SELL (Maintain)

CMP: **INR 770** Target Price: **INR 650** ▼ -16%

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22 May 2025

India | Equity Research | Results update

IndusInd Bank

Banking

Reports loss with weak core NIM/PPOP; growth/RoA revival yet uncertain

IndusInd Bank (IIB) reported higher-than-expected Q4FY25 loss of INR 22.4bn (RoA of -1.74%) burdened by multiple one-offs, including derivative loss and irregularities in its MFI book while slippages/net NPA jumped QoQ. Core profitability, adjusted for one-offs, was weak too with NIM at 3.47% (down 46bps QoQ) while PPOP slipped 24% YoY to INR 30.62bn. CET 1 and LCR levels are comfortable at 15.1% and 118%, respectively. The board is yet to recommend a name for its MD&CEO position to the RBI. We continue to believe that IIB would prioritise balance sheet stability vs. growth while the path to RoA revival remains uncertain, even if it was to get a signature hire. Our estimates are broadly unchanged, but we expect a sharp EPS downgrade in consensus estimates. We estimate single-digit loan growth/RoE. Retain **SELL**; TP of INR 650 unchanged.

Reports loss as it subsumes multiple one-offs; adj. NIM/PPOP weak

IIB reported massive loss of INR 22.4bn (RoA of -1.74%), even after consuming INR 13.25bn of contingent provisions. There are multiple one-offs pertaining to NII, other income, opex and provisioning. Adjusted for the one-off, NIM stood at 3.47% (down 46bps QoQ) while PPOP slumped to INR 30.6bn (down 24% YoY and 15% QoQ). Overall, loans de-grew 6% QoQ, within which, corporate book tumbled a massive 15% QoQ. CA declined 11% QoQ. Retail deposits' decline of ~2% QoQ is not worrisome, though we would be tracking this number closely. IIB believes that the financial impact of all known irregularities has been accounted for. The board is yet to nominate an MD&CEO with the RBI. The board has not proposed any dividend for the year.

RoA revival still uncertain; estimate muted growth/RoE ahead

IIB mentioned about scaling up granular liabilities, secured retail, selective in corporate and cautious in MFI. We believe, the bank would prioritise balance sheet liquidity/granularity; thus, it would likely report single-digit loan growth for FY26–27E. We estimate FY26 PPOP of ~INR 130bn, higher than annualised BAU Q4FY25 figures. We estimate ~1.6% credit costs for FY26/FY27, partly from its MFI portfolio (0–90dpd still elevated) and in a bid to shore-up contingent provisions (now nil). We estimate IIB to report <1% RoA and single-digit RoE for FY26/FY27. Maintain **SELL** with an unchanged target price of INR 650, valuing the stock at ~0.8x trailing ABV (implied multiple of ~0.8x/0.7x FY26E/FY27E ABV). **Risk:** Faster-than-expected normalisation in profitability.

Financial Summary

Y/E March	FY24A	FY25E	FY26E	FY27E
NII (INR bn)	206.2	190.3	211.8	238.2
Op. profit (INR bn)	157.4	106.4	131.8	142.4
Net Profit (INR bn)	89.5	26.4	52.2	57.3
EPS (INR)	115.0	33.9	67.1	73.5
EPS % change YoY	20.7	(70.5)	97.7	9.7
ABV (INR)	784.1	792.5	846.4	908.8
P/BV (x)	1.0	0.9	0.9	0.8
P/ABV (x)	1.0	1.0	0.9	0.9
Return on Assets (%)	1.8	0.5	0.9	0.9
Return on Equity (%)	15.3	4.2	7.9	8.1

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Market Data

Market Cap (INR)	600bn
Market Cap (USD)	7,010mn
Bloomberg Code	IIB IN
Reuters Code	INBK.BO
52-week Range (INR)	1,550 /605
Free Float (%)	85.0
ADTV-3M (mn) (USD)	145.8

Price Performance (%)	3m	6m	12m
Absolute	(26.2)	(21.5)	(45.3)
Relative to Sensex	(34.6)	(27.3)	(55.6)

ESG Score	2023	2024	Change
ESG score	80.4	80.2	(0.2)
Environment	75.2	77.6	2.4
Social	74.5	74.6	0.1
Governance	86.6	85.5	(1.1)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
PAT	-	-

Previous Reports

16-05-2025: Company Update

04-04-2025: Quarterly results preview

Q4FY25 conference call highlights

As there is no Whole-time Director in the bank, the call was presided by the Chairman of the board and other senior officials.

One-off and normalised P&L

- There are multiple one-offs in the quarter. Adjusted for the one-offs, NII was INR 47bn, other income was INR 25bn and opex was INR 42bn. The normalised PPOP would have been INR 30.6bn.
- Normalised NIM would be 3.47%.
- Normalised fee income appears less impacted, as there is some re-grouping of interest income into other income.
- There is no material re-classification in the corporate book yields. The reported yields have declined to 8.07% vs. 8.7% QoQ. The decline is due to build-up of liquidity buffer and movement of repo rate during the quarter.

Details of one-offs

- The bank has reversed INR 19.6bn of derivative losses in other income.
- Net of taxes, INR 4.23bn pertaining to MFI business.
- Rectification of incorrect manual entries worth INR 5.95bn on both other assets and other liabilities. However, this is P&L neutral.
- Interest reversals (INR 1.78bn) income as MFI slippages were huge.
- INR 7.6 bn re-grouped from interest income to other income.
- INR 1.58bn re-grouped from provisions to other operating expenses.

Irregularities

- The board was not made aware about the irregularities in the relevant accounting period. The board, along with its committee, is working with external auditors to identify and rectify the root cause of these lapses.
- The bank believes that there is fraud against the bank. The bank would follow due legal process regarding the misconduct without fear or favour.
- Importantly, all known financial impact has been incorporated, as of FY25.

Leadership transition

- RBI has advised the bank to submit proposals for appointment of the new MD&CEO for its approval by 30 Jun'25. The board is at an advanced stage in the selection process and is confident that the recommendations would be submitted to the RBI in advance of the timeline prescribed.
- The board is determined to identify and expeditiously induct strong leadership with right competencies, strong ethics and the ability to build and scale a robust franchise.

Way ahead and liquidity situation

- The bank would scale secured retail, MSME and Retail liability, and selective in corporate. It would be cautious in MFI given the current industry outlook. However, it would not be overly cautious or overly optimistic.

- The bank believes it is too early to comment on normalized fee to assets or fee growth.
- Asset quality, ex-MFI, has been broadly stable. MFI slippages in the near term would be elevated vs. normalised levels, but clearly lower than Q4FY25. Business normalcy would be still some time away.
- No comment on the deposit situation after the quarter.
- Average LCR for Q4FY25 was 118%. However, it commented that till mid-may LCR has been broadly steady at 139%.

Asset Quality

- MFI collection efficiency in Karnataka has improved to 98.2%
- No SMA 1+2 in G&J book.
- Restructured book in vehicle book is INR 1.19bn vs. INR 5.5bn at the beginning of the year.
- INR 1.4bn restructured exposure in real estate slipped in the quarter. Total corporate slippages were INR 2.2bn.
- Overall SMA 1+2 is 24bps vs. 20bps QoQ. Net SR – 27bps. RSA at 12bps.
- The bank has utilised its contingent provisions during the quarter.
- Slippages: Vehicle finance – INR 6.57bn, corporate – INR 2.2bn, other retail – INR 6.2bn.
- MFI slippages jumped to INR 35.09bn. This includes INR 18.85bn of additional NPA recognition, highlighted in internal review. The business as usual, slippages are also higher at ~INR 17bn.

Q3FY25 conference call highlights

MFI

- Incremental stress in MFI seems to be peaking out as there is reduction in forward flows from 0 dpd customers. SMA 2 to NPA flows are still elevated. Forward flows have improved notably in Jan'25. However, the bank remains cautious on the MFI segment.
- MFI SMA 1+2 unchanged at ~4%.
- Disbursements have dropped to INR 90bn vs. INR 140-150bn run rate earlier. Disbursements are concentrated towards vintage customers and centers. Once the 30-90 dpd bucket comes under control, IIB would again consider pressing the accelerator on MFI growth.
- The bank intends to keep MFI share in the range of 8-10% in a steady state as it generates RoA of ~2.5-3%.
- Loans to borrowers having 1+3 lenders are only given on a case-to-case basis. IIB would stop this once the guardrails are implemented. However, the impact of the guardrails is not expected to be significant.
- On an industry level, JLG may not register 20-25% growth but can deliver 10-15% run rate.
- Karnataka exposure stands at ~13%.the portfolio de-grew 4% QoQ. Collection efficiency is down by 1% in Karnataka.
- Bank does not give any PL/CV loans to MFI customers. 2W was done as a pilot, but bank stopped it as delinquency was high.

Non-MFI asset quality

- While gross flows may look elevated in vehicle finance, recovery in vehicle finance book is quick.
- Credit cards saw elevated stress. However, this is moderating and there is stability in forward flows.
- IIB expects slippages in tractors to stabilise after 3-4 months. For next 3-4 months, slippages here are expected to remain elevated.
- In small CV, the bank expects to arrest slippages in Q4FY25.
- No stress build-up in gems and jewelry loans. No SMA here.
- Given MFI stress and ECL provisions, bank may continue to carry contingent provisions.
- LCV has seen some increased slippages, but it is set off in yields.
- Slippages break-up: INR 6.71bn in vehicle, INR 6.95bn in MFI and INR 5.53bn in other retail.
- Corporate slippages were INR 2.8bn. Slippages were led by one restructured real estate account due to DCCO issue.
- Overall SMA 1+2 loans are 20bps.
- Restructured book reduced to INR 2.31bn vs. INR 3.09bn.
- Contingent provisions were utilised for corporate account (INR 0.4bn) and MFI (INR 1.6bn).
- MFI write-offs were INR 3.34bn vs. INR 740mn QoQ.

Advances

- CV growth trend should be broadly similar to GDP growth rate. 2W growth to be in same lines as Q3.

- Credit card customers- 24% revolvers. ~16% EMI. Bank sources salaried card customers from the open market, as it wants to acquire more salaried relationships.

Deposits

- Retail deposit was healthy at 4% QoQ/14% YoY. The share of retail deposit as per LCR has improved to 46.1% vs. 44.1% QoQ.
- It has, however, consciously shed some non-LCR accretive wholesale deposit; thus, overall deposit declined 1% QoQ.
- Drop in CA was due to loss of few mandates.
- Retail LCR deposits share has risen to 46.1% vs. 44%.
- Share of top-20 deposits has improved to 15.4% vs 16% QoQ and 17% YoY
- LDR guidance is 88-90% range

Others

- Corporate yield decline is partly because of external benchmark linkages where there has been a downward revision.

Exhibit 1: Q4FY25 result review

	Q4FY24	Q4FY25	YoY (%)	Q3FY25	QoQ (%)
Financial Highlights (INR mn)					
Interest Earned	1,21,985	1,06,339	(12.8)	1,28,008	(16.9)
Interest Expended	68,221	75,855	11.2	75,727	0.2
Net Interest Income	**53,765**	**30,483**	**(43.3)**	**52,281**	**(41.7)**
Other Income	25,005	7,088	(71.7)	23,502	(69.8)
Total Income	1,46,990	1,13,427	(22.8)	1,51,510	(25.1)
Total Net Income	**78,769**	**37,571**	**(52.3)**	**75,783**	**(50.4)**
Staff Expenses	10,491	10,995	4.8	10,695	2.8
Other operating expenses	28,007	31,302	11.8	29,099	7.6
Operating Profit	**40,271**	**(4,725)**	**NA**	**35,989**	**NA**
Provision & Contingencies	8,991	24,166	168.8	17,436	38.6
Provision for tax	7,812	(6,531)	NA	4,540	NA
Reported Profit	**23,468**	**(22,360)**	**NA**	**14,013**	**NA**
Other Highlights (INR bn)					
Advances	3,433	3,450	0.5	3,669	-6.0
Deposits	3,848	4,111	6.8	4,094	0.4
Gross NPA	67	110	65.0	84	31.9
Gross NPA (%)	1.92	3.13	121 bps	2.25	88 bps
Net NPA	20	33	67.0	25	31.7
Net NPA (%)	0.57	0.95	38 bps	0.68	27 bps
Provision Coverage (%)	70.6	70.2	-34 bps	70.2	4 bps

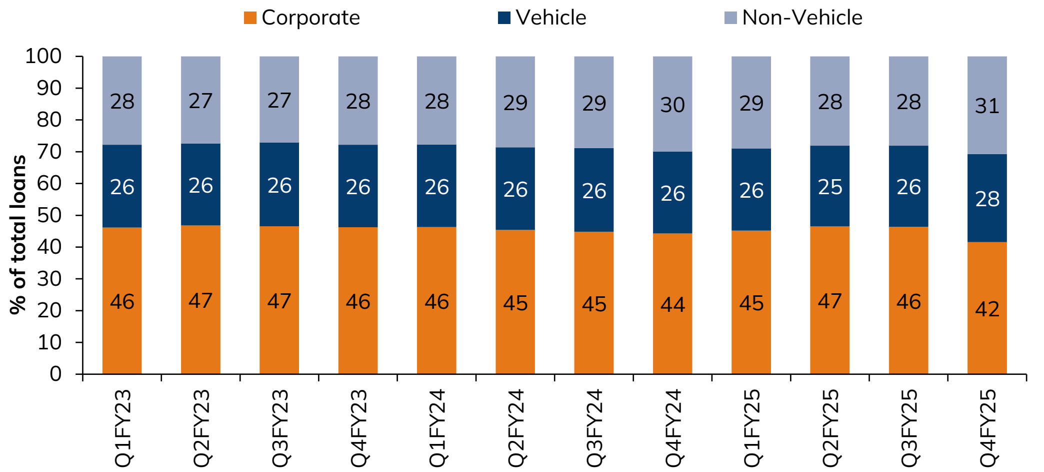
Source: Company data, I-Sec research

Exhibit 2: Deposits trend

Particulars (INR mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Deposits	31,59,205	32,52,780	33,64,381	34,70,470	35,97,865	36,87,930	38,47,929	39,85,130	41,26,792	40,94,380	41,10,781
YoY % change	*14.8*	*14.3*	*14.6*	*14.6*	*13.9*	*13.4*	*14.4*	*14.8*	*14.7*	*11.0*	*6.8*
QoQ % change	*4.4*	*3.0*	*3.4*	*3.2*	*3.7*	*2.5*	*4.3*	*3.6*	*3.6*	*-0.8*	*0.4*
CASA Deposits	13,35,250	13,63,790	13,47,280	13,84,400	14,14,370	14,19,240	14,56,650	14,61,320	14,79,440	14,28,180	13,47,890
YoY % change	15.2	13.7	7.5	6.1	5.9	4.1	8.1	5.6	4.6	0.6	-7.5
QoQ % change	2.3	2.1	-1.2	2.8	2.2	0.3	2.6	0.3	1.2	-3.5	-5.6
CASA Ratio (%)	*42.3*	*41.9*	*40.0*	*39.9*	*39.3*	*38.5*	*37.9*	*36.7*	*35.8*	*34.9*	*32.8*
Term Deposits	18,23,955	18,88,990	20,17,101	20,86,070	21,83,495	22,68,690	23,91,279	25,23,810	26,47,352	26,66,200	27,62,891
YoY % change	*14.4*	*14.8*	*19.8*	*21.1*	*19.7*	*20.1*	*18.6*	*21.0*	*21.2*	*17.5*	*15.5*
QoQ % change	*5.9*	*3.6*	*6.8*	*3.4*	*4.7*	*3.9*	*5.4*	*5.5*	*4.9*	*0.7*	*3.6*

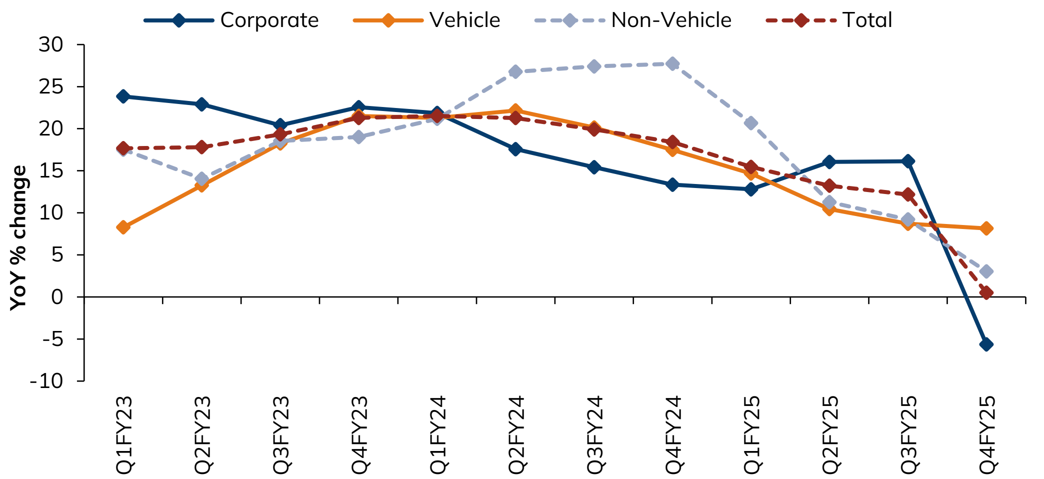
Source: Company data, I-Sec research

Exhibit 3: Loan mix saw decline in corporate book share



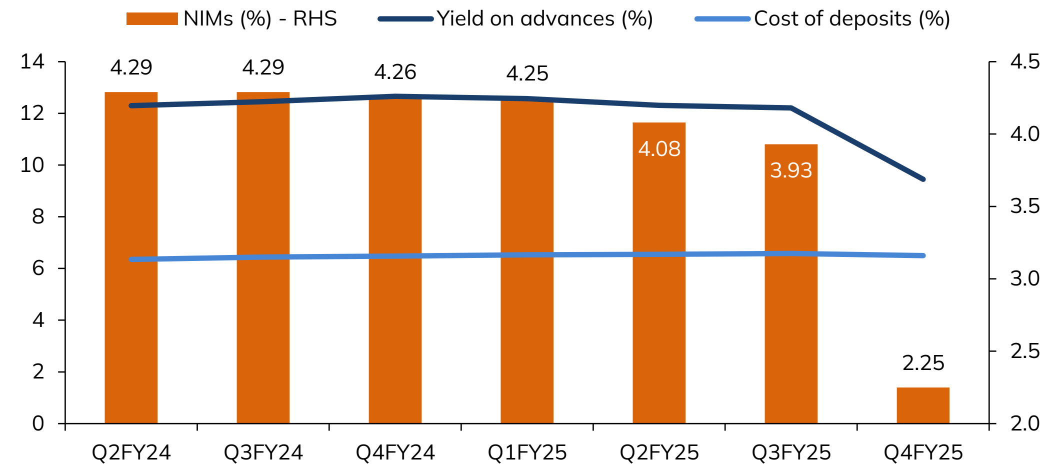
Source: Company data, I-Sec research

Exhibit 4: Corporate declined sharply as bank shored-up liquidity



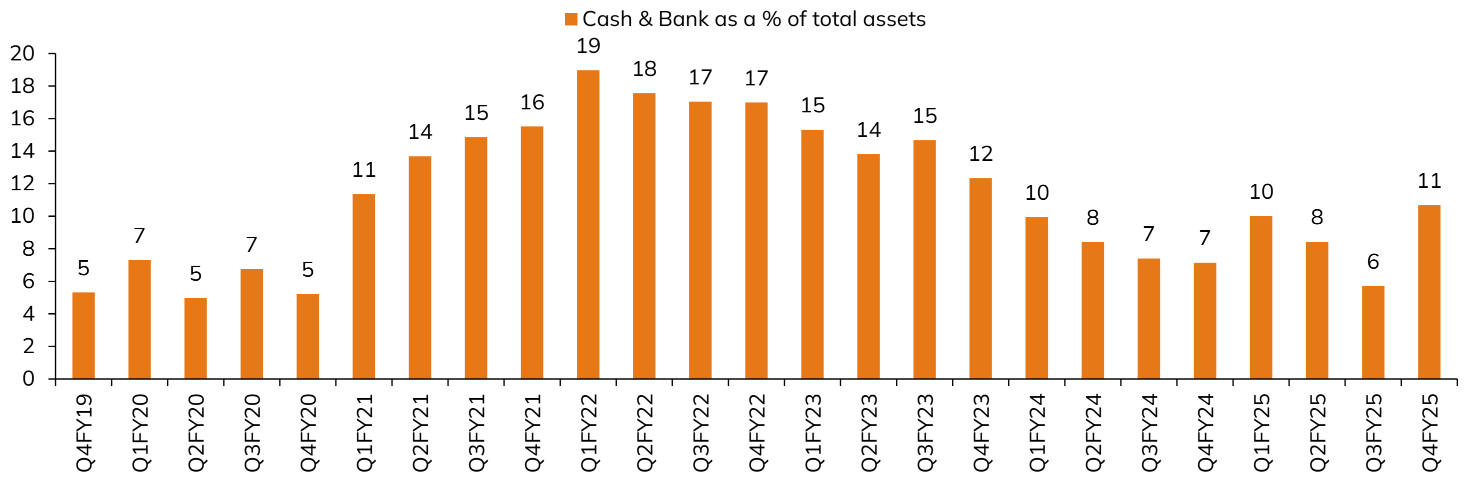
Source: Company data, I-Sec research

Exhibit 5: Margins declined on account of multiple one-offs; comparable margin at 3.47%



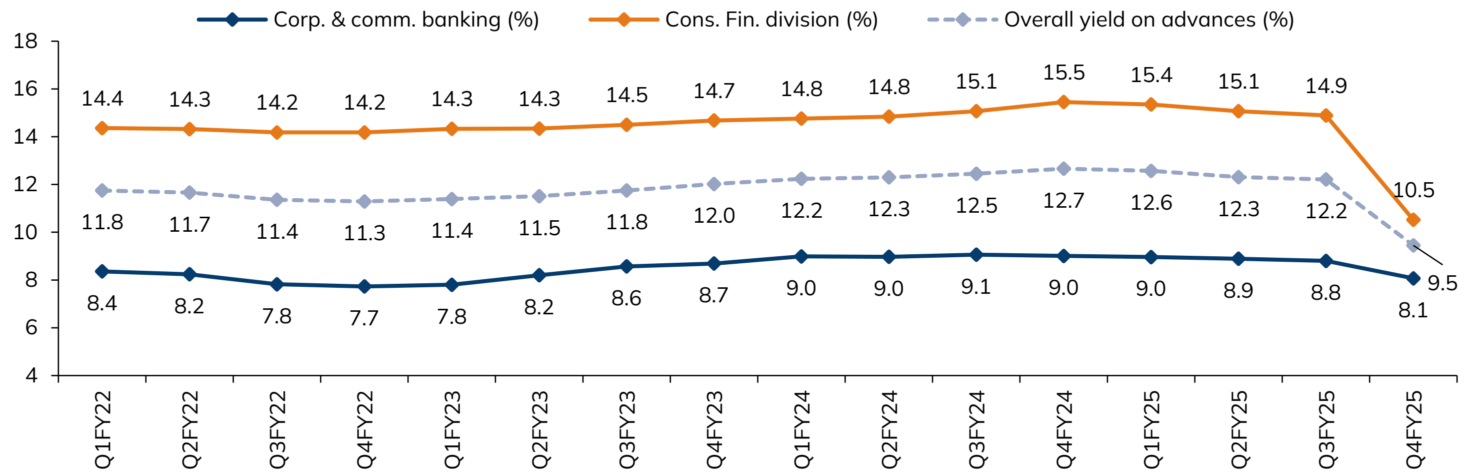
Source: Company data, I-Sec research

Exhibit 6: Cash and bank share in assets increased



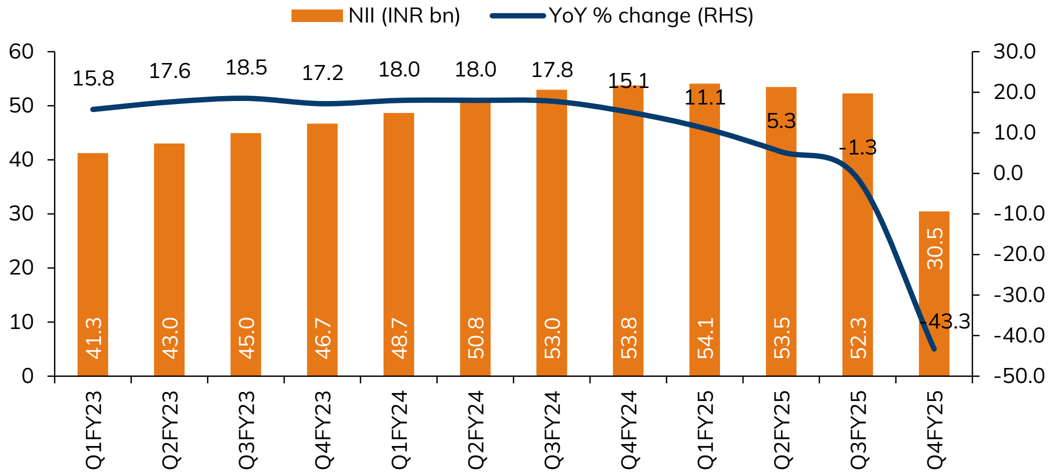
Source: Company data, I-Sec research

Exhibit 7: Yields declined sharply due to multiple one-offs and accounting irregularities



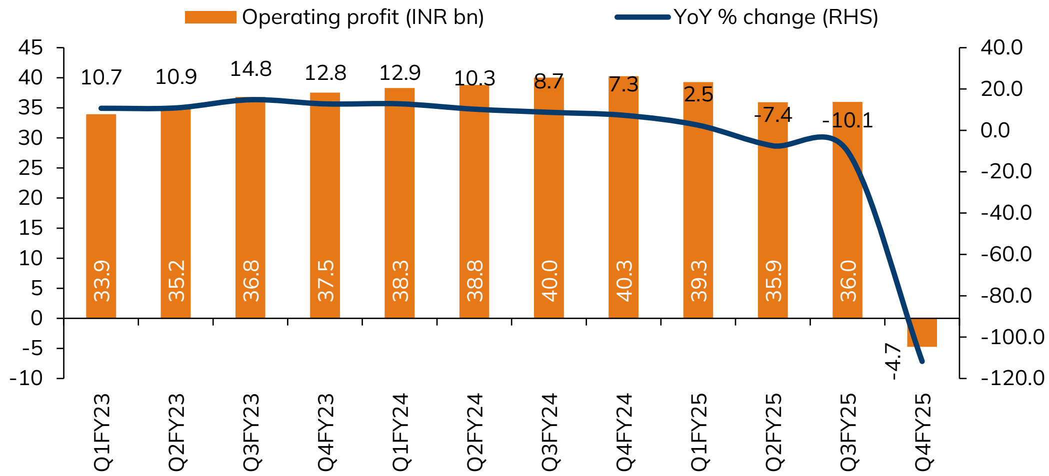
Source: Company data, I-Sec research

Exhibit 8: NII declined sharply due to accounting irregularities and book de-growth



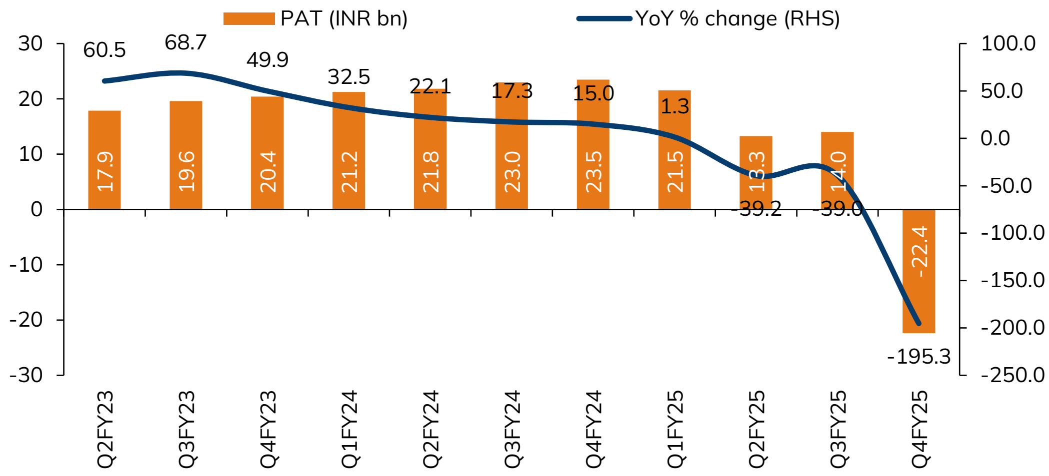
Source: Company data, I-Sec research

Exhibit 9: Bank reported operating losses due to massive derivative hit and weak top-line



Source: Company data, I-Sec research

Exhibit 10: Operating weakness along with spike in provisions led to massive losses



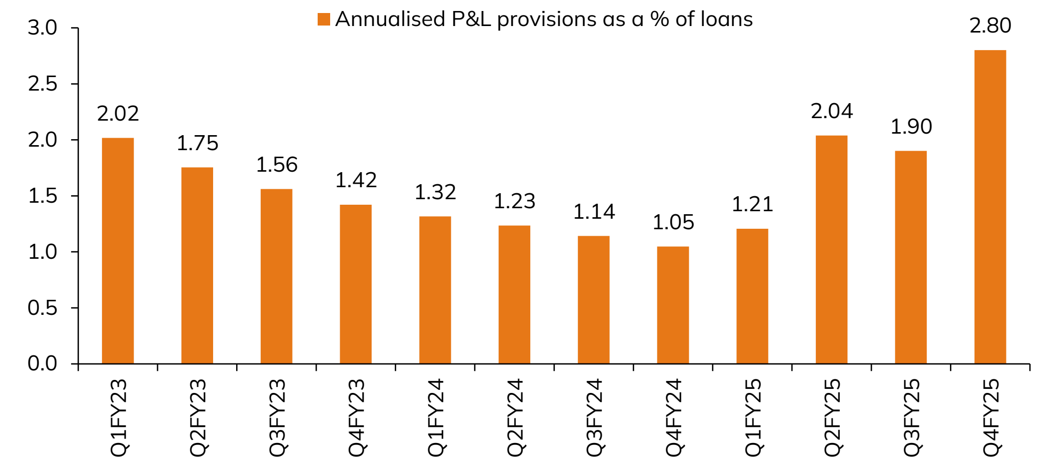
Source: Company data, I-Sec research

Exhibit 11: Sharp rise in headline GNPA and NNPA while PCR was stable QoQ

(%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (bps)	QoQ (bps)
GNPA	*2.11*	*2.06*	*1.98*	*1.94*	*1.93*	*1.92*	*1.92*	*2.02*	*2.11*	*2.25*	*3.13*	121	88
NNPA	*0.61*	*0.62*	*0.59*	*0.58*	*0.57*	*0.57*	*0.57*	*0.60*	*0.64*	*0.68*	*0.95*	38	27
PCR	*71.5*	*70.6*	*70.6*	*70.6*	*70.6*	*70.6*	*70.6*	*70.6*	*70.1*	*70.2*	*70.2*	(34)	4

Source: Company data, I-Sec research

Exhibit 12: Credit cost spiked on massive MFI slippages



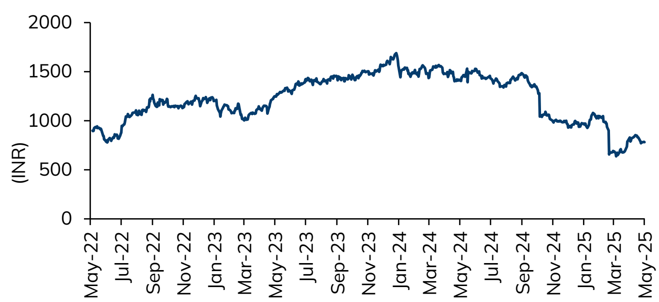
Source: Company data, I-Sec research

Exhibit 13: Shareholding pattern

	Sep'24	Dec'24	Mar'25
Promoters	16.4	16.3	15.8
Institutional investors	69.1	65.0	64.7
MFs and others	22.7	30.3	27.6
FIs/Bank	2.5	0.7	0.2
Insurance Cos.	9.3	9.3	7.4
FIIs	34.6	24.7	29.5
Others	14.5	18.7	19.5

Source: Bloomberg, I-Sec research

Exhibit 14: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Interest income	4,57,482	4,86,677	5,31,784	5,82,618
Interest expense	2,51,323	2,96,364	3,19,981	3,44,401
Net interest income	**2,06,159**	**1,90,313**	**2,11,804**	**2,38,217**
Non-interest income	93,879	76,842	99,684	1,07,351
Operating income	**3,00,038**	**2,67,155**	**3,11,488**	**3,45,567**
Operating expense	1,42,635	1,60,707	1,79,729	2,03,180
Staff expense	38,953	43,014	46,880	52,183
Operating profit	**1,57,403**	**1,06,449**	**1,31,759**	**1,42,387**
Core operating profit	**1,53,319**	**1,21,449**	**1,29,159**	**1,39,387**
Provisions & Contingencies	37,987	70,301	61,947	65,822
Pre-tax profit	**1,19,415**	**36,147**	**69,811**	**76,565**
Tax (current + deferred)	29,918	9,718	17,572	19,271
Net Profit	**89,498**	**26,429**	**52,240**	**57,294**
Adjusted net profit	**89,498**	**26,429**	**52,240**	**57,294**

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Cash and balance with RBI/Banks	3,68,016	5,91,658	6,12,725	6,41,029
Investments	10,65,267	11,44,968	12,24,868	13,16,745
Advances	34,32,983	34,50,186	37,15,347	40,21,003
Fixed assets	21,977	23,558	27,043	30,501
Other assets	2,61,108	3,29,814	3,90,663	4,63,585
Total assets	**51,49,352**	**55,40,185**	**59,70,646**	**64,72,864**
Deposits	38,47,929	41,10,782	45,09,723	49,22,517
Borrowings	4,76,114	5,37,036	5,96,320	6,51,652
Other liabilities and provisions	1,97,337	2,47,442	1,74,751	1,59,571
Share capital	7,783	7,791	7,791	7,791
Reserve & surplus	6,20,188	6,37,135	6,82,062	7,31,334
Total equity & liabilities	**51,49,352**	**55,40,185**	**59,70,646**	**64,72,864**
% Growth	12.5	7.6	7.8	8.4

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
No. of shares and per share data				
No. of shares (mn)	778	779	779	779
Adjusted EPS	115.0	33.9	67.1	73.5
Book Value per share	803	824	882	945
Adjusted BVPS	784	792	846	909
Valuation ratio				
PER (x)	6.7	22.7	11.5	10.5
Price/ Book (x)	1.0	0.9	0.9	0.8
Price/ Adjusted book (x)	1.0	1.0	0.9	0.9
Dividend Yield (%)	2.1	-	1.2	1.3
Profitability ratios (%)				
Yield on advances	12.0	11.5	12.0	12.2
Yields on Assets	9.4	9.1	9.2	9.4
Cost of deposits	6.0	6.5	6.5	6.4
Cost of funds	5.2	5.5	5.6	5.5
NIMs	4.5	3.8	4.0	4.2
Cost/Income	47.5	60.2	57.7	58.8
Dupont Analysis (as % of Avg Assets)				
Interest Income	9.4	9.1	9.2	9.4
Interest expended	5.2	5.5	5.6	5.5
Net Interest Income	**4.2**	**3.6**	**3.7**	**3.8**
Non-interest income	1.9	1.4	1.7	1.7
Trading gains	0.1	(0.3)	0.0	0.0
Fee income	1.8	1.7	1.7	1.7
Total Income	**6.2**	**5.0**	**5.4**	**5.6**
Total Cost	**2.9**	**3.0**	**3.1**	**3.3**
Staff costs	0.8	0.8	0.8	0.8
Non-staff costs	2.1	2.2	2.3	2.4
Operating Profit	**3.2**	**2.0**	**2.3**	**2.3**
Core Operating Profit	3.2	2.3	2.2	2.2
Non-tax Provisions	0.8	1.3	1.1	1.1
PBT	**2.5**	**0.7**	**1.2**	**1.2**
Tax Provisions	0.6	0.2	0.3	0.3
Return on Assets (%)	**1.8**	**0.5**	**0.9**	**0.9**
Leverage (x)	8.3	8.4	8.7	8.7
Return on Equity (%)	**15.3**	**4.2**	**7.9**	**8.1**
Asset quality ratios (%)				
Gross NPA	1.9	3.1	3.5	3.6
Net NPA	0.6	1.0	1.0	0.9
PCR	70.6	70.2	72.0	75.0
Gross Slippages	2.1	3.1	2.1	2.0
LLP / Avg loans	1.0	2.0	1.4	1.4
Total provisions / Avg loans	1.2	2.0	1.7	1.7
Net NPA / Networth	3.1	5.1	5.3	5.1
Capitalisation ratios (%)				
Core Equity Tier 1	15.8	15.1	14.8	14.4
Tier 1 cap. adequacy	15.8	15.1	14.8	14.4
Total cap. adequacy	17.2	16.2	15.8	15.4

Source Company data, I-Sec research

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