January 06, 2016

CARE REAFFIRMS THE RATING ASSIGNED TO PROPOSED TIER II BOND (BASEL III) ISSUE OF INDIAN BANK

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Proposed Tier II Bond (Basel III Compliant)	**1,000 (Rupees One Thousand crore only)**	**CARE AAA (Triple A)**	Reaffirmed

Tier II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a 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.

Rating Rationale

The rating assigned to the bonds of Indian Bank takes into account the majority ownership of Indian Bank by the Government of India (GoI), its comfortable capitalization level, stable business growth, comfortable liquidity and resource profile. The rating takes note of moderation in profitability parameters and asset quality during FY15 (refers to the period April 1 to March 31) and H1FY16 (refers to the period April 1 to September 30). Continued ownership and support from GoI, improvement in asset quality and profitability parameters are the key rating sensitivities.

Background

Indian Bank was established on August 15, 1907, as a part of the Swadeshi movement. Indian Bank is one of the large commercial banks with GoI stake of 82.1% as on March 31, 2015.

The bank has a substantial footprint in South India, with major chunk of its total branch network being concentrated in the region. As on March 31, 2015, the bank had a network of 2,409 domestic branches and 2,344 ATMs in India. The bank has three foreign branches in Singapore, Colombo and Jaffna. The bank has two subsidiaries, viz, Indbank Merchant Banking Services Limited, and Indbank Housing Limited. The bank has sponsored three Regional Rural Banks, namely, Saptagiri Grameena Bank, Pallavan Grama Bank and Puduvai Bharathiar Grama Bank.

For FY15, Indian Bank earned a PAT of Rs.1005 crore on a total income of Rs.17,216 crore. The Capital Adequacy Ratio (CAR, under Basel III) stood at 12.86% with a Tier I CAR at 10.61% as on March 31, 2015. For H1FY16, Indian Bank earned a PAT of Rs.585 crore on the total income of Rs.9,073 crore.

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

Analyst Contact

Name: Mr P.Sudhakar
Tel: 044-2849 7812
Email: p.sudhakar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating 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.

CONTACT

Head Office Mumbai

Mr. Sanjay Kumar Agarwal
Mobile: + 91 8108007676
E-mail: sanjay.agarwal@careratings.com

Mr. Amod Khanorkar
Mobile: + 91 9819084000
E-mail: amod.khanorkar@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Dinesh Sharma
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-99000 41975
Tel: +91-80-4115 0445, 4165 4529
E-mail: dinesh.sharma@careratings.com

CHANDIGARH
Mr. Sajan Goyal
2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Saikat Roy
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 9820998779
Tel: +91-40-4010 2030
E-mail: saikat.roy@careratings.com

JAIPUR
Mr. Rakesh Jayaraman
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 76655 96136
Tel: +91-141-402 0213 / 14
E-mail: rakesh.jayaraman@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Rahul Patni
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-78754 33355
Tel: +91-20- 4000 9000
E-mail:rahul.patni@careratings.com

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