IndusInd Bank Limited

May 15, 2025

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 and growing franchise of the bank with focus on retail lending, earning higher yield on advances. While IBL has historically maintained a healthy earnings track record, profitability moderated in 9MFY25 due to elevated credit costs and a rise in deposit rates. CARE Ratings Limited (CARE Ratings) expects earnings in Q4FY25 to remain subdued due to one-time adjustments from derivative accounting discrepancies and potential implications arising from the ongoing review of the microfinance (MFI) portfolio. The rating also considers IBL's moderate resource profile, which has relatively higher proportion of bulk deposits. Asset quality moderated considering ongoing industry related stress in microfinance segment, which contributed 9% to the advances as on December 31, 2024 (down from 11% as on March 31, 2024) resulting in an increase in gross non-performing assets (GNPA) to 2.25% from 1.92% over the same period.

CARE Ratings takes note of the lapses in the internal financial controls following the derivative accounting discrepancies identified in FY25, which will also adversely impact its earnings in Q4FY25. With resignations of both the Managing Director & CEO and the Deputy CEO in April 2025, the progress of management transition, succession and stabilisation of operations will remain a key monitorable, notwithstanding the setting up of a Committee of Executives to manage day-to-day operations under the supervision of a Board-level Oversight Committee until a new MD & CEO is appointed. Per the bank's disclosure on April 22, 2025, the bank has roped in Ernst and Young (E&Y) to assist its internal audit department to examine certain concerns in the microfinance business, which have been brought to its attention in finalisation of accounts. Any adverse outcome in this matter can affect IBL's profitability and hence would remain an additional monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade

- Not applicable

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade

- Moderating asset quality parameters with net non-performing assets to net worth (NNPA/NW) ratio of above 10% on a sustained basis.
- Worsening deposit profile with increasing proportion of bulk deposits.
- Deteriorating capitalisation levels with cushion over the minimum regulatory requirement of less than 2.5% on a sustained basis.

Analytical approach:

Standalone

Outlook: Not applicable

Detailed description of key rating drivers:

Key strengths

Comfortable capitalisation

The bank continues to demonstrate comfortable capitalisation levels, maintaining a healthy buffer over the minimum regulatory requirements, supported by steady internal accruals and periodic equity infusions. As on December 31, 2024, the bank reported a capital adequacy ratio (CAR) of 16.46% and a Common Equity Tier-1 (CET1) ratio of 15.18%, compared to 17.23% and 15.82%,

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

respectively, as on March 31, 2024. These levels remain adequate to absorb the anticipated one-time impact from the derivative-related accounting adjustment. The promoter group has also reiterated its commitment to the bank, expressing willingness to infuse capital if required.

CARE Ratings expects the bank to continue maintaining adequate capital buffers and will closely monitor its ability to raise capital in a timely and effective manner.

Diversified loan Book, albeit with rising asset quality pressures
As on December 31, 2024, IBL maintained a well-diversified loan portfolio, with retail advances constituting 54% and corporate advances accounting for 46% of the total loan book. Within the retail segment, vehicle loans remained the largest component at 25% of total advances, followed by microfinance loans at 9%, while other retail products—including personal loans, credit cards, and merchant loans—contributed to the remaining 20%. Most retail products are predominantly high-yielding and form a significant portion of the bank's overall portfolio. While total advances stood at ₹347,933 crore as on March 31, 2025, the loan book declined by 5% YoY, primarily due to the strategic sale of a part of the corporate loan portfolio to augment liquidity.

Compared to its larger private sector peers, IBL's retail portfolio features a relatively higher share of cyclical and unsecured segments where borrowers are typically more vulnerable in economic downturns. The bank's asset quality witnessed some deterioration in the first nine months of FY25 with GNPA rising to 2.25% as on December 31, 2024, from 1.92% as on March 31, 2024, primarily due to persistent industry-wide stress in the microfinance portfolio and rising delinquencies in the credit card segment. GNPA in the microfinance segment surged significantly to 7.05% as on December 31, 2024, up from 4.53% as on March 31, 2024. In response, the bank reduced its exposure to microfinance loans by 17% in 9MFY25, bringing the segment's share down from 11% to 9% of the loan book.

Despite these asset quality pressures, the bank maintained a healthy provision coverage ratio (PCR) of 70% (excluding technical write-offs). Its total provisions—including those for NPAs, standard assets, floating provisions, and contingency buffers—covered 2.4% of total advances as on December 31, 2024. The NNPA/NW ratio stood at 3.77%, while the ratio of net stressed assets (comprising NNPA, standard restructured assets, and security receipts) to net worth was 6.62%.

CARE Ratings expects the bank to maintain a balanced loan mix, with a continued focus on retail lending in the near term. However, given the continuing stress in the microfinance segment, slippages are likely to remain elevated in the near term. The bank's ability to contain further deterioration in asset quality and sustain profitability will be critical and remains a key monitorable.

Key weaknesses

Moderate resource profile and moderation in profitability
IBL's liability profile continues to reflect a moderate share of retail deposits alongside a relatively high reliance on bulk deposits, resulting in an elevated average cost of funds. In line with its strategic focus, the bank has been gradually increasing the proportion of retail deposits, as defined under the liquidity coverage ratio (LCR) framework, to reduce dependence on bulk funding and CDs.

In Q4FY25, the bank's total deposits grew marginally to ₹411,140 crore as on March 31, 2025, from ₹409,438 crore as on December 31, 2024. This growth was primarily supported by increased issuance of CDs to enhance liquidity following the disclosure of discrepancies in the bank's derivative transactions. Liquidity was bolstered by the strategic sale of a part of the corporate loan portfolio, which resulted in an improvement in the credit-to-deposit ratio to 85% as of March 31, 2025, from 90% at the end of the previous quarter.

However, the share of retail deposits remained rangebound at 45% as on March 31, 2025 as against 46% as on December 31, 2024. CASA deposits reduced to 32.80% as on March 31, 2025 from 34.90% in the previous quarter and 37.91% a year earlier. This trend is consistent with industry-wide pressures but was also partially impacted by concerns arising from the derivative issue. Amidst a challenging liquidity environment, the bank continued to face upward pressure on its cost of deposits in FY25. The liability profile was supported by access to low-cost refinance lines from developmental financial institutions, helping to partially offset the funding cost pressure.

CARE Ratings notes that despite the concerns related to internal controls, the derivative-related disclosure did not result in material deposit outflows in Q4FY25. The Reserve Bank of India's (RBI's) announcement on March 15, 2025, regarding the bank's capital position and financial health provided comfort. Going forward, the bank's ability to stem deposit outflows, grow its retail deposit base, and bring down the overall cost of funds in line with industry peers will be critical and will remain a key monitorable.

On the profitability front, the bank's net interest margin (NIM) for 9MFY25 moderated to 4% in 9MFY25 (vs 4.25% for FY24) due to increase in deposit cost, interest reversals, and reduction in microfinance book. The credit cost shot up from 0.78% of average total assets in FY24 to 1.16% in 9MFY25 considering increase in slippages in microfinance book amid the ongoing stress in the segment. Resultantly, return on total assets (ROTA) slipped to 1.22% for 9MFY25 against 1.84% for FY24. Per the disclosures, the bank will fully adjust the impact of its derivative findings and the potential impact of concerns on microfinance book that have been flagged off in audit in addition to the higher provisions on the microfinance book in its Q4FY25 results. As a result, the profitability for FY25 would be muted. The bank's ability to improve its profitability going forward will be a key monitorable.

Recent developments related to derivatives and microfinance disclosures

The recent discrepancy in accounting of derivative transactions, alongside concerns highlighted in the microfinance portfolio in the financial closure process, underscores lapses in the bank's internal controls. The resignations of both the MD & CEO and Deputy CEO in addition to exits of multiple senior executives in the recent past has further raised concerns around leadership stability and succession planning. As these developments could affect the bank's strategic direction in the near term, the progress of management transition and succession will remain a key monitorable.

Liquidity: Strong

The bank had maintained high liquidity coverage ratio (LCR) of 136.2% as on March 31, 2025, against the regulatory requirement of 100%, acting as a buffer in case of higher deposit outflow in light of recent events. According to the structural liquidity statement as on December 31, 2024, there were no negative cumulative mismatches in the time buckets up to six months. 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

Given the service-oriented nature of banking business, its direct exposure to environmental risks remains low. However, it faces implicit environmental risks through its portfolio of assets such as vehicle loans, which contributes 25% of advances. The bank also has microfinance loans and merchant advances which caters to lower strata of the society. The bank has started financing MSME clients for purchasing and installing solar panels on rooftops. The bank has launched Water and Sanitation Loans to promote financial inclusion in rural areas. These loans support the construction and repair of household toilets, water quality improvement, overhead tanks, and rainwater harvesting systems. Governance risks factor in the lapses in the internal financial controls and the recent exits of the key management personnel.

Applicable criteria

Definition of Default
Banks
Financial Ratios - Financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 Ltd, one of the largest auto and commercial vehicle financing nonbanking finance companies (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 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 December 31, 2024. The bank has a pan-India presence with 2,984 bank branches, 3772 branches of its wholly owned subsidiary, BFIL, 300 vehicle finance marketing outlets, and 2,993 ATMs as on December 31, 2024. It also has representative offices 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 (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total income	44,534	55,136	45,009
PAT	7,390	8,950	4,879
Total Assets	455,780	514,639	549,226
Net NPA (%)	0.59	0.57	0.68
ROTA (%)	1.73	1.84	1.22

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: 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 and Rating Outlook
Certificate of Deposit	-	-	-	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 2025-2026	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
1	Certificate Of Deposit	ST	10000.00	CARE A1+	-	1)CARE A1+ (16-May-24)	1)CARE A1+ (17-May-23)	-

ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments

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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