August 29, 2017

Indian Overseas Bank

Indian Overseas Bank has announced its Q1 FY2018 results on August 10, 2017.

Advances: During Q1FY2018, the bank has reported a YoY decline of 9.3% in gross advances, similar to the 9.2% contraction observed during FY2017. The QoQ decline stood at 4.2% in Q1FY2018. The decline in gross advances has been primarily driven by corporate segment, as the bank has been reducing its risk weighted assets to support its capitalisation profile.

Deposits: During Q1FY2018, the bank reported a YoY decline of 3.5% in total deposits as compared with a 5.9% contraction witnessed during FY2017. The bank's share of CASA deposits in total deposits stood at 35.9% as on June 30, 2017 (30.2% as on June 30, 2016 and 36.1% as on March 31, 2017).

Asset Quality: The asset quality weakened with gross NPAs (GNPAs) increasing to 23.6% as on June 30, 2017 (20.5% as on June 30, 2016 and 22.4% as on March 31, 2017) as the slippage rate continued to remain high at 10.4% (annualised) for Q1FY2018 (10.7% for FY2017). Bank's GNPAs was at Rs. 35,098 crore as on March 31, 2017, wherein the share of doubtful assets stood high at 70%, followed by sub standard (26%) and loss assets (4%). The net NPAs (NNPAs) increased to 15.0% as on June 30, 2017 (14.0% as on June 30, 2016 and March 31, 2017) resulting in further deterioration in the solvency indicator (NNPAs/Net worth) to 182.0% as on June 30, 2017 (176.7% as on June 30, 2016 and 170.6% as on March 31, 2017). While the fresh slippage rate for FY2018 is anticipated to be at around 6-8%, lower than the slippage rate observed during Q1FY2018, the bank's recovery efforts and time bound resolutions of NPAs would be crucial from an asset quality perspective and for limiting the incremental provisioning requirements.

Profitability: In-line with declining interest rate environment, the yield on advances declined to 8.2% during Q1FY2018 (9.5% in Q1FY2017 and 9.3% during FY2017) with a concurrent decline in the cost of deposits to 6.0% during Q1FY2018 (7.2% during Q1FY2017 and 6.0% during FY2017). The decline in yield on advances was relatively higher than decline in cost of deposits on account of bank's increasing share of non-performing assets. Accordingly, the Net Interest Margins (NIMs) (as % of average total assets – ATA) moderated to 1.7% for Q1FY2018 (2.0% during FY2017). The bank reported net losses of 0.8% (annualised) for Q1FY 2018 as compared with 1.3% for FY2017 as credit costs remained high at 2.6% for Q1FY2018 (2.7% in FY2017).

Capitalisation: The capital ratios (CET1, Tier 1 and CRAR as % of risk weighted assets) remained stretched at 7.6%, 8.3%, and 10.6% respectively as on June 30, 2017 in relation to the minimum regulatory requirement of CET1 and CRAR at 7.4% and 10.9% respectively by March 2018. The bank is expected to report net losses for FY2018, and would need sizable capital during the current fiscal to comply with the minimum regulatory capital levels.

- The results continue to remain weak in line with expectations of likely losses during FY2018, which is also reflected in a negative outlook on the bank's bond programme.
- Net losses during the last three fiscals have weakened the bank's capitalisation profile, which was supported by capital infusion from Government of India (Rs 4,660[1] crore during FY2016 and FY2017), LIC (Rs. 202 crore in FY2016) and QIP (Rs 262 crore in FY2017). During FY2018 and FY2019, the bank would require sizable capital infusion and ICRA will continue to monitor the bank's capital position. A weakening in capital levels or deterioration in asset quality will remain a near-term rating sensitivity.

ICRA currently has rating outstanding of [ICRA]A+(hyb) (pronounced ICRA A plus hybrid) for Basel III compliant tier-II bonds, [ICRA]A+ (pronounced ICRA A plus) for lower tier-II bonds, [ICRA]A- (pronounced ICRA A minus) for upper tier-II bonds and [ICRA]A- for perpetual bonds of the bank. The outlook on the long-term rating is Negative. ICRA also has rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) for the bank's certificate of deposit programme.

The previous rating rationale is available on the following link: Click here

Key Financial Indicators:

	FY2016	**FY2017**	**Q1FY2017**	**Q1FY2018**
Net Interest Income (Rs. Crore)	5,383	5,190	1245	1025
Profit before tax (Rs. Crore)	-3,728	-3,381	-1,447	-831
Profit after tax (Rs. Crore)	-2,897	-3,417	-1,451	-499
Net advances (Rs. Lakh Crore)	1.61	1.40	1.53	1.35
Total assets (Rs. Lakh Crore)	2.72	2.45	2.64	2.50
%CET 1	7.1%	7.6%	6.8%	7.6%
%Tier 1	7.7%	8.2%	7.4%	8.3%
% CRAR	9.7%	10.5%	9.5%	10.6%
% Net Interest Margin / Average total assets	1.9%	2.0%	1.9%	1.7%
%Net Profit / Average total assets	-1.0%	-1.3%	-2.2%	-0.8%
%Return on Net Worth	-21.9%	-29.5%	-45.8%	-17.6%
% Gross NPAs	17.4%	22.4%	20.5%	23.6%
% Net NPAs	11.9%	14.0%	14.0%	15.0%
% Provision coverage incl technical write offs	47.4%	53.6%	47.6%	53.1%
% Net NPA/ Net worth	145.0%	170.6%	176.7%	182.0%

Note: Total assets excluding revaluation reserves
Source: Indian Overseas Bank

[1] Includes Rs. 1,100 crore received in March 2017 and pending allotment

Analyst Contacts:

Mr. Karthik Srinivasan	**Mr. A M Karthik**	**Mr. Vivekanandan L**
+91 22 6114 3444	+91 44 4596 4308	+91 44 4297 4306
karthiks@icraindia.com	a.karthik@icraindia.com	l.vivekanandan@icraindia.com

Relationship Contact:

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	