IDBI Bank Limited (Revised)

December 23, 2020

Ratings

Facilities/Instrument	Amount (Rs. crore)	Ratings[1]	Rating Action
Basel III Compliant Tier II Bonds	2,000 (Rupees Two Thousand Crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Certificate of Deposits	10,000 (Rupees Ten Thousand Crore only)	CARE A1+ (A One Plus)	Reaffirmed

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the Tier II Basel III Bonds of IDBI Bank and proposed issue of Certificate of Deposits takes into account continued support from GoI and LIC in the form of capital infusion during FY20 aggregating to Rs.9,300 crore, coupled with the Bank's ability to raise capital in the form of Basel III Tier Bonds worth Rs.745 crore in February 2020 and Rs.1,435 crore through it's recent QIP in December 2020, thereby improving the capital position of the bank significantly. The rating also factors in the robust franchise value of the bank and synergies with its parent, LIC in the form of cross sell of products & services. CARE also takes note of the fact that the Bank reported a profitable H1FY21 after consecutive losses in the past 13 quarters and reported a healthy Provisioning Coverage Ratio of 95.56% as on September 30, 2020. The ratings remain constrained on account of weak asset quality parameters, and moderate profitability due to lower income on account of declining loan Book amidst PCA restrictions and somewhat uncertainty over future provisioning requirements.

Asset quality metrics, trend in profitability, capitalization as well as continued support from LIC and GoI, shall continue to remain as key rating sensitivities.

Rating Sensitivities:

Positive Factors (*Factors that could, individually or collectively, lead to positive rating action/upgrade)*

- Improvement in profitability with ROTA of 1.5% or more
- Robust capitalisation levels with CAR of 14% or more
- Exit from PCA framework

Negative Factors *(Factors that could, individually or collectively, lead to negative rating action/downgrade)*

- Sustained deterioration in asset quality with Net NPA of 9% or more
- Weaker capitalization leading to CAR falling below minimum regulatory requirement
- Reduction in support from GoI/LIC

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership of LIC and capital support from Govt. of India

As on September 30, 2020, LIC continues to remain the majority shareholder of the bank with 51% shareholding, followed by GoI at 47.11%. Post equity infusion from LIC and Government of India in the form of recapitalization bonds aggregating to Rs.9,300 crore in H1FY20 coupled with internal accruals in H1FY21, the bank remains adequately capitalized. We note that GoI has proposed in the Union Budget of February 2020 to fully divest it's stake in IDBI Bank, however it is still unclear on the timelines and the structure of the transaction or the proposed investor. Also, in April 2019, the Reserve Bank of India has stipulated that LIC shall bring down its stake in the Bank over a period of 12 years to 40% of the total voting paid-up equity capital of the Bank from the current 51%. Going forward, the divestment of GOI's stake and the role of LIC in the

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

bank shall be key monitorable. Notwithstanding, the management has indicated that LIC shall add similar amount of capital as the government infuses, if and when the bank requires.

Good scale of operations with potential synergies from relationship with LIC

IDBI Bank is a mid-sized bank with a pan India presence having 1,885 branches and 3,467 ATMs as on September 30, 2020. The bank remains among the top 10 largest banks in India in terms of asset size, with total assets and advances of Rs.2,83,932 crore and Rs.1,26,103 crore respectively as on September 30, 2020. The total assets and advances as on March 31, 2020 stood at Rs.2,77,689 crore and Rs.1,29,842 crore respectively. During FY20, Bank was able to cross-sell over 67,660 LIC policies and during H1FY20, Bank was able to cross-sell over 27,040 policies to its customers. Further the bank envisages to grow it's asset book and CASA base by launching salary accounts for agents and employees of LIC and it's subsidiaries and also by offering them their retail loan products.

Improvement in Capital Adequacy parameters.

Govt. of India has shown continued capital support to the bank through regular equity infusions. LIC and Government of India have infused a combined capital of Rs.43,789 crore during the period FY18-FY20 in the Bank. Over the past one year the Bank reported improvement in it's capital adequacy ratios with Overall CAR and Tier I ratio at 13.67% and 11.06% respectively as on September 30, 2020 vis-à-vis an Overall CAR and Tier I ratio at 11.98% and 9.52% as on September 30, 2019. The increase in CAR was helped by the issuance of Basel-III compliant Tier II Bonds aggregating to Rs.745 crore in February 2020 coupled with a decline in RWAs. In order to augment its capital base, the Bank further raised Rs.1,435 crore through QIP in December 2020 which gives additional comfort.

Robust CASA base

As on September 30, 2020, CASA ratio further improved to 48.33% as against 44.87% as on September 30, 2019 (47.74% as on March 31, 2020). The proportion of bulk deposits to total deposits has declined to 14% as on September 30, 2020 as compared to 22% as on September 30, 2019. The growth in CASA base is primarily due to increase in Savings deposit base from Rs.60,871 crore as on September 30, 2019 to Rs.68,341 crore as on September 30, 2020 as the Bank aims to diversify away from its historic reliance on bulk deposits by growing its low-cost CASA deposits from transfer of LIC accounts to IDBI Bank.

Moderate profitability metrices after reporting consecutive losses in the past 4 years.

After reporting losses consecutively for the past 4 years, the bank reported a PAT of Rs.469 crore during H1FY21 as against a loss of Rs.7,260 crore during H1FY20. For FY20 the bank reported net loss of Rs.12,887 crore, as against a loss of Rs.15,116 crore in FY19. Decline in losses was mainly due to 48% decline in provisions coupled with 35% increase in Non-interest income, mainly driven by profit on sale of investments and recoveries from written off accounts. The Bank reported 35% growth in non-interest income during FY20 and 11% during H1FY21 on a y-o-y basis. Interest Income has remained muted due to restrictions on Bank's lending activities as it is under PCA. Going forward provision reversal and recoveries form written off accounts is expected to offset the impact of lower Interest Income as the bank aims to resolve its legacy NPA's.

During H1FY21, Bank reported ROTA of 0.32% mainly as Credit costs stabilized on account of lower fresh slippages and recoveries from written off accounts. During FY20, NIM of the bank stood at 2.44% as against 1.88% during FY19, increase in NIM was mainly triggered by decline in Cost of Funds coupled with a declining asset base. Further, overall profitability of the Bank was bolstered by Other Income in the form of Recovery form written off assets and Profits from sale of investments/non-core assets. With respect to profitability, the bank had reported continued losses in the past 4 years due to which it was still under PCA, however it has reported positive ROA for the last 2 consecutive quarters.

Key Rating Weaknesses

Weak asset quality, albeit improvement in recent quarters

As on September 30, 2020, the bank reported improvement in it's asset quality with Gross NPA % of 25.08% and Net NPA % of 2.67% as against GNPA % and NNPA % of 29.43% and 5.97% respectively mainly due to decline in fresh slippages from Rs.5,545 crore during H1FY20 to Rs.101 crore during H1FY21. In the past, the bank had done accelerated provisioning to come out of PCA due to which Net NPA levels have fallen sharply. Consequently, Net NPA to Net worth ratio registered a material decline from a high of 237.33% as on March 31, 2018 to 24.30% at September 30, 2020. However, the decline in fresh slippages is also partly due to Supreme Court's decision on standstill on NPA classification of accounts which were under moratorium from March 01, 2020 to August 31, 2020. CARE believes asset quality metrics post Supreme Court's decision shall be key monitorables to assess the resilience of underlying borrowers to the impact of Covid-19. The Bank has made a total cumulative Covid-provision of Rs.706 crore which is more than minimum required as per the RBI guidelines. Also in response to RBI Resolution framework for COVID -19 related stress, the Bank has made provision of Rs.270 crore towards the expected provisioning requirement for cases to be restructured under the Resolution framework. The bank reported increased Provision Coverage Ratio (PCR) at 95.56% as on September 30, 2020 as against 91.25% as on September 30, 2019. Recoveries during FY20 and H1FY21 period amounted to Rs.7,842 crore and Rs.2,621 crore respectively, going forward management estimates recoveries of Rs.5,000 to Rs.6,000 crore in the pipeline which will further ease asset quality metrics and boost profitability. As on March 31, 2020, around 35.5% of the portfolio of the bank was under NCLT and the Bank has made 99.63% provisioning on the outstanding gross principal of Rs.46,113 crore for NCLT cases.

Liquidity: Adequate
The asset liability maturity (ALM) profile of the bank as on September 30, 2020 showed cumulative positive mismatches up to 1 year time bucket. Negative cumulative mismatches in the over 1 year bucket were mainly because 56% of the total deposits are getting matured in the 1-3 year bucket. The ability of the bank to roll over deposits on maturity would be critical for maintaining liquidity profile of the bank. Average rollover rate of deposits as on September 30, 2020 stood at 56%. LCR ratio stood comfortable at 155% as against regulatory requirement of 80%. Also the Bank has maintained excess SLR securities worth Rs.35,233 as on September 30, 2020, which gives additional comfort.

Analytical approach: Standalone

Applicable Criteria
CARE's Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's policy on default recognition
Consolidation and Factor Linkages in Ratings
Financial ratios – Financial Sector
Bank - CARE's Rating Methodology for 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.
As on September 30, 2020, the bank had a network of 1,885 branches pan India, which came down from 1,916 branches as on March 31, 2018. The number of ATMs, too, has come down to 3,467 as on September 30, 2020 from 3,723 as on September 30, 2018. The decline was attributed to the closure of loss-incurring ATMs. The Bank also has a JV, IDBI Federal Life Insurance Company Limited with the Bank holding 48% stake, and Ageas Insurance International holding 26%. The Bank's life insurance business comprises individual life and pension and group life, including non-participating, health and linked segments. As on August 05, 2020, the bank entered has entered a Share Purchase Agreement (SPA) wherein agreed to sell up to 27% stake in its joint venture arm IDBI Federal Life Insurance Company Limited, to the extent of 23% to Ageas Insurance International NV (Buyer) and 4% to The Federal Bank Limited (Buyer). The transaction is proposed to be completed by end of December 2020 for a total consideration of Rs.595 crore.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	25,372	25,295
PAT	(15,116)	(12,887)
Total Assets*	2,93,887	2,77,689
Net NPA (%)	10.11	4.19
ROTA (%)	(4.82)	(4.34)

*A: Audited. *Total Assets are net off Deferred Tax Assets and Revaluation Reserves. All ratios are as per CARE calculations.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN No.	Coupon Rate (%)	Maturity Date	Amount (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Tier II Bonds	February 03, 2020	INE008A08V59	9.50	February 2030	745.0	CARE A+; Stable
Proposed Bonds-Tier II Bonds	-	-	-	-	1,255.0	CARE A+; Stable
Certificate of Deposits	NA	NA	NA	NA	10,000.0	CARE A1+
Total					**12,000.0**	

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (25-Apr-19)	1)CARE A; Stable (15-Mar-19)	1)CARE A; Stable (08-Feb-18) 2)CARE A; Negative (26-May-17)
2.	Certificate Of Deposit	ST	10000.00	CARE A1+	-	1)CARE A1+ (24-Dec-19)	-	-
3.	Bonds-Tier II Bonds	LT	2000.00	CARE A+; Stable	-	1)CARE A+; Stable (24-Dec-19)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com 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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