DECEMBER 15, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO VARIOUS DEBT INSTRUMENTS OF INDIAN BANK

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Tier II Bond (Basel III compliant)#	1,000	**CARE AAA; Stable (Triple A); Outlook: Stable**	Reaffirmed
Basel III Compliant Tier I Perpetual Bond @	1,000	**CARE AA; Stable (Double A); Outlook: Stable**	Reaffirmed
Total Facilities	**2,000 (Rupees Two Thousand crore only)**		

#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.

@ 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 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. In trend with banking sector,

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

Indian Bank's profitability parameters and asset quality witnessed moderation during FY16 (refers to the period April 1 to March 31) nevertheless asset quality indicators and profitability continues to be better than many of the public sector banks. Continued ownership and support from GoI, improvement in asset quality and profitability parameters are the key rating sensitivities.

Background

Indian Bank Ltd (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, 2016.

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, 2016, the bank had a network of 2,562 domestic branches and 2,784 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 FY16, Indian Bank earned a PAT of Rs.711 crore on a total income of Rs.18,025 crore. The Capital Adequacy Ratio (CAR, under Basel III) stood at 13.20% with a Tier I CAR at 12.08% as on March 31, 2016. During H1FY17, Indian Bank reported a PAT of Rs.712 crore on a total income of Rs.9,092 crore. The CAR stood at 14.34% with a Tier I CAR at 12.66% as on September 30, 2016.

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