Indian Bank

October 04, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Tier II Bonds (Basel III)[#]	1,000.00	**CARE AAA (Triple A) (Credit watch with developing implications)**	**Continues on credit watch with developing implications**
Additional Tier I Perpetual Bonds (Basel III)[@]	1,000.00**	**CARE AA+ (Double A plus) (Credit watch with developing implications)**	**Continues on credit watch with developing implications**
Infrastructure Bonds (Proposed)	1,000.00*	**CARE AAA (Triple A) (Credit watch with developing implications)**	**Continues on credit watch with developing implications**
Tier II Bonds (Basel III) [#]	600.00	**CARE AAA (Triple A) (Credit watch with developing implications)**	**Continues on credit watch with developing implications**
Total	**3600.00 (Rupees Three Thousand six hundred crore only)**		

*Details of instruments/facilities in Annexure-1; *including green shoe option of Rs.500.0 crore;**Unutlilized amount of Rs.500 crore*

[#]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 ratings assigned to various debt instruments of Indian Bank (IB) continues to be on credit watch with developing implications on account of the recent announcement by Ministry of Finance (MoF) to amalgamate Allahabad Bank into Indian Bank. Indian bank would be the anchor bank and post amalgamation the absorbing bank. The proposed amalgamation has been approved by the boards of the respective banks however is subject to receipt of various statutory and regulatory approvals. Additionally, MoF has also announced capital infusion of Rs.2,500 crore in Indian Bank. CARE will continue to monitor the developments in this regard and will take a view on the rating once the merger process is completed and the exact implication of the merger on the credit profile of IB is clear.

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

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 FY19 (refers to the period April 01 to March 31) and Q1FY20 (refers to period from April 01 to June 30) supported by growth in both the deposit and the advances. 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 stake of 81.49% as on March 31, 2019 (79.6% as on June 30, 2019). 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%.

Growth in advances supported by focus on Retail, Agri and MSME sector
As on March 31, 2019, the total business of the bank stood at Rs.4,29,972 crore (PY: Rs.3,71,020 crore) and grew by 15.9% during FY19. The bank's total advances stood at Rs.1,87,896 crore as on March 31, 2019 (PY:1,62,726 crore) and the growth was mainly driven by improvement in RAM (Retail, Agriculture and MSME) sector, than the corporate sector. As on March 31, 2019, RAM sector advances stood at 58.17% of total domestic advances with rest contributed by corporate sector. During FY19, RAM advances grew by 17.8% and stood at Rs.1,04,904 crore(PY: Rs.89,079 crore) and corporate advances grew by 11.9% and stood at Rs.75,441 (PY: Rs.67,398 crore) as on March 31, 2019. Within the RAM segment share of Retail, Agriculture and MSME segments stood at 31%, 37% and 32% (PY: 33%, 35% and 32% respectively). Within corporate segment share of Infrastructure, basic metals and commercial real estate stood at 32%, 8% and 6% respectively (PY:37%,9% and 6% respectively). During Q1FY20, the advances growth stood almost flat (de-grew by 1.9%) and stood at Rs. 1,84,336 crore as on June 30, 2019. RAM and Corporate book stood at Rs.1,06,763 crore and Rs.69,796 crore respectively.

Deposit profile
Indian Bank's deposit base grew by 16.22% in FY19 to Rs.2,42,076 crore as on March 31, 2019 from Rs. 2,08,294 crore as on March 31, 2018. Total deposits as on June 30, 2019 stood at Rs.2,41,457 crore. During FY19, CASA deposits grew by 9.15% (PY: 13.80%) to Rs.83,459 crore and term deposits grew by 20.66% (PY:14.40%) to Rs.1,51,778 crore. The largest depositor contributed to 3.07% of the total deposits as on March 31, 2019 and the deposits of top 20 largest domestic depositors stood at 10.55% of the total deposits. Proportion of CASA (as a % of total deposits) stood at 35.5% as on March 31, 2019 (PY:37.8%). As on June 30, 2019, CASA deposit ratio further moderated to 33.4% and stood at Rs.80,076 crore. The bank's strong retail franchise and sizable branch network in rural, semi-urban and urban areas at 76% as on March 31, 2019 (76% as on June 30, 2019) aids in maintaining its comfortable resource profile.

Moderate asset quality
The bank's total gross NPA as on March 31, 2019 was Rs.13,353 crore and gross NPA ratio was 7.11% as against Rs. 11,990 crore and 7.37% as on March 31, 2018 respectively. During FY19, slippage ratio increased to 4.28% as against 4.05% in FY18. However, with improvement in recovery (Rs.1,407 crore in FY19 against Rs.575 crore in FY18) and write off (Rs.2,355 crore in FY19 against Rs.1,591 crore in FY18), GNPA ratio has witnessed improvement from 7.37% as on March 31, 2018 to 7.11% as on March 31, 2019. The gross NPAs(as a % of respective portfolio) from retail credit, agriculture, MSME and corporate segments stood at 2.93% (PY:2.15%), 2.27%(PY:2.01%), 5.68%(PY:4.65%), and 11.59%(PY:12.62%), respectively as on March 31, 2019. The net NPA stood at 3.75% as on March 31, 2019 (PY: 3.81%). As on June 30, 2019 gross NPA stood at 7.33% and net NPA stood at 3.84%.

Relatively Strong capital adequacy levels
Indian Bank is one among the well capitalised Public Sector Banks as on March 31, 2019. The bank has been able to maintain total capital adequacy ratio (CAR) comfortably at 13.21% as on March 31, 2019 as against 12.55% as on March 31, 2018. Tier I CAR and Common Equity Tier 1 (CET1) remained at 11.29% and 10.96% as on March 31, 2019 as against 11.33% and 11.00% as on March 31, 2018. The total Capital Adequacy ratio, Tier I CAR and CET1 as on June 30, 2019 was 13.62%, 11.72% and 11.40% 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. With proposed equity infusion of Rs.2,500 crore, core capital adequacy ratios are expected to improve going forward.

Moderation in profitability during FY19 due to higher credit costs and decline in other income; however profitability improved in Q1FY20

During FY19, the bank reported PAT of Rs.322 crore on a total income of Rs.21,068 crore as against PAT of Rs.1,259 crore on a total income of Rs.19,519 crore during FY18. The other income (as a % of average total assets) declined to 1.03% in FY19 (PY:0.71%) due to decline in profit on sale of investments to Rs.175 crore(PY:662 crore) and other income declined to Rs.1883 crore(PY:Rs. 2406 crore). Although NIM remained stable at 2.66% for FY19 (PY: 2.69%), the provisioning cost increased to Rs.4559 crore (PY: Rs.3742 crore) and provisioning costs (as a % of average total assets) was at 1.74% (PY: 1.69%). 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. During FY19, ROTA stood at 0.12% as against 0.54% in FY18.

PAT for Q1FY20 stood at Rs.365 crore on a total income of Rs.5832 crore as against Rs. 209 crore on a total income of Rs.5132 crore during Q1FY19. ROTA stood at 0.12% during FY19 (PY:0.54%) and improved to 0.55% during Q1FY20.

Adequate liquidity Position

As per structural liquidity statement of the bank as on March 31, 2019, the bank has negative cumulative mismatches across its time buckets. However, the mismatch continues to remain within the various limits for various time buckets stipulated by the bank's Board. The bank also has a healthy rollover rate of deposits (70%). Furthermore, the average LCR stood comfortable at 119.7% as March 31, 2019 (as compared to the minimum requirement of LCR is 100%).

Analytical approach: Standalone. Factoring in GoI ownership.

Applicable Criteria

Criteria on assigning Outlook and Creditwatch 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)
Factoring Linkages in Ratings

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.4,29,972 crore (Rs. 3,71,020 crore as on March 31, 2018) with deposits of Rs. 2,42,076 crore (Rs. 2,08.294 crore as on March 31, 2018) and total advances of Rs. 1,87,896 crore (Rs. 1,62,726 crore as on March 31,2018) as on March 31, 2019. GoI stake in the bank was around 81.49% as on March 31, 2019. 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, 2019, the bank had a network of 2,872 domestic branches and 3,892 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)	FY18 (A)	FY19 (A)
Total operating income	19,519	21,068
PAT	1,259	322
Interest coverage (times)	1.57	1.40
Total Assets	250,094	2,76,970
Net NPA (%)	3.81	3.75
ROTA (%)	0.54	0.12

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Additional Tier I Perpetual Bonds (Basel III)	INE562A09055	30-March-2016	11.15	Perpetual	500.00	CARE AA+(Double A plus) (Credit watch with developing implications)
Additional Tier I Perpetual Bonds (Basel III) (Proposed)	-	-	-	-	500.00	CARE AA+(Double A plus) (Credit watch with developing implications)
Tier II Bonds (Basel III)	INE562A08016	28-Jul-2016	8.10	28-Jul-2026	600.00	CARE AAA (Triple A) (Credit watch with developing implications)
Tier II Bonds (Basel III)	INE562A08040	22-Jan-2019	8.53	22-Jan-2029	600.00	CARE AAA (Triple A) (Credit watch with developing implications)
Tier II Bonds (Basel III)	INE562A08032	06-Nov-2018	8.85	06-Nov-2028	110.00	CARE AAA (Triple A) (Credit watch with developing implications)
Tier II Bonds (Basel III)	INE562A08024	30-Oct-2018	8.90	30-Oct-2028	290.00	CARE AAA (Triple A) (Credit watch with developing implications)
Infrastructure Bonds (Proposed)	-	-	-	-	1,000.00	CARE AAA (Triple A) (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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
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) (11-Sep-19)	1)CARE AAA; Stable (11-Sep-18)	1)CARE AAA; Stable (07-Jul-17)	1)CARE AAA; Stable (15-Dec-16) 2)CARE AAA (19-Jul-16)
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) (11-Sep-19)	1)CARE AA+; Stable (11-Sep-18)	1)CARE AA+; Stable (07-Jul-17)	1)CARE AA; Stable (15-Dec-16) 2)CARE AA (19-Jul-16)
3.	Bonds-Infrastructure Bonds	LT	1000.00	CARE AAA (Under Credit watch with Developing Implications)	1)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	1)CARE AAA	1)CARE	-	-

				Credit watch with Developing Implications)	(Under Credit watch with Developing Implications) (11-Sep-19)	AAA; Stable (28-Dec-18)		

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Mr. P Sudhakar
Group Head Contact no.- 044-2850 100
Group Head Email ID- p.sudhakar@careratings.com

Relationship Contact
Name: Pradeep Kumar V
Contact no.: 044-2850 1001
Email ID: pradeep.kumar@careratings.com

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