Moody’s downgrades IDBI Bank

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New Delhi, May 25: Moody’s Investors Service on Thursday said it has downgraded IDBI Bank’s local and foreign currency bank deposit ratings to Ba2 from Baa3.

This and other rating actions reflect the significant deterioration in IDBI Bank’s financial profile, driven by asset quality issues and the heightened risk to its solvency position, according to Moody’s.

Moody’s also downgraded the bank’s Dubai International Financial Centre (DIFC) branch’s senior unsecured debt and senior unsecured medium-term note (MTN) programme ratings to Ba2/(P)Ba2 from Baa3/(P)Baa3, respectively.

At the same time, it also downgraded the lender’s baseline credit assessment (BCA) and Adjusted BCA to caa1 from b1. Following the change in BCA, Moody’s downgraded the bank’s and its DIFC branch’s subordinated MTN programme and junior subordinated MTN programme to (P)Caa1/(P)Caa2 from (P)B1/(P)B2, respectively.

Further review

Moody’s has placed long-term deposit ratings, senior unsecured ratings, MTN programme ratings and BCA/Adjusted BCA under review for further downgrade.

The rating agency also said IDBI Bank’s capitalisation position is extremely weak. At the end of March 2017, IDBI Bank reported a common equity Tier 1 (CET1) ratio of 5.64 per cent (on a standalone basis), which is just above the minimum regulatory requirement of 5.5 per cent, but is not sufficient to meet the CET1 plus capital conservation buffer requirement of 7.375 per cent through March 2018, as required by the RBI.

In mid-March 2017, the bank received a capital injection of Rs. 1,900 crore from the government (Baa3 positive), which helped it meet the minimum Basel-III CET1 requirement at the end of March 2017. Over the next 12-18 months, Moody’s expects asset quality issues to persist, which will put pressure on the bank’s profitability profile, and limit its ability to generate internal capital. At the end of March 2017, IDBI Bank’s impaired loans (non-performing loans, plus standard restructured loans) ratio rose to 29 per cent versus 19 per cent a year earlier.

In addition, loan loss reserves, when adjusted for the restructured loans, stood at about 34 per cent at the end of March 2017 — which was one of the weakest among Moody’s-rated public sector banks in India.

Moody’s points out that the bank’s buffers against further asset quality stress remain weak. Its capacity for internal capital generation will remain constrained by low net interest margins and high credit costs. As such, Moody’s expects the bank to remain dependent on capital infusions from the government to meet the minimum capital standards.

Despite its weak solvency profile, Moody’s notes that the bank’s funding and liquidity position have remained fairly stable. Nevertheless, the bank’s funding profile is relative weaker compared with other public sector banks in India, Moody’s added.

Government support

At the same time, the rating agency has maintained its assumption of a very high probability of government support for deposits and senior unsecured debt, in spite of the bank’s weak standalone credit profile. In Moody’s opinion, given the current fragile financial strength of many public sector banks — including IDBI Bank — any reduction in government support will result in lower levels of confidence in such banks, and could negatively affect systemic stability.

Says the move reflects significant deterioration in the lender’s financial profile

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