

Indian Bank

November 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Additional Tier-I Perpetual Bonds (Basel III) [@]	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Additional Tier-I Perpetual Bonds (Basel III) [@]	2,000.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Additional Tier-I Perpetual Bonds (Basel III) [@]	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Tier-II Bonds (Basel III) [#]	400.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier-II Bonds (Basel III) [#]	600.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier-II Bonds (Basel III) [#]	2,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier-II Bonds (Basel III) [#]	1,000.00 ^{\$}	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier-II Bonds (Basel III) [#]	1,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier-II Bonds (Basel III) [#]	1,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Total long-term instruments	9,500.00 (₹ Nine thousand five hundred crore only)		

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 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 (CET-I) capital of the bank should be considered 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 the 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 the 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 the availability of sufficient revenue reserves and/or credit balance in the profit and loss account provided the bank meets the minimum regulatory requirements for CET-I, Tier-I, and total capital ratios at all times and subject to the requirements of capital buffer frameworks as prescribed by the 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 the occurrence of a trigger event called PONV. The PONV trigger will be determined by the RBI.
- Any delay in the payment of interest or principal (as the case may be) due to the invocation of any of the features mentioned above will constitute 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.

Detailed rationale and key rating drivers

The ratings of Indian Bank continue to derive strength from majority ownership by the Government of India (GoI), the bank's strong capital adequacy level, 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 FY22 (refers to the period from April 01 to March 31) and H1FY23 (refers to the period from April 01 to September 30). The Indian Bank is the sixth-largest public sector bank (PSB) with

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

more than ₹10.09 lakh crore businesses, a 39,803 strong work-force, and an over 5,735 branch network with a strong current account saving accounts (CASA) base. The ratings are, however, constrained by the improved, albeit moderate asset quality indicators.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade

- Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade

- Decline in the capitalisation levels below 12.5% on a sustained basis.
- Deterioration in the asset quality with net non-performing assets (NNPA) of more than 5.5% on a sustained basis.
- Decline in profits on a sustained basis.
- Reduction in government support and the GoI's stake in the bank falling below 51%.

Detailed description of the key rating drivers

Key rating strengths

Majority ownership by the GoI: The GoI made a total infusion of ₹16,427 crore in the Indian Bank (including infusion in Allahabad Bank) over the two years ended March 31, 2021. During H1FY22, Indian Bank raised equity aggregating to ₹1,650 crore by way of qualified institutional placements (QIPs); consequently, the GoI's shareholding reduced to 79.86% as on September 30, 2022, from 88.06% as on March 31, 2021. CARE Ratings expects Indian Bank to continue to receive support from the GoI, considering the majority shareholding and the importance of Indian Bank being one of the large-sized banks in India.

Stable growth in advances with a focus on the RAM segment: Indian Bank has witnessed continuous growth in advances in the last three years ended March 31, 2022, largely supported by the retail, agriculture, and micro, small and medium enterprise (MSME) (RAM) segment. The bank's total business stood at ₹1,009,242 as on March 31, 2022, as against ₹928,388 crore as on March 31, 2021. The total advances represented a growth of 6% (y-o-y) and stood at ₹415,625 crore as on March 31, 2022, as against ₹390,317 crore as on March 31, 2021, whereas the RAM segment grew at 11% during FY22.

As on March 31, 2022, advances of the RAM segment stood at 58% of the gross advances, aggregating to ₹242,700 crore (PY: ₹218,942 crore), whereas corporate and overseas advances stood at 42% of the gross advances, aggregating to ₹172,925 crore. As on September 30, 2022, the RAM segment advances stood at 58% of the gross advances.

Resource profile characterised by a relatively higher proportion of low-cost deposits: Post amalgamation with benefits of the high CASA ratio of Allahabad Bank, the CASA deposits of the amalgamated entity increased to 42% as on March 31, 2021 (41% as on March 31, 2020). The CASA deposits remained stable at 42% as on March 31, 2022, representing a growth rate of 9% y-o-y. Term deposits grew by 11% in FY22 and stood at ₹345,691 crore as against ₹310,476 crore as on March 31, 2021. In FY22, total deposits witnessed a growth of 10% y-o-y and stood at ₹593,617 crore as on March 31, 2022 (₹538,071 crore as on March 31, 2021). The CASA ratio stood at 41% as on September 30, 2022.

Relatively strong capital adequacy levels: Indian Bank is among the well-capitalised PSBs as on March 31, 2022. The total capital adequacy ratio (CAR) of the bank stood at 16.53% as on March 31, 2022, as against 15.71% as on March 31, 2021. During H1FY22, the bank had raised ₹1,650 crore by way of QIPs, thus resulting in further strengthening of the capital adequacy during FY22. The total CAR stood at 16.15% as on September 30, 2022. The CET-I also continues to be relatively strong, at 12.26% as on September 30, 2022 (12.53% as on March 31, 2022).

Improvement in profitability in FY22: During FY22, Indian Bank reported a profit-after-tax (PAT) of ₹3,945 crore as against ₹3,005 crore in FY21. Supported by growth in non-interest income and improvement in operating expenses, the pre-provision profit witnessed improvement in FY22 to ₹12,717 crore from ₹11,396 crore in FY21. Non-interest income increased from ₹6,079 crore in FY21 to ₹6,915 crore in FY22, mainly due to an improvement in recovery of bad debts during FY22 with fee income remaining consistent. However, notwithstanding the increase in credit cost on account of higher provisions on non-performing assets (NPA), the bank reported an improvement in profitability with return on total assets (ROTA) of 0.61% in FY22 as against ROTA of ₹0.51% in FY21. The improvement in ROTA was also supported by tax reversal in FY22.

Indian Bank reported a PAT of ₹2,439 crore in H1FY23 as against ₹2,271 crore in H1FY22. Supported by improvement in the net interest margins and improvement in operating expenses, the pre-provision profit witnessed improvement in H1FY23. There was an improvement in credit costs from 1.62% in H1FY22 to 1.28% in H1FY23, which resulted in an improvement in ROTA from 0.72% to 0.73% during H1FY23.

Key rating weaknesses

Moderate asset quality: The bank's asset quality continues to remain moderate, albeit improved during FY21 and FY22. On account of improved recoveries and higher write-offs, the asset quality witnessed improvement in FY22. The gross NPA (GNPA) and NNPA stood at 8.47% and 2.27%, respectively, as on March 31, 2022, as against 9.85% and 3.37%, respectively, as on March 31, 2021. During H1FY22, the asset quality witnessed further improvement on account of relatively lower slippages and reductions, including write offs, thus the GNPA and NNPA stood at 7.30% and 1.50%, respectively, as on September 30, 2022. The slippage ratio stood at 2.79% in FY22 as against 2.80% in FY21. However, the slippage ratio improved to 2.29% (annualised) in H1FY23. The moderation in the gross NPA is attributable to a significant reduction of fresh slippages on account of the restructuring framework and additional credit lines offered under various schemes and higher write-offs during FY22. The provision coverage ratio (including two technical write-offs) stood at 87.38% as on March 31, 2022, as against 82.12% as on March 31, 2021 (91.08% as on September 30, 2022).

The restructured portfolio under the COVID-19 resolution framework 1.0 and 2.0 stood at ₹18,422 crore, ie, around 4% of the gross advances as on March 31, 2022 (₹16,060 crore, ie, around 4% on the gross advances as on September 30, 2022). The gross stressed assets (GNPA + standard restructured assets + SR) stood at 13.96% of the gross advances as on March 31, 2022, as against 12.37% as on March 31, 2021. The net stressed assets (as a percentage of the net worth) stood at 70.65% as on March 31, 2022, as against 67.64% as on March 31, 2021. The bank also has outstanding Emergency Credit Line Guarantee Scheme (ECLGS) loans aggregating to around ₹8,983 crore as on March 31, 2022 (2.16% of gross advances). The bank's ability to control slippages from the restructured book and maintain asset quality will remain a key monitorable.

Liquidity: Strong

As per the structural liquidity statement of the bank as on September 30, 2022, the bank has no negative cumulative mismatches across all its time buckets up to three to five years. The liquidity coverage ratio (LCR) as on September 30, 2022, stood at 176% against the minimum regulatory requirement of 100% (181% as on March 31, 2022). Also, the bank had excess statutory liquidity ratio (SLR) holdings of ₹76,469 crore as on March 31, 2022. 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.

Analytical approach

Standalone, along with expected support from the GoI.

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](#)

[Factoring Linkages Government Support](#)

About Indian Bank

Indian Bank was established on August 15, 1907, as a part of the Swadeshi movement. The amalgamation of Allahabad Bank into Indian Bank has placed Indian Bank as the sixth-largest PSB with a total business of ₹1,026,801 crore as on September 30, 2022, as against ₹937,202 crore as on September 30, 2021 (₹1,009,242 crore as on March 31, 2022).

Indian Bank raised capital in H1FY22 through QIPs. The GoI's stake stood at 79.86% as on September 30, 2022. 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 (JVs), namely, Universal Sompo General Insurance Co Ltd and ARSEC (India) Limited. As on September 30, 2022, the bank had gross advances of ₹437,941 crore and deposits of ₹588,860 crore.

Brief Financials (₹ crore)	FY21 (A)	FY22(A)	H1FY23(P)
TOI	45,185	45,772	24,296
PAT	3,005	3,945	2,439
Total assets	6,20,250	665,457	673,256
Net NPA (%)	3.37	2.27	1.50
ROTA (%)	0.51	0.61	0.73

A: Audited; P: Provisional.

Total assets exclude deferred tax assets and are net of revaluation reserve.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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 for this company: Annexure-4

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	290	CARE AAA; Stable
Tier-II Bonds (Basel III)-I	INE562A08032	November 6, 2018	8.85%	November 6, 2028	110	CARE AAA; Stable
Tier-II Bonds (Basel III)-II	INE562A08040	January 22, 2019	8.53%	January 22, 2029	600	CARE AAA; Stable
Tier-II Bonds (Basel III)-III	INE562A08081	January 13, 2021	6.18%	January 13, 2031	2000	CARE AAA; Stable
Tier-II Bonds (Basel III)-IV	INE428A08051	January 25, 2017	8.15%	January 25, 2027	1000	CARE AAA; Stable
Proposed Additional Tier-I Perpetual Bonds (Basel III)-I	-	-	-	-	500	CARE AA+; Stable
Additional Tier-I Perpetual Bonds (Basel III)-II	INE562A08057	December 8, 2020	8.44%	Perpetual	1048	CARE AA+; Stable
Additional Tier-I Perpetual Bonds (Basel III)-II	INE562A08065	December 14, 2020	8.44%	Perpetual	560	CARE AA+; Stable
Additional Tier-I Perpetual Bonds (Basel III)-II	INE562A08073	December 30, 2020	8.44%	Perpetual	392	CARE AA+; Stable
Proposed Additional Tier-I Perpetual Bonds (Basel III)-III	-	-	-	-	500	CARE AA+; Stable
Proposed Tier-II Bonds (Basel III)-V	-	-	-	-	1000	CARE AAA; Stable

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)-VI	INE428A08028	January 20, 2015	8.78%	January 20, 2025	500	CARE AAA; Stable
Tier-II Bonds (Basel III)-VI	INE428A08044	December 21, 2015	8.64%	December 20, 2025	1,000	CARE AAA; Stable

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds-Tier-II Bonds	LT	400.00	CARE AAA; Stable	-	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)	1)CARE AAA (CWD) (04-Oct-19) 2)CARE AAA (CWD) (11-Sep-19)
2	Bonds-Tier-I Bonds	LT	500.00	CARE AA+; Stable	-	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)	1)CARE AA+ (CWD) (04-Oct-19) 2)CARE AA+ (CWD) (11-Sep-19)
3	Bonds-Infrastructure Bonds	LT	-	-	-	1)Withdrawn (01-Apr-21)	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)
4	Bonds-Tier-II Bonds	LT	600.00	CARE AAA; Stable	-	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)	1)CARE AAA (CWD) (04-Oct-19) 2)CARE AAA (CWD) (11-Sep-19)
5	Bonds-Tier-II Bonds	LT	2000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA;	1)CARE AAA; Stable (18-Mar-21)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
						Stable (30-Aug-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 (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+ (CWD) (25-Aug-20)	-
7	Bonds-Tier-II Bonds	LT	1000.00	CARE AAA; Stable	-	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 (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 (24-Nov-21) 2)CARE AAA; Stable (30-Aug-21) 3)CARE AAA; Stable (11-May-21)	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
10	Bonds-Tier-II Bonds	LT	1500.00	CARE AAA; Stable				

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
Non-financial covenants	
Conditions for exercise of call option	The issuer may at its sole discretion, subject to above conditions for call having been satisfied and having notified the trustee not less than 21 calendar days prior to the date of exercise of such issuer call may exercise a call on the outstanding bonds. The issuer call, which is discretionary, may or may not be exercised on the fifth anniversary from the deemed date of allotment, ie, the fifth coupon, or on coupon payment date thereafter.

Annexure-4: Complexity level of the various instruments rated for this company

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

Annexure-5: Bank lender details for this company

Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings Ltd 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:

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