IDBI BANK
CIN: L65190MH2004GOI148838

आईडीबीआई बैंक लिमिटेड
पंजीकृत कार्यालय : आईडीबीआई टॉवर,
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26 सितम्बर 2022

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

Dear Sir/Madam,

Revision in Rating by ICRA

This is to inform that ICRA has revised IDBI Bank Limited's (IDBI) Outlook to Positive from Stable while reaffirming the Long-Term Ratings at '[ICRA]A+' and its Short-Term Issuer Rating at '[ICRA]A1+'. The detailed report is attached herewith.

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

भवदीया,
कृते आईडीबीआई बैंक लिमिटेड

ज्योति
26/9/2022
[ज्योति नायर]
कंपनी सचिव

September 26, 2022

IDBI Bank Limited: Ratings reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Infrastructure Bonds	8,000.00	8,000.00	[ICRA]A+ (Positive); Reaffirmed and outlook revised to Positive from Stable
Senior & Lower Tier II (Subordinated Bonds)	17,658.83	17,658.83	[ICRA]A+ (Positive); Reaffirmed and outlook revised to Positive from Stable
Senior & Lower Tier II (Subordinated Bonds)	3,756.10	0.00	[ICRA]A+ (Positive); Reaffirmed, outlook revised to Positive from Stable and withdrawn
Subordinated Debt Programme	20.00	20.00	[ICRA]A+ (Positive); Reaffirmed and outlook revised to Positive from Stable
Basel III Tier II Bonds Programme	5,000.00	5,000.00	[ICRA]A+ (Positive); Reaffirmed and outlook revised to Positive from Stable
Fixed Deposits Programme	-	-	[ICRA]A+ (Positive); Reaffirmed and outlook revised to Positive from Stable
Certificates of Deposit Programme	35,000.00	35,000.00	[ICRA]A1+; reaffirmed
Total	**69,434.93**	**65,678.83**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook on the long-term rating of IDBI Bank Limited (IDBI) factors in the continued improvement in the profitability and capitalisation profile. The same is likely to sustain, given the high provision coverage on the non-performing assets (NPA), leading to a decline in the net NPA (NNPA) level. This has also led to a comfortable solvency[1] profile. The recent improvement in the capital cushions was largely driven by the improving earnings profile and modest book growth.

The ratings are based on the standalone credit profile of the bank, given the stated intent of Life Insurance Corporation of India (LIC) and the Government of India (GoI) to sell down/divest their shareholding in the bank. Despite the stated intention of the GoI and LIC to divest their ownership, the share of current and savings account (CASA) deposits and retail term deposits witnessed a steady growth, leading to an improved granularity in the deposit base. The bank's ability to continuously maintain and grow the core deposit base upon the change in ownership may, however, remain a monitorable.

ICRA also notes that the vulnerable loan accounts have reduced from previous levels, with the SMA[2]-1 and SMA-2 at 1.5% of standard advances (3.4% as on March 31, 2020) and the standard restructured book at 3.0% of standard advances as on June 30, 2022. The high provision coverage and the prudent provision of Rs. 1,253 crore (0.9% of standard advances), as on June 30, 2022, against the restructured book remain a source of comfort. While IDBI maintains the highest provision coverage ratio (PCR) among all banks, the fresh NPA generation rate has remained elevated partially because of slippages from restructured loans. The bank's ability to arrest incremental credit costs while ensuring timely recoveries will be a key driver of further improvement in the net profitability from the current level.

ICRA has withdrawn the rating assigned to the Rs. 3,756.1-crore Senior & Lower Tier II (Subordinated Bonds) as these are fully redeemed and no amount is outstanding against the same. The rating was withdrawn in accordance with ICRA's policy on withdrawal and suspension (click here for the policy).

[1] Solvency defined as (NNPAs + Net security receipts + Net non-performing investments) / Core capital)

[2] SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days. The SMA-level data is for the entire bank including exposures below Rs. 5 crore

Key rating drivers and their description

Credit strengths

Comfortable capitalisation and solvency profile – IDBI's capitalisation profile continued to improve with the Tier I ratio and the capital-to-risk weighted assets ratio (CRAR) at 17.13% and 19.57%, respectively, as on June 30, 2022, (13.64% and 16.23%, respectively, as on June 30, 2021). Accordingly, the overall solvency levels (excluding prudent provisions held by the bank) continued on an improving trajectory and stood at 6.6% as on June 30, 2022 against 10.7% as on June 30, 2021. The large-scale capital support from the GoI (Rs. 18,928 crore over FY2017-20) and LIC (Rs. 26,761 crore over FY2017-20) helped bring down the NNPA levels, which also supported an improvement in the capitalisation and the profitability over the last two years.

Although the GoI and LIC together hold 94.72% of the total equity in the bank, both have stated their intention to sell down/divest their stakes as well as hand over management control of the bank to prospective investors/buyers. While any change in IDBI's parentage will be a monitorable event, the ratings no longer factor in the parentage as it is expected to change in due course of time. The current rating levels are supported by IDBI's improved standalone credit profile with expectations that internal capital generation is likely to be sufficient for growth as well as for maintaining adequate cushion over the regulatory capital requirements.

Steady deposit base accompanied by decline in share of bulk deposits – With the share of bulk deposits moderating to 5.09% of total deposits as on June 30, 2022 (41% as on September 30, 2016) and the steady increase in CASA and retail deposits, the overall profile of the deposit base witnessed a steady improvement. This was partly attributable to the decline in the loan book following its placement in the prompt corrective action (PCA) framework. The share of low-cost CASA deposits has been increasing steadily and stood at 55.65% of total deposits as on June 30, 2022 compared to 27.69% as on September 30, 2016 and remained higher than the banking sector average, which stood at 44% as on March 31, 2022. Further, in line with the changing deposit mix, the differential in the cost of interest-bearing funds vis-à-vis the banking system average has improved.

While IDBI's deposit base remained stable despite its classification as a private sector bank in FY2019, its ability to continuously maintain and grow the core deposit base while maintaining a competitive cost of funds after a change in the ownership structure may remain a monitorable.

Credit challenges

Asset quality remains monitorable – Given the challenges posed by the Covid-19 pandemic, slippages remained elevated at Rs. 5,866 crore or 4.67% of standard advances in FY2022, which was higher than 2.12% in FY2021. Moreover, slippages remained elevated at 3.61% (annualised) in Q1 FY2023, partly due to the slippage of a few lumpy corporate restructured accounts during the quarter. However, it remains meaningfully below the peak levels seen in the past (23.16% in FY2018 and 13.71% in FY2017). Despite the elevated slippages, the high provision coverage maintained by the bank on the existing stock of NPAs at 94.89% (excluding written-off accounts) as on June 30, 2022 supported the low NNPA level at 1.25% as on June 30, 2022 (23.16% as on March 31, 2018). IDBI's total NPAs (including write-offs) stood at ~Rs. 78,000 crore as on June 30, 2022 and it has guided towards net cash recoveries of ~Rs. 4,000 crore in FY2023 (~Rs. 721 crore achieved in Q1 FY2023). Meaningful recoveries will help offset the impact of incremental credit costs and support the overall profitability though this remains contingent on the timing and quantum of recovery.

Further, ICRA notes that the overall vulnerable book, as indicated by the SMA-1, SMA-2 book and standard restructured advances, remained high at 4.53% of standard advances as on June 30, 2022. However, IDBI is carrying prudent provisions of Rs. 1,253 crore (0.9% of standard advances or 31% of the restructured book) as on June 30, 2022 against the restructured book, which is expected to mitigate any incremental stress that could emanate from this book.

Return metrics improve although sustainability to be seen – IDBI's earnings profile has seen a sustained improvement over the last two years, largely aided by the capital support from the GoI and LIC, which helped shore up the PCR on legacy NPAs. As a result, the overall credit costs were lower in FY2021-Q1 FY2023 than the past levels. Furthermore, profitability was supported by one-time income, including a tax refund of Rs. 353 crore in FY2022 (Rs. 1,313 crore in FY2021 and Rs. 178 crore in Q1 FY2023), and recoveries from written-off accounts amounting to Rs. 846 crore in FY2022 (Rs. 547 crore and Rs. 40 crore in FY2021 and Q1 FY2023, respectively). Given the large written-off loans, the timing of recoveries from NPAs may continue to result in volatility in earnings.

IDBI utilised the increased cushion in earnings from these one-off items towards making full provisions towards the Stressed Asset Stabilisation Fund (SASF; provision of Rs. 1,534 crore in FY2022, Rs. 1,100 crore till FY2021) and stands fully provided for as on June 30, 2022. Notwithstanding this, the bank was able to report a return on assets (RoA) of 0.83% in FY2022 (0.46% in FY2021), which improved further to 1.04% (annualised) in Q1 FY2023. On a forward-looking basis, normalised operating profitability is expected to remain better compared to the past levels although elevated operational costs on a reduced scale will continue to weigh down the operating profitability. Further, recoveries from a meaningfully large pool of NPAs (including written-off accounts) could remain an upside.

Liquidity position: Strong

The daily average liquidity coverage ratio (LCR) remained strong at 142%[3] for Q1 FY2023 and remained >140% during the last four quarters against the regulatory requirement of 100%, while the net stable funding ratio (NSFR) stood at 123% which was also well above the regulatory level of 100%. The bank's strong liquidity position in recent years was largely supported by a relatively low credit-to-deposit ratio and positive asset-liability mismatches (as per the structural liquidity statement as on June 30, 2022) across all the <1 year maturity buckets. Moreover, IDBI has an excess statutory liquidity ratio (SLR) position, which stood at ~10% above the regulatory level (18%) as on June 17, 2022. The excess SLR holding above the regulatory level can be utilised to avail liquidity support from the Reserve Bank of India (RBI; through repo) apart from the marginal standing facility of the RBI in case of urgent liquidity needs.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the bank is able to maintain a capital cushion of over ~300 basis points (bps) over the Tier I and improve the internal capital generation with an RoA of >1.0% on a sustained basis and with the solvency profile remaining better than 25%.

Negative factors – ICRA could change the outlook or downgrade the ratings if the bank reports a sustained weakening in the earnings profile, a decline in the capital cushions over the Tier I to less than 200 bps or a weakening in the deposit franchise.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks ICRA's Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of IDBI. However, in line with our limited consolidation approach, we have factored in the capital requirement of the key subsidiaries of the Group, going forward. In ICRA's view, IDBI's subsidiaries will largely remain self-sufficient in meeting their capital requirements in the near to medium term.

[3] *LCR at consolidated level*

About the company

IDBI Bank Limited, founded in 1964, is a private sector bank headquartered in Mumbai. It was a public sector bank till February 2019 with the GoI holding a majority stake. In January 2019, LIC increased its stake in the bank to 51% by infusing capital of Rs. 21,624 crore, resulting in the dilution of the GoI's ownership to 46.46% as on January 24, 2019 from 85.96%. LIC maintained its holding at 51% during the subsequent capital raise of Rs. 9,300 crore in September 2020, while the GoI's share remained at a similar level of 47.11%. However, LIC and the GoI's stakes in the bank declined to 49.24% and 45.48%, respectively, after it raised capital via a qualified institutional placement (QIP) in FY2021. Given the decline in the GoI's majority shareholding, the RBI classified IDBI as a private sector bank w.e.f. March 2019. As on March 31, 2022, the bank had 1,886 branches and 3,403 ATMs.

Key financial indicators (standalone)

IDBI Bank Limited		FY2021	FY2022	Q1 FY2022	Q1 FY2023
Net interest income	Rs. crore	8,518	9,162	2,506	2,488
Profit before tax	Rs. crore	2,369	3,609	1,024	1,093
Profit after tax	Rs. crore	1,359	2,439	603	756
Net advances	Rs. lakh crore	1.28	1.37	1.23	1.38
Total assets	Rs. lakh crore	2.91	2.93	2.90	2.88
CET / Tier I	%	13.06%	16.68%	13.64%	17.13%
CRAR	%	15.59%	19.06%	16.23%	19.57%
Net interest margin / Average total assets	%	2.91%	3.14%	3.45%	3.43%
Net profit / Average total assets	%	0.46%	0.83%	0.83%	1.04%
Return on net worth	%	4.45%	7.35%	7.79%	9.01%
Gross NPAs	%	22.38%	19.16%	22.74%	19.92%
Net NPAs	%	1.97%	1.27%	1.67%	1.25%
Provision coverage excl. technical write-offs	%	93%	95%	94%	95%
Net NPA / Core capital	%	12%	7%	10%	7%

Source: IDBI, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Name of Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Sep 26, 2022	Jun 08, 2022	Sep 27, 2021	Sep 30, 2020	Sep 19, 2019
1	Basel III Tier II Bonds	Long Term	5,000.00	1,900.00^	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (hyb) (Stable)	[ICRA]A (hyb) (Negative)
2	Infrastructure Bonds	Long Term	8,000.00	5,000.00^	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)
3	Senior & Basel II Lower Tier II Bonds	Long Term	17,658.83	1,664.20^	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)
4	Senior & Basel II Lower Tier II Bonds	Long Term	3,756.10	-	[ICRA]A+ (Positive) withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)
5	Subordinated Debt	Long Term	20.00	0.00^	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)
6	Fixed Deposits Programme	Long Term	-	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	MAA- (Stable)	MAA- (Stable)	MAA- (Negative)
7	Certificates of Deposit	Short Term	35,000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
8	Basel II Upper Tier II Bonds	Long Term	-	-	-	-	[ICRA] A (Stable) withdrawn	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Negative)

^ Balance amount yet to be placed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Infrastructure Bonds	Very Simple
Senior & Lower Tier II (Subordinated Bonds)	Very Simple/Simple
Subordinated Debt Programme	Very Simple
Basel III Tier II Bonds	Highly Complex
Fixed Deposits Programme	Very Simple
Certificates of Deposit Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE008A08N67	Senior Bonds	September 23, 2007	10.07%	September 23, 2022	4.2	[ICRA]A+ (Positive)
INE008A08R30	Senior Bonds	June 13, 2009	9.56%	June 13, 2029	1	[ICRA]A+ (Positive)
INE008A08R71	Senior Bonds	September 26, 2009	9.67%	September 26, 2029	2	[ICRA]A+ (Positive)
INE008A08U68^	Senior Bonds	December 26, 2012	9.40%	Perpetual (Call: December 26, 2022)	850	[ICRA]A+ (Positive) [ICRA]A+ (Positive)
INE008A08S88	Lower Tier II Bonds	July 8, 2010	8.57%	July 8, 2025	302	[ICRA]A+ (Positive)
INE008A08U50	Lower Tier II Bonds	December 13, 2012	8.99%	December 13, 2027	505	[ICRA]A+ (Positive)
Proposed/Not placed	Senior Bonds/Lower Tier II/Flexi Bond Series	-	-	-	16,014.63	[ICRA]A+ (Positive)
Proposed	Infrastructure Bonds	NA	NA	NA	3,000.00	[ICRA]A+ (Positive)
INE008A08U76	Infrastructure Bonds	September 12, 2014	9.27%	September 12, 2024	1,000.00	[ICRA]A+ (Positive)
INE008A08U92	Infrastructure Bonds	January 21, 2015	8.73%	January 21, 2025	3,000.00	[ICRA]A+ (Positive)
INE008A08V26	Infrastructure Bonds	February 9, 2016	8.80%	February 9, 2026	1,000.00	[ICRA]A+ (Positive)
Proposed	Basel III Tier II Bonds	NA	NA	NA	3,100.00	[ICRA]A+ (Positive)
INE008A08V00	Basel III Tier II Bonds	December 31, 2015	8.62%	December 31, 2030	1,000.00	[ICRA]A+ (Positive)
INE008A08V18	Basel III Tier II Bonds	January 2, 2016	8.62%	January 2, 2026	900	[ICRA]A+ (Positive)
NA	Fixed Deposits	NA	NA	NA	-	[ICRA]A+ (Positive)
NA	Certificates of Deposit	NA	-	7-365 days	35,000.00	[ICRA]A1+

Source: IDBI; ^ Converted into a Senior Bond from a Basel II Compliant Tier I Bond and, therefore, does not qualify for CRAR

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE008A08U27	Senior Bonds	March 13, 2012	9.33%	March 13, 2022	300	[ICRA]A+ (Positive); withdrawn
INE008A08U35	Senior Bonds	May 30, 2012	9.03%	May 30, 2022	250	
INE008A08T79	Lower Tier II Bonds	November 26, 2011	9.72%	November 26, 2021	250	
INE008A08T87	Lower Tier II Bonds	November 30, 2011	9.70%	November 30, 2021	500	
INE008A08T95	Lower Tier II Bonds	December 13, 2011	9.45%	December 13, 2021	600	
INE008A08U19	Lower Tier II Bonds	March 15, 2012	9.25%	March 15, 2022	1,000	
INE008A08T20	Lower Tier II Bonds	January 20, 2011	9.04%	January 20, 2021	856.1	

Key features of the rated instruments

The servicing of the Basel II Lower Tier II Bonds, senior bonds and infrastructure bonds is not subject to any capital ratios and profitability. However, the Basel III Tier II Bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked. The Basel III instrument is a hybrid subordinated instrument with equity-like loss-absorption features. Such features may translate into higher loss severity vis-à-vis conventional debt instruments.

Annexure II: List of entities considered for limited consolidated analysis

Company Name	IDBI Ownership	Consolidation Approach
IDBI Capital Markets & Securities Ltd.	100%	Limited Consolidation
IDBI Intech Ltd.	100%	Limited Consolidation
IDBI Asset Management Ltd.	66.67%	Limited Consolidation
IDBI MF Trustee Company Ltd.	100%	Limited Consolidation
IDBI Trusteeship Services Ltd.	54.70%	Limited Consolidation

Source: IDBI

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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