IDBI BANK
CIN: L65190MH2004GOI148838

आईडीबीआई बैंक लिमिटेड
पंजीकृत कार्यालय : आईडीबीआई टॉवर,
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March 16, 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 India Ratings

This is to inform that India Ratings & Research has assigned IDBI Bank's Certificates of Deposits 'IND A1+' rating and affirmed existing ratings for other debt instruments. 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.

Yours faithfully,
For IDBI Bank Ltd.

JYOTHI BIJU NAIR
Digitally signed by JYOTHI BIJU NAIR
Date: 2024.03.16 11:04:54 +05'30'

Company Secretary

India Ratings & Research
A Fitch Group Company

India Ratings Assigns IDBI Bank's Certificates of Deposits 'IND A1+, Affirms Existing Ratings

Mar 15, 2024 | Private Sector Bank

India Ratings and Research (Ind-Ra) has taken the following actions on IDBI Bank Limited's (IDBI) debt instruments:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned along with Outlook/Watch	Rating Action
Basel III compliant bonds*#	-	-	-	INR20	IND AA-/Stable	Affirmed
Omni infrastructure bonds#	-	-	-	INR80	IND AA-/Stable	Affirmed
Basel III-complaint Tier II bonds#	-	-	-	INR30	IND AA-/Stable	Affirmed
Fixed deposit				-	IND AA-/Stable	Affirmed
Senior debt#	-	-	-	INR36.31	IND AA-/Stable	Affirmed
Certificates of deposits	-	-	7-365 days	INR160	IND A1+	Affirmed
Certificates of deposits	-	-	7-365 days	INR190	IND A1+	Assigned

Details in annexure
*Yet to be issued

Analytical Approach

Ind-Ra has not factored in capital support from its majority stakeholders - the government of India (GoI) and Life Insurance Corporation of India (LIC) - to arrive at the ratings, owing to their planned strategic divestment in the bank.

Detailed Rationale of the Rating Action

The ratings reflect the bank's enhanced systems and processes, improved risk framework, significantly enhanced capital levels, negligible need to provide for legacy gross non-performing assets (NPAs), manageable impact of covid-19 and limited residual impact, improved deposit profile, continued expectation of maintaining steady state operating buffers and a reasonable profitability. These also provide the bank the ability to maintain its market share in advances and deposits, while maintaining enhanced levels of capital.

The bank would continue to search for a large asset and liability niche to focus on, as the process of strategic divestment by two of its promoters – LIC and GoI will continue. As the bank grows in size and scale, and continues to strengthen its capabilities across various facets of banking, Ind-Ra expects the same to have a positive impact on IDBI's credit profile.

The bank now, irrespective of timing of strategic sale, would continue to focus on retail loans, fomenting newer corporate relationships and growing deposits through target marketing and extending branch network. While the bank has benefited to some extent on the liabilities front by embedding itself in some parts of LIC's ecosystem, Ind-Ra expects a large part of the expected synergy building with LIC to be on the backburner, given the impending strategic divestment plans. Ind-Ra does not expect the bank to need incremental capital from external sources to deliver balance sheet growth as per plans in the medium term.

List of Key Rating Drivers

Strengths:
- Enhanced capital levels
- Reasonable deposit base
- High provision coverage; adequate asset quality
- Improved ability to maintain profitability
- Strengthened risk framework

Weakness:
- Home loan business issue unresolved; accommodation extended

Detailed Description of Key Rating Drivers

Enhanced Capital Levels: IDBI's common equity tier 1 ratio remained stable at 18.04% in 3QFY24 (FY23: 18.1%, FY22: 16.7%, FY21: 13.1%) on account of accrual from profitability; this is among the highest in the scheduled commercial bank universe. Ind-Ra does not expect the bank to require material incremental capital from external sources to meet its mid-term growth plans. The bank's net advances grew about 20% yoy to INR1,750 billion, while the credit risk weighted assets/gross advances remained stable at 75% in FY23. IDBI had a net worth of INR482 billion at 3QFYE24. Ind-Ra expects IDBI's return on equity to remain in at 9%-10% (FY23: 8.4%, FY22: 6.2%) and would cover most of the capital consumption towards growth in the medium term.

Reasonable Deposit Base: IDBI's current account saving account ratio (CASA) declined to 49.8% in 3QFY24 (2QFY24: 51.5%, FY23: 53%, FY22: 56.7%) on account of higher interest rates, with the bulk deposit share increasing to 13.2% in (2QFY24: 12.6%). There has not been much traction in CASA deposits (FY23: INR1,354.55 billion, FY22: INR1,323.59 billion), while the total deposits in absolute terms have increased 9.6% yoy. The total deposits as well as CA and SA are reasonably granular, while the top depositors constitute mainly government-related entities. Over the medium term, the bank's deposit profile will normalise as it focuses on growing its advances book further. Ind-Ra also expects the bank's reliance on bulk deposits to increase somewhat, while CASA may modestly deteriorate. IDBI also benefited from having some traction with LIC's collection and payment accounts, branch-level accounts and transaction flows (together about 3%), but not as much as either Ind-Ra or the bank would have expected. Given the impending strategic sale by both parents, Ind-Ra expects the development of synergy with LIC to be on the backburner. The bank's corporate/non-corporate ratio of advances was around 29:71 in 3QFY24, indicating its plan to grow similarly in both the segments.

High Provision Coverage; Adequate Asset Quality: The bank's adjusted provision cover (excluding technical write-offs) decreased to 86.4% in FY23 (FY22: 94.6%; FY21: 93%), as the bank had written-off INR219.2 billion with the top 10 accounts contributing INR138.6 billion. Also, its slippage ratio improved to 1.98% in FY23 (FY22: 3.34%), reflecting better asset quality control and waning impact of COVID-19. Ind-Ra expects slippages and corresponding credit costs to remain low. Net NPAs of 0.34% at 3QFYE24 (FYE23: 0.9%, FYE22: 1.3%) indicate limited requirement for provisioning on legacy NPAs. Over FY24 and FY25, Ind-Ra expects the gross and net NPAs to remain at similar levels based on base case projections, as recoveries and upgrades trend downwards. However, given the high provision cover of 86.4% in FY23, and the expectations of maintaining profitability and capital at improved levels, Ind-Ra opines the overall asset quality would remain encouraging.

Improved Ability to Maintain Profitability: IDBI's operating metrics continued to improve in 3QFY24, on the back of high provisioning levels, reasonable loan book growth, particularly the retail segment, and improved low-cost deposit profile; all these factors would help the bank to deliver continued profitability in the medium term. IDBI reported a 57% yoy rise in net profit to INR14.60 billion in 3QFY24, supported by a healthy growth in the net interest income and write-back in provisions on bad loans and standard assets. Ind-Ra expects that the credit costs to remain lower and enable the bank to deliver pre provision operating profit to average advances of around 5% in the medium term. The bank may see lower slippages as well as lower recoveries and upgrades in FY25. However, across the banking universe, Ind-Ra expects the lag effect of increase in pricing of deposits could play out while competition could limit the yield movement. Consequently, the net interest margin may decline modestly. Overall, Ind-Ra expects the return on assets be between 0.8% and 1.5% in FY24 (FY23: 1.2%, FY22: 0.8%). Ind-Ra also expects the bank to deliver modest profitability under its stress tests.

Strengthened Risk Framework: The bank has a comprehensive approach to risk. On the corporate side, It has, over the last few years, implemented several mechanisms that strengthen the processes across life cycle of a loan, including monitoring and early warning systems. This was also accompanied by setting up and strengthening of the loan processing teams, and setting up borrower/group/sectoral limits that are monitored periodically. Cash flow monitoring (along with other banks) is being done for risky sectors or corporates with a weak credit profile, especially where multiple/consortium banking is present. Loan sanctioning process has become more centralised, leading to a lower scope of bias or subjectivity. These measures attempt to bring the bank closer to the best practices at comparable banks. On the retail side, there is continuous portfolio monitoring of clients, the credit processes have undergone a revamp, and greater reliance is on filter based/rule approach to credit. Moreover, the bank has introduced newer products on its own as well as through partnerships. There is a material focus on digitalisation of the processes.

Home Loan Business Issue Unresolved; Accommodation Extended: When LIC had decided to take up a majority stake in IDBI in FY19, it had to abide by the condition where only one of the institutions (either LIC Housing Finance Ltd or IDBI) could carry the home loan business after November 2023, which has been extended. Ind-Ra understands that there is a possibility of an adverse impact on IDBI's franchise building efforts if it is unable to continue its home loan business beyond the extended timeline. This stems from LIC's ownership of IDBI as a large shareholder with a competing business under the former's subsidiary LIC Housing Finance. In the event of delayed stake sale by the bank's key shareholders, there could be a workout around. IDBI is no longer a subsidiary of LIC, with the latter's stake falling below majority to 49.24% from 51% at end-September 2019. Ind-Ra, thus, does not expect the lack of clarity on the home loan business to have a significant negative impact on the credit profile of IDBI till the time the matter is resolved. The agency would continue to monitor the evolving situation and take appropriate an rating action, as and when warranted.

Liquidity

Adequate

An analysis of the structural liquidity statement at end-September 2023 showed positive cumulative mismatches (excess of inflows over outflows) in all the buckets in up to one-year period of about 31% of the total inflows. Ind-Ra expects the funding gap to widen somewhat as the bank continues to lend incrementally, if it is not supported by short-term assets or additional long-term liabilities. IDBI's liquidity coverage ratio stood at 135.67% in FY23

(FY22: 141.7%), against the regulatory requirement of 100%. The bank had about INR335 billion of excess in statutory liquidity qualifying securities at end-September 2023, which is about 9% of the total assets. Ind-Ra believes the bank's liquidity position has improved significantly from FY21 and it could continually benefit from the strategy of increasing granularisation and retailsation of its deposits.

Rating Sensitivities

Positive: Sustained systemic importance reflected in the bank's improving market share in advances and deposits could lead to a positive rating action. A consistent improvement in the bank's profitability buffers (with increased profitability from the core lending operations), while maintaining peer-comparable asset quality or better, an overall improvement in the operating performance, continuity of business on the home loan side could also lead to a positive rating action.

Negative: A decline in the tier 1 capital ratio below 14% or provision cover below 70% or a substantial deterioration in the liquidity position in the near term, could result in a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on IDBI, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

IDBI is a private sector bank in India with pan-India presence. The bank had 1,928 branches and 3,334 ATMs across India at FYE23.

KEY FINANCIAL INDICATORS

Particulars	**FY23**	**FY22**
Total assets (INR billion)	3,305.02	3,016.03
Total equity (INR billion)	453.18	416.62
Net profit (INR billion)	36.45	24.39
Return on assets (%)	1.2	0.8
Common equity tier 1 ratio (%)	18.1	16.7
Capital adequacy ratio (%)	20.4	19.1
Net interest income(INR billion)	114.30	91.62
Source: IDBI; Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (billion)	Current Rating/ Outlook	History Rating/Outlook					
				21 December 2023	22 September 2023	21 July 2023	25 July 2022	26 July 2021	3 August 2020
Issuer rating	Long-term	-	-	WD	WD	IND A+/Positive	IND A+/Stable /IND A1+	IND A/Stable/IND A1	IND A/Negative/IND A1
Basel III compliant bonds	Long-term	INR20	IND AA-/Stable	IND AA-/Stable	-	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negative
Omni Infrastructure bonds	Long-term	INR80	IND AA-/Stable	IND AA-/Stable	-	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negative
Basel III compliant Tier II bonds	Long-term	INR30	IND AA-/Stable	IND AA-/Stable	-	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negative
Fixed deposit	Long-term		IND AA-/Stable	IND AA-/Stable	-	IND A+/Positive	IND A+/Stable	IND tA/Stable	IND tA/Negative
Senior debt	Long-term	INR36.31	IND AA-/Stable	IND AA-/Stable	-	IND A+/Positive	IND A+/Stable	IND A/Stable	IND A/Negative
Certificate of deposits	Short-term	INR350	IND A1+	IND A1+	-	IND A1+	IND A1+	IND A1	IND A1

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Basel III complaint bond	Low
Omni infrastructure bond	Low
Basel complaint Tier II bond	Low
Certificate of deposit	Low
Fixed deposit	Low
Senior debt	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

Annexure

Instrument Type	ISIN	Date of Allotment	Tenor (years)	Maturity Date	Issue size (billion)	Amount outstanding (billion)	Coupon rate (%)	Put/Call option

IDBI Omni Bonds 2008-09 Sr.XVII	INE008A08Q98	14 March 2009	20	14 March 2029	INR0.02	INR0.02	11.25	-
IDBI Omni Bonds 2009-10 Sr.IV	INE008A08R71	26 September 2009	20	26 September 2029	INR0.02	INR0.02	9.67	-
		Total unutilised				INR36.27		
		Total				INR36.31		
Omni 2014-2015 Infrastructure Bond Series I	INE008A08U76	12 September 2014	10	12 September 2024	INR10.00	INR10.00	9.27	-
Omni 2014-2015 Infrastructure Bond Series III	INE008A08U92	21 January 2015	10	21 January 2025	INR30.00	INR30.00	8.725	-
Omni Infrastructure Bond 2015-2016 Series III	INE008A08V26	9 February 2016	10	9 February 2026	INR10.00	INR10.00	8.8	-
		Total unutilised				**INR30**		
		Total				**INR80**		
Omni Tier 2 2015-2016 Series I	INE008A08V00	31 December 2015	15	31 December 2030	INR10.00	INR10.00	8.62	Call – 31 December 2025
Omni Tier 2 2015-2016 Series II	INE008A08V18	2 January 2016	10	2 January 2026	INR9.00	INR9.00	8.62	None
		Total unutilised				**INR11**		
		Total				**INR30**		

Source: IDBI, NSDL

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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