

Indian Bank

September 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Tier II Bonds (Basel III)	1,000.00	CARE AAA (Triple A) (Credit watch with developing implications)	Placed on credit watch with developing implications
Additional Tier I Perpetual Bonds (Basel III)	1,000.00	CARE AA+; Stable (Double A plus) (Credit watch with developing implications)	Placed on credit watch with developing implications
Infrastructure Bonds (Proposed)	1,000.00*	CARE AAA; Stable (Triple A)(Credit watch with developing implications)	Placed on credit watch with developing implications
Tier II Bonds (Basel III)	600.00	CARE AAA; Stable (Triple A)(Credit watch with developing implications)	Placed on credit watch with developing implications

*including green shoe option of Rs.500.0 crore

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to various debt instruments of Indian Bank (IB) on credit watch with developing implications. The rating action follows 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 is subject to approval by the boards of the respective banks as well as subject to receipt of various statutory and regulatory approvals. The Appointed date for the scheme has not yet been decided. 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.

The ratings assigned to 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 FY18 & FY19 (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 profitability during FY18 & FY19 on account of increased credit costs due to revised stressed asset framework by RBI (Reserve Bank of India) resulting in moderate asset quality. 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 81.73% as on September 30, 2018(81.49% as on March 31, 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%.

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 September 30, 2018, the total Business stood at Rs.3,91,845 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 March 31, 2019, the total advances stood at Rs. 1,87,896 crore with RAM constituted around 58.1% of the gross domestic advances.

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

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

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 March 31, 2019 was 13.21%, 11.29% and 10.96% 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 September 30, 2018, the bank reported gross NPA and Net NPA of around 7.16% and 4.23% 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 Net worth stood at 65.13% (PY: 83.07%) as on March 31, 2018. GNPA as on March 31, 2019 stood at 7.11%.

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 framework 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 FY19, Indian Bank reported operating profit of Rs.4,880.62 crore on a total income of Rs. 21,067.71 crore. On account higher provisions, PAT was lower at Rs.321.95 crore and ROTA stood at 0.12%.

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. 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 119.7% as March 31, 2019 (as compared to the minimum requirement of LCR is 100%).

Analytical approach: -Standalone. Factoring in Gol ownership. CARE has taken a limited review based on key financials for the year ended March 2019.

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 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. Gol 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 Pudukkottai 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

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
Additional Tier I Perpetual Bonds (Basel III)	30-March-2016	11.15	Perpetual	500.00	CARE AA+; Stable (Double A plus) (Credit watch with developing implications)
Additional Tier I Perpetual Bonds (Basel III)	-	-	-	500.00	CARE AA+; Stable (Double A plus) (Credit watch with developing implications)
Tier II Bonds (Basel III)	28-Jul-2016	8.10	28-Jul-2026	600.00	CARE AAA (Triple A) (Credit watch with developing implications)
Tier II Bonds (Basel III)	22-Jan-2019	8.53	22-Jan-2029	600.00	CARE AAA (Triple A) (Credit watch with developing implications)
Tier II Bonds (Basel III)	06-Nov-2018	8.85	06-Nov-2028	110.00	CARE AAA (Triple A) (Credit watch with developing implications)
Tier II Bonds (Basel III)	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; 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+; 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; 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; 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.

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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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