IDBI Bank Limited (Revised)

December 22, 2021

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Tier II Bonds	2,000.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**2,000.00 (Rs. Two Thousand Crore Only)**		
Certificate Of Deposit	10,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**10,000.00 (Rs. Ten Thousand Crore Only)**		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of IDBI Bank Limited (IDBI Bank) take into account the improvement in its financial risk profile characterised by improvement in profitability, asset quality parameters and capitalisation levels which has helped the bank to come out of the Prompt Corrective Action (PCA) framework of the Reserve Bank of India (RBI) in March, 2021.

Bank's capitalisation levels were adequately cushioned over the minimum regulatory requirement, post significant amount of equity infusion by Life Insurance Corporation (LIC) in FY19 when LIC took over 51% shareholding in the bank from Government of India (GOI) and subsequent capital infusion by LIC and GOI during FY20. This was followed by equity capital raise of Rs.1,435 crore through Qualified Institutional Placement (QIP) in FY21. Further, the bank has reported net profit for FY21 (refers to period from April 01 to March 31) and half year ended September 2021 after reporting net loss for the last five years. The ratings continue to factor in the robust franchise value of the bank with focus on retail lending over the last few years and a strong Current Account and Savings Account (CASA) deposit base and strong liquidity profile.

The ratings remain constrained on account of weak asset quality parameters and higher number of stressed accounts (i.e. special mention account (SMA) and restructured advances). However, the bank carries significant provision cover on gross non-performing assets translating into Net NPA of 1.62% as on September 30, 2021 which compares well among its peers. The bank has also returned to profitability aided by low interest outgo, relatively lower credit cost and recoveries from written off account but its profitability metrics remain moderate and remain exposed to impact of any fresh wave of covid-19 on its stressed portfolio.

CARE has taken note of the stated intent of GOI and LIC 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 shall be decided at the time of structuring of transaction in consultation with RBI. Currently, both LIC and GOI together hold 94.72% shareholding in the bank.

While the change in parentage / dilution by LIC and GOI is a key monitorable, the ratings are based on the standalone risk profile of the bank and do not factor in the parentage of LIC and GOI.

Rating Sensitivities

Positive rating sensitivities - Factors that could lead to positive rating action/upgrade:

- Scale up of operations without material fresh slippages
- Improvement in profitability with ROTA above 2% on a sustained basis

Negative rating sensitivities - Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality with Net NPA to Net worth above 20% on a sustained basis
- Deterioration in capital adequacy parameters with CAR falling below 13% on a sustained basis

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

Key Rating Strengths

Improvement in capitalisation and improvement in credit risk profile

The bank has seen improvement in its capitalisation levels over the last couple of years. LIC infused equity capital of Rs.21,624 crore in FY19 when acquired 51% shareholding in the bank from GOI and received equity capital of Rs.9,300 crore in FY20 from LIC and GOI. During FY21, the bank raised equity capital of Rs.1,435 crore through Qualified Institutional Placement (QIP) of equity shares demonstrating ability to raise equity through capital markets. The bank also raised Tier II capital of Rs.745 crore during FY20. Apart from equity capital raise, the bank has been reducing its risk weighted assets (RWA) and has reported profit which has helped the capitalisation levels of the bank. IDBI Bank reported Capital Adequacy Ratio (CAR) of 15.59% with Tier I CAR (entirely core equity) of 13.06% as on March 31, 2021 as compared to CAR of 13.31% with Tier I CAR (entirely core equity) of 10.57% as on March 31, 2020. During H1FY22, the bank continued to see reduction in RWA as well as improvement in profitability resulting in improvement in CAR to 16.59% (Tier I CAR: 14%) as on September 30, 2021 indicating increasing cushion over the minimum regulatory requirement.

Robust franchise with focus on retail lending over the last few years and a strong Current Account and Savings Account (CASA) deposit base

IDBI Bank has a pan India presence having 1,886 branches and 3,387 ATMs with a business mix (Net Advances + Deposits) of Rs.3,55,334 crore as on September 30, 2021.

Over the last three years, the bank has been focusing on retail lending and the proportion of retail advances has increased to around 62% of gross advances as on March 31, 2021 as compared to around 45% as on March 31, 2018 with home loans constituting majority of the retail advances. The bank has seen a de-growth in its advances over the last three years on account of lending restrictions towards certain segments and cap of lending amount due to being under PCA framework. As the bank has come out of the PCA framework, the advances book has seen growth during H1FY22.

The bank also has a strong depositor base with deposits of Rs.2,23,323 crore as on September 30, 2021. The bank has seen deposit growth of 3.81% during FY21 with CASA deposits growing at 9.70%. The bank has undertaken de-bulking of deposits to improve granularity of deposits and reduce cost of borrowings. As a result, the proportion of CASA deposits increased to 54.64% as on September 30, 2021 (March 31, 2021: 50.45%) as compared to 47.74% as on March 31, 2020. The proportion of bulk deposits to total deposits has significantly declined to 6.56% as on September 30, 2021 as compared to 13.92% as on September 30, 2020.

Improvement in profitability; albeit remains moderate

IDBI Bank reported net profit during FY21 after reporting net loss for five years consecutively. During FY21, the bank's net interest income increased by 22% supported by 17.57% decline in interest expense as the bank reduced its cost of borrowings by reducing bulk deposits and increasing the proportion of CASA deposits, even as the interest income declined by 4.29%. Accordingly, the NIM improved from 2.44% during FY20 to 3.07% during FY21. The total income has been supported by one-off gains in form of income tax refund and recoveries from written off accounts to the tune of Rs.1,313 crore and Rs.547 crore respectively.

The bank reported 38.71% increase in Pre-Provision Operating Profit (PPOP) during FY21 despite marginal decline of 2.92% in total income due to controlled employee cost and other operational costs. With lower slippages and high amount of provisioning done over the last few years, the bank saw lower provisioning during FY21 which helped the bank reported Profit After Tax (PAT) of Rs.1,359 crore on a total income of Rs.24,557 crore as against loss of Rs.12,887 crore on a total income of Rs.25,295 crore during FY20.

During FY21, the bank sold its 23% shareholding in its life insurance venture (IDBI Federal Life Insurance) and booked one-time profit of Rs.323 crore. Adjusted for the one-time income, the net profit for the year would be Rs.1,036 crore.

During H1FY22 (refers to period from April 01 to Sept 30), the bank reported total income of Rs.11,316.53 crore which has marginally declined by 0.70% from Rs.11,396.22 crore for H1FY21, while the PAT improved from Rs.468.84 crore for H1FY21 to Rs.1,170.42 crore for H1FY22.

Weak asset quality parameters with high provision coverage and monitorable stressed accounts portfolio

The bank has seen high slippages over the last few years especially in the wholesale advances book which resulted in high amount of Gross NPAs. The bank had Gross NPAs of Rs.36,212 crore as on March 31, 2021 and reported Gross NPA ratio of 22.37% as on March 31, 2021 (P.Y.: 27.53%). Over the last five years, the bank has seen high amount of provisioning on NPAs which has resulted in the Net NPA ratio declining to 1.97% as on March 31, 2021

(P.Y.: 4.19%). The bank's provision coverage ratio (PCR) stood at 92.04% (without technical write-offs) (P.Y.: 88.49%) as on March 31, 2021.
The bank saw decline in Gross NPA ratio due to higher amount of recoveries from NPAs, write-offs and lower slippages. During FY21, the bank saw recoveries of Rs.4,518 crore from NPAs and wrote off Rs.8,392 crore of NPAs against slippages of Rs.2,632 crore. As on September, the bank saw decline in Gross NPA ratio to 20.92% and Net NPA ratio to 1.62% as the bank continued to see higher NPA recoveries and write-offs than incremental slippages. The Net NPA to tangible net worth ratio stood at 12.36% (March 31, 2020: 46.22%) as on September 30, 2021.
The stressed assets book (SMA 1, SMA 2 and standard restructured accounts) stood at Rs.8,474 crore ,which includes Covid-19 related restructured book of Rs.3,613 crore, as on September 30, 2021 constituting 5.15% of gross advances. Further, the bank has disbursed Rs.1,857.69 crore under the Emergency Credit Line Guarantee Scheme (ECLGS) as on September 30, 2021.
While the bank has seen improvement in its asset quality parameters and has high provision coverage on NPAs had higher proportion of potential stressed accounts

Liquidity: Strong
The asset liability maturity (ALM) profile of the bank as on September 30, 2021 showed no cumulative negative mismatches up to 1 year time bucket. The ability of the bank to roll over deposits on maturity would be critical for maintaining liquidity profile of the bank. The average rollover rate of deposits as on September 30, 2021 stood at 59%. The bank reported Liquidity Coverage Ratio (LCR) of 151% as against regulatory requirement of 100% for the quarter ended September 30, 2021. The bank had excess SLR securities worth Rs.29,622 crore as on September 30, 2021, which along with the bank's access to market liquidity schemes like Liquidity Adjustment Facility (LAF), Marginal Standing Facility (MSF) and call money market for raising funds provides comfort.

Analytical approach: CARE has considered the standalone business and financial profile of IDBI Bank.

Applicable Criteria
CARE's Policy on Default Recognition
Financial Ratios – Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology – Banks

About the Bank
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. On January 21, 2019, LIC completed acquisition of 51% controlling stake making it the majority shareholder of the IDBI Bank. Reserve Bank of India has clarified vide a Press Release dated 14 March 2019, that IDBI Bank stands re-categorized as a Private Sector Bank for regulatory purposes with effect from 21 January 2019. However, LIC and the GoI's holding in the bank was diluted to 49.24% and 45.48%, respectively, after it raised capital via a qualified institutional placement (QIP) in FY2021. As on March 31, 2021, the bank operated through 1,886 branches and 3,388 ATMs.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (UA)
Total income	25,295.48	24,556.93	**11,316.53**
PAT	-12,887.35	1,359.46	**1,170.42**
Total Assets	2,77,675.15	2,77,041.72	**2,90,694.11**
Net NPA (%)	4.19	1.97	**1.62**
ROTA (%)	-4.51	0.49	**0.82**

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Tier II Bonds			NA	Proposed	1,255.00	CARE A+; Stable
Bonds-Tier II Bonds	INE008A08V59	Feb 03, 2020	9.50%	Feb 03, 2030	745.00	CARE A+; Stable
Certificate Of Deposit	NA	NA	NA	NA	10,000.00	CARE A1+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (25-Apr-19)	1)CARE A; Stable (15-Mar-19)
2	Certificate Of Deposit	ST	10000.00	CARE A1+	-	1)CARE A1+ (23-Dec-20)	1)CARE A1+ (24-Dec-19)	-
3	Bonds-Tier II Bonds	LT	2000.00	CARE A+; Stable	-	1)CARE A+; Stable (23-Dec-20)	1)CARE A+; Stable (24-Dec-19)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of 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 bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 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.

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