MARCH 08, 2016

CARE ASSIGNS 'CARE AA' RATING TO THE PROPOSED BASEL III COMPLIANT ADDITIONAL TIER I PERPETUAL BOND ISSUE OF INDIAN BANK

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Proposed Basel III Compliant Tier I Perpetual Bonds @	1,000	**CARE AA (Double A)**	Assigned
Total Facilities	**1,000 (Rupees One Thousand crore only)**		

@ CARE 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 March 31, 2019, 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 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's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with the conventional subordinated debt instruments.

Rating Rationale

The rating assigned to the proposed Basel III compliant additional tier I perpetual bond issue of Indian Bank derives strength from majority ownership 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 9MFY16 (refers to the period April 1 to December 31). 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 December 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 December 31, 2015, the bank had a network of 2,529 domestic branches and 2,724 ATMs in India. The bank has three foreign branches in Singapore, Colombo and Jaffna. The bank has two subsidiaries, viz, Indbank Merchant

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

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 9MFY16, Indian Bank earned a PAT of Rs.627 crore on total income of Rs.13,512 crore. Gross NPA and Net NPA stood at 5.61 and 3.17, respectively, as on December 31, 2015.

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

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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