, financial institutions, etc. CARE Ratings expects IB to continue to receive support from GoI considering the majority shareholding and importance of IB being one of the large-sized banks in India.

Stable growth in advances with focus on retail, agriculture and MSME
IB has witnessed continuous growth in advances in the past four years ended March 31, 2023, largely supported by retail, agriculture and MSME (RAM) segment. The bank's total business stood at ₹1,094,752 crore as on March 31, 2023 as against ₹1,009,243 crore as on March 31, 2022. The total advances increased to ₹473,586 crore as on March 31, 2023 as against ₹415,625 crore as on March 31, 2022, representing a growth of 14% (Y-o-Y).
As on March 31, 2023, RAM sector advances stood at 58% of gross advances aggregating to ₹272,679 crore representing a growth of 12% (y-o-y), whereas corporate and overseas advances stood at 42% of the gross advances.
As on September 30, 2023, RAM sector advances stood at 58% of gross advances, and the share of corporate and overseas advances stood at 42% of gross advances as on September 30, 2023.

Resource profile characterised by relatively higher proportion of low cost deposits
The CASA deposits of IB stood at 41.99% as on March 31, 2023 (41.77% as on March 31, 2022), translating into a growth of 5% y-o-y. Term deposits grew by 4% in FY23 and stood at ₹360,357 crore as on March 31, 2023 as against ₹345,692 crore as on March 31, 2022. In FY23, the total deposits witnessed a growth of 5% y-o-y and stood at ₹621,166 crore as on March 31, 2023, as against ₹593,618 crore as on March 31, 2022. The CASA ratio stood at 40.11% as on September 30, 2023.

Relatively strong capital adequacy levels

IB is among the well-capitalised public sector banks as on March 31, 2023. Total capital adequacy ratio (CAR) of the bank stood at 16.49% as on March 31, 2023 as against 16.53% as on March 31, 2022.

CAR declined to 15.53% as on September 30, 2023 without considering the interim profits for the calculation of CAR. CET 1 also continues to be relatively strong at 12.07% as on September 30, 2023 (12.89% as on March 31, 2023). CARE Ratings expects the capital adequacy to remain comfortable in the medium term.

Improvement in profitability

During FY23, IB reported profit after tax (PAT) of ₹5,282 crore as against PAT of ₹3,945 crore in FY22. The net interest margins (NIM) improved during FY23 from 2.60% in FY22 to 2.95% in FY23 majorly due to relatively higher increase in yield than cost of funds. Non-interest income (as a % of total assets) declined to 1.04% in FY23 from 1.08% in FY22.

Operating expenses (as a % of assets) stood at 1.77% (PY: 1.70%). Cost to income improved to 44.20% in FY23 from 46.21% in FY22. The Bank reported improvement in PPOP, which stood at ₹15,271 crore in FY23 from ₹12,217 crore in FY22.

The credit cost improved to 1.48% in FY23 from 1.55% in FY22 on account of higher recoveries and lower slippages. ROTA improved to 0.77% in FY23 as against 0.61% in FY22.

During H1FY24, the bank reported PAT of ₹3,697 crore as against PAT of ₹2,439 crore in H1FY23. ROTA stood at 1.02% (0.73% in PY).

Key weaknesses

Moderate asset quality; improvement seen in FY23 and H1FY24

The bank's asset quality has considerably improved in FY23 on account of higher recoveries as well as write-offs.

GNPA and NNPA stood at 5.95% and 0.90% as on March 31, 2023, respectively, as against 8.47% and 2.27%, respectively, as on March 31, 2022. The slippage ratio improved to 1.75% in FY23 as against 2.79% in FY22. With lower slippages and continuation of good recoveries and write-offs during FY23, the asset quality parameters improved. As on September 30, 2023, asset quality further improved as GNPA and NNPA stood at 4.97% and 0.60%. Provision coverage ratio (PCR) stood at 85.65% as on March 31, 2023 (88.46% as on September 30, 2023). PCR% (including TWO) stood at 93.82% as on March 31, 2023 (87.38% as on March 31, 2022).

Gross stressed asset (GNPA + standard restructured assets + SR) improved and stood at 9.36% as on March 31, 2023, as against 13.96% as on March 31, 2022. The bank's ability to control slippages and maintain asset quality will remain key monitorable.

Liquidity: Strong

As per the structural liquidity statement of the bank as on September 30, 2023, the bank has no negative cumulative mismatches across all its time buckets up to 3-5 years. The bank has maintained excess SLR stood of ₹51,018 crore as on March 31, 2023. These factors provide cushion to the bank's liquidity profile. IB's liquidity coverage ratio stood at 148% as on September 30, 2023 (176% as on March 31, 2023) against the minimum regulatory requirement of 100%. In addition, the bank has access to borrowing from the RBI's liquidity adjustment facility (LAF) and marginal standing facility (MSF) along with an option to refinance from the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), the National Bank for Agriculture and Rural Development (NABARD), etc, and access to call money markets. Furthermore, considering the stable franchise of the bank, it is expected to roll over its deposits.

Environment, social, and governance (ESG) risks

Environment: The bank has undertaken several environmental-friendly initiatives to promote sustainability. This includes a green deposits policy to incentivise ecofriendly investments, providing finance to green energy projects as well as upgraded infrastructure for efficient power usage across its branches.

In terms of social factors, the bank focusses on financial inclusion by way of micro credits, promotes gender diversity and female participation as well as focuses on well-being of vulnerable groups.

In terms of governance factors, the bank focusses on prioritising risk management practices, giving importance to transparency and adherence to regulatory compliance.

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE Ratings' policy on Default Recognition
Financial ratios – Financial sector
CARE Ratings' rating methodology for banks
Rating Basel-III – Hybrid capital instruments issued by banks
Policy on Withdrawal of Ratings
Factoring Linkages Government Support

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Banks	Public sector bank

IB was established on August 15, 1907, as a part of the Swadeshi movement. Effective from April 1, 2020, Allahabad Bank was amalgamated with IB, which is the sixth-largest PSB with a total business of ₹11.33 lakh crore as on September 30, 2023, as against ₹10.27 lakh crore as on September 30, 2022. GoI is the majority shareholder holding 79.86% stake in the bank as on September 30, 2023.

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. It also has two joint venture, namely, Universal Sompo General Insurance Co Ltd and ASREC (India) Ltd. In addition, the bank is also the sponsor for three RRBs, namely, Tamil Nadu Grama Bank (TNGB), Saptagiri Grameena Bank, and Puduvai Bharathiar Grama Bank. As on September 30, 2023, the bank had net advances of ₹492,288 crore and deposits of ₹640,803 crore.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	45,772	52,085	24,296
PAT	3,945	5,282	2,439
Interest coverage (times)	0.12	0.14	0.24
Total assets	665,457	704,394	673,256
Net NPA (%)	2.27	0.90	0.60
ROTA (%)	0.61	0.77	1.02

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of 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	INE562A08024	October 30, 2018	8.90%	October 30, 2028	0.00	Withdrawn
Tier-II bonds (Basel III)-I	INE562A08032	November 6, 2018	8.85%	November 6, 2028	0.00	Withdrawn
Tier-II bonds (Basel III)-II	INE562A08040	January 22, 2019	8.53%	January 22, 2029	600.00	CARE AAA; Stable
Tier-II bonds (Basel III)-III	INE562A08081	January 13, 2021	6.18%	January 13, 2031	2000.00	CARE AAA; Stable
Tier-II bonds (Basel III)-IV	INE428A08051	January 25, 2017	8.15%	January 25, 2027	1000.00	CARE AAA; Stable

Proposed additional Tier-I Perpetual bonds (Basel III)-I	-	-	-	-	500.00	CARE AA+; Stable
Additional Tier-I Perpetual bonds (Basel III)-II	INE562A08057	December 8, 2020	8.44%	Perpetual	1048.00	CARE AA+; Stable
Additional Tier-I Perpetual bonds (Basel III)-II	INE562A08065	December 14, 2020	8.44%	Perpetual	560.00	CARE AA+; Stable
Additional Tier-I Perpetual bonds (Basel III)-II	INE562A08073	December 30, 2020	8.44%	Perpetual	392.00	CARE AA+; Stable
Proposed additional Tier-I Perpetual bonds (Basel III)-III	-	-	-	-	500.00	CARE AA+; Stable
Proposed Tier-II bonds (Basel III)-V	-	-	-	-	1000.00	CARE AAA; Stable
Tier-II bonds (Basel III)-VI	INE428A08028	January 20, 2015	8.78%	January 20, 2025	500.00	CARE AAA; Stable
Tier-II bonds (Basel III)-VI	INE428A08044	December 21, 2015	8.64%	December 21, 2025	1,000.00	CARE AAA; Stable

Annexure-2: Rating history for the last three years

4	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	-	-	-	1)CARE AAA; Stable (23-Nov-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (30-Aug-21)	1)CARE AAA; Stable (18-Mar-21) 2)CARE AAA; Negative (30-Sep-20)
2	Bonds-Tier-I bonds	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (23-Nov-22)	1)CARE AA+; Stable (24-Nov-21) 2)CARE AA; Stable (30-Aug-21)	1)CARE AA; Stable (18-Mar-21) 2)CARE AA; Negative (30-Sep-20)
3	Bonds-Infrastructure bonds	LT	-	-	-	-	1)Withdrawn (01-Apr-21)	1)CARE AAA; Stable (18-Mar-21) 2)CARE AAA; Negative

								(30-Sep-20)
4	Bonds-Tier-II bonds	LT	600.00	CARE AAA; Stable	-	1)CARE AAA; Stable (23-Nov-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (30-Aug-21)	1)CARE AAA; Stable (18-Mar-21) 2)CARE AAA; Negative (30-Sep-20)
5	Bonds-Tier-II bonds	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (23-Nov-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (30-Aug-21)	1)CARE AAA; Stable (18-Mar-21) 2)CARE AAA; Negative (30-Sep-20) 3)CARE AAA (CW with Developing Implications) (25-Aug-20)
6	Bonds-Tier-I bonds	LT	2000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (23-Nov-22)	1)CARE AA+; Stable (24-Nov-21) 2)CARE AA; Stable (30-Aug-21)	1)CARE AA; Stable (18-Mar-21) 2)CARE AA; Negative (30-Sep-20) 3)CARE AA+ (CW with Developing Implications) (25-Aug-20)
7	Bonds-Tier-II bonds	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (23-Nov-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (30-Aug-21)	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	-	1)CARE AA+; Stable (23-Nov-22)	1)CARE AA+; Stable (24-Nov-21) 2)CARE AA; Stable (30-Aug-21) 3)CARE AA; Stable (11-May-21)	-

9	Bonds-Tier-II bonds	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (23-Nov-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (30-Aug-21) 3)CARE AAA; Stable (11-May-21)	-
10	Bonds-Tier-II bonds	LT	1500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (23-Nov-22)	-	-

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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