Indian Bank

September 11, 2018

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Tier II Bond (Basel III compliant) #	1,000	**CARE AAA; Stable (Triple A); Outlook: Stable**	Reaffirmed
Additional Tier I Perpetual Bond (Basel III compliant) @	1,000	**CARE AA+; Stable (Double A Plus); Outlook: Stable**	Reaffirmed
Infrastructure bond issue (proposed)	1,000	**CARE AAA; Stable (Triple A); Outlook: Stable**	Reaffirmed
Total	**3,000 (Rupees Three 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.*

Rating Rationale

The ratings assigned to the debt instruments of Indian Bank factor 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 FY18 (refers to the period April 01 to March 31) supported by growth in both the deposit base and the advances. The ratings factor in moderation in asset quality and profitability during FY18 on account of increased credit costs due to revised stressed asset framework by RBI (Reserve Bank of India). Continued ownership and support from GoI, ability to improve asset quality and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by Government of India

GoI is the major shareholder in the bank with a stake of 81.87% as on March 31, 2018. Higher government stake also provides the bank flexibility to raise equity capital in future through GoI stake dilution to meet regulatory capital requirements and fund growth, if required. Indian Bank has planned to raise capital upto Rs. 7,000 crore either thorough FPO/Rights Issue/Private Placement/QIP/Preferential Issue in the near term to dilute GOI stake and maintain public shareholding around 25%.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com*

Improvement in the overall advances growth with focus towards Retail, Agri and MSME sector

The total business of the bank stood at Rs.3,71,020 crore as on March 31, 2018 grew from Rs. 3,14,654 crore registering growth of 17.9% (PY: 1.2%). As on June 30, 2018, the total Business stood at Rs.3,74,550 crore. Bank's domestic gross advances grew from Rs.1,26,489 crore as on March 31, 2017 to Rs.1,56,476 crore as on March 31, 2018 registering growth of 23.7% during FY18 (PY:-0.5%). Corporate advances grew by 26.40% whereas Retail, Agri and MSME segment (RAM) grew by 26.1% during FY18. Retail advances consists of housing Loans, Mortgage Loans, Educational loans, Vehicle loans etc. With higher growth witnessed in RAM, the proportion of RAM stood at 55.9% (PY: 54.80%) and corporate book stood at 44.12% (PY: 45.20%) as on March 31, 2018. Within RAM, Retail constituted around 31%, Agri constituted around 35% and MSME constituted around 32% as on March 31, 2018. Within Corporate, Infrastructure constituted around 36%, followed by Metals which constituted around 8.5% and Textiles which constituted around 6.80% as on March 31, 2018. As on June 30, 2018, the total advances stood at Rs. 1,58,062 crore with RAM constituted around 56.5% and corporate constituted around 43.6%.

Improvement in the overall deposit profile

Indian Bank's deposits grew by 14.1% in FY18 from Rs.1,82,509 crore as on March 31, 2017 to Rs. 2,08,294 crore as on March 31, 2018. The bank deposits as on June 30, 2018 stood at Rs.2,10,170 crore. The CASA deposits grew by 14.59% and term deposits grew by 14.96% in FY18. In trend with the industry, CASA proportion improved from 37.65% as on March 31, 2017 to 37.78% as on March 31, 2018 and further improved to 37.88% as on June 30, 2018. Term deposits with ticket size more than Rs. 5 crore stood at 14% of the total deposits as on March 31, 2018 (PY:8%) however it is reduced to 13% as on June 30, 2018.

Comfortable liquidity profile

As per structural liquidity statement of the bank as on March 31, 2018, the bank has negative cumulative mismatches beyond 3 months period. However, the mismatch continues to remain within the various limits for various time buckets stipulated by the bank's Board. Furthermore, cumulative mismatches in the short-term buckets from 1 day to 28 days continue to remain within the regulatory limits. The bank also has a healthy rollover rate of deposits. Furthermore, the average LCR stood comfortable at 138.17% as March 31, 2018 (as compared to the minimum requirement of LCR is 70%). In addition, the bank had excess SLR investments of Rs.5,999.5 crore as on March 31, 2018.

Strong capital adequacy levels

Indian Bank is one among the well capitalised Public Sector Banks as on March 31, 2018. The bank has been able to maintain total capital adequacy ratio (CAR) comfortably at 12.55% as on March 31, 2018 as against 13.64% as on March 31, 2017. Tier I CAR and Common Equity Tier 1 (CET1) remained at 11.33% and 11.00% as on March 31, 2018 as against 12.20% and 11.82% respectively as on March 31, 2017. The total Capital Adequacy ratio, Tier I CAR and CET1 as on June 30, 2018 was 12.77%, 11.55% and 11.22% respectively. Indian bank's eligible reserves available for servicing coupon payment for AT1 bonds vis-à-vis provisions are relatively better among public sector banks.

Moderate asset quality due to RBI's revised stressed asset framework

The bank's total gross NPA as on March 31, 2018 was Rs.11,990 crore and gross NPA ratio was 7.37% as against Rs.9,865 crore and 7.47% as on March 31, 2017 respectively. The total slippages during Q4FY18 was around Rs. 3,000 crore mainly on account of RBI circular on revised stressed asset framework in February 2018 due to which the bank recognised additional slippage of around Rs. 1,700 crore and slippage due to divergence of about Rs.543 crore and regular slippage was around Rs. 700 crore. Gross NPA in retail was around 2.37% (PY: 2.93%), agriculture was around 2.01% (PY: 2.43%), MSME was around 4.98% (PY: 6.34%) and corporate was around 11.45% (PY: 10.35%) as on March 31, 2018. The net NPA as on March 31, 2018 was Rs.5,960 crore and Net NPA ratio was 3.81%. The bank provision coverage ratio was 64.27% as on March 31, 2018. As on June 30, 2018, the bank reported gross NPA and Net NPA of around 7.20% and 3.79% respectively. The Standard restructured advances as on March 31, 2018 was Rs. 2,079 crore reduced from Rs. 4,322 crore as on March 31, 2017 due to slippage of Rs. 2,169 crore into NPA accounts during FY18. The Gross stressed assets to advances stood at 10.04% (PY: 12.31%) and Net stressed assets to Networth stood at 65.13% (PY: 83.07%) as on March 31, 2018.

Moderate profitability on account of increased provisioning costs

During FY18, the bank reported PAT of Rs.1,259 crore on a total income of Rs.19,519 crore as against PAT of Rs. 1,406 crore on a total income of Rs, 18,251 crore during FY17. The moderation in the net profit is mainly due to increase in provisioning costs from Rs.2,242 crore in FY17 to Rs. 3,925 crore in FY18. Increase in Provisioning was primarily driven by increase in provisions for NPAs in view of the RBI circular on revised stressed asset framework in February 2018 and Mark to Market losses on investment portfolio. During FY18, the bank made additional provision of Rs.504 crore due to revised stress asset frame work and Rs. 342 crore due to MTM loss on Investments. The bank reported NIM of 2.68% in FY18 as against 2.47% in FY17 however due to higher provisioning, ROTA reduced to 0.54% in FY18 from 0.68% in FY17. During Q1FY19, Indian Bank reported operating profit of Rs.1,298 crore on a total income of Rs. 5,132 crore.

Industry outlook and prospects

Over the last three years, RBI which is the regulator for the sector has been focusing on cleaning of the balance sheets of banks and emphasised on adequate provisioning for stressed assets. The regulator has time and again provided banks with several schemes like Joint Lending Forum (JLF), 5/25 scheme, Strategic Debt Structuring (SDR), Scheme for Sustainable Structuring of Stressed Assets (S4A) and has also directed banks to file for Insolvency proceedings with National Company Law Tribunal (NCLT) against the large borrowers to resolve the issue of Non Performing Assets (NPA) and manage the risk on the banks' books. RBI also revised the Prompt Corrective Action (PCA) framework for banks and has put 11 Public sector banks under the same as on date. In terms of Credit growth, the banking sector witnessed declining trend over the last three years ended March 2017 due to decline in economic activity leading to moderation in industrial output. However during FY18, the banking sector has witnessed marginal improvement in advance growth of around 7% as against 4.7% during FY17 due to increase in bond yield resulting in shift in borrowings through banks from bond markets. Also the growth during FY18 witnessed towards services and retail segment while industry segment growth was muted.

In terms of Asset quality, the asset quality of the banks continued to show deterioration in general and public sector banks (PSB) in particular during FY18. During FY19, the stress on the asset quality of banks is expected to continue with the absolute amount of NPA is expected to increase, however, the pace of incremental NPA would be lower. Due to deterioration in asset quality, banks especially public sector banks, saw sharp decline in profitability over the last three years due to interest income reversal and higher provisioning requirements which has impacted the capital adequacy levels of the banks. Currently, the overall sector remains moderately capitalized, Public sector banks would continue to require further capital infusion to maintain regulatory capital requirement and fuel the credit growth in future.

Though Indian bank's profitability impacted during FY18 due to moderation in the asset quality, the Bank is well capitalized and also witnessed improvement in the advances growth during FY18. Going forward, with timely mobilisation of equity capital in FY19, Indian Bank would be better placed as compared to its peers to benefit from growth opportunity.

Analytical Approach-Standalone. Factoring in GoI ownership

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)

About the bank

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.3,74,550 crore (Rs. 3,71,020 crore as on March 31, 2018) with deposits of Rs. 2,10,170 crore (Rs. 2,08.294 crore as on March 31, 2018) and total advances of Rs. 1,64,381 crore (Rs. 1,62,726 crore as on March 31,2018) as on June 30, 2018. GoI stake in the bank was around 81.7% as on March 31, 2018. The bank has a substantial footprint in South India, with major portion of its total branch network being concentrated in Southern region. As on June 30, 2018, the bank had a network of 2,819 domestic branches and 3,381 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 Puduvai Bharathiar Grama Bank.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	18,251	19,519
PAT	1,406	1,259
Interest coverage (times)	1.16	1.57
Total Assets	215,533	250,094
Net NPA (%)	4.39	3.81
ROTA (%)	0.68	0.54

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

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

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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	July 28, 2016	8.1%	July 28, 2026	1000.00	CARE AAA; Stable
Bonds-Tier I Bonds	March 30, 2016	11.15%	NA	1000.00	CARE AA+; Stable
Bonds-Infrastructure Bonds (proposed)	-	-	-	1000.00	CARE AAA; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Tier II Bonds	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Jul-17)	1)CARE AAA; Stable (15-Dec-16) 2)CARE AAA (19-Jul-16)	1)CARE AAA (06-Jan-16)
2.	Bonds-Tier I Bonds	LT	1000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Jul-17)	1)CARE AA; Stable (15-Dec-16) 2)CARE AA (19-Jul-16)	1)CARE AA (08-Mar-16)
3.	Bonds-Infrastructure Bonds	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Nov-17)	-	-

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CIN - L67190MH1993PLC071691