IndusInd Bank Limited

Instrument	Amount Outstanding (in Rs crore)	Maturity Date	Rating Action
			September-14
Rs 522.10 crores of Lower Tier II bonds programme	115.00	May 2015	[ICRA]AA+ (stable) (upgraded from [ICRA]AA (stable))
Rs 365 crores of Upper Tier II bonds programme	308.90	2021	[ICRA]AA (stable) (upgraded from [ICRA]AA- (stable))

ICRA has upgraded the long term rating assigned to the Rs 522.10 crore long term Lower Tier II Bonds of IndusInd Bank Limited (IIBL) to [ICRA]AA+ (stable) from [ICRA]AA (stable). ICRA has also upgraded the rating assigned to Rs 365 crores of Upper Tier II Bonds to [ICRA]AA (stable) from [ICRA]AA- (stable). The one notch lower rating assigned to the Upper Tier II bonds as compared with that assigned to the Lower Tier II bonds reflect the specific features of these instruments wherein the debt servicing is additionally linked to meeting the regulatory norms on capitalization and reported profitability.

The rating upgrade factors in the steady improvement in financial and operational performance of IIBL 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 on June 30, 2014 with CRAR at 13.11% (Tier I: 12.06%). ICRA has taken into account the bank's asset profile with a good mix of retail finance assets space and short to medium term working capital loans for corporate clients that render comfort on the liquidity and credit risks. The credit strengths are partially offset by the bank's relatively high proportion of wholesale funding. 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 reported a credit growth of 24% in FY14 as compared to the growth of 26% in FY13. The growth has been primarily driven by the growth of 38% in FY14 in Corporate and Commercial Banking (CCB) as compared to a growth of 11% in the Consumer Finance Division (CFD).The current proportion of corporate banking Division and Consumer finance division stood at 57:43 as on Jun-14. The CCB portfolio as on June 30, 2014 comprises of Large corporate (50%), Mid size corporate (31%) and Small corporate (19%). As far as the CFD book is concerned, within the CFD as on June30, 2014 ; Vehicle loans (Commercial vehicles, Cars, Utility vehicles, 2 wheelers and 3 wheelers formed 75% of the CFD portfolio, Construction Equipment amounted to 11%, Loans Against Property 11%, the remainder 2-3% being Credit cards, Home Loans and personal loans. The proportion of auto loans stands at 75% as on Jun-14 as compared to 80% as on Mar-13 with the slowdown in the CV segment in line with the overall slowdown in the CV industry. 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 with expected traction in the retail loan segment.

The asset quality of the bank has remained stable over the last few years and the slippages are also at a lower level as compared to the industry averages. However, in FY14 the bank witnessed marginal increase in Gross NPAs to 1.12% and Net NPA% to 0.33% from 1.03% and 0.31% as on Mar-13. The increase in NPAs were primarily on account of slippages in the CV segment which saw an increase in Gross NPA% from 1.01% as on Mar-13 to 1.38% as on Mar-14. The Net NPA/Net worth, continued to be low and at a comfortable position of 2.0% as on Mar-14 as compared to 1.8% as on Mar-13. In Q1FY15, the asset quality indicators have broadly remained stable with Gross NPA and Net NPA% of 1.11% and 0.33% respectively. The restructured assets of the bank continue to be one of the lowest in the industry at ~0.40% of the advances as on Jun-14 (0.28% as on Mar-13).

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 33.3% as on Jun 30, 2014 vis-a-vis 29.3% as on March 31, 2013 and 27.3% as on Mar 31, 2012. In FY14, the bank has opened 102 branches in 12 months. By FY17, the bank intends to increase its no. of branches to ~1200 while maintaining the cost efficiencies and increase its CASA to >35% by following a strategy of new product launches, expanding branch network and focussing on self employed and small business.

The capitalisation of the bank is comfortable with CRAR of 13.11% and Tier I: 12.06% under Basel III as on June 30, 2014. 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. Following the capital mobilization in August 2009 and September 2010, the bank raised Rs 2,000 crore through a Qualified Institutional Placement in December 2012.

For FY14, the yield of the bank stood at 13.33% as compared to 14.13% in FY13. This is on account of the shift towards corporate loans from the high yielding Consumer Finance Loans. However, Net Interest Margin (NIM)* has gone up from 3.4% (FY13) to 3.6% (FY14). This is due to lower cost of funds with the improvement in CASA ratio to 32.55% as on Mar-14 from 29.32% as on Mar-13 and the bank relying on foreign currency borrowings and refinance. Going forward, as the bank scales up its higher yielding CV, and garners more CASA deposits by expanding its branch network, ICRA expects the bank to maintain NIMs at greater than 3% levels.

The core fee income of the bank continues to support profitability with fee based income %of ATA of 2.24% in FY14 and 2.19% in Q1FY15 with focus on commission and earnings from foreign exchange business, income from distribution of third party products and investment banking (mainly debt syndication).

Although, operating expenses of the bank have remained stable at 2.7% average assets for FY14 (2.7% for FY13) with continued branch expansion, increased levels of fee income and low provisioning expense have helped the bank to improve the net profitability. The Return on Average Assets for the bank stood at 1.76% of average assets in FY14 (1.63% in FY13).

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 8,635 crores as on March 31, 2014. It had an asset base of Rs. 86,629 crore as on March 31, 2014. As on March 31, 2014 it has 602 branches and 1110 ATMs, with a representative office each in London and Dubai.

During the year ended March 31, 2014, IndusInd reported a total income of Rs. 10,144 crore and a net profit of Rs. 1,408 crore as compared with Rs. 8,346 crore and Rs. 1,061 crore, respectively, during the previous year. The regulatory capital adequacy ratio was comfortable at 13.83% (Tier 1: 12.71%) under Basel III.

Recent Results

For Q1FY15, the bank reported a net profit of Rs 421 crores on a total income of Rs 2,784 crores as compared to Rs 335 crores on total income of Rs 2,278 crores in the same quarter previous year. The capital adequacy ratio stood at 13.11% with Tier 1 of 12.06% as on Jun-14 under Basel III. The asset quality of the bank continues to remain comfortable, with Gross and Net NPA ratios at 1.11% and 0.33% respectively as on June 30, 2014.

September 2014

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* Defined as Net Interest Income on Average Total Assets

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