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ICRA: No impact of ownership change on IDBI rating

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Rating agency ICRA on Tuesday ruled out any change in ratings for ailing public sector lender IDBI Bank on grounds of change in ownership. Any change in rating will have to wait for improvement in standalone profile of the bank.

The acquisition of stake by Life Insurance Corporation of India (LIC), with equally strong ability to infuse capital, is unlikely to drive the credit profile in the near term.

The existing ratings factor

is in the sovereign support. The government of India (GoI) is the promoter of the public sector lender. IDBI Bank is under Reserve Bank of India's prompt corrective action (PCA) programme due to high-level of bad loans.

Anil Gupta, Head – Financial Sector Ratings, ICRA, said the acquisition of stake in IDBI is likely to be done under the policyholder's accounts of LIC. Hence, even a 51 per cent stake in the bank will not make IDBI Bank a subsidiary of LIC.

Moreover, being an investment in the policyholder's account, the share will be

transient in nature and LIC will have to reduce its stake in the bank and bring it down to the regulatory requirement of 15 per cent, he added.

"Capital infusion to offset the future losses and supporting the growth requirements to restore the banks' profitability will be a positive step for the standalone profile of the bank. Also, the decision of LIC or the GoI on the long-term ownership structure will be the key rating drivers, going forward, Gupta added.

On June 29, Insurance Regulatory and Development Authority of India (IRDAI)

gave approval to LIC's proposal to take over 51 per cent stake in IDBI. LIC already

holds 7.98 per cent stake post share allotment against the capital infusion by GoI in

March 2018. This stake is proposed to be raised to 51 per cent in the near term, it said.