

## Indian Bank

Instrument	Amount (Rs. crore) <sup>1</sup>	Rating Action (September 2016)
Lower Tier-II Bonds	500.0	[ICRA]AA+(Stable); reaffirmed

ICRA has reaffirmed the [ICRA]AA+ (pronounced ICRA double A plus) rating for the Rs. 500.0 crore lower tier II bond programme of Indian Bank (IB). The outlook on the rating is stable.

The rating reaffirmation factors in the bank's sovereign ownership (82.1% stake held by the Government of India as on June 30, 2016), its strong retail franchise, good capitalization indicators (Common Equity Tier (CET)-I at 12.3% as on June 30, 2016) and comfortable liquidity profile. The rating takes cognizance of the weakening in the bank's asset quality (gross NPAs at 7.0% as on June 30, 2016 compared to 4.7% as on June 30, 2015) and profitability indicators (RoA at 0.36% for FY2016 compared to 0.54% in FY2015) during FY2016. However, ICRA notes that the bank's overall performance has been superior to that of other public sector banks. Going forward, IB's ability to control incremental slippages, undertake effective recoveries and control incremental credit costs would be crucial from a rating perspective.

During the 12 month period ending June 30, 2016, the bank's gross advances grew by 2%, and the share of corporate advances moderated from 49% to 47%. During the same period, the bank's total deposits grew by 1%, and the share of CASA deposits improved from 28% to 31% and the share of high cost bulk deposits moderated from 6% to 4%. The bank's liquidity coverage ratio stood comfortable at 136% as on June 30, 2016.

The bank's asset quality deteriorated further during Q4FY2016-Q1FY2017 with gross NPAs increasing from 5.6% as on December 31, 2015 to 7.0% as on June 30, 2016, and solvency<sup>2</sup> weakened from 29.4% as on December 31, 2015 to 40.3% as on June 30, 2016. IB's overall asset quality profile however remains better than most of its peers, aided by its relatively lower share of vulnerable corporate exposures. ICRA estimates that the bank's standard restructured assets (excluding state electricity boards) and other vulnerable assets stood at around 3.7% and 1.0% respectively as on June 30, 2016, indicating lower incremental pressure on its asset quality going forward.

The bank has a comfortable capitalization profile with Tier-1 capital at 12.8% (CET-1 at 12.3%) as on June 30, 2016, as against the minimum regulatory Tier-1 capital requirement of 9.5% (CET-1 of 8.0%) by March 2019<sup>3</sup>. ICRA notes that the bank's Tier-1 capital as on June 30, 2016 was the highest among public sector banks and it would not require any significant capital infusion over the near to medium term.

Higher credit provisioning cost (1.0% in FY2016 as compared with 0.8% in FY2015 and FY2014) resulted in its RoA moderating to 0.36% during FY2016 from 0.54% during FY2015 (0.67% in FY2014). However, lower incremental slippages and an improvement in net interest margin with a reduction in cost of funds, resulted in the RoA improving to 0.61% (annualized) during Q1FY2017.

### Bank Profile

Indian Bank is one of the larger commercial banks in the country, with a majority shareholding by the Government of India (82.1% as on June 30, 2016). The bank had an asset base of about Rs. 2.0 lakh crore (adjusting for the revaluation reserve) and a network of 2,584 branches and 2,958 ATMs as on June 30, 2016. Headquartered in Chennai, IB has a strong presence in South India.

### Recent Results

During FY2016, IB reported a net profit of Rs. 711 crore (Rs. 1,005 crore for FY2015) on a total asset base of Rs. 2.0 lakh crore as on March 31, 2016 (Rs. 1.9 lakh crore as on March 31, 2015). In Q1FY2017, the bank reported a net profit of Rs. 307 crore (Rs. 215 crore for Q1FY2016).

**September 2016**

<sup>1</sup> Rs. 1 crore = Rs. 10 million = Rs. 100 lakh

<sup>2</sup> Net NPA as a proportion of net-worth excluding revaluation reserve

<sup>3</sup> Including capital conservation buffer



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