Indian Bank

November 08, 2017

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Infrastructure Bond Issue	1,000* (Rs. One thousand crore only)	**CARE AAA; Stable (Triple A; Outlook: Stable)**	Assigned

**Includes a green shoe option of Rs.500 crore*

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The rating assigned to the proposed infrastructure bond issue of Indian Bank factors in the majority ownership 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

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 FY16 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

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

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, 2017 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, 2017 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 CreditRatings

CARE's Policy on Default Recognition

Financial ratios – Financial sector

Bank - CARE's Rating Methodology For Banks

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.

During Q1FY18, Indian Bank reported a profit of Rs.372 crore on total income of Rs. 4,788 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	18,025	18,251
PAT	711	1,406
Interest coverage (times)	1.08	1.16
Total Assets	200,929	215,533
Net NPA (%)	4.20	4.39
ROTA (%)	0.36	0.68

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:

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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-Infrastructure Bonds	-	-	-	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 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 (07-Jul-17)	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 (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	-	-	-	-

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