IDBI Bank Limited

March 15, 2019

Ratings

Facilities/Instrument	Amount (Rs. crore)	Ratings[1]	Rating Action
Lower Tier II Bonds $	50 (Rupees Fifty Crore only)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Anneuxre-1

$ transferred from erstwhile IDBI Home Finance Ltd

Detailed Rationale & Key Rating Drivers

The rating of Lower Tier II bonds of IDBI Bank Limited factors in the recent acquisition of majority stake by Life Insurance Corporation of India (LIC) in the bank with Government of India (GOI) being the largest non-majority shareholder. The rating also factors in improvement in capitalization level post equity infusion during the current financial year.

The rating remains constrained on account of continuing weak asset quality parameters and weak financial position of the bank.

Continued support from LIC and GoI, business synergies with LIC, capital adequacy, asset quality and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Acquisition of majority shareholding by LIC:

Over the years, IDBI Bank's rating factored in the majority ownership and demonstrated and expected support by Government of India (GOI) through regular capital infusions up to FY18. During FY18, GOI infused equity capital of Rs.10,610 crore which helped the bank improve its capitalization ratios as on March 31, 2018. As on September 30, 2018, GOI held 85.96% (80.96% as on March 31, 2018 on account of part allocation of the infusion) while Life Insurance Corporation of India (LIC) held 7.98%.

In August, 2018, GoI conveyed its no-objection to reduction of its stake in the Bank to below 50%, relinquishment of management control and acquisition of controlling stake in the bank by LIC as Promoter through preferential issue/open offer of equity.

During Q2FY19 (refers to period from July 01 to September 30), the bank received capital of Rs.2,098 crore from LIC towards preferential allotment of equity shares which was allotted on October 04, 2018. Further, in December, 2018, LIC infused additional equity capital of Rs.17,089 crore into the bank. Out of which, Rs.14,500 was allocated towards preferential allotment of equity shares in Tranche I to LIC. The balance amount Rs.2,589 crore was reflected as Share Application Money pending Allotment as on December 31, 2018. The final Tranche II of preferential allotment constituted of Rs.2,589 received in the December quarter and an additional Rs.2,437 crore allotted in January, 2019. As a result of the capital infusion, LIC would now be classified as Promoter of the Bank, thereby completing acquisition of 51% controlling stake in IDBI Bank.

LIC infused total equity capital of Rs.21,624 crore during FY19 to acquire the majority shareholding in the bank. Post-acquisition, GOI has become the second major shareholder at 46.46% shareholding with LIC and GOI together holding over 90% of the shareholding in the bank.

Post-acquisition, the bank is expected to have synergies with LIC as IDBI Bank has about 1.5 crore retail customers and 18,000 employees which will provide a large bancassurance channel for LIC and the bank would increase investments in building capabilities to enhance product offerings to reduce distribution cost.

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

Going forward, capital support from LIC would be crucial for IDBI Bank as the bank's profitability continues to remain weak on account of high provision and the bank is yet to come out of the Prompt Corrective Action (PCA) framework.

Improvement in capitalization level post equity infusion

Due to continued losses on account of high provisioning, the bank's capitalization was weak and in spite of infusion of equity capital of Rs.10,610 crore during FY18 (refers to period from April 01 to March 31), IDBI Bank reported Capital Adequacy Ratio (CAR) of 10.41% (Tier I CAR: 7.73%) and Common Equity Tier I Ratio (CET I Ratio) of 7.42% as on March 31, 2018 which was lower than the minimum regulatory requirement. During FY18, the bank exercised the call option and prepaid the Additional Tier I Bonds (AT I Bonds) of Rs.5,000 crore on account of regulatory event of being under PCA.

However, post capital infusion by LIC during FY19, the bank saw improvement in its capitalization and reported CAR of 12.51% (Tier I CAR: 9.68%) and CET I Ratio of 9.32% as on December 31, 2018 in spite of the bank reporting net loss of over Rs.10,000 crore during 9MFY19 (refers to period from April 01 to December 31). Going forward continued capital support from LIC to maintain adequate capitalization would be a key rating sensitivity.

Key Rating Weakness

Weak asset quality

The bank saw slippages of Rs.38,351 crore during FY18, as a result of which the bank's Gross NPAs increased to Rs.55,588 crore as on March 31, 2018 as compared to Rs.44,753 crore as on March 31, 2017 and its Gross NPA ratio increased to 27.95% (P.Y.: 21.25%) and Net NPA ratio to 16.69% (P.Y.: 13.21%) as on March 31, 2018 with Net NPA to Net worth Ratio of 682.99% (P.Y.: 264.16%). During 9MFY19, the bank continued to see rise in slippages and total slippages were at Rs.15,997 crore. However, the incremental rate saw a decline with slippages of Rs.2,211 crore during the quarter ended December, 2018; the lowest in the last seven quarters. The bank reported Gross NPA ratio of 29.67% and Net NPA ratio of 14.01% as on December 31, 2018 as against Gross NPA ratio of 31.78% and Net NPA ratio of 17.30% as on September 30, 2018. The bank reported Provision Coverage Ratio (PCR) of 75.21% as on December 31, 2018 from 68.72% as on September 30, 2018.

Weak financial profile

As part of the restrictions placed on the bank by RBI, the bank is prohibited from taking unsecured exposure, can only invest in investment grade credit and cannot take bulk deposits at high rates. The bank saw decline in its advances during FY18 to Rs.1,71,740 crore as on March 31, 2018 from Rs.1,90,826 crore as on March 31, 2017 and its net interest income declined from Rs.5,751 crore during FY17 to Rs.5,640 crore during FY18 on account of lower credit growth, income reversal on account of NPAs. However, the bank reported non-interest income of Rs.7,009 crore during FY18 as compared to Rs.4,008 crore during FY17 on account of profit on sale of investments as well as fixed assets. The profit on sale of non-core assets helped the bank report operating profit of Rs.7,905 crore during FY18 as compared to Rs.4,618 crore during FY17 showing growth of 71%. In spite of increase in operating profit, the bank saw significant increase in provisioning which increased to Rs.20,497 crore during FY18 as compared to Rs.13,197 crore on account of revised framework on asset quality during Q4FY18. As a result, the bank reported net loss of Rs.8,238 crore, as against a loss of Rs.5,158 crore in FY17.

During 9MFY19, the bank reported total income of Rs.18,756 crore as compared to total income of Rs.22,125 crore showing decline of 15.23% (y-o-y). The bank reported operating profit of Rs.2,656 crore during 9MFY19 as compared to operating profit of Rs.5,546 crore during 9MFY18. However, the bank continued to make significant provisions (Rs.18,347 crore) resulting in net loss of Rs.10,198 crore during 9MFY19 as compared to loss of Rs.2,575 crore during 9MFY18.

Post significant capital infusion by LIC, the bank has met the threshold for exiting the PCA framework related to capitalization and leverage parameters. However, on account of continued losses and weak asset quality, the bank is in the threshold 3 of the PCA framework (i.e. Negative ROTA for consecutive four years and Net NPA ratio of above 12%) and would take some time to exit the PCA framework.

Moderate CASA deposit base
The bank has a moderate deposit franchise and its proportion of CASA deposits to total deposits stood at 38.36% as on December 31, 2018. (37.15% as on March 31, 2018). The proportion of bulk deposits to total deposits has declined from 32.29% as on September 30, 2018, to 32.05% as on December 31, 2018.

Moderate liquidity profile
The asset liability maturity (ALM) profile of the bank as on December 31, 2018 showed cumulative positive mismatches up to 3 months; however, due to reliance on bulk deposits which have short term maturities, the bank had negative cumulative mismatches post the 3 months buckets. The ability of the bank to roll over deposits on maturity and would be critical for maintaining liquidity profile of the bank.

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

Liquidity Profile
The liquidity profile of the bank is supported by its franchise and deposit base. The bank had liquidity coverage ratio (LCR) of 107.46% for quarter ended December 31, 2018 as against minimum regulatory requirement of 100% as on January 01, 2019. Total High Quality Liquid Assets (HQLA) as on December 31, 2018 reported by the bank were at Rs.52,908 crore vis-a-vis Rs.48,716 crore as on September 30, 2018. In addition, the bank has access to borrowing from RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with cash reserves with RBI which provide comfort in meeting any liquidity pressures.

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
Factor Linkages in Ratings

About IDBI Bank Ltd.

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.
LIC infused total equity capital of Rs.21,624 crore during FY19 to acquire the majority shareholding of 51% in the bank. Post-acquisition, GOI has become the second major shareholder at 46.46% shareholding.
As on December 31, 2018, the bank had a network of 1,894 branches pan India and 3,713 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, and Ageas Insurance International holding 26%.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Income	31,799	30,035
PAT	(5,158)	(8,238)
Total Assets	3,48,853	3,33,301
Net NPA (%)	13.21	16.69
ROTA (%)	(1.44)	(2.42)

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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.

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; Stable

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; Stable	1) CARE A; Stable (8-Feb-18) 2) CARE A; Stable (5-Feb-18) 3)CARE A; Negative (26-May-17)	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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