

IDBI Bank Limited (Revised)

December 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Tier-II bonds	2,000.00	CARE AA-; Stable	Revised from CARE A+; Positive
Certificate of deposit	10,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

**The Tier-II bonds under Basel III are characterised by a 'point of non-viability' (PONV) trigger due to which the investor may suffer a loss of principal. The PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the common equity tier-I (CET-I) capital of the bank should be considered the most appropriate way to prevent the bank from turning non-viable.

Rationale and key rating drivers

The revision in the rating assigned to the long-term debt instruments of IDBI Bank Limited (IDBI Bank) factors in the continued improvement in the bank's financial risk profile, with improvement in profitability and asset quality parameters with comfortable capitalisation levels over the past two years ended September 30, 2023. The rating continues to factor in the bank's franchise with an increasing focus on retail lending in the past few years and relatively high current account savings account (CASA) deposit proportion.

The bank has maintained comfortable capitalisation levels with more than adequate cushion over the minimum regulatory requirement, supported by a significant amount of equity infusion by the Life Insurance Corporation of India (LIC), the Government of India (GoI), and qualified institutional placement (QIP), as well as internal accruals after the bank started posting profits from FY21 onwards. The bank has a stable and granular deposit base, with the CASA plus retail term deposits forming a major portion of the total deposits of the bank. The bank's earnings profile and profitability has also improved year-on-year post coming out of prompt corrective action (PCA).

The rating remains constrained on account of the weak asset quality parameters of the bank as compared to other private sector banks, although the ratios have improved considerably in the past two years on account of write-offs done by the bank and lower slippages. Moreover, in addition to the provisions required as per the regulatory guidelines, the bank also has contingency provisions which further provides a cushion to mitigate any incremental stress that may arise in the asset book.

CARE Ratings Limited (CARE Ratings) further notes that both, LIC and GoI together hold 94.71% shareholding in the bank, and both have stated their intent to divest their shareholding in the bank through a strategic stake sale with an intent to hand over management control in the bank. The extent of the respective shareholding to be divested by GoI and LIC will be decided at the time of structuring the transaction, in consultation with the Reserve Bank of India (RBI). CARE Ratings expects the bank to receive the required support from GoI and LIC to enable the smooth divestment of the shareholding.

Rating sensitivities: Factors likely to lead to rating actions
Positive factors

- Continued improvement in the scale of business, while maintaining strong asset quality parameters and capitalisation in line with larger private sector banks.

Negative factors

- Deterioration in the asset quality, with the net non-performing assets (NNPA) ratio above 1% on a sustained basis.
- Decline in the capital adequacy ratio (CAR), with the cushion over the minimum regulatory requirement falling below 3.5%.
- Decline in profitability, with return on total assets (ROTA) less than 0.8% on a sustained basis.

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

Analytical approach

CARE Ratings has analysed the bank on a standalone basis. In addition, CARE Ratings expects the bank to receive financial and management support from GoI and LIC till the time the transfer of shareholding is completed.

Outlook: Stable

The stable outlook factors in the expectation that the bank will continue its growth in advances and deposits and maintain profitability while maintaining comfortable capitalisation and steady asset quality parameters.

Detailed description of the key rating drivers

Key strengths

Comfortable capitalisation

IDBI Bank continues to have comfortable capitalisation with a CAR of 21.26% and Tier-1 CAR of 18.86% as on September 30, 2023 (March 31, 2023: CAR – 20.44% and Tier-I CAR – 18.08%) as compared with a CAR of 19.06% and Tier-I CAR of 16.68% as on March 31, 2022, due to improvement in internal accruals post coming out of PCA. The bank, in the past, has received a significant amount of equity capital from LIC (₹26,761 crore from FY18-FY20) and GoI (₹18,928 crore from FY17-FY20), which helped it improve its CAR above the minimum regulatory requirement as it faced mounting losses due to asset quality issues. 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 focus on retail lending and deposit profile over the last few years with a stable CASA deposit base

The bank has shifted its liability profile over the years to increase granularity in the business. The bank has a robust franchise with a network of 1,929 branches as on June 30, 2023, 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.

IDBI 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. However, as on June 30, 2023, the proportion of bulk deposits has slightly increased to 12% and CASA deposits have reduced to 52.61% with tightening of the overall market liquidity, and the bank's deposit profile remained stable. The bank's net credit-to-deposit (C/D) ratio has improved from 63.79% as on September 30, 2022 (March 31, 2023: 63.63% and March 31, 2022: 58.75%) to 67.54% as on September 30, 2023, with growth in advances.

IDBI Bank's retail and corporate mix stood at 70:30 as on September 30, 2023, as against 56:44 as on March 31, 2020. The bank continues to target growth in its retail and priority sector business to ensure a granularised and de-risked portfolio mix. Under retail advances, home loan and loan-against-property (LAP) amounts for 94% of the total structured retail advances as on September 30, 2023, and the balance constitutes personal loan, education loan, and auto loan.

Thus, the ability of the bank to maintain the CASA percentage and granularity of retail term deposits with the divestment of stakes by GoI and LIC will remain monitorable.

Improvement in earnings profile backed by growth in advances

During FY23, the bank's net interest income (NII) increased, supported by an increase in its net advances by 18.7% year on year and increase in the interest income on investments from ₹5,341 crore during FY22 to ₹6,515 crore. Accordingly, the net interest margin (NIM) of the bank improved from 3.29% during FY22 to 3.87% during FY23 and further to 4.39% as on September 30, 2023. Moreover, the cost of deposits increased marginally as compared to the yield-on-advances, which increased significantly due to the immediate repricing of advances. Going forward, with the increase in deposit rates, CARE Ratings expect the NIM to reduce.

Furthermore, the total income has been supported by a one-time gain of ₹380 crore from the sale of stake (25%) in Ageas Federal Life Insurance Company Limited to Ageas Insurance International NV during Q2FY23 (adjusted profit-after-tax [PAT] and return on total assets [ROTA] stood at ₹3,265 crore and 1.11%, respectively). With lower incremental provisioning for FY23 as compared to FY22, the bank reported a higher PAT of ₹3,645 crore on

a total income of ₹24,942 crore during FY23 as against a PAT of ₹2,439 crore on a total income of ₹22,982 crore during FY22, resulting in a ROTA of 1.23% during FY23 vis-à-vis 0.88% during FY22.

Moreover, IDBI Bank has seen an improved credit growth of 18.7% during FY23 from 6.87% during FY22. 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 6.24% from FY19 to FY23, whereas the corporate lending book saw a degrowth during the period. Post coming out of PCA in March 2021, the advances book started to grow, although in a calibrated manner, from ₹161,901 crore as on March 31, 2021, to ₹176,496 crore as on September 30, 2023. The non-corporate proportion increased to ₹123,405 crore (70% of the gross advances) as on September 30, 2023 as compared to ₹83,574 crore (40% of the gross advances) as on March 31, 2017. Within the non-corporate lending book, the retail lending segment saw the highest growth and constituted 54% of the total retail lending as on September 30, 2023, while agriculture and SME lending constituted 7% and 9%, respectively. Under the Structured retail asset segment, home loans and LAP contributed more than 90% as on September 30, 2023. The bank continues to target growth in its retail and priority sector business to ensure a granularised and de-risked portfolio mix.

Thus, CARE Ratings expects an improvement in the earnings profile of the bank, backed by continuous growth in the advances book while maintaining low slippages, and consequently, low credit cost.

Key weakness

Moderate asset quality

The bank's gross non-performing assets (NPA) continue to remain high, although it has improved significantly over the years, due to a high number of write-offs over the last three years. The GNPA ratio and NNPA ratio of the bank have improved from 20.16% and 1.36%, respectively, as on March 31, 2022, to 6.38% and 0.92%, respectively, as on March 31, 2023. The significant reduction in the ratio is on account of write-offs of more ₹21,927 crore in FY23. The bank has been able to make high provisions over the years, supported by infusion, thus helping improve the provision coverage ratio (PCR), and consequently, bring down the NNPA. As on September 30, 2023, the GNPA and NNPA ratios further reduced to 4.9% and 0.39%, respectively. The bank's PCR, excluding technical write-offs, stood at 92.46% as on September 30, 2023. The slippages of the bank have also reduced from ₹5,172 crore to ₹3,166 crore with lower slippages in the corporate book (₹944 crore as on March 31, 2023). The NNPA to tangible net worth (TNW) ratio of the bank stood at 2.28% as on September 30, 2023 (March 31, 2023: 5.84%).

The gross stressed assets (Gross NPA+ gross standard restructured assets +gross security receipts) to gross advances have also reduced year on year from 23.61% as on March 31, 2022 to 9.98% as on March 31, 2023 and further to 8.28% as on September 30, 2023.

Thus, the asset quality parameters of the recently-built retail advances portfolio remains monitorable. Furthermore, the bank's ability to control the fresh slippages while increasing the advances book is critical for its growth.

Liquidity: Adequate

IDBI Bank has maintained a quarterly average liquidity coverage ratio (LCR) of 152.01% for the quarter-ended September 30, 2023, as against a minimum LCR requirement of 100%. Furthermore, as on September 30, 2023, the asset liability mismatch statement and interest rate sensitivity statement of the bank remains comfortable, with positive cumulative mismatches till the one-year time bucket. The bank manages its deposit maturities in a particular time bucket by appropriately modifying the 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 refinance from Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), National Bank for Agriculture and Rural Development (NABARD), etc, and access to call money markets.

Environment, social, and governance (ESG) risks

The bank has a corporate social responsibility (CSR) committee, which formulates and recommends the CSR Policy. As on March 31, 2023, the bank's CSR committee comprised five members, of whom two were independent directors. The CSR committee indicates the activities to be undertaken by the bank in areas or subjects specified in Schedule VII of the Companies Act, 2013 to the Board, recommend the amount of expenditure to be incurred on the activities, monitor the CSR policy of the bank from time-to-time, oversee all activities of the bank relating to ESG, and review the ESG policy, etc.

Applicable criteria

[Definition of Default](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Rating Watch](#)

[Short Term Instruments](#)

[Bank](#)

[Rating Basel III - Hybrid Capital Instruments issued by Banks](#)

[Factoring Linkages Government Support](#)

[Factoring Linkages Parent Sub JV Group](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Banks	Private sector bank

IDBI Bank, established in 1964, is a private sector bank headquartered in Mumbai. In 1976, the ownership of IDBI Bank was transferred to the GoI. In 2016, the GoI decided to reduce its stake in IDBI Bank. Taking note of this, LIC, after taking approval of the Insurance Regulatory and Development Authority of India (IRDAI) and other approvals, acquired 51% controlling stake in IDBI Bank. Consequently, IDBI Bank was categorised by the RBI as a private sector bank with effect from January 21, 2019. As on June 30, 2023, the bank had a network of 1,929 branches.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total income	22,982	24,942	14,636
PPOP	7,496	8,736	5,090
PAT	2,439	3,645	2,547
ROTA (%)	0.88	1.23	1.58
Gross NPA (%)	20.16	6.38	4.90
Net NPA (%)	1.36	0.92	0.39

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds-Tier-II bonds	NA	NA	NA	Proposed	1,255.00	CARE AA-; Stable

Bonds-Tier-II bonds	INE008A08V59	Feb 03, 2020	9.50%	Feb 03, 2030	745.00	CARE AA-; Stable
Certificate of deposit	NA	NA	NA	NA	2099.47	CARE A1+
Certificate of deposit (proposed)	NA	NA	NA	NA	7900.53	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 2023-2024	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
1	Certificate of deposit	ST	10000.00	CARE A1+	-	1)CARE A1+ (19-Dec-22)	1)CARE A1+ (22-Dec-21)	1)CARE A1+ (23-Dec-20)
2	Bonds-Tier-II bonds	LT	2000.00	CARE AA-; Stable	-	1)CARE A+; Positive (19-Dec-22)	1)CARE A+; Stable (22-Dec-21)	1)CARE A+; Stable (23-Dec-20)

*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

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

Annexure-5: Lender details

To view the lender wise details of 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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Disclaimer:

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