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IDBI Bank’s debt obligations

Why in news?

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ICRA and other rating agencies like CRISIL and Moody’s recently downgraded the IDBI Bank’s debt obligations.

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What does it mean?

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- A credit rating reflects the rating agency’s opinion on the likelihood of timely payment of interest and principal on the debt obligation.
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- A credit downgrade by a rating agency means that its confidence level in the company’s debt repayment ability has decreased.
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- Weak capital position and continued stress on profitability and asset quality have been cited as concerns.
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Why is it important?

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- Downgrades can offer insights into the underlying financial performance of the company.
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- e.g The downgrade of IDBI Bank takes into account the bank’s weak operating and financial performance during FY17.
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- Downgrades and their reasons matter to various stakeholders including bond holders, stock investors and bank depositors. They serve as red flags and could be a call to action.
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- For bond investors, the company’s reduced capacity to meet its payment

obligation is a concern.
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- Retail investors have exposure to such bonds mostly through debt funds that invest in these bonds.
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- Net asset value (NAV) is value per share of a mutual fund on a specific date or time.
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- The NAV of debt funds moves with underlying bond prices. The bond prices reflect the ability of the company to service its interest and principal.
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- If a company actually defaults on its interest or principal repayment, then the debt fund’s portfolio, to that extent, is written off. This will impact the NAV of the debt fund.
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- Downgrades also have implications for investors in the stock of company. Over the past month, the stock price of IDBI Bank has fell 21%.
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Source: Business Line

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