

 <p>इंडियन बैंक Indian Bank</p> <p>इलाहाबाद ALLAHABAD</p> <p>निवेशक सेवाएँ कक्ष INVESTOR SERVICES CELL वेबसाइट / website: www.indianbank.in ई-मेल / e-mail : ibinvestorrelations@indianbank.co.in</p>	<p>कॉर्पोरेट कार्यालय 254-260, अन्वै षण्मुगम सालै, रायपेट्टा, चेन्नै – 600 014 Corporate Office 254-260, Avvai Shanmugam Salai, Royapettah, Chennai - 600 014 दूरभाष/Phone: 044-28134076/28134698/28134484</p>
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Ref No.: ISC/173/2021-22

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<p>The Vice President National Stock Exchange of India Limited "Exchange Plaza", Bandra Kurla Complex, Bandra East, Mumbai - 400 051.</p> <p>NSE Symbol : INDIANB</p>	<p>The Vice President BSE Limited Phiroze Jeejibhai Towers Dalal Street Mumbai - 400 001.</p> <p>BSE Scrip Code: 532814</p>
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Dear Sir/Madam,

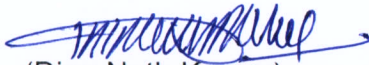
Subject: Rating Action by S&P Global Ratings: Outlook revised to Stable from Negative

In terms of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we have to inform you that S&P Global Ratings has reaffirmed their 'BBB-' long-term and 'A-3' short-term issuer credit ratings on Indian Bank and revised its rating outlook to **Stable from Negative**.

A copy of communication received from S&P Global Ratings regarding their rating action is enclosed.

This is for your information, records and dissemination please.

Yours faithfully,



(Dina Nath Kumar)

Asst. General Manager & Company Secretary

Encl: As Above

Research Update:

Indian Bank Outlook Revised To Stable From Negative; 'BBB-/A-3' Ratings Affirmed

August 5, 2021

Overview

- Indian Bank's capitalization has strengthened owing to its recent equity capital raising and improving profitability.
- We revised our outlook on Indian Bank to stable from negative. At the same time, we affirmed our 'BBB-' long-term and 'A-3' short-term issuer credit ratings on the India-based bank.
- The stable outlook reflects our expectation that Indian Bank's capitalization should be able to withstand modest asset quality pressures over the next 24 months.

Rating Action

On Aug. 5, 2021, S&P Global Ratings revised its rating outlook on Indian Bank to stable from negative. At the same time, we affirmed our 'BBB-' long-term and 'A-3' short-term issuer credit ratings on the India-based bank.

Rationale

We revised the rating outlook to reflect our view of Indian Bank's strengthened capital position stemming from its recent equity capital raising through qualified institutional investors, and its improving profitability. In our view, the stronger capital position should give the bank sufficient cushion against potential asset quality pressures from the brunt of a COVID-19 second wave; our baseline expectation is for Indian Bank's weak loans (gross nonperforming loans [NPLs] plus restructured loans) to stay below 12% of total loans, and credit costs not materially worse than 2%.

We forecast the pre-diversification risk-adjusted capital (RAC) ratio for Indian Bank to trend above 5% despite our assumption of 10%-12% annual credit growth and elevated credit costs over the next 12-24 months. We expect the bank to further increase its capitalization to protect the balance sheet against downside risks. Indian Bank already has approval for raising equity capital of up to Indian rupees (INR) 40 billion. We project the bank's weak loans to stay slightly above the industry level over the current fiscal year (fiscal 2022, ending March 31, 2022), mainly driven by

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Research Update: Indian Bank Outlook Revised To Stable From Negative; 'BBB-/A-3' Ratings Affirmed

our expectation of higher loan restructuring, and then trend downward over the next 12-24 months. This is in line with our expectation for the industry.

In our view, the second wave of COVID-19 infections will bunch up the banking system's asset quality strain in the first half of fiscal 2022 amid weak collections and poor disbursements. The sector's weak loans will likely remain elevated at 11%-12% of gross loans in the next 12-18 months. Credit losses for the sector should remain high at 2.2% before recovering to 1.8% in fiscal 2023 (see "Indian Banks Will Feel The Effects Of the Second Wave Long After Infections Fade," published June 30, 2021, on RatingsDirect).

Likewise, we expect Indian Bank's credit costs to remain elevated at about 2% in fiscals 2022 and 2023, partly due to the management's policy of increasing its reserves to improve its net NPL ratio to about 2%, from 3.5% at the end of June 2021. The bank's reported NPLs have continued to sequentially trend downward to about 9.7% as of June 2021, from the high of 11.4%, following the amalgamation of Allahabad Bank. Nonetheless, its asset quality compares unfavorably to peers such as Axis Bank Ltd., ICICI Bank Ltd., or State Bank of India. We project Indian Bank's weak loans to peak at about 12% of total loans in fiscal 2022 and trend downward to about 11.5% in fiscal 2023. Over the two fiscal years, we expect the bank's return on average assets (ratio of core earnings to average adjusted assets) to improve to 0.7% from 0.5%, but stay slightly below the industry average.

Indian Bank has issued additional Tier-1 instruments as a part of its regulatory capital. We do not assign equity credit to additional Tier-1 instruments issued by Indian public sector banks, including Indian Bank, due to uncertainty over their ability to absorb losses on a going-concern basis.

Outlook

The stable outlook reflects our expectation that the likelihood of support from the Government of India to Indian Bank will remain very high over the next 24 months. We also believe Indian Bank's strengthened capital position should be able to weather asset quality pressures while the bank maintains its financial profile in line with our ratings. In our view, Indian Bank is likely to maintain its solid funding and liquidity profile over the next 18-24 months.

Downside scenario

We could lower the rating by one notch if: (1) Indian Bank's RAC ratio falls below 5% on a sustained basis, possibly due to credit growth or provisioning being higher than our expectation, especially in the absence of the sufficient capital infusions; or (2) its weak loans ratio or credit costs worsen beyond our baseline expectation.

Upside scenario

An upgrade of Indian Bank is unlikely in the next one to two years because that would require a higher sovereign credit rating on India. S&P Global Ratings does not rate Indian banks above the sovereign because of the direct and indirect influence a distressed sovereign would have on banks' operations, including their ability to service foreign currency obligations.

Our assessment of Indian Bank's stand-alone credit profile may improve if the bank's asset quality strengthens to levels in line with international peers.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable/A-3
SACP	bb+
Anchor	bb+
Business Position	Adequate (0)
Capital and Earnings	Moderate (0)
Risk Position	Moderate (-1)
Funding and Liquidity	Above Average and Strong (+1)
Support	+1
ALAC Support	0
GRE Support	+1
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Indian Banks Will Feel The Effects Of the Second Wave Long After Infections Fade, June 30, 2021
- Asia-Pacific's Recovery Regains Its Footing, June 24, 2021
- Second COVID Wave May Derail India's Budding Recovery, May 5, 2021

Research Update: Indian Bank Outlook Revised To Stable From Negative; 'BBB-/A-3' Ratings Affirmed

- Indian Bank, Jan. 6, 2021
- S&PGR No Longer Counts Indian Public Sector Bank AT1 As Equity; Affirms Issuer Ratings; Raises Rating On SBI's Hybrids, March 16, 2018

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Indian Bank		
Issuer Credit Rating	BBB-/Stable/A-3	BBB-/Negative/A-3

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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