Indusind Bank Limited

May 16, 2024

Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Certificate of deposit	10,000.00	CARE A1+	Reaffirmed

Details of instruments in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating assigned to the certificate of deposit (CD) programme of IndusInd Bank Limited (IBL) factors in comfortable capitalisation levels supported by periodic capital infusion and accretion of profit, growing franchise of the bank with focus on retail lending, and healthy earning profile supported by relatively higher yield on advances due to higher proportion of high-yield retail products.

However, rating strengths are partially offset by moderate although improving resource profile and relatively higher concentration to segments, which are exposed to cyclicality and event risks, despite the bank maintaining stable asset quality. IBL continues to focus on improving its deposit profile, which has relatively higher proportion of bulk deposits. 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

- Moderating asset quality parameters with net non-performing NPA to net worth (NNP/NW) ratio of above 10% on a sustained basis.
- Worsening deposit profile with increasing proportion of bulk deposits.
- Declining profit on a sustained basis, leading to deteriorating capitalisation cushion of less than 2.5% over and above the minimum regulatory requirement.

Analytical approach: Standalone

Outlook: Not applicable

Detailed description of key rating drivers

Key strengths

Comfortable capitalisation

In the past, IBL has demonstrated its ability to raise equity periodically to boost up its capital which has enabled it to grow its advances. The bank had raised equity in FY20 and FY21 and raised Tier-II bonds aggregating ₹2,800 crore in FY22. As a result of this periodic capital raise and accretion of profits, the bank continues to have comfortable capitalisation with total capital adequacy ratio (CAR) of 17.23%, Tier-1 CAR and CET1 of 15.82% as on March 31, 2024 (March 31, 2023: CAR 17.86%, Tier-1 CAR of 16.37% and CET1 of 15.92%). In FY24, the company redeemed its AT1 bonds causing around 40-basis point impact. The RBI circular on increase in risk weights for unsecured consumer credit and NBFC exposure impacted capital adequacy by around 40 bps in FY24. However, a higher proportion of core capital enables the bank to raise Tier-II capital to enhance capitalisation 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 2,984 bank branches, 3,620 branches of its wholly owned subsidiary, Bharat Financial Inclusion Ltd (BFIL), 367 vehicle finance marketing outlets (IMFS), and 2,956 automated teller machines (ATMs) as on March 31, 2024. The bank changed its asset and liability profile over the years to increase granularity in the business. The bank's asset mix changed post BFIL-acquisition with the retail proportion increasing from 39% of total advances as on March 31, 2019, to 56% as on March 31, 2024. BFIL acts as its business correspondent, sourcing and collecting micro loans for the bank, and has no lending book of its own.

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

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, and merchant loans, among others, together contributed 18% of the advances as on March 31, 2024. Majority retail lending products such as vehicle loans, micro finance loans, personal loans, credit cards, and merchant loans, among others, are relatively high yielding and form a significant proportion of advances. The bank has domain expertise and has carved a niche for itself in the vehicle finance segment by acquiring the erstwhile Ashok Leyland Finance Limited in 2003, gems and jewellery financing by acquiring the business segment from Royal Bank of Scotland, and microfinance by acquiring Bharat Financial Inclusion Limited (BFIL) in 2019. In retail lending, the bank is focusing on products such as merchant loans, home loans and MSME financing.

The wholesale segment, which comprises 44% of the total advances, constituted large, mid, and small corporates at 24%, 15% and 5% of net advances, respectively, as on March 31, 2024. The bank is one of the largest lenders to the gems and jewellery industry and has maintained good asset quality with nil SMA and no slippages. The bank has been rejigging its corporate portfolio, with more focus on better rated corporates.

CARE Ratings expects the bank to continue growing its advances in the near term, led by the retail segment, with its proportion being 55-60% of total advances.

Healthy earnings profile

In FY24, the bank saw increase in advances by 18%, which was in trend with the industry growth. The bank's net interest income increased by 17% to ₹20,616 crore in FY24 despite increase in cost of deposits due to increasing interest rate scenario. Yields on advances for IBL are higher than some peer private banks due to composition of its retail portfolio (vehicle loans, merchant loans, and MFI), which forms a sizeable proportion of overall advances. Therefore, the bank is able to generate higher net interest margin (NIM) at 4.25% for FY24 (FY23: 4.11%) despite having relatively higher cost of deposits.

CARE Ratings expects the bank to maintain its NIM in FY25 due to its ability to pass on and faster churn its fixed interest rate portfolio. The bank also has an established fee income base, which brings stability to non-interest income.

The bank saw increase in operating expenses by 25% in FY24, as it focused on branch expansion, employee cost, expenses on digital initiatives and higher marketing and branding costs. As a result, the bank's pre-provisions operating profit (PPOP) for FY24 stood at ₹20,616 crore showing growth of 10%. The bank's cost to income ratio increased to 47.54% for FY24 as compared to 44.30% for FY23.

The bank's credit costs, which is relatively higher compared to larger peer banks due to the segments it caters to, declined to 0.78% of total assets for FY24 as compared to 1.05% for FY23 with lower slippages, which helped the bank improve its return on total assets (ROTA) to 1.84% for FY24 as compared to 1.73% for FY23.

Going forward, CARE Ratings expects company to maintain profitability matrices at healthy levels.

Key weaknesses

Moderate resource profile

IBL's liability profile 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 previous two years (FY18 and FY19). The current account savings account (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 per the definition in liquidity coverage ratio - LCR) with lower dependence on bulk deposits and CDs. Total deposits have since been rising steadily and the deposit profile has strengthened to some extent. The share of retail deposits per LCR has improved from 31% as on March 31, 2020, to 44% as on March 31, 2024, whereas bulk term deposits (₹2 crore and above) continues to be significant. In FY24, the CASA proportion of deposits declined to 38% (FY23: 40%) in trend with the entire banking industry and credit to deposit ratio increased to 89% as on March 31, 2024, from 86% for the previous year.

The cost of deposits continued to increase in FY24, as the banking industry faced challenges to mobilise low-cost deposits due to challenging liquidity environment. The average cost of IBL's deposits continues to be relatively higher due to its higher proportion of bulk deposits. The bank's liability is also supported by its low-cost refinance lines from developmental refinancing institutions, which the bank availed in FY24. CARE Ratings believes the bank will continue to improve its liability profile with more reliance on retail deposits and calibrate asset growth in conjunction with growth in its deposit book.

Relatively higher concentration in retail portfolio

As compared to larger private sector banks, IBL's retail portfolio has high proportion of vehicle loans, which is cyclical (26% of the net advances), microfinance loans (11% of the net advances), and merchant loans (2% of the net advances), whose borrowers may see higher susceptibility during economic downturn. The bank has developed sound underwriting and collection processes over the years in these segments, which allowed the bank manage risks in higher yielding segments. Within the retail portfolio, microfinance, merchant advances, credit card and personal loans are unsecured. Its wholesale exposure to companies in real estate, which is relatively riskier, stood at 3.50% of advances as on March 31, 2024 (Previous year: 4.34%).

The asset quality has been stable due to lower incremental slippages post COVID. IBL reported slippage ratio of 2.09% FY24 (FY23: 2.90% vs FY22: 4.49%). As on March 31, 2024, Gross NPA ratio stood at 1.92% (PY: 1.98%) and NNPA ratio stood at 0.57% (PY: 0.59%), while the bank's standard restructured loan book reduced to 0.40% of advances as on March 31, 2024, from 0.83% as on March 31, 2023. The bank's NNPA/NW ratio stood at 3.14% as on March 31, 2024 as compared to 3.26% as on March 31, 2023.

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 2.1% of loans, which is a sufficient buffer for asset quality risks, as on March 31, 2024. As a result, net stressed assets (NNPA + Standard Restructured Assets + Security Receipts) to net worth ratio improved from 13.31% as on March 31, 2023, to 9.34% as on March 31, 2024. Going forward, CARE Ratings expects the asset quality to be stable, as the bank is granularising 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 March 31, 2024, there were no negative cumulative mismatches in the time buckets up to 12 months. The liquidity coverage ratio as on March 31, 2024, stood at 118%, as against the minimum regulatory requirement of 100%. The bank also had an excess statutory liquidity ratio (SLR) of ₹29,892 crore as on March 31, 2024, which provides liquidity buffer, and the bank can borrow against it in case of liquidity requirements during contingency. The bank also manages its deposit maturities in a particular time bucket by appropriately modifying deposit rates. The bank also has access to systemic liquidity including RBI's Liquidity Adjustment Facility (LAF), Marginal Standing Facility (MSF), access to refinancing from the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB), and the National Bank for Agriculture and Rural Development (NABARD), among others, and access to call money markets.

Environment, social, and governance (ESG) risks

Environmental

The bank is enhancing exposure to ESG positive sectors and has plans to become carbon neutral by 2032. The bank has launched many ESG-linked products such as Green Deposits, Green & Sustainability Linked Bonds, Solar Rooftop Loans to MSE clients, and Partnership with DFIs.

Social

The bank has inclusive banking and has launched Indus WE platform for women entrepreneurs, offering holistic banking and non-banking services.

Governance

The bank has set up a board-level ESG committee and integrated ESG risk with Credit Risk Assessment. The bank also monitors Severe ESG Risk Industry Exposures. There is also independent third party assurance for ESG.

Applicable criteria

[Definition of Default]
[Bank]
[Financial Ratios - Financial Sector]
[Short Term Instruments]

About company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Private sector bank

Indusind 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 ALF, one of the largest auto and commercial vehicle financing NBFCs, with IBL. The merger was effective April 01, 2003, and benefited the bank in terms of branch network, improved margins due to high-yielding retail portfolio as catapulted it into one of the leading financiers of commercial vehicles, two and 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, 2024. The bank has a pan-India presence with 2,984 bank branches, 3,620 branches of its wholly owned subsidiary BFIL, 367 IMFS and 2,956 ATMs as on March 31, 2024. 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. BFIL (earlier known as SKS Microfinance Ltd) was acquired by IBL in July 2019 and is its 100% wholly owned subsidiary. 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 - Standalone (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
	12M	12M
Total income	44,534	55,136
PAT	7,390	8,950
Total assets#	4,55,780	5,14,935*
Net NPA (%)	0.59	0.57
ROTA (%)	1.73	1.84

A: Audited; UA: Unaudited. Note: These are latest available financial results.
Note: All analytical ratios are per CARE Ratings' calculations.
#Total assets and net worth adjusted by DTA, revaluation reserve, and intangible assets.
*Calculated as per abridged financials in the absence of detailed balance sheet.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Certificate of deposit	Proposed	-	-	Upto 364 days	10,000.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Certificate Of Deposit	ST	10000.00	CARE A1+	-	1)CARE A1+ (17-May-23)	-	-

ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Certificate of deposit	Simple

Annexure-5: Lender details

Not applicable

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

Contact us

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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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