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26 जुलाई, 2022

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Dear Sir/Madam,

**Revision in Rating by India Ratings**

This is to inform that India Ratings has upgraded IDBI Bank Limited's (IDBI) Long-Term Issuer Rating to 'IND A+' from 'IND A' and its Short-Term Issuer Rating to 'IND A1+' from 'IND A1' vide their report dated July 25, 2022. The rationale for ratings 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

  
26/7/2022

[ज्योति नायरा]  
कंपनी सचिव

## India Ratings Upgrades IDBI Bank to 'IND A+' / Stable

Jul 25, 2022 | Banks

India Ratings and Research (Ind-Ra) has upgraded IDBI Bank Limited's (IDBI) Long-Term Issuer Rating to 'IND A+' from 'IND A' and its Short-Term Issuer Rating to 'IND A1+' from '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	Upgraded
Omni infrastructure bonds#	-	-	-	INR80	IND A+/Stable	Upgraded
Basel III-complaint Tier II bonds#	-	-	-	INR30	IND A+/Stable	Upgraded
Deposit rating	-	-	-	-	IND A+/Stable	Upgraded
Senior debt#	-	-	-	INR36.31	IND A+/Stable	Upgraded
Certificates of deposits	-	-	7-365 days	INR160	IND A1+	Upgraded

\*Yet to be issued

# Details in annexure

**Analytical Approach:** Ind-Ra continues to rate the bank on a standalone basis.

The upgrade reflects the bank's enhanced capital levels, negligible need to provide for legacy gross non-performing advances (NPAs), manageable impact of COVID-19, improved deposit profile, and Ind-Ra's continued expectations of the bank maintaining enhanced operating buffers and profitability. These factors also provide the bank with the ability to maintain its market share in advances and deposits while keeping higher-than-adequate capital levels. While IDBI is a mid-sized bank and among the largest in A category peers, the ratings are constrained by the lack of a large asset and liability niche to focus on and the impending strategic divestment by two of its promoters – Life Insurance Corporation of India Ltd (LIC) and the government of India (GoI). Ind-Ra expects synergy building with LIC to be put on the backburner, given the impending strategic divestment plans.

Ind-Ra opines the bank now, irrespective of timing of strategic sale, would continue to focus on retail loans and fomenting newer corporate relationships. While it could face challenges in maintaining its deposit profile in a rising rate environment, Ind-Ra does not expect the bank to need material incremental capital to deliver balance sheet growth in the near term.

## Key Rating Drivers

**Improved Profitability Prospects:** IDBI's operating metrics continued to improve in FY22 on the back of high provisioning levels, reasonable loan book growth, particularly the corporate segment, and improved low-cost deposit profile; all these factors provide the bank with the runway to deliver continued profitability in the medium term. While the recovery from written-off cases and profits on the sale of investments formed a significant part of the FY21 and FY22 profitability, the liability franchise that the bank has developed in the past three years and likely low credit costs could help it deliver material net profitability and offset any treasury losses that it may face in an adverse interest rate environment. The agency expects IDBI's pre-provision operating profit (PPOP) to advances to be about 4% and credit cost 2% in both FY23 and FY24. These expectations incorporate the agency's slippage estimates from the restructured and special mention accounts. The aging-related provisions are not significant. The bank may see lower slippages as well as lower recoveries and upgrades in FY23. Overall, Ind-Ra expects the return on assets be between 0.5% and 0.8% in FY23 (1QFY23: 1.0% annualised; FY22: 0.8%; FY21: 0.5%).

**Enhanced Capital Levels:** IDBI's common equity tier 1 ratio improved to 16.7% in FY22 (1QFY23: 17.1%, FY21: 13.1%), supported by INR14.4 billion of qualified institutional placement in FY21, utilisation of deferred tax assets and capital accrual from profitability. Ind-Ra does not expect the bank to require material incremental capital to meet its mid-term growth plans. The bank's net advances grew about 14% yoy while the risk weighted assets declined about 2% yoy in FY22. However, it would be challenging for the bank to continue to use this mechanism to enhance the capital. The continued utilisation of deferred tax (FY22: about INR133 billion) along with expected higher profitability would offer IDBI growth runway without significant deteriorating its capital levels in the medium term.

**Expected Growth to Normalise the Improvement in Deposit Profile:** The bank's current account saving account ratio (CASA) improved to 56.8% in FY22 (1QFY23: 55.7%; FY21: 50.4%; FY19: 42.5%) which is among the highest within the universe of Indian banks. The bulk deposit share decreased to about 5% in FY22 (FY21: 11.6%). Over FY19-FY22, the net advances marginally fell about 1% while deposits kept accruing. Over the medium term, the bank's deposit profile will normalise as it focuses on growing its advances book. Ind-Ra also expects the bank's reliance on bulk deposits to increase while CASA may deteriorate. However, the bank also does not expect CASA to decline below 50%. IDBI also benefited from having LIC's few collection and payment accounts, branch-level accounts and transaction flows (together about 2%), but not as much as either Ind-Ra or the bank would have expected. Given the impending strategic sale by both parents, the development of synergy with LIC has taken a backseat. The bank plans to keep the corporate to non-corporate ratio at around 37:63, indicating that it plans to grow similarly in both the segments.

**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 5% in FY22 (FY21: 1.3%) of the 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 declined substantially to about 5% in FY22 (FY21: 11.6%). IDBI's liquidity coverage ratio stood at 141.7% in FY22 (FY21: 155.59%), against the regulatory requirement of 100%. The

bank has about INR260 billion of excess in statutory liquidity qualifying securities at end-March 2022.

**High Provision Coverage; Manageable COVID-19 Impact on Asset Quality:** The bank's adjusted provision cover (excluding technical write-offs) increased to 94.6% in FY22 (FY21: 93%; FY19: 70.4%) and is among the highest in the system; it has also seen gross slippages of about 3% and net slippages (net of upgrades and write offs) of about 0.7%. Ind-Ra does not expect the slippages to drop sharply, but the credit costs may see some decline as the bank has about INR5 billion of unutilised provisions. Its net NPAs at 1.27% at end-March 2022 (1QFY23: 1.25%) indicate limited requirement for provisioning on legacy NPAs. Over FY23 and FY24, Ind-Ra expects the gross and net NPAs to remain at similar levels, as recoveries and upgrades trend downwards and COVID-19 related slippages continue. However, given the high provision cover of 94.6% in FY22, and the expectations of maintenance of profitability and capital in a reasonable range, the overall asset quality is expected to remain manageable.

**Limited Support from Majority Shareholders:** LIC became the majority stakeholder of IDBI (51% shareholding) by infusing INR216.24 billion into the bank in FY19, thereby reducing the Gol's stake to 46.46%. The two key shareholders further infused about INR90 billion in IDBI in FY20. The bank raised capital in 3QFY21 through a qualified institutional placement, in which both LIC or the Gol did not participate. Consequently, the shareholding of LIC reduced marginally to 49.24% and the Gol'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 Gol to divest their stake in the bank, the bulk of the synergies may not necessarily materialise. The agency will gain / await clarity on the stake sale over the next few quarters. Till then, Ind-Ra does not expect any material support from the majority shareholders. However, having a govt / quasi-govt ownership does help the bank in terms of deposits from large public sector units / government-owned or related enterprises. Ind-Ra thus does not expect the change of ownership to have a significant and immediate impact on the deposit profile of the bank.

**Home Loan Business Issue Unresolved:** Ind-Ra understands that there is a possibility of an adverse impact on IDBI's franchise building efforts if it is unable to continue its home loan business beyond November 2023. This stems from LIC's ownership of IDBI as a large shareholder with a competing business under the former's subsidiary LIC Housing Finance Ltd. When LIC had decided to take up a majority stake in IDBI in FY19, it had to abide by the condition where only one of the institutions (either LIC Housing Finance or IDBI) could carry the home loan business after November 2023. In the event of delayed dilution of shareholding by LIC beyond November 2023, there could be a workout around. IDBI is no longer a subsidiary of LIC, with the latter's stake falling below majority to 49.24% from 51% at end-September 2019. Ind-Ra thus does not expect the lack of clarity on the home loan business post November 23 to have a significant negative impact on the credit profile of IDBI in the near-medium term. The agency would continue to monitor the evolving situation and take appropriate an rating action as and when warranted.

## Rating Sensitivities

**Positive:** The bank's demonstrated ability to increase the scale substantially across segments without significant deterioration in the liability profile, manageable impact of COVID-19 on profitability and capital, along with an increasing share in retail advances and development of a sharp and large niche as well as franchise could lead to a positive rating action.

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

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on IDBI, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

## Company Profile

IDBI is a public sector bank in India with pan-India presence. The bank had 1,886 branches and 3,403 ATMs across India at FYE22.

### FINANCIAL SUMMARY

Particulars	FY22	FY21
Total assets (INR billion)	3,014.19	2,977.64
Total equity (INR million)	416.62	368.11
Net profit (INR million)	24.39	13.59
Return on assets (%)	0.8	0.5
Common equity tier 1 ratio (%)	16.7	13.1
Capital adequacy ratio (%)	19.1	15.6
Net interest income	91.62	85.18
Source: Bank data		

## Solicitation Disclosures

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

## Rating History

Instrument Type	Current Rating/ Outlook			History Rating/ Outlook		
	Rating Type	Rated Limits (billion)	Rating	26 July 2021	3 August 2020	23 July 2019
Issuer rating	Long-term/Short-term	-	IND A+/Stable/IND A1+	IND A/Stable/IND A1	IND A/Negative/IND A1	IND A/Negative/IND A1
Basel III compliant bonds	Long-term	INR20	IND A+/Stable	IND A/Stable	IND A/Negative	IND A/Negative
Omni infrastructure bonds	Long-term	INR80	IND A+/Stable	IND A/Stable	IND A/Negative	IND A/Negative
Basel III-complaint Tier II bonds	Long-term	INR30	IND A+/Stable	IND A/Stable	IND A/Negative	IND A/Negative

Deposit rating	Long-term	-	IND A+/Stable	IND tA/Stable	IND tA/Negative	IND tA/Negative
Senior debt	Long-term	INR36.31	IND A+/Stable	IND A/Stable	IND A/Negative	IND A/Negative
Certificates of deposits	Short-term	INR160	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	09 February 2016	10	09 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	02 January 2016	10	02 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>.

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