IDBI BANK

CIN: L65190MH2004GOI148838

आईडीबीआई बैंक लिमिटेड
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जुलाई १२, २०२१

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,

Rating by Moody's

This is to inform that Moody's has shared press release dated July 08, 2021 (received on July 12, 2021 by the Bank). As per the said press release, IDBI's local and foreign-currency bank deposit ratings are two notches above its Baseline Credit Assessment (BCA) and Adjusted BCA of b1. Further, the baseline credit assessment (BCA) of IDBI has been upgraded to b1 from b2. The outlook, where applicable, is Stable. The Moody's rating action is of standalone basis as IDBI had terminated rating contract/ engagements with Moody's in December 2017. However, Moody's have published the press release dated July 08, 2021 without mentioning that the rating is unsolicited. The copy of press release is attached.

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.

भवदीया,

कृते आईडीबीआई बैंक लिमिटेड

12/7/2021

[ज्योति नायर]

कंपनी सचिव

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
8 July 2021

Update

Rate this Research

RATINGS

IDBI Bank Ltd

Domicile	India
Long Term CRR	Ba1
Type	LT Counterparty Risk Rating - Dom Curr
Long Term Debt	Ba2
Type	Senior Unsecured - Fgn Curr
Outlook	Positive
Long Term Deposit	Ba2
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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IDBI Bank Ltd

Update following rating affirmation

Summary

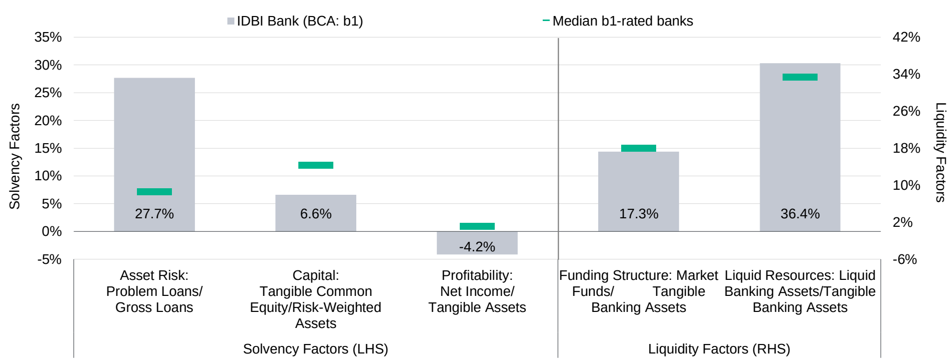
IDBI Bank Ltd's (IDBI) Ba2 local- and foreign-currency bank deposit ratings are two notches above its Baseline Credit Assessment (BCA) and Adjusted BCA of b1 because of our assumption of a very high level of support from the Government of India (Baa3 negative), which will flow through the bank's controlling shareholder, The Life Insurance Corporation of India (LIC). Our support assumptions are underpinned by IDBI's strong links with the government, which are reflected in the bank's ownership structure and its track record of receiving large capital infusions from the government and LIC.

The upgrade of IDBI's BCA to b1 from b2 reflects the significant improvements in its asset quality, capital, profitability and funding quality over the last two years.

The outlook, where applicable, is stable as IDBI's improving solvency metrics is offset by risks of lower government support.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Strong capital and loan-loss coverage

» Quality of funding

Credit challenges

» Weak internal capital generation on account of low profitability

» Risks to asset quality from a deteriorating macro environment

Outlook

The outlook on the ratings remain stable as IDBI's improving solvency metrics is offset by risks of lower government support.

Factors that could lead to an upgrade

» IDBI's ratings could be upgraded if it is able to maintain asset quality and improve profitability from current levels.

Factors that could lead to a downgrade

» IDBI's ratings could be downgraded if the improvements seen in profitability over the last year do not sustain, driven by an increase in credit costs and net interest margin (NIM) contraction.

Key indicators

Exhibit 2

IDBI Bank Ltd (Unconsolidated Financials) [1]

	03-20[2]	03-19[2]	03-18[2]	03-17[2]	03-16[2]	CAGR/Avg.[3]
Total Assets (INR Billion)	2,987.8	3,184.0	3,481.7	3,588.3	3,719.9	(5.3)[4]
Total Assets (USD Billion)	39.5	46.0	53.4	55.3	56.2	(8.4)[4]
Tangible Common Equity (INR Billion)	130.8	124.6	46.6	106.0	201.9	(10.3)[4]
Tangible Common Equity (USD Billion)	1.7	1.8	0.7	1.6	3.0	(13.2)[4]
Problem Loans / Gross Loans (%)	27.5	27.5	28.0	21.2	11.0	23.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	6.6	5.5	1.8	3.4	6.0	4.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	84.3	101.0	166.0	135.1	73.5	112.0[5]
Net Interest Margin (%)	2.4	1.9	1.7	1.7	1.8	1.9[5]
PPI / Average RWA (%)	2.7	1.7	2.7	1.4	1.6	2.0[6]
Net Income / Tangible Assets (%)	-4.2	-4.7	-2.4	-1.4	-1.0	-2.7[5]
Cost / Income Ratio (%)	49.9	54.9	37.7	52.7	43.6	47.8[5]
Market Funds / Tangible Banking Assets (%)	17.3	15.7	20.2	19.3	24.4	19.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	36.4	33.1	34.2	33.2	28.9	33.2[5]
Gross Loans / Due to Customers (%)	86.6	86.7	87.9	89.3	99.8	90.1[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

IDBI Bank Ltd (IDBI) provides a range of retail, micro, small and medium-sized enterprise, corporate and wholesale banking services, and treasury facilities. As of March 2021, the bank distributed its products and services through a network of 1,896 branches and 3,388 ATMs.

As of the end of March 2021, IDBI had a market share of around 1.5% in loans and 1.5% in deposits. As of the same date, the bank reported a total unconsolidated asset base of INR3 trillion.

IDBI was established by the Government of India in 1964 as the Industrial Development Bank of India to provide credit and other facilities for industrial development. As a result of the problems faced by development financial institutions, IDBI became a commercial bank in 2004. The bank's shares are traded on both the Bombay Stock Exchange (BSE: 500116) and the National Stock Exchange (NSE: IDBI). As of the end of March 2021, the largest shareholder in the bank was LIC, with a 49.2% stake.

Detailed credit considerations

Asset quality has improved as legacy problem loans have been recognized and provisioned for

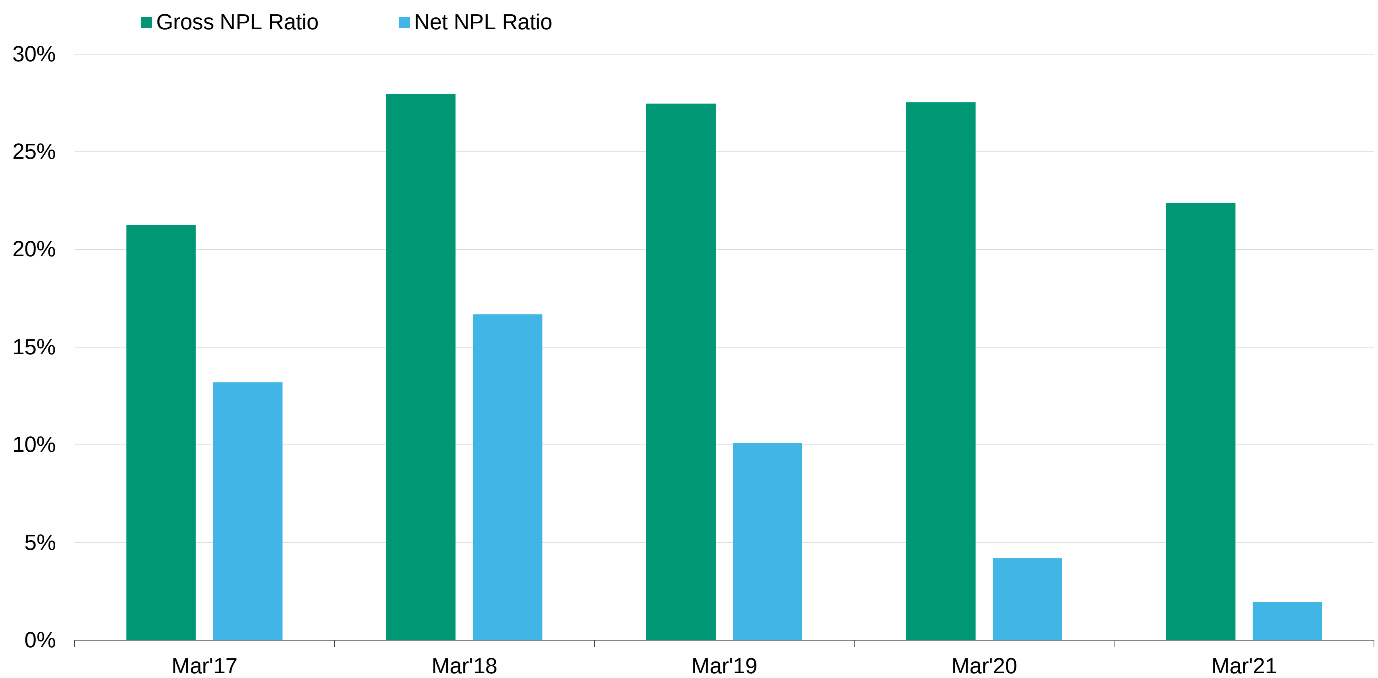
The bank's asset quality has been improving, as the legacy problem loans have been recognized and provided for. Its net nonperforming loan (NPL) ratio declined to 2.0% in March 2021 from 4.2% in March 2020, while provision coverage ratio improved to 96.9% from 93.7%. On both these metrics, the bank compares well with other rated Indian banks.

The impact from the pandemic-induced economic shock will be relatively muted. The bank's corporate loan book has been shrinking over the last few years as it was resolving its asset-quality issues. With new loans disbursed being very low, and legacy problem loans recognized and provided for, corporate asset quality should remain stable.

Retail loans have been growing and will see a deterioration in asset quality. However, with low-risk mortgages accounting for 73% of the retail loans as of March 2021, the extent of deterioration will be limited.

We assign the bank an Asset Risk score of b2 to reflect the above-mentioned considerations.

Exhibit 3
IDBI's asset quality remains resilient from the pandemic-induced economic disruptions



Source: The bank

Capitalization, supported by multiple capital infusions, likely to remain stable because of the bank's high provision coverage

As of the end of March 2021, the bank reported a Common Equity Tier 1 (CET1) capital ratio of 13.1%, compared with 10.6% as of the end of March 2020. Capital improved following an equity increase in January 2021. The capital raising demonstrated the bank's improved access to equity capital markets and is a credit positive.

IDBI has a particularly high exposure to large corporate NPLs, which are being resolved through the Insolvency and Bankruptcy Code (IBC) process. These large NPLs constitute most of the bank's overall gross NPLs. For the NPLs under resolution, IDBI has a provision coverage of 99.82%, a level that effectively factors in no recoveries, which is unrealistic. Given the high provisions, we expect the bank to have writebacks on provisions, which will be capital accretive.

The ability of the bank to maintain capital at current levels depends on the degree of balance-sheet growth. As profitability is low, a pick up in balance-sheet growth will deplete capital. We do not expect loan growth to significantly pickup over the next 12 months because of the weak economic environment in India. This will keep capital stable over the next 12-18 months.

We assign a Capital score of ba3 to reflect the above-mentioned considerations.

Profitability to improve gradually as credit costs will remain low

Profitability has been improving, with the bank reporting profit for the 2021 financial year that ended 31 March, after reporting losses for the previous five years. The improvement in profitability was driven by an improvement in NIMs and a reduction in credit costs.

NIM improved to 3.4% for financial 2021, compared with 2.6% a year earlier. The improvement was driven by a reduction in cost of funding and increase in share of interest-earning assets as the net NPL ratio has come down. This represents a structural improvement in profitability.

Credit costs have come down as the new NPL formation rates have reduced, while provision coverage has increased. In addition, recoveries from its large NPL accounts, when these accounts are resolved in the IBC process, will support the bank's overall profitability.

We assign the bank a Profitability score of b2 to reflect the above-mentioned factors.

Stable funding and liquidity support IDBI's overall financial profile

The bank's funding profile has improved significantly during the last two years, with the proportion of funding from retail deposits increasing significantly. IDBI reported low-cost CASA bank deposits at 50.5% of total deposits as of the end of March 2021, up from 47.7% a year earlier, because of the runoff in bulk deposits as the bank reduced the size of its balance sheet. We assign a Funding Structure score of ba2 to reflect this improvement.

IDBI's liquidity remains stable, with a liquidity coverage ratio (LCR) of 155.59% as of March 2021. We assign a Liquid Resources score of ba2 to reflect the bank's large exposure to the Indian government through mandatory holdings of government securities.

Moderate Macro Profile supports IDBI's BCA

The Macro Profile is an analytical input used to determine each bank's BCA and is designed to capture the systemwide factors that are predictive of the propensity of banks to fail. Given the fact that IDBI operates predominantly in India, we assigned a Moderate Macro Profile to the bank, in line with that assigned to India.

India's Moderate Macro Profile balances its large and diverse economy against its moderate institutional strength, which reflects the increasingly difficult implementation of reforms and the uncertainty about their effectiveness in addressing key credit challenges, and its susceptibility to event risk because of the continued fragility of the banking sector.

At the same time, there are risks to the economy because the pandemic-induced disruptions will worsen India's growth slowdown that has been underway over the past year. Although stimulus measures announced by the Indian government and the RBI since the start of the pandemic will help mitigate some of the problems, the degree of the negative impact on banks will increase as the economic slowdown becomes longer and broader.

The credit conditions in India reflect the high and entrenched leverage in some corporate sectors despite the gradual strengthening of corporate balance sheets over the last few years and the resolution of some of the largest NPLs referred to insolvency courts. Our assessment of credit conditions in India also takes into consideration the contagion risks to the banking system arising from the liquidity stress faced by non-bank financial institutions and real estate companies, given banks' large exposure to these sectors.

The funding and liquidity of Indian banks are stable because these banks continue to be largely funded by customer deposits, with limited reliance on confidence-sensitive market funds. Furthermore, all the Indian banks we rate meet their current LCR requirements, although only a part of the banks' holdings of government securities are included as high-quality liquid assets in LCR calculations. This factor underscores the robustness of the banks' liquidity.

ESG considerations

In line with our general view on the banking sector, IDBI has a low exposure to environmental risks (see our environmental risk heat map for further information) and a moderate exposure to social risks (see our social risk heat map for further information).

Governance is relevant for IDBI Bank, as it is to all participants in the banking industry in India. Surging bad loans, poor board supervision and the incentive structure of top management are key areas of concern for Indian Public Sector Banks and for IDBI, and are factored into our credit analysis.

Support and structural considerations

Affiliate support

IDBI does not benefit from affiliate support.

Government support

We assume a very high level of extraordinary support from the government for the bank, given its strong historical linkages to the government and strong track record of support.

Notwithstanding the reduction in the government ownership of IDBI, government support remains very high and will flow through LIC. LIC is 100% owned by the Indian government; therefore, the government remains the ultimate support provider for IDBI.

At the same time, recent developments point to an increase in uncertainty of support. The government has said that there would be a strategic divestment of IDBI. The government and LIC will jointly sell a majority stake in the bank, along with management control, to strategic investors. The government is targeting to complete this process in financial 2022. Hence, the rating uplift from government support has been reduced to two notches from the three notches previously.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

IDBI's CR Assessment is positioned at Ba1(cr)/NP(cr)

The CR Assessment, before government support, is positioned one notch above the Adjusted BCA of b1. We then assign government support assumptions, in line with our support assumption on deposits and senior unsecured debt. Such assignments reflect our view that any support provided by government authorities to a bank, and which benefits senior unsecured debt or deposits, is very likely to benefit operating activities and obligations reflected by the CR Assessments. Such a view is consistent with our belief that governments are likely to maintain the banks' operations as a going concern to reduce contagion and preserve the banks' critical functions.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

IDBI's CRRs are positioned at Ba1/NP

We consider India a jurisdiction with a nonoperational resolution regime. For nonoperational resolution countries, the starting point for the CRR is one notch above the bank's Adjusted BCA, to which we then typically add the same notches of government support uplift as applied to the CR Assessment. IDBI's CRR of Ba1, therefore, incorporates two notches of government support.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 4

IDBI Bank Ltd

Macro Factors		
Weighted Macro Profile	**Moderate**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	27.7%	caa3	↑↑	b2	Quality of assets	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	6.6%	caa1	↑↑	ba3		
Profitability						
Net Income / Tangible Assets	-4.2%	caa3	↑↑	b2	Earnings quality	
Combined Solvency Score		caa2		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	17.3%	baa3	↔	ba2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	36.4%	baa1	↔	ba2	Stock of liquid assets	
Combined Liquidity Score		baa2		ba2		
Financial Profile				ba3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa3		
BCA Scorecard-indicated Outcome - Range				ba2 - b1		
Assigned BCA				b1		
Affiliate Support notching				0		
Adjusted BCA				b1		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	ba3	2	Ba1	Ba1
Counterparty Risk Assessment	1	0	ba3 (cr)	2	Ba1(cr)	
Deposits	0	0	b1	2	Ba2	Ba2
Senior unsecured bank debt	0	0	b1	2		Ba2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
IDBI BANK LTD	
Outlook	Stable
Counterparty Risk Rating	Ba1/NP
Bank Deposits	Ba2/NP
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	b1
Counterparty Risk Assessment	Ba1(cr)/NP(cr)
Senior Unsecured	Ba2
IDBI BANK LTD, DIFC BRANCH	
Outlook	Stable
Counterparty Risk Rating	Ba1/NP
Counterparty Risk Assessment	Ba1(cr)/NP(cr)

Source: Moody's Investors Service

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MOODY'S INVESTORS SERVICE