

## Indian Overseas Bank

August 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Tier-II Bonds (Basel III) <sup>#</sup> – I	665.00	CARE AA; Stable	Revised from CARE AA-; Positive
Tier-II Bonds (Basel III) <sup>#</sup> – II	1,000.00	CARE AA; Stable	Revised from CARE AA-; Positive
Certificate of Deposit	10,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1

<sup>#</sup>Tier-II bonds under Basel-III are characterised by a 'point of non-viability' (PONV) trigger due to which the investor may suffer a loss of principal. The PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses, and raising the Common Equity Tier-I capital of the bank should be considered the most appropriate way to prevent the bank from turning non-viable.

### Rationale and key rating drivers

Revision in ratings assigned to debt instruments of Indian Overseas Bank (IOB) factors in continuous improvement in the bank's profitability indicators and asset quality parameters and comfortable capitalisation levels. The bank has been reporting continuous improvement in profitability metrics over last four years supported by improved net interest margin (NIM) and credit cost. Bank reported profit after tax (PAT) of ₹2,656 crore and return on total asset (ROTA) of 0.8% in FY24 as against PAT of ₹2,099 crore and ROTA of 0.7% in FY23. Asset quality improved aided by reduced slippages and higher write-offs. Gross non-performing asset (GNPA) and net NPA (NNPA) improved and stood at 3.10% and 0.57%, respectively, as on March 31, 2024, as against 7.44% and 1.83%, respectively, as on March 31, 2023. CARE Ratings Limited (CARE Ratings) notes that the Slippage ratio has reduced to 0.94% in FY24 from 3.18% in FY23.

Ratings continue to factor-in the majority ownership by Government of India (GoI) and its demonstrated funding support. CARE Ratings expects continuation of the strong support by GoI. Ratings also factor-in the long track record of operations with strong presence in south India, diversified advances book, and deposit base with comfortable current account savings account (CASA). However, ratings are constrained by moderate profitability despite improvement in FY24.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors – Factors that could individually or collectively, lead to positive rating action/upgrade:

- Consistent improvement in the profitability parameters.
- Significant improvement in the size of the bank with comfortable capitalization and maintaining good asset quality.

#### Negative factors – Factors that could individually or collectively, lead to negative rating action/downgrade:

- Reduction in government support and GoI's stake in the bank falling below 51%.
- Deterioration in capitalisation levels on a sustained basis and the inability to maintain cushion of 1% over the regulatory requirement.
- Deterioration in asset quality, with NNPA of 3.5% or more on a sustained basis.

**Analytical approach:** Standalone, factoring in the expected support from the GoI.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Outlook: Stable**

The stable outlook reflects CARE Ratings' expectation that bank will continue to maintain its financial risk profile with maintaining comfortable capitalisation while scaling up its advances.

**Detailed description of key rating drivers****Key strengths****Majority ownership and support by GoI**

IOB's credit profile mainly derives strength from the GoI ownership and its demonstrated support from the GoI in terms of capital infusion, management, and governance. CARE Ratings expects the GoI to continue its support to the bank. The GoI has been supporting public sector banks (PSBs) with regular capital infusions and has been taking steps to improve capitalisation and asset quality. With the continuous equity infusion of ₹27,634 crore over last nine years, the shareholding of GoI has increased from 73.80% as on March 31, 2015, to 96.38% as on March 31, 2024.

**Diversified advances profile with a relatively high proportion of retail, agri and MSME in total advances**

IOB reported growth in gross advances of 15.9% in FY24 with advances growing from ₹189,009 crore as on March 31, 2023, to ₹219,018 crore as on March 31, 2024, and further increased to ₹230,092 crore as on June 30, 2024. The retail, agri, and MSME (RAM) advances continue to constitute the major portion of advances, forming 66.53% of the advances as on March 31, 2024 and 67.13% as on June 30, 2024 (64.15% as on March 31, 2023). The share of corporate & overseas advances stood at 33.47% as on March 31, 2024 as against 35.85% as on March 31, 2023. As on March 31, 2024, Retail, Agriculture and Msme book constituted 22.15%, 25.40%, and 18.97%, respectively.

Exposure to top 20 individual borrowers constituted about 159.6% of the net worth and 18.4% of the gross advances as on March 31, 2024. Notably, most of the top borrowers were government-owned entities and highly-rated corporate accounts, and the same is expected to remain key focus areas for bank in the medium term. CARE Ratings expects the proportion of RAM to remain at similar levels in the medium term.

**Strong deposit base with comfortable CASA proportion**

IOB's deposit base has been steadily growing over the years. In FY24, the bank deposits registered a growth of 10% and stood at ₹285,905 crore in FY24 as against ₹260,883 crore as on March 31, 2023 and further grew by 4.5% in Q1FY25 and stood at ₹298,681 crore as on June 30, 2024. The CASA deposits remained stable comprising 43.9% as on March 31, 2024, as against 43.7% as on March 31, 2023. CASA proportion stood at 42.17% as on June 30, 2024. Bulk term deposits have remained stable in FY24. The proportion of bulk term deposits stood at 5.01% of the total deposits as on March 31, 2024 (4.57% as on March 31, 2023). CARE Ratings expects CASA proportion to remain stable over the medium term.

**Comfortable capitalisation levels**

The bank was placed under prompt corrective action (PCA) in October 2015, considering the high NNPA and loss reported in FY15. After the bank was placed into the PCA framework, it has been continuously raising equity, mainly from the GoI to bring back capital adequacy levels above the regulatory requirement. In September 2021, the bank was moved out of the PCA framework, and since then its capitalisation has been on an improving trend. The bank has raised ₹4,100 crore equity from GoI in the form of zero-coupon bonds in FY21 and unwinding of the same every year would also improve capital adequacy ratio (CAR) gradually. As on March 31, 2024, CAR and Tier-I CAR stood at 17.28% and 14.47% as on March 31, 2024, as against 16.10% and 12.88%, respectively, as on March 31, 2023. CAR and Tier-I CAR further improved in Q1FY24 and stood at 17.82% and 14.99%, respectively, as on June 30, 2024, as against the regulatory requirement of 11.5% and 9.50%, respectively.

CARE Ratings expects capital adequacy to remain comfortable in the medium term.

**Improvement in asset quality parameters in FY24**

Over the last four years, bank's asset quality has witnessed significant improvement supported by lower slippages, better recoveries, and higher write-offs. GNPA improved from 7.44% as on March 31, 2023 to 3.10% as on March 31, 2024 and NNPA improved from 1.83% as on March 31, 2023 to 0.57% as on March 31, 2024. CARE Ratings notes that the bank has written-off a portfolio amounting to ₹7,214 crore. The slippage ratio improved to 0.94% in FY24 from 3.18% in FY23. GNPA and NNPA further improved and stood at 2.89% and 0.51% as on June 30, 2024.

The bank's provision coverage ratio (including technically written-off accounts) also stood healthy at 96.85% as on March 31, 2024 as against 92.63% as on March 31, 2023. The bank's gross stressed assets position (GNPA+ Standard restructured assets+ Security Receipts) as a percentage of gross advances also witnessed improvement from 11.39% as on March 31, 2023 to 5.71% as on March 31, 2024. Net stressed assets as a percentage of the net worth stood at 25.41% as on March 31, 2024 (44.54% as on March 31, 2023).

**Key weaknesses****Moderate profitability albeit improvement seen in FY24**

The net interest income (NII) increased to ₹9,829 crore in FY24 as against ₹8,255 crore in FY23 in line with increase in the advances book. Non-interest income (as a % of total assets) improved to 1.71% in FY24 from 1.35% in FY23 aided by profits from revaluation of investments and recovery from written-off accounts. CARE Ratings notes that recovery from written-off accounts contribute a significant amount to the non-interest income. The bank's NIM has improved from 2.72% in FY23 to 2.98% in FY24. The improvement in NIM can also be attributed to improvement in the credit deposit (CD) ratio and improvement in retail yield. The CD ratio (net advances/ deposits) improved to 74.6% as on March 31, 2024 as against 68% as on March 31, 2023, aided by healthy loan book growth in FY24. The bank's operational expenses increased to 2.64% in FY24 from 2.11% in FY23 due to increase in employee expenses on account of one-time additional provisioning for superannuation based on bipartite agreement. Furthermore, the bank's credit cost also stood lower at 1.02% in FY24 from 1.18% in FY23 with improvement in asset quality parameters. Consequently, the bank's ROTA witnessed improvement to 0.80% in FY24 as against 0.69% in FY23. However, it continues to remain moderate in comparison to the industry. The bank's ability to improve asset quality by limiting credit cost, thereby protecting the earnings profile, will be a key rating monitorable.

In Q1FY25, IOB reported a profit after tax (PAT) of ₹633 crore on a total income of ₹7,568 crore as against a PAT of ₹500 crore on a total income of ₹6,227 crore in Q1FY24. CARE Ratings expects the bank to sustain the profitability levels in the medium term, with credit costs remaining moderate in line with the industry.

**Liquidity: Strong**

The bank's liquidity profile remains strong, with no cumulative negative mismatches upto one year as per the asset and liability management (ALM) statement submitted by the bank as on June 30, 2024. The bank's liquidity coverage ratio remained comfortable at 117% as on June 30, 2024, as against the regulatory requirement of 100%. In addition, the bank had excess statutory liquidity ratio (SLR) investments of ₹16,855 crore as on June 30, 2024, translating into 5.42% of net demand and time liabilities (NDTL).

**Environment, social, and governance (ESG) risks**

Given that IOB is engaged in the lending business, it may be exposed to environmental risks indirectly through its portfolio of assets. The banking sector, with financial inclusion being the prime agenda, has a social impact on the economy.

The bank has demonstrated a commitment to environmental sustainability through its adoption of green energy initiatives, such as the implementation of alternative sources such as solar power. The bank has also implemented energy-saving measures.

Furthermore, the deployment of harmonic filters and utilisation of energy efficient, star-rated electrical appliances have significantly decreased electricity consumption, thereby decreasing Scope 2 emissions. During the year, the bank has taken several ESG initiatives such as launching green loan facilities for E-Bike/Car (IOB Vehicle), renewable solar equipment (IOB Surya), and wind mills. The bank has also taken several initiatives for paperless banking such as online account opening with video KYC, Electronic Bank Guarantee and national & cross border payment system with Bhim UPI, thus, reducing the Bank's carbon footprint. The bank has introduced a green deposit scheme under which deposits raised shall be utilised for financing green activities and projects. The bank has opened Financial literacy centres called SNEHA, which was initiated at 24 locations and has introduced special credit products for women.

The bank recognises the critical importance of effective Corporate Governance for the safe and sound functioning of the bank, laying emphasis on ensuring that structures, processes, and systems are put in place to establish strategic objectives to serve the interest of the bank and its stakeholders, which also facilitate effective monitoring.

### Applicable criteria

[Definition of Default](#)

[Factoring Linkages Government Support](#)

[Rating Outlook and Rating Watch](#)

[Bank](#)

[Financial Ratios - Financial Sector](#)

[Rating Basel III - Hybrid Capital Instruments issued by Banks](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Banks	Public sector bank

IOB was founded by M. Ct. M. Chidambaram Chettiyar in 1937 and was nationalised by GoI in 1969. Currently, IOB is one of the 12 PSBs in India. As on March 31, 2024, GoI holds 96.38% in IOB followed by institutional investors, public, and others.

As on March 31, 2024, IOB was operating in India through 3,236 branches, 3,506 ATMs, and 6,379 business correspondence (BC) relationships. The bank also has presence in overseas countries through four branches, Singapore, Hong Kong, Colombo, and Bangkok. As on March 31, 2024, IOB has a total business (Deposits + Advances) of ₹504,923 crore through its domestic (3,236 branches) and overseas presence (four countries).

IOB has two joint ventures (JVs), Universal Sompo General Insurance Company Limited (USGI) with equity participation of 18%, and Indian International Bank (Malaysia), Berhad, (IIMB) with equity participation of 35%. In addition, the bank is also a sponsor for an RRB, Odisha Gramya Bank (35% shareholding).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	23,509	29,706	7,568
PAT	2,099	2,656	633
Total assets*	310,993	349,311	366,497
Net NPA (%)	1.83	0.57	0.51
ROTA (%)	0.69	0.80	0.71

A: Audited UA: Unaudited; Note: these are latest available financial results

\*Total assets adjusted for revaluation reserve.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instruments/facilities:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Certificate Of Deposit		-	-	-	10000.00	CARE A1+
Tier-II Bonds (Basel III)-I	INE565A08043	31-Mar-2022	8.60%	31-Mar-2032	665.00	CARE AA; Stable
Tier-II Bonds (Basel III)-II	INE565A08050	24-Mar-2023	9.00%	24-Mar-2033	1000.00	CARE AA; Stable

#### Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Bonds-Tier-II Bonds	LT	665.00	CARE AA; Stable	-	1)CARE AA-; Positive (06-Oct-23) 2)CARE AA-; Stable (10-Aug-23)	1)CARE AA-; Stable (16-Dec-22)	1)CARE AA-; Stable (08-Mar-22)
2	Bonds-Tier-II Bonds	LT	1000.00	CARE AA; Stable	-	1)CARE AA-; Positive (06-Oct-23)	1)CARE AA-; Stable (16-Dec-22)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
						2)CARE AA-; Stable (10-Aug-23)		
3	Certificate Of Deposit	ST	10000.00	CARE A1+	-	1)CARE A1+ (06-Oct-23) 2)CARE A1+ (10-Aug-23)	-	-

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier-II Bonds	Complex
2	Certificate of deposit	Simple

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

## Contact Us

<p><b>Media Contact</b></p> <p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Pradeep Kumar V Senior Director <b>CARE Ratings Limited</b> Phone: +91-44-2850 1001 E-mail: <a href="mailto:pradeep.kumar@careedge.in">pradeep.kumar@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Sanjay Agarwal Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3500 E-mail: <a href="mailto:sanjay.agarwal@careedge.in">sanjay.agarwal@careedge.in</a></p> <p>Vineet Jain Senior Director <b>CARE Ratings Limited</b> Phone: +91-44-6754 3456 E-mail: <a href="mailto:vineet.jain@careedge.in">vineet.jain@careedge.in</a></p> <p>Ravi Shankar R Associate Director <b>CARE Ratings Limited</b> Phone: +91-44-2850 1016 E-mail: <a href="mailto:ravi.s@careedge.in">ravi.s@careedge.in</a></p>
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### About us:

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