IDBI BANK
CIN: L65190MH2004GOI148838

आईडीबीआई बैंक लिमिटेड
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4 दिसम्बर 2020

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,

Revision in rating by Fitch

This is to inform that Fitch Ratings vide their Press Release dated December 3, 2020, has upgraded the viability Rating to 'ccc+' from 'ccc' and has reaffirmed IDBI's Long-Term Issuer Default Rating (IDR) at 'BB+', with a Negative Outlook, Support Rating Floor at 'BB+' and Support Rating at '3'. The rationale given by Fitch Ratings for upgrading the Viability rating 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.

भवदीय,
कृते आईडीबीआई बैंक लिमिटेड

अग्रवाल 4/12/2020
[पवन अग्रवाल]
कंपनी सचिव

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms IDBI Bank Limited at 'BB+'/Negative; Upgrades Viability Rating to 'ccc+'

Thu 03 Dec, 2020 - 7:22 AM ET

Fitch Ratings - Singapore/Mumbai - 03 Dec 2020: Fitch Ratings has affirmed IDBI Bank Limited's (IDBI) Long-Term Issuer Default Rating (IDR) at 'BB+'. The Outlook is Negative. The agency has also upgraded the bank's Viability Rating (VR) by one-notch to 'ccc+' from 'ccc', and affirmed the Support Rating Floor (SRF) at 'BB+' and Support Rating (SR) at '3'. A full list of rating actions is at the end of this commentary.

The upgrade to IDBI's VR is due mainly to the improved core capitalisation and the high loan-loss coverage, which provide some resilience to the capital buffers against potential asset-quality stress. It also factors in the possibility for more fresh capital in the financial year ending March 2021 (FY21) which, if successfully raised, can provide a significant fillip to the capital buffers.

The Outlook on IDBI's IDR was revised to Negative from Stable on 1 April 2020, before India's sovereign rating (BBB-) Outlook was revised to Negative from Stable on 18 June 2020 due to the impact of the escalating coronavirus pandemic on India's economy (for more details, please see "Fitch Revises India's Outlook to Negative, Affirms IDR at 'BBB-'" at www.fitchratings.com/site/pr/10126674).

IDBI Bank's SRF and IDR are unchanged for now, as support prospects have not materially altered since our last review. However, these could shift over time in line with the government's proposed stake sale implying weaker propensity to support the bank or if the sovereign's ability to support were to be impacted in future, reflected by a sovereign rating downgrade.

The operating environment for Indian banks remains challenging despite a moderate revival in economic activity due to gradual easing of the lockdown since May 2020. Fitch revised India's FY21 real GDP to -10.5% from -5% in September 2020, but expects India's real GDP to rebound to 11% in FY22, largely as a result of the low base. The economic contraction is likely to result in protracted weakness in the asset-quality cycle, which could manifest in significantly higher stressed loans and, ultimately, more write-offs over the next few years, even though Indian banks' latest 2QFY21 earnings present a more benign picture (see "Indian Banks to Face Tough Times" at www.fitchratings.com/site/re/10137748).

Fitch believes a speedy economic recovery is critical for the sector to rebound meaningfully, even though we expect to see a moderately worse landscape for the Indian banking sector in 2021 on weak prospects for new business and revenue generation. Private banks with stronger loss-absorption buffers will be in a better position to benefit from the recovery against state-owned counterparts, which are generally burdened with greater balance sheet challenges and weaker loss-absorption buffers.

KEY RATING DRIVERS

IDR, SUPPORT RATING AND SUPPORT RATING FLOOR

IDBI's IDR of 'BB+' is lower than the sovereign rating of 'BBB-', and driven by the SRF and SR of '3', which reflects a moderate probability of extraordinary state support based on the bank's systemic importance and linkages to the state. We believe the bank's moderate size (around 2% market share each of system assets and deposits), pan-India franchise, sizeable deposit base and majority indirect state ownership (98%, including Life Insurance Corporation of India's (LIC) stake) remain important considerations in assessing systemic importance, and ultimately the prospect of extraordinary support for the bank.

The Negative Outlook on IDBI's IDR mirrors the Outlook on India's sovereign rating but also reflects our expectation that the state's propensity to provide extraordinary support to IDBI may diminish following the government's proposal to sell its stake in the bank and dispose of part of the stake in IDBI's majority shareholder, LIC. The state directly owns 47% of IDBI and holds another 51% indirectly through LIC, India's largest life insurer. The state announced plans to sell the 47% stake and dilute part of its 100% shareholding in LIC through a market listing in its budget in February 2020. The Reserve Bank of India also expects LIC to reduce the insurer's shareholding in IDBI over a 12-year period.

VIABILITY RATING

IDBI's intrinsic risk profile has improved slightly since our last VR action on 1 April 2020 on better capitalisation and the bank's return to profitability. However, the VR continues to denote high fundamental credit risk reflected in the significantly large impaired loan stock and the risk of further potential stress due to the impact of the pandemic. This could disrupt IDBI's nascent earnings recovery and the capitalisation trajectory.

IDBI's common equity Tier 1 (CET1) ratio (1HFY21: 11.1%) has improved over the years due to USD6 billion in equity injections from the state and LIC in FY20, FY19 and FY18, even though it is not necessarily commensurate with risks. Still, an improving net non-performing loan (NPL)/CET1 ratio (1HFY21: 19.2%; FY20: 32.5%) makes core capital comparatively less vulnerable than before. The bank has announced plans to raise INR110 billion (32% of equity and +683bp) in fresh equity in FY21, of which INR60 billion is already in the process of being privately placed. The capital - if raised successfully - will lift the CET1 ratio significantly, providing additional buffer against near-term stress and will make a case for a further upward revision to the capitalisation score of 'b'.

The bank returned to profitability in 1HFY21 (operating profit/risk-weighted assets (RWA): 1.4%), after five consecutive years of significant losses, on a reversal in loan impairment charges and a moderately lower cost/income ratio. This more than offset the impact of a lower net interest margin. Nonetheless, with credit costs accounting for 57% of pre-provision operating profit, recovery remains fragile and can be vulnerable to even moderate stress. We believe earnings will continue to be a moderate but important influencing factor in the current environment. We do not expect a big jump in credit costs in FY21 but overall earnings will remain muted, as we expect the bank to calibrate risk appetite and loan growth in the challenging operating environment. However, an upward revision is likely if IDBI is able to sustain the improvements over a longer period.

IDBI's asset quality is much weaker than peers and is also a high influencing factor for the VR. The impaired loans ratio has been reducing gradually since FY19 (1HFY21: 25.1%) despite a declining loan book on lower slippages and elevated write-offs. Loan-loss coverage has also improved to nearly 92%, which is the highest among all state banks, but reflects the amount of legacy bad loans that remain unresolved or unrecovered. Even so, a higher coverage should provide some buffer against any sharp volatility in impaired loans while projected recoveries for FY21 (INR60 billion or 3.5% of loans) remain on track.

The bank had nearly 52% of its loans under moratorium, according to the last available disclosures, but reported special mention loans (overdue above 30 days and 60 days) were only around 1%. This disconnect is prevalent across banks in the system and we believe that it may take a few more quarters before we can reasonably ascertain the true asset quality. We think the prospect of a further large negative asset-quality surprise is lower for IDBI than other state banks considering reduced concentration risk and no significant underwriting in the corporate space, but moderate risks remain. However, it will take consistent and material improvement in the impaired loans ratio before we can consider a higher category score for asset quality.

Funding and liquidity have been generally stable, underpinned by depositors' perception of IDBI being a state-owned bank due to the state's significant ownership although this will be tested once the government lowers its majority holding in the bank. Moreover, the bank reported further improvement in its low-cost deposit share (48.3% 1HFY21; 47.7% FY20) and reduced dependence on high-cost bulk deposits (1HFY21: 13.9% of total deposits; 17.6% FY20). It has added more resilience to its funding profile but it remains to be seen if the bank will sustain that in the event loan growth resumes (loan/customer deposit ratio: 73% 1HFY21; 80.9% FY20). The bank's liquidity coverage ration jumped to 155.5%% in 1HFY21 from 127.7% in FY20.

SENIOR DEBT

IDBI's senior debt rating is at the same level as the IDR, as the debt represents unsecured and unsubordinated obligations.

RATING SENSITIVITIES

IDRS, SUPPORT RATING, SUPPORT RATING FLOOR AND SENIOR DEBT
Factors that could, individually or collectively, lead to negative rating action/downgrade: Weakening of the government's ability to provide extraordinary support - reflected by a downgrade in India's sovereign ratings - would lead to a similar negative action on IDBI's IDR. At the same time, the SRF and IDR could be downgraded if the government's stake in IDBI is diluted or if the bank ultimately becomes privatised, as that could indicate a lower propensity of support from the government. That said, we see IDBI as systemically important, although less so than the larger banks, meaning support will continue to be a factor in the ratings. Factors that could, individually or collectively, lead to positive rating action/upgrade: An upgrade of the sovereign rating appears less likely in the near term, although a stronger ability of the sovereign to offer support may lead to positive action on IDBI's ratings. However, a revision of the sovereign rating Outlook to Stable will have no impact on the Outlook of the bank's IDR, given the government's plans to reduce its (indirect) majority shareholding in IDBI. VIABILITY RATING Factors that could, individually or

collectively, lead to negative rating action/downgrade: The VR is most sensitive to changes in IDBI's asset quality and profitability, both of which will affect capitalisation. The VR could be downgraded if significant losses (i.e. negative operating profit/RWA) and weak asset quality (stressed assets ratio ie. impaired loans + restructured loans ratio approaches 30% compared with 25.1% impaired loan ratio at end-1HFY21) compromise the bank's progress in improving its core capital position and increases the need for extraordinary support on a last-resort basis. However, we see less risk of that occurring in the near term, despite the negative outlook for the operating environment. The VR could also be affected if there are funding difficulties after the change of ownership, although this is not our base case. Factors that could, individually or collectively, lead to positive rating action/upgrade: A VR upgrade to the 'b' category could be probable in the near term if the bank is able to significantly increase its capital base while keeping earnings stable such as a positive operating profit/RWA for a few quarters, as that would support the bank's core capitalisation and reduce capital vulnerability. It will be predicated on a sustained improvement in the stressed assets ratio to below 20% (from impaired loan ratio of 25.1% at end-1HFY21) through meaningful progress in NPL resolution and more stable earnings.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

IDBI has an ESG Relevance Score of '4' for Governance Structure. It reflects our assessment that key governance aspects, in particular board independence and effectiveness, ownership concentration and protection of creditor or stakeholder rights are a moderate influence on the VR. It is a negative influence since Fitch views governance to be less developed for state banks, which is evident from weak underwriting that results in high levels of poorly performing loans and credit losses. The board is dominated by government appointees, and business models often focus on supporting government strategy with lending directed towards promoting socioeconomic and macroeconomic policies, which may include lending to government-owned companies. These factors also drive our view on the bank's state linkages that affect support prospects that drive the long-term ratings.

IDBI has an ESG Relevance Score of '4' for Financial Transparency. It reflects our assessment that the quality and frequency of financial reporting and the auditing process are a moderate influence on the VR. It is a negative influence however since these factors have become more prominent in the past few years because of the sharp financial deterioration at state banks as well as the widely reported divergences in NPL recognition between the banks and the regulator, although these incidences have narrowed in recent years. Still, financial transparency is pivotal for general business and depositor confidence and can lead to significant reputational risk if not managed well.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
IDBI Bank Limited	LT IDR	BB+ Rating Outlook Negative	Affirmed	BB+ Rating Outlook Negative
	ST IDR	B	Affirmed	B
	Viability	ccc+	Upgrade	ccc
	Support	3	Affirmed	3
	Support Floor	BB+	Affirmed	BB+
• senior unsecured	LT	BB+	Affirmed	BB+

VIEW ADDITIONAL RATING DETAILS

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Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bank of Baroda	EU Endorsed

Bank of Baroda (New Zealand) Limited	EU Endorsed
Bank of India	EU Endorsed
IDBI Bank Limited	EU Endorsed
Punjab National Bank	EU Endorsed
State Bank of India	EU Endorsed

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Banks Asia-Pacific India New Zealand