IDBI Bank Limited

May 26, 2017

Ratings

Facilities/Instrument	Amount (Rs. crore)	Ratings[1]	Rating Action
Lower Tier II Bonds[$]	50	CARE A; Negative (Single A; Outlook: Negative)	Revised from CARE AA-; Negative (Double A Minus ; Outlook: Negative)
Total	**50 (Rupees Fifty crore only)**		

Details of instruments/facilities in Annexure-1;
$-transferred from erstwhile IDBI Home Finance Ltd

Detailed Rationale & Key Rating Drivers

The rating revision takes into account significant deterioration in the asset quality and financial position of the bank in Q4FY17 which has resulted in weakening of its capital position leading to the bank reporting CET I (including CCB) of 5.64% (lower than the regulatory requirement of 6.75%) leading to RBI placing the bank under Prompt Corrective Action Framework. The rating continues to factor in the majority ownership and expected support by the Government of India (GoI). Continued ownership and support from GoI, capital adequacy, asset quality and profitability are the key rating sensitivities.

Outlook: Negatives

The outlook reflects the expectation of continued stress on asset quality and profitability parameters of the bank leading to further pressure on the bank's weak capital position. The outlook may be revised to 'Stable' in case of sustainable improvement in bank's asset quality, earning profile and capital adequacy levels.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership and support by GOI: As on March 31, 2017, GOI held 73.98% equity stake in IDBI Bank. Government of India (GOI) has supported the bank by way of regular capital infusion in the past and infused Rs. 1,900 crore in FY17. Given the bank's weak capitalization levels, majority ownership and continued support from GOI is a key rating parameter.

Key Rating Weakness

Weak capitalization Levels: As on March 31, 2017, the Bank reported Common Equity Tier I (CET-I) ratio (including Capital Conservation Buffer (CCB)) of 5.64% which is lower than the regulatory requirement of 6.75%. The Tier I CAR and CAR ratios were 7.81% and 10.70% respectively. The bank will require substantial capital infusion to meet regulatory requirements in wake of weak asset quality.

Weak asset quality: As on March 31, 2017, Gross NPA and Net NPA ratios were 21.25% (10.98% as on March 31, 2016) and 13.21% (6.78% as on March 31, 2016) respectively. Net NPA to Net-worth increased from 80.57% as on March 31, 2016 to 220.54% as on March 31, 2017. Gross standard restructured assets were 7.62% of the loan book as on March 31, 2017 (8.02% as on March 31, 2016). Asset quality is expected to remain under pressure given the bank's exposure to large corporate accounts and lack of resolution in the stressed assets.

Weak financial profile*:* In FY17, the Bank reported a loss of Rs.5,158 crore (FY16: Loss of Rs. 3,665 crore) on total income of Rs.31,759 crore (FY16: Rs.31,453 crore) on account of significant deterioration in asset quality leading to higher credit costs. The bank's provisions increased by 128% from Rs.10,341 crore in FY16 to Rs.13,196 crore in FY17. Given the bank's weak capital position which will limit the growth in the credit book and moderate CASA base (31.46% as on March 31, 2017), the bank's net interest income is expected to remain moderate.

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Analytical approach: CARE has considered the standalone business and financial profile of IDBI Bank along with ownership and expected support from Government of India.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's policy on default recognition
CARE's Rating Methodology For Banks
Financial Ratios- Financial Sector

About the Company

Industrial Development Bank of India (IDBI) was established under the IDBI Act, 1964 as a Development Financial Institution (DFI). Initially, IDBI was set up as a wholly-owned subsidiary of the RBI to provide credit and other facilities for the development of industry. However, The IDBI Act, 1964 was repealed and IDBI Ltd. was incorporated as Banking Company on September 27, 2004 under the Companies Act, 1956. Thereafter, IDBI Ltd. was merged with IDBI Bank Ltd. with effect from October 1, 2004.
As on March 31, 2017, the bank had a network of 1922 branches (which includes one overseas branch at DIFC, Dubai and one IFSC Banking Unit (IBU) in GIFT City, Gandhinagar, Gujarat) and 3537 ATMs. IDBI Bank has five subsidiaries, viz., IDBI Asset Management Ltd. (66.67% stake), IDBI Capital Market Services Ltd (100%), IDBI Intech Ltd (100%), IDBI Trusteeship Services Ltd (54.7%) and IDBI MF Trustee Company Ltd. (100%). The bank also has a JV, IDBI Federal Life Insurance Company Limited with the bank holding 48% stake.
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	28-Mar-2009	10.5%	27-Mar-2019	50.00	CARE A; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (22-Mar-17) 2)CARE AA; Negative (29-Dec-16)	1)CARE AA (21-Mar-16) 2)CARE AA+ (11-Jan-16)	1)CARE AA+ (13-Jan-15)
2.	Bonds-Lower Tier II	LT	50.00	CARE A; Negative	-	1)CARE AA-; Negative (22-Mar-17) 2)CARE AA; Negative (29-Dec-16)	1)CARE AA (21-Mar-16) 2)CARE AA+ (11-Jan-16)	1)CARE AA+ (13-Jan-15)

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