IDBI BANK

CIN: L65190MH2004GOI148838

आईडीबीआई बैंक लिमिटेड
पंजीकृत कार्यालय : आईडीबीआई टॉवर,
डब्ल्यूटीसी कॉम्प्लेक्स, कफ परेड,
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वेबसाइट : www.idbi.com

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HO.DRD. OMNI Bonds/331

August 03, 2017

SBICAP Trustee Company Ltd.
6th Floor, Apeejay House,
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Churchgate,
Mumbai - 400 020.

एसबीआईकैप ट्रस्टी कंपनी एलटीडी
६थ मंजिल, अपीजे हाउस
३, दिनशा वाचचा मार्ग
चर्चगेट
मुंबई-४०००२०

Revision in rating of Debt instruments

Kind Attn : Sneha Jadhav

Dear Madam/महोदया,

In terms of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Schedule III, Part B A(13) & 56 1(c) issued on September 2, 2015, the revision in ratings is to be informed to the Stock Exchanges and Debenture/Bond Trustees.

India Ratings & Research have revised the rating of various debt instruments issued by IDBI Bank Ltd. based on a recent review undertaken by them. The rating given by the rating agencies earlier and revised ratings are indicated below:

Rating Agency	Instruments rated	Earlier Rating	Revised Rating
India Ratings & Research	Upper Tier 2 Bonds and AT1 perpetual Bonds	IND A-/ Negative	IND BBB+/Negative

The aforesaid revision in rating is submitted in compliance with Regulation 56 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Copy of revised rating letter issued by India Ratings & Research in this regard is forwarded herewith Request you to kindly register the necessary changes in your records.

भवदीय,

(एम एच गुरहानी)
सहायक महाप्रबंधक
देशी संसाधन विभाग

Encl: As above

India Ratings & Research
A Fitch Group Company

India Ratings Downgrades IDBI Bank's Sub-debt & AT1 Debt to 'IND BBB+'/Negative; Affirms Others

26 JUL 2017

By Udit Kariwala

India Ratings and Research (Ind-Ra) has taken the following rating actions on IDBI Bank Ltd (IDBI) and its instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (INR billion)	Rating/Outlook	Rating Action
Issuer Rating (Long-term)	-	-	-	-	IND AA/Negative	Affirmed
Issuer Rating (Short-term)	-	-	-	-	IND A1+	Affirmed
Upper Tier II subordinated bond programme	March 2009	9.5	March 2024	INR3.5	IND BBB+/Negative	Downgraded
AT1 perpetual debt	October 2014-January 2017	10.75-11.09	August 2021-October 2024	INR50	IND BBB+/Negative	Downgraded
Basel III compliant bonds*	-	-	-	INR20	IND AA/Negative	Affirmed
Omni infrastructure bonds	September 2014-February 2016	8.73-9.27	September2024-February 2026	INR80	IND AA/Negative	Affirmed
Basel III-complaint Tier II bonds	December 2015-January 2016	8.62	January 2026-December 2030	INR30	IND AA/Negative	Affirmed
Deposit rating	-	-	-	-	IND tAA+/Negative	Affirmed
Senior debt	August 2003-December 2012	7.00-11.30	August 2018-September 2029	INR71.2	IND AA/Negative	Affirmed
Lower Tier II bonds	February 2007-March 2010	8.53-10.10	February 2017-March 2020	INR37.7	IND AA/Negative	Affirmed
Certificates of deposits	-	-	-	INR160	IND A1+	Affirmed

*Yet to be issued

The rating downgrade of AT1 bond and upper Tier II subordinated debt reflects the structural weakening of IDBI's standalone profile, likely elevated levels of credit costs with an expectation of loss in FY18, significant erosion of capital, significant capital infusion requirement and dependence on timely garner of equity capital by monetisation of its non-core assets. The downgrade of AT1 instrument also factors in weakening of IDBI's distributable reserve position which depleted to around 1% at end-March 2017, much lower than peers median of 4.8% for the same period. Also, there is increased risk of coupon deferral, led by an enforced dip into distributable reserves for coupon payment in case of a loss according to the applicable Basel III minimum capital conversation standards.

For AT1 instruments, the agency considers discretionary component, coupon omission risk and write-down/conversion risk as key parameters to arrive at the rating. The agency recognises the unique going-concern loss absorption features that these bonds carry and differentiates them from the bank's senior debt, factoring in a higher probability of an ultimate loss for investors in these bonds. The rating on AT1 bond reflects the bank's standalone credit profile, along with its ability to service coupons and manage principal write-down risk over the Basel III transition period. Ind-Ra recognises that government support may be difficult to be relied upon by the holders of AT1 bonds considering loss absorption nature of these instruments.

IDBI's Long-Term Issuer Rating (and rating on linked debt instruments) reflects Ind-Ra's expectation of continued support from the government of India. This reflects its majority government ownership (73.6% at end-June 2017), its systemic importance as the eight-largest government-owned bank and 11th largest bank including private banks by asset market share (2.4% by assets and 2.5% by deposits at FYE17). Despite support from its principal shareholder for sustaining its operations, the agency has maintained a Negative Outlook on IDBI on the expectation that IDBI would continue to grapple with a weak capital profile along with the Reserve bank of India's invocation of 'prompt corrective action' framework which would continue to weigh on its share of systemic assets and liabilities. The Negative Outlook also reflects the high possibility of IDBI continuously struggling with its core capitalisation level, both on an immediate and sustained basis, in the absence of a significant capital infusion from the government of India.

In case the government's stake in IDBI drops below the majority level through a strategic divestment or otherwise, the credit profile of the bank will be reviewed on the basis of the transformation strategy and the strength of the strategic investors coming on board.

KEY RATING DRIVERS

Corporate Stress Yet to Completely Show Up: Ind-Ra expects IDBI's credit costs (FY17: 610bp; FY16: 415bp) to remain significantly high over the medium term, on account of higher fresh slippages and provisioning requirements on the current stock of stressed corporates. According to Ind-Ra, the stock of stressed corporates with minimal provisioning remains high for IDBI. A substantially large portion of this exposure could slip to a substandard category over the next few quarters (including unsuccessful cases under strategic debt restructuring) which, along with the ageing impact of NPLs recognised under the asset quality review, would put significant pressure on its profit and loss statement. IDBI reported stressed assets to total loans ratio of 27.1% at end-March 2017 (FY16: 17.1%). IDBI's pre-provision profitability and capitalisation levels remain weak due to muted credit growth and the impact of interest rate reversals on its margins. Ind-Ra expects IDBI's net interest margins to remain under pressure, as more stressed assets start slipping into the non-performing category.

Large Capital Requirement Through FY19: IDBI's capitalisation was low at 5.64% at end-March 2017 (FYE16: 7.98%), driven by losses and a substantial increase in risk weighted assets in FY17 adjusting for the loan growth for the same period, indicating accelerated deterioration of its asset quality. IDBI reported its common equity tier 1 ratio for FY17 below the minimum regulatory requirement (FY17: 6.75%, which includes 1.25% Capital Conservation Buffer). The bank's risk weighted assets/net advances ratio at around 141% at end-March 2017 is the highest in the system. Ind-Ra believes IDBI's inability to grow at a decent pace would continue to put pressure on its operating buffers, limiting its ability to absorb the expected increase in credit costs and operating expenses. Considering the bank's existing capitalisation level and structural weakness, it could remain under pressure on the capital front even after an equity infusion by the government in line with past allocation. IDBI will need to raise fresh equity from capital markets by diluting some of the government's shareholding and plan for significant capital raising under Basel III. Ind-Ra estimates IDBI would need INR91 billion of Tier I capital (assuming CAGR growth of 9% over FY18-FY19) to maintain a Tier I ratio of 10% (including a capital conservation buffer of 2.5%) by FYE19. IDBI's ability to raise sufficient growth capital, along with the government's equity infusion in the short term, will be a key monitorable for its standalone credit profile and instruments linked to it, such as AT1 bonds.

Deteriorating Standalone Profile: IDBI's standalone credit profile is weaker than its peers' on account of its bleak operating and capital buffers. In FY17, high credit costs and weak net interest margin continued to impact the bank's profitability, while its CET1 ratio was low at 5.64%. IDBI Bank's dependence on bulk deposit remains higher than those of similar rated peers, with a 36% contribution to its total deposits as of March 2017 (March 2016: 47%). On the liquidity front, IDBI's cumulative one-year funding gap as a percentage of assets improved to 11.5% in FY17 from 22% in FY16. At end-March 2017, IDBI's liquidity coverage ratio was 114.2%, higher than the current regulatory requirement of 80%.

RATING SENSITIVITIES

Negative: IDBI's Long-Term Issuer Rating could be downgraded to Ind-Ra's support floor for public sector banks if its share of systemic assets and liability continues to decline on a sustained basis.

The rating of AT1 instruments could be further downgraded if IDBI fails to raise sufficient equity capital or replenish distributable reserves in a timely manner. The ratings could also be downgraded in case of a significant (more than expected) decline in the asset quality is not buffered by timely support through equity infusions, leading to a consistent dilution in the bank's capability to absorb losses.

COMPANY PROFILE

IDBI is a public sector bank in India with pan-India presence. The government of India had a shareholding of 73.6% in IDBI at end-June 2017. At end-March 2017, the bank had 1,896 branches and 3,537 ATMs across India.

FINANCIAL SUMMARY

Particulars	FY17	FY16
Total assets (INR million)	3,617,679	3,743,721
Total equity (INR million)	225,636	277,218
Net income (INR million)	-51,581	-36,648
Return on assets (%)	-1.4%	-1.1%
Equity/assets (%)	5.6%	8.0%
Capital adequacy ratio (%)	10.70%	11.67%
Source: Company annual report		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (INR billion)	Rating	17 May 2017	13 July 2016	30 December 2015
Issuer rating	Long-term	-	IND AA/Negative	IND AA/Negative	IND AA+/Stable	IND AA+/Stable
Issuer rating	Short-term	-	IND A1+	IND A1+	IND A1+	IND A1+
Upper Tier II subordinated bond program	Long-term	INR3.5	IND BBB+/Negative	IND A-/Negative	IND A+/Negative	IND AA-
AT1 perpetual debt	Long-term	INR50	IND BBB+/Negative	IND A-/Negative	IND A+/Negative	IND AA-
Basel III compliant bonds	Long-term	INR20	IND AA/Negative	IND AA/Negative	IND AA+/Stable	-
Omni infrastructure bonds	Long-term	INR80	IND AA/Negative	IND AA/Negative	IND AA+/Stable	IND AA+
Basel III-complaint Tier II bonds	Long-term	INR30	IND AA/Negative	IND AA/Negative	IND AA+/Stable	IND AA+/Stable
Deposit rating	Long-term	-	IND tAA+/Negative	IND tAA+/Negative	IND tAAA/Stable	IND tAAA
Senior debt	Long-term	INR71.2	IND AA/Negative	IND AA/Negative	IND AA+/Stable	IND AA+
Lower Tier II bonds	Long-term	INR37.7	IND AA/Negative	IND AA/Negative	IND AA+/Stable	IND AA+
Certificates of deposits	Short-term	INR160	IND A1+	IND A1+	IND A1+	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

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

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

India Ratings and Research (Ind-Ra) is India's most respected credit rating agency 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, structured finance and project finance companies.

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

India Ratings is a 100% owned subsidiary of the Fitch Group.

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

DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Rating FI Subsidiaries and Holding Companies

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