

## Indian Bank

### November 24, 2021

#### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Tier II Bonds (Basel III) #	400	<b>CARE AAA; Stable (Triple A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Additional Tier I Perpetual Bonds (Basel III) @	500	<b>CARE AA+; Stable (Double A Plus; Outlook: Stable)</b>	<b>Revised from CARE AA; Stable (Double A; Outlook: Stable)</b>
Tier II Bonds (Basel III) #	600	<b>CARE AAA; Stable (Triple A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Tier II Bonds (Basel III) #	2,000	<b>CARE AAA; Stable (Triple A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Additional Tier I Perpetual Bonds (Basel III) @	2,000	<b>CARE AA+; Stable (Double A Plus; Outlook: Stable)</b>	<b>Revised from CARE AA; Stable (Double A; Outlook: Stable)</b>
Tier II Bonds (Basel III) #	1,000\$	<b>CARE AAA; Stable (Triple A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Tier II Bonds (Basel III) #	1,000	<b>CARE AAA; Stable (Triple A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Additional Tier I Perpetual Bonds (Basel III) @	500	<b>CARE AA+; Stable (Double A Plus; Outlook: Stable)</b>	<b>Revised from CARE AA; Stable (Double A; Outlook: Stable)</b>
<b>Total</b>	<b>8,000 (Rs. Eight thousand crore only)</b>		

<sup>#</sup>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 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.

<sup>@</sup>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.

#### Detailed Rationale & Key Rating Drivers

The amalgamation of Allahabad Bank into Indian Bank w.e.f. April 1, 2020, has placed Indian Bank as the seventh-largest bank with more than Rs.9.28 lakh crore businesses, 42,000 strong work-force and over 6,000 branch network with a strong current account saving accounts (CASA) base. 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, improved resource profile with relatively higher proportion

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

of low-cost deposits and comfortable liquidity. The ratings also take note of the improvement in profitability during FY21 (refers to the period April 01 to March 31) and H1FY22 (refers to the period April 01 to September 30).

As per CARE Ratings' (CARE) criteria for rating of hybrid instruments issued by banks, CARE has been notching down the Additional Tier I (AT I) Bonds issued by the banks by one to several notches below the Tier II Bond rating depending on the expected adequacy of eligible reserves, cushion over minimum regulatory capital and other credit risk assessment parameters of the individual bank to factor in the additional risk in these instruments on account of several unique features of these instruments including loss absorption features and coupon discretion clause which make them very different from other types of debt instruments.

For public sector banks (PSB), the current ratings factor in government support. The restriction on coupon payment in the event of loss or through distributable reserve may pose challenge in coupon servicing for weaker banks. However, in the past, the Government of India (GoI), as the majority shareholder, has provided support to PSBs in terms of capital infusion on need basis to not only make the coupon payments but also to call back the bonds.

Apart from capital support, PSBs have received support from GoI and the regulator in terms of allowing accumulated losses to be set-off against the share premium account which has increased the quantum of distributable reserves available to service the AT I Bonds. GoI, also has initiated consolidation of the sector by amalgamation of relatively weaker and smaller banks into larger banks which has seen strengthening of balance sheets of the PSBs. CARE further expects that GoI would provide capital support to PSBs on need basis so that covenants for coupon payment is not breached in future.

In this background, CARE has revised the ratings of AT I Bond issues of Indian Bank, considering the strengthening in overall credit profile of the bank as reflected in continuous improvement in profitability, capital adequacy levels and asset quality parameters of amalgamated bank during the period from March 31, 2019 to September 30, 2021. Furthermore, Indian Bank has witnessed significant increase in distributable reserves and capital cushion over minimum regulatory requirement during this period. Indian Bank's total capital adequacy improved and stood at 15.88% as on September 30, 2021 as against 15.71% as on March 31, 2021 and 13.27% as on April 01, 2020.

#### 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 capitalisation levels below 12% on a sustained basis
- Deterioration in asset quality with Net NPA of more than 5.5% on sustained basis
- Decline in profit on sustained basis

#### **Detailed description of the key rating drivers**

##### **Key Rating Strengths**

##### **Majority ownership by GoI**

During FY19, GoI infused Rs.11,740 crore in Allahabad Bank. During FY20, 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.16,427 crore in the combined entity over last two years ended March 31, 2021. GoI stake in the amalgamated bank stood at 88.06% as on March 31, 2021 (Pre-amalgamation: 83.46% as on March 31, 2020). During H1FY22, Indian Bank raised equity aggregating to Rs.1,650 crore by way of QIP, consequently GoI shareholding reduced to 79.86% as on September 30, 2021. CARE expects Indian Bank to continue to receive support from GoI considering the majority shareholding and importance of Indian Bank being one of the large-sized banks in India.

##### **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 31, 2021, largely supported by Retail, Agriculture and MSME (RAM) segment. The bank's total business stood at Rs.928,388 crore as on March 31, 2021, as against Rs.857,499 crore as on March 31, 2020. Total advances increased to Rs.390,317 crore as on March 31, 2021, as against Rs.368,664 crore as on March 31, 2020. As on March 31, 2021, RAM sector advances stood at 56% of gross advances aggregating to Rs.218,942 crore, whereas corporate and overseas advances stood at 44% of the gross advances aggregating to Rs.171,375 crore. As on September 30, 2021, RAM sector advances stood at 58.72% of gross advances. The share of corporate advances stood at 41.28% of gross advances as on September 30, 2021.

##### **Resource profile characterised by relatively higher proportion of low-cost deposits**

Post amalgamation with benefits of high CASA ratio of Allahabad Bank, CASA deposits of amalgamated entity increased to 42.30% as on March 31, 2021 (40.81% as on March 31, 2020), translating into a growth of 14% y-o-y. Term Deposits grew by 7% in FY21 and stood at Rs.310,476 crore as on March 31, 2021. In FY21, total deposits witnessed a growth of 10% y-o-y and stood at Rs.538,071 crore as on March 31, 2021 (Rs.488,835 crore as on March 31, 2020). CASA ratio is maintained at 40.86% as on September 30, 2021 (40.90% as on June 30, 2021).

**Relatively strong capital adequacy levels**

Indian Bank is among the well-capitalized public sector banks as on March 31, 2021. Total CAR of the Bank stood at 15.71% as on March 31, 2021, as against 13.27% as on April 1, 2020. The bank raised capital in the form of Tier II bonds and AT1 bonds aggregating to Rs.4,000 crore in FY21. During H1FY22, the bank raised Rs.1,650 crore by way of QIP, thus further strengthening the capital adequacy, Total CAR stood at 15.88% as on September 30, 2021. CET 1 also continues to be relatively strong at 11.68% as on September 30, 2021 (11.27% as on March 31, 2021 and 10.23% as on April 1, 2020).

**Moderate asset quality**

The bank's asset quality continues to remain moderate albeit improvement during FY20 and FY21. On account of reduction in slippages and good recoveries, asset quality has witnessed improvement in FY21. GNPA and NNPA stood at 9.85% and 3.37%, respectively, as on March 31, 2021 (11.39% and 4.19% as on March 31, 2020). In H1FY22, asset quality witnessed marginal improvement on account of relatively lower slippages, GNPA stood at 9.56% as on September 30, 2021. (9.69% as on June 30, 2021).

The bank has restructured the portfolio under Covid-19 resolution framework 1.0 aggregating to Rs.4,636 crore and Rs.14,585 crore under Covid-19 resolution framework 2.0. Total restructured portfolio under Covid-19 stood at Rs.19,221 crore, i.e., around 5% of gross advances as on September 30, 2021. The bank's ability to control slippages and maintain asset quality will remain key monitorable.

**Improvement in profitability in FY21**

During FY21, Indian Bank has reported PAT of Rs.3,005 crore as against loss of Rs.4,643 crore in FY20 (amalgamated). Supported by growth in both net interest income and non-interest income, pre-provision profit witnessed improvement in FY21 to Rs.11,396 crore from Rs.9,587 crore in FY20. Furthermore, supported by relatively lower credit costs on account of lower slippages benefitted from the moratorium extended to borrowers and various other relief measures as per RBI guidelines, the bank reported improvement in profitability with return on total assets (ROTA) of 0.51% in FY21 as against negative ROTA in FY20.

Indian Bank reported PAT of Rs.2,271 crore in H1FY22 as against Rs.782 crore in H1FY21. Supported by improvement in non-interest income and improvement in operating expenses, pre-provision profit witnessed improvement in H1FY22.

**Integration status**

The bank has completed the process of technical migration of Core Banking Solutions (CBS) of erstwhile Allahabad Bank with CBS of Indian Bank. As on March 31, 2021, total branches stood at 6,007 branches (6,062 branches as on June 30, 2020), 203 branches have been rationalized up to March 31, 2021. In addition, Indian Bank has also merged 12 currency chests, 5 service branches, 6 stressed asset management branches, 3 large corporate branches and 6 staff-training centres.

**Impact of Covid-19**

Impacted by the second wave of Covid-19, the bank's restructured portfolio under Covid Resolution Framework 1.0 stood at Rs.4,636 crore as on September 30, 2021 (1.20% of gross advances as on September 30, 2021) and portfolio Covid Resolution Framework 2.0 Rs.14,585 crore as on September 30, 2021 (3.78% of gross advances as on September 30, 2021).

**Liquidity: Strong**

As per the structural liquidity statement of the bank as on March 31, 2021, the bank has no negative cumulative mismatches across all its time buckets up to 3-5 years. The bank had excess SLR holdings of Rs.42,926 crore as on March 31, 2021. The LCR as on June 30, 2021, stood at 179% against the minimum regulatory requirement of 100%.

**Analytical approach:** Standalone along with expected support from GOI.

**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 amalgamation of Allahabad Bank into Indian Bank has placed Indian Bank as the seventh-largest bank with a total business of Rs.911,908 crore as on September 30, 2021 (Rs.841,613 crore as on September 30, 2020).

Gol's stake in the bank stood at 88.06% as on March 31, 2021. Indian Bank raised capital in Q1FY22, in which Life Insurance Corporation of India (LIC) was major investor. Gol's stake stood at 79.86% followed by LIC 3.07% as on September 30, 2021. 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 September 30, 2021, the bank had net advances of Rs.360,437 crore and deposits of Rs.551,472 crore.

Brief Financials (Rs. crore)	FY20*	FY21(A)	H1FY22(P)
Total operating income	44,099	45,185	22,885
PAT	-4643	3,005	2,271
Total Assets	5,62,489	6,20,250	643,227
Net NPA (%)	4.19	3.37	3.26
ROTA (%)	-	0.51	0.72

\*Combined Indian Bank and Allahabad Bank;

A: Audited, P: Provisional

Total assets exclude deferred tax asset and revaluation reserve

**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 is given in Annexure-3

**Complexity level of 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 (Rs. 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

**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	400.00	CARE AAA; Stable	1)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)	1)CARE AAA; Stable (11-Sep-18)
2	Bonds-Tier I Bonds	LT	500.00	CARE AA+; Stable	1)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)	1)CARE AA+; Stable (11-Sep-18)
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)	1)CARE AAA; Stable (11-Sep-18)
4	Bonds-Tier II Bonds	LT	600.00	CARE AAA; Stable	1)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)	1)CARE AAA; Stable (28-Dec-18)
5	Bonds-Tier II Bonds	LT	2000.00	CARE AAA; Stable	1)CARE AAA; Stable (30-Aug-21)	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 (30-Aug-21)	1)CARE AA; Stable (18-Mar-21) 2)CARE AA; Negative (30-Sep-20) 3)CARE AA+ (CWD) (25-Aug-20)	-	-

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
7	Bonds-Tier II Bonds	LT	1000.00	CARE AAA; Stable	1)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 (30-Aug-21) 2)CARE AA; Stable (11-May-21)	-	-	-
9	Bonds-Tier II Bonds	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (30-Aug-21) 2)CARE AAA; Stable (11-May-21)	-	-	-

\* Long Term / Short Term

#### Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
<b>Non-financial covenants</b>	
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, i.e., the fifth Coupon or on coupon payment date thereafter.

#### Annexure-4: 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	Complex
3.	Bonds-Tier II Bonds	Simple

**Note on complexity levels of the rated instrument:** CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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