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21 दिसम्बर 2023

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Dear Madam/Sir,

Revision in Rating by India Ratings

This is to inform that India Ratings has upgraded IDBI Bank's rating from "IND A+" to "IND AA-" & revised the outlook from "Positive" to "Stable" for long term issuer rating and reaffirmed "IND A1+" rating for short term issuer rating. The detailed report is attached herewith.

You are requested to kindly take the above intimation on record in terms of the provisions of Regulations 30 & 51 of SEBI (LODR) Regulations, 2015.

भवदीया,
कृते आईडीबीआई बैंक लिमिटेड

ज्योति
21/12/23

[ज्योति नायर]
कंपनी सचिव

India Ratings Upgrades IDBI Bank's Debt Instruments to 'IND AA-/Stable'

Dec 21, 2023 | Private Sector Bank

India Ratings and Research (Ind-Ra) has taken the following rating actions on IDBI Bank Limited's (IDBI) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel III compliant bonds*	-	-	-	INR20	IND AA-/Stable	Upgraded
Omni infrastructure bonds#	-	-	-	INR80	IND AA-/Stable	Upgraded
Basel III-complaint Tier II bonds#	-	-	-	INR30	IND AA-/Stable	Upgraded
Deposit rating				-	IND AA-/Stable	Upgraded
Senior debt#	-	-	-	INR36.31	IND AA-/Stable	Upgraded
Certificates of deposits (CDs)	-	-	7-365 days	INR160	IND A1+	Affirmed

Details in annexure

*Yet to be issued

ANALYTICAL APPROACH: Ind-Ra has not factored in capital support from its majority stakeholders — Life Insurance Corporation of India (LIC) and the government of India (GoI) — to arrive at the ratings, owing to their planned strategic divestment in the bank.

The upgrade factors in the bank's enhanced systems and processes, improved risk framework, significantly enhanced capital levels, negligible need to provide for legacy gross non-performing assets (NPAs), likely manageable impact of COVID-19 and limited residual impact, improved deposit profile, the expectation of maintaining steady state operating buffers and the reasonable profitability. Ind-Ra expects these factors to provide the bank the ability to maintain its market share in advances and deposits while maintaining enhanced levels of capital.

The bank would continue to search for a large asset and liability niche as the process of strategic divestment by two of its promoters, LIC and GoI, will continue. As the bank grows in size and scale and continues to strengthen its capabilities across various facets of banking, Ind-Ra expects the same to have a positive impact on the credit profile of the bank.

The bank, irrespective of the timing of the strategic sale, would continue to focus on retail loans, fomenting newer

corporate relationships and growing deposits through target marketing and extending branch network. While the bank has benefited to some extent on the liabilities front by embedding itself in some parts of LIC's ecosystem, a large part of the expected synergy building with LIC is likely to be on the backburner given the impending strategic divestment plans. Ind-Ra does not expect the bank to need incremental capital from external sources to meet its medium-term balance sheet growth target.

Key Rating Drivers

Enhanced Capital Levels: IDBI's common equity tier 1 ratio improved to 18.86% in 2QFY24 (FY23: 18.1%; FY22: 16.7%; FY21: 13.1%), on account of accruals from the profitability; this was among the highest in the scheduled commercial banks. Ind-Ra does not expect the bank to require material incremental capital from external sources to meet its medium-term growth plans. The bank's net advances grew about 19% yoy to INR1,625.68 billion, while the credit risk weighted assets/gross advances remained stable at 75% in FY23. IDBI had a net worth of INR467 billion as of 2QFY24. Ind-Ra expects IDBI's return on equity to remain at 9%-10% (FY23: 8.4%; FY22: 6.2%) and would cover most of the capital consumption towards its growth in the medium term.

Reasonable Deposit Base: IDBI's current account saving account ratio (CASA) declined to 51.5% in 2QFY24 (FY23: 53%; FY22: 56.7%) on account of higher interest rates, with the bulk deposit share increasing to 12.6% (5%). There has not been much traction in its CASA deposits (FY23: INR1,354.55 billion; FY22: INR1,323.59 billion), while the total deposits in absolute terms increased 9.6% yoy. The total deposits as well as CASA are reasonably granular, while the top depositors constituted mainly government-related entities. Over the medium term, the bank's deposit profile will normalise as it focuses on growing its advances book further. Ind-Ra expects the bank's reliance on bulk deposits to increase somewhat, while CASA may modestly deteriorate. However, the bank does not expect CASA to decline below 50%. IDBI benefited from having some traction with LIC's collection and payment accounts, branch-level accounts and transaction flows (together about 3%), but not as much as that expected by the agency or the bank. Given the impending strategic sale by its both parents, the development of its synergy with LIC is likely to be put on the backburner. The bank's corporate-to-non-corporate ratio of advances stood at around 30:70 in 2QFY24, indicating that it plans to grow similarly in both the segments.

High Provision Coverage; Adequate Asset Quality: The bank's adjusted provision cover (excluding technical write-offs) decreased to 86.4% in FY23 (FY22: 94.6%; FY21: 93%), as the bank had written-off INR219.2 billion with the top 10 accounts contributing INR138.6 billion. Also, its slippage ratio reduced to 1.98% in FY23 (FY22: 3.34%), reflecting better asset quality control and waning the impact of COVID-19. Ind-Ra expects the slippages and corresponding credit costs to remain low. Its net NPAs stood at 0.4% at end-September 2023 (FY23: 0.9%; FY22: 1.3%), indicating limited requirement for provisioning on legacy NPAs. Over FY24-FY25, Ind-Ra expects the gross and net NPAs to remain at the similar levels of the base case projections, given downward trend in recoveries and upgrades. However, given the high provision cover of 86.4% in FY23, and the expectation of maintaining profitability and capital at improved levels, Ind-Ra opines the overall asset quality would remain encouraging.

Enhanced Ability to Maintain Profitability: IDBI's operating metrics continued to improve in FY23, on the back of high provisioning levels, reasonable loan book growth, particularly the retail segment, and improved low-cost deposit profile; all these factors would help the bank deliver continued profitability in the medium term. IDBI's net profit rose 60% yoy in 2QFY24 to INR13.23 billion, supported by healthy growth in the net interest income of INR30.67 billion and write-back in provisions on bad loans and standard assets. Ind-Ra expects the credit costs to remain lower and enable the bank to deliver pre-provision operating profit to average advances of around 5% in the medium term. The bank would see lower slippages as well as lower recoveries and upgrades in FY24. However, across the banking universe, Ind-Ra expects the lag effect of an increase in the pricing of deposits to play out while competition to limit the yield movement. Consequently, Ind-Ra believes the net interest margin would decline modestly. Overall, Ind-Ra expects the return on assets to be 0.8%-1.5% in FY24 (FY23: 1.2%; FY22: 0.8%) and the bank would deliver modest profitability under its stress tests.

Liquidity Indicator - Adequate: An analysis of the structural liquidity statement at end-September 2023 showed positive cumulative mismatches (excess of inflows over outflows) in all up-to-one-year buckets of about 31% of the total inflows. Ind-Ra expects the funding gap to widen somewhat as the bank continues to lend incrementally, if it is not supported by short-term assets or additional long-term liabilities. IDBI's liquidity coverage ratio reduced to 135.67% at FYE23 (FYE22: 141.7%), against the regulatory requirement of 100%. The bank had about INR335 billion of excess in statutory liquidity qualifying securities at end-September 2023 which was about 9% of the total assets. Ind-Ra believes IDBI's liquidity position has improved significantly since FY21 and the bank would continue benefit from its strategy of increasing granularisation and retailisation of its deposits.

Strengthened Risk Framework: The bank has a comprehensive approach to risk. On the corporate side, it has over the past few years, implemented several mechanisms that strengthen the processes across life cycle of a loan including monitoring and early warning systems. This was also accompanied by setting up and strengthening the loan processing teams, and setting up borrower/group/sectoral limits that are monitored periodically. Cashflow monitoring (along with other banks) is being done for risky sectors or corporates with a weak credit profile, especially where multiple / consortium banking is present. Its loan sanctioning process is more centralised now and hence there is lower scope of bias or subjectivity. These measures attempt to bring the bank closer to the best practices at comparable banks. On the retail side, there is continuous portfolio monitoring of clients, the credit processes have undergone a revamp, and greater reliance is on filter based / rule approach to credit. Moreover, the bank has introduced newer products on its own as well as through partnerships. There is material focus towards digitalisation of the processes.

Home Loan Business Issue Unresolved; Accommodation Extended: When LIC had decided to take up a majority stake in IDBI in FY19, it had to abide by the condition where only one of the institutions (either LIC Housing Finance or IDBI) could carry the home loan business after November 2023 which has been extended. Ind-Ra understands that there is a possibility of an adverse impact on IDBI's franchise building efforts if it is unable to continue its home loan business beyond the extended timeline. This stems from LIC's ownership of IDBI as a large shareholder with a competing business under the former's subsidiary LIC Housing Finance Ltd. In the event of delayed stake sale by the bank's key shareholders, there could be a workout around. IDBI is no longer a subsidiary of LIC, with the latter's stake falling below majority to 49.24% from 51% at end-September 2019. Ind-Ra thus does not expect the lack of clarity on the home loan business to have a significant negative impact on the credit profile of IDBI till the time the matter is resolved. The agency would continue to monitor the evolving situation and take appropriate a rating action as and when warranted.

Rating Sensitivities

Positive: Sustained systemic importance reflected in the bank's improving market share in advances and deposits could lead to a positive rating action. A consistent improvement in the bank's profitability buffers (with increased profitability from the core lending operations), while maintaining peer-comparable or better than its peers' asset quality, an overall improvement in the operating performance, continuity of business on the home loan side could also lead to a positive rating action.

Negative: A decline in the tier-1 capital ratio below 14% or the provision cover falling below 70% or substantial deterioration in the liquidity position in the near term could result in a negative rating action.

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 IDBI, 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](#).

Company Profile

IDBI is a private sector bank with a pan-India presence. The bank had 1,928 branches and 3,334 ATMs across India at FYE23.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Total assets (INR billion)	3,305.02	3,016.03
Total equity (INR billion)	453.18	416.62
Net profit (INR billion)	36.45	24.39

Return on assets (%)	1.2	0.8
Common equity tier 1 ratio (%)	18.1	16.7
Capital adequacy ratio (%)	20.4	19.1
Net interest income (INR billion)	114.30	91.62
Source: IDBI; Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Rating Type	Rated Limits (billion)	Current Ratings/ Outlook	Historical Rating/Outlook				
				22 September 2023	21 July 2023	25 July 2022	26 July 2021	3 August 20
Issuer rating	Long-term	-	-	WD	IND A+/Positive	IND A+/Stable/IND A1+	IND A/Stable/IND A1	IND A/Negative/It A1
Basel III compliant bonds	Long-term	INR20	IND AA-/Stable	-	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negat
Omni infrastructure bonds	Long-term	INR80	IND AA-/Stable	-	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negat
Basel III compliant Tier II bonds	Long-term	INR30	IND AA-/Stable	-	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negat
Deposit rating	Long-term	-	IND AA-/Stable	-	IND A+/Positive	IND A+/Stable	IND tA/Stable	IND tA/Negative
Senior debt	Long-term	INR36.31	IND AA-/Stable	-	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negat
CDs	Short-term	INR160	IND A1+	-	IND A1+	IND A1+	IND A1	IND A1

Annexure

Instrument Type	ISIN	Date of Allotment	Tenor (years)	Maturity Date	Issue Size (billion)	Amount Outstanding (billion)	Coupon rate (%)	Put/Call Option	Rating/Outlook
IDBI Omni Bonds 2008-09 Sr.XVII	INE008A08Q98	14 March 2009	20	14 March 2029	INR0.02	INR0.02	11.25	-	IND AA-/Stable
IDBI Omni Bonds 2009-10 Sr.IV	INE008A08R71	26 September 2009	20	26 September 2029	INR0.02	INR0.02	9.67	-	IND AA-/Stable
		Total unutilised				INR36.27			
		Total				INR36.31			

Omni 2014-2015 Infrastructure Bond Series I	INE008A08U76	12 September 2014	10	12 September 2024	INR10.00	INR10.00	9.27	-	IND AA-/Stable
Omni 2014-2015 Infrastructure Bond Series III	INE008A08U92	21 January 2015	10	21 January 2025	INR30.00	INR30.00	8.725	-	IND AA-/Stable
Omni Infrastructure Bond 2015-2016 Series III	INE008A08V26	9 February 2016	10	9 February 2026	INR10.00	INR10.00	8.8	-	IND AA-/Stable
Total unutilised							INR30		
Total							INR80		
Omni Tier 2 2015-2016 Series I	INE008A08V00	31 December 2015	15	31 December 2030	INR10.00	INR10.00	8.62	Call – 31 December 2025	IND AA-/Stable
Omni Tier 2 2015-2016 Series II	INE008A08V18	2 January 2016	10	2 January 2026	INR9.00	INR9.00	8.62	None	IND AA-/Stable
Total unutilised							INR11		

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Omni infrastructure bonds	Low
Basel III tier 2 bonds	Moderate
CDs	Low
Senior debt	Low
Deposit rating	Low

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

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Financial Institutions Rating Criteria

Evaluating Corporate Governance

The Rating Process

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