IDBI BANK
CIN: L65190MH2004GOI148838

आईडीबीआई बैंक लिमिटेड
पंजीकृत कार्यालय : आईडीबीआई टॉवर,
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05 अप्रैल, 2024

The Manager (Listing) BSE Ltd., 25th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai – 400 001	The Manager (Listing) National Stock Exchange of India Ltd., Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra(E), Mumbai – 400 051

Dear Madam/Sir,

Rating by CARE

This is to inform that CARE Ratings reaffirmed rating of 'CARE A1+' for enhanced amount of Certificate of Deposit and also reaffirmed existing rating of 'CARE AA-; Stable' for Tier-II bonds. The detailed report is attached herewith.

You are requested to kindly take the above intimation on record in terms of the provisions of Regulations 30 & 51 of SEBI (LODR) Regulations, 2015.

भवदीया,
कृते आईडीबीआई बैंक लिमिटेड

ज्योति
5/4/24

[ज्योति नायर]
कंपनी सचिव

IDBI Bank Limited

April 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II bonds	2,000.00	CARE AA-; Stable	Reaffirmed
Certificate of deposit	35,000.00 (Enhanced from 10,000.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

The 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, the 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

Ratings assigned to the long-term debt instruments and certificate of deposits of IDBI Bank Limited (IDBI Bank) factor in the continued improvement in the bank's financial risk profile, improvement in profitability and asset quality parameters, and comfortable capitalisation levels over the last two-years ended December 31, 2023. 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 more than adequate cushion over the minimum regulatory requirement, supported by significant amount of equity infusion by the Life Insurance Corporation of India (LIC), the Government of India (GoI), and qualified institutional placement (QIP), as well as internal accruals after the bank started posting profits from FY21 onwards. The bank has a stable and granular deposit base, with CASA plus retail term deposits forming a major portion of its total deposits. The bank's earnings and profitability also improved year-on-year post coming out of the prompt corrective action (PCA).

Ratings remains constrained considering the weak asset quality parameters of the bank as compared to other private sector banks, although ratios have improved considerably in the last two years due to write-offs done by the bank and lower slippages. Moreover, in addition to the provisions required as per the regulatory guidelines, the bank also has contingency provisions which further provides a cushion to mitigate any incremental stress that may arise in the asset book.

CARE Ratings Limited (CARE Ratings) further notes that both, LIC and GoI together held 94.72% shareholding as on December 31, 2023, in the bank, and both have stated their intent to divest their shareholding through a strategic stake sale with an intent to hand over management control in the bank. The extent of respective shareholding to be divested by GoI and LIC will be decided at the time of structuring the transaction, in consultation with 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.

Negative factors

- Deterioration in the asset quality, with the net non-performing assets (NNPA) ratio above 1% on a sustained basis.

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

- 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

CARE Ratings has analysed the bank on a standalone basis. In addition, CARE Ratings expects the bank to receive financial and management support from GoI and LIC till the time the transfer of shareholding is completed.

Outlook: Stable

The stable outlook factors in the expectation that the bank will continue its 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 20.32% and Tier-1 CAR of 18.04% as on December 31, 2023, (March 31, 2023: CAR – 20.44% and Tier-I CAR – 18.08%) as compared to a CAR of 19.06% and Tier-I CAR of 16.68% as on March 31, 2022, due to improving internal accruals post coming out of PCA. In the past, the bank received significant equity capital from LIC (₹26,761 crore from FY18-FY20) and GoI (₹18,928 crore from FY17-FY20), which helped improve its CAR above the minimum regulatory requirement as it faced mounting losses due to asset quality issues. It has a significant cushion over the minimum regulatory requirement and has seen improvement in profit accretion, which will help it achieve its targeted credit growth for the medium term without raising additional capital, as internal accruals are expected to be sufficient to meet capitalisation requirements.

Robust franchise with focus on retail lending and deposit profile over the last few years with a 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 1,929 branches as on June 30, 2023, and has been able to maintain its strong deposit base even after being converted to a private bank in 2019. Deposits profile has also strengthened to some extent due to 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 5.5% as on September 30, 2022, whereas the CASA ratio improved from 31.46% to 56.19% during the same period. However, as on December 31, 2023, the proportion of bulk deposits slightly increased to 14.5% and CASA deposits have reduced to 49.88% with tightening of overall market liquidity, and the bank's deposit profile remained stable. The bank's net credit-to-deposit (C/D) ratio improved to 67.69% as on December 31, 2023, (March 31, 2023: 63.63%) with growth in advances.

IDBI Bank's retail and corporate mix stood at 71:29 as on December 31, 2023, as against 56:44 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) amount for 94% of the total structured retail advances as on December 31, 2023, and the balance constitutes personal loan, education loan, and auto loan.

Thus, the bank's ability to maintain CASA percentage and granularity of retail term deposits with divestment of stakes by GoI and LIC will remain monitorable.

Improved earnings profile backed by growth in advances

In FY23, the bank's net interest income (NII) increased, supported by an increase in its net advances by 18.7% year-on-year and increase in interest income on investments from ₹5,341 crore in FY22 to ₹6,515 crore. Accordingly, the net interest margin (NIM) of the bank improved from 3.29% in FY22 to 3.87% in FY23. In 9MFY24, the NIM of the bank further increased to 4.25% due to increased yield on advances despite increase in cost of deposits.

The total income in FY23 has been supported by a one-time gain of ₹380 crore from the sale of stake (25%) in Ageas Federal Life Insurance Company Limited to Ageas Insurance International NV in Q2FY23 (adjusted profit-after-tax (PAT)] and return on total assets (ROTA) stood at ₹3,265 crore and 1.11%, respectively). With lower incremental provisioning in 9MFY24 and FY23 as compared to FY22, the bank reported a higher PAT of ₹4,006 on a total income of ₹22,150 crore (₹3,645 crore and ₹24,942 crore respectively in FY23) as against a PAT of ₹2,439 crore on a total income of ₹22,982 crore in FY22, resulting in a ROTA of 1.62% as on December 31, 2023 (1.23% as on March 31, 2023) against 0.88% as on March 31, 2023.

Moreover, IDBI Bank has seen an improved advances growth of 18.07% in 9MFY24 from 6.87% in FY22. The bank changed its asset mix with a focus on the non-corporate book (consisting of retail, agriculture, and small and medium enterprise [SME]), which continued to grow moderately at a CAGR of 6.24% from FY19 to FY23, whereas the corporate lending book saw a degrowth in the period. Post coming out of PCA in March 2021, the advances book started to grow, although in calibrated from ~₹1.6 lakh-crore as on March 31, 2021, to ~₹1.8 lakh-crore as on December 31, 2023. The non-corporate proportion increased to ~₹1.2 lakh-crore (71% of the gross advances) as on December 31, 2023, as compared to ~₹0.83 lakh-crore (40% of the gross advances) as on March 31, 2017. Within the non-corporate lending book, the retail lending segment witnessed highest growth and constituted 57% of total gross advances as on December 31, 2023, while agriculture and SME lending constituted 6% and 8%, respectively. Under the structured retail asset segment, home loans and LAP contributed more than 90% as on December 31, 2023. The bank continues to target growth in its retail and priority sector business to ensure a granularised and de-risked portfolio mix.

CARE Ratings expects an improvement in the bank's earnings profile, backed by continuous growth in advances book, while maintaining low slippages, and consequently, low credit cost.

Key weakness

Moderate asset quality

The bank's gross non-performing assets (NPA) continue to remain high, although improving significantly over the years, due to a high write-offs over the last three years. GNPA and NNPA ratios improved from 20.16% and 1.36%, respectively, as on March 31, 2022, to 6.38% and 0.92%, respectively, as on March 31, 2023. The significant reduction in ratios is due to write-offs of more ₹21,927 crore in FY23. 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 the NNPA. As on December 31, 2023, the GNPA and NNPA ratios further reduced to 4.69% and 0.34%, respectively. The bank's slippage ratio reduced from 1.98% in FY23 to 1.14% in Q3FY24. The NNPA to tangible net worth (TNW) ratio of the bank stood at 1.93% as on December 31, 2023 (March 31, 2023: 5.84%). The gross stressed assets (Gross NPA+ gross standard restructured assets +gross security receipts) to gross advances have also reduced year-on-year from 23.61% as on March 31, 2022, to 9.98% as on March 31, 2023.

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 137.85% for the quarter-ended December 31, 2023, as against a minimum LCR requirement of 100%. Furthermore, as on December31, 2023, the asset liability mismatch 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. Furthermore, the bank has access to systemic liquidity like the RBI's liquidity adjustment facility (LAF) and marginal standing facility (MSF) along with access to refinance from Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), National Bank for Agriculture and Rural Development (NABARD), etc, and access to call money markets.

Assumptions/Covenants

Tier-II Bonds	Detailed Explanation
Covenants	
Call option	Not Applicable
Write-down trigger	There are two types of write down triggers: 1. Trigger event means that the bank's CET I ratio is: (i) if calculated at any time prior to March 31, 2019, at or below 5.5%; or (ii) if calculated at any time from and including March 31, 2019, at or below 6.125% (the 'CET I trigger event threshold') 2. PONV trigger, in respect of the bank, means the earlier of: (i) a decision that a principal write-down, without which the bank would become non-viable, is necessary, as determined by the RBI; and (ii) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the RBI.
If write-down, full or partial	Full or partial
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	Not applicable

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, 2023, the bank's CSR committee comprised five members, of whom two were independent directors. The CSR committee indicates the 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, etc.

Applicable criteria

Definition of Default
Financial Ratios - Financial Sector
Rating Outlook and Rating Watch
Short Term Instruments
Bank
Rating Basel III - Hybrid Capital Instruments issued by Banks
Factoring Linkages Parent Sub JV Group
Factoring Linkages Government Support

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Private sector bank

IDBI Bank, established in 1964, is a private sector bank headquartered in Mumbai. In 1976, the ownership of IDBI Bank was transferred to the GoI. In 2016, the GoI decided to reduce its stake in IDBI Bank. Taking note of this, LIC, after taking approval of the Insurance Regulatory and Development Authority of India (IRDAI) and other approvals, acquired 51% controlling stake in IDBI Bank. Consequently, IDBI Bank was categorised by the RBI as a private sector bank with effect from January 21, 2019. As on June 30, 2023, the bank had a network of 1,929 branches.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total income	22,982	24,942	22,150
PAT	2,439	3,645	4,006
Total assets	2,79,817	3,10,780	3,47,209
Net NPA (%)	1.36	0.92	0.34
ROTA (%)	0.88	1.23	1.62

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various 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 along with Rating Outlook
Bonds-Tier-II bonds	NA	NA	NA	Proposed	1,255.00	CARE AA-; Stable
Bonds-Tier-II bonds	INE008A08V59	Feb 03, 2020	9.50%	Feb 03, 2030	745.00	CARE AA-; Stable
Certificate of deposit	NA	NA	NA	NA	2423.87	CARE A1+
Certificate of deposit (proposed)	NA	NA	NA	NA	32576.13	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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Certificate Of Deposit	ST	35000.00	CARE A1+	1)CARE A1+ (05-Dec-23)	1)CARE A1+ (19-Dec-22)	1)CARE A1+ (22-Dec-21)	1)CARE A1+ (23-Dec-20)
2	Bonds-Tier II Bonds	LT	2000.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Dec-23)	1)CARE A+; Positive (19-Dec-22)	1)CARE A+; Stable (22-Dec-21)	1)CARE A+; Stable (23-Dec-20)

LT: Long-term; ST: Short term;

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

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

Note on the complexity levels of the rated instruments: CARE Ratings 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 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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in