India Ratings Upgrades Indian Overseas Bank and its Basel III Tier 2 Bonds to 'IND AA+'/Stable

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India Ratings and Research (Ind-Ra) has upgraded Indian Overseas Bank (IOB) Issuer Rating to 'IND AA+' from 'IND AA', with a Stable Outlook. The detailed instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Regulator of Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (INR billion)	Rating Assigned with Outlook/Watch	Rating Action
Basel III Tier 2 bonds*	Refer ISIN annexure	-	-	-	11.65	IND AA+/Stable	Upgraded
Issuer rating	#	-	-	-	-	IND AA+/Stable	Upgraded

*Details in Annexure

There is no instrument being rated and hence, Regulator of the Instrument is not applicable. The rating scale and definitions are being followed as stipulated in SEBI Master Circular for CRAs.

Analytical Approach

Ind-Ra continues to factor in the support available to IOB from the government of India (GoI) to arrive at the rating. The GoI's 92.44% stake in IOB at end-June 2026 indicates the bank's systemic importance to the government. The Basel III tier-2 bond rating is based on Ind-Ra's expectation of continued support from the GoI to meet the minimum capital requirements.

Detailed Rationale of the Rating Action

The upgrade reflects IOB's sustained strengthening of its credit profile over the past year, supported by improved asset quality, stronger core profitability and comfortable capital buffers. Furthermore, controlled slippages, lower credit costs and adequate provision coverage have enhanced the bank's ability to absorb expected and unexpected credit losses, while the increasing share of granular RAM advances has supported business growth. Profitability has improved on the back of healthy loan growth, stable margins and lower credit costs, with the return on assets (ROA) sustaining above 1.2% in the past few quarters. Capitalisation remains comfortable, and supported by internal accruals, should remain adequate for growth and the transition to the ECL framework even without the proposed capital raise. The rating also factors in IOB's granular retail deposit franchise and healthy deposit mobilisation.

These strengths are partly offset by the moderation in the CASA ratio, advances growth continuing to outpace deposit growth, the consequent increase in the loan-to-deposit ratio, rising concentration in gold-backed advances, and geographical concentration, with a significant share of the branch network and business continuing to be concentrated in southern India. Sustaining deposit growth, profitability and asset quality amid rapid portfolio expansion will remain key monitorables.

List of Key Rating Drivers

Strengths

- Adequate capitalisation

- Steady liability franchise
- Improving asset quality
- Sustained improvement in profitability

Weaknesses

- Geographical concentration

Detailed Description of Key Rating Drivers

Adequate Capitalisation: IOB's capital buffers remained adequate at 1QFYE27, with its CET1 and Tier 1 capital ratios steady at 16.88% (FYE26: 16.94%; FYE25: 17.13%), and an overall capital adequacy ratio of 19.36% (19.78%; 19.74%).The capital ratios remain comfortably above the regulatory minimum and continue to be adequate to support advance growth in line with management guidance of around 15% yoy for FY27. The bank's total credit risk weighted assets (RWA)-to- net advances ratio remained moderate at 58.2% (FYE26: 56.5%; FYE25: 60.5%), reflecting its relatively capital-efficient loan mix.

Ind-Ra expects IOB's improved earnings and contained asset quality to support internal capital generation. The bank reported an ROA of 1.41% in 1QFY27 (FY26: 1.2; FY25:0.9%); the management expects to maintain ROA at around 1.3%. Furthermore, the net NPAs declined to 0.18% at 1QFYE27 (FY26: 0.21%; FY25: 0.37%) and the provision coverage ratio (excluding technical write-off) improved to 86.3% (85.5%; 82.9%), limiting incremental provisioning requirements on legacy stressed assets. For the expected credit loss framework, the bank had created provisions of around INR21.5 billion against its estimated requirement of INR30 billion by 1QFY27 and intends to provide for the balance during FY27. The management also plans to raise equity of up to INR50 billion, potentially in multiple tranches, during 3QFY27 and 4QFY27, along with INR10 billion through Tier 2 bonds, which, if completed, would further strengthen the bank's capital buffers and provide additional headroom for growth and ECL-related provisioning. However, even if the proposed capital raise does not materialise, Ind-Ra expects IOB's existing capital buffers, supported by healthy internal accruals, to remain adequate for its near-to-medium-term growth and ECL provisioning requirements

Steady Liability Franchise: The bank's CASA ratio remained stable at 41.05% in 1QFY27 (FY26: 40.99%; FY25: 43.65%; FY24: 43.9%), supported by an 18.14% yoy increase in savings deposits. The deposit profile remains largely granular, with retail deposits constituting around 94% of the total deposits. Total deposits grew 13.72% yoy in 1QFY27, lower than net advances growth of 22.75%, resulting in an increase in the loan-to-deposit ratio to 85.63% (FY26: 84.31%). The bank has intensified deposit mobilisation, and has also mobilised around USD300 million through FCNR(B) deposits, leveraging its overseas presence and existing NRI customer base. The bank's ability to sustain deposit growth in line with credit expansion amid continued competition for deposits will remain a key monitorable over the near-to-medium term.

Improving Asset Quality: The bank's gross NPA ratio declined to 1.33% in 1QFY27 (FY26: 1.42%; FY25: 2.14%), supported by contained slippages and recoveries. The provision coverage ratio, excluding technical write-offs, improved to 86.3% in 1QFY27 (FY26: 85.5%; FY25: 82.9%), while the net NPA ratio declined to 0.18% (0.21%; 0.37%). Furthermore, the bank's annualised gross slippage ratio remained low at 0.26% in 1QFY27 (FY26: 0.42%; FY25: 1.72%). Around 80% of the agriculture portfolio comprises gold-backed loans, with an average LTV of around 60%. Within retail, secured loans accounted for 29% of the total advances, while unsecured retail loans constituted only 2%; stress was largely concentrated in granular, lower-ticket exposures, while larger-ticket exposures continued to perform well. The corporate portfolio also exhibited benign slippages and a low GNPA ratio of 0.25% in 1QFY27. In the NBFC segment, exposure to other NBFCs accounted for 5.5% of the total advances as on 1QFY27, with a low GNPA ratio of 0.6%. The bank did not have any exposure to housing finance companies or microfinance institutions as of 1QFY27. Hence, Ind-Ra believes the bank may not witness significant net slippages, and its asset quality is likely to remain manageable over the near-to-medium term.

Sustained Improvement in Profitability: IOB's profitability continued to strengthen in 1QFY27, with the ROA improving to 1.41% (FY26: 1.20%; FY25: 0.92%), supported by healthy advances growth, net interest income (NII) growth of 34.3% yoy (15.5%; 10.8%) and a healthy global net interest margin (NIM) of 3.37% (3.21%; 3.42%). The bank's credit cost remained low at 0.14% in 1QFY27 (FY26: 0.90%; FY25: 1.10%), supported by benign slippages and improved asset quality. Furthermore, the bank had provided around INR21.5 billion against the management's estimated ECL requirement of INR30 billion by 1QFY27, and intends to provide for the balance during FY27. Ind-Ra expects IOB's healthy pre-provision operating profitability to absorb the remaining ECL provisions and normalised credit costs, enabling the bank to sustain an

ROA above 1.2% over the near-to-medium term.

Geographical Concentration: The bank's advances are geographically concentrated, with Tamil Nadu, Maharashtra, Delhi, Andhra Pradesh and Telangana collectively accounting for around 71% of the total advances. Although IOB has been gradually expanding its presence in other regions, the continued concentration of advances and deposits in these states exposes the bank to geographical concentration risk and region-specific economic disruptions.

Liquidity

Adequate: As of March 2026, IOB's short-term (one-year) asset-liability mismatches (cumulative funding deficit) stood at 8% of the total assets; however, this can be covered by the bank as it had an excess statutory liquidity ratio of INR 173 billion at 1QFY27. The end period liquidity coverage ratio was 138% at end-1QFY27, exceeding the regulatory requirement of 100%. That being said, if its deposit growth continues to lag with the advance growth, then the bank may need to increasingly rely on wholesale sources, which could impact its liquidity. However, Ind-Ra believes it would be manageable for the foreseeable future.

Rating Sensitivities

Positive: A substantial, demonstrated growth in the franchise, delivering consistent market share gains, consistency in the profitability while maintaining capital buffers at materially higher levels than the regulatory requirements and a significant improvement in the deposit profile, hereon, could result in a positive rating action.

Negative: The ratings could be downgraded if there is any unfavourable change in the government's support stance that restricts the bank's ability to maintain its systemic importance, or if the equity buffers of the bank consistently operate at close to the minimum regulatory levels, which could restrict its ability to grow its business and market share. There could also be a negative rating action if the bank loses its market share materially compared to other public sector banks.

Any Other Information

Not applicable

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on IOB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

IOB, established in 1937, is the ninth-largest public sector bank in terms of deposits in India. The GoI is the single-largest shareholder of the bank, with a 92.42% ownership as of June 2026.

Key Financial Indicators

Particulars (INR billion)	FY26	FY25
Total assets	4,733	3,950
Total equity	375.2	325.4
Net profit	52.1	33.3
Return on average assets (%)	1.2	0.89
Capital adequacy ratio (%)	19.8	17.1
Source: IOB, Ind-Ra		

Status of Non-Cooperation with Previous Rating Agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Current Rating	17 February 2026	18 February 2025	17 January 2025	23 February 2024
Basel III Tier 2 bonds	Long-term	INR11.65	IND AA+/Stable	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA-/Positive
Issuer Rating	Long-term	-	IND AA+/Stable	IND AA/Positive	IND AA/Stable		

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Rating Activities

Note: Kindly note that for activities or instruments falling under the purview of FSRs other than SEBI, the grievance/dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Basel III Tier 2 bonds	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Annexure

Instrument Type	Regulator of Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Basel III Tier 2 bonds	SEBI	INE565A08043	31 March 2022	8.60	31 March 2032	INR6.65	IND AA+/Stable
Basel III Tier 2 bonds	SEBI	INE565A08035	24 September 2019	9.08	24 September 2029	INR5	IND AA+/Stable
					Total utilised	INR11.65	
Source: NSDL, IOB							

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Rating Bank Subordinated and Hybrid Securities

The Rating Process

Evaluating Corporate Governance

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