

Mizuho Bank Limited (Indian Branches)

December 19, 2018

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

The rating draws comfort from the strengths of Mizuho Bank Limited (rated by Moody at A1/P-1 for bank deposits and senior unsecured debt and base credit assessment (BCA) of Baa1) and that of the ultimate holding company Mizuho Financial Group (rated by Moody's at A1). Mizuho Bank Limited is held by the Mizuho Financial Group and is one of the largest bank in Japan in terms of assets which stood at ~US\$1.8 trillion as on June 30, 2018. Mizuho Bank Limited houses the groups retail and wholesale banking segments, with operations in more than 35 countries and more than 550 branches globally. ICRA draws comfort from the strong operational linkages of Indian branches with the head office in Japan, which is reflected in joint involvement in credit sanctions, risk management and liquidity policies. ICRA will continue to closely monitor the international developments and rating action by Moody's Investor Services Limited on both Mizuho Financial Group and Mizuho Bank Limited. Furthermore, it should be noted that this rating will serve as a key determinant for the rating of Mizuho Bank Limited's Indian branches. The Indian Branches have strong asset quality, capitalization and liquidity profile supported by good underwriting practices, large capital base and high level of sovereign bonds in excess of regulatory requirements. Association of Indian branches with corporate customers (both Japan and Non-Japanese) supports is current account deposit resulting in competitive cost of interest-bearing funds, though it results in high depositor concentration. Further the Indian branches have sanctioned credit limits to its customer at a relatively higher level than outstanding, but based on behavioral pattern of drawdown of these limits and sufficient liquidity back up through reciprocal lines of credit from domestic banks, head office as well as excess SLR holdings, the liquidity as reflected in the structural liquidity statements remain strong with positive mismatches across all buckets for Indian Branches.

Outlook: Not applicable

Key rating drivers

Credit strengths

Indian branches of Mizuho Bank, Ltd.; high operational and financial linkages - ICRA draws comfort from the strong parentage of the Indian branches, in the form of Mizuho Financial Group. (rated A1 by Moody's) while the bank is rated at A1/P-1, BCA baa1, by Moody's. With the parent company being stable and well diversified and the head office remaining strongly committed to support the India operations, it serves as credit positive. In addition, the bank's Indian branches' high operational linkages with the head office as demonstrated by the liquidity management and market risk management policy, designed carefully, in line with the respective policies followed by the head office gives ICRA further comfort. Moreover, the parent extends support to its India branches by way of funding support as well as approving all high value exposures, after carrying out due diligence at head office.

Strong capitalization and liquidity Profile - With foreign banks in India required to maintain capital ratios as per Basel III requirements, the Indian branches have comfortable capitalization indicators with CRAR of 28.80% as on March 31, 2018 as against that of 30.37% as of March 31, 2017. Capital adequacy remains strong considering that the Indian branches also treats all its exposures as unrated for calculating capital adequacy of Indian operations. Its asset liability profile remains comfortable with positive mismatches across all maturity buckets, primarily driven by short-term advances, undrawn interbank lines, excess SLR holdings and strong capitalisation with leverage (total liabilities / net worth) of 2.94 times. Besides maintaining investments in SLR securities to manage liquidity, the bank's relationships with large Japanese as well as domestic corporates also supports its deposit profile, even though it results in high depositor concentration with top 20 depositors accounting for 62% of total deposits.

Comfortable asset quality – The Indian branches asset quality remains strong with GNPA and NNPA at 0.07% and 0.00%, respectively, as on March 31, 2018. Moreover, the Indian branches operates with a robust credit appraisal system with oversight from the head office, which has ensured in no fresh slippages in the last three years. Moreover, as ~40% of the outstanding loan book comprises of entities having Japanese association, driven to a large extent by relationships maintained by the head office, as well as strong profile of non-Japanese client has ensured that overall asset quality has remained at acceptable levels over the years.

Healthy Profitability: The overall profitability remains supported by low cost of deposits and access to funding from the Head Office at comparatively low rates. The Net Interest Margins (NIM's) as % of average total assets (ATA) has remained at healthy levels over the years and witnessed improvement from 3.48% in FY2017 to 3.55% in FY2018. However, because of low leverage, the return on net worth has remained modest at 4.29% during FY2018 as compared to 3.78% for FY2017. Going forward, the ability of the Indian branches to maintain high level of low-cost deposits while maintaining asset quality will remain critical for the profitability.

Credit challenges

Large sanctioned funded limits in relation to outstanding credit – The Indian branches have sanctioned fund-based limits at relatively higher level than outstanding funded credit. This may expose the Indian branches to unexpected drawdown by the customers to the extent of the sanctioned limits. This risk is however mitigated by support from the HO, reciprocal lines of credit for Indian operations with two domestic banks as well as excess investments in government securities, that can be liquidated at short notice. Further based on behavioral track record, the likelihood of such a scenario remains low.

High depositor concentration- With relationships largely restricted to corporate customers, the overall depositor profile of the Indian branches remains concentrated, with the top 20 depositors accounting for ~62% of the total deposits as on March 31, 2018 as against 73% as on March 31, 2017. The concentration of the depositor profile has remained high over the years and is expected to remain high in medium term.

Liquidity position

The overall liquidity position of the Indian branches remains comfortable with positive gaps across all the maturity buckets of its structural liquidity statement of September 30, 2018, which in-turn is supported by short term nature of advances committed line of credit from the Head Office to the tune of Rs.4312 crore (100% of Tier-I capital), reciprocal lines of credit from two domestic banks totalling ~Rs.2350 crore as well as excess SLR investments totalling Rs.1621 crore as on September 30, 2018 which together can help meet funding shortfalls if any. Moreover, the Indian branches have maintained Liquidity Coverage Ratio (LCR) at comfortable levels over the years with daily average of 200.7% in FY2018 as against 214.2% in FY2017. Within FY2018, the minimum daily average LCR stood at 144% during March 2018. Furthermore, daily average LCR remained strong at 180.72% in Q1FY2019 and 225.42% in Q2FY2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Banks Head Office/Parent: Mizuho Bank, Ltd (Japan)
Group Support	ICRA expects the Indian branches to be supported by the Head Office/Parent- Mizuho Bank, Ltd (Japan) [rated by Moody's at A1/P-1, BCA baa1], which, in turn, is held by Mizuho Financial Group, Inc. [rated by Moody's at A1]. The head office will extend financial support to the Indian branches, if needed, given the Indian branches are integral part of the Mizuho Bank Limited (Japan).
Consolidation / Standalone	Standalone (Indian Operations)

About the company

Mizuho Bank Limited (Japan) (rated A1/P-1 and BCA baa1 by Moody's with a Stable outlook) is one of the largest banks in Japan. It has a total of 465 branches in Japan and 89 overseas branches worldwide. In India, Mizuho operates with five branches having a diversified portfolio of customer that includes Japanese and Indian clientele.

In FY2018, Mizuho Bank Limited (Indian Operations) reported a net profit of Rs. 196.76 crore on an operating income of Rs. 469.29 crore compared with a net profit of Rs. 166.18 crore on an operating income of Rs. 479.66 crore in the previous year. The Indian branches don't have retail operations with retail advances limited to advances to staff members.

Mizuho Financial Group, Inc.

Headquartered in Tokyo, Mizuho Financial Group, Inc. (rated A1 by Moody's) is one of the largest financial groups in Japan, with a number of enterprises operating under its umbrella: Mizuho Bank, Ltd. (a retail/wholesale bank), Mizuho Trust & Banking Co., Ltd. (a trust bank) and Mizuho Securities Co., Ltd. (a securities company, A1 stable), as well as a number of other entities that together provide a comprehensive array of financial services. The group's consolidated total assets were ¥207.6 trillion (US\$1.82 trillion) as of the end of June 2018.

Key financial indicators - Standalone

	FY2017	FY2018
Net interest income	480	469
Profit before tax	321	372
Profit after tax	166	197
Net advances	7,686	8,890
Total assets	12,970	13,481
%Tier-I	29.97%	28.39%
% CRAR	30.37%	28.80%
% Net interest margin/Average total assets	3.48%	3.55%
% Net profit/Average total assets	1.21%	1.49%
% Return on net worth	3.78%	4.29%
% Gross NPAs	0.08%	0.07%
% Net NPAs	0.00%	0.00%
% Provision coverage	100.00%	100.00%
% Net NPA/Net worth	0.00%	0.00%

Source: Mizuho Bank Limited

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Certificate of Deposit	Short Term	500.00	-	[ICRA]A1+	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Certificate of Deposit	NA	NA	7-365 days	500.00	[ICRA]A1+

Source: Mizuho Bank Limited

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

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