

## **IDBI Bank's debt obligations**

### **Why in news?**

\n\n

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

\n\n

### **What does it mean?**

\n\n

\n

- A credit rating reflects the rating agency's opinion on the likelihood of timely payment of interest and principal on the debt obligation.

\n

- A credit downgrade by a rating agency means that its confidence level in the company's debt repayment ability has decreased.

\n

- Weak capital position and continued stress on profitability and asset quality have been cited as concerns.

\n

\n\n

### **Why is it important?**

\n\n

\n

- Downgrades can offer insights into the underlying financial performance of the company.

\n

- e.g The downgrade of IDBI Bank takes into account the bank's weak operating and financial performance during FY17.

\n

- 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.

\n

- For bond investors, the company's reduced capacity to meet its payment

obligation is a concern.

\n

- Retail investors have exposure to such bonds mostly through debt funds that invest in these bonds.

\n

- Net asset value (NAV) is value per share of a mutual fund on a specific date or time.

\n

- 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.

\n

- 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.

\n

- Downgrades also have implications for investors in the stock of company. Over the past month, the stock price of IDBI Bank has fell 21%.

\n

\n\n

\n\n

**Source: Business Line**

\n

