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अगस्त २७, २०१९

The Manager (Listing) BSE Ltd., 25th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400 001	The Manager (Listing) National Stock Exchange of India Ltd., Exchange Plaza, 5th Floor, Plot No.C/1, G Block, Bandra Kurla Complex, Bandra(E), Mumbai - 400 051
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Dear Sir,

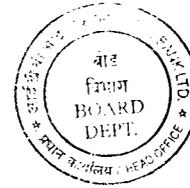
Revision in Ratings by S&P Global Ratings

This is to inform that S&P Global Ratings has released Rating Direct on August 27, 2019, wherein it has placed 'BB' long-term and 'B' short-term foreign currency issuer credit ratings on IDBI Bank Ltd. on CreditWatch with negative implications. Their rationale for rating is in the Rating Direct released by S&P Global Ratings 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.

भवदीय,

कृते आईडीबीआई बैंक लिमिटेड



[Handwritten Signature]
27/08/19

[पवन अग्रवाल]

म. प्र. एवं कंपनी सचिव

Research Update:

IDBI Bank Ltd. 'BB/B' Ratings Placed On CreditWatch Negative After Capital Breach

August 27, 2019

Overview

- IDBI is in breach of its regulatory capital requirements after a substantial loss in first quarter of fiscal 2020.
- We believe the breach is temporary and a capital infusion by LIC and the Indian government could help IDBI to replenish capital.
- We are placing our 'BB/B' foreign-currency issuer credit ratings on IDBI and the 'BB' long-term issue rating on the bank's senior unsecured notes on CreditWatch with negative implications, given the uncertainty regarding the bank's ability to meet its capital requirement in the next three months.
- We aim to resolve the CreditWatch in the next three months once we have clarity on the bank's plan and timeline for shoring up its capital base, such that it maintains a sufficient buffer above the regulatory minimum.

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Rating Action

On Aug. 27, 2019, S&P Global Ratings placed its 'BB' long-term and 'B' short-term foreign currency issuer credit ratings on India-based IDBI Bank Ltd. on CreditWatch with negative implications. We also placed our issue ratings on the bank's senior unsecured debt on CreditWatch with negative implications.

Rationale

We placed the ratings on CreditWatch to reflect the uncertainty regarding IDBI's ability to meet its regulatory capital requirement over the next few months. The bank expects to raise capital from its majority shareholders--Life insurance Corp. of India (LIC; 51%) and the government of India (46%)--before Sept. 30, 2019, to meet the shortfall, but the quantum and timing of the capital infusion is uncertain, in our view.

A net loss in the first quarter of fiscal 2020 (year ending March 31, 2020) due to high provisioning

Research Update: IDBI Bank Ltd. 'BB/B' Ratings Placed On CreditWatch Negative After Capital Breach

costs eroded IDBI's capital to below the regulatory minimum for a banking license. This is second instance over the past two years that the bank has breached the regulatory minimum, and it was not in line with our expectation. Excluding the capital conservation buffer (CCB), Indian banks are required to hold a minimum 7% Tier-1 capital ratio and a 9% ratio of total capital to risk-weighted assets (CRAR). IDBI's Tier-1 capital ratio is 6.14% and CRAR is 8.14% as of June 30, 2019.

We believe the breach could be temporary because IDBI is in the process of raising capital from its majority shareholders. The bank would require participation from other shareholders because LIC's stake cannot extend 51% according to local regulations. In our view, raising capital from the market will be particularly challenging, given IDBI's weak valuations. We believe the bank is dependent on the Indian government and LIC for such capital to correct the breach.

The government has announced a Indian rupee (INR) 700 billion recapitalization into public sector banks in its budget for fiscal 2020, and last week said the capital may be infused very soon. We believe that part of the capital required by IDBI to clean up its balance sheet and replenish its capitalization will likely come from the government. By our estimates, IDBI will need INR55 billion at the very minimum to plug the regulatory breach and take care of provisioning costs for the next quarter.

IDBI has a weak stand-alone credit profile (SACP) of 'b-' and has been subject to the central bank's "prompt corrective action" since May 2017. Due to a string of losses brought about by substantial problem loans and associated high provisioning costs, the bank's financial performance has weakened in the past few years. Its ratio of nonperforming loans to total outstanding loans as of June 30, 2019, is 29%, the highest among Indian banks we rate. IDBI reported a loss (consolidated) of about INR81 billion in fiscal 2018 (year ended March 31, 2018) and a loss of INR150 billion in fiscal 2019.

IDBI has provided for a significant part of its problem loans, as reflected in its high coverage ratio of 88% as of June 30, 2019. Coverage for large accounts undergoing insolvency proceedings under National Company Law Tribunal (NCLT) is higher, at 97%. The bank's net NPLs have reduced drastically to 8% as of June 2019 from 18.8% a year ago.

While we believe IDBI has reasonably provided for its existing NPLs, incremental slippages will keep provisioning costs elevated for the next few quarters. Our view is based on recent corporate defaults in India and the lingering stress in non-bank finance companies and real estate developers. We expect IDBI's earnings to gradually improve with recovery of existing NPLs.

We believe the government remains committed to support IDBI. Our issuer credit rating on IDBI is four notches higher than its SACP, reflecting a very high likelihood of government support. We do not believe the bank would default in the next 12 months, given ongoing capital support from the government and the high confidence of the public in government-owned Indian banks. Our view is based on the government's public commitment to support public sector banks and not let any government-owned bank to fail. Public confidence is demonstrated in IDBI's stable funding profile and ability to attract deposits. In fact, its daily average balance of current and savings deposits continued to rise in the past year, notwithstanding the weak performance.

CreditWatch

We aim to resolve the CreditWatch in the next three months once we have clarity on the bank's plan and timeline for shoring up its capital base, such that it maintains a sufficient buffer above the regulatory minimum.

Downside scenario

We could lower our ratings on IDBI if the capital infusion by shareholders is delayed beyond a month or it is insufficient to ensure that the bank meets its regulatory minimum requirements with a sufficient buffer over the next few quarters.

A downgrade could also happen if we believe IDBI is likely to incur more losses, especially due to provisioning costs for its legacy NPLs or challenging operating conditions, which would erode its capital position or lead to another capital breach, in the absence of any capital infusion. In such a scenario, the rating will go down by at least two notches.

Upside scenario

We could affirm our ratings if we believe that the capital infusion is sufficient to meet the regulatory capital requirements and if S&P Global Ratings' expected risk-adjusted capital ratio is likely to sustain above 5% over the next 12-18 months. This has to be accompanied by improvements in operating performance of the bank and addressing of legacy asset quality issues.

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: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Research Update: IDBI Bank Ltd. 'BB/B' Ratings Placed On CreditWatch Negative After Capital Breach

CreditWatch/Outlook Action

	To	From
IDBI Bank Ltd.		
Issuer Credit Rating		
Foreign Currency	BB/Watch Neg/B	BB/Stable/B
IDBI Bank Ltd. (Dubai International Financial Centre Branch)		
Senior Unsecured	BB/Watch Neg	BB

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