

## Indian Bank

August 25, 2020

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Proposed Tier II Bonds (Basel III) <sup>#</sup>	2,000	<b>CARE AAA (Triple A)</b> (Credit watch with developing implications)	<b>Assigned</b>
Proposed Additional Tier I Perpetual Bonds (Basel III) <sup>@</sup>	2,000	<b>CARE AA+ (Double A Plus)</b> (Credit watch with developing implications)	<b>Assigned</b>
<b>Total</b>	<b>4,000 (Rs. Four thousand crore only)</b>		

*Details of instruments/facilities in Annexure-1*

<sup>#</sup>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.

<sup>@</sup>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 September 30, 2020, 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 the 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 ratings assigned to various debt instruments of the Indian Bank (IB) factors in majority ownership by the Government of India (GoI), the bank's strong capital adequacy level, comfortable liquidity & resource profile. The ratings also take into account the bank's improvement in the overall business during FY20 (refers to the period April 01 to March 31) supported by growth in both the deposit and the advances. Continued ownership and support from GoI, the ability to improve asset quality and profitability are the key rating sensitivities.

The ratings assigned to various debt instruments of Indian Bank (IB) are also placed on credit watch with developing implications. Amalgamation of Indian Bank and Allahabad Bank has been effective from April 1, 2020, with Indian Bank serving as the anchor bank and after amalgamation as the absorbing bank. CARE will continue to monitor the developments in this regard and will take a view on the rating once the detailed information on the business profile of the amalgamated entity is available.

### Rating Sensitivities

#### Negative Factors

- Deterioration in asset quality parameters of the merged entity
- Decline in capitalization levels
- Deterioration in profitability on a sustained basis

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

## Detailed description of the key rating drivers

### **Majority ownership by Government of India**

During FY20, Government of India infused Rs.2,534 crore in the bank by the way of preferential allotment of equity shares, increasing its shareholding to 83.46% as on March 31, 2020 from 81.49% as on March 31, 2019. Higher government stake also provides the bank flexibility to raise equity capital in future through Gol stake dilution to meet regulatory capital requirements and fund growth, if required.

### **Growth in advances supported by focus on Retail, Agri and MSME sector**

As on March 31, 2020, the total business of the bank stood at Rs.458,113 crore (PY: Rs.429,972 crore) and grew by 8.15% during FY20. The bank's total advances stood at Rs.205,890 crore as on March 31, 2020 (PY: 187,896 crore) with y-o-y growth of 9.58%, and the growth was mainly driven by higher growth in RAM (Retail, Agriculture and MSME) sector than the corporate sector. During FY20, the bank reported advances growth of 9.58% against 5.90% credit growth reported by Scheduled Commercial Banks. As on March 31, 2020, RAM sector advances stood at 60.53% (PY: 58.17%) of the total domestic advances. During FY20, RAM advances grew by 14% and stood at Rs.119,533 crore (PY: Rs.104,904 crore) and corporate advances grew by 3% and stood at Rs.77,948 crore (PY: Rs.75,441 crore) as on March 31, 2020. Within the RAM segment share of Retail, Agriculture and MSME segments stood at 31%, 37% and 32% (PY: 32%, 37% and 31%, respectively). Within corporate segment share of Infrastructure, basic metals and commercial real estate stood at 38%, 9% and 4%, respectively (PY: 32%, 8% and 6%, respectively). It is to be noted that during FY20, as against overall advances growth of 9.58%, few of the sectors, namely, Iron & Steel (15.38%), Transport Operators (61.58%), Construction Contractors (27.25%) and Educational Institutions (34.92%) grew at higher rate. Advances outstanding in SMA/overdue category under moratorium stood at Rs.56,323 crore (27% of the total advances).

### **Deposit profile**

Indian Bank's deposit grew by 7.49% in FY20 to Rs.260,226 crore as on March 31, 2020 from Rs.242,076 crore as on March 31, 2019. During FY20, CASA deposits grew by 7.30% (PY: 9.15%) to Rs.90,158 crore and term deposits grew by 7.60% (PY: 20.66%) to Rs.170,068 crore. The deposits of top 20 largest domestic depositors stood at 8.35% of the total deposits. Proportion of CASA (as a percentage of total deposits) stood at 34.64% as on March 31, 2020 (PY: 34.70%).

### **Relatively stable asset quality in FY20 with slight improvement in GNPA ratio**

The bank's gross NPA as on March 31, 2020 was Rs.14,151 crore and gross NPA ratio was 6.87% as against Rs.13,353 crore and 7.11% as on March 31, 2019, respectively. During FY20, slippage ratio increased to 3.04% as against 2.46% in FY19. With increase in write-off (Rs.2,573 crore in FY20 against Rs.2,355 crore in FY19), GNPA ratio has witnessed improvement from 7.11% as on March 31, 2019 to 6.87% as on March 31, 2020. The gross NPAs (as a percentage of the respective portfolio) from retail credit, agriculture, MSME and corporate segments stood at 2.88% (PY: 2.93%), 2.22% (PY: 2.27%), 6.87% (PY: 5.68%), and 10.91% (PY: 11.59%), respectively, as on March 31, 2020. The net NPA stood at 3.13% as on March 31, 2020 (PY: 3.75%).

### **Relatively strong capital adequacy levels**

Indian Bank is among the well-capitalised public sector banks as on March 31, 2020. Total capital adequacy ratio (CAR) improved to 14.12% as on March 31, 2020 from 13.21% as on March 31, 2019. Tier I CAR and Common Equity Tier 1 (CET1) improved and stood at 12.08% and 11.78% as on March 31, 2020 as against 11.29% and 10.96% as on March 31, 2019. The improvement is on the account of capital infusion of Rs.2,543 crore by Government of India through preferential allotment of equity shares, and the bank also raised an amount of Rs.295.48 crore under Indian Bank Employee Share Purchase Scheme (ESPS), during FY20, leading to increase in Net worth to Rs.19,101 crore as on March 31, 2020, from Rs.16,294 crore as on March 31, 2019. Indian bank's eligible reserves available for servicing coupon payment for AT1 bonds vis-à-vis provisions are relatively better among public sector banks.

### **Improvement in profitability during FY20**

During FY20, the bank reported PAT of Rs.753 crore on a total income of Rs.24,717 crore as against PAT of Rs.322 crore on a total income of Rs.21,068 crore during FY19. The other income (as a percentage of average total assets) improved to 1.14% in FY20 from 1.03% in FY19 mainly supported by increase in the profit on sale of investments from Rs.175 crore in FY19 to Rs.880 crore in FY20. NIM declined to 2.73% for FY20 (PY: 2.85%), along with increase in provisioning cost to Rs.5,125 crore (PY: Rs.4,559 crore) and provisioning costs (as a percentage of average total assets) was at 1.76% (PY: 1.74%). Indian Bank reported extra provisioning of Rs.296.72 crore on account of Covid-19 pandemic. During FY20, ROTA improved to 0.27% from 0.13% in FY19 partly supported by growth in other income.

**Liquidity: Adequate**

As per the structural liquidity statement of the bank as on March 31, 2020, the bank has no negative cumulative mismatches across its time buckets up to time bucket of 6 months to 1 year. However, the mismatch continues to remain within the various limits for various time buckets stipulated by the bank's Board. Furthermore, the average LCR stood comfortable at 147.68% as March 31, 2019 (as compared with the minimum requirement of LCR is 100%).

**Analytical approach:** Standalone. Factoring in Gol ownership.

**Applicable Criteria**

[Criteria on assigning Outlook and Credit Watch to Credit Rating](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Financial sector](#)

[Bank - CARE's Rating Methodology For Banks](#)

[Bank - Rating framework for Basel III instruments \(Tier I & Tier II\)](#)

[Factoring Linkages in Rating](#)

**About the Company**

Indian Bank was established on August 15, 1907, as part of the Swadeshi movement. Indian Bank is one of the largest scheduled commercial banks with total business of around Rs.458,113 crore (Rs.429,972 crore as on March 31, 2019) with deposits of Rs.260,226 crore (Rs.242,076 crore as on March 31, 2019) and total advances of Rs.205,890 crore (Rs.187,896 crore as on March 31, 2019) as on March 31, 2019. Gol stake in the bank stood at 83.46% (PY: 81.49%) as on March 31, 2020. The bank has a substantial footprint in South India, with major portion of its total branch network being concentrated in Southern region. As on March 31, 2020, the bank had a network of 2,887 domestic branches and 4,059 ATMs in India. The bank has three foreign branches, one each in Singapore, Colombo and Jaffna. The bank has two subsidiaries, viz, Indbank Merchant Banking Services Ltd and Indbank Housing Ltd. The bank has sponsored three Regional Rural Banks, namely, Saptagiri Grameena Bank, Pallavan Grama Bank and Pudukkottai Bharathiar Grama Bank.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	21,068	24,717
PAT	322	753
Total Assets	2,76,970	3,06,480
Net NPA (%)	3.75	3.13
ROTA (%)	0.12	0.26

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**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
Proposed Tier II Bonds (Basel III)	-	-	-	2000.00	CARE AAA (Under Credit watch with Developing Implications)
Proposed Additional Tier I Perpetual Bonds (Basel III)	-	-	-	2000.00	CARE AA+ (Under Credit watch with Developing Implications)

## 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Tier II Bonds	LT	1000.00	CARE AAA (Under Credit watch with Developing Implications)	-	1)CARE AAA (Under Credit watch with Developing Implications) (04-Oct-19) 2)CARE AAA (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE AAA; Stable (11-Sep-18)	1)CARE AAA; Stable (07-Jul-17)
2.	Bonds-Tier I Bonds	LT	1000.00	CARE AA+ (Under Credit watch with Developing Implications)	-	1)CARE AA+ (Under Credit watch with Developing Implications) (04-Oct-19) 2)CARE AA+ (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE AA+; Stable (11-Sep-18)	1)CARE AA+; Stable (07-Jul-17)
3.	Bonds-Infrastructure Bonds	LT	1000.00	CARE AAA (Under Credit watch with Developing Implications)	-	1)CARE AAA (Under Credit watch with Developing Implications) (04-Oct-19) 2)CARE AAA (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE AAA; Stable (11-Sep-18)	1)CARE AAA; Stable (08-Nov-17)
4.	Bonds-Tier II Bonds	LT	600.00	CARE AAA (Under Credit watch with Developing Implications)	-	1)CARE AAA (Under Credit watch with Developing Implications) (04-Oct-19) 2)CARE AAA (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE AAA; Stable (28-Dec-18)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
5.	Bonds-Tier II Bonds	LT	2000.00	CARE AAA (Under Credit watch with Developing Implications)	-	-	-	-
6.	Bonds-Tier I Bonds	LT	2000.00	CARE AA+ (Under Credit watch with Developing Implications)	-	-	-	-

**Annexure-3: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Tier I Bonds	Simple
2.	Bonds-Tier II Bonds	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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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.

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