

IndusInd Bank Limited



IndusInd Bank Ltd
Discrepancy to take a hit on the net worth

CMP INR 656*	Target INR 687	Potential Upside 4.7%	Market Cap (INR Mn) 511,682	Recommendation HOLD	Sector Banking
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MARKET DATA

Shares outs (Mn)	779
Mkt Cap (INR Mn)	511,682
52 Wk H/L (INR)	829/ 649
Volume Avg (3m K)	6,635
Face Value (INR)	2
Bloomberg Code	IIB IN

SHARE PRICE PERFORMANCE

MARKET INFO

SENSEX	74,102
NIFTY	22,498

SHAREHOLDING PATTERN (%)

Particulars	Dec-24	Sep-24	Jun-24
Promoters	16.3	16.4	16.4
FIIIs	24.7	34.1	38.4
DIIIs	42.8	35.1	30.2
Others	16.2	14.4	15.0
Total	100.0	100.0	100.0

*Based on today's closing

*Note: All the market data is as of today's closing.

- IndusInd Bank (IIB) disclosed a derivative accounting discrepancy, impacting 2.35% (~ INR 15.0-16.0 Bn) of its net worth as of December 31, 2024, arising from internal hedging trades linked to foreign currency borrowings and deposits. The discrepancy was discovered during an internal review of asset and liability accounts following the implementation of RBI's new investment and derivative accounting guidelines, effective April 1, 2024.
- The financial impact will be recorded in Q4FY25E through the Profit & Loss (P&L) statement, affecting interest income and swap costs, while the general reserve remains untouched.
- The issue stems from internal trade practices used by the bank's Balance Sheet Management Desk (ALM Desk) to hedge foreign currency borrowings and deposits.
- Internal trades were conducted for illiquid markets, including 3–5-year Yen deposits and 8–10-year USD borrowings. These trades were used to manage foreign currency exposure but had an accounting mismatch due to: a) external trades being marked to market (MTM), b) internal trades accounted on a cost basis or swap valuation, leading to temporary valuation differences, and c) the difference between the internal and external trade valuations accumulated over 5-7 years.
- The discrepancy surfaced following the RBI's new derivatives framework, effective April 1, 2024.
- An external advisor has been appointed to conduct an independent review, expected to be completed by end of Q4FY25E.
- The final amount of impact may change slightly after external validation.
- The MD & CEO received a one-year extension instead of the usual three-year term, prompting speculation about regulatory oversight and the bank's leadership transition strategy. Meanwhile, the CFO resigned a few months ago for personal reasons, and according to management, his departure was unrelated to the recently disclosed derivative discrepancy.
- **We revise our net profit estimates downward by 22.7% for FY25E, factoring in the one-time impact of the derivative discrepancy, potential regulatory scrutiny, and near-term uncertainty in leadership transition. While the bank maintains strong capital adequacy and business continuity, we expect some moderation in operating growth and short-term margin pressures as the financial impact is absorbed.**
- **Given the leadership transition and pending external audit results, we lower our P/B multiple to 0.65x (earlier 0.95x FY27E), assigning it to the FY27E Adjusted BVPS of INR 1,065.2, leading to a revised target price of INR 687 (earlier INR 1,031), implying a 4.7% upside from the current market price. We maintain a HOLD rating on the stock, awaiting greater clarity on the final external review, business growth trajectory, and CEO succession planning before turning more constructive.**

KEY FINANCIALS

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
NII	175,921	206,159	213,090	239,291	276,707
PPOP	144,189	158,641	133,112	166,719	190,907
PAT	74,433	89,773	49,989	82,255	98,684
EPS (INR / Share)	96.0	115.3	64.2	105.6	126.7
ABVPS (INR / Share)	686.3	785.5	840.4	942.1	1,065.2
NIM (%)	5.0%	4.8%	4.3%	4.3%	4.3%
Advances Growth YoY (%)	21.3%	18.4%	10.4%	14.4%	14.4%

Source: Company, DevenChoksey Research

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Conference call highlights:

Key issue: Derivative portfolio discrepancy:

- The bank identified discrepancies in its other assets and other liability accounts related to its derivative portfolio.
- The discrepancy has accumulated over the past 5-7 years, leading to an estimated 2.35% impact on net worth as of December 2024.
- The impact was discovered during an internal review triggered by an RBI circular (Sep 2023) that required banks to stop internal derivative trades by April 1, 2024.
- An external advisor was appointed to validate the findings and ascertain the root cause, with a final report expected by the end of Q4FY25E.

Financial & business impact:

- The estimated impact is currently being assessed but is not expected to exceed the disclosed range.
- The discrepancy mainly affected interest income and swap cost accounting, with some impact on trading income.
- The bank reassured stakeholders that its profitability and capital adequacy remain strong, ensuring it can absorb the impact without major financial strain.
- The derivative trades have now been fully aligned with regulatory requirements, and no new internal trades have been conducted since April 1, 2024.

Leadership & governance:

- The RBI granted a one-year extension to the MD & CEO, instead of the usual three-year term.
- The Board will evaluate both internal and external candidates for the CEO succession plan.
- IIB's Chief Financial Officer (CFO) resigned a few months ago, well before the recent derivative discrepancy disclosure. While management has denied any direct link between his departure and the issue, the timing raises questions about internal governance, financial oversight, and regulatory awareness. The resignation coincided with the RBI's increased scrutiny on derivative accounting, and the bank's subsequent internal review of hedging transactions.

Regulatory & risk management actions:

- The RBI was informed about the issue, with preliminary and final updates provided.
- IIB has undergone multiple layers of audit, including internal audit, concurrent audit, and external audits, but the issue was identified only during the review triggered by the RBI's new framework.
- Leadership emphasized that the bank remains compliant and is working to enhance governance and internal controls.

Business outlook & future strategy:

- IIB expects microfinance flows to stabilize across regions, except for some ongoing adjustments in Karnataka.
- No major impact on growth outlook is anticipated, with Q1FY26E expected to return to normal profitability trends.
- The bank's credit cost is expected to decline in the coming quarters.

Other Updates:

- The management emphasized that this disclosure was made proactively and in the interest of transparency.
- A follow-up call will be held in April to provide final validated numbers from the external review.
- IIB assured that business fundamentals remain strong, and the leadership is committed to addressing concerns proactively.

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Financials:

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	363,679	457,482	511,446	574,774	660,893
Interest Expense	187,758	251,323	298,356	335,483	384,186
Net Interest Income	175,921	206,159	213,090	239,291	276,707
Non-interest income	81,728	93,958	72,857	104,450	112,806
Operating income	257,649	300,117	285,947	343,741	389,513
Operating Expense	113,460	141,476	152,835	177,022	198,606
PPOP	144,189	158,641	133,112	166,719	190,907
Provisions	44,868	38,849	66,466	57,049	59,331
PBT	99,320	119,792	66,646	109,670	131,575
Share of Profit/ (Loss) in Associates	3.60	3.10	0.90	2.00	2.00
Tax Expense	24,887	30,022	16,659	27,418	32,894
PAT	74,437	89,773	49,989	82,255	98,684
Diluted EPS (INR)	96.0	115.3	64.2	105.6	126.7

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Source of Funds					
Share capital	7,759	7,783	7,791	7,791	7,791
Reserves & Surplus	541,844	623,257	673,246	755,500	854,184
Networth	549,603	631,041	681,036	763,291	861,974
ESOP	443	1,035	1,035	1,035	1,035
Borrowings	490,112	476,114	465,760	506,086	583,458
Deposits	3,361,202	3,845,857	4,234,179	4,819,862	5,556,741
Other liabilities & provisions	177,006	196,893	380,901	473,034	500,912
Total Equity & Liabilities	4,578,366	5,150,940	5,762,911	6,563,307	7,504,120
Uses of Funds					
Balances w/ banks & others	138,019	185,605	211,709	240,993	277,837
Investments	830,757	1,064,865	1,227,912	1,445,959	1,667,022
Loans & advances	2,899,237	3,432,983	3,791,224	4,337,003	4,962,316
Fixed assets	20,789	23,240	26,726	30,735	35,345
Other assets	259,816	260,778	314,802	339,922	367,113
Total Assets	4,578,366	5,150,940	5,762,911	6,563,307	7,504,120

Source: Company, DevenChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
Growth Rates					
Advances (%)	21.3%	18.4%	10.4%	14.4%	14.4%
Deposits (%)	14.6%	14.4%	10.1%	13.8%	15.3%
Total assets (%)	13.9%	12.5%	11.9%	13.9%	14.3%
NII (%)	17.3%	17.2%	3.4%	12.3%	15.6%
Pre-provisioning profit (%)	10.1%	10.0%	-16.1%	25.2%	14.5%
PAT (%)	52.9%	20.6%	-44.3%	64.5%	20.0%
B/S Ratios					
Credit/Deposit (%)	86.3%	89.3%	89.5%	90.0%	89.3%
CASA (%)	40.1%	37.9%	34.5%	35.2%	35.3%
Advances/Total assets (%)	63.3%	66.6%	65.8%	66.1%	66.1%
Leverage - Total Assets to Equity	8.33	8.16	8.46	8.60	8.71
Operating efficiency					
Cost/income (%)	44.0%	47.1%	53.4%	51.5%	51.0%
Opex/total assets (%)	2.5%	2.7%	2.7%	2.7%	2.6%
Opex/total interest earning assets	3.3%	3.4%	3.2%	3.3%	3.2%
Profitability					
NIM (%)	5.0%	4.8%	4.3%	4.3%	4.3%
RoA (%)	1.6%	1.7%	0.9%	1.3%	1.3%
RoE (%)	13.5%	14.2%	7.3%	10.8%	11.4%
Asset quality					
Gross NPA (%)	2.0%	1.9%	2.3%	2.2%	2.2%
Net NPA (%)	0.6%	0.6%	0.7%	0.7%	0.6%
PCR (%)	69.4%	69.5%	70.0%	70.0%	71.0%
Slippage (%)	2.9%	2.1%	0.9%	0.7%	0.6%
Credit cost (%)	1.3%	0.9%	1.4%	1.1%	1.0%
Per share data / Valuation					
EPS (INR)	95.9	115.3	64.2	105.6	126.7
BVPS (INR)	708.3	810.8	874.3	979.8	1,106.5
ABVPS (INR)	686.3	785.5	840.4	942.1	1,065.2
P/E (x)	14.9	13.5	11.0	6.7	5.6
P/BV (x)	2.0	1.9	0.8	0.7	0.6
P/ABV (x)	2.1	2.0	0.8	0.7	0.7

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Date	CMP (INR)	TP (INR)	Recommendation
11-Mar-25	656	687	HOLD
01-Feb-25	1,009	1,031	HOLD
24-Oct-24	1,280	1,305	HOLD
01-Aug-24	1,428	1,785	BUY
30-Apr-24	1,516	1,850	BUY
19-Jan-24	1,561	1,950	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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