IDBI Bank Limited

December 19, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II bonds	2,000.00	CARE A+; Positive (Single A Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total long-term instruments	**2,000.00 (₹ Two thousand crore only)**		
Certificate of deposit	10,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**10,000.00 (₹ Ten thousand crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the debt instruments of IDBI Bank Limited (IDBI Bank) take into account the continued improvement in its financial risk profile, characterised by improvement in profitability, asset quality parameters, and capitalisation levels post coming out of the Prompt Corrective Action (PCA) framework of the Reserve Bank of India (RBI) in March 2021. The bank has seen a significant amount of equity infusion by the Life Insurance Corporation of India (LIC), the Government of India (GoI), and qualified institutional placement (QIP), also supported by internal accruals after the bank started posting profits from FY21 (refers to the period from April 01 to March 31) onwards, which has improved its capitalisation levels with an adequate cushion over the minimum regulatory requirement. Furthermore, the bank's profitability improved in FY22 and half year ended September 2022.

The ratings continue to factor in the robust franchise value of the bank with a focus on retail lending over the past few years and a strong current account and savings account (CASA) deposit base and an adequate liquidity profile.

The ratings remain constrained on account of the weak asset quality parameters with a relatively higher proportion of stressed accounts (ie, special mention account (SMA) and restructured advances). However, the bank carries significant provision cover on gross non-performing assets (GNPA) and contingency provisions.

Although both, LIC and GoI together hold 94.72% shareholding in the bank, both GoI and LIC have stated their intent to divest their shareholding in the bank through a strategic stake sale with an intent to hand over the management control in the bank. The extent of respective shareholding to be divested by GoI and LIC will be decided at the time of structuring the transaction in consultation with the RBI. CARE Ratings Limited (CARE Ratings) expects the bank to receive the required support from GoI and LIC to enable the smooth divestment of shareholding and has taken note of the Department of Investment & Public Asset Management (DIPAM), Ministry of Finance, GoI's release of preliminary information memorandum (PIM) inviting expression of interest (EoI) from interested parties (IP) for a stake sale aggregating to 60.72%, including the stake of both, GoI and LIC in IDBI Bank, with an intent to hand over the management control in the bank.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Scale-up of operations without material fresh slippages.
- Improvement in profitability with return on total assets (ROTA) above 1% on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the asset quality with net non-performing assets (NPA) to net worth above 20% on a sustained basis.
- Deterioration in capital adequacy parameters with a cushion over the minimum regulatory requirement for the capital adequacy ratio (CAR) and common equity tier-1 (CET-1) ration falling below 2.5% on a sustained basis.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Positive

The 'Positive' outlook reflects CARE Ratings' expectation of sustained improvement in profitability due to advanced growth and improvement in asset quality parameters in the medium term while maintaining adequate capitalisation.

Detailed description of the key rating drivers

Key rating strengths

Comfortable capitalisation: IDBI Bank continues to have comfortable capitalisation with a CAR of 19.48% and Tier-1 CAR of 17.05% as on September 30, 2022 (March 31, 2022: CAR 19.06% and Tier-1 CAR of 16.68%) as compared with a CAR of 15.59% and Tier-1 CAR of 13.06% as on March 31, 2021, due to healthy internal accruals post coming back to profits. The bank, in the past, has received a significant amount of equity capital (₹26,761 crore from FY18-FY20) from LIC and (₹18,928 crore from FY17-FY20) from GoI, which helped it improve its capital adequacy ratios above the minimum regulatory requirement as it faced mounting losses due to asset quality issues. The bank had also raised equity capital of ₹1,435 crore through QIP issuance in FY21. It has a significant cushion over the minimum regulatory requirement and has seen improvement in profit accretion, which will help it achieve its targeted credit growth for the medium term without having to raise additional capital, as internal accruals are expected to be sufficient to meet the capitalisation requirements.

Robust franchise with a focus on retail lending and deposit profile over the past few years and a strong CASA deposit base: The bank has shifted its liability profile over the years to increase granularity in the business. The bank changed its asset mix with a focus on the non-corporate book (consisting of retail, agriculture, and small and medium enterprise [SME]), which continued to grow moderately at a CAGR of 5% from FY17 to FY22; whereas the corporate lending book saw a de-growth during the period partly on account of the restriction on lending under PCA.

The advances book contracted from ₹210,610 crore as on March 31, 2017, to ₹161,901 crore as on March 31, 2021, as under PCA various restrictions on lending were imposed and IDBI Bank continued to write off bad assets. However, as the bank came out of PCA in March 2021, the advances book started growing again, although in a calibrated manner, and stood at ₹173,948 crore as on September 30, 2022, with a growth of 10.44% y-o-y (March 31, 2022: ₹169,207 crore with 4.51% growth y-o-y). The non-corporate proportion increased to 65% of gross advances and stood at ₹112,203 crore as on September 30, 2022 (March 31, 2022: 63%) as compared with 40% from ₹83,574 crore as on March 31, 2017. Within the non-corporate lending book, the retail lending segment saw the highest growth and constituted 44% of the total retail lending as on September 30, 2022, while agriculture and SME lending constituted 13% and 8%, respectively. Under the retail segment, home loans contributed 75% as on September 30, 2022. The bank is expected to continue to grow its advances in the near term, led by the retail segment.

The bank has a robust franchise with a network of 1,888 branches and 3,345 ATMs as on September 30, 2022, and has been able to maintain its strong deposit base even after being converted to a private bank in 2019. The deposits profile has also strengthened to some extent due to the synergies with LIC. The bank improved its CASA and retail deposits by reducing its proportion of bulk deposits significantly from 36% as on March 31, 2017, to 5.5% as on September 30, 2022, whereas the CASA ratio improved from 31.46% to 56.19% during the same period. The bank expects to maintain the proportion of bulk deposits (ticket size over ₹2 crore) up to 10% of the total deposits as it grows its advance book. The ability of the bank to improve and grow its deposit base as its advances book an increase along with the divestment of stakes by GoI and LIC will remain monitorable.

The bank's net credit to deposit (C/D) ratio continues to remain comparatively low at 63.72% as on September 30, 2022 (March 31, 2022: 62.53% and March 31, 2021: 55.50%), as in the absence of advance growth excess funds were parked in investments (including recapitalisation bonds) instead of lending.

Improving profitability due to lower credit cost: IDBI Bank reported a net profit over the past 2.5 years from FY21 onwards after reporting a net loss for five years consecutively due to comparatively lower credit costs.

During FY22, the bank's net interest income (NII) increased by 8%, supported by higher fall in cost of funds by reducing bulk deposits and increasing the proportion of CASA deposits as compared to fall in yields in a reducing interest rate scenario. Accordingly, the net interest margin (NIM) improved from 3.07% during FY21 to 3.29% during FY22. The total income has been supported by one-off gains in form of interest on income tax refund and recoveries from written off accounts to the tune of ₹353 crore and ₹846 crore (FY21: ₹1,313 crore and ₹547 crore), respectively. The bank reported a 6% increase in pre-provision operating profit (PPOP) during FY22 despite a 6% decline in total income, supported by lower interest expenses. With lower incremental provisioning for FY22 as compared to FY21, the bank reported a higher profit-after-tax (PAT) of ₹1,359 crore on a total income of ₹24,557 crore as against a loss of ₹12,887 crore on a total income of ₹25,295 crore during FY20.

During H1FY23, the bank booked a one-time profit of ₹380 crore for the sale of a 25% stake in the JV (IDBI Federal Life Insurance). During H1FY23 (refers to the period from April 01 to September 30), the bank reported a total income of ₹11,840 crore, which has remained flat as compared to ₹11,777 crore for H1FY22, while the PAT improved from ₹1,170 crore for H1FY22 to ₹1,584 crore for H1FY23. The profitability is expected to improve over the near term, with expected growth in advances and credit cost to be lower with improvement in asset quality parameters and sufficient provisioning already made by the bank.

Key rating weaknesses

Weak asset quality parameters with high provision coverage and monitorable stressed accounts portfolio: The bank's GNPA continues to remain high, although it has improved significantly over the years due to recoveries and stood at 16.51% as on September 30, 2022 (March 31, 2022: 20.16%), as compared to the peak of 27.95% as on March 31, 2018. The bank has been able to make high provisions and write-offs for GNPA supported by significant capital infusions by LIC and GoI over the past few years, helping the bank improve the provision coverage ratio to bring down the net non-performing assets (NNPA). The bank's PCR excluding Technical Written Off accounts (TWO) improved from 48.43% as on March 31, 2018, to 94.13% as on September 30, 2022. As a consequence, the bank reported an NNPA of 1.15% against a peak NNPA of 16.69% as on March 31, 2018. The NNPA to tangible net worth (TNW) ratio also improved from 682.95% as on March 31, 2018, to 7.44% as on September 30, 2022.

The bank's standard restructured loan book stood at ₹3,894 crore, ie, 2.24% of the gross advances, against which the bank maintained a total provision of ₹486 crore as on September 30, 2022, and excess contingency provisions of ₹980 crore. The SMA 1 and 2 book was 1.33% of the gross advances as on September 30, 2022. The performance of the SMA and restructured book remains monitorable.

Liquidity: Adequate

The bank's liquidity profile is supported by the bank's strong retail and CASA depositor base. According to the structural liquidity statement as on September 30, 2022, there were no negative cumulative mismatches in the time buckets up to 12 months. The liquidity coverage ratio, as on September 30, 2022, stood at 128.30%, as against the minimum regulatory requirement of 100%. The bank also had an excess statutory liquidity ratio (SLR) of 7.14% as on September 30, 2022, which provides a liquidity buffer and the bank can borrow against it in case of any liquidity requirements during contingency. The bank also manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. Furthermore, the bank has access to systemic liquidity like the RBI's liquidity adjustment facility (LAF) and marginal standing facility (MSF) along with access to refinancing from the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), the National Bank for Agriculture And Rural Development (NABARD), etc, and access to call money markets.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Rating Basel III - Hybrid Capital Instruments issued by Banks
Bank

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 industries. However, The IDBI Act, 1964, was repealed and IDBI Ltd was incorporated as a banking company on September 27, 2004, under the Companies Act, 1956. On January 21, 2019, LIC completed an acquisition of 51% controlling stake, making it the majority shareholder of the IDBI Bank. The RBI has clarified vide a press release dated March 14, 2019, that IDBI Bank stands re-categorised as a private sector bank for regulatory purposes with effect from January 21, 2019. However, LIC and the GoI's holding in the bank was diluted and stood at 49.24% and 45.48% as on September 30, 2022, respectively, after it raised capital via a QIP in FY2021. As on September 30, 2022, the bank had a network of 1,888 branches and 3,345 ATMs. As on September 30, 2022, IDBI Bank has five subsidiaries, viz, IDBI Asset Management Ltd (66.67%), IDBI Capital Markets and Securities Ltd (100%), IDBI Intech Ltd (100%), IDBI Trusteeship Services Ltd (54.7%), and IDBI MF Trustee Company Ltd (100%). The bank sold its entire 48% stake in its life insurance JV, Ageas Federal Life Insurance Company Limited (formerly known as IDBI Federal Life Insurance Company Ltd), in two tranches of 23% during Q3FY21 and 25% during Q2FY23 to Ageas Insurance International NV for a sale consideration of ₹507 crore and ₹580 crore, resulting in a profit of ₹323 crore and ₹380 crore.

Update on stake sale
In October 2022, consequent to the in-principle approval of the Cabinet Committee on Economic Affairs (CCEA) for strategic divestment of the equity shares held by GoI (30.48%) and LIC (30.24%), DIPAM released a PIM and also invited EoI from IP for a stake sale aggregating to 60.72%, including the stakes of both, GoI and LIC in IDBI Bank.

The IP need to have a minimum net worth of ₹22,500 crore as per the latest audited financial statement. They must have reported profits in at least three of the last five financial years. Maximum four members will be permitted in a consortium and the lead member must have 40% shareholding and each member must have at least 10% shareholding.

Listed private-sector banking companies, foreign banks, non-banking financial companies (NBFCs) registered with the RBI, SEBI-registered alternative investment funds (AIF) or a fund or investment vehicle incorporated outside India have been allowed to participate in the bidding process. Large industrial and corporate houses and individuals (natural persons) will not be permitted to participate in this bidding process for the transaction, either on its own or as a part of a consortium, as per the government. The industrial or corporate group with assets of ₹5,000 crore or more with the non-financial business of the group accounting for 40% or more in terms of total assets or in terms of gross income will be treated as a large industrial house, as per the government.

According to the government, it will also allow a consortium of foreign funds and investment companies to own over 51% in IDBI bank. The government has further clarified that the foreign ownership criteria was for new private banks and were not applicable on existing ones.

Once the EoIs come in and the interested parties clear the RBI’s 'fit and proper' assessment and gets the Ministry of Home Affairs (MHA) security clearance, data room access will be given to qualified bidders. It is only after due diligence that bidders will put in financial bids.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	24,557	22,985	11,840
PAT	1,359	2,439	1,584
Total Assets	2,77,042	2,79,633	2,87,180
Net NPA (%)	1.97	1.36	1.15
ROTA (%)	0.49	0.88	1.12

A: Audited; UA: Unaudited.
Note: All Analytical ratios are as per CARE Ratings’ calculations.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds-Tier-II bonds	Proposed	-	-	-	1,255.00	CARE A+; Positive
Bonds-Tier-II bonds	INE008A08V59	03-02-2020	9.50%	03-02-2030	745.00	CARE A+; Positive
Certificate of deposit	NA	NA	NA	NA	10,000.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Bonds-Lower Tier-II	LT	-	-	-	-	-	1)Withdrawn (25-Apr-19)
2.	Certificate of deposit	ST	10000.00	CARE A1+	-	1)CARE A1+ (22-Dec-21)	1)CARE A1+ (23-Dec-20)	1)CARE A1+ (24-Dec-19)
3.	Bonds-Tier-II bonds	LT	2000.00	CARE A+; Positive	-	1)CARE A+; Stable (22-Dec-21)	1)CARE A+; Stable (23-Dec-20)	1)CARE A+; Stable (24-Dec-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Tier-II Bonds	Detailed Explanation
Covenants	
Call option	Not Applicable
Write-down trigger	PONV Trigger, in respect of the bank means the earlier of: (i) a decision that a principal write-down, without which the bank will become non-viable, is necessary, as determined by the RBI; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the RBI.
If write-down, full or partial	Full or partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Bonds-Tier-II bonds	Complex
2.	Certificate of deposit	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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