

**Press Release**  
**Indian Overseas Bank**

**April 25, 2022**



**Rating Reaffirmed & Withdrawn**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>BOND</b>	500.00	ACUITE AA-   Reaffirmed & Withdrawn	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	0.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	500.00	-	-

**Rating Rationale**

Acuité has reaffirmed and withdrawn the long-term rating of **'ACUITE AA-'** (read as **ACUITE double A minus**) on the Rs. 500.00 Cr proposed Basel III Compliant Tier-II Bond program of Indian Overseas Bank (IOB).

The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating and on account of redemption letter and request received from the bank.

The rating takes into account the strong ownership and demonstrated capital support from the Government of India (GoI). GoI holds 96.38 percent stake in IOB Bank as on December 31, 2021, which is one of its largest shareholdings in any public sector bank and has infused equity capital of Rs. 22,625 Cr into the bank during FY2017-2020. The rating also factors in the IOB's well established branch network with pan India presence, high provision coverage ratio at 92.33 percent as on December 31, 2021 and a strong deposit franchise. The bank has a comfortable Current Account Saving Account (CASA) base, which accounted for 42.53 percent of the total domestic deposits as on December 31, 2021. Acuité has also taken note of IOB's focus on relatively low risk retail home and jewel loans which collectively account for major portion of gross advances as on December 31, 2021. However, these strengths are partly offset by moderate capitalization levels, legacy asset quality challenges with gross NPA levels of 10.40 percent as on December 31, 2021. The bank has nevertheless, shown signs of turnaround since March 2020, registering profits and a decline in GNPA levels which resulted in the exit from the PCA framework in September 2021.

**About the company**

Chennai based Indian Overseas Bank (IOB) was founded in 1937 and nationalised in 1969. The bank is engaged in retail banking, corporate/wholesale banking, priority sector banking, treasury operations and other banking services. The bank operates through a network of 3,214 branches across India and 4 overseas branches as on December 31, 2021. Government of India is a majority stakeholder with 95.84 percent stake in the bank as on December 31, 2021.

## Analytical Approach

Acuité has considered the standalone business and financial risk profile of IOB to arrive at the rating. The ownership and the ongoing support from the Government of India is central to the rating.

### Key Rating Drivers

#### Strength

##### **Ownership and demonstrated capital support from the Government**

Indian Overseas Bank (IOB), headquartered in Chennai, is among the 14 banks nationalised in 1969. The Government of India (GoI) holds 96.38 percent stake in IOB Bank as on December 31, 2021, (95.84 percent as on March 31, 2021) which is one of its largest shareholdings in any public sector bank. The bank has a pan India presence through a network of 3,214 branches of which 30 percent branches are in the semi-urban region of India followed by 28 percent in rural areas, 22 percent in large urban centres and balance 20 percent in urban region. IOB has a moderate international presence with 4 overseas branches, one each in Singapore, Hong Kong, Colombo and Bangkok. The bank plays a vital role in supporting various financial inclusion initiatives of the Government.

The GoI has been proactively supporting the Public sector Banks through a regular infusion of funds in order to ensure their financial health, necessary for discharging their role as catalysts of economic growth and financial inclusion. The GoI had recently announced mergers amongst the various public sector banks as a consolidation measure. As a part of this initiative, most of the relatively weak banks are being merged with the stronger PSU Banks based on criteria such as geographical orientation, technology platform commonality etc. Indian Overseas Bank, despite being under PCA framework, has been able to retain its independent identity as the Government has kept the bank outside the scope of these mega-mergers. This indicates the regional importance of IOB.

On account of the continued deterioration in its key operating metrics such as Capital Adequacy, Profitability and Asset Quality, Indian Overseas Bank was included in the PCA framework in 2015. Government has on an aggregate basis, infused Rs. 22,625 Cr in Indian Overseas Bank from FY2017 till FY2020, indicating the strategic importance of Indian Overseas Bank. The ongoing support from GoI has helped Indian Overseas Bank in maintaining its overall Capital Adequacy (CAR) which stood at 15.41 percent as on December 31, 2021 as against the required benchmark level 10.875 percent; CAR levels stood at 15.32 percent as on March 31, 2021 and 10.72 percent as on March 31, 2020. The tier-I equity capital stood at 12.94 percent as on December 31, 2021. While the reported CAR levels remain close to the regulatory requirements, the improvement in profitability is likely to build a moderate capital cushion over the near to medium term.

Acuité believes that the GoI will continue to provide significant support to large public sector banks like IOB, which plays a critical role in penetration of financial services and social development. Nonetheless, any material dilution in stake by the Government as part of the divestment programme will be a key monitorable.

##### **Improving base of low-cost deposits**

The resource profile of IOB derives significant strength from a robust Current Account Savings Account (CASA) base which has been steadily improving from 36.75 percent as on March 31, 2018 to 42.53 percent as on December 31, 2021 aided by steady accretion of savings deposits coupled with a considerable reduction of bulk deposits over this period. Despite a significant reduction in deposit rates including savings rates, the retail deposits grew by 14.08 percent year-on-year and CASA deposits increased by 9.27 percent year-on-year at the end of H1FY2021. This growth was partly also contributed by the increased risks perceived by depositors in the smaller private sector and cooperative banks. In line with the lower interest rates, the average cost of deposit has declined from 4.45 percent as on March 31, 2021 to 4.22 percent as on December 31, 2021.

Acuité expects Indian Overseas Bank to continue to benefit by way of access to lower cost

of funds on the back of its sovereign parentage, stable retail deposit base and improving CASA share.

## **Weakness**

### **Moderate Asset Quality**

Asset quality will remain a concern for the bank given the past legacy and the weak economic environment which got aggravated further due to the Covid pandemic. IOB's GNPA levels have nevertheless, steadily improved over the years from 11.69 percent as on March 31, 2021 to 10.40 percent as on December 31, 2021. The improvement was primarily on account of aggressive write-off and provisioning policy along with moderate recoveries. Restrictions on lending, while under the PCA framework, have resulted in moderation of incremental slippages. Incremental slippages declined from 11.66 percent in FY2018 to 5.12 percent for FY2020 supporting overall decline in Gross NPAs. Fresh slippages have improved to 2.22 percent as on March 31, 2021 which previously averaged ~ 7 percent for past 4 years.

IOB has been focusing on reducing their exposure towards corporate portfolio, reducing it from 31.52 percent as on March 31, 2019 to 16.73 percent as on December 31, 2021 mainly on account of increased delinquencies in key sectors such as Infrastructure, Power and Steel sector to which Indian Overseas Bank had significant exposure. The management's current underwriting strategy involves additional exposures to Retail, Agricultural and Micro, small and medium enterprises (MSME) segments which collectively accounted for about of total advances as on December 31, 2021.

Acuité does not expect the bank to witness any major surge in delinquencies and NPAs in the near term.

### **Sustainability of improvement in earning profile**

IOB's profitability metrics had remained weak as a result of moderate asset quality. The Bank had reported a net loss of Rs 8,527 Cr as on March 31, 2020 on account of high credit costs, provisioning and write-offs. However, the PAT levels improved to Rs. 831 Cr as on March 31, 2021 and further enhanced to Rs 1,179 crore as on December 31, 2021 on account of improvement in profitability and decline in GNPA levels. Return on Average Assets (RoAA) remained negative for FY2020 when compared to FY2021 where the ratio stood at a positive 0.31 percent. Despite improvement in low cost deposit base, the bank's Net Interest Margin remained low as a result of decline in outstanding advances and reversal of interest income from FY2018 to FY2021. The growth in loan book has also led decrease in cost to income ratio which stood at 44.62 as on December 31, 2021. (49.58 percent for March 31, 2021)

However, the bank has shown signs of turnaround since March 2020, registering profits and decline in GNPA levels. The improvement in profitability was mainly contributed by increase in treasury income (supported by the declining trend of yields). The bank's ability to maintain the momentum in treasury gains and improve recoveries from its written off accounts is crucial to sustain the improvement in profitability. The bank has been focusing on retail loans to boost its earning profile and containment of fresh slippages would also contribute towards moderate incremental provisions for non-performing assets.

The ability of the bank to sustain the improvement in key parameters and profitability amidst the current challenging environment will be critical to the maintenance of a stable credit profile.

## **ESG Factors Relevant for Rating**

Public sector banks play a significant role in promoting financial inclusion in the country including facilitation of banking services in unbanked areas. Healthy corporate governance practices are important for sustainability in a bank's long-term performance. Some of the critical governance factors in the banking sector include board independence and diversity, effectiveness of the board sub committees, shareholders' rights as well as policies on KMP compensation and business ethics. Further, for the financial services sector, data privacy, security of financial instruments and responsible investments are relevant social factors. Other material social factors involve employee management and talent retention given the manpower intensive nature of banking operations as also various initiatives for community

support and development. While the banking sector has low exposure to environmental risks, energy efficiency and electronic waste management carry moderate materiality.

Indian Overseas Bank (IOB) is a major Indian nationalised bank. It is under the ownership of Ministry of Finance, Government of India based in Tamil Nadu, India, with about 3,200 domestic branches, about 6 foreign branches and representative office. Founded in February 1937 by M. Ct. M. Chidambaram Chettyar with twin objectives of specialising in foreign exchange business and overseas banking, it has created various milestones in Indian Banking Sector. IOB maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding its Grievance Redressal, related party transaction, principles guiding interest rate determination, etc. The board of directors of the company comprise of MD & CEO, and six directors which include nominees from RBI and Government as well. Out of the 7 board members, 2 are female directors. The entity has audit committee, risk management committee, nomination and remuneration committee, credit committee, IT Strategy committee and corporate social responsibility committee. It continues to work on several community development initiatives through its corporate social responsibility. Company makes all efforts towards conservation of energy, protection of environment and ensuring safety.

### Rating Sensitivity

- Ownership of Govt and continuing support by way of capital infusion
- Improvement in capital adequacy levels
- Any significant changes in asset quality and profitability from the current levels

### Material Covenants

Not Applicable

### Liquidity Position: Strong

The bank's liquidity position is supported by sovereign ownership and stable liability franchise. Its liquidity coverage ratio stood at 168.91 percent as on March 31, 2021 as against minimum regulatory requirement of 100 percent. Further, excess SLR stood at Rs. 30,173Cr as on December 31, 2021.

### Outlook:

Not Applicable

### Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Interest Income	Rs. Cr	16,966	17,406
Interest Expense	Rs. Cr	11,067	12,103
Profit After Tax (PAT)	Rs. Cr	831	-8,527
Deposits	Rs. Cr	2,40,288	2,22,952
Net Advances	Rs. Cr	1,27,721	1,21,333
Investments	Rs. Cr	95,494	79,416
Capital Adequacy	(%)	15.32	10.72
Return on Average Assts (RoAA)	(%)	0.31	-3.34
Gross NPA's	(%)	11.69	14.78
Net NPA's	(%)	3.58	5.44

### Status of non-cooperation with previous CRA (if applicable):

Not applicable

### Any other information

None

### Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Feb 2021	Proposed Bond	Long Term	500.00	ACUITE AA-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Basel III compliant Tier II Bonds	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE AA-   Reaffirmed & Withdrawn

## Contacts

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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