

IndusInd Bank (IIB)

SELL

Loss reported led by discrepancies

Summary

IndusInd Bank reported net loss of Rs.23.3bn led by interest reversal, lower fee income and higher provisions (due to MFI portfolio). NIMs declined to lowest level in last decade to 2.25% led by interest reversal of Rs.6.7bn, while NIMs would have been 3.5% if adjusted for one-offs. MFI portfolio de-grew by 5% QoQ along with sequential decline in corporate book resulting in 6% QoQ decline in loan growth. We have revised down the credit growth to 11% CAGR (FY25-27) vs 15% earlier. Deposit growth slowed further to 7% YoY vs 11% YoY (Q3FY25). MFI portfolio which remains key concern segment reported rise in GNPA (@13% vs 7% QoQ). Bank has fully utilised the contingent provisions during the quarter. We have revised downwards the estimates by 42%/30% for FY26/27E respectively. We downgrade to "SELL" rating with a new TP of Rs680 at P/ABV of 0.75x FY27E (earlier 1.4x FY27E) as management appointments are yet to be finalised by RBI.

Key Highlights and Investment Rationale

- Slowdown in credit growth continues:** Credit growth slowed to 1% YoY vs 12% YoY (Q3FY25) due to lower disbursement in vehicle and MFI portfolio. Deposits growth declined to 7% YoY vs 11% YoY (Q3FY25) led by decline in bulk deposits.
- Asset quality deteriorated:** GNPA at 3.13% vs 2.25% QoQ; NNPA at 0.95% vs 0.68% QoQ with PCR at 70% (vs 70% QoQ). MFI portfolio asset quality concerns remain with high fresh slippages. Bank maintains 2.8% loan related provisions which provided cushion from adverse impact on P&L.
- NIMs declined QoQ:** NIMs declined to 2.25% vs 3.9% due to higher interest reversals. Cost to Income ratio increased to 113.1% vs 52.5% QoQ due to one off impact of derivative loss and reversal of fee income.
- Outlook:** Top management has resigned post discrepancies found in accounting for derivative loss as well interest income in MFI portfolio. We will watch out for change in strategy post new management approval by RBI.

TP	Rs.680	Key Stock Data	
CMP	Rs.771	Bloomberg/Reuters	
Potential upside/downside	-12%	Sector	
Previous Rating	UR	Shares o/s (mn)	
		779	
Price Performance (%)		Market cap. (Rs mn)	
	-1m	-3m	-12m
Absolute	(6.9)	(26.1)	(45.1)
Rel to Sensex	(9.6)	(34.4)	(55.5)

V/s Consensus		Shareholding Pattern (%)	
EPS (Rs)	FY26E	FY27E	Promoters
IDBI Capital	55.4	77.1	FII
Consensus	83.6	105.1	DII
% difference	(33.7)	(26.6)	Public

Year	FY2023	FY2024	FY2025	FY2026E	FY2027E
NII	1,75,921	2,06,159	1,90,313	1,94,798	2,19,758
Change (yoY, %)	17%	17%	-8%	2%	13%
Net Profit	73,897	89,770	21,585	43,134	60,062
Change (yoY, %)	60%	21%	-76%	100%	39%
EPS (Rs)	95.2	115.3	27.7	55.4	77.1
Change (yoY, %)	60%	21%	-76%	100%	39%
ABV (Rs)	681.9	786.8	820.1	850.4	907.2
PER (x)	8.1	6.7	27.8	13.9	10.0
P/ABV (x)	1.1	1.0	0.9	0.9	0.8
ROE (%)	14.4	15.2	3.3	6.3	8.3
ROA (%)	1.7	1.8	0.4	0.7	1.0
GNPA (%)	2.0	1.9	3.1	3.4	3.1
NNPA (%)	0.6	0.6	1.0	1.0	0.9
CAR (%)	17.9	17.2	16.2	15.2	14.6

Source: IDBI Capital Research

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Conference Call Highlights

Opening Remarks

- Apart from the discrepancies in the derivatives portfolio, the audit review has identified the misclassification of certain microfinance loans which have resulted in under provisioning and non-recognition of NPAs aggregating Rs.18.85bn.
- Based on review of all the matters and reports received by the board, the board suspects the occurrence of fraud against the bank and the involvement therein of certain employees having a significant role in the accounting and financial reporting of the bank.
- The bank has directed necessary steps to be taken including reporting to regulatory authorities and investigative agencies and to also fix accountability of all persons responsible for the lapses.
- The financial impact of all the discrepancies has been fully taken in the audited financial statements of the bank for FY25, so as to start FY26 on a clean slate.
- The board of the bank is in the advanced stage for the selection process for new MD & CEO.
- The board is working with the management to bring in a cultural shift towards achieving high standards of ethics and governance.

Operational Aspects

- The bank reversed other income by Rs.19.6bn on account of derivative related discrepancies disclosed on March 10, 2025.
- The bank also reversed revenue of Rs.4.23bn net of interim provisions and accrued interest towards the accounting error identified by the internal audit team during the review of microfinance business.
- The bank has also set off unsubstantiated increase in other assets and other liabilities amounting to Rs.5.95bn. This has no impact on P&L statement of the bank.
- The bank reviewed groupings and classification of the P&L items resulting into regrouping of Rs.7.6bn from interest income to other income and Rs.1.58bn from provisions and contingencies to the other operating expenses.

- Adjusted for one-offs, the NIM for Q4 would have been 3.47%, PPOP would have been Rs.30.62bn, adjusted NII would have been Rs.47bn, other income would have been Rs.25bn, and opex would have been Rs.42bn.
- All the impact for discrepancies and other issues have all been accounted for in the financial statements of FY25.

Advances

- The bank maintained a stable market share across key categories of commercial vehicle, construction equipment and passenger cars.
- The bank implemented new MFIN guardrails for MFI portfolio effective April 1, 2025.
- The bank is cautiously focusing on MFI disbursements in select geographies amongst clients with higher vintage. With the implementation of MFIN guidelines, further centering of controls, the Karnataka operations steadily getting back to normalcy.
- During the quarter, the bank had let go some of the corporate loans for balance sheet management and liquidity management.

Deposits

- Share of the top 20 depositors now reduced to 14.8% in March 25 while versus 17.4% on a YoY basis.
- Deposits have stabilised after the bank saw a temporary outflows post the disclosure made on March 10, 2025 related to discrepancies in the derivatives portfolio.
- The bank is focusing on opening a high value deposit accounts particularly from the affluent customers.
- Because of the uncertain events, the bank had excess liquidity which also impacted the NII growth.
- Average liquidity coverage ratio stood at 139% as of May 15, 2025.

Asset Quality

- Restructured book of VF portfolio came down to Rs.1.2bn in FY25 from Rs.5.5bn in FY24.

- The bank saw early trends in the delinquency buckets of MFI portfolio and have improved in both stock as well as fresh flows of delinquencies.
- The slippages were elevated during Q4 due to the accumulated stress in the earlier quarters and misclassification of certain loan accounts (Rs.18bn) which was corrected in Q4.
- Gross slippages in the corporate book which were at Rs.2.04bn, mainly contributed by one restructured real estate account accounting to Rs.1.4bn.
- The bank utilised contingency provision of Rs.13.25bn during the quarter.

Future Guidance

- Slower growth in corporate book was a tactical move to build liquidity. However, the bank will continue to grow the book going ahead.
- The incipient unrecognised stress in the MFI portfolio is coming back to normalcy. However, it will take at least 2 more quarters to see normalcy (in terms of credit costs, slippages, growth) in this segment.
- The bank is confident on resuming its journey towards building granular deposit franchise while keeping cost of deposits in check.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q4FY25	Q4FY24	Q3FY25	YoY (%)	QoQ (%)
Interest Income	1,06,338	1,21,985	1,28,008	(12.8)	(16.9)
Interest Expenses	75,855	68,221	75,727	11.2	0.2
Net Interest Income	30,483	53,765	52,281	(43.3)	(41.7)
NIM (%)	2.25	4.26	3.93	-201 bps	-168 bps
Non-Interest Income	7,088	25,005	23,550	(71.7)	(69.9)
Operating Income	37,572	78,769	75,831	(52.3)	(50.5)
Staff Cost	16,017	10,491	14,828	52.7	8.0
Other Op Exp	26,464	28,007	24,997	(5.5)	5.9
Total Operating Expenses	42,480	38,498	39,825	10.3	6.7
<i>Cost to Income (%)</i>	<i>113.1</i>	<i>48.9</i>	<i>52.5</i>	<i>6419 bps</i>	<i>6055 bps</i>
Operating Profit	-4,909	40,271	36,007	-	-
Provisions	25,221	8,991	17,436	180.5	44.6
PBT	-30,130	31,280	18,570	-	-
Tax	(6,840)	7,812	4,547	-	-
<i>-effective tax rate</i>	<i>22.7</i>	<i>25.0</i>	<i>24.5</i>	<i>-227 bps</i>	<i>-178 bps</i>
PAT	-23,289	23,469	14,024	-	-
EPS (Rs)	-29.9	30.2	18.0	-	-
BV (Rs)	602.3	806.8	606.5	(25.3)	(0.7)
Deposits	41,08,623	38,47,929	40,94,380	6.8	0.3
Advances	34,50,186	34,32,983	36,68,890	0.5	(6.0)

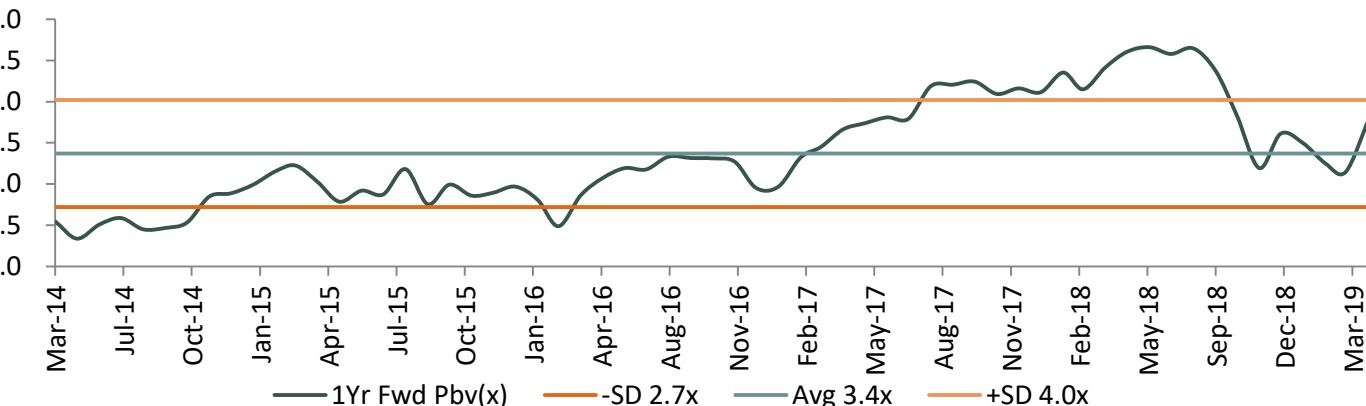
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY23	FY24	FY25	FY26E	FY27E
NII	4.1	4.2	3.6	3.4	3.5
Fees	1.9	1.8	1.7	1.6	1.6
Other Income	0.0	0.1	-0.2	0.1	0.1
Net Revenue	6.0	6.2	5.0	5.1	5.2
Op.Exp	2.7	2.9	3.1	3.1	3.2
Op.Profit	3.3	3.3	1.9	2.0	2.0
Provisions	1.0	0.8	1.3	1.0	0.8
PBT	2.3	2.5	0.6	1.0	1.3
Tax	0.6	0.6	0.2	0.3	0.3
PAT	1.7	1.8	0.4	0.7	1.0
Leverage (x)	8.4	8.3	8.2	8.4	8.8
ROE	14.4	15.2	3.3	6.3	8.3

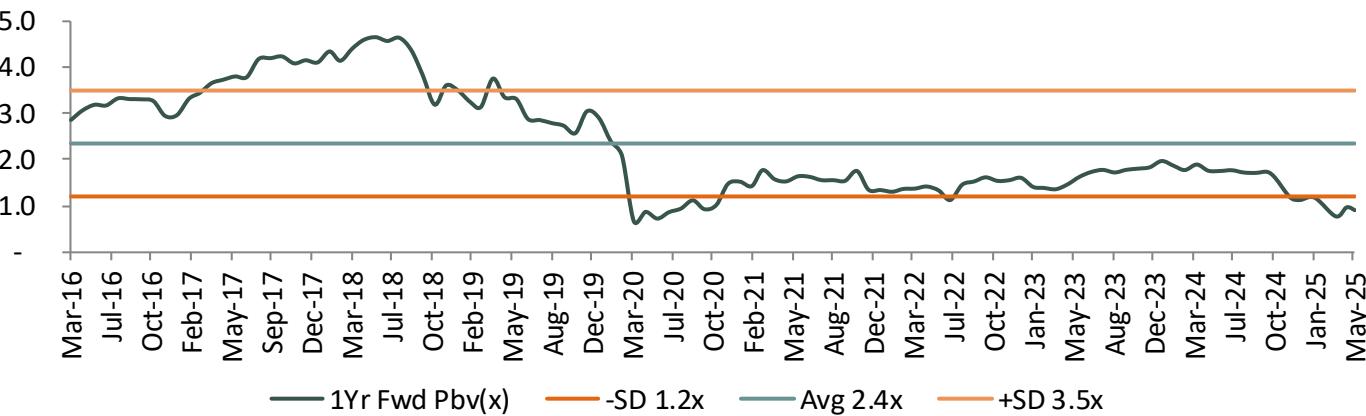
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-19)

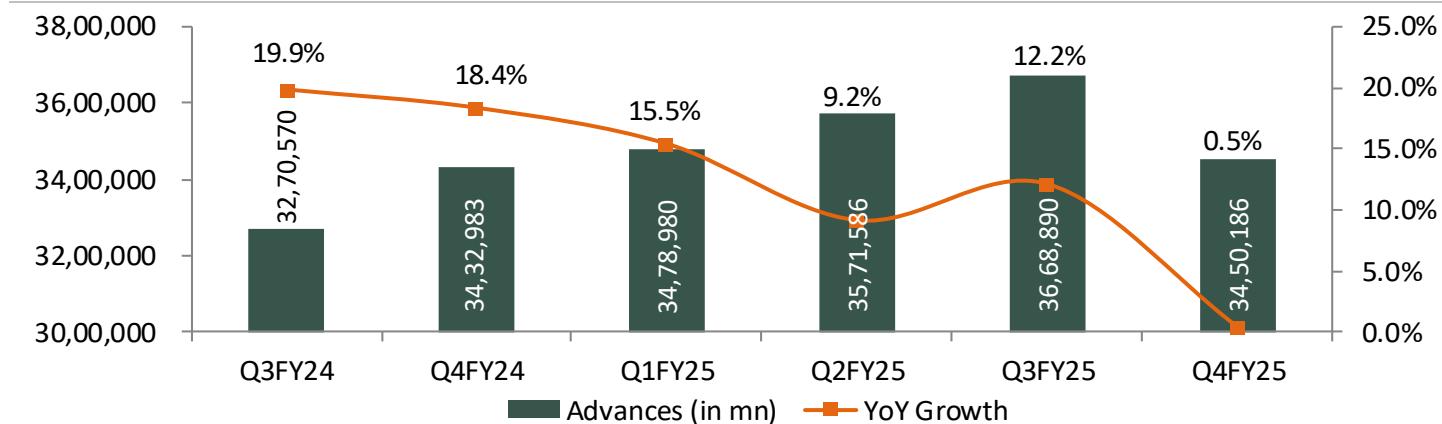


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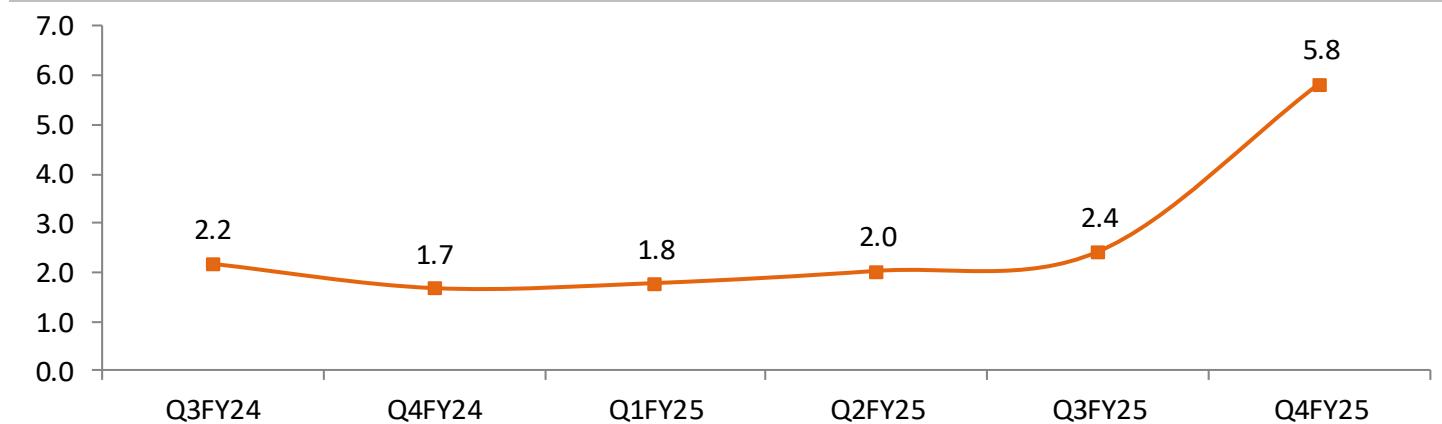
Exhibit 4: One-year forward P/ABV (16-25)



Source: Company; IDBI Capital Research

Exhibit 5: Advances growth slowed down due to lower MFI growth


Source: Company; IDBI Capital Research

Exhibit 6: Slippage ratio increased QoQ.


Source: Company; IDBI Capital Research

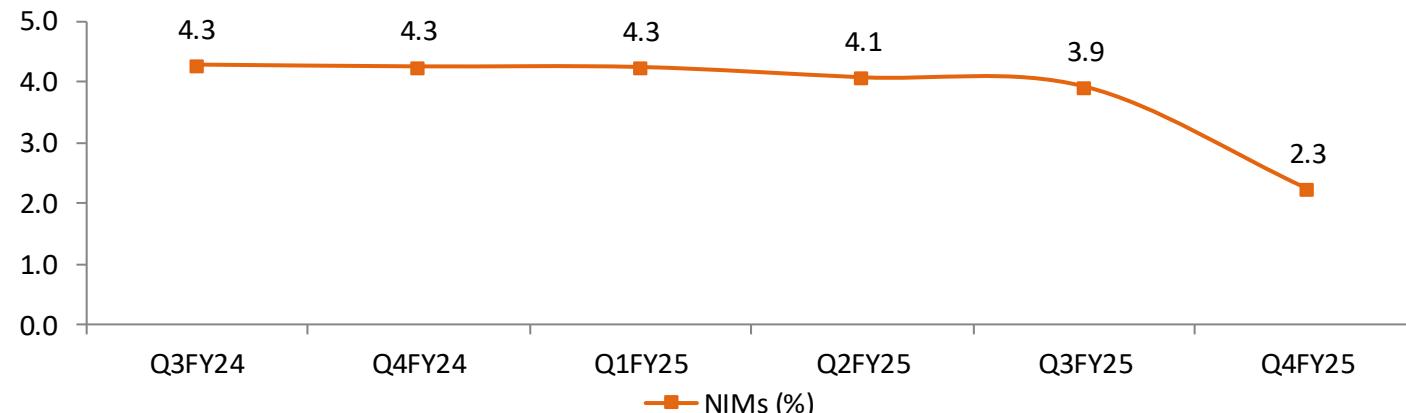
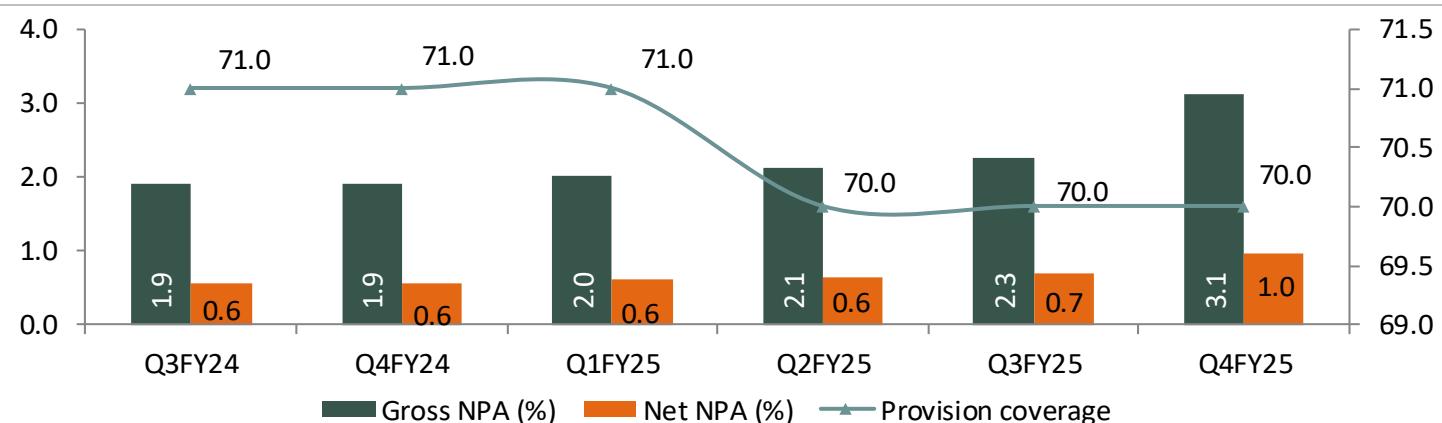
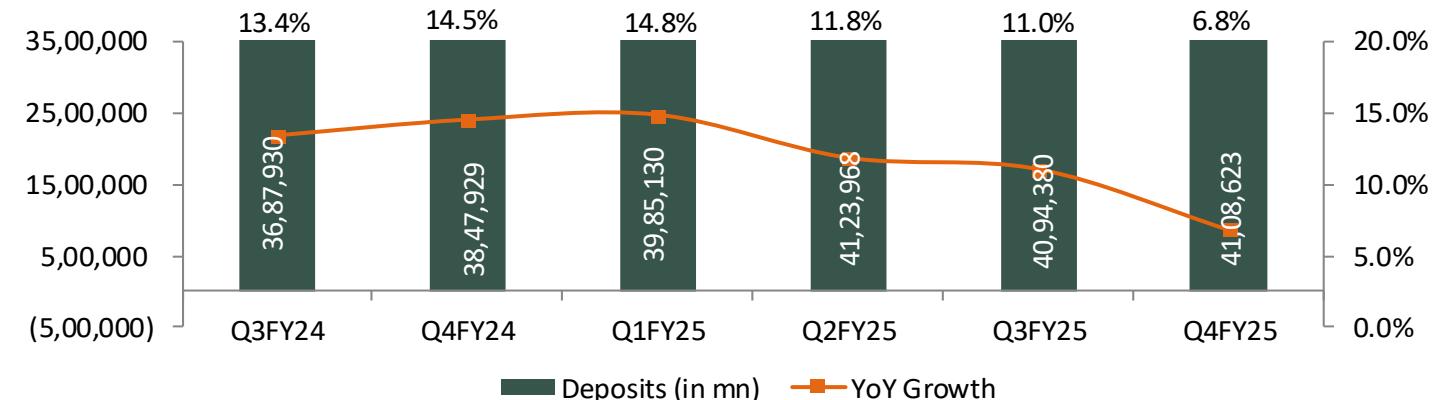
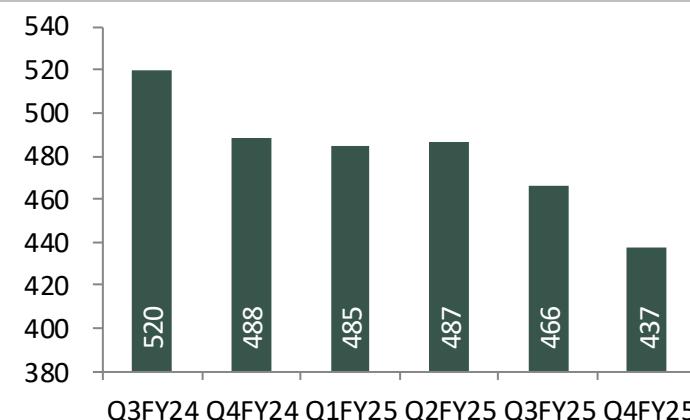
Exhibit 7: Net Interest margin declined on a QoQ basis

Source: Company; IDBI Capital Research
Exhibit 8: Asset quality deteriorated QoQ.

Source: Company; IDBI Capital Research

Exhibit 9: Deposits growth slowed down sequentially



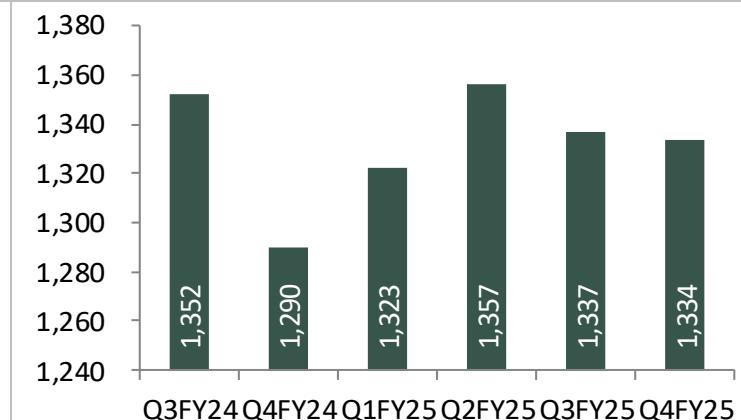
Source: Company; IDBI Capital Research

Exhibit 10: CASA per Branch

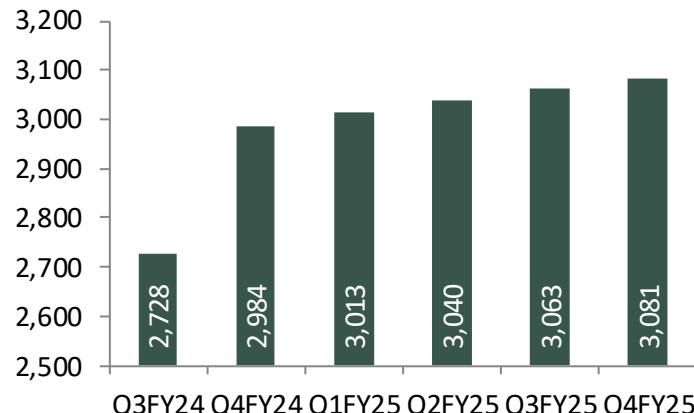


Source: Company; IDBI Capital Research

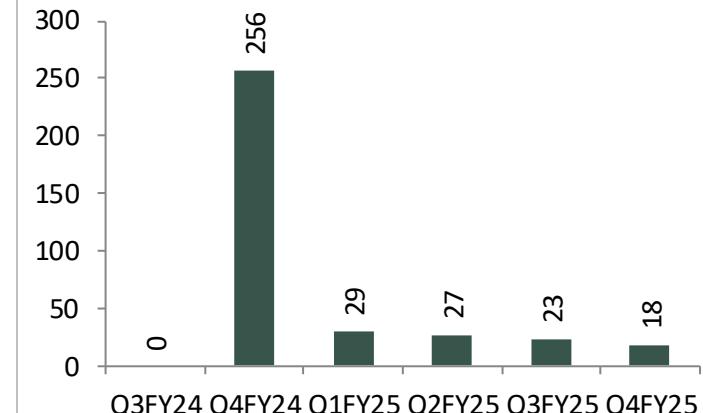
Exhibit 11: Deposit per Branch



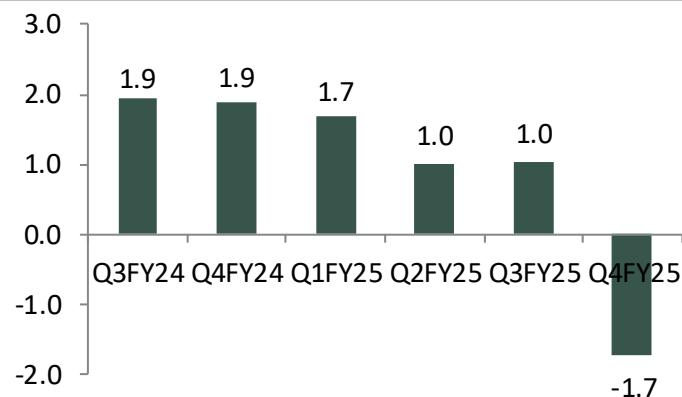
Source: Company; IDBI Capital Research

Exhibit 12: Branch addition trajectory

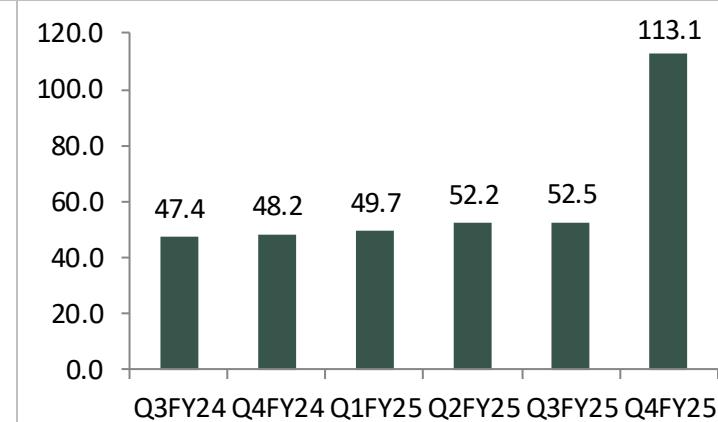
Source: Company; IDBI Capital Research

Exhibit 13: Branch addition declined during the qtr

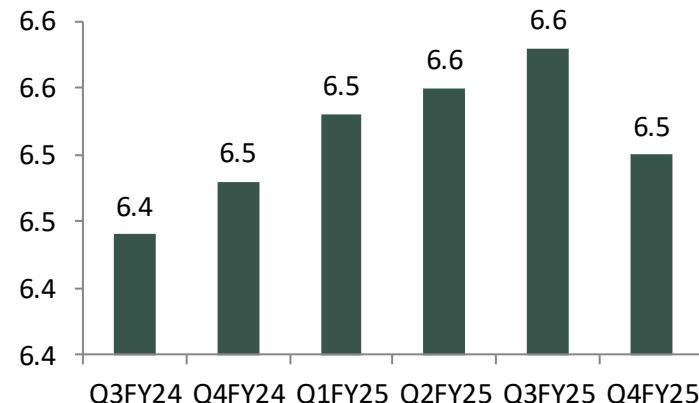
Source: Company; IDBI Capital Research

Exhibit 14: Return on Assets turned negative during the quarter

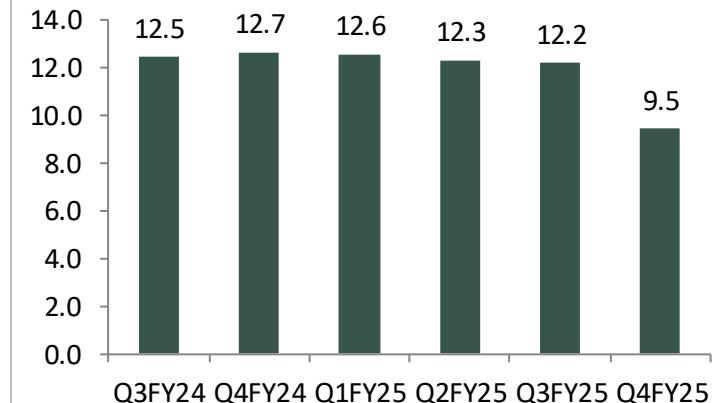
Source: Company; IDBI Capital Research

Exhibit 15: Cost to Income Ratio inched up sharply QoQ due to certain reclassification of income & expenses

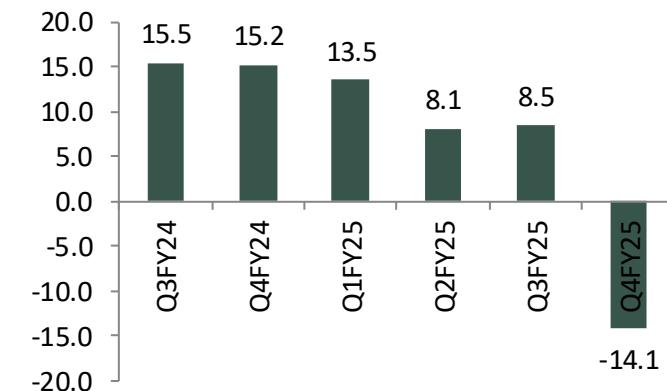
Source: Company; IDBI Capital Research

Exhibit 16: Cost of Deposits declined sequentially

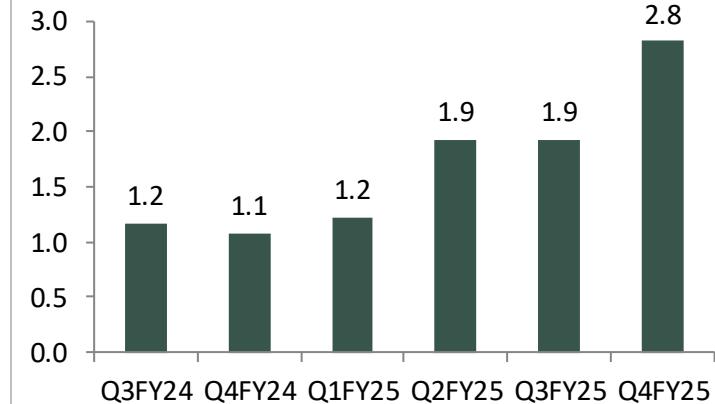
Source: Company; IDBI Capital Research

Exhibit 17: Yield on Advance declined during the quarter

Source: Company; IDBI Capital Research

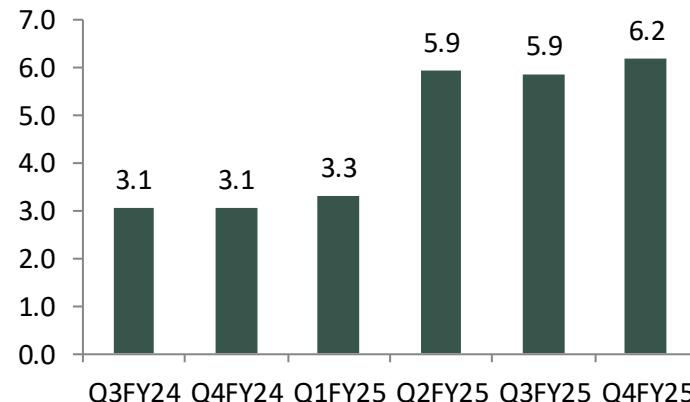
Exhibit 18: Return on Equity turned negative in line with ROA

Source: Company; IDBI Capital Research

Exhibit 19: Credit cost inched up significantly on QoQ basis

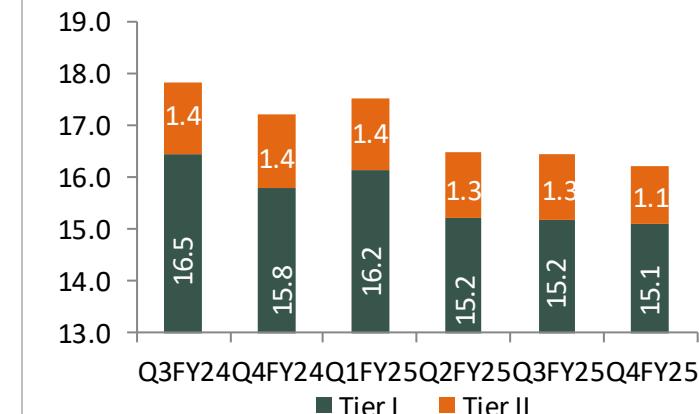
Source: Company; IDBI Capital Research

Exhibit 20: Cost to Assets increased sequentially



Source: Company; IDBI Capital Research

Exhibit 21: Capital adequacy ratio were stable



Source: Company; IDBI Capital Research

Exhibit 22: Composition of Advances-In Mn

Product Wise Advances (In Mn)	Q4FY25	Q4FY24	Q3FY25	YoY (%)	QoQ (%)
Commercial Vehicle Loans	3,56,790	3,32,390	3,48,190	7.3	2.5
Utility Vehicle Loans	2,96,310	2,56,580	2,87,880	15.5	2.9
Small CV	43,110	40,180	42,130	7.3	2.3
2Wheeler Loans	53,300	51,030	52,910	4.4	0.7
Tractor	76,910	89,550	79,770	(14.1)	(3.6)
Equipment Financing	1,29,530	1,14,220	1,24,980	13.4	3.6
Credit Cards	1,10,850	1,07,310	1,09,410	3.3	1.3
LAP	1,23,870	1,08,110	1,19,860	14.6	3.3
PL/MA/BL/AHL/Others	3,33,480	2,53,840	2,98,070	31.4	11.9
Business Banking	1,82,320	1,67,320	1,77,690	9.0	2.6
Micro Finance	3,09,090	3,91,920	3,25,640	(21.1)	(5.1)
Corporate Banking	14,34,630	15,20,530	17,02,360	(5.6)	(15.7)
Total	34,50,190	34,32,980	36,68,890	0.5	(6.0)

Source: Company; IDBI Capital Research

Exhibit 23: Composition of Advances (%)

Product Wise Advances (%)	Q4FY25	Q4FY24	Q3FY25	YoY (%)	QoQ (%)
Commercial vehicle loans	10.3	9.7	9.5	66 bps	85 bps
Utility vehicle loans	8.6	7.5	7.8	111 bps	74 bps
Small CV	1.2	1.2	1.1	8 bps	10 bps
2 Wheeler loans	1.5	1.5	1.4	6 bps	10 bps
Tractor	2.2	2.6	2.2	-38 bps	5 bps
Equipment financing	3.8	3.3	3.4	43 bps	35 bps
Credit Cards	3.2	3.1	3.0	9 bps	23 bps
LAP	3.6	3.1	3.3	44 bps	32 bps
PL/MA/BL/AHL/Others	9.7	7.4	8.1	227 bps	154 bps
Business Banking	5.3	4.9	4.8	41 bps	44 bps
Micro Finance	9.0	11.4	8.9	-246 bps	8 bps
Corporate Banking	41.6	44.3	46.4	-271 bps	-482 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 24: Statement of Standard Assets & Other Provisions

Product Wise Advances (In Mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Specific Provision	44,320	46,550	49,620	52,870	58,090	76,890
Floating Provisions	700	700	700	700	700	700
Standard Contingent Provisions	13,000	10,000	10,000	15,250	13,250	0
Standard Asset Provisions	14,400	14,850	15,050	15,300	15,880	17,910
Loan Related Provisions	72,420	72,100	75,370	84,120	87,920	95,500
Provision Coverage Ratio (%)	71	71	71	70	70	70
Total loan related Provisions (% of GNPA)	114	108	106	110	105	86

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E	(Rs mn)
Net interest income	1,50,008	1,75,921	2,06,159	1,90,313	1,94,798	2,19,758	
<i>Change (yoY, %)</i>	11%	17%	17%	-8%	2%	13%	
Fees	68,049	81,858	88,934	89,010	93,694	1,04,045	
Other Income	4,664	-195	5,024	-12,106	5,951	6,467	
Net Revenue	2,22,721	2,57,585	3,00,117	2,67,218	2,94,443	3,30,270	
Operating expenses	95,593	1,14,120	1,41,476	1,64,839	1,79,597	2,02,261	
Employee expenses	24,883	30,305	53,739	60,278	69,534	80,038	
Other expenses	70,709	83,815	87,737	1,04,561	1,10,063	1,22,222	
Pre-Provision Profit	1,27,129	1,43,465	1,58,641	1,02,379	1,14,846	1,28,010	
<i>Change (yoY, %)</i>	8%	13%	11%	-35%	12%	11%	
Provision	65,392	44,868	38,849	71,357	57,203	47,745	
PBT	61,737	98,596	1,19,792	31,022	57,643	80,265	
Taxes	15,625	24,699	30,022	9,438	14,509	20,203	
<i>Effective tax rate (%)</i>	25%	25%	25%	30%	25%	25%	
Net profit	46,111	73,897	89,770	21,585	43,134	60,062	
<i>Change (yoY, %)</i>	63%	60%	21%	-76%	100%	39%	
EPS	59.5	95.2	115.3	27.7	55.4	77.1	
<i>Return on Equity (%)</i>	10.1	14.4	15.2	3.3	6.3	8.3	
<i>Return on Assets (%)</i>	1.2	1.7	1.8	0.4	0.7	1.0	

Balance Sheet							(Rs mn)
Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E	
Capital	7,747	7,759	7,783	7,790	7,790	7,790	7,790
Reserves	4,69,226	5,38,458	6,24,292	6,63,270	6,90,824	7,35,306	
Networth	4,76,972	5,46,217	6,32,076	6,71,060	6,98,614	7,43,096	
Deposits	29,36,813	33,64,381	38,45,857	41,08,623	45,05,394	50,06,361	
Current deposits	3,68,389	5,09,179	4,71,966	4,10,862	5,40,647	6,00,763	
Saving deposits	8,88,256	8,41,284	9,86,763	9,44,983	10,81,295	12,51,590	
Term deposit	16,80,168	20,13,918	23,87,128	27,52,777	28,83,452	31,54,008	
Borrowings	4,73,232	4,90,112	4,76,114	5,37,036	5,54,218	6,37,006	
Other liabilities	1,32,728	1,77,330	1,96,893	2,24,353	2,40,639	2,44,917	
Total Liab. & Equity	40,19,746	45,78,042	51,50,940	55,41,071	59,98,865	66,31,380	
 Assets	 	 	 	 	 	 	
Cash	6,82,745	5,65,112	3,69,074	5,93,755	5,82,263	6,07,843	
Advances	23,90,515	28,99,237	34,32,983	34,50,186	37,95,205	42,50,630	
Investments	7,09,708	8,31,162	10,64,865	11,44,567	12,35,825	13,51,047	
Fixed Assets	18,487	19,926	23,240	24,964	25,213	25,465	
Other Assets	2,18,291	2,62,604	2,60,778	3,27,599	3,60,359	3,96,395	
Total assets	40,19,746	45,78,042	51,50,940	55,41,071	59,98,865	66,31,380	

Financial Ratios (%)						
Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Growth						
Deposits	14.6	14.6	14.3	6.8	9.7	11.1
Advances	12.4	21.3	18.4	0.5	10.0	12.0
NII	10.9	17.3	17.2	(7.7)	2.4	12.8
Pre-Provision Profit	8.4	12.9	10.6	(35.5)	12.2	11.5
Net Profit	62.6	60.3	21.5	(76.0)	99.8	39.2
Spreads						
Yield on Assets	8.9	9.3	10.4	10.0	9.8	9.9
Cost of Funds	4.7	5.0	5.9	6.3	6.2	6.2
NIM	4.2	4.4	4.5	3.8	3.6	3.7
CASA	42.8	40.1	37.9	33.0	36.0	37.0
Operating Efficiency						
Cost-to-Income	42.9	44.3	47.1	61.7	61.0	61.2
Cost-to-Assets	2.5	2.7	2.9	3.1	3.1	3.2
Asset Quality						
GNPA	2.3	2.0	1.9	3.1	3.4	3.1
NNPA	0.7	0.6	0.6	1.0	1.0	0.9
Provision Coverage	71.0	69.4	69.5	70.2	72.1	72.8
Credit Cost	2.9	1.7	1.2	2.1	1.6	1.2
Capital Adequacy						
CAR	18.4	17.9	17.2	16.2	15.2	14.6
Tier I	16.8	16.4	15.8	15.1	14.3	13.6
Valuation						
EPS	60	95	115	28	55	77
ABV	606	682	787	820	850	907
P/E	13.0	8.1	6.7	27.8	13.9	10.0
P/ABV	1.3	1.1	1.0	0.9	0.9	0.8
ROE	10.1	14.4	15.2	3.3	6.3	8.3
ROA	1.2	1.7	1.8	0.4	0.7	1.0
RORWA	1.6	2.3	2.5	0.5	1.0	1.2

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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