Indian Bank

July 7, 2017

Ratings

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

Details of instruments/facilities in Annexure-1

#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.

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the Additional Tier I perpetual bond (Basel III Compliant) of Indian Bank factors in the increase in quantum of reserves available to make coupon payments on these instruments consequent to change in Reserve Bank of India (RBI) guidelines. The rating continues to factor in majority ownership of Indian Bank by the Government of India (GoI), its comfortable capitalization level, comfortable liquidity & resource profile. In trend with banking sector, Indian Bank's business witnessed marginal growth in FY17 (refers to the period April 1 to March 31) and asset quality witnessed moderation during past few years; however, 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.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by Government of India

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

GoI is the major shareholder in the bank with a stake of 82.1% as on March 31, 2017. Higher government stake also provides the bank flexibility to raise equity capital in the future through GoI stake dilution to meet regulatory capital requirements and fund growth, if required. Indian Bank has planned to issue 4.75 crore equity share either thorough FPO/Rights Issue/Private Placement/QIP/Preferential Issue in the near term to dilute GOI stake and maintain public shareholding around 25%.

Comfortable capital adequacy levels
Indian Bank is one among the well capitalised Public Sector Banks. The bank has been able to maintain total capital adequacy ratio comfortably at 13.64% as on March 31, 2017 as against 13.20% as on March 31, 2016. Tier I CAR and CET1 remained at 12.20% and 11.82% as on March 31, 2017 as against 12.08% and 11.68% respectively as on March 31, 2016. Indian bank's eligible reserves available for servicing coupon payment for AT1 bonds vis-à-vis provisions are relatively better among public sector banks.

Comfortable resource profile and Liquidity
Indian Bank's deposit base grew by 2% in FY17 wherein CASA deposits grew by 21% in FY17. Term deposits declined from Rs.1,22,527 crore as on March 31, 2016 to Rs.1,14,832 crore as on March 31, 2017. In trend with the industry, CASA proportion improved from 31.28% as on March 31, 2016 to 37.08% as on March 31, 2017 owing to growth in savings and demand deposits supported by addition of new branches in FY17.

Moderate profitability parameters; however better than many PSBs
Indian Bank's total income registered a marginal growth of 1.3% in FY17 as against growth of 5% in FY16. Non-interest income grew by 24% from Rs.1,781 crore in FY15 to Rs.2,211 crore in FY17. Yield on advances declined by 69 bps from 9.04% in FY16 to 8.35% in FY17 on account of downward revision in interest rates, interest reversal due to NPAs. Due to lower interest expense coupled with higher non-interest income, profit before provision and tax improved from Rs.3,032 crore in FY16 to Rs.4,001 crore in FY17. PAT improved to Rs.1,406 crore in FY17 from Rs.711 crore in FY16 as provisions in FY17 was at Rs.2,242 crore which was only slightly higher than FY16 levels.

Key Rating Weaknesses
Marginal business growth
The total business of the bank stood at Rs.3,14,654 crore as on March 31, 2017, registering a marginal growth of 1.2% (P.Y: 4%). Global domestic advances remain muted and stood at Rs.1,26,489 crore as on March 31, 2017 against Rs.1,27,087 crore as on March 31, 2016. The corporate and retail advances constituted about 45% (PY: 50%) and 55% (PY: 50%) of domestic advances outstanding as on March 31, 2017. The rural & agriculture segment and mortgage loans constituted about 20% (PY:18%) and 10% (PY: 8%) of gross domestic advances respectively as on March 31, 2017. With increased focus on the MSME sector, MSME loans constituted 19% (PY: 17%) of gross advances respectively as on March 31, 2017.
Total global deposits of the bank registered a marginal growth of 2% (P.Y: 5%), reaching the level of Rs.1,82,509 crore as on March 31, 2017 from Rs.1,78,286 crore as on March 31, 2016.

Moderation in asset quality in trend with industry
The asset quality parameters of Indian bank witnessed moderation in trend with the industry as reflected by the Gross NPA of 7.47% and Net NPA of 4.39% as on March 31, 2016 as against 6.66% and 4.20% as on March 31, 2016. Net NPA to Net worth stood at 38.77% as on March 31, 2016 as compared to 40.21% as on March 31, 2016. The slowdown in domestic economic growth had a negative impact on the bank's advance portfolio and advances amounting to Rs.3,331 crore (PY:Rs.5,704 crore) slipping into NPA category in FY17.
Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Financial sector
Bank - CARE's Rating Methodology For Banks
Bank - Rating framework for Basel III instruments (Tier I & Tier II)
Policy on Withdrawal of ratings

About the Company
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, 2017.
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, 2017, the bank had a network of 2,679 domestic branches and 3,358 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.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Tier II Bonds	Jul 28, 2016	8.10%	Jul 28, 2026	1000.00*	CARE AAA; Stable
Bonds-Tier I Bonds	Mar 30, 2016	11.15%	NA	1000.00#	CARE AA+; Stable

**Rs.600 crore outstanding as on March 31, 2017; #Rs.500 crore outstanding as on March 31, 2017;*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Tier II Bonds	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (15-Dec-16) 2)CARE AAA (19-Jul-16)	1)CARE AAA (06-Jan-16)	1)CARE AAA (30-Oct-14) 2)CARE AAA (18-Apr-14)
2.	Bonds-Tier I Bonds	LT	1000.00	CARE AA+; Stable	-	1)CARE AA; Stable (15-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA (08-Mar-16)	-

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CIN - L67190MH1993PLC071691