

## Indian Bank

September 30, 2020

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Tier II Bonds (Basel III)#	1,000	CARE AAA; Negative (Triple A; Outlook: Negative)	Reaffirmed and removed from Credit Watch
Additional Tier I Perpetual Bonds (Basel III) @	1,000	CARE AA; Negative (Double A; Outlook: Negative)	Revised from CARE AA+ (Double A Plus) and Removed from Credit Watch
Infrastructure Bonds (Proposed)	1,000	CARE AAA; Negative (Triple A; Outlook: Negative)	Reaffirmed and removed from Credit Watch
Tier II Bonds (Basel III)#	600	CARE AAA; Negative (Triple A; Outlook: Negative)	Reaffirmed and removed from Credit Watch
Tier II Bonds (Basel III)#	2,000	CARE AAA; Negative (Triple A; Outlook: Negative)	Reaffirmed and removed from Credit Watch
Additional Tier I Perpetual Bonds (Basel III) @	2,000	CARE AA; Negative (Double A; Outlook: Negative)	Revised from CARE AA+ (Double A Plus) and Removed from Credit Watch
Tier II Bonds (Basel III)#	1,000\$	CARE AAA; Negative (Triple A; Outlook: Negative)	Assigned
<b>Total</b>	<b>8,600</b> <b>(Rs. Eight thousand six hundred crore only)</b>		

*Details of instruments/facilities in Annexure-1 \$-Transferred from erstwhile Allahabad Bank pursuant to its amalgamation with Indian Bank*

*#Tier II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer 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 April 1, 2021, 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.*

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

### Detailed Rationale & Key Rating Drivers

The ratings of various bond issues of Indian Bank (IB) were earlier placed under credit watch with developing implications due to ongoing amalgamation process of Allahabad Bank (AB) with IB. The watch is resolved following completion of the amalgamation process w.e.f. April 1, 2020, and assessment of the merged entity's financial and business risk profile. The amalgamation of Allahabad Bank into Indian Bank has placed Indian Bank as the 7th largest Bank with more than Rs.8.50 lakh crore businesses, 43,000 strong work-force and over 6,000 branch net-work with a strong CASA base.

The ratings of IB continue to derive strength from majority ownership by the Government of India (GoI), the bank's strong capital adequacy level, improved resource profile with relatively higher proportion of low cost deposits of amalgamated entity, 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. The revision in the rating assigned to additional Tier 1 bonds (Basel III) issues factors in sharp reduction in distributable reserves cover available for the amalgamated entity as compared to reserve position of IB pre-merger. Continued ownership and support from GoI, the ability to improve asset quality and profitability are the key rating sensitivities.

### Rating Sensitivities

*Negative Factors-Factors that could lead to negative rating action/downgrade*

- Significant slippages impacting earnings profile and deterioration in Net NPA to Net worth
- Deterioration in GNPA levels on sustained basis

### Outlook: Negative

The negative outlook reflects the likelihood of continuing asset quality pressure due to COVID-19 pandemic-induced economic slowdown. Historically, asset quality of IB remained relatively better with peak GNPA of 7.47% as on March 31, 2017 in the past five years ended March 2020. As on March 31, 2020, GNPA of IB stood at 6.87% and that of amalgamated entity stood at 11.39%. As at the end of June 2020, GNPA of amalgamated entity stood at 10.90% and around 23% of term loan customers by value have availed moratorium. The outlook may be revised to 'Stable' in case Bank is able to contain incremental slippages and maintain asset quality. Outlook revision on AT1 bonds will also further depend upon the bank's ability to improve distributable cover reserve over AT1 bonds outstanding.

### Detailed description of the key rating drivers

#### Key Rating Strengths

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

The rating of IB factors in the majority shareholding of Government of India (GoI). During FY20, GoI has infused fresh equity capital of Rs.2,534 crore in IB. Same has resulted in increase in GoI stake from 79.6% as on June 30, 2019 to 83.46% as on September 30, 2019. Furthermore, post amalgamation of AB, GoI stake in the amalgamated bank increased to 88.06% as on June 30, 2020. CARE expects IB to continue to receive support from GoI considering the majority shareholding and systemic importance of IB being one of the large-sized banks in India.

##### ***Stable growth in advances with focus on retail, agriculture and MSME; increase in share of corporate portfolio on amalgamated basis***

IB has witnessed continuous growth in advances in the past three years ended March 2020. As on March 31, 2020, the total business of the bank stood at Rs.466,116 crore (PY: Rs.429,972 crore) and grew by 8.41% during FY20. The bank's total advances stood at Rs.205,890 crore as on March 31, 2020 (PY: Rs.187,896 crore) with y-o-y growth of 9.58% (against 5.90% credit growth reported by Scheduled Commercial banks) which was mainly driven by higher growth in RAM (Retail, Agriculture and MSME) sector than the corporate sector. 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. In the past three years, with focus on RAM portfolio, share of corporate advances declined from 45.20% as on March 31, 2017 to 39.47% as on March 31, 2020. However, post amalgamation, share of corporate advances increased to 46.94% as on June 30, 2020.

##### ***Resource profile characterised by relatively higher proportion of low cost deposits***

On standalone basis, domestic deposits of IB witnessed 7% growth in FY20 and share of CASA stood at 34.6%. 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. Proportion of CASA (as a percentage of total deposits) stood at 34.64% as on March 31, 2020 (PY: 34.71%). Post amalgamation with benefits of high CASA ratio of AB, CASA deposits of amalgamated entity increased to 42% as on June 30, 2020. Same is likely to help the amalgamated entity to have relatively low cost of funds.

**Relatively strong capital adequacy levels**

IB is among the well-capitalised public sector banks as on March 31, 2020. The bank has been able to maintain total capital adequacy ratio comfortably at 13.21% as on March 31, 2019, which has further increased to 14.12% as on March 31, 2020, supported by fresh equity infusion from Gol. Total CAR of combined entity stood at 13.27% as on April 01, 2020. Total CAR further improved to 13.45% as on June 30, 2020 well above regulatory requirement of 11.5% (as on April 1, 2021) as stipulated by RBI. CET 1 CAR also continues to be relatively strong at 10.30% as on June 30, 2020. As on June 2020, the bank has additional Tier 1 capital of Rs.500 crore.

**Moderate asset quality**

IB has witnessed improvement in GNPA% in FY20. GNPA has improved from 7.11% as on March 31, 2019 to 6.87% as on March 31, 2020, partly supported by 10% y-o-y growth in advances. On absolute basis, GNPA stood at Rs.14,151 crore as on March 31, 2020 (PY: Rs.13,353 crore). Slippage ratio has increased from 2.46% in FY19 to 3.04% in FY20. However, GNPA of amalgamated bank has increased sharply and GNPA% stood at 10.90% as on June 30, 2020. On account of higher provisions made by AB, provision coverage ratio of the amalgamated entity stood better at 68.09% as at the end of June 2020.

The bank has extended to moratorium to all its customers as per RBI circular. As at the end of June 2020, around 23% of term loan customers by value has availed moratorium. The bank has offered COVID-19 emergency loan. Overall disbursement under the same stood at Rs.1,374 crore. While moratorium offered to all, it is mostly used by MSME sector and self-employed retail housing loan borrowers. Considering that Retail and MSME portfolio each accounted for 17% of portfolio outstanding as on June 30, 2020, impact on asset quality post lifting of moratorium remains to be seen.

**Weak financial performance of amalgamated entity with losses in FY20**

On standalone basis, IB has witnessed improvement in profitability during FY20 with ROTA of 0.26% (PY:0.12%). Supported by growth in advances of 10%, interest income grew by 12% in FY20 and net interest income (NIM) grew by 8%. NIM witnessed dip of around 12 bps in FY20 and stood at 2.73% from 2.85% in FY19. During FY20, NIM grew at 8%. However, non-interest income grew by 76% mainly supported by increase in the profit on sale of investments from Rs.175 crore in FY19 to Rs.880 crore in FY20. Supported by increase in non-interest income, operating profit grew by 33% in FY20. Though provisions has witnessed increase in FY20, due to high growth in operating profit, ROTA increased to 0.26% in FY20 as against 0.12% in FY19. However, on combined basis, the amalgamated entity has reported loss of Rs.4,643 crore in FY20. While pre-provision profit stood at Rs.9,587 crore, on account of higher provisions which stood at Rs.13,261 crore, amalgamated entity reported losses in FY20.

During Q1FY21, amalgamated IB has reported PAT of Rs.369 crore as against Rs.492 crore in Q1FY20. Supported by growth in both net interest income and non-interest income, pre-provision profit witnessed improvement in Q1FY21. However, due to higher provisions PAT witnessed y-o-y dip in Q1FY21.

**Liquidity: Adequate**

As per the structural liquidity statement of the bank as on May 31, 2020, the bank has no negative cumulative mismatches across all its time buckets. The bank had excess SLR holdings of Rs.34,262 crore as on June 30, 2020. The LCR as on March 31, 2020 stood at 119.72% (159.30% as on June 30, 2020) against the minimum regulatory requirement of 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 \(Tier I & Tier II\)](#)

[Consolidation and Factoring Linkages in Rating](#)

**About Indian Bank**

Indian Bank (IB) was established on August 15, 1907, as part of the Swadeshi movement. The Ministry of Finance (MoF), in consultation with Reserve Bank of India (RBI) decided that Indian Bank and Allahabad Bank may consider amalgamation of the Allahabad Bank into Indian Bank, on August 30, 2019, with Indian bank being the anchor bank. Amalgamation of Allahabad Bank (AB) into IB came into effect on April 1, 2020. The amalgamation of AB into IB has placed IB as the 7th largest bank with a total business of Rs.857,499 crore as on June 30,2020.

Gol stake in the bank stood at 83.46% (PY: 81.49%) as on March 31, 2020. Post amalgamation, Government of India's stake increased to 88.06% stake in the bank followed by HDFC Trustee Company Limited 1.91%, LIC 1.85% as on June 30, 2020. As on June 30, 2020, the bank (on combined basis) had 6,062 branches. The bank also has 3 overseas branches located at

Singapore, Colombo and Jaffna. The bank has 2 subsidiaries, viz., Indbank Merchant Banking Services Ltd and Indbank Housing Ltd. and a joint venture, namely, Universal Sompo General Insurance Co Ltd. As on June 30, 2020, the bank had advances of Rs.339,482 crore and deposits of Rs.489,109 crore.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	FY20 *	Q1FY20*
Total operating income	21,068	24,717	44,099	11,447
PAT	322	753	-4643	369
Total Assets	2,76,970	3,06,480	5,62,489	5,75,766
Net NPA (%)	3.75	3.13	4.19	3.76
ROTA (%)	0.12	0.26	-	0.26

A: Audited \*Combined Indian Bank and Allahabad Bank

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Tier II Bonds(Basel III)	July 28, 2016	INE562A08016	10.25%	28-07-2026	600.00	CARE AAA; Negative
Tier II Bonds(Basel III)	October 30,2018	INE562A08024	8.90%	30/10/2028	290.00	CARE AAA; Negative
Tier II Bonds(Basel III)	November 6,2018	INE562A08032	8.85%	06/11/2028	110.00	CARE AAA; Negative
Tier II Bonds(Basel III)	January 22,2019	INE562A08040	8.53%	22/01/2029	600.00	CARE AAA; Negative
Tier II Bonds(Basel III)	January 27,2017	INE428A08051	8.15%	25/01/2027	1000.00	CARE AAA; Negative
Proposed Tier II Bonds(Basel III)	-	-	-	-	2000.00	CARE AAA; Negative
Additional Tier I Perpetual Bonds (Basel III)	March 30, 2016	INE562A09055	11.15%	Perpetual	500.00	CARE AA; Negative
Proposed Additional Tier I Perpetual Bonds (Basel III)	-	-	-	-	500.00	CARE AA; Negative
Proposed Additional Tier I Perpetual Bonds (Basel III)	-	-	-	-	2000.00	CARE AA; Negative
Infrastructure Bonds(Proposed)	-	-	-	-	1000.00	CARE AAA; Negative

## 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; Negative	-	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; Negative	-	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; Negative	-	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; Negative	-	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; Negative	1)CARE AAA (Under Credit watch with Developing Implications) (25-Aug-20)	-	-	-
6.	Bonds-Tier I Bonds	LT	2000.00	CARE AA; Negative	1)CARE AA+ (Under Credit watch with Developing Implications) (25-Aug-20)	-	-	-
7.	Bonds-Tier II Bonds	LT	1000.00	CARE AAA; Negative	-	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities**

Name of the Instrument	Detailed explanation
<b>Non- financial covenants</b>	
Conditions for exercise of call option	<p>The Issuer may at its sole discretion, subject to above conditions for call having been satisfied and having notified the Trustee not less than 21 calendar days prior to the date of exercise of such Issuer Call may exercise a call on the outstanding Bonds.</p> <p>The Issuer Call, which is discretionary, may or may not be exercised on the fifth anniversary from the Deemed Date of Allotment, i.e. the fifth Coupon or on coupon payment date thereafter.</p>

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Infrastructure Bonds	Simple
2.	Bonds-Tier I Bonds	Complex
3.	Bonds-Tier II Bonds	Complex
4.	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.

## Contact us

### Media Contact

Name – Mr. Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name: Mr. P Sudhakar  
Tel: 044-2850 1000  
Email: [p.sudhakar@careratings.com](mailto:p.sudhakar@careratings.com)

### Relationship Contact

Name: Mr. Pradeep Kumar V  
Contact no.: 044-2850 1001  
Email ID: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

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### Disclaimer

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