IDBI BANK
CIN: L65190MH2004GOI148838

आईडीबीआई बैंक लिमिटेड
पंजीकृत कार्यालय : आईडीबीआई टॉवर,
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Dear Sir/Madam,

Revision in Rating by India Ratings

This is to inform that India Ratings has revised IDBI Bank's Outlook to "Positive" from "Stable" while affirming the Long-Term Issuer Rating as 'IND A+' and it's Short-Term Issuer Rating at 'IND 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
21/7/23
[ज्योति नायर]
कंपनी सचिव

संलग्न: उपर्युक्त

IndiaRatings
&Research
A Fitch Group Company

India Ratings Revises IDBI Bank's Outlook to Positive; Affirms 'IND A+'

Jul 21, 2023 | Private Sector Bank

India Ratings and Research (Ind-Ra) has revised IDBI Bank Limited's (IDBI) Outlook to Positive from Stable while affirming the Long-Term Issuer Rating at 'IND A+'. 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+/Positive	Affirmed, Outlook revised to Positive from Stable
Omni infrastructure bonds#	-	-	-	INR80	IND A+/Positive	Affirmed, Outlook revised to Positive from Stable
Basel III-complaint Tier II bonds#	-	-	-	INR30	IND A+/Positive	Affirmed, Outlook revised to Positive from Stable
Deposit rating				-	IND A+/Positive	Affirmed, Outlook revised to Positive from Stable
Senior debt#	-	-	-	INR36.31	IND A+/Positive	Affirmed,; Outlook revised to Positive from Stable
Certificates of deposits	-	-	7-365 days	INR160	IND A1+	Affirmed

Details in annexure
*Yet to be issued

The Outlook revision to Positive factors in IDBI's enhanced systems and processes, improved risk framework, significantly enhanced capital levels, negligible need to provide for legacy gross NPAs, manageable impact COVID-19 and limited residual impact expected, improved deposit profile, continued expectation of it maintaining steady-state operating buffers and reasonable profitability. Ind-Ra also expects the bank to maintain its market share in advances and deposits while keeping enhanced capital levels. While Ind-Ra understands that the strategic divestment by the two key shareholders – Life Insurance Corporation of India (LIC) and the government of India (GoI) - may be a long-drawn process, the bank would continue to search for a large asset and liability niche to focus on. As the bank grows in size and scale and continues to strengthen its capabilities across various facets of banking, Ind-Ra expects the same to have a positive impact on its credit profile.

The bank, irrespective of timing of strategic sale, would continue to focus on retail loans, fomenting newer corporate relationships and growing deposits through target marketing and extending its branch network. While the bank has benefited to some extent on the liabilities front by embedding itself in some parts of LIC's ecosystem, a large part of the expected synergy building with LIC is likely to be on the backburner, given the impending strategic divestment plans. Ind-Ra does not expect the bank to need incremental capital from external sources to deliver balance sheet growth as per plans in the medium term.

Ind-Ra has not factored in capital support from its majority stakeholders to arrive at the ratings, owing to their planned strategic divestment in the bank.

Key Rating Drivers

Enhanced Capital Levels: IDBI's common equity tier 1 ratio improved to 18.1% in FY23 (FY22: 16.7%, FY21: 13.1%) on account of accrual from profitability and utilisation of deferred tax assets; this is among the highest in the scheduled commercial bank universe. Ind-Ra does not expect the bank to require material incremental capital from external sources to meet its mid-term growth plans. The bank's net advances grew about 19% yoy to INR1,625.68 billion, while the credit risk weighted assets/gross advances remained stable at 75% FY23. IDBI had a net worth of INR453 billion at FYE23. The bank's deferred tax (FY23: about INR110 billion) along with continued expectations of reasonable profitability would offer IDBI a growth runway. Ind-Ra expects IDBI's RoE to remain in the range of 9%-10% (FY23: 8.4%, FY22: 6.2%) and would cover most of the capital consumption towards growth in the medium term.

Deposit Base Reasonable: IDBI's current account saving account ratio (CASA) declined to 53% in FY23 (FY22: 56.7%) on account of higher interest rates, with the bulk deposit share increasing to 12.6% (5%). There has not been much traction in CASA deposits (FY23: INR1,354.55 billion, FY22: INR1,323.59 billion), while the total deposits in absolute terms have increased 9.6% yoy. The total deposits as well as CA and SA are reasonably granular, while the top depositors constitute mainly government-related entities. Over the medium term, the bank's deposit profile will normalise as it focuses on growing its advances book further. Ind-Ra also expects the bank's reliance on bulk deposits to increase somewhat, while CASA may modestly deteriorate. However, the bank also does not expect CASA to decline below 50%. IDBI also benefited from having some traction with LIC's collection and payment accounts, branch-level accounts and transaction flows (together about 3%), 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 had corporate to non-corporate ratio at around 31:69 in FY23, indicating that it plans to grow similarly in both the segments.

High Provision Coverage; Adequate Asset Quality: The bank's adjusted provision cover (excluding technical write-offs) decreased to 86.4% in FY23 (FY22: 94.6%; FY21: 93%), as the bank had written-off INR219.2 billion with the top 10 accounts contributing INR138.6 billion. Also, its slippage ratio improved to 1.98% in FY23 (FY22: 3.34%), reflecting better asset quality control and waning impact of COVID-19. Ind-Ra expects slippages and corresponding credit costs to remain low. Net NPAs of 0.9% at end-March 2023 (FY22: 1.3%) indicate limited requirement for provisioning on legacy NPAs. Over FY24 and FY25, Ind-Ra expects the gross and net NPAs to remain at similar levels based on base case projections, as recoveries and upgrades trend downwards. However, given the high provision cover of 86.4% in FY23, and the expectations of maintaining profitability and capital at improved levels, Ind-Ra opines the overall asset quality would remain encouraging.

Enhanced Ability to Maintain Profitability: IDBI's operating metrics continued to improve in FY23, on the back of high provisioning levels, reasonable loan book growth, particularly the retail segment, and improved low-cost deposit profile; all these factors would help the bank deliver continued profitability in the medium term. The net interest margin increased to 4.4% (excluding interest on IT refund) in FY23 (FY22: 3.6%), on account higher transmissibility of interest rates on yields and limited increase in cost of funds. In the mid-term, Ind-Ra also expects that the credit costs would remain lower and enable the bank to deliver PPOP to average advances of around 5% in the medium term. The bank may see lower slippages as well as lower recoveries and upgrades in FY24. However, across the banking universe, Ind-Ra expects that the lag effect of increase in pricing of deposits could play out while competition could limit the yield movement. Consequently, the net interest margin may decline modestly. Overall, Ind-Ra expects the return on assets be between 0.8% and 1.5% in FY24 (FY23: 1.2%, FY22: 0.8%). Ind-Ra also expects the bank to deliver modest profitability under its stress tests.

Liquidity Indicator - Adequate: An analysis of the structural liquidity statement at end-March 2023 showed positive cumulative mismatches (excess of inflows over outflows) in all the buckets in up to one-year period of about 7% of the total inflows. Ind-Ra expects the funding gap to widen somewhat as the bank continues to lend incrementally, if it is not supported by short-term assets or additional long-term liabilities. IDBI's liquidity coverage ratio stood at 135.67% at end-FY23 (FY22: 141.7%), against the regulatory requirement of 100%. The bank had about INR314 billion of excess in statutory liquidity qualifying securities at end-March 2023 which is about 9% of the total assets. Ind-Ra believes the bank's liquidity position has improved significantly from FY21 and it could continually benefit from the strategy of increasing granularisation and retailsation of its deposits.

Strengthened Risk Framework: The bank now has a comprehensive approach to risk. On the corporate side, It has over the past few years, implemented several mechanisms that strengthen the processes across life cycle of a loan including monitoring and early warning systems. This was also accompanied by setting up and strengthening the loan processing teams, and setting up borrower / group / sectoral limits that are monitored periodically. Cashflow monitoring (along with other banks) is being done for risky sectors or corporates with a weak credit profile, especially where multiple / consortium banking is present. Loan sanctioning process is more centralised now and hence there is lower scope of bias or subjectivity. These measures attempt to bring the bank closer to the best practices at comparable banks. On the retail side, there is continuous portfolio monitoring of clients, the credit processes have undergone a revamp, and greater reliance is on filter based / rule approach to credit. Moreover, the bank has introduced newer products on its own as well as through partnerships. There is material focus towards digitalisation of the processes.

Home Loan Business Issue Unresolved; Accommodation Extended: 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 which has been extended. 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 the extended timeline. 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. In the event of delayed stake sale by the bank's key shareholders, 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 to have a significant negative impact on the credit profile of IDBI till the time the matter is resolved. 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, sustained ability to increase the scale substantially across segments without significant deterioration in the liability profile, along with a substantial increase in the retail franchise across various typical products including mortgages, in the near term could lead to a positive rating action.

Negative: A decline in the tier -1 capital ratio below 14% or provision cover below 70% or substantial deterioration in the liquidity position 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 SBI, 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 private sector bank in India with pan-India presence. The bank had 1,928 branches and 3,334 ATMs across India at FYE23.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Total assets (INR billion)	3,305.02	3,016.03
Total equity (INR billion)	453.18	416.62
Net profit (INR billion)	36.45	24.39
Return on assets (%)	1.2	0.8
Common equity tier 1 ratio (%)	18.1	16.7
Capital adequacy ratio (%)	20.4	19.1
Net interest income(INR billion)	114.30	91.62
Source: Bank		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at 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	Rating Type	Rated Limits (billion)	Current Ratings	History Rating/Outlook		
				25 July 2022	26 July 2021	3 August 2020
Issuer rating	Long-term		IND A+/Positive	IND A+/Stable/IND A1+	IND A/Stable/IND A1	IND A/Negative/IND A1
Basel III compliant bonds	Long-term	INR20	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negative
Omni Infrastructure bonds	Long-term	INR80	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negative
Basel III compliant Tier II bonds	Long-term	INR30	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negative
Deposit rating	Long-term		IND A+/Positive	IND A+/Stable	IND tA/Stable	IND tA/Negative
Senior Debt	Long-term	INR36.31	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negative
Certificate 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/Out
IDBI Omni Bonds 2007 Sr.VII	INE008A08N67	23 September 2007	15	23 September 2022	INR0.04	INR0.04	10.07	-	WD (paic full)
IDBI Omni Bonds 2008-09 Sr.XVII	INE008A08Q98	14 March 2009	20	14 March 2029	INR0.02	INR0.02	11.25	-	IND A+/Pos
IDBI Omni Bonds 2009-10 Sr.IV	INE008A08R71	26 September 2009	20	26 September 2029	INR0.02	INR0.02	9.67	-	IND A+/Pos
		Total unutilised				INR36.27			
		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+/Pos
Omni 2014-2015 Infrastructure Bond Series III	INE008A08U92	21 January 2015	10	21 January 2025	INR30.00	INR30.00	8.725	-	IND A+/Pos
Omni Infrastructure Bond 2015-2016 Series III	INE008A08V26	9 February 2016	10	9 February 2026	INR10.00	INR10.00	8.8	-	IND A+/Pos
		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+/Pos

Omni Tier 2 2015-2016 Series II	INE008A08V18	2 January 2016	10	2 January 2026	INR9.00	INR9.00	8.62	None	IND A+/Pos
		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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APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Financial Institutions Rating Criteria

Evaluating Corporate Governance

The Rating Process

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