IDBI Bank Limited

September 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II Bonds	2,000.00	CARE AA; Stable	Revised from CARE AA-; Stable
Certificate of deposit	35,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

** 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, 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

Revision in ratings assigned to the long-term debt instruments of IDBI Bank Limited (IDBI Bank) factors in continued improvement in the bank's financial risk profile as reflected in its improved profitability and asset quality parameters with comfortable capitalisation levels in the last three years.

Ratings continue to factor in the bank's franchise with an increasing focus on retail lending in the last few years and relatively high current account savings account (CASA) deposit proportion.

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

However, rating strengths are partially offset by relatively weaker asset quality parameters of the bank as compared to other private sector banks, although ratios have improved considerably in the last two years considering write-offs done by the bank and lower slippages. In addition to the provisions required per regulatory guidelines, the bank also has contingency provisions, which further provides a cushion to mitigate incremental stress that may arise in the asset book.

CARE Ratings Limited (CARE Ratings) further notes that LIC and GoI together hold 94.72% shareholding in the bank, and have stated their intent to divest their shareholding in the bank through a strategic stake sale with an intent to handover management control in the bank, for which, the process is underway. 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 required support from GoI and LIC to enable 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.

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

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.

Analytical approach: Standalone

CARE Ratings has analysed the bank on a standalone basis.

Outlook: Stable

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

Detailed description of key rating drivers:

Key strengths

Comfortable capitalisation

IDBI Bank continues to have comfortable capitalisation with a CAR of 22.42% and Tier-I CAR of 20.26% as on June 30, 2024 (March 31, 2024: CAR – 22.26% and Tier-I CAR – 20.11%) compared to a CAR of 20.44% and Tier-I CAR of 18.08% as on March 31, 2023, due to improved internal accruals post coming out of PCA. In the past, The bank 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 CAR above the minimum regulatory requirement, as it faced mounting losses due to asset quality issues. At current capitalisation levels, the bank has a significant cushion over the minimum regulatory requirement and has seen improved profit accretion, which will help achieve its targeted credit growth in the medium term without having to raise additional capital, as internal accruals are expected to be sufficient to meet capitalisation requirements.

Robust franchise with focus on retail lending and deposit profile in last few years with 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 2,004 branches as on March 31, 2024, 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 16% as on March 31, 2024, whereas CASA ratio improved from 31.46% to 50.43% in the same period. Although in line with industry trend, the proportion of CASA deposits declined to 48.57% as on June 30, 2024. The proportion of bulk deposits increased to 16% and CASA deposits reduced to 48.57% (March 31, 2024: 50.43%) with tightening overall market liquidity, and the bank's deposit profile remained stable. The bank's net credit-to-deposit (C/D) ratio increased from 67.53% as on June 30, 2023 (March 31, 2024: 67.93% and March 31, 2023: 63.63%) to 69.91% as on June 30, 2024, with growth in advances.

In the last four years, the bank's composition of advances shifted towards non-corporate advances. As on March 31, 2024, retail, agriculture and MSME (RAM) segments constituted 70% (PY: 69%) of gross advances while corporate advances constituted 30% (PY:31%). This shifted from RAM contributing 56% and corporate lending constituting 44% of gross advances 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) amounted for 56% of the total retail advances (RAM) as on March 31, 2024, and the balance constitutes personal loan, education loan, auto loan and other loans. CARE Ratings expects the bank to maintain the constitution of its advances book with high granularity and lower proportion of corporate lending. The bank's ability to maintain CASA percentage and granularity of retail term deposits, which would help manage its cost of deposits, with divestment of stakes by GoI and LIC, will remain monitorable.

Improvement in earnings profile backed by growth in advances
In FY24, the bank's net interest income (NII) increased, supported by an increase in its net advances by 16% y-o-y and increase in the interest income on investments from ₹5,949 crore in FY23 to ₹7,737 crore for FY24. The bank's net interest margin (NIM) improved from 3.87% in FY23 to 4.32% in FY24 and 3.86% for Q1FY25. Cost of deposits increased marginally compared to yield-on-advances, which increased significantly due to immediate repricing of advances. Going forward, CARE Ratings expects NIM to reduce with increase in deposit rates.

Total income in FY23 was supported by a one-time gain of ₹380 crore from sale of stake (25%) in Ageas Federal Life Insurance Company Limited to Ageas Insurance International NV in Q2FY23. In Q1FY24, the bank earned one-time high interest recovery from NPA/TWO accounts to the tune of ₹1,000 crore. The adjusted[2] ROTA for FY23 and FY24 amounts to 1.11% and 1.41%, respectively. With lower incremental provisioning for FY24 as compared to FY23, the bank reported a higher profit after taxes (PAT) of ₹5,634 crore on a total income of ₹30,037 crore in FY24 against a PAT of ₹3,645 crore on a total income of ₹24,942 crore in FY23, resulting in a ROTA of 1.71% in FY24 against 1.23% in FY23.

IDBI Bank has seen credit growth of 16% in FY24 compared to 18.7% in FY23. The bank changed its asset mix with a focus on the non-corporate book (consisting of RAM segments), which continued to grow moderately at a CAGR of 9.6% from FY20 to FY24, whereas corporate lending book saw a decline in the period. CARE Ratings expects the bank's earnings profile to remain stable, backed by continuous growth in the advances book while maintaining low slippages, and consequently, low credit cost.

Key weaknesses

Moderate asset quality
The bank's gross non-performing assets (GNPA) continues to remain high, although it has improved significantly over the years, due to a high number of write-offs and recoveries in the last three years. The bank reported GNPA ratio of 4.53% and Net NPA (NNPA) ratio 0.34, as on March 31, 2024, which declined from GNPA ratio of 6.38% and NNPA ratio of 0.92% as on March 31, 2023.

The bank has been able to make high provisions over the years, supported by infusion, helping improve the provision coverage ratio (PCR), and consequently, bring down NNPA. As on June 30, 2024, GNPA ratio and NNPA ratio further declined to 3.87% and 0.23%, respectively. The bank's PCR, excluding technical write-offs, stood at 94.18% as on June 30, 2024. The bank's slippages also reduced from ₹3,751 crore to ₹3,559 crore. NNPA to tangible net worth (TNW) ratio of the bank stood at 1.25% as on June 30, 2024 (March 31, 2024: 1.95%).

The gross stressed assets (GNPA + gross standard restructured assets + gross security receipts) to gross advances also reduced y-o-y from 9.98% as on March 31, 2023, to 7.78% as on March 31, 2024, and further to 6.93% as on June 30, 2024. A contingent provision of ₹1,705 on restructured accounts which provides comfort.

Asset quality parameters of the recently built retail advances portfolio remains monitorable. The bank's ability to control 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 124.60% for the quarter-ended June 30, 2024, against a minimum LCR requirement of 100%. As on June 30, 2024, the asset liability mismatch (ALM) 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. The bank has access to systemic liquidity including the RBI's liquidity adjustment facility (LAF) and marginal standing facility (MSF) and access to refinance from Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), and National Bank for Agriculture and Rural Development (NABARD), among others, and access to call money markets.

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2 *ROTA is calculated after making adjustments for one-time stake sale of Ageas Federal Life Insurance Company Limited in FY23 and a one-time high interest recovery from NPA/TWO accounts in FY24.*

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, 2024, the bank's CSR committee comprised four members, of whom two were independent directors. The CSR committee indicates 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, among others.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Bank
Financial Ratios - Financial Sector
Short Term Instruments
Rating Basel III - Hybrid Capital Instruments issued by Banks Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial Services	Financial Services	Banks	Private Sector Bank

Established in 1964, IDBI Bank is a private sector bank headquartered in Mumbai. In 1976, the ownership of IDBI Bank was transferred to GoI. In 2016, GoI decided to reduce its stake in IDBI Bank. Taking note of this, and taking approval of the Insurance Regulatory and Development Authority of India (IRDAI) and other approvals, LIC acquired 51% controlling stake in IDBI Bank. Consequently, IDBI Bank was categorised by the RBI as a private sector bank on January 21, 2019. As on March 31, 2024, the bank had a network of 2,004 branches. The bank is headed by Rakesh Sharma who is the Managing Director and Chief Executive Officer (MD & CEO).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total income	24,942	30,037	7,471
PPOP	8,736	9,592	2,076
PAT	3,645	5,634	1,719
ROTA (%)	1.23	1.71	2.05
Gross NPA (%)	6.38	4.53	3.87
Net NPA (%)	0.92	0.34	0.23

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Bonds-Tier-II bonds (proposed)	NA	NA	NA	NA	1,255.00	CARE AA; Stable
Bonds-Tier-II bonds	INE008A08V59	February 03, 2020	9.50%	February 03, 2030	745.00	CARE AA; Stable
Certificate of deposit (proposed)	NA	NA	NA	NA	35000.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Certificate Of Deposit	ST	35000.00	CARE A1+	1)CARE A1+ (04-Apr-24)	1)CARE A1+ (05-Dec-23)	1)CARE A1+ (19-Dec-22)	1)CARE A1+ (22-Dec-21)
2	Bonds-Tier II Bonds	LT	2000.00	CARE AA; Stable	1)CARE AA-; Stable (04-Apr-24)	1)CARE AA-; Stable (05-Dec-23)	1)CARE A+; Positive (19-Dec-22)	1)CARE A+; Stable (22-Dec-21)

*LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

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

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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