January 17, 2025

IDBI Bank Limited: [ICRA]AA (Stable) assigned to infrastructure bonds; ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Infrastructure Bonds	-	7,000.00	[ICRA]AA (Stable); assigned
Infrastructure Bonds	7,000.00	7,000.00	[ICRA]AA (Stable); reaffirmed
Infrastructure Bonds	1,000.00	-	[ICRA]AA (Stable); reaffirmed and withdrawn
Senior & Lower Tier II (subordinated bonds)	16,299.63	16,299.63	[ICRA]AA (Stable); reaffirmed
Subordinated Debt Programme	20.00	20.00	[ICRA]AA (Stable); reaffirmed
Basel III Tier II Bonds Programme	5,000.00	5,000.00	[ICRA]AA (Stable); reaffirmed
Fixed Deposits Programme	-	-	[ICRA]AA (Stable); reaffirmed
Certificates of Deposit Programme	35,000.00	35,000.00	[ICRA]A1+; reaffirmed
Total	**64,319.63**	**70,319.63**	

**Instrument details are provided in Annexure I*

Rationale

The ratings for the various debt instruments of IDBI Bank Limited continue to factor in the improvement in its profitability and capitalisation levels. The bank continues to benefit from recoveries from its legacy stress assets, leading to an improvement in its operating profitability. This, along with lower credit costs, has supported healthy internal capital generation and has contributed to the strengthening of IDBI's capitalisation and improved its loss-absorption capability.

The ratings are based on the bank's standalone credit profile, given the stated intent of its largest shareholders, i.e. Life Insurance Corporation of India (LIC) and the Government of India (GoI), to sell down/divest their shareholding, including a transfer of management control. In this regard, ICRA notes that the GoI, acting through the Department of Investment and Public Asset Management (DIPAM), had invited expression of interest from potential investors in October 2022. Even as the process to dilute their respective stakes in IDBI has progressed, the conclusion and eventual finalisation of new stakeholders is still awaited.

ICRA also notes that the vulnerable loan book, consisting of SMA[1]-1 and SMA-2 (1.2% of standard advances as on September 30, 2024), and the standard restructured book are at manageable levels. In addition to the high provision coverage, the bank had a contingent provision of Rs. 1,578 crore (0.78% of standard advances), as on September 30, 2024, against these advances, which remains an added source of comfort. IDBI's ability to keep incremental credit costs in check while ensuring timely recoveries will be a key driver for maintaining healthy profitability.

Although the bank witnessed steady business (advances and deposits) growth, its share in sector advances and deposits has declined from the peak levels as on March 31, 2017. This is due to the growth restrictions under the prompt corrective action (PCA) framework and the subsequently low growth rate in comparison to the sector average. Further, IDBI's ability to maintain and grow the core deposit base upon the change in ownership would be monitorable.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 1,000.00-crore infrastructure bonds as these have been fully redeemed with no amount outstanding against the same. The rating was withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings (click here for the policy).

[1] SMA is defined as a special mention account; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days

Key rating drivers and their description

Credit strengths

Earnings continue to benefit from recoveries from legacy stressed assets – Apart from the steady growth in advances and the consequent improvement in its core income and profit, IDBI continues to benefit from the recoveries from significantly provisioned stressed assets. The operating profitability is supported by strong recoveries from written-off accounts while credit and other provisions also remained low, supporting the overall profitability. The bank has a significant pool of highly provisioned stressed assets, which is likely to support its core profitability. IDBI's return metrics {return on assets (RoA)} stood strong at 1.98% (annualised) in H1 FY2025, 1.66% in FY2024 and 1.19% in FY2023.

Strong capitalisation and solvency profile – Driven by robust internal accruals, IDBI's capitalisation profile continued to remain healthy with the Tier I ratio and the capital-to-risk weighted assets ratio (CRAR) at 19.89% and 21.98%, respectively, as on September 30, 2024 (20.11% and 22.26%, respectively, as on March 31, 2024). The higher capitalisation levels, along with the decline in the net stressed assets, support the strong solvency[2] profile. Though the capitalisation profile was supported by capital infusions in the past by LIC and the GoI, IDBI has remained profitable since FY2021. Notwithstanding the sufficient internal accruals and capital position for growth, the Reserve Bank of India's (RBI) implementation of the expected credit loss (ECL) framework for credit exposures and additional provisioning on infrastructure financing remain monitorable. However, the strong capital cushions provide support for such transition(s). Although the ratings are based on IDBI's standalone credit profile, any change in its parentage will be monitorable.

Steady deposit base – IDBI's steady deposit base is supported by the high share of current account and savings account (CASA) deposits at 48.14% as on September 30, 2024. Though the share of CASA declined from 50.43% as on March 31, 2024, in line with the trend seen in the industry, it remained above the banking sector average. This supports IDBI's cost of funds, which remained competitive at 4.72% against the public sector banks' average of 5.16% in H1 FY2025. With the improvement in credit growth, the share of bulk deposits grew to 16.50% of total deposits as on September 30, 2024 from 11.43% as on September 30, 2023, and could increase further.

Though the bank has strong CASA deposits, it saw slow total deposit growth in the last few years in relation to the industry average. Thus, its share in sector deposits declined to 1.3% as on September 30, 2024 from 2.8% as on March 31, 2016. IDBI's deposit base has remained stable despite its classification as a private sector bank in FY2019. Its ability to continue maintaining and growing the core deposit base while ensuring a competitive cost of funds after a change in the ownership structure will remain a monitorable.

Credit challenges

Impact of material weakening of macroeconomic factors on asset quality a monitorable – The overall fresh non-performing advances (NPA) generation rate stood at 1.12% of standard advances in H1 FY2025, which was much lower than the high levels of 5-8% observed in the past. The change in IDBI's portfolio mix, characterised by the decline in the share of the corporate loan book to 29% as on September 30, 2024 from 49% as on March 31, 2019, led to a moderation in the fresh NPA generation rate over the last few years. ICRA also notes that the overall vulnerable book remains monitorable despite declining from past levels. IDBI's ability to limit the slippages from the pool would remain critical from a profitability perspective.

Even though the asset quality levels have improved, they could be affected by weakening macroeconomic factors, increasing stress in the retail sector owing to overleveraging and other geopolitical concerns. This will remain monitorable from a profitability and solvency standpoint.

Decline in market share – While IDBI saw strong loan book growth in FY2024 and H1 FY2025, the same was muted after exiting the PCA framework. The loan book declined to Rs. 2,00,944 crore as on September 30, 2024 from Rs. 2,15,893 crore as on March 31, 2016 and the bank's market share in net advances reduced to 1.2% from 2.9% during this period. This was on account of the restrictions placed on IDBI on fresh lending under the PCA framework (May 2017 - March 2021) and limited growth during FY2021-FY2023. The bank's branch expansion has also remained limited at 158 branches from March 31, 2016

[2] *Solvency defined as (Net NPAs + Net security receipts + Net non-performing investments) / Core capital)*

to March 31, 2024. ICRA notes that IDBI plans to expand its operations at a healthy pace compared to the industry average in the near-to-medium term, though this remains monitorable amid the ownership change.

Environmental and social risks

While banks like IDBI do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, it could translate into credit risks for banks. However, such risk is not material for IDBI as it benefits from adequate portfolio diversification. Further, the lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure as has been seen for other regulated entities in the recent past. IDBI has not faced material lapses over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. IDBI has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Strong

The daily average liquidity coverage ratio (LCR) remained strong at 125.27%[3] for Q2 FY2025 against the regulatory requirement of 100% while the net stable funding ratio (NSFR) stood at 114.41%, which was also well above the regulatory level of 100%. The liquidity is supported by positive asset-liability mismatches (as per the structural liquidity statement as on September 30, 2024) in all the less-than-1-year maturity buckets. The bank had additional statutory liquidity ratio securities of 12.7% of net demand and time liabilities as on November 15, 2024, which can be utilised to avail liquidity support from the 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 IDBI can sustain the improvement in its earnings profile, with an RoA of more than 1.5 %, while maintaining the capital cushions above 4% of the Tier I regulatory level.

Negative factors – ICRA could downgrade the ratings if there is a deterioration in the asset quality, leading to the weakening of the solvency profile with Net NPA/Core equity of more than 20% on a sustained basis. Further, a weakening in the earnings profile, with core RoA of less than 0.8%, and/or a decline in the capital cushions to less than 3% in relation to the Tier I regulatory levels on a sustained basis will remain negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions ICRA's Policy on Withdrawal of Credit Ratings ICRA's Rating Methodology on Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of IDBI. However, in line with ICRA's consolidation approach, the standalone assessment of the bank factors in the ordinary and extraordinary support that it is expected to extend to its subsidiary.

[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, 2024, IDBI had 2,004 branches and 3,303 ATMs. On October 07, 2022, DIPAM released a Preliminary Information Memorandum and invited expression of interest from interested parties for a stake sale of up to 60.72% in IDBI, including the stake of the GoI as well as LIC, which is currently underway.

Key financial indicators (standalone)

IDBI Bank	FY2023	FY2024	H1 FY2025
Total income	14,879	17,079	8,526
Profit after tax	3,645	5,634	3,556
Total assets (Rs. lakh crore)	3.22	3.55	3.64
CET I	18.08%	20.11%	19.89%*
CRAR	20.44%	22.26%	21.98%*
PAT/ATA	1.19%	1.66%	1.98%^
Gross NPA	6.38%	4.53%	3.68%
Net NPA	0.92%	0.34%	0.20%

Source: IDBI, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore unless mentioned otherwise
Total assets and net worth exclude revaluation reserves
Total income includes net interest income and non-interest income (excluding trading profits)
**Excluding H1 FY2025 profit*
^Annualised

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 (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
				Jan 17, 2025	Aug 02, 2024	Aug 11, 2023	Sep 26, 2022	Jun 08, 2022	Sep 27, 2021
1	Basel III Tier II Bonds	Long term	5,000.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Infrastructure Bonds	Long term	7,000.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
			1,000.00	[ICRA]AA (Stable) withdrawn	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
			7,000.00	[ICRA]AA (Stable)	-	-	-	-	-
3	Senior & Basel II Lower Tier II Bonds	Long term	16,299.63	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Subordinated Debt	Long term	20.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Fixed Deposits Programme	Long term	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	MAA- (Stable)
6	Certificates of Deposit	Short term	35,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Basel II Upper Tier II Bonds	Long term	-		-	-	-	-	[ICRA]A (Stable) withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Infrastructure Bonds	Very Simple
Senior & Lower Tier II (Subordinated Bonds)	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE008A08R30	**Senior Bonds**	Jun 13, 2009	9.56%	Jun 13, 2029	1.00	[ICRA]AA (Stable)
INE008A08R71	**Senior Bonds**	Sep 26, 2009	9.67%	Sep 26, 2029	2.00	[ICRA]AA (Stable)
INE008A08S88	**Lower Tier II Bonds**	Jul 8, 2010	8.57%	Jul 8, 2025	302.00	[ICRA]AA (Stable)
Proposed/Not placed	**Senior Bonds/Lower Tier II/Flexi Bond Series/Subordinated Debt**	-	-	-	16,014.63	[ICRA]AA (Stable)
Proposed	**Infrastructure Bonds**	NA	NA	NA	10,000.00	[ICRA]AA (Stable)
INE008A08U76	**Infrastructure Bonds**	Sep 12, 2014	9.27%	Sep 12, 2024	1,000.00	[ICRA]AA (Stable); withdrawn
INE008A08U92	**Infrastructure Bonds**	Jan 21, 2015	8.73%	Jan 21, 2025	3,000.00	[ICRA]AA (Stable)
INE008A08V26	**Infrastructure Bonds**	Feb 9, 2016	8.80%	Feb 9, 2026	1,000.00	[ICRA]AA (Stable)
Proposed	**Basel III Tier II Bonds**	NA	NA	NA	3,100.00	[ICRA]AA (Stable)
INE008A08V00	**Basel III Tier II Bonds**	Dec 31, 2015	8.62%	Dec 31, 2030	1,000.00	[ICRA]AA (Stable)
INE008A08V18	**Basel III Tier II Bonds**	Jan 2, 2016	8.62%	Jan 2, 2026	900.00	[ICRA]AA (Stable)
NA	**Fixed Deposits**	NA	NA	NA	-	[ICRA]AA (Stable)
NA	**Certificates of Deposit**	NA	-	7-365 days	35,000.00	[ICRA]A1+

Source: IDBI

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%	Full Consolidation
IDBI Intech Ltd.	100%	Full Consolidation
IDBI Asset Management Ltd.	66.67%	Full Consolidation
IDBI MF Trustee Company Ltd.	100%	Full Consolidation
IDBI Trusteeship Services Ltd.	54.70%	Full Consolidation

Source: IDBI; ^ Ownership as on September 30, 2024

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