



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✓
Right Valuation (RV)	✓	✗	✗
+ Positive	= Neutral	- Negative	

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✗	↓	✗
RV	✓	↔	✓

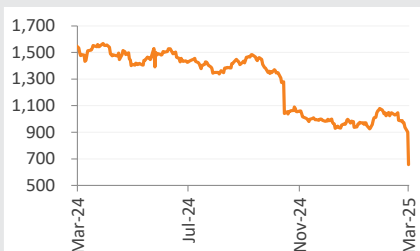
Company details

Market cap:	Rs. 53,342 cr
52-week high/low:	Rs. 1576/605
NSE volume: (No of shares)	59.3 lakh
BSE code:	532187
NSE code:	INDUSINDBK
Free float: (No of shares)	65.3 cr

Shareholding (%)

Promoters	16.3
FII	24.7
DII	42.8
Others	16.2

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-34.1	-31.4	-52.5	-55.3
Relative to Sensex	-31.3	-22.4	-41.8	-55.8

Source: Mirae Asset Sharekhan Research, Bloomberg

IndusInd Bank

Surprisingly adverse developments; Downgrade to HOLD

Banks	Sharekhan code: INDUSINDBK
Reco/View: Hold	CMP: Rs. 685
Price Target: Rs. 750	
↑ Upgrade	↔ Maintain
↓ Downgrade	

Summary

- We downgrade the stock from Buy to Hold with a revised PT. of Rs. 750. A series of negative surprises, including the CFO's resignation, the CEO's shorter tenure extension by the RBI, and a potential derivative portfolio loss, has driven our downgrade.
- The bank's internal review estimates a 2.4% hit to net worth (Rs. 1,520 crore post-tax), expected to be accounted for in Q4FY25. An external agency has been appointed to validate internal findings, but repeated risk management lapses raise concerns over internal processes and regulatory scrutiny.
- Despite cheap valuations (0.7x FY26E BV), uncertainty around management stability, potential regulatory interventions, and muted earnings visibility make it difficult to build a strong investment case.
- Key turnaround catalysts: (a) No further adverse impact from the external audit, (b) Stronger internal controls, accountability, and corrective actions, (c) No additional RBI intervention, (d) Hiring an experienced external CEO (preferably private sector), (e) Earnings recovery via asset quality improvement in MFI/unsecured retail, (f) Promoter stake increase post regulatory approval.

IndusInd Bank reported discrepancies in its derivative portfolio pertaining to transactions done over the past 7-8 years. During the internal review of the trade book in derivative portfolio in October 2024, the bank found some discrepancies. The transaction was related to hedging of foreign currency deposit/ borrowings relating to FY24 and before. The bank has disclosed a potential loss of 2.4% on net worth. The bank had informed RBI about the discrepancies when it was discovered in Oct 2024. The bank also appointed an external agency to independently review and validate the internal findings. Detailed findings will be shared by bank once the audit concludes, mostly likely by Q4FY25. anagement also believes that the quantum/ impact of discrepancies from external review is not likely to materially differ from the internal review. More clarity would emerge on the issue once closure report would be out. The impact of the discrepancy is manageable and can be absorbed but the timing of reporting the issue has raised concerns about credibility plus over the past 3 months, CFO has resigned, CEO has been given shorter extension by RBI raises uncertainty.

Impact of discrepancies to be absorbed as a one-time charge in Q4FY25: The bank's internal review has estimated an impact of ~2.35% on bank's net worth (~Rs. 1,520 crore post tax) due to the discrepancy, which is likely to be accounted as one-time charge or adjusted through contingent buffers in Q4FY25. Management also believes that the quantum/ impact of discrepancies from external review is not likely to materially differ from the internal review. More clarity would arise on the resultant impact, once closure report would be out.

Shorter tenure extension for CEO - An extension of only one year for the CEO instead of board seeking for 3 years, appears to signal RBI's continued discomfort over governance. His earlier term was also extended by only two years in 2023 instead of granting full three years term. The board will now evaluate both internal and external candidates to hire a suitable successor.

What could turnaround from here: The key catalyst for turnaround are in order – a) No further adverse impact from the external audit report. b) Creating accountability, implementing measures to prevent internal control / risk lapses in future and termination of the accountable c) No further adverse action from RBI d) Hire a suitable successor primarily external (from a private sector) e) Earnings recovery led by improvement in asset quality of MFI portfolio and other unsecured retail segment f) Promoter increasing stake after requisite approval from regulator.

Our Call

Valuation – Downgrade to hold with a revised PT of Rs. 750: We downgrade the stock from buy to hold with a revised PT. of Rs. 750. Near term uncertainty likely to prevail as over the past 3 months, CFO has resigned, CEO has been given shorter extension by RBI and now we are aware of potential loss in derivative portfolio. Earnings visibility is also muted for FY26 due to weak MFI cycle and stress in other unsecured retail segment. Although valuations appear to be cheap at 0.7x FY26E BV estimates but given the uncertainty around management continuity, regulator may intervene further and earnings visibility is muted for FY26, building investment case is difficult. Most importantly, building the credibility of the franchise will take time. All these events have dampened sentiments.

Key risk to upside :

Recovery in earnings led by improvement in asset quality, proper succession plan, No further adverse action from RBI.

Valuation

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	17,592	20,616	21,068	23,834	27,047
Net profit	7,390	8,950	4,399	7,150	9,237
EPS (Rs.)	95.2	115.0	56.5	91.6	118.4
P/E (x)	7.2	6.0	12.2	7.5	5.8
P/BV (x)	1.0	0.9	0.8	0.7	0.6
RoE (%)	14.4	15.2	6.8	10.1	11.7
RoA (%)	1.7	1.8	0.8	1.2	1.4

Source: Company; Mirae Asset Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation and asset quality to be in focus

System credit growth is slowing and has declined to ~11.4% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth, slow down in unsecured retail segment and a high credit-deposit ratio. Deposit growth at 10.3% is lagging loan growth and stays rangebound at 10-12%. Also, deposit growth is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to elevated cost of term deposits, while lower interest rate cycle will lead to yield pressure. Overall, asset quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Near term uncertainty to prevail

Earnings visibility was already muted for FY26 due to weak MFI cycle and stress in other unsecured retail segment. Over the past 3 months, CFO has resigned, the CEO has been given shorter extension by RBI and now we are aware of potential loss in the derivative portfolio. All these events have dampened sentiments and most importantly, building the credibility will take time.

■ Valuation – Downgrade to hold with a revised PT of Rs. 750

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Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
IndusInd Bank	685	53,342	7.5	5.8	0.7	0.6	10.1	11.7	1.2	1.4
Federal Bank	178	43,765	9.6	7.8	1.2	1.0	13.0	14.2	1.2	1.3

Source: Company; Mirae Asset Sharekhan Research

About company

IIB is among the top 10 private banks operating in India promoted by Hinduja Group in India. The bank has a strong pan-India presence with 3,063 branches/banking outlets as of December 2024. The bank is a market leader in most of the product categories in the vehicle finance segment, which forms ~26% of overall loans. Overall, the retail-to-wholesale mix stands at 54:46. The bank is well-placed with adequate capital levels. Capital adequacy ratio (CAR) stands at 16.46%.

Investment theme

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Key risk to upside :

- ♦ Recovery in earnings led by improvement in asset quality, proper succession plan, No further adverse action from RBI.

Additional Data

Key management personnel

Management	Designation
Sumant Kathpalia	CEO and Managing Director
Arun Khurana	ED and Deputy CEO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Indusind International Holdings LTD	11.49
2	ICICI Prudential Asset Management	4.92
3	Life Insurance Corp of India	4.84
4	HDFC Asset Management Co Ltd	4.72
5	SBI Funds Management Ltd	3.95
6	INDUSIND LTD	3.59
7	Blackrock Inc	3.03
8	UTI Asset Management Co Ltd	3.01
9	Nippon Life India Asset Management	2.78
10	BRIDGE INDIA FUND	1.98

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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