

INDUSIND BANK LIMITED

Governance overhang weighs on growth

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Following several financial reporting irregularities and the abrupt departure of its top two executives in recent months, IndusInd Bank (IIB) reported a weak operational performance, driven by significant reversals of previously recognized income and delayed recognition of asset impairments. Additionally, the bank's business growth moderated due to a cautious approach in the corporate and MFI segments, alongside structural challenges in mobilizing deposits. Asset quality also continued to deteriorate, reflecting poor lending and collection practices. Looking ahead, we expect lower growth in retail deposits, as repeated discrepancies have raised credibility concerns, which are likely to impact loan growth in FY26E. Hence, with a cautious outlook, we downgrade our rating to **REDUCE**, valuing the stock at 0.9x FY27E BVPS with a target price of ₹737.

One-offs drive weak operating performance

In Q4FY25, IIB's net-interest income (NII) declined 43.3% YoY (-41.7% QoQ) to ₹30 bn, primarily due to reversal of ₹6.8bn in interest that was wrongly accrued on microfinance (MFI) loans. The bank's net interest margin (NIM) contracted 200bps YoY to 2.3%, impacted by a lower yield on advances, driven by reduced MFI contribution and external benchmark-linked rate (EBLR) re-pricing in the corporate loan book. Further, the bank reported pre-provision operating loss of ₹5 bn (-112% YoY), following a significant decline in non-interest income (-71.7% YoY), which was affected by a ₹19.6 bn derivative loss and a ₹1.7 bn fee reversal related to MFI loans. Also, higher operating expenses led to cost-to-income (C/I) at 113%. Consequently, the bank reported a net loss of ₹23 bn (-199.1% YoY/-266.1% QoQ), further impacted by higher provisions (₹25 bn vs. ₹10 bn in Q4FY24), including ₹17.9 bn in additional provisioning related to misclassification of MFI loans.

Asset quality weakens on higher slippages; growth takes a backseat

During the quarter, advances growth moderated (+0.5% YoY), largely stemming from de-growth in the corporate (-5.6% YoY) and muted growth in consumer segment, as the management shored up liquidity on its balance sheet. Within the consumer financing, vehicle loans (VL) grew 8.0% YoY on steady demand and MFI loans de-grew 8.9% YoY owing to ongoing stress in the segment. The bank's deposit growth was subdued (0.3% QoQ /6.8% YoY), showcasing the structural weakness in the deposit franchise; with saving deposit and term deposits decreasing 4.7% YoY and 13.2% YoY, respectively. As a result, the share of CASA deposits dropped further to 33% (37.9% in Q4FY24). Moreover, asset quality deteriorated, with gross non-performing assets (NPAs) and net NPAs at 3.13% and 0.95%, respectively (vs. 2.25% and 0.68% in Q3FY25), led by higher slippages and lower recoveries.

Key Financials (₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Loan & Advances	2,899	3,433	3,450	3,661	4,001
Net Interest Income	176	206	190	189	207
PPP ex Except. Items	143	159	107	106	122
Reported Profits	74	90	26	29	38
Earnings Per Share	95.2	115.3	33.1	36.9	48.4
P/E (x)	8.1	6.7	23.3	20.9	15.9
Adj. BV	689.0	795.7	781.8	818.7	867.0
P/ABV (x)	1.1	1.0	1.0	0.9	0.9
Gross NPAs Ratio (%)	2.0	1.9	3.1	3.3	3.0
Adj. RoA	1.7	1.8	0.5	0.5	0.6
Adj. RoE	14.4	15.2	4.0	4.4	5.6

REDUCE

Current Market Price (₹)	:	785
12M Price Target (₹)	:	737
Potential Return (%)	:	-6

Stock Data

Sector	:	Banking
Face Value (₹)	:	10
Total MCap (₹ bn)	:	610
Free Float MCap (₹ bn)	:	515
52-Week High / Low (₹)	:	1,550 / 605
BSE Code / NSE Symbol	:	532187 / INDUSINDBK
Bloomberg	:	IIB IN
Sensex / Nifty	:	24,610 / 80,952

Shareholding Pattern

(%)	Mar-25	Dec-24	Sep-24	Jun-24
Promoter	15.83	16.29	16.36	16.38
FPIs	29.53	24.74	34.10	35.38
MFs	27.55	30.31	22.73	18.34
Insurance	7.43	9.27	9.32	6.21
Others	19.66	19.39	17.49	23.69

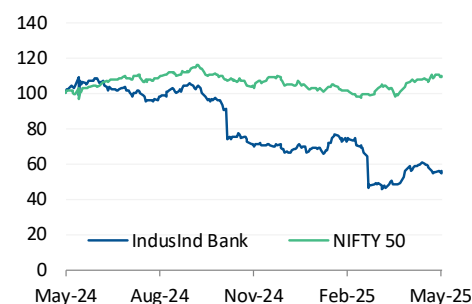
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	12M
Indusind Bank	-0.3%	-25.1%	-21.4%	-44.1%
Nifty 50	1.8%	7.4%	2.9%	8.9%

* To date / current date : May 22, 2025

Indusind Bank vs Nifty 50



Key Concall Highlights

Business highlights

- Upon being made aware of the irregularities since March, the board and its committees are working with the management and external advisors to identify and address the root causes, rectifying any lapses in systems or processes and imbibing learnings to tighten internal controls.
- On the derivative accounting issue, internal accounting trades were discontinued since 1st April 2024. Measures are being implemented to strengthen internal controls and processes.
- Certain unsubstantiated balances were also identified in “other assets” and “other liabilities”, with approx. ₹7.6bn misclassified as interest income instead of other income. This has no impact on the profit & loss of the bank.
- Following the CEO and Deputy CEO resignations, the RBI has requested proposals for new CEO appointment by 30th June 2025. The board is at an advanced stage in the process.
- Management’s focus is toward granular, secured retail and SME loans with cautious approach in MFI. Growth in vehicle loans is expected to remain strong on the back of fiscal spends, falling interest rates, and above normal monsoon predictions, leading to recovery in volumes.

Operational highlights

- Adjusted for one-offs, the management indicated that Q4FY25 NIM would have been ~3.47%.
- The bank has utilized its entire contingent provisions of ₹13.3 bn to offset the adverse impact of accounting irregularities. The provision coverage ratio (PCR) stood at 70%.

Asset quality

- Slippages were higher at ₹48 bn (vs. ₹22 bn in Q3FY25), mainly due to accumulated stress and misclassification of certain loan accounts in MFI loans. The management expects slippages to remain elevated in the near term.
- The gross slippages by key segments were vehicle finance ₹6.57 bn, corporate ₹2.20 bn, other Retail ₹6.28 bn and MFI ₹35.09 bn.

Outlook & Valuation

Going forward, we anticipate tighter regulatory scrutiny across accounting, compliance, operations, impairment recognition, and collection practices, which could weigh on growth and profitability in the medium term. Meanwhile, IIB is in the advanced stages of selecting a new CEO and is expected to submit a shortlist to the RBI for approval soon. The incoming CEO will be tasked with strengthening internal controls, improving governance, and likely rebalancing the asset mix—factors that could result in a meaningful slowdown in earnings growth over the next two years. Accordingly, we expect IIB to deliver RoA well below 1% through FY27E. While the stock currently trades at 0.9x FY27E BVPS—below its three-year historical average of 1.6x—we downgrade our rating to **REDUCE**, valuing the stock at 0.9x FY27E BVPS with a target price of ₹737, in the light of ongoing credibility concerns and repeated governance lapses.

Recent Performance at a glance

Income Statement Analysis

(₹ bn)	Q4FY25	Q4FY24	% yoy / bps	Q3FY25	% qoq / bps	FY25	FY24	% yoy / bps
Interest Inc.	106	122	(12.8)	128	(16.9)	487	457	6.4
Interest Expenses	76	68	11.2	76	0.2	296	251	17.9
Net Interest Income	30	54	(43.3)	52	(41.7)	190	206	(7.7)
NIM (%)	2.3	4.3	(201)	3.9	(168)	3.8	4.5	(71)
Other Income - Total	7	25	(71.7)	24	(69.9)	77	94	(18.1)
Net Operating Revenue	38	79	(52.3)	76	(50.5)	267	300	(11.0)
Employee Expenses	16	14	13.6	15	8.0	60	54	12.2
Other Opex	26	24	10.6	25	5.9	100	88	14.3
Total Opex	42	38	11.7	40	6.7	161	141	13.5
Cost to Income Ratio (%)	113.1	48.2	6,483	52.5	6,054	60.1	47.1	1,296
Pre Provision Profits	(5)	41	(112.0)	36	(113.6)	107	159	(32.8)
Exceptional Profit (Loss)	(1)	-	-	-	-	(1)	(3)	(58.1)
PPP ex Except. Items	-5	41	(112.0)	36	(113.6)	107	159	(32.8)
Provisions & Contingencies	25	10	165.4	17	44.6	71	39	83.7
Profit Before Tax	-30	31	(196.2)	19	(262.2)	35	120	(70.6)
Tax	-7	8	(187.4)	5	(250.4)	10	30	(68.3)
Reported Profits	(23)	23	(199.1)	14	(266.1)	26	90	(71.3)
Basic EPS	(29.9)	30.2	(199.1)	18.0	(266.0)	33.1	115.2	(71.3)

Source: Company, LKP Research

Balance Sheet Analysis

(₹ bn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Net Worth	608	627	656	656	671	647	(3.6)	3.2
RoE (%)	15.5	15.2	13.5	8.1	8.5	(14.1)	(2,257)	(2,935)
Tier 1 %	16.5	15.8	16.2	15.2	15.2	15.1	(8)	(72)
Total CAR %	17.9	17.2	17.6	16.5	16.5	16.2	(22)	(99)
RWA - Total	3,704	3,837	3,888	4,205	4,292	4,195	(2.2)	9.4
Advances - Total	3,271	3,433	3,479	3,572	3,669	3,450	(6.0)	0.5
Investments	974	1,065	1,010	1,113	1,189	1,145	(3.7)	7.4
Total Assets	4,889	5,149	5,302	5,434	5,495	5,541	0.8	7.6
RoA (%)	1.93	1.90	1.70	1.00	1.03	(1.74)	(277)	(364)
Deposits	3,688	3,848	3,985	4,124	4,094	4,109	0.3	6.8
CASA Deposits	1,419	1,457	1,461	1,480	1,428	1,348	(5.6)	(7.5)
CASA Ratio (%)	38.5	37.9	37.0	36.0	35.0	33.0	(200)	(490)
Interest Bearing Liabilities	4,093	4,324	4,427	4,571	4,595	4,646	1.1	7.4

Source: Company, LKP Research

Funding Profile Analysis

(₹ bn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Deposits	3,688	3,848	3,985	4,124	4,094	4,109	0.3	6.8
CASA Deposits	1,419	1,457	1,461	1,480	1,428	1,348	(5.6)	(7.5)
Saving Deposit	919	987	977	954	969	940	(3.0)	(4.7)
Current Deposit	500	470	485	526	459	408	(11.1)	(13.2)
Term Deposits	2,269	2,391	2,524	2,644	2,666	2,761	3.5	15.5
Borrowings	405	476	442	447	501	537	7.2	12.8
Interest Bearing Liabilities - Total	4,093	4,324	4,427	4,571	4,595	4,646	1.1	7.4

Source: Company, LKP Research

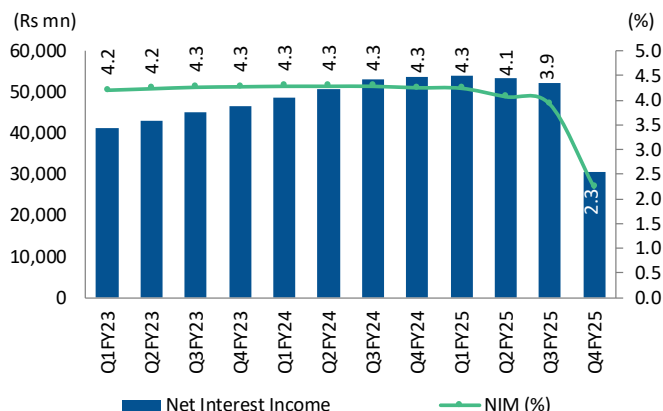
Assets Quality Analysis

(₹ bn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	QoQ % / bps	YoY % / bps
Total Slippages	18	14	15	18	22	50	127.9	251.1
Slippages Ratio (%)	0.61	0.49	0.45	0.52	0.64	1.46	82	97
Gross NPA	64	67	71	76	84	110	31.9	65.0
Gross NPAs Ratio (%)	1.92	1.92	2.02	2.11	2.25	3.13	88	121
PCR - Calculated (%)	70.6	70.6	70.6	70.1	70.2	70.2	4	(34)
Net NPA	19	20	21	23	25	33	31.7	67.0
Net NPAs Ratio (%)	0.57	0.57	0.60	0.64	0.68	0.95	27	38

Source: Company, LKP Research

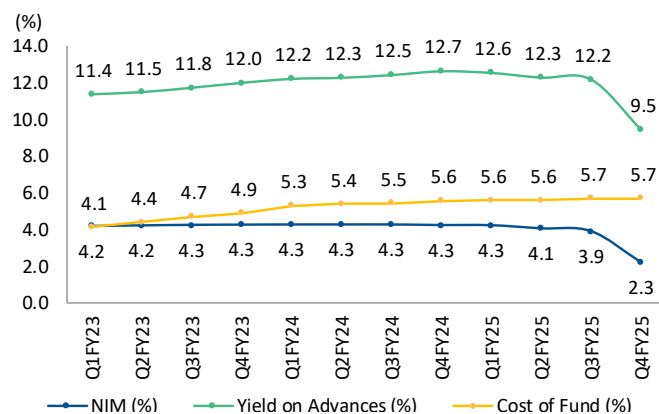
Quarterly story in charts

NII trend



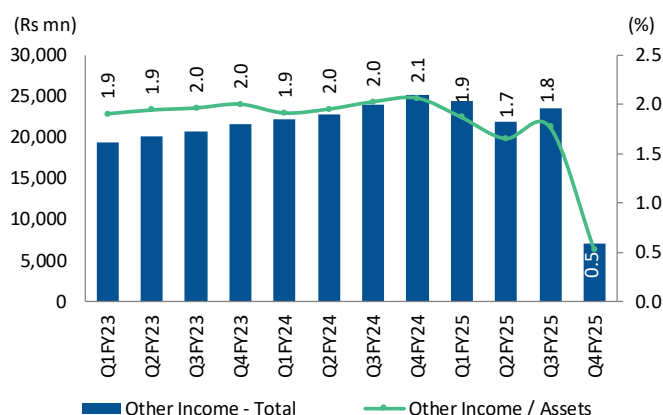
Source: Company, LKP Research

Yields & Margin trend



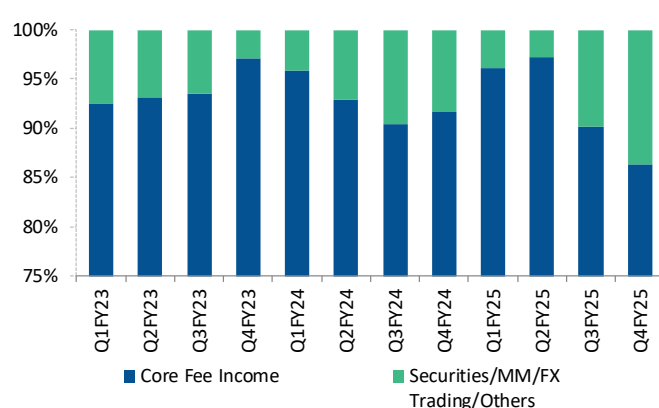
Source: Company, LKP Research

Other Income Trend



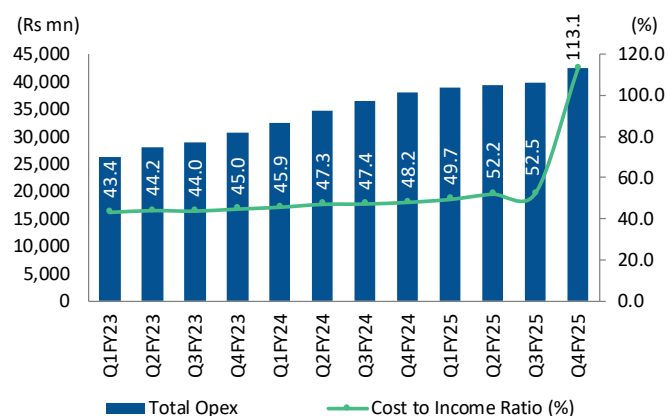
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Other Income Mix Trend



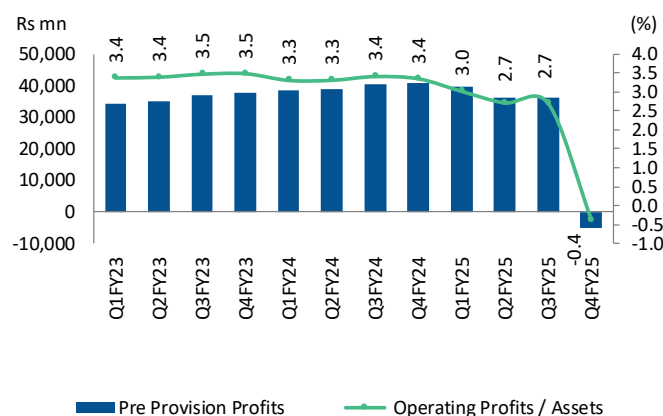
Source: Company, LKP Research

Total Opex Trend



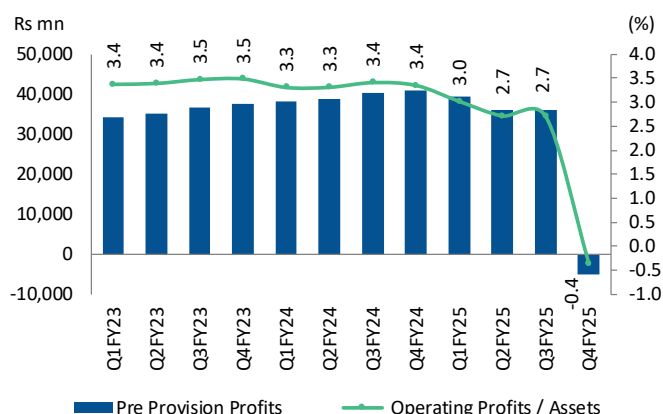
Source: Company, LKP Research

Pre Provision Profit Trend



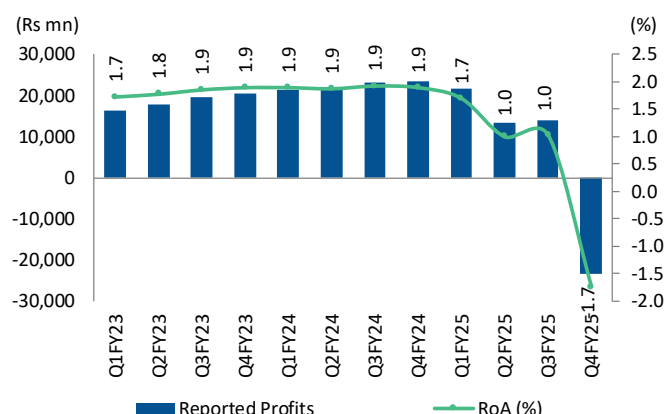
Source: Company, LKP Research

Provision Expenses Trend



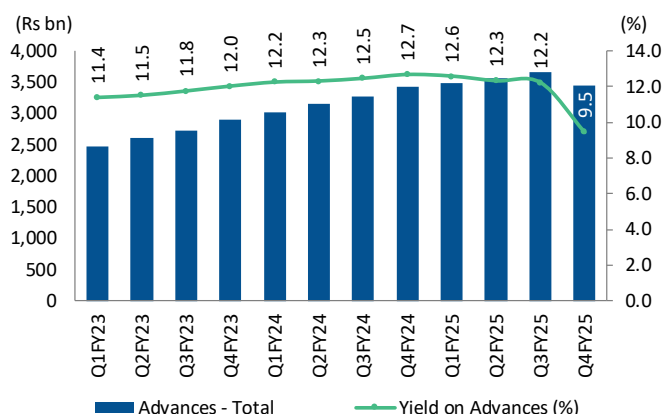
Source: Company, LKP Research

Reported Profit Trend



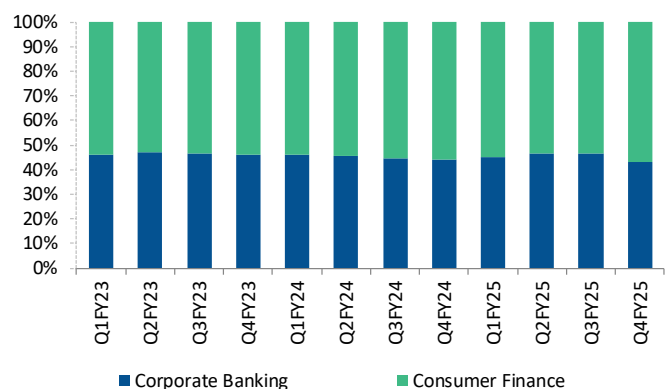
Source: Company, LKP Research

Loan Book Trend



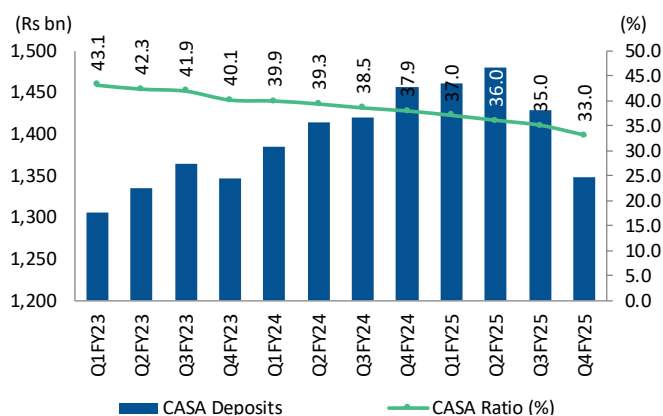
Source: Company, LKP Research

Loan book Mix



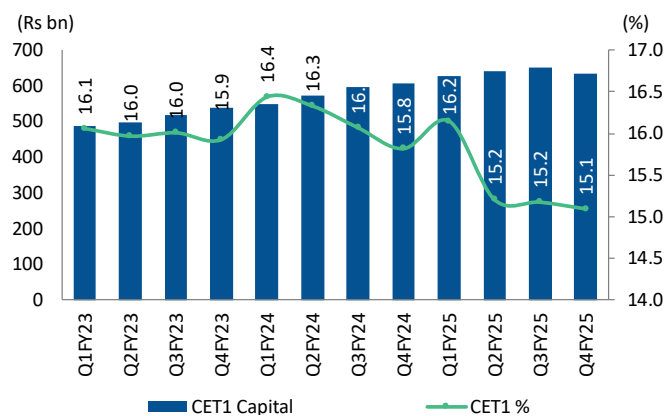
Source: Company, LKP Research

CASA Deposit Trend



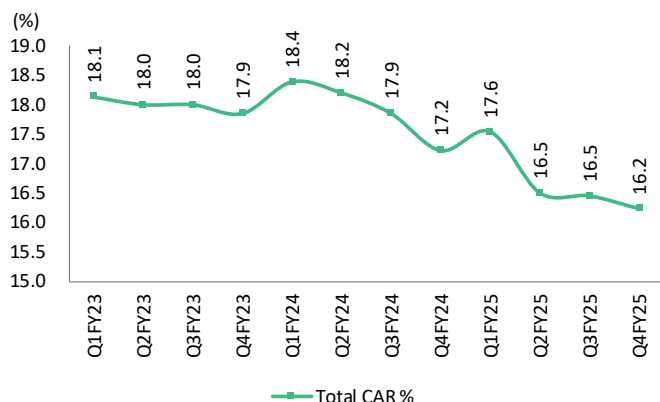
Source: Company, LKP Research

CET 1 Ratio Trend



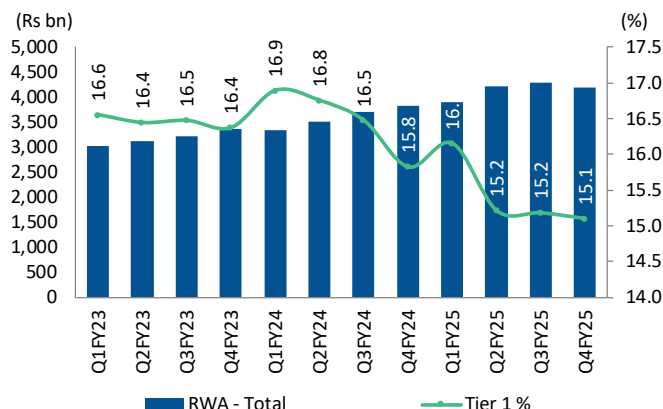
Source: Company, LKP Research

CRAR Ratio Trend



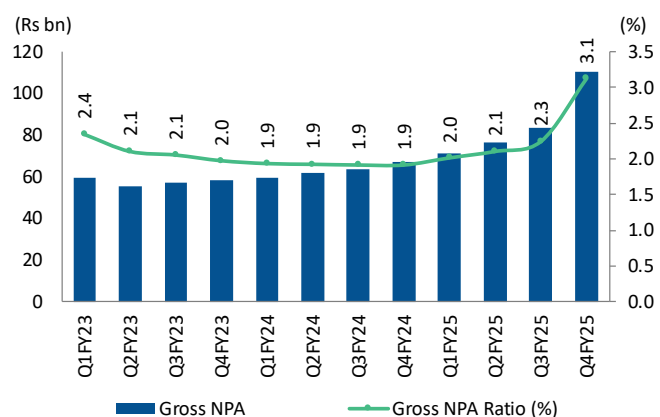
Source: Company, LKP Research

RWA Trend



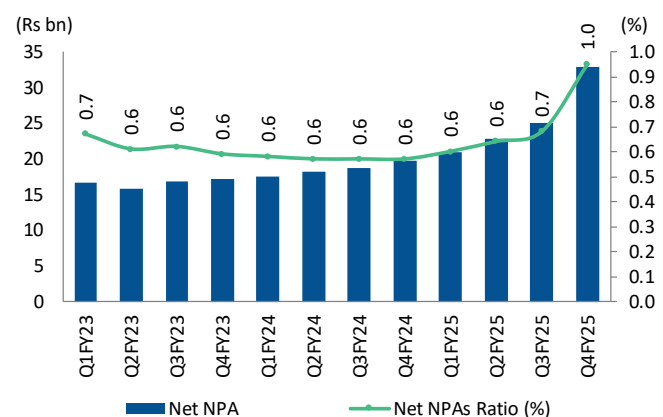
Source: Company, LKP Research

Gross NPA Trend



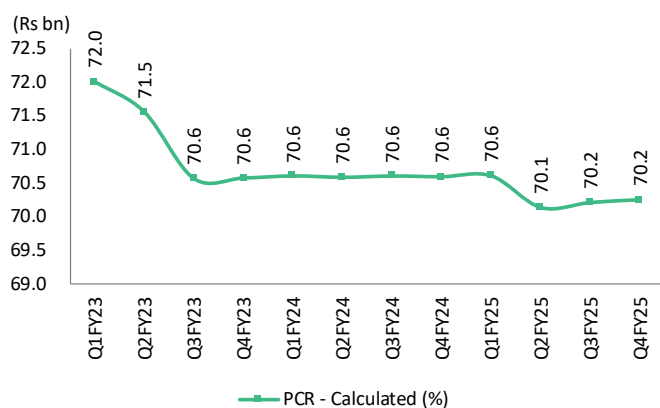
Source: Company, LKP Research

Net NPA Trend



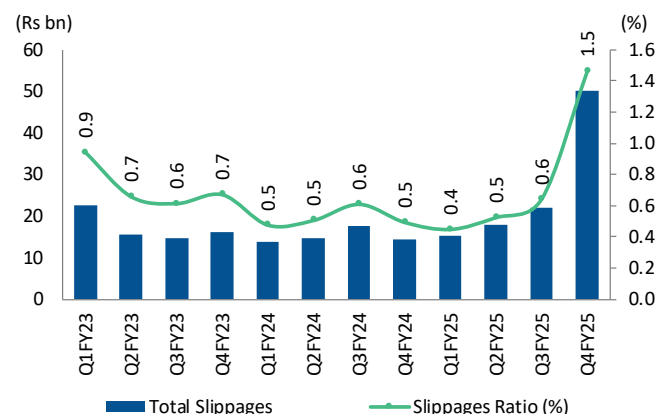
Source: Company, LKP Research

PCR Trend



Source: Company, LKP Research

Slippages Trend



Source: Company, LKP Research

Annual Projections

Profit and Loss Statement

(₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Interest Income	364	457	487	506	542
Interest Expenses	188	251	296	317	335
Net Interest Income	176	206	190	189	207
<i>NIM (%)</i>	<i>4.4</i>	<i>4.5</i>	<i>3.8</i>	<i>3.5</i>	<i>3.6</i>
Other Income - Total	82	94	77	89	103
Net Operating Revenue	258	300	267	278	311
Employee Exp.	30	54	60	67	74
Other Opex	84	88	100	105	115
Total Opex	114	141	161	172	189
C/I Ratio	44.3	47.1	60.1	62.0	60.8
Pre Provision Profits	143	159	107	106	122
PPP Growth (yoy %)	11.7	10.6	(32.8)	(0.7)	15.0
Provisions & Contingencies - Total	45	39	71	66	70
<i>Credit Cost (As % of Op. AUM)</i>	<i>1.2</i>	<i>0.8</i>	<i>1.3</i>	<i>1.4</i>	<i>1.5</i>
Profit Before Tax	99	120	35	39	52
Tax	25	30	10	11	14
Effective Tax Rate	25.1	25.1	27.0	27.0	27.0
Reported Profits	74	90	26	29	38
PAT Growth (yoy %)	60.3	21.5	(71.3)	11.6	31.1

Source: Company, LKP Research

Balance Sheet

(₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	8	8	8	8	8
Reserves (ex Revel. Reserve)	535	621	618	646	684
Net Worth - Ex Revaluation	543	629	625	654	692
Deposits	3,361	3,846	4,109	4,427	4,833
Growth (yoy %)		14.4%	6.8%	7.7%	9.2%
Borrowings	490	476	537	604	597
Interest Bearing Liabilities	3,851	4,322	4,646	5,030	5,431
Other Lia. & Prov.	177	197	247	284	324
Total Liabilities	4,578	5,151	5,541	5,972	6,450
Assets					
Cash & Cash Equivalent	568	369	594	617	522
Investments	831	1,065	1,145	1,320	1,530
Loan & Advances	2,899	3,433	3,450	3,661	4,001
Growth (yoy %)		18.4	0.5	6.1	9.3
Fixed Assets	21	23	25	27	30
Other Assets	260	261	328	347	368
Total Assets	4,578	5,151	5,541	5,972	6,450

Source: Company, LKP Research

Per share data

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
Face Value	10	10	10	10	10
Adjusted Share O/S - For Calculation	776	778	779	779	779
Earnings Per Share	95.2	115.3	33.1	36.9	48.4
EPS (% YoY)	60.0	21.1	(71.3)	11.6	31.1
P/E (x)	8.1	6.7	23.3	20.9	15.9
Book Value	700.1	808.3	802.8	839.8	888.1
BVPS (% YoY)	14.5	15.5	(0.7)	4.6	5.8
P/BV (x)	1.1	1.0	1.0	0.9	0.9
Adj. BV	689.0	795.7	781.8	818.7	867.0
Adj. BV (% YoY)	14.5	15.5	(1.7)	4.7	5.9
P/ABV (x)	1.1	1.0	1.0	0.9	0.9

Source: Company, LKP Research

Detail RoA Tree Analysis (%)

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
Yields / Margins					
Yield on Advance	11.3	12.0	11.5	11.4	11.3
Yield on Funds	9.0	10.0	9.7	9.4	9.3
Cost of Funds (CoF)	5.2	6.1	6.6	6.6	6.4
Interest Spread	3.8	3.8	3.1	2.8	2.9
NIM's	4.4	4.5	3.8	3.5	3.6
Interest Income / Assets	8.5	9.4	9.1	8.8	8.7
Interest Exp. / Assets	4.4	5.2	5.5	5.5	5.4
NII / Assets	4.1	4.2	3.6	3.3	3.3
Fee Income / Assets	1.3	1.3	1.0	1.1	1.2
Other Income / Assets	1.9	1.9	1.4	1.6	1.7
Net Operating Income / Assets	6.0	6.2	5.0	4.8	5.0
Operating Ratios					
NII to Net Operative Income	68.3	68.7	71.2	67.8	66.8
Other Income to Net Operative Income	31.7	31.3	28.8	32.2	33.2
Empl. Cost/Oper. Exps.	26.6	38.0	37.5	38.9	39.3
Other Op. Exps./Oper. Exps.	73.4	62.0	62.5	61.1	60.7
C/I Ratio	44.3	47.1	60.1	62.0	60.8
Provisions as % PPP	17.4	12.9	26.7	23.9	22.6
Credit Cost (As % of Op. AUM)	1.2	0.8	1.3	1.4	1.5
Effective Tax Rate	25.1	25.1	27.0	27.0	27.0
Employee Exp. / Assets	0.7	1.1	1.1	1.2	1.2
Other Opex/ Assets	1.9	1.8	1.9	1.8	1.8
Total Opex / Assets	2.7	2.9	3.0	3.0	3.0
Operating Profits / Assets	3.3	3.3	2.0	1.8	2.0
Op Profit ex Except Items / Assets	3.3	3.3	2.0	1.8	2.0
Provisions / Assets	1.0	0.8	1.3	1.2	1.1
Profit Before Tax / Assets	2.3	2.5	0.7	0.7	0.8
Tax Expenses / Assets	0.6	0.6	0.2	0.2	0.2
RoA	1.7	1.8	0.5	0.5	0.6
Leverage (x)	8.4	8.2	8.9	9.1	9.3
RoE	14.4	15.2	4.0	4.4	5.6
Adj. RoA	1.7	1.8	0.5	0.5	0.6
Adj. RoE	14.4	15.2	4.0	4.4	5.6

Source: Company, LKP Research

Balance Sheet Ratios

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
Credit / Deposit Ratio	86.3	89.3	84.0	82.7	82.8
Incremental C/D Ratio	119.9	110.1	6.5	66.2	83.7
Investment Deposit Ratio	24.7	27.7	27.9	29.8	31.6
Dom. SLR Investment / Deposits	23.4	26.2	26.4	28.0	29.5
CASA Ratio	40.4	38.2	33.1	35.0	35.0

Source: Company, LKP Research

Credit Quality

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
Slippage Ratio	2.9	2.1	3.1	2.5	2.1
Gross NPA (Cl Bal)	58,263	66,934	1,10,464	1,19,845	1,20,698
Gross NPAs Ratio (%)	2.0	1.9	3.1	3.3	3.0
PCR (%)	70.6	70.6	70.2	71.4	70.0
Net NPA (Cl. Bal.)	17,150	19,689	32,871	34,303	36,163
Net NPAs Ratio (%)	0.6	0.6	1.0	0.9	0.9
Total Impaired Loans	58,263	66,934	1,10,464	1,19,845	1,20,698
Impaired Loan as % of Loan / AUM	2.0	1.9	3.2	3.3	3.0
Total Risk Reserves	41,113	47,245	77,593	85,542	84,535
Total Risk As % of Loan Book	1.4	1.4	2.2	2.3	2.1

Source: Company, LKP Research

Key Assumptions & Forecasts

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
Loan & Advances	2,899	3,433	3,450	3,661	4,001
Growth (yoy %)		18.4	0.5	6.1	9.3
Interest Bearing Liabilities	3,851	4,322	4,646	5,030	5,431
Growth (yoy %)		12.2	7.5	8.3	8.0
Yield on Funds	9.0	10.0	9.7	9.4	9.3
Cost of Funds (CoF)	5.2	6.1	6.6	6.6	6.4
Interest Spread	3.8	3.8	3.1	2.8	2.9
NIM's	4.4	4.5	3.8	3.5	3.6
Other Income Growth	10.4	15.1	(18.1)	16.3	15.4
C/I Ratio	44.3	47.1	60.1	62.0	60.8
Effective Tax Rate	25.1	25.1	27.0	27.0	27.0
Return Ratios					
Adj. RoA	1.7	1.8	0.5	0.5	0.6
Adj. RoE	14.4	15.2	4.0	4.4	5.6
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	1.2	0.8	1.3	1.4	1.5
Gross NPAs Ratio (%)	2.0	1.9	3.1	3.3	3.0
Net NPAs Ratio (%)	0.6	0.6	1.0	0.9	0.9

Source: Company, LKP Research

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