FEBRUARY 1, 2016

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

Rating

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

@ 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 Overseas Bank (IOB) derives strength from majority ownership by Government of India (GoI), long standing track record of operations and strong presence of the bank in South India. The rating, however, is constrained by the moderation in asset quality wherein both non-performing assets & restructured advances have increased and moderation in financial performance during FY15 (refers to the period April 01 to March 31) and H1FY16 (refers to the period April 01 to September 30).

The rating also takes note of equity infusion of Rs.2,009 crore by GoI to improve the capital adequacy level. Ability of the bank to improve its asset quality by preventing any significant slippages and improve profitability will be critical for its prospects. Given the relatively higher proportion of standard restructured assets in total advances and significant exposure to metal & infrastructure, improvement in the performance amidst a challenging environment would be the key rating sensitivity.

Background

Indian Overseas Bank (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, 2015, the bank had a network of 3,381 domestic branches (1,028 rural, 947 semi-urban, 747 urban and 659 metropolitan branches), 8 overseas branches, 3 representative offices and a network of 3,571 ATMs spread across the country. As on September 2015, GoI held 73.80% stake in IOB. After conversion of share application money (received on September 28, 2015) into equity, GoI stake in IOB has increased to 81.19% as on

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

December 31, 2015.

During FY15, IOB reported a net loss of Rs.454 crore on a total income of Rs.26,077 crore and during H1FY16, the bank reported a net loss of Rs.536 crore on a total income of Rs.13,442 crore.

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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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