

February 21, 2022

Mizuho Bank Limited (Indian Branches): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Certificate of Deposit Programme	500.00	500.00	[ICRA]A1+; reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure-1

Rationale

The rating draws comfort from the strength of Mizuho Bank Limited (rated A1/P-1 for bank deposits and senior unsecured debt and base credit assessment (BCA) of Baa1 by Moody's) and of the ultimate holding company, Mizuho Financial Group, Inc. (rated A1 by Moody's). Mizuho Bank Limited, which is held by Mizuho Financial Group, is one of the largest banks in Japan in terms of assets, and the total assets of the Group stood at ~USD 2.0 trillion as on September 30, 2021. Mizuho Bank Limited houses the Group's retail and wholesale banking segments, with operations in more than 38 countries and over 505 branches globally. ICRA draws comfort from the strong operational linkages of the Indian Branches with the head office (HO) in Japan, which is reflected in the joint involvement in credit sanctions, risk management and liquidity policies.

The Indian Branches continue to maintain strong capitalisation and asset quality with the oversight and involvement of the HO in underwriting as well as liquidity monitoring. The association of the Indian Branches with corporate customers (both Japanese and non-Japanese) supports the deposit base with a competitive cost of interest-bearing funds, though the branches have high depositor concentration and a short maturity profile. Despite the short tenure of the liabilities, the liquidity of the Indian Branches is supported by the short tenure of the advances, the excess holding of Government securities (G-Secs), balances with the Reserve Bank of India (RBI), a committed line of credit from the HO and reciprocal lines of credit in the Indian rupee (INR) from Indian banks to meet any unforeseen liquidity requirements. The asset quality remains steady with nil slippages in the last 5 years and no special mention accounts (SMA¹) as on September 30, 2021, given the focus on better-rated corporates or corporates with Japanese linkages. The bank has not done any Covid-19 pandemic-related restructuring.

The Indian Branches have sanctioned credit limits for the customers at a relatively higher level than the outstanding level. However, based on the behavioural pattern of the drawdown of these limits and the sufficient liquidity backup, the liquidity position remains strong with positive mismatches across all buckets for the Indian Branches and a strong liquidity coverage ratio (LCR) of 202% for FY2021 (174% for FY2020).

Mizuho Bank Limited, as a whole, had demonstrated weak profitability in the past because of the low interest rate and growth environment in Japan, resulting in modest internal capital generation and a modest capital profile even though it has a strong market position in Japan in terms of the deposit and liquidity profile. ICRA will continue to monitor the credit profile of Mizuho Financial Group as well as Mizuho Bank Limited as it will be a key determinant for the rating of the Indian Branches.

¹ SMA – An account exhibiting signs of incipient stress, resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines

Key rating drivers and their description

Credit strengths

High operational and financial linkages of Indian Branches with HO – For the Indian Branches, ICRA draws comfort from Mizuho Bank Limited coupled with the strong parentage of Mizuho Financial Group (ultimate holding company of Mizuho Bank Limited). ICRA derives further comfort from the high operational linkages between the bank's Indian Branches and the HO with the liquidity management and market risk management policy for the Indian Branches being in line with the policies followed by the HO. Moreover, the parent extends support to its Indian Branches by way of liquidity support as well as by approving all the high-value exposures after carrying out due diligence at the global level.

Additionally, Japan-linked exposures and global relationships form a sizeable portion of the depositors and borrowers at the Indian Branches because of their strong relationship with the bank at the global level. The Indian Branches have also been instrumental in originating business from Indian corporates for Mizuho Bank Limited.

Strong capitalisation and liquidity position with sufficient backup lines for Indian Branches – With foreign banks in India required to maintain capital ratios as per the Basel III requirements of the RBI, the Indian Branches have strong capitalisation indicators with a CRAR of 20.52% (largely core equity capital) as on September 30, 2021 against 20.21% as on March 31, 2021 (19.42% as on March 31, 2020). While the branches are well capitalised to increase growth, their ability to garner a stable deposit base will be a key challenge in scaling up the advances. Accordingly, the advances are likely to remain range-bound at the existing level.

With the relationships largely restricted to corporate customers, the overall depositor profile of the Indian Branches remains concentrated with the top 20 depositors accounting for ~55% of the total deposits as on March 31, 2021 against 61% as on March 31, 2020. The concentration of the depositor profile has remained high over the years and is expected to remain high in the medium term as well. Despite the high concentration, which could result in volatility in the deposit base, the Indian Branches have strong liquidity as the credit-to-(deposit + net worth) ratio was low at ~49% as on September 30, 2021 with a sizeable balance in reverse repo and G-Secs (~79% of total deposits as on September 30, 2021). In addition, the Indian Branches have backup lines of credit to take care of any liquidity requirements through reciprocal lines of credit of ~Rs. 2,708 crore from State Bank of India {rated [ICRA]AAA (Stable)/[ICRA]AA+ (Stable)} and Bank of India {rated [ICRA]MAA+ (Stable)} and can borrow up to 100% of the Tier I capital from the HO.

While the Indian Branches have a strong capital position, Mizuho Bank Limited's capital position is modest with an estimated core capital (CET-I) of 11.63% as on September 30, 2021. Mizuho Bank Limited's weak profitability and hence its internal capital generation are challenges.

Strong asset quality – The Indian Branches have a minuscule share of retail franchise and have a presence through five branches in India, with the corporate segment dominating the customer base. The asset quality profile of the branches has remained strong. With ~50-60% of the outstanding loan book comprising entities with Japanese associations and ~18-25% through global multi-national corporations, the overall asset quality has remained at a strong level over the years.

The asset quality of the Indian Branches remains strong with gross non-performing advances (NPAs) of 0.07% and nil net NPAs as on September 30, 2021. The slippages for the bank remained Nil during the last five years. The SMAs also remained nil for the branches as on September 30, 2021 with no lending under the Emergency Credit Line Guarantee Scheme (ECLGS) and no restructuring under the Covid-19 resolution framework. For its global operations, Mizuho Bank Limited's asset quality is strong with gross NPAs of 0.84% as on September 30, 2021.

Credit challenges

Modest profitability – Given the challenges in the scaling up of the loan book because of the volatile liability profile of the Indian Branches, their profitability is expected to remain modest. Their net profitability stood at 1.2% of the average total

assets (ATA) in FY2021 and 1.5% in H1 FY2022. This also resulted in a modest return on equity (RoE) of 4.6% for FY2021 (7.7% for FY2020) for the Indian Branches. The RoE for H1 FY2022 stood at 2.84%.

The profitability of the global operations of Mizuho Bank Limited also remains modest because of the low interest rate environment in Japan and the surplus liquidity (credit-to-deposit ratio of 65% as on September 30, 2021), resulting in a return on assets (RoA) of 0.1% for the last 3-4 years.

Large sanctioned funded limits in relation to outstanding credit for Indian Branches – The Indian Branches have sanctioned fund-based limits at a relatively higher level than the outstanding funded credit. While this may expose the Indian Branches to unexpected drawdowns by the customers to the extent of the sanctioned limits, most of these lines are not committed and a significantly large part of these exposures remain cancellable at the option of the bank. This risk is also mitigated by the strong liquidity of the Indian Branches as discussed earlier.

Liquidity position: Strong

The overall liquidity position of the Indian Branches remains strong with positive gaps across all the maturity buckets, as per the structural liquidity statement as of September 30, 2021. This, in turn, is supported by the short-term nature of the advances, the high level of liquid assets, the committed line of credit from the HO, and the reciprocal lines of credit from domestic banks, which together can help meet any funding shortfalls.

Rating sensitivities

Positive factors – NA

Negative factors – ICRA could downgrade the rating in case of a deterioration in the credit profile of Mizuho Bank Limited.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Banks
Parent/Group Support	The Indian Branches of Mizuho Bank Limited (Japan) are an integral part of the bank. ICRA expects the Indian Branches to be supported by the HO. The HO will extend financial support to the Indian Branches, if needed
Consolidation/Standalone	Standalone for Indian Branches

About the company

Mizuho Bank Limited: The Group's retail and corporate banking unit is housed under Mizuho Bank Limited. Mizuho Bank is one of the three so-called Japanese 'megabanks' (along with Mitsubishi UFJ Financial Group and Sumitomo Mitsui Financial Group). It provides financial products and services to a wide range of clients including individuals, small-and-medium-sized enterprises, large corporations, financial institutions and public sector entities. Its headquarters are in Tokyo, Japan. Mizuho Bank has over 505 branches and offices in Japan and 38 other countries and is the only bank to have branches in every prefecture of Japan.

In H1 CY2021, Mizuho Bank Limited (globally) reported a net profit of USD 0.99 billion on total assets of USD 1,788 billion compared with a net profit of USD 2.42 billion on total assets of USD 1,797 billion in CY2021.

Mizuho Financial Group, Inc.: Headquartered in Tokyo, Mizuho Financial Group, Inc. (Mizuho) is one of the largest financial groups in Japan, with a number of enterprises operating under its umbrella: Mizuho Bank Limited (a retail/wholesale bank,

rated Moody's A1 stable), Mizuho Trust & Banking Co., Ltd. (a trust bank, rated Moody's A1 stable)² and Mizuho Securities Co., Ltd. (a securities company, rated Moody's A1 stable), as well as a number of other entities that provide a comprehensive array of financial services. The Group's consolidated total assets were ~USD 2.04 trillion as of the end of September 30, 2021 and Mizuho Bank Limited accounted for ~88% of the total assets and ~28-29% of the total net profit of the Group in CY2021.

Key financial indicators (standalone)

Mizuho Bank Limited – Indian Branches	FY2019	FY2020	FY2021	H1 FY2021*	H1 FY2022*
Net interest income	531	597	568	286	235
Profit before tax	388	636	472	216	155
Profit after tax	197	402	248	105	78
Loan book	11,161	9,416	8,472	10,592	9,014
Total assets	16,948	22,184	18,864	23,629	20,417
% Net interest margin / Average total assets	3.49%	3.05%	2.77%	2.42%	2.30%
% Return on assets	1.29%	2.06%	1.21%	0.88%	1.52%
% Return on net worth	4.11%	7.75%	4.56%	3.95%	2.84%
% Tier I	23.93%	18.83%	19.58%	18.93%	19.78%
% CRAR	24.45%	19.42%	20.21%	19.59%	20.52%
% Gross NPA	0.06%	0.07%	0.07%	0.07%	0.07%
% Net NPA	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Mizuho Bank Limited (Indian Branches), ICRA Research; Amount in Rs. crore

* Provisional numbers; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2022	FY2021	FY2020	FY2019
					Feb 21, 2022	Feb 26, 2021	Jan 20, 2020	Dec 19, 2018
1	Certificate of Deposit Programme	Short Term	500.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+; assigned

² Trust Bank is a financial institution that enables the customers of the bank to do transactions with one another, wherein the bank takes up the role of trustee for such transactions and helps the customers transfer assets to other customers in accordance with the trust agreement's terms and conditions

Complexity level of the rated instrument

Instrument	Complexity Indicator
Certificate of Deposit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instruments credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Certificate of Deposit Programme	NA	-	7-365 days	500.00	[ICRA] A1+

Source: Mizuho Bank Limited (Indian Branches)

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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Branches



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