IndusInd Bank

April 1, 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 March 31, 2021: (i) Reaffirmed the Issuer Ratings and Credit Rating of Debt Instruments of the Bank and (ii) Revised the Rating Outlook to Stable from Negative as mentioned in the table below:

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating/Outlook
Issuer rating	Long-term/ Short-term	-	IND AA+/Stable/IND A1+
Senior unsecured redeemable bonds	Long-term	INR20	IND AA+/Stable
AT1 perpetual debt	Long-term	INR40	IND AA/Stable

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 Limited

Haresh K. Gajwani
Company Secretary

Encl. a/a

Solitaire Corporate Park Office : IndusInd Bank Limited, Building No.7, Solitaire Corporation Park, Andheri- Ghatkoper Link Road, Chakala, Andheri (E), Mumbai - 400 093, India Tel: (0022) 66412887

Registered Office : 2401 Gen. Thimmayya Road, Pune 411 001, India
Tel.: (020) 2634 3201 Fax: (020) 2634 3241 Visit us at www.indusind.com
CIN: L65191PN1994PLC076333

India Ratings Revises IndusInd Bank’s Outlook to Stable; Affirms ‘IND AA+’

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MAR 2021

By Jindal Haria

India Ratings and Research (Ind-Ra) has revised IndusInd Bank Limited’s (IBL) Outlook to Stable from Negative while affirming its Long-Term Issuer Rating at ‘IND AA+’. The agency has also affirmed the Short-Term Issuer Rating at ‘IND A1+’. The instrument-wise rating actions are given below:

Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
*Senior unsecured redeemable bonds	-	-	-	INR20	IND AA+/Stable	Affirmed; Outlook revised to Stable from Negative
*Additional Tier 1 (AT1) Bonds	-	-	-	INR40	IND AA/Stable	Affirmed; Outlook revised to Stable from Negative

*Details in Annexure

The Outlook revision reflects the following factors: the improvement in IBL’s deposit and liability profile; the easing of the agency’s concerns on asset-quality metrics; sharper recovery, leading to expectations of moderate credit costs and strengthened capital buffers, as the bank raised about INR53 billion in FY21 (including promoter warrant conversion; total equity raise amounting to 15% of its FY20 net worth); a manageable impact of the COVID-19 led lockdown on its liabilities and an overall manageable impact on the asset quality; and peer-comparable provision buffers.

The affirmation factors in IBL’s leadership position in a certain asset classes, strong operating metrics, adequate capital buffers and enhanced ability to raise capital compared to FY20, if required. IBL has a granular loan portfolio, diversified income profile, and experienced management team; all these factors in the agency’s opinion provides the bank to navigate covid-19 aftermath while it strives to expand its franchise and scale.

KEY RATING DRIVERS

Improvement in Liability Profile: IBL deposits grew by almost 20% in the in 9MFY21 from its March 2020 position, with most of the incremental deposits accruing in the form of retail granular deposit of less than INR20 million, partly supported by higher-than-peers' rates offered by the bank; this differential was brought down in 3QFY21. As the banks' granular deposits gets traction, the bank would follow a calibrated strategy of shrinking the spread differential, some of which it reduced in 3QFY21. The bank's liability is also supported by its considerable low cost refinance lines from developmental refinancing institutions. The bank has also reduced its reliance on borrowings as well as its term deposit and bulk deposit rates in 3QFY21. Its certificates of deposits decreased by over 80% to about INR50 billion in 9MFY21 (FY20: INR300 billion) and constituted about 2% 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 peers', has declined to 31% in December 2020 (March 2020: about 38%). The top 20 depositor concentration, while remaining elevated, declined to 22% in 9MFY21 (FY19: 24.31%). Ind-Ra believes the bank will prioritise liability profile and growth relative to asset growth. The bank's retail and small business customer deposits witnessed a growth of 38% during 9MFY21 from the levels witnessed in March 2020, with their share in the total deposits rising to 36% from 34% over the same period.

Asset Quality and Credit Costs Manageable: IBL has leadership position in certain retail asset classes with pan India franchise; this strengthens its ability to manage the asset quality in those segments. IBL's proforma gross non-performing assets (GNPAs) were 2.93% at end-9MFY21 (ex-proforma GNPAs : 1.74% and net NPAs: 0.22%; provision coverage: 87%); the bank expects 2%-2.5% of the advances to be eventually restructured on account of the COVID-19 pandemic. IBL also had about 1.28% unutilised provisions (about INR2.60 billion; this excludes counter-cyclical provisions that were already a part of the provision coverage ratio) till end-9MFY21, which the agency believes can be utilised for restructured assets and proforma GNPAs. Ind-Ra expects microfinance to be a key segment that may require modestly higher provisions / credit cost than budgeted. The bank has not seen material delinquencies or drop in collections from real estate and gems and jewellery sectors and has negligible GNPAs; however, some real estate exposures have benefitted by the extension of date of commencement of operations. Additionally, the bank has exposure to one large stressed telecom account; there are also two large group companies that could be restructured (included in expected restructuring). Under Ind-Ra's stress tests, the agency expects the bank's credit cost to be 1%-1.5% each in FY22 and FY23, on account of regular slippages; additional provisions of proforma NPAs; expected slippages from micro, small and medium enterprises and slippages from stressed corporates.

Robust Pre-Provision Operating Profit: IBL's pre-provision operating profit has remained higher than peers' (9MFY21: 5.5%; 9MFY20: 5.4% annualised; FY19: 4.9%, FY18: 5.2%), primarily driven by higher share of its consumer finance portfolio microfinance portfolio; in FY20 and 9MFY21, the bank also booked about INR10 billion of treasury income). The bank has a stable and higher than peers non-interest income as a percentage of gross income (35%-40% compared with 25%-40% for peer and better rated banks), driven by its foreign exchange, processing fees, distribution and investment banking businesses. While the non-interest income would be lower in FY21, Ind-Ra expects normalisation in FY22.

Adequate Capitalisation: IBL's core equity tier-1 capital including profits was 14.9% at end-9MFY21. The bank also received additional infusion of about INR20 billion through warrant conversion by promoters in 4QFY21 and this could add 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. The bank's price-to-book improvement over FY20 also enhanced its ability to raise equity, if and when required. The bank's capital-to-risk (weighted) assets ratio was 16.93% at end-9MFY21 and is comparable to larger banks.

Liquidity Indicator – Adequate: The bank carried about INR100 billion of excess statutory liquidity qualifying securities at end-December 2020 as compared to its March 2020 position. The bank's short-term asset funding (excess of short-term assets over short-term liabilities) was in surplus of about 9% of the total assets in December 2020 (December 2019: 2% surplus) on the back of its excess statutory liquidity qualifying securities and reverse repo, totaling about INR490 billion, and is comparable with or better than most other private sector banks; Ind-Ra expects the bank to continue to have substantial liquidity buffers. The bank has a concentrated deposit profile, which improved over the last one year, and the substantial withdrawal of large deposits could impact its asset-liability profile materially. The liquidity coverage ratio of the bank at end-9MFY21 was 155.73% (FYE20: 118%). Overall, Ind-Ra believes the bank's liquidity position has improved from FY20 and the uncertainties around the COVID-19 aftermath are significantly lower.

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 increased share of funded exposure in lower tenor buckets, augmenting the share of retail deposits (as reflected in liquidity coverage ratio calculations) to 45%-50% by 2023from 36% and reducing the share of unsecured retail to less than 5% (9MFY21: 11%). These are related challenges and the agency believes the bank will have 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 the bank has business owner as a key customer profile, it also plans to roll out its millennial initiative that 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 franchise and scale, continued granularisation of deposits and liability profile while sustaining the capital and operating buffers and maintaining credit costs could result in a positive rating movement.

Negative: Weakening of liability profile which could be on account of larger growth in wholesale funding or material gaps in assets liability tenors, ceding of 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 higher than the large private sector banks, significant erosion of franchise (sustained reduction of market share in advances or deposits) or a weakening of relative competitiveness in the banking space 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-9MFY21, it reached a balance sheet size of INR3.14 trillion, with a net profit of INR19.56 billion (FY20: INR44.19 billion). By end-3QFY21, the bank had a network of 1,915 branches and 2,835 ATMs across the country.

FINANCIAL SUMMARY

Particulars	**9MFY21**	**FY20**	**FY19**
Total assets (INR billion)	3,414.5	3,070.6	2,778.19
Total equity (INR billion)	405.2	347.1	266.86
Net income (net profit) (INR billion)	19.56	44.19	33.01
Return on average assets (%)	0.80	1.51	1.39
Common equity tier 1 (%)*	14.89	13.22	12.07
Capital adequacy ratio (%)*	16.93	15.04	14.16
Source: IBL, Ind-Ra *including 9MFY21 profits			

RATING HISTORY

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**			
	Rating Type	**Rated Limits (billion)**	**Rating**	**4 April 2020**	**03 June 2019**	**22 March 2019**	**29 March 2018**
Issuer rating	Long-term/ Short-term	-	IND AA+/Stable/IND A1+	IND AA+/Negative/ IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/ IND A1+	IND AA/Stable/ IND A1+

Senior unsecured redeemable bonds	Long-term	INR20	IND AA+/Stable	IND AA+/Negative	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable -
AT1 perpetual debt	Long-term	INR40	IND AA/Stable	IND AA/Negative	IND AA/Stable	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	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

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.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Rating of Bank Legacy Hybrids and Sub-Debt

Analyst Names

Primary Analyst

Jindal Haria

Director
India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block. Bandra Kurla Complex Bandra (East), Mumbai 400051
+91 22 40001750

Secondary Analyst

Ankit Jain

Senior Analyst
+91 22 40356160

Committee Chairperson

Prakash Agarwal

Director and Head Financial Institutions
+91 22 40001753

Media Relation

Ankur Dahiya

Manager – Corporate Communication
+91 22 40356121
