IndusInd Bank Limited

May 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Certificate Of Deposit	10,000.00	CARE A1+	Assigned

Details of instruments in Annexure-1.

Rationale and key rating drivers

The rating assigned to the certificate of deposit (CD) programme of IndusInd Bank Limited (IBL) factors in comfortable capitalisation levels supported by periodical equity infusion, growing franchise of the bank with focus on retail lending and comfortable liquidity profile.

The rating further factors in the bank's healthy earning profile supported by relatively higher yield on advances due to higher proportion of high-yield retail products. The bank has seen improvement in the overall profitability with moderation in the credit costs over the last two years (FY22 and FY23) after witnessing an increase during the COVID-19 pandemic period (FY20 and FY21).

These rating strengths are however, partially offset by moderate resource profile although improving and relatively higher concentration to segments which are exposed to cyclicality and event risks. The bank has been focusing on improving its deposit profile which has relatively higher proportion of bulk deposits. Furthermore, increase in granular retail deposits will help the bank reduce its cost of deposits.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could lead to positive rating action/upgrade:

- Not Applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Moderation in the asset quality parameters with Net NPA to Net worth ratio of above 10% on sustained basis
- Worsening of deposit profile with increase in proportion of bulk deposits
- Decline in profit on a sustained basis, leading to deterioration in capitalisation cushion of less than 2.5% over and above the minimum regulatory requirement.

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of the key rating drivers

Key rating strengths

Comfortable capitalization and demonstrated ability to raise capital: IBL has in the past demonstrated its ability to raise equity at frequent intervals to boost up its capital. It had raised equity of ₹2,021 crore in February 2021 by conversion of warrants issued to promoters and ₹3,288 crore in September 2020 through preferential allotment to Qualified Institutional Buyers (QIB) and promoters. The bank also raised Tier II bonds aggregating ₹2,800 crore in October 2021 and redeemed AT1 bonds aggregating ₹1,000 crore in March 2022. The bank continues to have comfortable capitalisation with CAR of 17.86%, Tier 1 CAR of 16.37% and CET1 ratio of 15.93% as on March 31, 2023 (March 31, 2022: CAR 18.42%, Tier 1 CAR of 16.80% and CET1 of 15.96%). Furthermore, higher proportion of core capital enables the bank to raise Tier II capital to enhance capitalisation if required to support credit growth. CARE Ratings Limited (CARE Ratings) expects the bank to maintain sufficient capital cushions over the minimum regulatory requirements supported by internal accruals without equity capital raise in the near term.

Growing franchise with diversification in lending portfolio with focus on retail: IBL has pan-India presence with 2,606 bank branches, 3,303 branches of its wholly owned subsidiary Bharat Financial Inclusion Ltd – BFIL, 582 vehicle finance marketing outlets (IMFS) and 2,878 automated teller machines (ATMs) as on March 31, 2023. The bank has changed its asset and liability

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

profile over the years to increase granularity in the business. The bank's asset mix changed with the acquisition of BFIL with retail proportion increasing from 39% of total advances as on March 31, 2019 to 54% as on March 31, 2023. Vehicle loans is the largest retail segment at 26% of the total advances, microfinance loans at 11% and other non-vehicle retail loans which includes business banking, credit cards, personal loans, loan against property (LAP), affordable housing, etc together contributing 16% of the advances. Majority of the retail products like vehicle loans, micro finance loans, personal loans, credit cards etc. are relatively high yielding and form significant proportion of advances. The bank has domain expertise and has carved a niche for itself in the segments of vehicle finance with the acquisition of erstwhile Ashok Leyland Finance Limited in 2003, diamonds financing with the acquisition of the business segment from Royal Bank of Scotland and microfinance with the acquisition of Bharat Financial Inclusion Limited (BFIL) in 2019. The bank is one of the largest lenders to the diamond industry with nil SMA and NPA accounts. The wholesale segment which consists 46% of the total advances include large, mid and small corporates at 25%, 16% and 5% of the net advances respectively. The bank has been rejigging its corporate portfolio with more focus on better rated corporates which resulted in some moderation in yield on advances. CARE Ratings expects the bank to continue to grow its advances in the near term, led by the retail segment.

Healthy earnings profile: The cost of deposits has reduced in the past few years however it continues to be comparatively higher due to higher proportion of bulk deposits in total deposits. The yields on advances for IBL are higher than some peer private banks due to composition of its retail portfolio which forms sizeable proportion of overall advances. Therefore, the bank is able to generate higher Net Interest Margin (NIM). The bank also has an established fee income base which brings stability to the non-interest income. The bank's net interest income (NII) and pre-provisions operating profit (PPOP) for the year FY23 stood at ₹17,592 crore and ₹15,001 crore, respectively.
IBL's NIM and PPOP to average total assets for FY23 were 4.11% (P.Y.: 3.94%) and 3.35% (P.Y.: 3.37%) respectively following strong credit growth. However, the non-interest income was impacted in FY23 to some extent by lower treasury income in an increasing interest rate scenario while the fee-based income continued to increase. The credit cost of the bank is slightly higher because of the nature of the segments it caters to. The credit cost declined to 1.05% of the average total assets in FY23 due to lower slippages as compared to previous years (FY22: 1.75% and FY21: 2.38%) which got accentuated due to the impact of COVID-19. The return on average total assets (ROTA) for FY23 improved to 1.73% for FY23 as against 1.21% for FY22 (FY21: 0.85%) on account of lower credit costs.
Going forward, CARE Ratings expects the profitability matrix to continue to improve as credit cost are expected to be lower on account of provision buffers (contingency + floating) created by the bank along with lower incremental slippages.

Key rating weaknesses

Moderate resource profile: The liability profile of IBL is characterised by moderate retail deposits and dependence on bulk deposits. The bank's deposits were impacted in FY20 due to negative developments in another private bank resulting in significant outflow of deposits and the bank's credit to deposit ratio shot up to 102% as on March 31, 2020 from around 96% for the previous two years (FY18 and FY19). The CASA also dropped from 43.1% as on March 31, 2019 to 40.4% as on March 31, 2020. From FY20 onwards, the bank has been focusing on growing its retail deposits (from retail and small business customers as per the definition in Liquidity Coverage Ratio - LCR) with lower dependence on bulk deposits and CDs. The total deposits have since been rising steadily and the deposit profile has strengthened to some extent. The share of retail deposits as per LCR has improved from 31% as on March 31, 2020 to 43% as on March 31, 2023, whereas the bulk term deposits (₹2 crore and above) fell from 40% of total deposits as on March 31, 2020 to 30% as on March 31, 2023. The management intends to increase retail LCR in excess of 50% in the next three years.
The proportion of CASA stood at 40.05% and credit to deposit ratio has improved to 86% as on March 31, 2023 and CARE Ratings expects the same to remain around 90% in the near term. The cost of deposits has reduced in the past few years however it continues to be relatively higher due to its higher proportion of bulk deposits. The bank's liability is also supported by its considerable low-cost refinance lines from developmental refinancing institutions. CARE Ratings believes the bank will continue to improve the liability profile with more reliance on retail deposits and calibrate its asset growth in conjunction with growth in its deposit book.

Relatively higher concentration in retail portfolio: IBL's retail portfolio has high proportion of vehicle loans which is cyclical and microfinance loans whose borrowers may see higher susceptibility in periods of economic downturn. Although, the bank has developed its underwriting and collection processes over the years in these segments, the bank has relatively higher exposures to the inherent risk of these sectors. A large portion of retail portfolio is unsecured (32% of advances as on March 31, 2022) as compared to larger peer banks. Furthermore, it has significant wholesale exposure to companies in real estate which is relatively riskier. The slippages increased in FY22 due to the impact of COVID-19 on the borrowers' profile of its retail customers with Gross NPA peaking at 2.88% as on June 30, 2021 and has been reducing every quarter and stood at 1.98% as on March 31, 2023 (March 31, 2022: 2.27%) helped by growing advances book, lower slippages and high write-offs during FY23. The bank's standard restructured loan book reduced to 0.83% of the advances as on March 31, 2023 from 2.79% as on March 31, 2022. The bank continues to have provision coverage ratio (PCR excluding technical write-off) of 71% and total provisions (NPA provision + floating + contingency + standard asset provision) covering 2.5% of loans which is sufficient buffer for asset quality risks as on March 31, 2023. As a result, net stressed assets (Net NPA + Standard Restructured Assets + Security Receipts) to net worth ratio improved from 24.64% as on March 31, 2022 to 12.58% as on March 31, 2023. Going forward, CARE Ratings expects the asset quality to improve further and stabilise due to lower incremental slippages as the bank is granularizing and diversifying its advances portfolio.

Liquidity: Adequate
The bank's liquidity profile is supported by the bank's retail and CASA depositor base. According to the structural liquidity statement as on December 31, 2022, there were no negative cumulative mismatches in the time buckets up to 12 months. The liquidity coverage ratio as on March 31, 2023, stood at 122.96%, as against the minimum regulatory requirement of 100%. The bank also had an excess statutory liquidity ratio (SLR) of ₹52,238 crore as on December 31, 2022, which provides a liquidity buffer, and the bank can borrow against it in case of any liquidity requirement during contingency. The bank also manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. Furthermore, the bank has access to systemic liquidity like the RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with access to refinancing from the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), the National Bank for Agriculture and Rural Development (NABARD), etc, and access to call money markets.

Environment, social, and governance (ESG) risks
Highlights of the bank's ESG initiatives:
- To promote greater thrust on ESG-linked products, the bank is launching a series of ESG linked products. The bank has launched two such products including (a) EV finance for passenger cars and (b) Green fixed deposits
- The board approved the bank aim to become Carbon Neutral by 2032
- The bank's board approved an upgraded and robust ESG Risk Assessment Policy and governance framework for corporate exposures
- IBL has been developing New ESG-linked products like holistic platform for supporting Women Entrepreneurs and Green loans for Solar Roof top finance
- IBL has developed a standard operating process to smoothen and streamline the process for loans covered under Environmental and Social Risk Management System (ESMS)

Applicable criteria
Policy on default recognition
Financial Ratios - Financial Sector
Short Term Instruments
Bank

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Private Sector Bank

Established in 1994, IBL is a new-generation private-sector bank promoted by the Hinduja group.
In June 2004, the Hinduja group merged its flagship company Ashok Leyland Finance Limited (ALF), one of the largest auto and commercial vehicle financing NBFCs, with IBL. The merger was effective from April 1, 2003 and the same benefited the bank in terms of branch network, improved margins due to high-yielding retail portfolio as also catapulted it into one of leading financiers of commercial vehicles, two & three-wheelers and construction equipment.
Currently, it is the fifth-largest private bank in India in terms of total assets and total business as on March 31, 2023. The bank has a pan-India presence, with 5,909 branches (including 3,303 branches of Bharat Financial Inclusion Ltd - BFIL) and 2,878 automated teller machines (ATMs) as on March 31, 2023. It also has representative office in Dubai, Abu Dhabi and London. The bank offers a wide range of products and services for individuals and corporates, including microfinance, personal loans, personal and commercial vehicle loans, credit cards and SME loans.

Bharat Financial Inclusion Limited (BFIL) (earlier known as SKS Microfinance Ltd) was acquired by IBL in July 2019 and is a 100% wholly owned subsidiary of the bank. BFIL surrendered its NBFC license as NBFC-MFI post acquisition and is working as a business correspondent (BC) of IBL offering the bank's asset and liability product solutions.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total income	35,558	38,219	44,534
PAT	2,836	4,611	7,390
Total assets	3,61,010	3,99,806	4,55,636
Net NPA (%)	0.69	0.64	0.59
ROTA (%)	0.85	1.21	1.73

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
Note: All Analytical ratios are as per CARE Ratings' calculations, total assets are as per CARE Ratings' calculation in the absence of detailed balance sheet and may change after receipt of annual report. Total assets is net of intangible assets, revaluation reserve and deferred tax assets.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Certificate Of Deposit	Proposed	-	-	Upto 365 days	10,000.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Certificate Of Deposit	ST	10,000.00	CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments: Not Applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Certificate of Deposit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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