January 06, 2015

CARE ASSIGNS 'CARE A+' RATING TO TIER I BONDS (BASEL III) AND REAFFIRMS 'CARE AA' RATING ASSIGNED TO LOWER TIER – II BOND ISSUES OF INDIAN OVERSEAS BANK

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Basel III Compliant Tier I Perpetual Bonds (Proposed) @	1,000	**CARE A+ (Single A Plus)**	Assigned
Lower Tier II Bonds	650	**CARE AA (Double A)**	Reaffirmed
Lower Tier II Bonds	-	-	Withdrawn

@ 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, ie, payment of such coupon is likely to result in losses during the current year, the balance of coupon payment may be made out of 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 and 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 ratings assigned to the bond issues of Indian Overseas Bank (IOB) continue to factor in the majority ownership by Government of India (GoI), long-standing track record of operations and strong presence of the bank in South India. The ratings also take into account the moderation in the asset quality and decline in profitability in FY14 (refers to the period April 1 to March 31) and H1FY15.

The ability of the bank to improve its asset quality by preventing any significant slippages will be critical for its prospects. In addition to this, the ability of IOB to improve its profitability and continued support from GoI would be crucial from the credit perspective.

Background

IOB established in 1937 at Chennai, is one of the larger public sector banks with a sizeable footprint in South India. As on March 31, 2014, the bank had a network of 3,265 domestic branches, 7 overseas branches, 3 representative offices and an ATM network of 2,533 ATMs spread across the country.

During FY14, IOB reported PAT of Rs.602 crore on total income of Rs.22,684 crore. For six months ended September 30, 2014, IOB earned PAT of Rs.26 crore on a total income of Rs.12,725 crore.

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

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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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