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आईडीबीआई बैंक लिमिटेड

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27 मई 2021

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Dear Sir,

Revision in Ratings by S&P Global Ratings

This is to inform that S & P Global Ratings has released Ratings on May 27, 2021, wherein it has affirmed its 'BB' long-term and 'B' short-term foreign currency issuer credit ratings on IDBI Bank with Negative outlook. It has also affirmed 'BB' program rating on the senior unsecured notes under its MTN program. S&P has revised upward their assessment of IDBI Bank's stand-alone credit profile (SACP) to 'b+' from 'b-'. At the same time, S&P has lowered their assessment of the likelihood of extraordinary government support to high from very high, in view of likely divestment by Govt. of India, as per budgetary announcement. Their rationale for rating is attached herewith.

However, as the MTN Bonds rated by S&P were fully repaid on November 30, 2020, the Bank had terminated the rating engagements/ agreement with S&P for various issues made under the MTN Bond Programme on May 21, 2021.

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

27/5/2021

[ज्योति नायर]

कंपनी सचिव

Research Update:

IDBI Bank Ltd. 'BB/B' Ratings Affirmed With Negative Outlook; Ratings Then Withdrawn At Issuer's Request

May 27, 2021

Overview

- IDBI Bank Ltd.'s financial performance has been improving, and the India-based bank has been removed from the central bank's "prompt corrective action" (PCA) framework. Meanwhile, the Cabinet Committee on Economic Affairs has approved strategic disinvestment of IDBI Bank.
- We affirmed our 'BB/B' foreign currency issuer credit ratings on IDBI Bank and our 'BB' program rating on the senior unsecured notes under the bank's medium-term note (MTN) program. We then withdrew the ratings at the bank's request.
- The negative outlook on IDBI Bank at the time of withdrawal reflected weakening government support for the bank. We considered this as a key transition risk for the rating over the next 12-18 months.

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Rating Action

On May 27, 2021, S&P Global Ratings affirmed its 'BB' long-term and 'B' short-term foreign currency issuer credit ratings on IDBI Bank. We also affirmed our 'BB' program rating on the senior unsecured notes under its MTN program. We then withdrew the ratings at the bank's request. The outlook was negative at the time of the withdrawal.

Rationale

We affirmed the ratings because we expect IDBI Bank's improving financial performance to offset the risk of the bank's weakening link with the government. We have revised upward our assessment of IDBI Bank's stand-alone credit profile (SACP) to 'b+' from 'b-'. At the same time, we have lowered our assessment of the likelihood of extraordinary government support to high from very high.

The impending divestment of the majority government owned bank could reduce the likelihood of

external support, in our view. However, our base case still factors in a high likelihood that the government of India would provide (directly or indirectly) timely and sufficient extraordinary support to IDBI Bank in the event of financial distress. This is based on the bank's very important role and strong link with the government.

The high uncertainty associated with the eventual timeline of divestment raises further transition risk. While we believe that the strategic sale in IDBI Bank will likely be challenging in the current year owing to the bank's low equity valuation and wary investor sentiment under COVID-19. Nonetheless, it does add an overhang on the ratings. Moreover, we expect the very important role that IDBI Bank, as part of a block of government-owned banks, plays for the government to weaken as the bank focuses and moves away from its public policy role.

In our view, IDBI Bank's asset quality remains weaker than the industry average, despite an improvement from historically very weak levels. The bank has made structural and systemic improvements to strengthen its performance. It has reduced its loan concentration and de-risked 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 the de-risking initiatives, and also because the bank was under PCA. IDBI Bank has improved its provisioning for nonperforming loans to 96.9% (including technical write-offs) of total loans as of March 31, 2021, the highest among government-owned banks. Accordingly, the bank's net nonperforming assets (NPAs) ratio was 1.97%, better than that of most government-owned banks, except State Bank of India (the largest bank in the country).

The bank's performance in fiscal 2021 (ended March 31, 2021), was better than we expected, with reported slippage (increase in NPAs) of 1.9% and credit costs at 1.4% of total advances. The improvement was in part due to regulatory forbearances (in the form of moratorium and restructuring). We anticipate the slippage ratio and credit costs will increase because more weak loans could become NPAs. Nevertheless, they should remain lower than the levels seen in fiscals 2018-2020.

We expect IDBI Bank to take time to regain the market share lost in the past few years when the bank was under PCA. We therefore assess its business position as moderate.

Outlook

The negative outlook on IDBI Bank at the time of withdrawal reflected weakening government support for the bank. We considered this as a key transition risk for the rating over the next 12-18 months.

Downside scenario

We could have downgraded IDBI Bank if we believed government support for the bank was likely to weaken substantially without a corresponding improvement in the bank's SACP. We expected the government support to weaken when the new strategic investor was identified.

Upside scenario

We could have revised the outlook to stable if the government had revisited its plan to sell its stake in IDBI Bank and maintained its majority stake (either directly or via Life Insurance Corp.).

Though it was unlikely in the next 12 months, we could have also revised the outlook if IDBI Bank's

SACP improved further. This could have happened if: (1) the bank continued to improve its asset quality and strengthened its risk management practices, such that they were comparable to other large banks in the industry; or (2) its capitalization improved such that the risk-adjusted capital ratio remained above 7.25% on a sustained basis.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BB/Negative/B	BB/Negative/B
SACP	b+	b-
Anchor	bb+	bb+
Business Position	Moderate (-1)	Adequate (0)
Capital and Earnings	Moderate (0)	Moderate (0)
Risk Position	Weak (-2)	Very Weak (-5)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	2	4
ALAC Support	0	0
GRE Support	2	4
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

IDBI Bank Ltd.

Issuer Credit Rating BB/Negative/B

Ratings Withdrawn

To	From
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IDBI Bank Ltd.

Issuer Credit Rating	NR	BB/Negative/B
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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.

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