**JULY 27, 2015**

# CARE REVISES THE RATINGS ASSIGNED TO THE DEBT INSTRUMENTS OF INDIAN OVERSEAS BANK

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Remarks |
|---|---|---|---|
| Basel III Compliant Tier I Perpetual Bonds @ | 1,000 | **'CARE A' (Single A)** | **Revised from 'CARE A+' (Single A Plus)** |
| Lower Tier II Bonds (Series VIII) | 200 | **'CARE AA-' (Double A Minus)** | **Revised from 'CARE AA' (Double A)** |
| Lower Tier II Bonds (Series X) | 300 | **'CARE AA-' (Double A Minus)** | **Revised from 'CARE AA' (Double A)** |
| Lower Tier II Bonds (Series VII) | - | **-** | **Withdrawn** |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, i.e. 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 revision in the ratings assigned to the bond issues of Indian Overseas Bank (IOB) is primarily on account of moderation in asset quality parameters during FY15 (refers to the period April 1 to March 31), consequent moderation in profitability and relatively low capital adequacy levels. The ratings 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. Ability of the bank to improve its asset quality by preventing any significant slippages and improve profitability & capitalisation levels will be critical for its prospects. The various steps taken by the bank including increasing the share of low cost funds, reducing exposure to corporate segment and improving the recovery efforts is expected to aid the bank in improving the profitability, going forward. Given the relatively higher proportion of standard restructured assets in total advances with significant portion of the restructured portfolio from sectors including iron & steel, metals and infrastructure, improvement in the performance amidst a challenging environment would be the key rating sensitivity.

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

**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 June 2015, GoI held 73.80% stake in IOB.

During FY15, IOB reported a net loss of Rs.454 crore on total income of Rs.26,077 crore.

**Analyst Contact**
Name: 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**

*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.*

# CONTACT

## Head Office Mumbai

**Mr. D.R. Dogra**
Managing Director
Mobile: +91-98204 16002
E-mail: dr.dogra@careratings.com

**Mr. Rajesh Mokashi**
Dy. Managing Director
Mobile: +91-98204 16001
E-mail: rajesh.mokashi@careratings.com

**Ms. Meenal Sikchi**
Vice President - Bank Loan & Instrument Rating
Mobile: +91-9819009839
E-mail: meenal.sikchi@careratings.com

**Mr. Ankur Sachdeva**
Vice President - Bank Loan & Financial Services
Mobile: +91-9819698985
E-mail: ankur.sachdeva@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

*Other Office:*
503, Kaledonia, Sahar Road, Near Andheri Railway Station, Andheri (E), Mumbai - 400 069
Tel: +91-22-6144 3456 | Fax: +91-22-6144 3556

**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

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

**JAIPUR**
**Mr. Harsh Raj Sankhla**
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 94139 69100
Tel: +91-141-402 0213 / 14
E-mail: harshraj.sankhla@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

CIN - L67190MH1993PLC071691