IndusInd Bank

June 24, 2022

To,

National Stock Exchange of India Ltd. (Symbol: INDUSINDBK)

BSE Ltd. (Scrip Code: 532187)

Madam / Dear Sir,

Subject: Credit Ratings - India Ratings & Research

India Ratings & Research have, vide their communication dated June 23, 2022, reaffirmed the Issuer and Credit Ratings on the Debt instruments of the Bank as mentioned in the table below:

Type	Size of Issue (billion)	Rating/Outlook	Rating Action
Long Term Issuer Rating	-	IND AA+/Stable	Affirmed
Short Term Issuer Rating		IND A1+	Affirmed
Senior unsecured redeemable bonds	INR15 (reduced from INR20)	IND AA+/Stable	Affirmed
Additional Tier 1 (AT1) Bonds	INR20 (reduced from INR40)	IND AA/Stable	Affirmed
Basel III compliant Tier 2 Bonds	INR40	IND AA+/Stable	Affirmed

This disclosure is being made in compliance with Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

A communication from Rating Agency is enclosed for reference.

We request you to take the above information on record.

Yours faithfully,
For IndusInd Bank Ltd.

Anand Kumar Das
Deputy Company Secretary

IndiaRatings & Research
A Fitch Group Company

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India Ratings Affirms IndusInd Bank at 'IND AA+'/Stable

Jun 23, 2022 | Banks

India Ratings and Research (Ind-Ra) has affirmed IndusInd Bank Limited's (IBL) Long-Term Issuer Rating at 'IND AA+' with a Stable Outlook and Short-Term Issuer Rating at 'IND A1+'. The instrument-wise rating actions are as follows:

Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
*Senior unsecured redeemable bonds	-	-	-	INR15 (reduced from INR20)	IND AA+/Stable	Affirmed
*Additional Tier 1 (AT1) Bonds	-	-	-	INR20 (reduced from INR40)	IND AA/Stable	Affirmed
*Basel III compliant Tier 2	-	-	-	INR40	IND AA+/Stable	Affirmed

*Details in Annexure

The ratings reflect the following factors: the improving deposit and liability profile; the easing of the agency's concerns on asset-quality metrics and the ability of the bank to absorb stresses, including COVID-19 impact, and strengthened capital buffers.

The rating also factors in IBL's leadership position in certain asset classes (such as vehicle financing and microfinance) and its robust pre-provision operating buffers. IBL has a granular loan portfolio, a diversified income profile, and an experienced management team; all these factors, in the agency's opinion, are the bank's key strengths. The bank's extant three-year strategy envisages a significant role for digital banking across banking functions and significant improvements in its liability profile so as to close the gap between the bank and its larger peers.

The AT1 bonds rating reflects the bank's strong standalone credit profile, along with its ability to service coupons and manage principal write-down risk on its debt capital instruments. To arrive at the rating, Ind-Ra has considered the discretionary component, coupon omission risk and the write-down/conversion risk as key parameters. The agency recognises the unique going-concern loss absorption features that these bonds carry and differentiates them from the bank's senior debt, factoring in a higher probability of an ultimate loss for investors in these bonds. Ind-Ra envisages coupon deferrals and principal write-down risk as a remote possibility in view of the bank's adequate revenue reserve and operating buffers.

Key Rating Drivers

Growing Franchise: IBL commanded a share of about 2% in net banking advances at FYE22 (FYE17: 1.5%; but remained around 2% over FY20-FY22), backed by its leadership position in vehicle finance and microfinance. Furthermore, IBL has, among the highest pre-provisioning profits in the banking space, (consistently above 5%) giving the bank's substantial ability to withstand stresses. IBL has made material progress on profitability- and liability profile-related objectives that it had set up in the plan for FY21-FY23 and Ind-Ra expects the bank to stay on course with reasonable expectation of asset growth (the last two-three years – the bank's growth has been lower than peers' as COVID-19, in the agency's opinion, impacted IBL's business owner customer profile more than the larger banks'). The bank's strategy in the next few years would be to focus on improving the granularity of deposits, maintaining healthy liquidity, maintaining credit to deposit ratios, and focusing on digital offerings across all banking products, merchant solutions and cross-sell. The bank, which continues to be among the largest lenders in vehicle finance and microfinance, plans to further broaden its franchise in these segments. Ind-Ra expects the bank to continue to grow its franchise, especially on the non-corporate side on an ongoing basis.

Improvement in Liability Profile: IBL's deposits grew about 15% yoy in FY22, with a majority of the incremental deposits accruing in the form of retail granular deposits of less than INR20 million. The differential in the interest rates with peers and larger banks has been brought down over the last eight quarters. While the bank's current account deposits to total deposits declined to about 12.4% in FY22 from 14.1% in FY21, current and savings deposits increased marginally to 43% from 42% and its total deposits grew almost 25% in FY22 and 33% in FY21. The bank's retail and small business deposits accounted for about 41% of the total deposits (37% in March 2021). The bank's liability is also supported by its considerable low-cost refinance lines from developmental refinancing institutions. The bank also reduced its reliance on borrowings as well as its term deposit and bulk deposit rates in FY22. After almost 75% reduction in certificates of deposits to INR77 billion during 1QFY22 from March 2020 (around INR300 billion), it has remained at about 3% of total deposits. The bank also aims to consistently keep its credit-to-deposit ratio at 90% (end-March 2022: about 81%; end-March 2021: 83% end-March 2020: 102.3%). IBL's proportion of bulk deposits, although higher than that of its peers, declined to 21% at end-March 2022 from 27% at end-June 2021 and 38% at end-March 2020 and 31% at end-December 2020. With progressive granularisation, the share of the top 20 depositors, while remaining elevated compared to that of peer and higher rated banks, declined to 22% in FY21 and to around 17% in FY22. Ind-Ra believes the bank will prioritise its liability profile, and will continue to target retail deposits and growth relative to asset growth across preferred segments.

Covid Impact on Asset Quality and Credit Costs Could Wane: IBL has a leadership position in certain retail asset classes with a pan-India franchise; this has strengthened its ability to manage the asset quality in those segments. IBL's gross non-performing assets (GNPAs) stood at 2.27% at FYE22, with 72% provision coverage. The bank was impacted through COVID-19 more than its peer and larger banks, given the larger share of retail business owner profile of its loan customers, including microfinance. As a consequence, its restructured assets stood higher than its peers' and larger banks' at 2.6% in FY22 (down from 3.7% at end-December 2021) with credit costs of 2.8% (FY21: 3.8%; FY20: 2.4%; FY19: 1.6%). However, the credit costs over FY21-FY22 included 1.4% of unallocated provisions. The bank's GNPAs have declined to below FY20 levels on the back of growing denominator, sale to asset reconstruction companies (FY22: INR22 billion) and write offs (the write-offs in FY21 and FY22 were about INR84 billion). The unutilised provisions of about INR33 billion existing at FYE22 were equivalent to about 50% of restructured assets; additionally, the bank carries about INR12 billion of provisions on restructured assets. The bank has seen a churn of about 75% on the real estate book that existed towards end-March 2020, indicating a reasonable trend of repayments, prepayments and disbursements. Ind-Ra expects that the bank, given unutilised provisions that it already carries, to see a material decline in its credit costs to about 1.5% in FY23.

Robust Pre-provision Operating Profit (PPOP): IBL's PPOP to average advances has remained higher than that of its peers (FY22: 5.8%; FY21: 5.6%), primarily due to the higher share of its higher yielding non-corporate and microfinance portfolios. Moreover, the bank booked a treasury income of about INR13 billion in FY22. The bank's non-interest income as a percentage of gross income has been comparable or higher than that of its peers at about 33% for FY22; however, it was lower than 36%-42% over FY16-FY20. The agency expects this income profile to remain steady as the bank continues to improve the granular income streams while its treasury income may be lower over the near-mid-term than that in FY21-FY22. IBL has been able to provide higher deposit rates to attract granular deposits in a bid to improve its deposit profile without impacting its PPOP significantly. Ind-Ra expects IBL's overall income profile to be largely similar to FY22 levels over the near-to-medium term, given the bank's ability to maintain and/or improve its liability profile, which drive loan growth.

Adequate Capitalisation: IBL's core equity tier-1 capital, including profits, was 16% at FYE22 (FYE21: 15.6%). Over FY18-FY22, the bank's return on assets was materially below the historic levels; the agency expects this to converge towards the historic trend – this improvement in the bank's return profile will provide an additional runway for growth over the near-mid-term without significantly depleting its capital levels. The bank has also seen an improvement in its risk weighted assets to total assets to 73% in FY22 from 80% in FY21. The bank raised INR28 billion of tier 2 bonds during 1HFY22.

Liquidity Indicator – Adequate: The bank's short-term asset funding (excess of short-term assets over short-term liabilities) was in surplus of about 6% of the total assets in March 2022. The bank carries excess statutory liquidity qualifying securities and reverse repo, together totaling about INR630 billion. The effect of a part of this has been captured in the aforementioned asset funding surplus. Ind-Ra expects the bank to continue to have substantial liquidity buffers over the near-to-medium term. The bank has a concentrated deposit profile, which decreased yoy to 17% (top 20 depositors to total deposits) in FY22 from 21% in FY21. The liquidity coverage ratio of the bank was 126.3% at FYE22 (FYE21: 145.11%). Overall, Ind-Ra believes the bank's liquidity position has improved significantly from FY20 and could continually benefit from the increasing granularisation and retailsation of its deposits.

New Areas of Focus and Related Challenges: Over IBL's fifth planning cycle (2020-2023), the bank aims to implement key themes, such as focusing on digital banking, fortifying liabilities, scaling-up domain expertise, investing in new growth engines and significantly improving its practices and policies. The key goals that the bank has adopted include an increase in the share of funded exposure in lower tenor buckets, augmenting the share of retail deposits (as reflected in the liquidity coverage ratio calculations) to 45%-50% by 2023 from 36%. Ind-Ra believes the bank will have to continue to mobilise an increased proportion of low-cost deposits and retail deposits while reducing the cost of deposits. This, the agency believes, could enable the bank to take higher exposure to secured assets and higher-rated funded exposure. While business owners will remain the key customers for IBL, the bank is rolling out its millennial initiative, which includes the introduction of a new, all-in-one banking proposition for the new-age customer, and build customer loyalty outside the business owner segment as well and providing a one-stop solution for the business owner (even other than plain financial requirements). This, in the agency's opinion is a key challenge and will require substantial investment in brand building, digital banking interfaces and backend servicing engines to continue beyond the current planning cycle.

Rating Sensitivities

Positive: Substantial growth in the franchise and scale, continued granularisation of deposits and liability profile while sustaining the capital and operating buffers and lowering credit costs sustainably could result in a positive rating action.

Negative: A weakening of the liability profile, which could be on account of (a) higher growth in wholesale funding or material gaps in the asset liability tenors (b) ceding of the franchise (c) significantly higher-than-expected deterioration in the asset quality, which could dilute the capital buffers, could lead to a negative rating action. Any material impact on Tier I capitalisation levels with CET I capital falling below 12% on a sustained basis, net NPA to CET I capital rising sharply to exceed the levels reported by the large private sector banks, significant erosion of the franchise (sustained reduction of market share in advances or deposits) or a weakening of the bank's competitiveness in the industry could also result in a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on IBL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here (https://www.indiaratings.co.in/PressRelease?pressReleaseID=56916&title=India%20Ratings%20Launches%20ESG%20Relevance%20Disclosure%20to%20Show%20Impact%20of%20ESG%20on%20Credit).

For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here (https://www.indiaratings.co.in/PressRelease?pressReleaseID=57016).

Company Profile

IBL is a new generation private bank that started operations in 1994. The bank is a significant player in financing commercial and other vehicles along with providing corporate working capital loans. IBL has regularly raised common equity in the past few years from markets at significant premiums due to its strong profitability. At end-FY22, it reached a balance sheet size of INR4.01 trillion, with a net profit of INR48.05 billion (FY21: INR29.30 billion). At end-FY22, the bank had a network of 2,265 branches and 2,767 ATMs across the country.

FINANCIAL SUMMARY

Particulars	FY22	FY21
Total assets (INR billion)	4,019.7	3,629.0
Total equity (INR billion)	458.7	435.0
Net income (net profit) (INR billion)	48.05	29.3
Return on average assets (%)	1.51	0.9
Common equity tier 1 (%)	16.0	15.6
Capital adequacy ratio (%)	18.42	17.4
Source: IBL, Ind-Ra		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	23 August 2021	31 March 2021	4 April 2020	3 June 2019
Issuer rating	Long-term/ Short-term	-	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Negative/ IND A1+	IND AA+/Stable/IND A1+
Senior unsecured redeemable bonds	Long-term	INR15	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Negative	IND AA+/Stable
AT1 perpetual debt	Long-term	INR20	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Negative	IND AA/Stable
Basel III Tier II Bonds	Long-term	INR40	IND AA+/Stable	IND AA+/Stable			

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Rated Amount (billion)	Rating/Outlook
Senior unsecured redeemable bonds	INE095A08041	31 March 2015	8.8	31 March 2022	INR5.0	WD
Senior unsecured redeemable bonds	INE095A08058	9 December 2016	7.6	9 December 2026	INR15.0	IND AA+/Stable
	Total				INR15.0	

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Rated Amount (Billion)	Rating/Outlook
Basel III compliant Tier 2	INE095A08090	29 October 2021	8.11	29 October 2031	INR28.0	IND AA+/Stable
	Utilised limit				INR28.0	
	Unutilised limit				INR12.0	
	Total				INR40.0	

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Rated Amount (Billion)	Rating/Outlook
AT1 perpetual debt	INE095A08066	22 March 2017	9.5	Perpetual	INR10	WD
AT1 perpetual debt	INE095A08074	18 July 2017	9.5	Perpetual	INR10	WD
AT1 perpetual debt	INE095A08082	28 March 2019	10.5	Perpetual	INR14.90	IND AA/Stable
	Utilised limit				INR14.90	
	Unutilised limit				INR5.10	
	Total				INR20.00	

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Hybrid Instruments (AT1)	High
Bonds	Low
Basel III Tier II	Moderate

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators (https://www.indiaratings.co.in/complexity-indicators).

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