IndusInd Bank Limited

Instrument	Amount Outstanding (In Rs Crore)	Maturity Date	Rating Action August 2016
Rs 365 crores of Upper Tier II bonds programme	308.90	2021	[ICRA]AA (stable) reaffirmed
Rs 522.10 crores of Lower Tier II bonds programme	NIL	NA	[ICRA]AA+ (stable) withdrawn

ICRA has reaffirmed the rating of [ICRA]AA with stable outlook for the Rs. 365 crore Upper Tier II Bonds programme of IndusInd Bank Limited (IIBL). ICRA has withdrawn the [ICRA]AA+ (Stable) rating assigned to the Rs. 522.10 crore Lower Tier II Bonds programme of IndusInd Bank Limited, as the company has fully redeemed the instrument on maturity. There is no amount outstanding against the rated instrument. The one notch lower rating assigned to the Upper Tier II bonds as compared with that which was assigned to the Lower Tier II bonds reflects the specific features of these instruments wherein the debt servicing is additionally linked to meeting the regulatory norms on capitalization and reported profitability.

The ratings factor in IIBL's robust operational and financial performance on the back of healthy Net Interest Margins with an improving low cost deposit base, robust core fee income levels, moderate credit costs and strong net profitability over the past few years. The ratings also take into account ability of the company to maintain sound asset quality indicators across business segments, increasing CASA base and the comfortable regulatory capitalization levels. The credit strengths are partially offset by the bank's relatively high proportion of wholesale deposits, albeit declining steadily over the years, when compared to its peers and an operating environment that is yet to recover. The bank has been taking various steps and initiatives such as expanding branch network and introducing new products and services to garner larger share of retail deposits in the overall deposits profile.

IIBL credit growth remained robust at 29% during FY2016 as compared to 24% during FY2015. During Q1 FY2017, the loan book grew by ~24% on an annualized basis. The growth during FY2016 and Q1 FY2017 has been driven by almost equal growth in corporate and consumer finance book of the bank. The current proportion of Corporate Banking Division (CCB) and Consumer Finance Division (CFD) stood at 59:41 as on June 2016. The CCB portfolio as on June 30, 2016 comprises of Large corporate (50%), Mid size corporate (31%) and Small corporate (19%) with the share remaining stable in the past two years. Within the CFD book, as on June 30, 2016; Vehicle loans formed ~69%, Equipment Finance amounted to ~9%, Loans Against Property ~14%, the remainder ~8% being Credit cards, Home Loans, Gold Loans, and personal loans. Going forward, the bank aims to grow the overall loan book by ~25-30% over the medium term, while maintaining an equal mix of CCB and CFD in the incremental loan growth.

Despite strong loan growth, the asset quality of IIBL has fared well over the years with slippages at a lower level as compared to the industry averages. Gross NPA and Net NPA stood at 0.91% and 0.38% respectively as on Jun-16 as compared to 0.81% and 0.31% respectively as on Mar-15. The Net NPA/Net worth continues to be low and was reported at ~1.94% as on Jun-16 (1.86% and 2.05% as on Mar-16 and Mar-15 respectively). The restructured assets of the bank continue to be one of the lowest in the industry at ~0.49% of the advances as on June 2016 (0.53% as on March 2015).

The bank has seen steady improvement in its CASA base on the back of rise in Savings Deposits by following a strategy of new product launches and expanding branch network. The CASA ratio improved to 34.4% as on June 30, 2016 vis-a-vis 34.1% as on March 31, 2015 and 32.6% as on March 31, 2014. The bank opened 199 branches during FY2016. By March 2017, the bank intends to increase its number of branches to ~1200 while maintaining the cost efficiencies and increase its CASA to >35% by following a strategy of new product launches and expanding branch network.

The capitalisation of the bank is comfortable with Capital Adequacy Ratio (CRAR) of 15.42% and Common Equity Tier I (CET I) of 14.81% under Basel III as on June 30, 2016. The bank raised Rs. 5,081 crore of common equity via QIP and Preferential Issuances during Q2 FY2016. Consequently, the gearing of the bank reduced to 6.65 times as on Mar-16 vis-a-vis 9.24 times as on Mar-15. ICRA draws comfort from the demonstrated track record of the bank of mobilizing equity capital at regular intervals to support business volumes and also maintain adequate cushion over the minimum regulatory capitalization levels.

The profitability for the bank remains strong on the back of high net interest margins (NIMs), high non interest income and low credit costs. For FY16, Net Interest Margin (NIM)[1] has increased from 3.50% during FY2015 to 3.64% during FY2016 on account of decline in cost of deposits due to higher CASA and easing of interest rates. Going forward, ICRA expects the bank's NIMs to remain stable as the bank scales up its Consumer Finance business and garners more CASA deposits by expanding its branch network. The core fee income of the bank continues to support profitability with fee based income as a percentage of ATA at 1.80% in FY2016 (1.59% in FY2015) with focus on commission and earnings from foreign exchange business, income from distribution of third party products, loan processing fees and investment banking (mainly debt syndication). Despite increase in operating expenses/ATA of the bank from 2.79% during FY2015 to 2.96% during FY2016 due to continued branch expansion, strong interest income growth, increased levels of fee income and low provisioning expense have helped the bank to maintain its net profitability. While the Return on Average Assets stood steady at 1.84% in FY16 (1.84% in FY15), the Return on Average Equity declined to 13.20% (17.49% in FY15) due to substantial equity infusion in FY16, to support its growth plans. With optimum utilisation of capital, it is expected that ROE would revert back.

Bank profile

IndusInd Bank, with its corporate office in Mumbai, is one of the new generation private sector banks in India. It commenced operations in 1994 and had a networth of Rs. 17,315 crores as on March 31, 2016. It had an asset base of Rs. 139,676 crore as on March 31, 2016. As on March 31, 2016 it had 1,000 branches and 1,800 ATMs, with a representative office each in London, Abu Dhabi and Dubai.

During the year ended March 31, 2016, IndusInd reported a total income of Rs. 14,878 crore and a net profit of Rs. 2,286 crore as compared with Rs. 12,096 crore and Rs. 1,794 crore, respectively, during the previous year.

Recent Results

During Q1 FY2017, the bank reported a net profit of Rs. 661 crores on a total income of Rs 4,265 crores as compared to Rs. 525 crores on total income of Rs. 3,485 crores in the same quarter previous year.

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For further details please contact:

Analyst Contacts:

Mr. Karthik Srinivasan (Tel No +91 22 6114 3444)
karthiks@icraindia.com

Ms. Neha Parikh (Tel. No. +91 22 6114 3426)
neha.parikh@icraindia.com

Kushal Modi (Tel. No. +91 22 6114 3428)
kushal.modi@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

[1] Defined as Net Interest Income on Average Total Assets

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	