

February 21, 2024

## Mizuho Bank Limited (Indian Branches): Rating reaffirmed

### Summary of rating action

| Instrument*             | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action         |
|-------------------------|--------------------------------------|-------------------------------------|-----------------------|
| Certificates of deposit | 500.00                               | 500.00                              | [ICRA]A1+; reaffirmed |
| <b>Total</b>            | <b>500.00</b>                        | <b>500.00</b>                       |                       |

\*Instrument details are provided in Annexure I

### 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 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. The Group's total assets stood at \$1.8 trillion as on December 31, 2023. Mizuho Bank Limited houses the Group's retail and wholesale banking segments, with over 543 branches and operations in more than 38 countries. 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.

ICRA takes note of the capital infusion of Rs. 4,100 crore by Mizuho Bank Limited into its Indian Branches in Q3 FY2024 to support the expected business growth. On the asset quality front, the Indian Branches continue to maintain strong asset quality indicators, given the focus on better-rated corporates (domestic, global as well as corporates with Japanese linkages). The asset quality remains steady with nil slippages in the last several years and no special mention accounts (SMA-1 and 2<sup>1</sup>) as on September 30, 2023. The association of the Indian Branches with corporate customers supports the deposit base (including current accounts and term deposits) 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. Further, Mizuho Bank (Indian Branches) reported a liquidity coverage ratio (LCR) of 169% for Q3 FY2024 (157% for FY2023).

Mizuho Bank Limited, as a whole, had demonstrated weak profitability in the past because of the low interest rate and the 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 of the rating of the Indian Branches.

### 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 along 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; the

<sup>1</sup> SMA is defined as a special mention account (SMA), which is 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; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days

liquidity management and market risk management policies of the Indian Branches are in line with the policies followed by the HO. Moreover, the HO extends help 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** – Mizuho Bank Limited infused ~Rs. 4,100 crore into the Indian Branches in Q3 FY2024, resulting in a further improvement in the capital-to-risk weighted assets ratio (CRAR) to 27.26% (largely core equity capital) as on December 31, 2023 from 18.21% as of March 2023 (18.64% as on March 31, 2022). With this capital base, the net worth of the Indian Branches is expected to exceed Rs. 10,000 crore. While the branches are well capitalised to support growth, a higher capital base will enable them to take larger exposures to stronger corporates, if required. However, the ability to garner a stable deposit base will be a key challenge in scaling up the advances.

Although deposit concentration has improved, with the top 20 depositors accounting for 43% of the total deposits as on March 31, 2023 compared to 53% as on March 31, 2022, it remains elevated as the depositor base is largely restricted to corporate customers. The concentration of the depositor profile has remained high over the years and is expected to remain elevated. While this could result in volatility in the deposit base, the Indian Branches have strong liquidity with a sizeable balance in reverse repo and liquid investments (~76% of total deposits as on September 30, 2023). In addition, the Indian Branches have backup lines of credit to take care of any liquidity requirements through reciprocal lines of credit of ~Rs. 2,622 crore from State Bank of India (rated [ICRA]AAA (Stable) for its Tier II bonds) and Bank of India (rated [ICRA]AA+ (Stable) for its deposits) 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 (consolidated) capital position is modest with an estimated core capital (CET-I) of 10.92% as on December 30, 2023. The weak profitability and internal capital generation are challenges.

**Strong asset quality** – The overall asset quality has remained strong over the years as a significant share of the outstanding loan book comprises entities with a Japanese association. The asset quality of the Indian Branches remains strong with gross non-performing advances (NPAs) of 0.04% and nil net NPAs as on September 30, 2023. Slippages remained nil during the last seven years. The SMA-1 and 2 also remained nil for the branches as on September 30, 2023 with no restructuring under the Covid-19 resolution framework.

For its global operations, Mizuho Bank Limited's asset quality is strong with net NPAs of 1.11% as on December 31, 2023.

## Credit challenges

**Profitability remains modest, given limited scale of operations** – Given the challenges related to scaling up the loan book because of the volatile liability profile of the Indian Branches, the profitability is expected to remain modest. The net profitability or return on assets (RoA) stood at 1.17% of the average total assets (ATA) in FY2023 (0.99% in FY2022). Driven by the higher net interest margin, loan book growth and the lower cost of purchase of priority sector lending certificates, the profitability improved in H1 FY2024 with an RoA of 1.63% (annualised). The return on equity (RoE) remained modest at 4.78% in FY2023 (3.45% for FY2022) for the Indian Branches. It stood at 7.81% in H1 FY2024.

The profitability of the global operations of Mizuho Bank Limited remains weak because of the low interest rate environment in Japan and the surplus liquidity (credit-to-deposit ratio of 65% as on December 31, 2023), resulting in an annualised RoA of 0.19% in 9M FY2024.

**High concentration of deposits and advances in Indian Branches** – The Indian Branches largely depend on wholesale deposits as the retail franchise remains limited. This has resulted in high deposit concentration levels, with the top 20 depositors accounting for ~43% of the total deposits as on March 31, 2023. Moreover, the share of the low-cost current and savings account deposits (CASA) remained small at 14% of total deposits as on September 30, 2023. Given the deposit concentration

levels and the short duration, the branch deals in short-tenor advances to prevent any gaps in asset and liability maturities with a limited share of term loans. However, access to the interbank market, excess holding of G-Secs and support from the HO mitigate the liquidity risks to an extent.

Globally, Mizuho Bank Limited's deposits accounted for 61% of its total liabilities as on December 31, 2023.

## 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, 2023, and an LCR of 169% for Q3 FY2024. This 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 can help meet any funding shortfall.

## 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 | <a href="#">ICRA's Rating Methodology for Banks and Financial Institutions</a>                                                                                                                 |
| 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, which will extend financial support 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 Limited 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 543 branches and offices in Japan and more than 38 other countries and is the only bank to have branches in every prefecture of Japan.

Mizuho Bank Limited (globally) reported a net profit of \$2.9 billion on total assets of \$1,580 billion in 9M FY2024.

**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) 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 stood at \$1.8 trillion as of the end of December 31, 2023 and Mizuho Bank Limited accounted for ~87% of the total assets and ~68% of the total net profit of the Group in 9M FY2024.

## Key financial indicators

| Mizuho Bank Limited (Indian Branches) | FY2022 | FY2023 | H1 FY2024          |
|---------------------------------------|--------|--------|--------------------|
| Total income                          | 732    | 891    | 601                |
| Profit after tax                      | 194    | 283    | 240                |
| Total assets                          | 20,493 | 27,984 | 30,983             |
| CET I                                 | 17.91% | 17.39% | 15.40%             |
| CRAR                                  | 18.64% | 18.21% | 16.16%             |
| PAT/ATA                               | 0.99%  | 1.17%  | 1.63% <sup>2</sup> |
| Gross NPA                             | 0.07%  | 0.05%  | 0.04%              |
| Net NPA                               | 0.00%  | 0.00%  | 0.00%              |

Source: Mizuho Bank Limited (Indian Branches), ICRA Research

Amount in Rs. crore; 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

|   |                         | Current rating (FY2024) |              |                                       | Chronology of rating history for the past 3 years |                         |                         |                         |
|---|-------------------------|-------------------------|--------------|---------------------------------------|---------------------------------------------------|-------------------------|-------------------------|-------------------------|
|   |                         | Type                    | Amount rated | Amount outstanding as of Feb 21, 2024 | Date & rating in FY2024                           | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
|   |                         |                         | (Rs. crore)  | (Rs. crore)                           | Feb 21, 2024                                      | Feb 20, 2023            | Feb 21, 2022            | Feb 26, 2021            |
| 1 | Certificates of deposit | Short term              | 500.00       | - <sup>^</sup>                        | [ICRA]A1+                                         | [ICRA] A1+              | [ICRA] A1+              | [ICRA] A1+              |

<sup>^</sup> Amount yet to be placed

## Complexity level of the rated instrument

| Instrument              | Complexity Indicator |
|-------------------------|----------------------|
| Certificates 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 instrument's 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: [Click Here](#)

<sup>2</sup> Reported by the bank and not calculated by ICRA

#### Annexure I: Instrument details

| ISIN     | Instrument Name         | Date of Issuance | Coupon Rate | Maturity   | Amount Rated<br>(Rs. crore) | Current Rating and<br>Outlook |
|----------|-------------------------|------------------|-------------|------------|-----------------------------|-------------------------------|
| Unplaced | Certificates of deposit | NA               | NA          | 7-365 days | 500.00                      | [ICRA]A1+                     |

Source: Mizuho Bank Limited (Indian Branches)

#### Annexure II: List of entities considered for limited consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|--------------|-----------|------------------------|
| NA           | NA        | NA                     |

Source: Mizuho Bank Limited (Indian Branches), ICRA Research

## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Anil Gupta**

+91 124 4545 314

[anilg@icraindia.com](mailto:anilg@icraindia.com)

**Sachin Sachdeva**

+91 124 4545 307

[sachin.sachdeva@icraindia.com](mailto:sachin.sachdeva@icraindia.com)

**Vaibhav Arora**

+91 124 4545 386

[vaibhav.arora@icraindia.com](mailto:vaibhav.arora@icraindia.com)

**Sohil Mehta**

+91 22 6114 3449

[sohil.mehta@icraindia.com](mailto:sohil.mehta@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

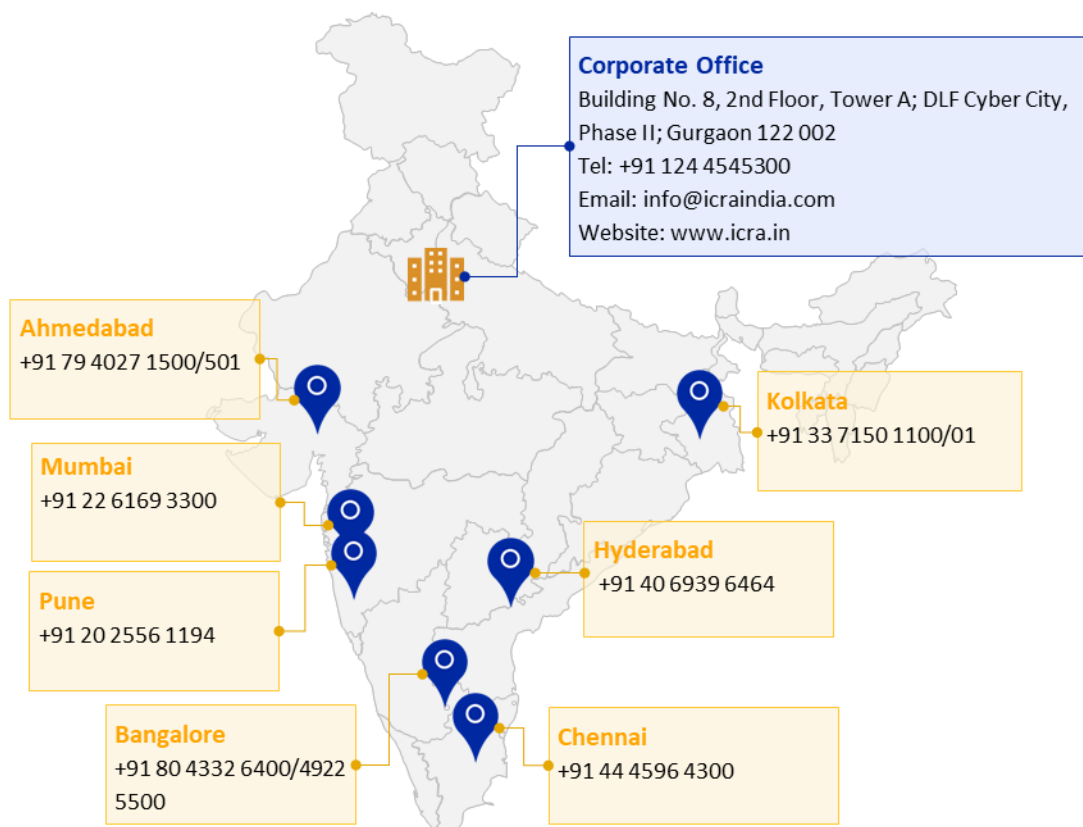


### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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