

November 19, 2025

Indian Overseas Bank: [ICRA]AA (Stable) assigned to Basel III Tier II bonds; rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Tier II Bonds	1,000.00	1,000.00	[ICRA]AA (Stable); reaffirmed
Basel III Tier II Bonds	-	1,000.00	[ICRA]AA (Stable); assigned
Total	1,000.00	2,000.00	

*Instrument details are provided in Annexure I

Rationale

The rating continues to factor in sustained improvement in Indian Overseas Bank's (IOB's) profitability and capitalisation profile while growing its business at a healthy pace. IOB's sovereign ownership and the Government of India's (GoI) demonstrated track record of capital infusion into the bank provide further comfort. The GoI had infused equity capital of Rs. 24,074 crore into the bank during FY2018-FY2022 through recapitalisation bonds. ICRA notes that following FY2022, the bank has continuously seen improvement in its internal accrual generation and raised capital from external investors, which helped it strengthen its capitalisation profile. Accordingly, ICRA expects IOB to remain sufficiently capitalised with no requirement for regulatory or growth capital in the medium to near term. The proposed transitioning to loan loss provisioning, based on the expected credit loss (ECL) framework, on its capital and profitability levels is also expected to be manageable, given the improved capital and profitability position. Further, the rating continues to factor in IOB's well-established deposit franchise with a strong current account and savings account (CASA) deposit base, which also augments its strong liquidity profile. This leads to a competitive cost of interest-bearing funds for IOB in relation to the public sector banks' (PSB) average.

The rating takes into consideration the steady improvement in the headline asset quality numbers and the continued moderation in the overall vulnerable/monitorable book (comprising SMA¹-1, SMA-2 and the standard restructured book). Nevertheless, the bank's ability to control fresh gross slippages and forward flows from its vulnerable book would remain monitorable in the backdrop of the persisting geopolitical issues, impact of tariffs and concerns around over-leveraging among retail borrowers. In addition, ICRA notes that the bank's profitability has been supported by healthy recoveries from its stressed assets (including written-off accounts) and its ability to maintain the same, while keeping fresh NPA generation in check, will be crucial for profitability.

The Stable outlook on the rating factors in ICRA's expectation that IOB will be able to maintain a steady credit profile with healthy earnings while ensuring stable asset quality and strong capital cushions.

Key rating drivers and their description

Credit strengths

Sovereign ownership with demonstrated capital support from the GoI – IOB has majority sovereign ownership, with the GoI's equity stake in the bank at 94.61% as on September 30, 2025. The GoI infused equity capital of Rs. 24,074 crore into the bank during FY2018-FY2022 through recapitalisation bonds, including Rs. 4,100 crore in the form of zero-coupon bonds (ZCBs²) in

¹ SMA is defined as a special mention account; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days

² These ZCBs were issued at face value and are redeemable at face value after the 10-15th year from issuance; accordingly, the fair value is lower than the face value. IOB has accounted for these ZCBs at fair value from its March 2022 financials

March 2021. This enabled the bank to increase its provision cover on legacy stressed assets, improve its capital ratios above the regulatory levels and exit the Reserve Bank of India's (RBI) prompt corrective action (PCA) framework in September 2021.

Following that, the bank has seen an improvement in its profitability and has also raised capital in the market. This has helped it report an improvement in its capitalisation profile and hence ICRA estimates a limited near-term capital requirement for the bank for growth or regulatory purposes. Nevertheless, support is expected to be forthcoming if required.

Well-developed deposit franchise and strong liquidity position – IOB has a long-standing presence and an established retail franchise in South India with a total branch network of 3,373 as on September 30, 2025 (3,280 in March 2019). Its steady deposit base is supported by CASA deposits, which accounted for 40.52% of its overall deposits as on September 30, 2025 (42.44% as on September 30, 2024), remaining above the PSB average. Moreover, the bank's cost of interest-bearing funds (annualised) was 5.06% in Q1 FY2026 against the PSB average of 5.23%. Besides the high share of CASA deposits, the share of the top 20 depositors in total deposits remained low at 4.07% as on March 31, 2025. The granular deposit base and the high share of CASA deposits continue to strengthen the bank's resource and liquidity profile.

Strong capitalisation and solvency profile – The bank's core equity capital (CET I)/Tier I witnessed sustained improvement and stood at 15.53%³ as on September 30, 2025 vis-à-vis 14.75% as on September 30, 2024. While the capitalisation profile was supported by past infusions, IOB remained profitable during FY2021-H1 FY2026, leading to healthy internal capital generation. In addition, it raised Rs. 1,436 crore via qualified institutional placement (QIP) during Q4 FY2025. With the rise in the provision coverage ratio (PCR) on stressed assets and the increase in CET due to improved internal capital generation, the solvency level remains strong at 4.32% as on September 30, 2025. Given the high provision cover on legacy stressed assets and the decline in net NPAs (NNPAs), ICRA expects internal capital generation to be sufficient for growth as well as for maintaining strong cushions over the regulatory capital requirements.

With the improvement in capital and profitability, the proposed transition to ECL-based loan loss provisioning is also expected to be manageable.

Healthy profitability – With the increase in advances as well as the improvement in the credit-to-deposit ratio, the bank witnessed an improvement in its operating profitability to a healthy level of 2.15% of average total assets (ATA) in H1 FY2026 (2.21% in FY2025, 1.96% in FY2024). Operating profitability was also supported by strong recoveries from written-off accounts. While the bank maintains a healthy PCR on stressed assets and has also built up strong standard asset provisions, over and above the regulatory levels, credit costs were lower in H1 FY2026 and FY2025 than the high levels witnessed in the past. Accordingly, IOB reported healthy return metrics {return on assets (RoA)} of 1.14% in H1 FY2026 (0.90% in FY2025, 0.80% in FY2024). With legacy NPAs largely provided for, ICRA expects profitability to remain healthy on the back of low credit costs supported by improved asset quality.

Credit challenges

Asset quality remains monitorable – The annualised fresh NPA generation rate moderated to 0.51% of standard advances in H1 FY2026 from much higher levels in the past (1.71% in FY2025, 0.94% in FY2024, 3.19% in FY2023, 4.09% in FY2022). In addition, healthy recoveries/upgrades and significant write-offs in FY2025 and H1 FY2026 supported the decline in the gross NPA (GNPA) level to 1.83% as on September 30, 2025 from 2.72% as on September 30, 2024. Moreover, the bank's healthy PCR of 84.72% (excluding written-off accounts) as on September 30, 2025, as well as loan book growth, led to an improvement in the NNPA level to 0.28% from 0.47% during this period. Even though the vulnerable book has moderated from the high levels witnessed in the past, IOB's ability to limit slippages from this book will remain near- to medium-term monitorable. In addition, ongoing geopolitical issues, the impact of tariffs and concerns around over-leveraging among retail borrowers could adversely impact the asset quality metrics..

³ Excluding H1FY2026 Profits

Environmental and social risks

While banks such as IOB do not face material physical climate risks, they are exposed to environmental risks indirectly through their asset portfolio. If the entities or businesses to which banks and financial institutions have exposure face disruptions because of physical climate adversities, or face climate transition risks because of technological, regulatory or customer behaviour changes, this could translate into credit risks for banks. However, such risk is not material for IOB as it benefits from adequate portfolio diversification. Further, its lending is typically short- to medium-term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With respect to social risks, data security and customer privacy are among the key sources of vulnerability for banks, as material lapses could harm their reputation and invite regulatory censure. IOB has not faced material lapses over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce operating costs. IOB has been making the requisite investments to enhance its digital interface with customers. While it contributes to promoting financial inclusion by lending to underserved segments, its lending practices remain prudent, as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Strong

IOB's liquidity profile is strong, supported by its **robust** retail liability franchise. Moreover, the liquidity coverage ratio remained comfortable at 119.7% and the net stable funding ratio **at** 130.2% for the quarter ending September 30, 2025, against the regulatory requirement of 100%. Further, the bank can avail liquidity support from the RBI (through repo against excess statutory liquidity ratio (SLR) investments and **the** marginal standing facility mechanism) in case of urgent liquidity needs. Supported by its sovereign ownership, healthy liabilities profile and excess SLR holdings, ICRA expects IOB to continue maintaining a strong liquidity profile.

Rating sensitivities

Positive factors – IOB's ability to increase its scale of operations meaningfully while maintaining healthy profitability, a comfortable solvency profile and a strong capitalisation profile will be a positive factor.

Negative factors – The rating will be reassessed in case of a change in sovereign ownership. ICRA could also downgrade the rating if the asset quality or capitalisation profile deteriorates. Further, a RoA of less than 0.3% on a sustained basis will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions
Parent/Group support	The rating factors in IOB's sovereign ownership and the demonstrated track record of capital infusions by the GoI. ICRA expects the GoI to support the bank with capital infusions if required.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of IOB. However, in line with ICRA's consolidation approach, the standalone assessment of the bank factors in the ordinary and extraordinary support that it is expected to extend to its subsidiaries.

About the company

Established in 1937, IOB is a public sector bank (PSB) with the GoI holding an equity stake of 94.61% as on September 30, 2025. As on September 30, 2025, the bank had a well-established network of 3,373 branches. As on June 30, 2025, deposits stood at Rs. 3,30,792 crore, reflecting a CAGR of 8.02% since June 2021, while advances reached Rs. 2,58,032 crore, registering a CAGR

of 19.43% over the same period. As on June 30, 2025, bank's share in sector-wide deposits declined to 1.45% from 1.65% in June 2021, whereas its share in total advances improved to 1.41% from 1.24% during the same timeframe.

IOB reported a profit after tax of Rs. 2,337 crore in H1 FY2026 compared to Rs. 1,410 crore in H1 FY2025. Its asset quality indicators, i.e. gross NPA (GNPA) and net NPA (NNPA), stood at 1.83% and 0.28%, respectively, as on September 30, 2025 compared to 2.72% and 0.47%, respectively, as on September 30, 2024. The capitalisation metrics, i.e. CET I/Tier I and CRAR, stood at 15.53%⁴ and 17.94%, respectively, as on September 30, 2025, compared to 14.75% and 17.45%, respectively, as on September 30, 2024.

Key financial indicators (standalone)

Indian Overseas Bank	FY2024	FY2025	H1 FY2026
Total income	15,178	15,911	8,297
Profit after tax	2,656	3,335	2,337
Total assets* (Rs. lakh crore)	3.49	3.91	4.29
CET I	14.47%	17.13%	15.53%*
CRAR	17.28%	19.74%	17.94%*
PAT / ATA	0.80%	0.90%	1.14%^
Gross NPAs	3.10%	2.14%	1.83%
Net NPAs	0.57%	0.37%	0.28%

*Total assets exclude revaluation reserves

Source: IOB, ICRA Research; Amount in Rs. crore unless mentioned otherwise

Total income includes net interest income and non-interest income (excluding trading profit)

^ Annualised

* Excluding interim profits

All calculations as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

⁴ Excluding H1FY2026 profits

Rating history for past three years

	Instrument	Type	Current Rating (FY2026)		Chronology of Rating History for the Past 3 Years				
			Amount Rated	Date & Rating in FY2026	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	
			(Rs. crore)	Nov-19-2025	Nov-27-2024	Jan-03-2024	Nov-28-2023	Nov-30-2022	Nov-14-2022
1	Basel III Tier II Bonds	Long term	-	-	-	[ICRA]AA-(Positive); withdrawn	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
			-	-	-	-	-	-	[ICRA]AA-(Stable); withdrawn
			1,000.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	-
			1,000.00	[ICRA]AA (Stable)	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Basel III Tier II Bonds	Highly Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date [^]	Amount Rated (Rs. crore)	Current Rating and Outlook
INE565A08050	Basel III Tier II Bonds	Mar-24-2023	9.00%	Mar-24-2033 [^]	1,000.00	[ICRA]AA (Stable)
Unplaced	Basel III Tier II Bonds	NA	NA	NA	1,000.00	[ICRA]AA (Stable)

Source: Indian Overseas Bank

[^] Call option can be exercised by the bank at the end of five years after approval from the RBI

Key features of rated debt instrument

The servicing of the Basel III Tier II bonds is not subject to any capital ratios and profitability. However, these bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked. Further, the exercise of the call option on the Basel III Tier II bonds is contingent upon the prior approval of the RBI and the bank will need to demonstrate that the capital position is well above the minimum regulatory requirement, post the exercise of the said call option.

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
India International Bank (Malaysia)	35.00%	Full Consolidation
Odisha Grameen Bank	35.00%	Full Consolidation

Source: Indian Overseas Bank, ICRA Research

* As on March 31, 2025

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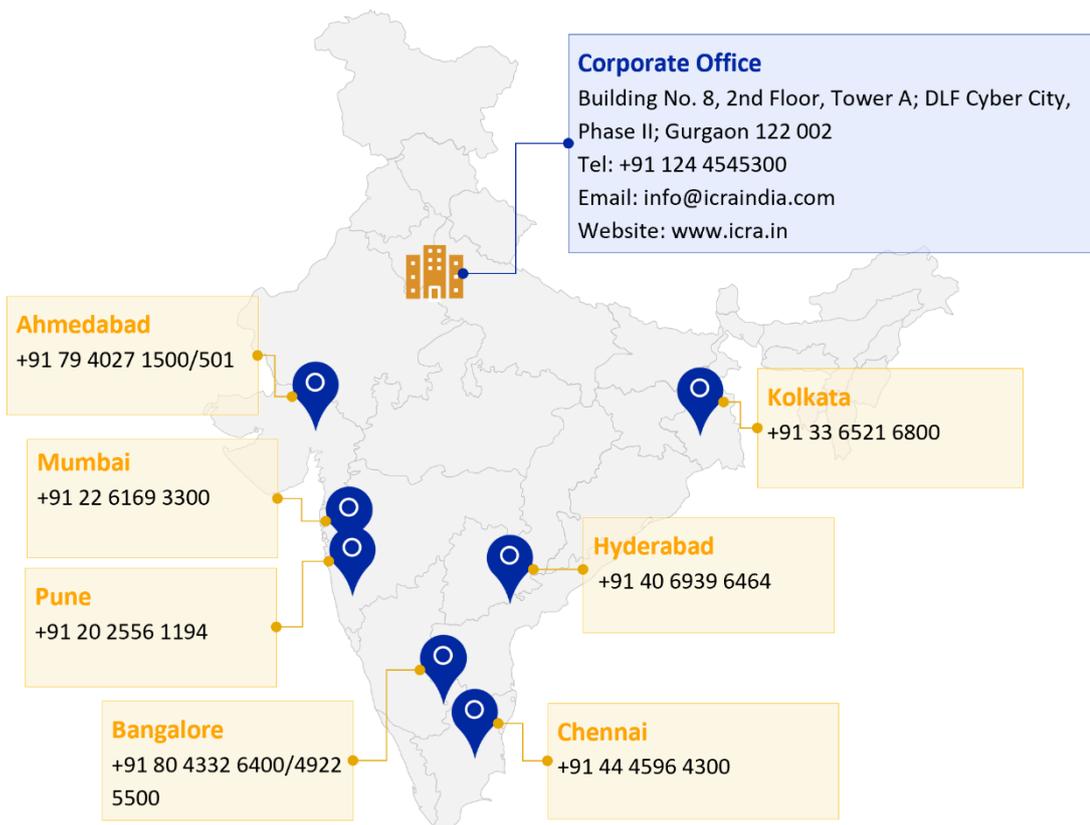
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