



CIN: L65190MH2004GO1148838

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26 जुलाई, 2021

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|---|---|
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|---|---|

Dear Sir/Madam,

**Revision in Ratings by India Ratings**

This is to inform that India Ratings has revised IDBI Bank Limited's Outlook to Stable from Negative while affirming the Long-Term Issuer Rating at 'IND A' and Short-Term Issuer Rating at 'IND A1' vide their Press Release dated July 26, 2021. The rationale for ratings 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 नायर]  
कंपनी सचिव

## India Ratings Revises IDBI Bank's Outlook to Stable; Affirms 'IND A'

# 26

JUL 2021

By Jindal Haria

India Ratings and Research (Ind-Ra) has revised IDBI Bank Limited's (IDBI) Outlook to Stable from Negative while affirming the Long-Term Issuer Rating at 'IND A' and its Short-Term Issuer Rating at 'IND A1'. The instrument-wise rating actions are as follows:

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

\*Yet to be issued

# Details in annexure

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

The Outlook revision reflects an improvement in IDBI's standalone financials as indicated by above 95% provision cover on gross non-performing assets (NPAs) and below 2% cover on net NPAs at FYE21, which is among the lowest among similar rated peers. Furthermore, the bank had the highest low-cost current account savings account deposits of 50.5% at FYE21. The bank has INR5 billion of provisions for the second wave of COVID-19 infections, Also, the earlier provisions of INR3.6 billion for the first wave were not fully utilised as of March 2021; the bank could utilise it in FY22. IDBI came out of the Reserve Bank of India's Prompt Corrective Action (PCA) Framework after four years in March 2021. The bank now has the opportunity to build its balance sheet in a calibrated manner while maintaining the share of non-corporate segments, given it witnessed a decline in net advances for four consecutive years starting FY17. This could aid IDBI in arresting the loss in market share (FY21 gross advances market share: 1.5%, FY17: 2.7%) and maintaining its share. The bank has put systems in place for parameterised and scorecard-based credit models for several non-corporate segments. IDBI plans to slowly make headway in the mid-corporate segment.

Furthermore, Ind-Ra believes the bank has been able to absorb the impact of the first and second waves of COVID-19 infections, which had a moderate impact on the bank's profitability and has not materially impacted its ability to grow its franchise. Given the bank's modest growth expectations of 8%-10% in FY22, the pace of deposit accruals should be adequate for the bank to have continued low dependence on bulk deposits.

Since FY17, the bank's standalone franchise has been weakening with a continued fall in its share of systemic assets and liabilities on account of its standalone profile and being under PCA. While the bank has been able to derive certain synergies with LIC through cross selling of LIC products and IDBI's loans, modest traction in float and deposits of LIC network, the bulk of these synergies may not necessarily materialise, given LIC and the GoI's strategic intent to sell the bank either partially or fully. On a standalone basis, the bank may not require material support from any of its key owners, given its modest growth ambitions.

## KEY RATING DRIVERS

**Higher Provision Coverage; Manageable COVID-19 Impact on Asset Quality:** The bank's reported provision cover increased to 96.9% in FY21 (FY20: 93.7%, FY19: 82.8%) and is among the highest in the system. Furthermore, the corporate NPAs carry a provision cover (excluding technical write-offs) of 98%. Also, IDBI had the highest GNPAs and substantial capital infusion by LIC and the GoI in FY19-FY20 of about INR311 billion, which helped the bank build provision cover. It witnessed INR450 billion of cumulative losses over FY16-FY20. Under Ind-Ra's projections, the bank would breakeven at slippages of INR80 billion while maintaining about 40% coverage for additional slippages. The bank has not lent materially in the last four years and will take time to possibly regain some market share across segments. Ind-Ra expects IDBI to start with a slow growth runway; this would further improve the headline asset quality and credit cost numbers while delivering pre-provision operating profit (PPOP). With the bank's ability to grow the balance sheet materially after coming out of PCA, the bank's PPOP to assets of 2.4% in FY21 (2.04% excluding recoveries and gains from asset sale) is likely to be maintained.

The bank has also witnessed recoveries/upgradations of about INR8 billion in FY21. IDBI had one large account under the National Company Law Tribunal, which was recovered in FY21, implying recoveries and upgradations could continue in FY22. These, along with a steady state PPOP could provide a substantial protection against capital erosion on account of the second wave.

**Improvement in Deposit Profile Aided by Decline in Advances and LIC Deposits:** The bank's current account saving account ratio improved to 50.5% in FY21 (FY19: 42.5%) with the bulk deposit share decreasing to 11.62% (17.64%); while total deposits in absolute terms remained almost steady. This was aided by the bank's inability to grow its advances on gross basis materially on account of the bank being under PCA. The bank also benefited from having LIC's few collection and payment accounts, branch level accounts and transaction flows. While the traction was not as high as expected by the bank, the flows grew 40% yoy over FY20. Given IDBI is focussing on granular/retail loans and Ind-Ra's expectation of IDBI maintaining modest growth in the loan book over the medium term leading to lower dependence on bulk deposits, the bank may be able to maintain its deposit profile characteristics.

**Improved Profitability Prospects:** IDBI's operating metrics improved in FY21 on the back of high provisioning levels and first annual net profit since the last five years. This was aided by INR5.5 billion of recoveries from written off accounts and other recoveries under the National Company Law Tribunal and INR4.3 billion of gains from sale of investments. Adjusting for these, Ind-Ra expects the bank's steady state PPOP to advances to be 2%-2.5% in the medium term. IDBI's provision coverage was 96.9% (93% excluding technical write offs) in FY21; thus, ageing related credit costs are not a concern. The COVID-19 scenario could result in the bank continuing to face weak asset quality. Although, Ind-Ra expects this to be less severe than the corporate stress cycle that the bank witnessed over the last few years. IDBI has about INR8.6 billion of provisions, of which about INR3.6 billion are towards restructured

assets or delayed resolutions, and the remaining are created specifically to build buffer against the adverse impact of the second wave of COVID-19.

IDBI's provision on assets under the National Company Law Tribunal (List 1 and List 2) was 99.9% as of March 2021. While a few large assets have been recovered and the bank has booked income from the resolution, Ind-Ra does not factor in any material large single recoveries from these resolutions.

**Adequate & Improved Capital Levels Stronger to Absorb Covid-19 related Losses:** IDBI's common equity tier 1 ratio improved to 13.1% in FY21 (FY20: 10.5%), supported by INR14.4 billion of qualified institutional placement and accretion to reserves during the year. The current capital position is also supported by the combined equity infusions of around INR311 billion in FY19-FY20 by LIC and the GoI. IDBI had a net worth of INR368 billion at FYE21. Ind-Ra believes the bank may not require any material quantum of capital in the medium term for slowly growing its franchise.

**Liquidity Indicator - Adequate:** As a percentage of assets, IDBI's cumulative one-year funding surplus (excess of short-term liabilities over short-term assets) improved to about 1.3% in FY21 (FY20: 0.63%) of total inflows. Ind-Ra expects the funding gap to widen once the bank restarts lending in the medium term, if it is not supported by short-term assets or additional long-term liabilities. The proportion of its bulk funding has declined substantially to 11.6% in FY21 (FY20: 17.64%, FY19: 25.3%). Furthermore, the bank's borrowings declined to 5.3% of the total liabilities in FY21 (FY20: 12.2%). IDBI's liquidity coverage ratio stood at 155.59% at FYE21 (FYE20: 127.68%), against the regulatory requirement of 100%. The bank had a minimum statutory liquidity requirement of about INR340 billion at FYE21, against which it had about INR200 billion of excess in qualifying securities.

**Limited Support from Majority Shareholders; Reduced Synergies with LIC, Given Divestment Intent:** LIC became the majority stakeholder of IDBI (51% shareholding) by infusing INR216.24 billion into the bank in FY19, thereby reducing the GoI's stake to 46.46%. The two key shareholders further infused about INR90 billion in IDBI in FY20. The bank raised capital of INR14.35 billion in 3QFY21 through qualified institutional placement, in which LIC or the GoI did not participate. Consequently, the shareholding of LIC reduced marginally to 49.24% and the GoI's to 45.48% at FYE21. In FY21, the bank experienced modest financial benefits from LIC ecosystem synergies as it managed to close basic action points in terms of providing various services to the LIC ecosystem. As a result, the deposit share of LIC increased to INR34 billion in FY21 (FY20: INR25 billion). However, given the intent of LIC and GoI to divest their stake in the bank, the bulk of the synergies may not necessarily materialise. The agency will gain clarity on the stake sale over the next few quarters. Till then, Ind-Ra does not expect any material support from the majority shareholders.

## RATING SENSITIVITIES

**Positive:** The bank's demonstrated ability to increase scale across segments without significant deterioration in the liability profile, manageable impact of Covid-19 without impacting the profitability and capital expectations, along with an increasing share in retail advances could lead to a positive rating action.

**Negative:** A decline in common equity tier 1 to below 10% or a provision cover below 70% in the near term could result in a negative rating action.

## COMPANY PROFILE

IDBI is a public sector bank in India with pan-India presence. The bank had 1,886 branches and 3,388 ATMs across India at FYE21.

## FINANCIAL SUMMARY

| Particulars                    | FY21     | FY20     |
|--------------------------------|----------|----------|
| Total assets (INR billion)     | 2,977.64 | 2,999.42 |
| Total equity (INR million)     | 368.11   | 340.24   |
| Net profit (INR million)       | 13.59    | -128.87  |
| Return on assets (%)           | 0.46     | -4.26    |
| Common equity tier 1 ratio (%) | 13.06    | 10.54    |
| Capital adequacy ratio (%)     | 15.59    | 13.31    |

|                     |       |       |
|---------------------|-------|-------|
| Net interest income | 85.18 | 69.78 |
| Source: IDBI        |       |       |

## RATING HISTORY

| Instrument Type                   | Current Rating/ Outlook |                        |                     | Historical Rating/Outlook/Rating Watch |                       |                  |                          |
|-----------------------------------|-------------------------|------------------------|---------------------|--|-----------------------|------------------|--------------------------|
|                                   | Rating Type             | Rated Limits (billion) | Rating              | 3 August 2020                          | 23 July 2019          | 30 November 2018 | 5 June 2018              |
| Issuer rating                     | Long-term/Short-term    | -                      | IND A/Stable/IND A1 | IND A/Negative/IND A1                  | IND A/Negative/IND A1 | IND A/RWN/IND A1 | IND AA-/Negative/IND A1+ |
| Basel III compliant bonds         | Long-term               | INR20                  | IND A/Stable        | IND A/Negative                         | IND A/Negative        | IND A/RWN        | IND AA-/Negative         |
| Omni infrastructure bonds         | Long-term               | INR80                  | IND A/Stable        | IND A/Negative                         | IND A/Negative        | IND A/RWN        | IND AA-/Negative         |
| Basel III-complaint Tier II bonds | Long-term               | INR30                  | IND A/Stable        | IND A/Negative                         | IND A/Negative        | IND A/RWN        | IND AA-/Negative         |
| Deposit rating                    | Long-term               | -                      | IND tA/Stable       | IND tA/Negative                        | IND tA/Negative       | IND tA/RWN       | IND tAA-/Negative        |
| Senior debt                       | Long-term               | INR36.31               | IND A/Stable        | IND A/Negative                         | IND A/Negative        | IND A/RWN        | IND AA-/Negative         |
| Certificates of deposits          | 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 2007 Sr.VII                 | INE008A08N67 | 23 September 2007 | 15            | 23 September 2022 | INR0.04              | INR0.04                      | 10.07           | -               | IND A/Stable   |
| IDBI Omni Bonds 2008-09 Sr.XVII             | INE008A08Q98 | 14 March 2009     | 20            | 14 March 2029     | INR0.02              | INR0.02                      | 11.25           | -               | IND A/Stable   |
| IDBI Omni Bonds 2009-10 Sr.IV               | INE008A08R71 | 26 September 2009 | 20            | 26 September 2029 | INR0.02              | INR0.02                      | 9.67            | -               | IND A/Stable   |
|   |              | Total unutilised  |               |                   |                      | INR36.23                     |                 |                 |                |
|   |              | 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 A/Stable   |

|   |              |                  |    |                  |          |          |       |                         |              |
|---|--------------|------------------|----|------------------|----------|----------|-------|-------------------------|--------------|
| Omni 2014-2015 Infrastructure Bond Series III | INE008A08U92 | 21 January 2015  | 10 | 21 January 2025  | INR30.00 | INR30.00 | 8.725 | -                       | IND A/Stable |
| Omni Infrastructure Bond 2015-2016 Series III | INE008A08V26 | 9 February 2016  | 10 | 9 February 2026  | INR10.00 | INR10.00 | 8.8   | -                       | IND A/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 A/Stable |
| Omni Tier 2 2015-2016 Series II               | INE008A08V18 | 2 January 2016   | 10 | 2 January 2026   | INR9.00  | INR9.00  | 8.62  | None                    | IND A/Stable |
|   |              | Total unutilised |    |                  |          | INR11    |       |                         |              |
|   |              | Total            |    |                  |          | INR30    |       |                         |              |

## COMPLEXITY LEVEL OF INSTRUMENTS

| Instrument Type           | Complexity Indicator |
|---------------------------|----------------------|
| Omni infrastructure bonds | Low                  |
| Basel III tier 2 bonds    | Moderate             |
| Certificates of deposit   | 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>.

## SOLICITATION DISCLOSURES

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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.

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## Applicable Criteria

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[Financial Institutions Rating Criteria](#)  
[Rating of Bank Legacy Hybrids and Sub-Debt](#)

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