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September 20, 2024

The Manager (Listing) BSE Ltd., 25th Floor, Phiroz 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
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Dear Sir/Madam,

**Revision in Rating by India Ratings**

This is to inform that India Ratings vide its report dated September 20, 2024 has upgraded IDBI Bank Limited's (IDBI) Long Term Ratings to "IND AA/Stable" from "IND AA-/Stable" while reaffirming its Short-Term 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.

Yours faithfully,  
For IDBI Bank Ltd.

Company Secretary

## India Ratings Upgrades IDBI Bank's Debt Instruments to 'IND AA'/Stable

Sep 20, 2024 | Private Sector Bank

India Ratings and Research (Ind-Ra) has upgraded IDBI Bank Limited's (IDBI) debt instruments' ratings to 'IND AA' from 'IND AA-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

### Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned along with Outlook/Watch	Rating Action
Basel III compliant bonds*#	-	-	-	INR20	IND AA/Stable	Upgraded
Omni infrastructure bonds#	-	-	-	INR70 (reduced from INR80)	IND AA/Stable	Upgraded
Basel III-complaint Tier II bonds#	-	-	-	INR30	IND AA/Stable	Upgraded
Fixed deposit				-	IND AA/Stable	Upgraded
Senior debt#	-	-	-	INR36.31	IND AA/Stable	Upgraded
Certificates of deposits	-	-	7-365 days	INR350	IND A1+	Affirmed

# Details in annexure

\*Yet to be issued

### Analytical Approach

Ind-Ra continues to fully consolidate IDBI's [subsidiaries](#) while arriving at the ratings. The agency has not factored in the availability of capital support from its majority stakeholders - the government of India (GoI) and Life Insurance Corporation of India (LIC) - to arrive at the ratings, owing to their planned strategic divestment in the bank.

### Detailed Rationale of the Rating Action

The upgrade reflects the bank's improved operating buffers in FY24, indicating its increasing ability to maintain the market share and absorb the impact of any unexpected increase in its credit costs.

The ratings are also supported by the bank's healthy capital buffers, which give it tailwinds for advances growth, and strong funding profile, with current account and savings account (CASA) of around 48.57% in 1QFY25. The ratings also factor in the bank's improving asset quality metrics and operating performance, which Ind-Ra believes to be sustainable, as it continues to scale-up its franchise.

### List of Key Rating Drivers

#### Strengths

- Strong capital buffers; internal accruals on improving trend
- Reasonable deposit base with high proportion of CASA deposits
- Comfortable asset quality metrics: high provision coverage
- Improved profitability profile likely to sustain
- Growing retail and granular franchise

## Weaknesses

- Home loan business issue unresolved; accommodation extended

## Detailed Description of Key Rating Drivers

**Strong Capital Buffers; Internal Accruals on Improving Trend:** IDBI's common equity tier 1 ratio improved to 20.26% in 1QFY25 (FY23: 18.08%, FY22: 16.68%, FY21: 13.06%) on account of an improvement in its internal accruals. Ind-Ra does not expect the bank to require material incremental capital from external sources to meet its mid-term growth plans. Furthermore, with provision coverage ratio (excluding technical write-off) at 94.18% in 1QFY25 and slippages at 0.81%, requirements for additional provisioning are relatively low compared to FY23. Ind-Ra believes the capital buffers would remain significantly higher than the regulatory requirements and would help to build buffers ahead of the implementation of expected credit loss norms. This will continue to be a key monitorable.

**Reasonable Deposit Base with High Proportion of CASA Deposits:** IDBI's CASA declined but remained higher than peers at 48.57% in 1QFY25 (FY24: 50.43%) on account of higher interest rates, with the bulk deposit share increasing to 16% (15%). There has not been much traction in CASA deposits, which stood at INR1,348.10 billion in 1QFY25 (FY24: INR1,400.27 billion, FY23: INR1,354.55 billion), while the total deposits in absolute terms increased 13% yoy during the same period. The total deposits as well as CA and SA are reasonably granular, while the top depositors constitute mainly government-related entities.

**Comfortable Asset Quality Metrics, High Provision Coverage:** The asset quality metrics continue to improve in 1QFY25, with gross non-performing assets (NPAs) of the bank declining further to 3.87% (FY24: 4.53%; FY23: 6.38%) and net NPAs falling to 0.23% (0.34%, 0.92%), in line with peer banks. The steady decline in NPA ratios could be also attributed to the improved risk framework and the bank writing off INR 29.85 billion in FY24.

Also, IDBI's slippage ratio improved to 0.81% in 1QFY25 (FY 24: 1.92%; FY22: 3.34%), reflecting better asset quality control. The bank's provision coverage ratio (excluding technical write-off) remained strong at 94.18% in 1QFY25 (FY24: 93%; FY23: 86%), which was higher than that of its peer banks. The bank continued to have a low special mention accounts (SMA) portfolio in 1QFY25 compared to peer banks, with the share of SMA 1 and 2 portfolio remaining low at 1.3% of the total net advances as of June 2024 (1.1% as of March 2024). Over FY25 and FY26, Ind-Ra expects the gross and net NPAs to remain at similar levels based on base case projections as recoveries and upgrades trend downwards, and the agency opines that the overall asset quality would remain encouraging.

**Improved Profitability Profile Likely to Sustain:** The bank has been able to maintain slightly high net interest margins compared to peers at around 4.18% in 1QFY25 (FY24: 4.93%, FY23 : 4.52%), mainly supported by the low cost of deposits at 4.58% (4.30%, 3.50%). IDBI's operating metrics continued to improve in 1QFY25, on the back of high provisioning levels, reasonable loan book growth, particularly the retail segment, and improved low-cost deposit profile. Ind-Ra expects all these factors would help the bank to deliver continued profitability in the medium term.

IDBI reported return on assets (RoA) of 1.83% in 1QFY25 (FY24: 1.65%; FY23: 1.2%). The bank's profit increased to INR56.34 billion in FY24 (FY23: INR36.45 billion) and stood at INR17.19 billion in 1QFY25. Ind-Ra expects the bank's credit costs to remain low in FY25 as well, enabling the bank to deliver stable profitability.

The bank's cost to income ratio increased slightly but remained contained at 46.1% in FY24 (FY23: 44.72%, FY22: 45.89%) compared to peers. However, across the banking universe, Ind-Ra expects the lag effect of increase in pricing of deposits could play out, while competition could limit the yield movement. Consequently, the net interest margin might decline modestly in FY25. Overall, Ind-Ra expects the return on assets to range between 1.2% -1.5% in FY25 (FY24: 1.65%; FY23: 1.2%).

**Growing Retail and Granular Franchise:** After coming out from prompt corrective action in FY20, IDBI has focused on increasing granularity in overall book, which is reflected in the RWA ratio improving to 70.15% in 1QFY25 from 76% in FY20, mainly driven by an increase in retail share to 71% from 56% over the same period. Retail grew at 10% CAGR between FY20-FY24 (1QFY25 retail loan book: INR1.38 trillion), with majority contribution coming from secured exposures such as home loans (9% CAGR during FY20-FY24, with share of 30.24% at 1QFY25) and loan against property (8% CAGR, with share of 8.56% at 1QFY25); this has also increased the secured quotient of the book and provided stability through lower slippages (slippage ratio down to 0.81% in 1QFY25 from 6.35% in FY20). Also, the bank has been focussing on increasing the share of gold loans, the share of which increased to 7% in 1QFY25 from 3% in FY20 with zero capital consumption, adding to the stability of the book and improving the overall yields.

**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 wherein only one of the institutions (either LIC Housing Finance Ltd 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. In the event of delayed stake sale by the bank's key shareholders, there could be a

workout around by the bank. IDBI is no longer a subsidiary of LIC, with the latter's stake falling below majority to 49.24% in 2021 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 until the matter is resolved. The agency would continue to monitor the evolving situation and will take an appropriate rating action, as and when warranted.

## Liquidity

**Adequate:** An analysis of the structural liquidity statement at end-June 2024 showed positive cumulative mismatches (excess of inflows over outflows) in all the buckets in the up-to-one-year period. 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 119.84% in FY24, against the regulatory requirement of 100%. 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 retailisation of its deposits.

## Rating Sensitivities

**Positive:** A substantial, demonstrated growth in franchise delivering consistent market share gains, consistency in the profitability while maintaining capital buffers at materially higher levels than the regulatory requirements and an improvement in deposit profile hereon could result in a positive rating action.

**Negative:** Deterioration in the funding profile due a fall in low-cost deposits, a rise in operating expenses, or a prolonged decline in the profitability buffers, driven by asset quality pressures, any material impact on Tier I capitalisation levels, with CET I capital falling below 12% on a sustained basis, a significant increase in net NPA or discontinuity of home loan business could lead to 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](#).

## About the Company

IDBI is a private sector bank in India with pan-India presence. The bank had 2,006 branches and 3,293 ATMs across India at 1QFYE25.

## Key Financial Indicators

Particulars	FY24	FY23
Total assets (INR billion)	3,631.9	3,305.02
Total equity (INR billion)	498.81	453.18
Net profit (INR billion)	56.34	36.45
Return on assets (%)	1.65	1.20
Common equity tier 1 ratio (%)	20.11	18.08
Capital adequacy ratio (%)	22.26	20.44
Net interest income(INR billion)	141.86	114.31
Source: IDBI; Ind-Ra		

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

Instrument Type	Rating Type	Rated Limits (billion)	Current Ratings/Outlook	History Rating/Outlook					
				15 March 2024	21 December 2023	22 September 2023	21 July 2023	25 July 2022	26 July 2021
Issuer rating	Long-term		-	-	-	WD	IND A+/Positive	IND A+/Stable/IND A1+	IND A/Stable/IND A1
Basel III compliant bonds	Long-term	INR20	IND AA/Stable	IND AA-/Stable	IND AA-/Stable		IND A+/Positive	IND A+/Stable	IND A/Stable

Omni infrastructure bonds	Long-term	INR70	IND AA/Stable	IND AA-/Stable	IND AA-/Stable		IND A+/Positive	IND A+/Stable	IND A/Stable
Basel III compliant Tier II bonds	Long-term	INR30	IND AA/Stable	IND AA-/Stable	IND AA-/Stable		IND A+/Positive	IND A+/Stable	IND A/Stable
Fixed Deposit	Long-term		IND AA/Stable	IND AA-/Stable	IND AA-/Stable		IND A+/Positive	IND A+/Stable	IND tA/Stable
Senior debt	Long-term	INR36.31	IND AA/Stable	IND AA-/Stable	IND AA-/Stable		IND A+/Positive	IND A+/Stable	IND A/Stable
Certificate of deposit	Short-term	INR350	IND A1+	IND A1+	IND A1+		IND A1+	IND A1+	IND A1

## Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Basel III complaint bond	Low
Omni infrastructure bond	Low
Basel complaint tier II bond	Low
Certificate of deposit	Low
Fixed deposit	Low
Senior debt	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity- indicators>.

## 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 2008-09 Sr.XVII	INE008A08Q98	14 March 2009	20	14 March 2029	INR0.02	INR0.02	11.25	-	IND AA/Stable
IDBI Omni Bonds 2009-10 Sr.IV	INE008A08R71	26 September 2009	20	26 September 2029	INR0.02	INR0.02	9.67	-	IND AA/Stable
		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	-	WD (paid in full)
Omni 2014-2015 Infrastructure Bond Series III	INE008A08U92	21 January 2015	10	21 January 2025	INR30.00	INR30.00	8.725	-	IND AA/Stable
Omni Infrastructure Bond 2015-2016 Series III	INE008A08V26	9 February 2016	10	9 February 2026	INR10.00	INR10.00	8.8	-	IND AA/Stable
		Total unutilised				INR30			
		Total				INR70			
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 AA/Stable
Omni Tier 2 2015-2016 Series II	INE008A08V18	2 January 2016	10	2 January 2026	INR9.00	INR9.00	8.62	None	IND AA/Stable
		Total unutilised				INR11			

Source: IDBI, NSDL

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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## APPLICABLE CRITERIA AND POLICIES

### Rating Bank Subordinated and Hybrid Securities

### Evaluating Corporate Governance

### Financial Institutions Rating Criteria

### The Rating Process

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