IDBI BANK
CIN: L65190MH2004GOI148838

आईडीबीआई बैंक लिमिटेड
पंजीकृत कार्यालय : आईडीबीआई टॉवर,
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1 नवम्बर 2019

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 Sir,

Revision in Ratings by S&P Global Ratings

This is to inform that S&P Global Ratings has released Ratings Direct on October 31, 2019, wherein it has affirmed the existing rating of 'BB' long-term and 'B' short-term foreign currency issuer credit ratings on IDBI Bank Ltd. with negative outlook and removed the ratings from CreditWatch with negative implications. Their rationale for rating is in the Ratings Direct released by S&P Global Ratings 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.

भवदीय,
कृते आईडीबीआई बैंक लिमिटेड

1/11/19

[पवन अग्रवाल]
म॰ प्र एवं कंपनी सचिव

S&P Global
Ratings

RatingsDirect®

Research Update:

IDBI Bank 'BB/B' Rating Affirmed With Negative Outlook; Off Watch Negative

October 31, 2019

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Overview

- IDBI Bank has announced that it received INR93 billion in fresh capital from the government and LIC. We believe this capital infusion will help the bank plug the breach in regulatory minimum requirements.
- The negative outlook on IDBI Bank reflects uncertainty over capital sustainability given residual stress on the balance sheet, and delay in resolution of large accounts that are likely to pressure earnings.
- Our base case expectation is that IDBI Bank will address these challenges including full recapitalization and resolution of legacy bad debts so that it exits PCA and returns to sustainable profitable operations within the next 12 months or less.
- We are affirming our 'BB/B' foreign currency issuer credit ratings on IDBI Bank, and the 'BB' long-term issue rating on the notes issued by the bank's Dubai branch. We are removing the ratings from CreditWatch, where they were placed with negative implications on Aug. 27, 2019.

Rating Action

On Nov. 1, 2019, S&P Global Ratings affirmed our 'BB' long-term and 'B' short-term foreign currency issuer credit ratings on IDBI Bank Ltd. with negative outlook. We also affirmed our 'BB' long-term issue rating on the senior unsecured notes issued by the Dubai branch of the India-based bank. We removed the ratings from CreditWatch, where they were placed with negative implications on Aug. 27, 2019.

Rationale

We affirmed the ratings because we expect IDBI Bank to meet the regulatory capital requirement following a capital infusion by Life Insurance Corp. of India (LIC) and the government of India in the ratio of 51:49. We believe this capital will help the bank plug the regulatory breach and make provisions against new nonperforming loans (NPLs). However, the delay in resolution of legacy NPLs will continue to pressure the bank's earnings in the next few quarters, challenging the sustenance of its capital ratios.

IDBI Bank has announced that it received fresh capital amounting to Indian rupee (INR) 93 billion from LIC and the government. Such a large capital infusion supports our view of a very high likelihood of support for the bank from the government (and government-owned entities such as LIC).

We expect IDBI Bank to use part of this capital to accelerate write-offs and make sufficient provisions against stressed assets, in line with the bank's target to reduce net NPLs to below 6% of total loans in the coming quarters. IDBI Bank has already provided for a significant part of its problem loans, as reflected in its high coverage ratio of 88% as of June 30, 2019. Coverage for large accounts undergoing insolvency proceedings under the National Company Law Tribunal (NCLT) is higher, at 97%. The bank's net NPLs have reduced drastically to 8% as of June 2019 from 18.8% a year ago.

While we believe IDBI Bank has reasonably provided for its existing NPLs, incremental slippages will keep provisioning costs elevated for the next few quarters. Our view is based on recent corporate defaults in India and the lingering stress in non-bank finance companies and real estate developers. IDBI Bank's exposure to Dewan Housing Finance Ltd. (DHFL), which defaulted in 2019, and its few unrecognized weak power sector loans could weigh on its asset quality.

We expect IDBI Bank's earnings to gradually improve as the bank recovers its NPLs. As the bank completes recognition of weak loans over the next few quarters, the resolution of NCLT cases (48% of IDBI Bank's NPLs are in the Reserve Bank of India's first and second list of such cases) could potentially offset the deterioration in IDBI Bank's asset quality. However, we note that the timing of the recovery remains uncertain. Some stakeholders are challenging the resolution process in court, delaying the outcome.

We understand IDBI Bank plans to sell non-core assets over the next few quarters to bolster its capital position. However, the timing of such deals is uncertain and is dependent on valuations. In our opinion, the delay in resolution will weigh on the bank's profitability. This combined with uncertainty about raising capital from sale of non-core assets could erode the bank's capital buffers in coming quarters.

IDBI Bank has a weak stand-alone credit profile (SACP) of 'b-' and has been subject to the central bank's "prompt corrective action" (PCA) since May 2017. Due to a string of losses brought about by substantial problem loans and associated high provisioning costs, the bank's financial performance has weakened in the past few years. Its ratio of NPLs to total outstanding loans as of June 30, 2019, is 29%, the highest among the Indian banks we rate. IDBI Bank reported a loss (consolidated) of about INR38.2 billion in the first quarter of fiscal 2020 (year ended March 31, 2020) and a loss of INR150 billion in fiscal 2019.

The bank has taken steps to reduce its loan concentration and de-risk its balance sheet by increasing exposure to the more granular retail and micro, small and midsize enterprise segments. IDBI Bank's loan portfolio has shrunk over the past couple of years due to negative growth in the corporate book owing to de-risking initiatives as well as the bank being under PCA.

We believe the government remains committed to support IDBI Bank. Our issuer credit rating on the bank is four notches higher than the SACP, reflecting a very high likelihood of government support.

Outlook

The negative outlook on IDBI Bank reflects our view that there is a one-in-three chance that we will lower the rating by two notches over the next 12 months.

Downside scenario

We will lower our rating on IDBI Bank by two notches if the bank's capitalization erodes, possibly due to weak earnings and an inability to raise capital, bringing it close to breaching regulatory minimum requirements for the third time in the past two years. We could also downgrade IDBI Bank if we believe government support to the bank has weakened. That could happen if the government (or LIC) considers privatizing the bank by lowering its stake through a strategic sale. However, we view this as unlikely over the next 12 months.

Upside scenario

We could change the outlook to stable if the bank's operating performance improves. This could be due to: (a) removal of the bank from PCA and lifting of associated restrictions on growth and expansion; (b) higher recoveries from legacy NPLs and lower credit costs leading to the bank reporting profits on a sustained basis; and (c) raising capital through sale of non-core assets.

Our base case is that we would revise the rating outlook to stable within 12 months. For that, we would look for signs that IDBI Bank's capital will not again be at risk of breaching minimum capital requirements. This will most likely occur if the bank's capital reverts to a prudent buffer above minimum regulatory guidelines, and we are confident that this buffer can be retained on a permanent ongoing basis.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Score Snapshot

	To
Issuer Credit Rating	BB/Negative/B
SACP	b-
Anchor	bbb-
Business Position	Adequate (0)
Capital and Earnings	Moderate (-1)
Risk Position	Very Weak (-5)
Funding and Liquidity	Average and Adequate (0)
Support	+4
ALAC Support	0
GRE Support	+4
Group Support	0
Sovereign Support	0
Additional Factors	0

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
IDBI Bank Ltd.		
Issuer Credit Rating		
Foreign Currency	BB/Negative/B	BB/Watch Neg/B
IDBI Bank Ltd. (Dubai International Financial Centre Branch)		
Senior Unsecured	BB	BB/Watch Neg

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.