IndusInd Bank

August 24, 2021

National Stock Exchange of India Ltd. (Symbol: INDUSINDBK)
BSE Ltd. (Scrip Code: 532187)
India International Exchange (Scrip Code: 1100027)

Madam / Dear Sir,

Subject: Credit Ratings – India Ratings & Research

We hereby inform that India Ratings & Research have, vide their communication dated August 23, 2021, assigned / 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	INR20	IND AA+/Stable	Affirmed
Additional Tier 1 (AT1) Bonds	INR40	IND AA/Stable	Affirmed
Basel III compliant Tier 2 Bonds	INR40	IND AA+/Stable	Assigned

The communication received from the Agency is attached herewith.

In compliance with SEBI LODR, the above information is also being hosted on the Bank's website at www.indusind.com.

We request you to take the above information on record.

Thanking you,

Yours faithfully,
For IndusInd Bank Ltd.

Haresh Gajwani
Company Secretary

Encl: a/a

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CIN: L65191PN1994PLC076333

India Ratings Assigns IndusInd Bank's Tier II Bonds 'IND AA+'/Stable; Affirms Other Ratings

23

AUG 2021

By Jindal Haria

India Ratings and Research (Ind-Ra) taken the following rating actions on IndusInd Bank Limited (IBL):

Type	Date of Issuance	Coupon Rate (%)	Maturity Date	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	-	-	-	INR20	IND AA+/Stable	Affirmed
*Additional Tier 1 (AT1) Bonds	-	-	-	INR40	IND AA/Stable	Affirmed
Basel III compliant Tier 2 #	-	-	-	INR40	IND AA+/Stable	Assigned

Yet to be issued
*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, overall economic recovery expectations, strengthened capital buffers and enhanced ability over the last one year to raise capital from the market, as the bank raised about INR53 billion in FY21 (including promoter warrant conversion; total equity raise amounting to 15% of its FY20 net worth).

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, have been enabling the bank to navigate its way through the disruptions caused by the pandemic while it strives to expand its franchise and scale.

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% share in net banking advances at end-FY21 (FY17: 1.5%), backed by its leadership position in vehicle finance. Furthermore, IBL has among the highest pre-provisioning profits in the banking space, consistently above 5%, giving the bank substantial ability to withstand stresses. The bank has achieved the growth and profitability objectives that it had set up in the plan for FY17-FY20 and has embarked upon a new plan to increase granularity of deposits, maintain healthy liquidity, credit to deposit ratios, focus on digital offerings across all banking products, merchant solutions, cross-sell and has set out targets for the same. The bank will continue to be among the largest lenders in vehicle finance and microfinance and plans to broaden its franchise in these segments. Ind-Ra expects the bank to continue to grow its franchise, especially on the non-corporate side, through the abovementioned plan.

Improvement in Liability Profile: IBL's deposits grew by almost 26% yoy to INR2.67 trillion in 1QFY22, with most 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 in the last three quarters. While the current account deposits more or less remained stable over1QFY21-1QFY22, the savings account deposits grew by about 52% yoy over the same period, with the growth being evenly spread across the quarters. As per the liquidity coverage ratio disclosure of June 2021, the retail and small business component in total deposits reported a growth of 57% yoy as on June 30, 2021, and accounted for about 37% of the total deposits. 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 2HFY21. Its certificates of deposits decreased by over 75% to about INR77 billion in 1QFY22 (FY20: INR300 billion) and constituted about 3% of total deposits (March 2020: 15%). The bank also aims to consistently reduce its credit-to-deposit ratio to 90% (near about current levels from above 100% till FY20). IBL's proportion of bulk deposits, although higher than that of its peers, declined to 27% in June 2021 from 38% in March 20 and 31% at end-December 2020. The share of the top 20 depositors, while remaining elevated, declined to 22% in FY21 (FY20: 23%). 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.

Asset Quality and Credit Costs Manageable: 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 2.88% at end-1QFY22, with 72% provision coverage. The bank was impacted by the second wave of COVID-19 As a consequence, its restructured assets increased to 2.7% at end-1QFY22 (end-FY21: 2%), while GNPAs increased to INR61 billion in1QFY22 (INR58 billion). However, the impact of the same is mitigated by the fact that the bank carries unutilised provisions of INR20.5 billion (not a part of the provision coverage) that can be utilised in case it sees further slippages, and furthermore, most impacted segments are seeing an encouraging recovery. The bank had restructured total advances of INR60 billion, out of which about INR30 billion are vehicle loans. The bank also expects a modest increase in the restructured assets in 2QFY22. At end-1QFY22, the collection efficiencies for segments other than commercial vehicles and small business loans / loans against property had reached March 2021 levels, as per the bank. The bank has not seen any material delinquencies or drop in collections from the real estate and gems and jewellery sectors and has negligible GNPAs; however, some real estate exposures have benefitted from the extension of date of commencement of operations. Additionally, the bank has exposure to one large stressed telecom account. The agency expects the bank to see a credit cost of 2%-2.5% in FY22 and somewhat lower in FY23, considering the provisions that it already carries.

Robust Pre-Provision Operating Profit: IBL's pre-provision operating profit has remained higher than that of its peers (FY22: 5.6%; 9MFY20: 5.4% annualised; FY19: 4.9%, FY18: 5.2%), primarily driven by the higher share of its consumer finance and microfinance portfolios. Moreover, the bank booked treasury income of about INR15 billion in FY21. The bank's non-interest income as a percentage of gross income has been stable and higher than that of its peers (35%-40% compared with 25%-40% for peers and better rated banks), driven by its foreign exchange, processing fees, distribution and investment banking businesses (FY21 was an exception, with the non-interest income to gross income being about 25%, lower than the historical trends and in line with expectations).

Adequate Capitalisation: IBL's core equity tier-1 capital, including profits, was 15.6% at end-FY21 (CET1: 15.6%, Tier1: 16.9%; capital adequacy ratio (excluding the quarterly profit) at end-June 21: 17.6%). The bank received an additional infusion of about INR20 billion through warrant conversion by the promoters in 4QFY21 and this added about 1% to the bank's tier-1 capital. Ind-Ra expects that in a business-as-usual scenario, this along with internal accruals would provide the bank with adequate growth capital in the medium term. In addition, the improvement in the bank's price-to-book over FY20 enhanced its ability to raise equity, if and when required. The bank's capital-to-risk (weighted) assets ratio was 17.4% at end-FY21 and is comparable to larger banks.

Liquidity Indicator – Adequate: The bank's short-term asset funding (excess of short-term assets over short-term liabilities) was in surplus of about 5% of the total assets in June 2021 on the back of its excess statutory liquidity qualifying securities and reverse repo, all of the above totaling about INR640 billion. Ind-Ra expects the bank to continue to have substantial liquidity buffers. The bank has a concentrated deposit profile, which improved by about 1% to 22% (top 20 depositors to total deposits) in FY21; however, any substantial withdrawal of large deposits could have a material impact on its asset-liability profile. The liquidity coverage ratio of the bank at end-1QFY22 was 146% (FYE20: 118%). 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%. . These are related challenges and the agency believes the bank will have to continue to mobilise 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, so that it maintains its margins on an overall basis. While business owners would remain a key customer profile for IBL, the bank plans to roll 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 of the business owner as well. This, in the agency's, opinion is a key challenge and would require substantial investment in brand building, digital banking interfaces and backend servicing engines.

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: Weakening of the liability profile, which could be on account of larger growth in wholesale funding or material gaps in the asset liability tenors, ceding of the franchise, significantly higher-than-expected deterioration in the asset quality, which could dilute the capital buffers, could lead to a negative rating action. 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 result in a negative rating action.

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-FY21, it reached a balance sheet size of INR3.72 trillion, with a net profit of INR28.3 billion (FY20: INR44.19 billion). At end-1QFY22, the bank had a network of 2,015 branches and 2,870 ATMs across the country.

FINANCIAL SUMMARY

Particulars	**FY21**	**FY20**
Total assets (INR billion)	3,629.0	3,070.6
Total equity (INR billion)	435.0	347.1
Net income (net profit) (INR billion)	28.36	44.19
Return on average assets (%)	0.9	1.51
Common equity tier 1 (%)*	15.6	13.22

Capital adequacy ratio (%)*	17.4	15.04
Source: IBL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	31 March 21	4 April 2020	3 June 2019	22 March 2019
Issuer rating	Long-term/ Short-term	-	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Negative/ IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/ IND A1+
Senior unsecured redeemable bonds	Long-term	INR20	IND AA+/Stable	IND AA+/Stable	IND AA+/Negative	IND AA+/Stable	IND AA+/Stable
AT1 perpetual debt	Long-term	INR40	IND AA/Stable	IND AA/Stable	IND AA/Negative	IND AA/Stable	IND AA/Stable -
Basel III Tier II Bonds	Long-term	INR40	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	IND AA+/Stable
Senior unsecured redeemable bonds	INE095A08058	9 December 2016	7.6	9 December 2026	INR15.0	IND AA+/Stable
	Total				INR20	

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	IND AA/Stable
AT1 perpetual debt	INE095A08074	18 July 2017	9.5	Perpetual	INR10	IND AA/Stable
AT1 perpetual debt	INE095A08082	28 March 2019	10.5	Perpetual	INR14.90	IND AA/Stable
	Utilised limit				INR34.90	
	Unutilised limit				INR5.10	
	Total				INR40.00	

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.

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.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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Applicable Criteria

Financial Institutions Rating Criteria
Rating Bank Subordinated and Hybrid Securities

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