August 02, 2024

IDBI Bank Limited: Long-term rating upgraded to [ICRA]AA (Stable); Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Infrastructure Bonds	8,000.00	8,000.00	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)
Senior & Lower Tier II (Subordinated Bonds)	16,299.63	16,299.63	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)
Senior & Lower Tier II (Subordinated Bonds)	505.00	0.00	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable) and rating withdrawn
Subordinated Debt Programme	20.00	20.00	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)
Basel III Tier II Bonds Programme	5,000.00	5,000.00	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)
Fixed Deposits Programme	-	-	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)
Certificates of Deposit Programme	35,000.00	35,000.00	[ICRA]A1+; reaffirmed
Total	**64,824.63**	**64,319.63**	

**Instrument details are provided in Annexure I*

Rationale

The upgrade in the long-term rating for various debt instruments of IDBI Bank Limited factors in the improvement in its profitability and capitalisation levels. The bank continues to benefit from recoveries from its legacy stress assets, leading to an improvement in its operating profitability. This, along with lower credit costs, has supported healthy internal capital generation and has contributed to the strengthening of IDBI's capitalisation and improved its loss-absorption capability.

The ratings are based on the bank's standalone credit profile, given the stated intent of its largest shareholders, i.e. Life Insurance Corporation of India (LIC) and the Government of India (GoI), to sell down/divest their shareholding, including a transfer of management control. In this regard, ICRA notes that the GoI, acting through the Department of Investment and Public Asset Management (DIPAM), had invited expression of interest from potential investors in October 2022. Even as the process to dilute their respective stakes in IDBI has progressed, the conclusion and eventual finalisation of new stakeholders is still awaited.

ICRA also notes that the vulnerable loan book, consisting of SMA[1]-1 and SMA-2 (1.3% of standard advances as on June 30, 2024), and the standard restructured book are at manageable levels. In addition to the high provision coverage, the bank had a contingent provision of Rs. 1,705 crore (0.88% of standard advances), as on June 30, 2024, against these advances, which remains an added source of comfort. IDBI's ability to keep incremental credit costs in check while ensuring timely recoveries will be a key driver of further improvement in its net profitability from the current level.

Although the bank witnessed steady business (advances and deposits) growth, its share in sector advances and deposits has declined from the peak levels as on March 31, 2017, owing to growth restrictions under the prompt corrective action (PCA) framework and the subsequently low growth rate in comparison to the sector average. Further, IDBI's ability to maintain and grow the core deposit base upon the change in ownership would be a monitorable.

[1] *SMA is defined as a special mention account; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days*

ICRA has upgraded and withdrawn the rating assigned to the Rs. 505-crore senior & lower Tier II (subordinated bonds) as these have been fully redeemed with no amount outstanding against the same. The rating was withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings (click here for the policy).

Key rating drivers and their description

Credit strengths

Earnings continue to benefit from recoveries from legacy stressed assets – Apart from the steady growth in advances and the consequent improvement in its core income and profit, IDBI continues to benefit from the recoveries from significantly provisioned stressed assets. The operating profitability is supported by strong recoveries from written-off accounts while credit and other provisions also remained low, supporting the overall profitability. The bank has a significant pool of highly provisioned stressed assets, which is likely to support its core profitability. IDBI's return metrics {return on assets (RoA)} stood strong at 1.91% (annualised) in Q1 FY2025, 1.66% in FY2024 and 1.19% in FY2023.

Strong capitalisation and solvency profile – Driven by robust internal accruals, IDBI's capitalisation profile continued to improve with the Tier I ratio and the capital-to-risk weighted assets ratio (CRAR) at 20.26% and 22.42%, respectively, as on June 30, 2024. The higher capitalisation levels, along with the decline in the net stressed assets, support the strong solvency[2] profile. Though the capitalisation profile was supported by capital infusions in the past by LIC and the GoI, IDBI has remained profitable since FY2021. Notwithstanding the sufficient internal accruals and capital position for growth, the Reserve Bank of India's (RBI) implementation of the expected credit loss (ECL) framework for credit exposures and additional provisioning on infrastructure financing remain monitorable. However, the strong capital cushions provide support for such transition(s). Although the ratings are based on IDBI's standalone credit profile, any change in its parentage will be a monitorable.

Steady deposit base – IDBI's steady deposit base is supported by the high share of current account savings account (CASA) deposits at 48.57% as on June 30, 2024, which is above the banking sector average. This supports IDBI's cost of funds, which remained competitive at 4.35% against the public sector banks' average of 4.95% in FY2024. With the improvement in credit growth, the share of bulk deposits grew to 16.46% of total deposits as on June 30, 2024 from 11.13% as on June 30, 2023, and could increase further.

Though the bank's deposit base has witnessed an improvement, in terms of an increase in the share of low-cost CASA deposits and a decline in bulk deposit from the previous highs, it saw slow deposit growth in the last few years in relation to the industry average. Thus, its share in sector deposits declined to 1.4% as on March 31, 2024 from the peak of 2.5% as on March 31, 2017. IDBI's deposit base has remained stable despite its classification as a private sector bank in FY2019. Its ability to continue maintaining and growing the core deposit base while ensuring a competitive cost of funds after a change in the ownership structure will remain a monitorable.

Credit challenges

Impact of material weakening of macroeconomic factors on asset quality a monitorable – The overall fresh non-performing advances (NPA) generation rate stood at 2.21% of standard advances in FY2024, which was much lower than the high levels of >5-8% observed in the past. However, it remains elevated and was above the banking sector average. The change in IDBI's portfolio mix, characterised by the decline in the share of the corporate loan book to 30% as on March 31, 2024 from 49% as on March 31, 2019, led to a moderation in the fresh NPA generation rate over the last few years.

ICRA notes that the overall vulnerable book remains monitorable despite declining from past levels. IDBI's ability to limit the slippages from the pool would remain critical from a profitability perspective. Even though the asset quality levels have improved, they could be affected by weakening macroeconomic factors, which could impact the debt-servicing ability of certain borrowers. This will remain a monitorable from a profitability and solvency standpoint.

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[2] *Solvency defined as (Net NPAs + Net security receipts + Net non-performing investments) / Core capital)*

Environmental and social risks

While banks like IDBI do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, it could translate into credit risks for banks. However, such risk is not material for IDBI as it benefits from adequate portfolio diversification. Further, the lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure as has been seen for other regulated entities in the recent past. IDBI has not faced material lapses over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. IDBI has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Strong

The daily average liquidity coverage ratio (LCR) remained strong at 124.60%[3] for Q1 FY2025 against the regulatory requirement of 100% while the net stable funding ratio (NSFR) stood at 114.43%, which was also well above the regulatory level of 100%. The liquidity is supported by positive asset-liability mismatches (as per the structural liquidity statement as on March 31, 2024) in all the less-than-1-year maturity buckets. The bank can avail liquidity support from the RBI (through repo) apart from the marginal standing facility of the RBI in case of urgent liquidity needs.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the bank can sustain the improvement in its earnings profile, with RoA of more than 1.5 %, while maintaining the capital cushions above 4% of the Tier I regulatory level.

Negative factors – ICRA could downgrade the ratings if there is a deterioration in the asset quality, leading to the weakening of the solvency profile with Net NPA/Core equity of more than 20% on a sustained basis. Further, a weakening in the earnings profile with core RoA of less than 0.8% and/or a decline in the capital cushions to less than 3% in relation to the Tier I regulatory levels on a sustained basis will remain negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions ICRA's Policy on Withdrawal of Credit Ratings ICRA's Rating Methodology on Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of IDBI. However, in line with ICRA's consolidation approach, the capital requirement of the key subsidiaries of the Group has been factored in, going forward. In ICRA's view, IDBI's subsidiaries will largely remain self-sufficient in meeting their capital requirements in the near to medium term.

[3] *LCR at consolidated level*

About the company

IDBI Bank Limited, founded in 1964, is a private sector bank headquartered in Mumbai. It was a public sector bank till February 2019 with the GoI holding a majority stake. In January 2019, LIC increased its stake in the bank to 51% by infusing capital of Rs. 21,624 crore, resulting in the dilution of the GoI's ownership to 46.46% as on January 24, 2019 from 85.96%. LIC maintained its holding at 51% during the subsequent capital raise of Rs. 9,300 crore in September 2020, while the GoI's share remained at a similar level of 47.11%. However, LIC and the GoI's stakes in the bank declined to 49.24% and 45.48%, respectively, after it raised capital via a qualified institutional placement (QIP) in FY2021. Given the decline in the GoI's majority shareholding, the RBI classified IDBI as a private sector bank w.e.f. March 2019. As on March 31, 2024, the bank had 2,004 branches and 3,303 ATMs. On October 07, 2022, DIPAM released a Preliminary Information Memorandum and invited expression of interest from interested parties for a stake sale of up to 60.72% in IDBI, including the stake of the GoI as well as LIC, which is currently underway.

Key financial indicators (standalone)

IDBI Bank	FY2023	FY2024	Q1 FY2025
Total income	14,879	17,079	3,957
Profit after tax	3,645	5,634	1,719
Total assets (Rs. lakh crore)	3.22	3.55	3.63
CET I	18.08%	20.11%	20.26%*
CRAR	20.44%	22.26%	22.42%*
PAT/ATA	1.19%	1.66%	1.91%
Gross NPA	6.38%	4.53%	3.87%
Net NPA	0.92%	0.34%	0.23%

Source: IDBI, ICRA Research; All ratios as per ICRA's calculations

Total income

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Name of Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
				Aug 02, 2024	Aug 11, 2023	Sep 26, 2022	Jun 08, 2022	Sep 27, 2021
1	Basel III Tier II Bonds	Long term	5,000.00	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Infrastructure Bonds	Long term	8,000.00	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Senior & Basel II Lower Tier II Bonds	Long term	16,299.63	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Senior & Basel II Lower Tier II Bonds	Long term	505.00	[ICRA]AA (Stable); withdrawn	[ICRA]AA- (Stable)	[ICRA]A+ (Positive); withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Subordinated Debt	Long term	20.00	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
6	Fixed Deposits Programme	Long term	-	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	MAA- (Stable)
7	Certificates of Deposit	Short term	35,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

8	**Basel II Upper Tier II Bonds**	Long term	-	-	-	-	-	-	**[ICRA]A (Stable) withdrawn**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Infrastructure Bonds	Very Simple
Senior & Lower Tier II (Subordinated Bonds)	Simple
Subordinated Debt Programme	Very Simple
Basel III Tier II Bonds	Highly Complex
Fixed Deposits Programme	Very Simple
Certificates of Deposit Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE008A08R30	Senior Bonds	Jun 13, 2009	9.56%	Jun 13, 2029	1.00	[ICRA]AA (Stable)
INE008A08R71	Senior Bonds	Sep 26, 2009	9.67%	Sep 26, 2029	2.00	[ICRA]AA (Stable)
INE008A08S88	Lower Tier II Bonds	Jul 8, 2010	8.57%	Jul 8, 2025	302.00	[ICRA]AA (Stable)
Proposed/Not placed	Senior Bonds/Lower Tier II/Flexi Bond Series /Subordinate Debt	-	-	-	16,014.63	[ICRA]AA (Stable)
Proposed	Infrastructure Bonds	NA	NA	NA	3,000.00	[ICRA]AA (Stable)
INE008A08U76	Infrastructure Bonds	Sep 12, 2014	9.27%	Sep 12, 2024	1,000.00	[ICRA]AA (Stable)
INE008A08U92	Infrastructure Bonds	Jan 21, 2015	8.73%	Jan 21, 2025	3,000.00	[ICRA]AA (Stable)
INE008A08V26	Infrastructure Bonds	Feb 9, 2016	8.80%	Feb 9, 2026	1,000.00	[ICRA]AA (Stable)
Proposed	Basel III Tier II Bonds	NA	NA	NA	3,100.00	[ICRA]AA (Stable)
INE008A08V00	Basel III Tier II Bonds	Dec 31, 2015	8.62%	Dec 31, 2030	1,000.00	[ICRA]AA (Stable)
INE008A08V18	Basel III Tier II Bonds	Jan 2, 2016	8.62%	Jan 2, 2026	900.00	[ICRA]AA (Stable)
NA	Fixed Deposits	NA	NA	NA	-	[ICRA]AA (Stable)
NA	Certificates of Deposit	NA	-	7-365 days	35,000.00	[ICRA]A1+

Source: IDBI

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE008A08U50	Lower Tier II Bonds	Dec 13, 2012	8.99%	Dec 13, 2022	505.00	[ICRA]AA (Stable) withdrawn

Source: IDBI

Key features of the rated instruments

The servicing of the Basel II lower Tier II bonds, senior bonds and infrastructure bonds is not subject to any capital ratios and profitability. However, the Basel III Tier II bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked. The Basel III instrument is a hybrid subordinated instrument with equity-like loss-absorption features. Such features may translate into higher loss severity vis-à-vis conventional debt instruments.

Annexure II: List of entities considered for limited consolidated analysis

Company Name	IDBI Ownership^	Consolidation Approach
IDBI Capital Markets & Securities Ltd.	100%	Full Consolidation
IDBI Intech Ltd.	100%	Full Consolidation
IDBI Asset Management Ltd.	66.67%	Full Consolidation
IDBI MF Trustee Company Ltd.	100%	Full Consolidation
IDBI Trusteeship Services Ltd.	54.70%	Full Consolidation

Source: IDBI; ^ Ownership as on June 30, 2024

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