

Indian Bank

Brickwork Ratings (BWR) reaffirms the ratings for the Basel III Tier-II Bond issues of Rs 1,500 Crs. of Indian Bank

Particulars

Facilities / Instrument**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (10-Nov-2022)	Present
Basel III Tier-II Bonds^	1,500	1,500	Long Term	BWR AAA/ Stable (Reaffirmed)	BWR AAA/ Stable (Reaffirmed)
Total	1,500	1,500	Rupees One Thousand Five Hundred Crores Only		

Note: ^The aforesaid bonds were issued/raised by Allahabad Bank and, on amalgamation, transferred to Indian Bank.

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of Bonds are provided in Annexure-II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms BWR AAA/Stable for the Basel III Tier-II bond issues of Rs. 1,500 Crs., which were transferred from Allahabad Bank to Indian Bank on amalgamation. The amalgamation of Allahabad Bank with Indian Bank was initially announced on 30 August 2019 by the Government of India (GOI), and the amalgamation was completed effective 1 April 2020.

The rating reaffirmation continues to factor in the strong support of the Government of India, being the promoter and major shareholder with a 79.86% stake in Indian Bank as on 30 September 2023. The rating factors in the established market position, comfortable capital adequacy and resource profile. The rating also factors in the moderate, albeit improving, asset quality and modest earnings profile of the bank. BWR maintains a Stable outlook for the bank as the bank’s business risk profile is likely to remain unchanged over the medium-term, indicating a low likelihood of a rating change over the medium-term.

KEY RATING DRIVERS

Credit Strengths:-

- **Strong support and majority ownership of the Government of India:** There is high sovereign support to the bank, with the GOI holding 79.86% as on 30 September 2023. The GOI’s support of public sector banks (PSBs) has always been of prime importance. Being the key promoter-shareholder, the GOI has continued to support PSBs even in times of distress, through various recapitalisation plans announced over the years. The GOI’s support to the bank in the form of capital infusion is expected to continue, given that the bank is one of the major PSBs in the country. The GOI is expected to provide

capital support to the bank, as and when required, for business growth, as well as to strengthen the balance sheet to cover any asset-side risks.

- **Established track record and a significant increase in the scale of operations:** Indian Bank was established on 15 August 1907, has an established operational track record of around eleven decades, and is among the large PSBs in India in terms of business and outreach. The total business size has been improving and stood at Rs. 10,78,650 Crs. as on 30 Sep 2023 against Rs. 9,88,953 Crs. as on 30 Sep 2022, showing an increase of 9% Y-o-Y. The Global Advances stood at Rs 4,92,288 Crs. as of 30 Sep 2023, compared with Rs. 4,37,941 Crs. as on 30 Sep 2022. Around 38% of the total domestic advances were to the corporate segment, 21% was to the retail segment, 24% to the agriculture sector, and 17% was to the MSME segment as on 30 Sep 2023. The bank has 5,822 branches, including 3 overseas branches, over 4,866 automated teller machines/bunch note acceptors (ATMs/BNAs) and 10,825 business correspondents (BCs).
- **Comfortable capitalisation:** The total CRAR of the bank stood at 15.53% as on 30 Sep 2023, well above the regulatory requirement of 11.50% (as on 1 October 2021) as stipulated by the Reserve Bank of India (RBI). The Common equity tier 1 (CET 1) ratio also continues to be fairly strong, at 12.07% as on 30 Sep 2023. As on 30 Sep 2023, Indian Bank's standalone net worth (Capital + Reserves & Surplus) was comfortable at Rs. 51,661.84 Crs. to net NPA of Rs. 2,826 Crs., equating to a net worth-to-NNPA cover of 18.28 times.

Credit Risks:-

- **Improving Asset quality & Modest earnings profile remain monitorable:** Gross NPA improved to 5.95% at end-March 2023 from 8.47% at end-March 2022, and was at 4.97% as of 30 September 2023. The Net NPA ratio too improved to 0.90% at end-March 2023 from 2.27% at end-March 2022, and was at 0.60% as of 30 Sep 2023.
- During H1FY24, the bank's fresh slippages to NPA were Rs. 3,730 Crs. (FY23: Rs. 6,642 Crs.), and recoveries were Rs. 2,172 Crs. (FY23: Rs. 4,524 Crs.), technical write-offs were Rs. 4,130 Crs (FY23: Rs. 7,189 Crs) and normal write-offs were Rs. 316 Crs (FY23: Rs. 1,052 Crs.), upgrades were Rs. 909 Crs (FY23: Rs. 1,146 Crs). The net profit for FY23 stood at Rs. 5,282 Crs. against a net profit of Rs. 3,945 Crs in FY22. Net profits for the half-year ended 30 Sep 2023 stood at Rs. 3,697 Crs. against Rs. 2,439 Crs. for the corresponding period last year. The Domestic Net Interest Margin (NIM) stood at 3.52% for the half-year ended 30 September 2023. The Provision Coverage Ratio (PCR) excluding technical write-offs stood comfortable at 88.46% as on 30 Sep 2023.
- Improving the asset quality, maintaining the NIMs, and continuing to reduce the provisioning costs, are likely to remain key for Indian Bank to improve its earning profile over the near-to-medium term.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR has considered the standalone performance of Indian Bank. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: Not applicable since the ratings are at the highest end of the rating scale.

Negative: A reduction in government support and the GoI's stake in the bank falling below 51% could negatively impact the ratings and/or outlook. A substantial deterioration in Indian Bank's asset quality, resulting in an adverse impact on the profitability and capitalization metrics, could also adversely impact the ratings and/or outlook.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:

NCDs:

- All the NCDs are Unsecured redeemable non-convertible Basel III compliant tier II bonds in the nature of debentures (Series I and II).
- For Series I (ISIN INE428A08028), coupon rate is 8.78%, the date of maturity is 20/1/2025. Frequency of interest payment: interest is payable annually on 20 January every year till maturity.
- For Series II (ISIN INE428A08044), coupon rate is 8.64%, the date of maturity is 20/12/2025. Frequency of interest payment: interest is payable annually on 21 December every year till maturity.

Note on BASEL III TIER-II Instruments: The key features of Tier-II capital instruments under Basel III is the existence of the Point of Non-Viability (PONV) trigger. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. The triggering of the PONV may result in the loss of principal to the investors and a default of the instrument. Given the robust regulatory and supervisory framework and the systemic importance of the banking sector, BWR believes that the PONV getting triggered is a remote possibility. The inherent risk associated with the PONV feature is adequately factored into the rating of the instrument. The rating for such instruments is generally at par with the base rating of the issuer and may be lower in the case of any adverse rating sensitivity.

LIQUIDITY INDICATOR: ADEQUATE

As on 30 June 2023, the bank had a Liquidity Coverage Ratio (LCR) of 136.28%, which is well above the minimum regulatory requirement of 100%. The Basel III leverage ratio was 6.04% as of 30 June 2023. The bank's Asset-Liability Maturity (ALM) Statement of 31 March 2023 showed no cumulative negative gaps in all the time buckets (ranging from 1 Day to Over 5 Years). In addition, the bank has access to borrowing from the RBI's liquidity adjustment facility and marginal standing facility, along with access to the call money markets.

COMPANY PROFILE

Indian Bank, established on 15 August 1907, is a large Public Sector Bank in India. The Ministry of Finance (MoF), in consultation with the Reserve Bank of India, decided that Indian Bank and Allahabad Bank may consider the amalgamation of Allahabad Bank into Indian Bank, on 30 August 2019, with Indian Bank being the anchor bank. This amalgamation came into effect on 1 April 2020. Shri Shanti Lal Jain is Managing Director and Chief Executive Officer of Indian Bank since 1st September 2021.

As on 30 September 2023, Indian Bank had 5,819 domestic branches, out of which 1,974 are Rural, 1,522 are Semi-Urban, 1,174 are Urban, and 1,149 branches are Metro. The Bank has 4,866 ATMs & Bunch Note Acceptors, and 10,825 Business Correspondents. The bank also has three overseas branches located in Singapore, Colombo, and Jaffna.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	Standalone		
		FY22 (31 Mar 2022)	FY23 (31 Mar 2023)	Q2FY24 (30 Sep 2023)
		Audited	Audited	Reviewed
Total Assets	Rs. in Crs.	6,71,668	7,10,500	7,38,767
Business	Rs. in Crs.	9,82,804	10,70,463	10,78,650
CASA ratio	%	41.77	41.99	40.11
Gross NPA	%	8.47	5.95	4.97
Net NPA	%	2.27	0.90	0.60
PCR (Excluding technical write-offs)	%	74.87	85.65	88.46
NIM	%	2.87	3.59	3.46
RoA (annualised for quarterly)	%	0.63	0.77	1.06
Net Profit	Rs. in Crs.	3,945	5,411	1,988
CET I ratio	%	12.53	12.89	12.07
Tier I ratio	%	13.17	13.48	12.63
Total CRAR ratio	%	16.53	16.49	15.53

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY): NA

ANY OTHER INFORMATION: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

Instrument / Facilities	Current Rating 2023			Rating History		
	Tenure (Long Term/ Short Term)	Amount (Rs. Crs.)	Rating	2022	2021	2020
Basel III - Tier II Bonds	Long term	1500.00	BWR AAA/Stable Reaffirmed	BWR AAA/Stable Reaffirmed (10-Nov-2022)	BWR AAA/Stable Reaffirmed (09-Nov-2021)	BWR AAA/Stable Assigned (30-Oct-2020)

COMPLEXITY LEVELS OF THE INSTRUMENTS - HIGHLY COMPLEX

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Complexity levels](#)
- [Capital Instruments Issued by Banks and Financial Institutions](#)

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**Indian Bank
ANNEXURE I:**

Details of Bank Loan Facilities rated by BWR: NA

ANNEXURE II:

INSTRUMENT (Bonds) DETAILS

Instrument	Issue Date	Amount Rs. Crs.	Coupon Rate	Maturity Date	ISIN Particulars
Basel III - Tier II Bonds (Series I)	20 Jan 2015	500.00	8.78%	20 Jan 2025	INE428A08028
Basel III - Tier II Bonds (Series II)	21 Dec 2015	1000.00	8.64%	20 Dec 2025	INE428A08044

Total: Rupees One Thousand Five Hundred Crores Only

ANNEXURE III - List of entities consolidated

Sr No	Name of Entity	% ownership	Extent of consolidation (Full/Partial)	Rationale for consolidation (Subsidiary, JV, Associate, etc)
1	Ind Bank Merchant Banking Services Ltd.	64.84	Partial	Subsidiary
2	Ind Bank Housing Ltd.	51	Partial	Subsidiary
3	Tamilnadu Grama Bank	35	Partial	Associate
4	Saptagiri Grameena Bank	35	Partial	Associate
5	Puduvai Bharathiar Grama Bank	35	Partial	Associate
6	Universal Sompo General Insurance Bank Ltd	28.52	Partial	Joint Venture
7	ASREC (India) Ltd	38.265	Partial	Joint Venture

BWR has followed a standalone approach and aforesaid details are shared for reference

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