

HO.DRD. OMNI Bonds/719 /F- No.361

December 01, 2018

SBICAP Trustee Company Ltd.
6th Floor, Apeejay House,
3, DinshawWachha Road,
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 : Priyanka Chavan*


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	Senior& Lower tier II Bonds, Subordinated Debt IHFL & Infrastructure Bonds	IND AA-/ Negative	IND A/ Rating Watch Negative
	Upper Tier 2 Bonds and	IND BBB- /Negative	IND BBB- /Rating Watch Negative
	Basel III compliant Tier II Bonds	IND AA- /Negative	IND A / Rating Watch 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 rating agency in this regard is forwarded herewith. Request you to kindly register the necessary changes in your records.


भवदीय,
(मुकेश कुमार नागर)
सहायक महाप्रबंधक
देशी संसाधन विभाग

Encl: As above



CIN: L65190MH2004GO1148838

HO.DRD. OMNI Bonds/716 /F- No.361

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चर्चगेट

मुंबई-४०००२०

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Rating Agency	Instruments rated	Earlier Rating	Revised Rating
CRISIL Ltd.	Senior & Lower Tier II Bonds, Infrastructure Bonds, Basel III compliant Tier 2 Bonds and Flexi Bonds	Reaffirmed as CRISIL A+ and revised outlook to Stable	CRISIL A+ /Stable(Reaffirmed)
	Upper Tier 2 Bonds and Basel 2 compliant Perpetual Bonds	Reaffirmed as CRISIL A and revised outlook to Stable	Downgraded to CRISIL A-(Placed on 'watch developing')

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 CRISIL in this regard is forwarded herewith. Request you to kindly register the necessary changes in your records.

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(मुकेश कुमार नागर)
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देशी संसाधन विभाग

Encl: As above

India Ratings Downgrades IDBI Bank to 'IND A'; Places on RWN

30

NOV 2018

By **Ruhi Pabari**

India Ratings and Research (Ind-Ra) has downgraded IDBI Bank Ltd's (IDBI) Long-Term Issuer Rating to 'IND A' from 'IND AA'. The Outlook was Negative. In addition, the agency has downgraded IDBI's Short-Term Issuer Rating to 'IND A1' from 'IND A1+'. The ratings have simultaneously been placed on Rating Watch Negative (RWN). The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (INR billion)	Rating/Rating Watch	Rating Action
Upper Tier II subordinated bond programme	March 2009	9.5	-	INR3.5	IND BBB-/RWN	Affirmed; Placed on RWN
Basel III compliant bonds*	-	-	-	INR20	IND A/RWN	Downgraded; placed on RWN
Omni infrastructure bonds	September 2014-February 2016	8.73-9.27	September 2024-February 2026	INR80	IND A/RWN	Downgraded; placed on RWN
Basel III-complaint Tier II bonds	December 2015-January 2016	8.62	January 2026-December 2030	INR30	IND A/RWN	Downgraded; placed on RWN
Deposit rating	-	-	-	-	IND tA/RWN	Downgraded; placed on RWN
Senior debt	August 2003-December 2012	7.00-11.30	August 2018-September 2029	INR52.22 (reduced from INR71.2)	IND A/RWN	Downgraded; placed on RWN
Lower Tier II bonds	February 2007-March 2010	8.53-10.10	February 2017-March 2020	INR37.3 (reduced from INR37.7)	IND A/RWN	Downgraded; placed on RWN
Certificates of deposits	-	-	-	INR160	IND A1	Downgraded

*Yet to be issued

Subsidiaries: Ind-Ra has considered IDBI Bank's subsidiaries - IDBI Capital Markets and Securities Ltd., IDBI Intech Ltd., IDBI MF Trustee Company Ltd., IDBI Asset Management Ltd., IDBI Trusteeship Services Ltd. in its analysis.

The details of all instruments are given in annexure.

The downgrade reflects the severe weakened capitalisation of IDBI (significantly below the minimum common equity and tier 1 requirements) that could impede its operations in view of the absence of a significantly large infusion of equity, a weakened franchise and a change in Ind-Ra's expectations of sponsor support (ordinary and extraordinary over the lifetime of the bank) on account of a likely change in the ownership structure of IDBI, where Life Insurance Corporation of India (LIC) could become the majority owner.

The downgrade also reflects Ind-Ra's expectation that IDBI would continue to grapple under Reserve Bank of India's prompt corrective action framework (which would continue to weigh on its share of systemic assets and liabilities) and credit costs over corporate accounts.

The RWN reflects the possibility of a further downgrade in case the quantum and the timing of an equity infusion by either the government of India (GoI) or LIC may not be adequate in the agency's opinion.

There has been a weakening in IDBI's franchise, a continued fall in its share of systemic assets and liabilities and sharp deterioration in its asset quality. These three factors are likely to persist at least until the resolution of asset quality issues and the stabilisation of capital buffers. IDBI is currently the eight-largest government-owned bank and 12th-largest bank by asset market share (2% by advances and 2.2% by deposits at FYE18).

KEY RATING DRIVERS

Likely Change in Ownership: LIC could become the majority owner of IDBI. In the proposed structure, the GoI would cease to be the majority shareholder of the bank and LIC will inject substantial equity, thereby becoming the majority shareholder. LIC will bring down its share in the bank within certain time (which is not publicly known at this point) to comply with the Insurance Regulatory and Development Authority's guidelines and specific approvals related to this proposed transaction.

Long Tail of Credit Costs to Delay Profitability: IDBI's operating metrics sharply deteriorated in the last few quarters owing to the pressure on its asset quality that affected the strength of its earning profile. Ind-Ra expects IDBI's credit costs (1HFY19: 12% annualised; FY18: 11%; FY17: 6.1%) to remain significantly high in the medium term, in view of the provisioning requirements for the current stock of stressed corporates. The slippages in the corporate book that has witnessed disproportionate slippages have almost peaked. However, the stress on small and medium-sized enterprises and the agriculture segment could weigh on incremental slippages and consequently credit costs. Ind-Ra estimate a 200-300bp credit cost for 2HFY19.

IDBI's provisions on assets under National Company Law Tribunal are marginally higher than those of peers. Its pre-provision profitability and capitalisation levels remain weak owing to the impact of interest rate reversals on its margins. Moreover, weak capitalisation restricts the bank's ability to grow its credit book and aid its operating performance. Ind-Ra expects IDBI's pre-provision profitability to be inadequate to absorb the elevated levels of stress and the bank to continue to report losses going through 3QFY19 and 4QFY19. In absence of equity infusion, the losses will bring common equity tier 1 below 3.625% and the prompt corrective action framework threshold 3 could be breached, which entails resolution through amalgamation, reconstruction, winding up and others.

Asset Quality Overhang to Persist: IDBI's stressed advances/total advances ratio was stressed at over 32% at end-September 2018 (FY18: 32%; FY17: 27.1%; FY16: 17.1%). The addition of non-fund-based exposure and special mention account categories takes the total stress loan portfolio to over 36% at end-September 2018, with the probability of incremental slippages from these stressed assets to start slipping into the non-performing category. IDBI's higher share of exposure to stressed sectors (such as infrastructure), along with sizeable single name concentration

towards highly levered corporate groups, made it more vulnerable to asset quality challenges than a few of its peers.

Also, its legacy concentrations will remain an overhang in the near term, given the regulator's circular on the resolution of stressed assets and the sluggish pace of economic recovery. Higher-than-expected deterioration in the bank's profitability in the short term, along with its inability to shore up adequate capital, could further strain the standalone profile and attract a further negative rating action.

Large Capital Requirement through FY19: IDBI's capitalisation deteriorated to the lowest among all public sector banks. Its 1HFY19 common equity tier 1 ratio was about 3.8% compared with 7.42% at FYE18 (FYE17: 5.64%; FYE16: 7.98%) due to the losses. Considering the bank's capitalisation level and structural weakness, it could remain under pressure in the absence of substantial equity infusion by either the government or LIC. Ind-Ra estimates a minimum capital infusion of INR55 billion, of which INR21 billion was infused by LIC in 3QFY19, is required to raise IDBI's common equity tier ratio to 5.5% by FYE19 and absorb the losses expected in 2HFY19.

Modest Liquidity: As a percentage of assets, IDBI's cumulative one-year funding gap deteriorated to about 16.7% in FY18 from 11.5% in FY17. The proportion of bulk funding is also among the highest at about 32% at end-September 2018; the bank's liquidity coverage ratio was 107.16%, higher than the current regulatory requirement of 90.00%.

RATING SENSITIVITIES

The RWN indicates a higher probability of a downgrade in case the bank does not receive adequate and timely equity infusion to maintain the minimum regulatory capital in Ind-Ra's opinion. The agency will take appropriate rating action depending on the quantum and timing of equity infusion or the absence of the infusion.

COMPANY PROFILE

IDBI is a public sector bank in India with pan-India presence. The GoI had a shareholding of 80.96% in IDBI at end-March 2018. At end-March 2018, the bank had 1,916 branches and 3,276 ATMs across India.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Total assets (INR million)	3,503,136	3,617,679
Total equity (INR million)	212,097	225,636
Net profit (INR million)	-82,379	-51,581
Return on assets (%)	-2.46	-1.38
Common equity tier 1 ratio (%)	7.42	5.64
Capital adequacy ratio (%)	10.41	10.7
Net interest income	56,403	57,517
Source: IDBI's annual report		

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	5 June 2018	26 July 2017	17 May 2017	16 January 2017
Issuer rating	Long-/short-term	-	IND A/RWN/IND A1	IND AA-/Negative/IND A1+	IND AA/Negative/IND A1+	IND AA/Negative/IND A1+	IND AA+/Stable/IND A1+
Upper Tier II subordinated bond program	Long-term	INR3.5	IND BBB-/RWN	IND BBB-/Negative	IND BBB+/Negative	IND A-/Negative	IND A+/Negative
Basel III compliant bonds	Long-term	INR20	IND A/RWN	IND AA-/Negative	IND AA/Negative	IND AA/Negative	IND AA+/Stable
Omni infrastructure bonds	Long-term	INR80	IND A/RWN	IND AA-/Negative	IND AA/Negative	IND AA/Negative	IND AA+/Stable
Basel III-complaint Tier II bonds	Long-term	INR30	IND A/RWN	IND AA-/Negative	IND AA/Negative	IND AA/Negative	IND AA+/Stable
Deposit rating	Long-term	-	IND tA/RWN	IND tAA-/Negative	IND tAA+/Negative	IND tAA+/Negative	IND tAAA/Stable
Senior debt	Long-term	INR52.22	IND A/RWN	IND AA-/Negative	IND AA/Negative	IND AA/Negative	IND AA+/Stable
Lower Tier II bonds	Long-term	INR37.3	IND A/RWN	IND AA-/Negative	IND AA/Negative	IND AA/Negative	IND AA+/Stable
Certificates of deposits	Short-term	INR160	IND A1	IND A1+	IND A1+	IND A1+	IND A1+

ANNEXURE

Instrument Type	ISIN	Date of Allotment	Tenor (years)	Maturity Date	Issue size (billion)	Amount outstanding (billion)	Coupon rate (%)	Put/Call option	Rating/Rating Watch	Rating Action
Senior Debt										
Omni Bond Sr.I	INE008A08P09	1 August	15	1 August	INR5.00	-	8.00	-	WD	Withdrawn (paid in full)

		2003		2018						
Omni Bond Sr.I	INE008A08PU6	18 August 2003	15	18 August 2018	INR0.0019	-	7.75	-		
Omni 2003 G	INE008A08UA8	12 January 2004	15	12 January 2019	INR0.25	INR0.25	7.00	12 January 2016	IND A/RWN	Downgraded; Placed on RWN
FLEXI-19 RIB E	INE008A09885	12 January 2004	15	12 January 2019	INR1.07	INR1.07	7.00	12 January 2016	IND A/RWN	Downgraded; Placed on RWN
FLEXI-21 RIB D	INE008A09AV3	20 April 2004	15	20 April 2019	INR0.19	INR0.19	7.00	20 April 2016	IND A/RWN	Downgraded; Placed on RWN
IDBI Omni Bonds 2007 Sr.VI	INE008A08N67	23 September 2007	15	23 September 2022	INR0.04	INR0.04	10.07	-	IND A/RWN	Downgraded; Placed on RWN
IDBI Omni Bonds 2008 Tier II Sr.I	INE008A08O33	1 January 2008	10	1 January 2018	INR5.00	-	9.35	-	WD	Withdrawn (paid in full)
IDBI Omni Bonds 2008 Sr.II	INE008A08O58	16 February 2008	10	16 February 2018	INR0.02	-	9.41	-		
IDBI Omni Bonds 2008 Sr.IX RRB II	INE008A08Q07	26 September 2008	10	26 September 2018	INR8.96	-	11.00	-		
IDBI Omni Bonds 2008 Sr.XV RRB II	INE008A08Q72	15 December 2008	10	15 December 2018	INR14.40	INR14.40	11.30	-	IND A/RWN	Downgraded; Placed on RWN
IDBI Omni Bonds 2008-09 Sr.XVII	INE008A08Q98	14 March 2009	20	14 March 2029	INR0.02	INR0.02	11.25	-	IND A/RWN	Downgraded; Placed on RWN
IDBI Omni Bonds 2009-10 Sr.IV	INE008A08R71	26 September 2009	20	26 September 2029	INR0.02	INR0.02	9.67	-	IND A/RWN	Downgraded; Placed on RWN
		Total unutilised					INR36.23			
		Total					INR52.22			
Omni Infrastructure Bond										
Omni 2014-2015 Infrastructure Bond Series I	INE008A08U76	12 September 2014	10	12 September 2024	INR10.00	INR10.00	9.27	-	IND A/RWN	Downgraded; Placed on RWN
Omni 2014-2015 Infrastructure Bond Series III	INE008A08U92	21 January 2015	10	21 January 2025	INR30.00	INR30.00	8.725	-	IND A/RWN	Downgraded; Placed on RWN
Omni Infrastructure Bond 2015-2016 Series III	INE008A08V26	9 February 2016	10	9 February 2026	INR10.00	INR10.00	8.80	-	IND A/RWN	Downgraded; Placed on RWN
		Total unutilised					INR30			
		Total					INR80			
Lower Tier II Bond										
IDBI Omni Bonds 2009-10 Tier II Sr.V	INE008A08R89	29 September 2009	9	29 September 2018	INR0.40	-	9.37	-	WD	Withdrawn (paid in full)
IDBI Omni Bonds 2009-10 Tier II Sr.VI	INE008A08S13	23 November 2009	10	23 November 2019	INR3.03	INR3.03	8.53	-	IND A/RWN	Downgraded; Placed on RWN
IDBI Omni Bonds 2009-10 Tier II Sr.XII	INE008A08S62	23 March 2010	10	23 March 2020	INR6.00	INR6.00	9.05	-	IND A/RWN	Downgraded; Placed on RWN
		Total unutilised					INR28.27			
		Total					INR37.30			
Upper Tier II Bond										
IDBI Omni Bonds 2008-09 Upper Tier II Sr.XIX	INE008A08R14	31 March 2009	15	31 March 2024	INR3.50	INR3.50	9.5	Call - 31 March 2019	IND BBB-/RWN	Affirmed; Placed on RWN
		Total unutilised					-			
		Total					INR3.50			
Basel III Compliant Tier II Bond										
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	IND A/RWN	Downgraded; Placed on RWN
Omni Tier 2 2015-2016	INE008A08V18	2 January 2016	10	2 January 2026	INR9.00	INR9.00	8.62	None	IND A/RWN	Downgraded; Placed on RWN

Series II									
		Total unutilised		INR11					
		Total		INR30					

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels 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.

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ABOUT INDIA RATINGS AND RESEARCH

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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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Applicable Criteria

[Financial Institutions Rating Criteria](#)
[Rating of Bank Legacy Hybrids and Sub-Debt](#)
[Rating Bank Subordinated and Hybrid Securities](#)

Analyst Names

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Rating Rationale

November 22, 2018 | Mumbai

IDBI Bank Limited

Rating on Upper Tier II Bonds and Tier-I Perpetual Bonds (Under Basel II) downgraded to 'CRISIL A-' and placed on 'watch developing'

Rating Action

Upper Tier-II Bonds Aggregating Rs.3636.20 Crore (Under Basel II)	CRISIL A- (Downgraded from 'CRISIL A'; Placed on 'Rating Watch with Developing Implications')
Tier-I Perpetual Bonds Aggregating Rs.2708.8 Crore (Under Basel II)	CRISIL A- (Downgraded from 'CRISIL A'; Placed on 'Rating Watch with Developing Implications')
Rs.2000 Crore Tier-I Bond Issue (Under Basel III)	CRISIL BBB+/Negative (Withdrawn)
Rs.2500 Crore Tier-I Bond Issue (Under Basel III)	CRISIL BBB+/Negative (Withdrawn)
Rs.2000 Crore Tier II Bonds (Under Basel III)	CRISIL A+/Stable (Reaffirmed)
Infrastructure Bonds Aggregating Rs.2000 Crore	CRISIL A+/Stable (Reaffirmed)
Infrastructure Bonds Aggregating Rs.8000 Crore	CRISIL A+/Stable (Reaffirmed)
Rs.3000 Crore Tier II Bonds (Under Basel III)	CRISIL A+/Stable (Reaffirmed)
Senior/Lower Tier-II Bonds Aggregating Rs.5000 Crore (Under Basel II)	CRISIL A+/Stable (Reaffirmed)
Lower Tier-II Bonds Aggregating Rs.9041.68 Crore (Under Basel II)	CRISIL A+/Stable (Reaffirmed)
Omni Bonds Aggregating Rs.15479.50 Crore	CRISIL A+/Stable (Reaffirmed)
Flexi Bonds Aggregating Rs.465.96 Crore	CRISIL A+/Stable (Reaffirmed)
Fixed Deposit Programme	FAA/Stable (Reaffirmed)
Rs.40000 Crore Certificates of Deposit Programme	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded the rating on the Upper Tier II bonds (under Basel II) and Tier I Perpetual bonds (under Basel II) of IDBI Bank Limited (IDBI Bank) to '**CRISIL A-**' from 'CRISIL A' and placed the ratings on '**Rating Watch with Developing Implications**'. The ratings on the Tier II bonds (under Basel III), Infrastructure bonds, Lower Tier II bonds (under Basel II), Omni bonds and Flexi bonds have been reaffirmed at 'CRISIL A+/Stable' while the ratings on the fixed deposits programme and the certificate of deposits programme have been reaffirmed at 'FAA/Stable' and 'CRISIL A1+' respectively. The rating on the Tier I Bonds (under Basel III) have been **withdrawn** as the instruments have been redeemed. The withdrawal is in line with CRISIL's policy.

The ratings on the Upper Tier II bonds (under Basel II) and Tier I Perpetual bonds (under Basel II), hereafter referred to as hybrid instruments, have been downgraded and placed on 'Watch with Developing Implications' because of the weak capital ratios of the bank, which impedes its ability to pay coupon on these instruments. As on September 30, 2018, IDBI Bank reported a Common Equity Tier I (CET I) ratio, Tier I capital adequacy ratio (CAR) and overall CAR of 3.87%, 4.22% and 6.22%, respectively. The bank also reported a loss of Rs 3602.5 crore in the second quarter of fiscal 2019. As per the terms of these instruments, the bank shall not be liable to pay either interest or principal (in the case of Upper Tier II bonds) if the bank's CAR is below the minimum regulatory requirement prescribed by RBI. Further, in case the bank has reported a loss, it may pay interest with the prior approval of RBI when the impact of such payment may result in net loss or increase the net loss provided CRAR remains above the regulatory norm. Life Insurance Corporation of India (LIC) is currently in the process of acquiring a majority stake in IDBI Bank, which would result in capital infusion of around Rs 17500-20500 crore depending on the extent to which the planned open offer is subscribed and therefore, the number of shares that would be allotted to LIC via a preferential issue. This would take the capital ratios well above the regulatory requirement. However, completion of this process is subject to satisfactory and timely resolution of the litigation pending before High Court of Delhi, wherein the All India IDBI Officers' Association has challenged the proposed deal. The next coupon dates for the hybrid instruments are December 23, 2018 and December 26, 2018. While RBI has given approval in the past for hybrid coupon payments where a bank has made losses and the CAR is marginally below regulatory requirement, this has been in cases where the capital infusion has been planned and expected shortly. In the case of IDBI Bank, the shortfall in the CAR ratio is significant and capital infusion is also subject to satisfactory resolution of the pending litigation. The Watch on the hybrid instruments will be resolved when there is greater clarity on the timing of the capital infusion and/ or RBI approval to make the coupon payment.

The ratings on the Tier II bonds (under Basel III), Infrastructure bonds, Lower Tier II bonds (under Basel II), Omni bonds, Flexi bonds, fixed deposits programme and the certificate of deposits programme have been reaffirmed as the ability to pay interest or principal on these is not linked to the bank's capital ratios. While the bank's gross non-performing assets (NPAs) and slippages remain elevated and ageing provisions will continue to impact profitability over the next few quarters, the rating on IDBI Bank's Tier II bonds is already at the floor of 'CRISIL A+' defined by CRISIL for the corporate credit rating (or Tier II bonds) for public sector banks (PSBs). The ratings also factor in the expectation of equity infusion by LIC.

Analytical Approach

For arriving at the ratings, CRISIL has factored in the support that the bank is expected to receive from its majority shareholder, GoI.

Key Rating Drivers & Detailed Description

Strengths:

* Strong expectation of support from GoI

The rating continues to factor in an expectation of strong government support, both on an ongoing basis and in the event of distress. This is because GoI is both the majority shareholder in public sector banks (PSBs) and the guardian of India's financial system. The stability of the banking sector is of prime importance to GoI, given the criticality of the sector to the economy, the strong public perception of sovereign backing for PSBs, and the severe implications of any PSB failure in terms of political fallout, systemic stability, and investor confidence in public sector institutions. CRISIL believes that the majority ownership creates a moral obligation on GoI to support the PSBs, including IDBI Bank.

On August 8, 2018, IDBI Bank Limited (IDBI Bank) filed with the stock exchanges that the Government of India (GoI)

has conveyed its no-objection to reduction of its stake in the Bank to below 50%, relinquishment of management control and acquisition of controlling stake in the bank by Life Insurance Corporation of India (LIC) as Promoter through preferential issue/open offer of equity, subject to requisite regulatory approvals and compliance with laws. In Q2 fiscal 2019, LIC infused Rs 2098 crore in IDBI Bank, taking its stake to 14.90% as on September 30, 2018 from 7.98% as June 30, 2018 and has also started the process of tendering an open offer to minority shareholders; the open offer will run from December 3, 2018 to December 14, 2018. Post the open offer, a preferential allotment is likely to be made to LIC to take the stake to 51%. While the proposed stake acquisition is subject to resolution of the pending litigation, CRISIL believes that even once finalized, the acquisition of majority stake by LIC does not impact the expectation of support from Gol for IDBI Bank. This is because LIC is a 100% Gol-owned entity and has supported the Gol in its recapitalisation programmes for public sector banks in the past. Even if LIC were to be the majority shareholder, CRISIL believes that Gol will continue to be involved in matters relating to IDBI Bank. However, in this case, CRISIL will continue to monitor LIC's plans, likely over a 5-7 year period, to bring down its stake in IDBI Bank to below 51%.

*** Established market position, supported by a large asset base**

The bank had an asset base of Rs 326,018 crore as on September 30, 2018. Advances of Rs 157,793 crore accounted for around 1.8% of the banking system advances. While the bank has been de-growing over the past few quarters, it is still among one of the large banks in India.

Weaknesses

*** Weak capitalisation ratios**

The bank's capitalization remains weak with CET 1, Tier 1 and overall CAR of 3.87%, 4.22% and 6.22%, respectively, as on September 30, 2018. These ratios remain below the regulatory requirement of 5.50%, 7.00% and 9.00%. The capital position of the bank has remained weak on account of high provisioning requirement which in turn, resulted in higher and continued losses. However, if the LIC-IDBI deal were to go through, it would result in a capital infusion of around Rs 17,500- Rs 20,500 crore in the bank, resulting in a significant improvement in the capital ratios of the bank.

*** Weak asset quality; continued pressure expected**

Asset quality has continued to deteriorate sharply over the past few quarters as reflected in the steep increase in gross NPAs to 31.78% as on September 30, 2018 (27.95% as on March 31, 2018), from 21.25% as on March 31, 2017. While the increase in the gross NPA ratio is partly on account of de-growth in advances, absolute quantum has also increased over this period. Slippages to NPAs (as a percentage of opening net advances) remained high, at around 15.1% (annualised) in the first half of fiscal 2019 (20.1% in fiscal 2018 and 12.8% in fiscal 2016.) Containing deterioration in asset quality, and hence profitability, remains a key monitorable.

*** Weak earnings profile**

The sharp deterioration in asset quality has significantly impacted profitability. Net loss and return on assets (annualised) stood at Rs 6012 crore and negative 3.6%, respectively, for the first half of fiscal 2019 (Rs 8238 crore and a negative 1.6%, respectively, for fiscal 2018). The net interest margin (NIM*; net interest income to average total assets) improved to 1.74% for the first half of fiscal 2019 as against 1.58% for fiscal 2018 due to the impact of interest reversal on the NIM being offset by the decline in cost of deposits (5.4% in the first half of fiscal 2019); however, it still remains low.

However, provisioning costs continue to remain high at 7.0% for the first half of fiscal 2019 (5.8% in fiscal 2018), and are expected to remain high over the next few quarters, given continued slippages and increasing provisioning requirements on stressed assets. The provisioning coverage ratio (PCR; excluding technical write offs) remained average at 55% as on September 30, 2018. However, the PCR on cases admitted in NCLT of Rs.31850 crore was higher at 81%. Ability to contain further deterioration in asset quality and thereby return to profitability and manage earnings remains a key sensitivity factor.

Outlook: Stable (for all instruments except hybrid instruments under Basel II)

CRISIL believes that IDBI Bank will continue to benefit from strong support from Gol, or LIC if the deal were to fructify. The bank's asset quality and earnings profile are however, expected to remain under pressure over the medium term.

Upside Scenario:

* The outlook may be revised to 'Positive' if there is a significant and sustained improvement in profitability and asset quality.

Downside Scenario:

* The outlook may be revised to 'Negative' in case of further significant deterioration in its asset quality or earnings profile.

About the Bank

Industrial Development Bank of India Ltd (IDBI) was constituted by GoI under the Industrial Development Bank of India Act, 1964, and was reconstituted as a banking company on October 1, 2004, to undertake commercial banking and development banking activities. The erstwhile IDBI Bank Ltd, IDBI's subsidiary, was merged with IDBI in 2005. In 2006, IDBI acquired United Western Bank. In 2008, it got its present name.

In fiscal 2018, net loss was Rs 8238 crore and total income (net of interest expense) Rs 12650 crore, against a net loss and total income (net of interest expenses) of Rs 5158 crore and Rs 9719 crore, respectively, in fiscal 2017. For the first half of fiscal 2019, net loss was Rs 6012 crore and total income (net of interest expense) Rs 4389 crore, against a PAT of Rs 1051 crore and total income (net of interest expense) of Rs 5623 crore in the first half of fiscal 2017.

Key Financial Indicators

As on/for the half year ended September 30	Unit	2018	2017
Total Assets	Rs crore	326018	333088
Total income	Rs crore	12565	15000
Loss	Rs crore	6012	1051
Gross NPA	%	31.78	24.98
Overall capital adequacy ratio	%	6.22	11.98
Return on assets (Annualised)	%	-3.6	-0.6

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Note on Tier-II Instruments (Under Basel III)

The distinguishing feature of Tier-II capital instruments under Basel III is the existence of the point of non-viability (PoNV) or point of non-payment (PoNP) feature, which results in a loss of principal to investors, and hence, to default on the instrument by the issuer. As per the Basel III guidelines, the PoNV trigger is a remote possibility in the Indian context, given the robust regulatory framework by RBI. CRISIL believes that the PoNV trigger is a remote possibility in the Indian context, given the robust regulatory framework and the systemic importance of the banking sector. The inherent risks associated with the PoNV feature have, nevertheless, not influenced the rating on the instrument.

Note on Hybrid Instruments (Under Basel II)

Given that hybrid capital instruments (Tier-I perpetual bonds and Upper Tier-II bonds; under Basel II) have characteristics similar to Tier-II bonds (under Basel II), the ratings on the two instruments may not necessarily be identical. The factors that could influence the ratings on hybrid instruments include: the bank breaching the regulatory minimum capital requirement, or the regulator's denial of permit to make payments of interest and principal if it reports losses. Hence, the transition from one rating category to another may be more frequent for hybrid instruments than in the case of Lower Tier-II bonds; this is because debt servicing on hybrid instruments is far more sensitive to the bank's asset adequacy levels and profitability.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Rating (C)
INE008A08UA8	Bond	12-Jan-04	7.00	12-Jan-19	25.00	
INE008A08N67	Bond	23-Sep-07	10.07	23-Sep-22	4.20	
INE008A08Q72	Bond	15-Dec-08	11.30	15-Dec-18	1439.90	
INE008A08Q98	Bond	14-Mar-09	11.25	14-Mar-29	2.00	
INE008A08R30	Bond	13-Jun-09	9.56	13-Jun-29	1.00	
INE008A08R71	Bond	26-Sep-09	9.67	26-Sep-29	2.00	
INE008A08U68#	Bond	26-Dec-12	9.40	Perpetual	850.00	
INE008A08S13	Bond	23-Nov-09	8.53	23-Nov-19	302.50	
INE008A08S62	Bond	23-Mar-10	9.05	23-Mar-20	600.00	
INE008A08S88	Bond	8-Jul-10	8.57	8-Jul-25	302.00	
INE008A08S96	Bond	29-Sep-10	8.63	29-Sep-20	40.00	
INE008A08T20	Bond	20-Jan-11	9.04	20-Jan-26	856.10	
INE008A08T61	Bond	4-Aug-11	9.38	4-Aug-21	484.40	
INE008108U43	Bond	26-Nov-11	9.72	26-Nov-21	250.00	
INE008A08T87	Bond	30-Nov-11	9.70	30-Nov-21	500.00	
INE008A08T95	Bond	13-Dec-11	9.45	13-Dec-21	600.00	
INE008A08U19	Bond	15-Mar-12	9.25	15-Mar-22	1000.00	
INE008108U43	Bond	25-Oct-12	9.25	25-Oct-37	1000.00	
INE008A08U50	Bond	13-Dec-12	8.99	13-Dec-27	505.00	
INE008A08U76	Bond	12-Sep-14	9.27	12-Sep-24	1000.00	
INE008A08U92	Bond	21-Jan-15	8.725	21-Jan-25	3000.00	
INE008A08V26	Bond	9-Feb-16	8.80	9-Feb-26	1000.00	
INE008A09885	Bond	12-Jan-04	7.00	12-Jan-19	107.44	
INE008A09AM3	Bond	20-Apr-04	6.75	20-Apr-19	19.38	
INE008A08R14	Bond	31-Mar-09	9.50	31-Mar-24	350.00	CRIS
INE008A08R55	Bond	26-Jun-09	8.95	26-Jun-24	500.00	CRIS
INE008A08R63	Bond	25-Sep-09	9.00	25-Sep-24	500.00	CRIS
INE008A08R97	Bond	19-Nov-09	8.90	19-Nov-24	285.00	CRIS
INE008A08S47	Bond	3-Feb-10	8.65	3-Feb-25	501.20	CRIS
INE008A08T46	Bond	25-Mar-11	9.40	25-Mar-26	1000.00	CRIS
INE008A08Q80	Bonds	26-Mar-09	9.50	Perpetual	332.00	CRIS
INE008A08S21	Bonds	23-Dec-09	9.20	Perpetual	275.50	CRIS
INE008A08S39	Bonds	29-Jan-10	9.25	Perpetual	306.20	CRIS
INE008A08S54	Bonds	10-Mar-10	9.65	Perpetual	550.00	CRIS
INE008A08S70	Bonds	22-Jun-10	9.15	Perpetual	245.10	CRIS
INE008A08V00	Bond	31-Dec-15	8.62	31-Dec-30	1000.00	
INE008A08V18	Bond	2-Jan-16	8.62	2-Jan-26	900.00	
NA	Bond**	NA	NA	NA	30696.22	CRISIL A+/Sta
NA	Fixed Deposit Programme	NA	NA	NA	NA	
NA	Certificate of Deposit Programme	NA	NA	7 to 365 days	40000.00	

**Unutilised/utilised and redeemed; awaiting third-party verification/details from company

#Instruments were issued as Innovative Perpetual Debt instruments in December 2012. In 2013, they were derecognised as Tier I in bonds as per RBI instructions. Given that the features of the instrument are now akin to senior bonds, the rating is the same as that on to call the instrument in December 2022.

Annexure - Rating History for last 3 Years

	Current	2018 (History)	2017	2016

Ratings

Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating
Certificate of Deposits	ST	40000.00	CRISIL A1+	16-08-18	CRISIL A1+	21-08-17	CRISIL A1+	04-08-16	CRISIL A1+
				25-01-18	CRISIL A1+	23-05-17	CRISIL A1+	02-02-16	CRISIL A1+
						04-05-17	CRISIL A1+		
Fixed Deposits	FD	0.00	FAA/Stable	16-08-18	FAA/Stable	21-08-17	FAA/Negative	04-08-16	FAAA/Negative
				25-01-18	FAA/Stable	23-05-17	FAA/Watch Negative	10-03-16	FAAA/Negative
						04-05-17	FAA+/Negative	02-02-16	FAAA/Stable
Flexi Bonds	LT	465.96 22-11-18	CRISIL A+/Stable	16-08-18	CRISIL A+/Stable	21-08-17	CRISIL A+/Negative	04-08-16	CRISIL AA/Negative
				25-01-18	CRISIL A+/Stable	23-05-17	CRISIL A+/Watch Negative	10-03-16	CRISIL AA/Negative
						04-05-17	CRISIL AA-/Negative	02-02-16	CRISIL AA+/Negative
Infrastructure Bonds	LT	10000.00 22-11-18	CRISIL A+/Stable	16-08-18	CRISIL A+/Stable	21-08-17	CRISIL A+/Negative	04-08-16	CRISIL AA/Negative
				25-01-18	CRISIL A+/Stable	23-05-17	CRISIL A+/Watch Negative	10-03-16	CRISIL AA/Negative
						04-05-17	CRISIL AA-/Negative	02-02-16	CRISIL AA+/Negative
Lower Tier-II Bonds (under Basel II)	LT	14041.68 22-11-18	CRISIL A+/Stable	16-08-18	CRISIL A+/Stable	21-08-17	CRISIL A+/Negative	04-08-16	CRISIL AA/Negative
				25-01-18	CRISIL A+/Stable	23-05-17	CRISIL A+/Watch Negative	10-03-16	CRISIL AA/Negative
						04-05-17	CRISIL AA-/Negative	02-02-16	CRISIL AA+/Negative
Omni Bonds	LT	15479.50 22-11-18	CRISIL A+/Stable	16-08-18	CRISIL A+/Stable	21-08-17	CRISIL A+/Negative	04-08-16	CRISIL AA/Negative
				25-01-18	CRISIL A+/Stable	23-05-17	CRISIL A+/Watch Negative	10-03-16	CRISIL AA/Negative
						04-05-17	CRISIL AA-/Negative	02-02-16	CRISIL AA+/Negative
Perpetual Tier-I Bonds (under Basel II)	LT	2708.80 22-11-18	CRISIL A-/Stable	16-08-18	CRISIL A/Stable	21-08-17	CRISIL A/Negative	04-08-16	CRISIL AA-/Negative
				25-01-18	CRISIL A/Stable	23-05-17	CRISIL A/Watch Negative	10-03-16	CRISIL AA-/Negative
						04-05-17	CRISIL A+/Negative	02-02-16	CRISIL AA/Negative
Tier I Bonds (Under Basel III)	LT	4500.00 22-11-18	Withdrawal	16-08-18	CRISIL BBB+/Negative	21-08-17	CRISIL BBB+/Negative	04-08-16	CRISIL A/Negative
				25-01-18	CRISIL BBB+/Negative	23-05-17	CRISIL BBB+/Watch Negative	10-03-16	CRISIL A/Negative
						04-05-17	CRISIL A-/Negative	02-02-16	CRISIL AA-/Negative
Tier II Bonds (Under Basel III)	LT	5000.00 22-11-18	CRISIL A+/Stable	16-08-18	CRISIL A+/Stable	21-08-17	CRISIL A+/Negative	04-08-16	CRISIL AA/Negative
				25-01-18	CRISIL A+/Stable	23-05-17	CRISIL A+/Watch Negative	10-03-16	CRISIL AA/Negative
						04-05-17	CRISIL AA-/Negative	02-02-16	CRISIL AA+/Negative
Upper Tier-II Bonds (under Basel II)	LT	3636.20 22-11-18	CRISIL A-/Stable	16-08-18	CRISIL A/Stable	21-08-17	CRISIL A/Negative	04-08-16	CRISIL AA-/Negative

				25-01-18	CRISIL A/Stable	23-05-17	CRISIL A/Watch Negative	10-03-16	CRISIL AA- /Negative
						04-05-17	CRISIL A+/Negative	02-02-16	CRISIL AA/Negative

All amounts are in Rs.Cr.

Links to related criteria

[Rating Criteria for Banks and Financial Institutions](#)

[CRISILs Criteria for rating short term debt](#)

[Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support](#)

[Rating Criteria for Hybrid Capital instruments issued by banks under Basel II guidelines](#)

[Rating criteria for Basel III - compliant non-equity capital instruments](#)

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