IDBI Bank Limited

December 24, 2019

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)	Assigned
Certificate of Deposits	10,000 (Rupees Ten Thousand Crore only)	CARE A1+ (A One Plus)	Assigned

Details of instruments/facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The rating of proposed issue of Lower Tier II bonds and Certificate of Deposits by IDBI Bank Limited factors in the continued government support during FY2019 as well as capital infusion by the Government of India (GoI) and Life Insurance Corporation (LIC) amounting to Rs.9,300 crore upto September 30, 2019 thereby improving the capital position of the bank significantly. The rating also factors in the robust franchise value of the bank and anticipated synergies from its parent, LIC along with a comfortable Provisioning Coverage Ratio of 91.25% as on September 30, 2019 and a strong CASA base. The ratings remain constrained on account of weak asset quality parameters and weak financial position of the bank. CARE also notes of the fact that the bank is under PCA framework of RBI, owing to negative RoA for the past 14 quarters.

Capitalisation levels, trend in profitability and asset quality as well as continued support from LIC and GoI, shall continue to remain as key rating sensitivities.

Key Update:

The Board of Directors underwent significant changes post LIC's acquisition of 51% stake in the bank. On March 13, 2019, Mr. M R Kumar was appointed as the Chairman of LIC. Subsequently, the board of the bank appointed Mr. Kumar as Non Executive Non Wholetime Chairman of IDBI Bank Ltd. for a period of three years or till such time he continues as the Chairman of LIC. At present, there are 13 members on the Board of Directors, out of which 2 are representatives from LIC. (including Mr. M.R. Kumar)

Rating Sensitivities

Positive Factors

- Return to profits with ROTA of 2% or more
- Robust capitalisation levels with CAR of 14% or more
- Exit from PCA framework

Negative Factors

- 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

Acquisition of majority shareholding by LIC, and continued support from GoI:

IDBI Bank's rating factors in the majority ownership, demonstrated and expected support by Government of India (GOI) through regular capital infusions upto FY19. During FY19, LIC infused a total equity capital of Rs.21,624 crore which helped the bank improve its capitalization ratios as on March 31, 2019. As on September 30, 2019, GOI held 47.11% while Life Insurance Corporation of India (LIC) held 51.00% stake. Post-acquisition, the bank is expected to leverage synergies with LIC in the area of cross selling home loans and banc assurance products, whereas IDBI shall extend cash management services to LIC.

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 provisions and the bank is yet to come out of the Prompt Corrective Action (PCA) framework. Government of India, Ministry of Finance, Department of Financial Services, vide letter dated December 17, 2019, has clarified that LIC being wholly owned by GoI, direct and indirect holding of GoI is 97.46% in the IDBI Bank and accordingly advised Central Government/ all Departments, State Government/ all Departments and Central/State Agencies/

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

Institutions, to continue to consider IDBI Bank for grant of Government Business. The above will further strengthen CASA and overall business of the Bank.

Improvement in capitalization level post equity infusion

On account of regular capital infusion from LIC, the bank's capitalization at FYE19 was above the minimum regulatory requirement. 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 (refers to period from April 01 to March 31). IDBI Bank reported Capital Adequacy Ratio (CAR) of 11.58% (Tier I CAR: 9.13%) and Common Equity Tier I Ratio (CET I Ratio) of 8.91% as on March 31, 2019.
During the quarter ending September 30, 2019, the Bank received Share Application Money of Rs.4,743 crore from Life Insurance Corporation of India and Rs.4,557 crore from Government of India in the form of recapitalization bonds aggregating to Rs.9,300 crore, which led to further improvement in its capitalization parameters with Overall CAR of 11.98% (Tier I CAR: 9.52%) and CET I Ratio of 9.27% as on September 30, 2019. Going forward continued capital support from LIC to maintain adequate capitalization would be a key rating sensitivity.

Detailed Capital Infusion Schedule by LIC in IDBI Bank over the past one year is as follows:

Date	Amt (Rs. In cr)
17-Sep-18	2,098
18-Dec-18	6,000
24-Dec-18	4,000
28-Dec-18	7,089
21-Jan-19	2,437
Sep-19*	9,300
Total	**30,924**

*Rs.4,557 crore was infused by the GoI in the form of recapitalization bonds. Going forward capital infusion in the bank will be in proportion to the respective shareholding of LIC and GoI.

Robust CASA deposit base

The bank has a moderate deposit franchise and its proportion of CASA deposits to total deposits stood at 44.87% as on September 30, 2019. (42.54% as on March 31, 2019). The growth in CASA base is primarily due to increase in Current deposit base from Rs.35,317 crore as on March 31, 2019 to Rs.43,157 crore as on September 30, 2019 owing to transfer of certain LIC accounts to IDBI as well as handling of government related trade transactions.
The proportion of bulk deposits to total deposits has declined to 21.84% as on September 30, 2019, from 32.29% as on September 30, 2018.

IDBI Bank Limited's CASA share has shown an upward trend in the past four quarters as depicted below.

	Sep-18	Mar-19	Jun-19	Sep-19
CASA Share	38.13	42.54	43.15	44.87

Key Rating Weakness

Weak asset quality

The bank reported fresh slippages of Rs.15,281 crore during FY19 as compared to slippages of Rs.35,605 crore during FY18, as a result of which the bank's Gross NPAs declined marginally to Rs.50,028 crore as on March 31, 2019 as compared to Rs.55,588 crore as on March 31, 2018. Also, at March 31, 2019, Gross NPA ratio stood at 27.47% (P.Y.: 27.95%) while Net NPA ratio declined to 10.11%, mainly on account of accelerated provisioning to come out of PCA (P.Y.: 16.69%). Accordingly, Net NPA to Net worth ratio registered a material decline from a high of 237.33% as on March 31, 2018 to 74.60% at September 30, 2019. However, during H1FY20, the fresh slippages moderated to Rs.5,545 crore during H1FY20 as compared to Rs.11,288 crore during H1FY19. Also, the rate of slippages per quarter seems to be moderating with **First Time NPAs** reduced by 41% to Rs.2,059 crore in Q2FY20 from Rs.3,489 crore in Q2FY19. The bank reported Gross NPA ratio of 29.43% and Net NPA ratio of 5.97% as on September 30, 2019 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 91.25% as on September 30, 2019 from 68.72% as on September 30, 2018. As on September 30, 2019, around 73% of the portfolio of the bank was under NCLT and the Bank has made 99.61% provisioning on the outstanding gross principal of Rs.39,194 crore under NCLT. **Details of the fresh slippages are provided in the table below.**

Particulars	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Quarterly fresh slippages (Rs. Crore)	3489	2211	1781	3486	2059
Slippage Ratio (%)	2.68	1.69	1.36	2.64	1.64

Weak financial profile

As part of the restrictions placed on the Bank by RBI, they are prohibited from taking unsecured exposure, can invest only in investment grade credit and cannot take bulk deposits at high rates. As a result, the Bank saw further decline in its Net Advances to Rs.1,46,790 crore as on March 31, 2019 from Rs.1,71,740 crore as on March 31, 2018. However, its net interest income saw a marginal increase from Rs.5,640 crore during FY18 to Rs.5,906 crore during FY19 mainly on account of decline in it's borrowing cost as the Bank has reduced it's Borrowings from Rs.45,288 crore as on March 31, 2019 to Rs.30,206 crore as on September 30, 2019. The Bank reported a 53% decline in non-interest income from Rs.7,014 crore during FY18 as to Rs.3,300 crore during FY19 on account of a one-off profit in FY18, on sale of investments (as during FY18, IDBI Bank had sold its non-core assets amounting to Rs.3,352 crore) as well as fixed assets (Rs.517 crore on sale of office building). The profit on sale of non-core assets helped the bank report operating profit of Rs.7,909 crore during FY18 as compared to Rs.4,052 crore during FY19. For FY19, the bank reported net loss of Rs.15,116 crore, as against a loss of Rs.8,238 crore in FY18. Loss was mainly on account of increased provisioning which registered a y-o-y increase of 31.14%, as this facilitated reduction in Net NPA's which is one of the conditions to come out of PCA framework. We note that IDBI Bank has received Rs.2,282 crore in case of Essar Steel Limited account and about 45%-50% of principal outstanding in case of Prayagraj Power Generation Company Limited from NCLT in December 2019. As the Bank had made 100% provisioning in both the cases, the same would be reversed in future quarters and is expected to bolster the bottom line.

The Bank reported a net loss of Rs.3,459 crore for Q2FY20, as against a loss of Rs.3,602 crore for Q2FY19. The Bank made provisions for NPA during Q1FY20 to the tune of Rs.7,009 crore and provisions of Rs.3,545 crore during Q2FY20. As a result, total provisioning for H1FY20 stood at Rs.11,973 crore. Due to high provisioning, the Bank reported net loss of Rs.7,260 crore during H1FY20.

Post significant capital infusion by LIC, the bank has met all the major criteria for exiting the PCA framework related to capitalization, asset quality and leverage parameters. However, on account of continued losses the bank is in the threshold 3 of the PCA framework (i.e. Negative ROTA for consecutive four years) and would take some time to exit the PCA framework. Having said that, RBI in the past has made certain exceptions in view of anticipated improvement in financial parameters for some PCA bank

Moderate liquidity profile

The asset liability maturity (ALM) profile of the bank as on September 30, 2019 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 : Adequate

The liquidity profile of the bank is supported by its franchise and deposit base. The bank has liquidity coverage ratio stood comfortable at 134.15% for quarter ended September 30, 2019 (107.16% for quarter ended September 30, 2018) as against regulatory requirement of 100%. Total HQLA as on September 30, 2019 stood at Rs.65,774.22 crore vis-a-vis Rs.48,716.23 crore as on September 30, 2018. Further, the bank has maintained SLR investments of 26.66% amounting Rs.67544 crore as on September 30, 2019, which is 7.91% in excess of the regulatory minimum of 18.75% to cover any mismatches in the future. 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
Rating framework for Basel III instruments
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.

During Q2FY20, the Bank received Share Application Money of Rs.4,743 crore from Life Insurance Corporation of India and Rs.4,557 crore from Government of India in the form of recapitalization bonds aggregating to Rs.9,300 crore. 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 47.11% shareholding.
As on September 30, 2019, the Bank had a network of 1,887 plus branches pan India and 3,693 ATMs. As on date, IDBI Bank has five subsidiaries, viz., IDBI Asset Management Ltd (66.67 stake), IDBI Capital Markets and Securities 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%. The Bank's life insurance business comprises individual life and pension and group life, including non-participating, health and linked segments. As on November 22, 2019, the Bank entered into a Share Purchase Agreement with Muthoot Finance Limited for a consideration of Rs.215 crore towards purchase of IDBI Asset Management Limited (IAML) and IDBI MF Trustee Company Limited (IMTL). Out of this IDBI Bank would receive Rs.143.83 crore and the balance would be received by IDBI Capital Market & Securities (ICMS). The transaction is proposed to be completed by end of February 2020.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Income	30,041	25,372
PAT	(8,238)	(15,116)
Total Assets	3,33,301	2,93,887
Net NPA (%)	16.69	10.11
ROTA (%)	(2.42)	(4.82)

A: Audited Note: A: Audited. All ratios are as per CARE Calculations. Total Assets shown are net off Deferred Tax Assets, Revaluation Reserves and Intangible Assets.

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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Tier II Bonds	NA	NA	Proposed	2000.00	CARE A+; Stable
Certificate Of Deposit	NA	NA	proposed	10000.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (22-Mar-17) 2)CARE AA; Negative (29-Dec-16)
2.	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)	1)CARE AA-; Negative (22-Mar-17) 2)CARE AA; Negative (29-Dec-16)
3.	Certificate Of Deposit	ST	10000.00	CARE A1+	-	-	-	-
4.	Bonds-Tier II Bonds	LT	2000.00	CARE A+; Stable	-	-	-	-

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.

Contact us

Media Contact
Mradul Mishra
Contact no. –+91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1
Group Head Name - Mr. Abhijit Urankar
Group Head Contact no.- 022-6754 3669
Group Head Email ID- abhijit.urankar@careratings.com

Analyst Contact 2
Mr. Sanjay Kumar Agarwal
Contact no. : (022) 6754 3500 / 582
Email ID- sanjay.agarwal@careratings.com

Business Development Contact
Name: : Ankur Sachdeva
Contact no. : 91 98196 98985
Email ID : ankur.sachdeva@careratings.com

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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**