

CMP: ₹ 842

Target: ₹ 1,000 (19%)

Target Period: 12 months

BUY

June 20, 2025

**Clean-up largely behind, reset ahead: A fresh start from FY26...**

**About the stock:** IndusInd Bank is a Hinduja group promoted newer age private sector bank and is the fifth largest private bank in India. The bank has full product suite with strong moat in vehicle and micro finance business.

- The bank has a strong presence with pan India branch network of 3081 branches (3027 ATMs) and a large customer base of ~4.1 crore

**Q4FY25 performance:** IndusInd Bank delivered significantly weak Q4FY25, absorbing full impact of derivative losses, accounting lapses, and elevated MFI stress. Advances declined 6% QoQ (up 0.5% YoY) to ₹3,45,019 crore, led by a sharp drop in corporate loans. Deposits remained flat QoQ, indicating relative resilience. Margins compressed 168 bps to 2.25%, owing to slippages from MFI segment, excluding one-offs, adjusted NIMs stood at 3.47%. Reversal of ₹173 crore of fee income and unanticipated slippages of ₹1,880 crore, in MFI book came as a surprise. Other income plunged 70% QoQ due to ₹1,960 crore, adjustment of discrepancy in derivatives. Provisions rose 45% QoQ to ₹2,522 crore, driving a net loss of ₹2,329 crore. GNPA/NNPA increased 88/27 bps to 3.13%/0.95%, led by MFI clean-up.

**Investment Rationale**

- Streamlining operations breaks credit momentum:** Advances declined 6% QoQ to ₹3.45 lakh crore, led by 16% QoQ dip in corporate loans to shore up liquidity. Retail and MSME segments grew 6% QoQ, now forming 19% of book. Focus ahead is on scaling secured retail and selective corporate to rebuild growth momentum, while maintaining caution on MFI. Overall, strengthening of corporate governance, processes & accountability taking precedence, credit growth is expected to take a backseat in near term. Thus, expect credit growth of 10.4% CAGR in FY26-27E.
- One-offs distort earnings – moderation in core performance:** One-offs in the quarter includes – 1) reversal of ₹1960 crore, related to discrepancy in derivatives impacting non-interest income, 2) reversal of interest income of ₹423 crore (net basis) in MFI segment, 3) ₹595 crore, rectification of other assets and liabilities (No impact on P&L), 4) incorrect fee income of ₹173 crore related to MFI business, 5) ₹760 crore, regrouping from interest to other income and ₹158 crore from provisions to opex (No impact on P&L).
- Contingent provisions cushion earnings; normalisation of RoA to take a while:** Surge in slippages at ₹3509 crore (incl unrecognised stress of ₹1885 crore, led to higher credit cost, despite utilization of contingent provision of ₹1325 crore. Credit cost is anticipated to stay elevated due to prolonged stress in MFI segment with normalisation likely in 2HFY26. Margin is expected to remain muted, amid continued moderation in MFI disbursement and liquidity buffer. As a result, RoA improvement is expected to remain gradual, with sustained normalization hinging on revival of MFI overhang.

**Rating and Target Price**

- While uncertainty looms over any further surprise, reversal of anomalies brought to board provides comfort. Fresh leadership remains key to driving strategic reset. Anticipating faster recovery, we provide valuation multiple at ~1.1x FY27E BV and thus target price at ₹1,000. Anticipating uptick in RoA and gradual recovery in credit growth, we upgrade to **Buy** rating.

**Key Financial Summary**

₹ Crore	FY23	FY24	FY25	3 year CAGR (FY22-FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	17,592	20,616	19,031	8.3%	19,744	22,522	8.8%
PPP	14,419	15,864	10,661	-6.5%	11,287	12,556	8.5%
PAT	7,443	8,977	2,575	-18.8%	3,912	5,250	42.8%
ABV	682	782	784		833	880	
P/E	9	13	26		17	13	
P/ABV	1	1	1		1	1	
RoA	2	2	0		1	1	
RoE	14	15	4		6	7	

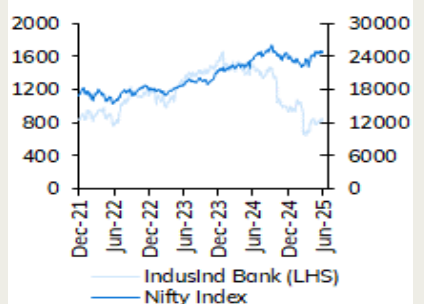
Source: Company, ICICI Direct Research

**IndusInd Bank****Particulars**

Particulars	Amount
Market Capitalisation	₹ 65,764 crore
52 week H/L	1538 / 605
Net worth	₹ 62,532 crore
Face Value	10
DII Holding (%)	36
FII Holding (%)	30

**Shareholding Pattern**

(in %)	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	16	16	16	16
FII	38	34	25	30
DII	30	35	42	36
Others	16	15	17	18

**Price Chart****Key Risks**

- Delay in stabilization in MFI segment
- Uncertainty on leadership

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## Concall Highlights and Outlook

### Leadership transition & governance oversight

- RBI has directed the bank to submit its proposal for a new MD & CEO by 30th June 2025. The board is at an advanced stage in the selection process and expects to meet the regulatory time lines.
- The bank has acknowledged potential fraud involving select employees in finance and accounting. It intends to pursue legal recourse and has initiated corrective actions.
- Misclassification of certain loan in MFI segment led to under-provisioning and non-recognition of NPAs amounting to ₹1,885 crore. Staff accountability measures are underway.

### Microfinance portfolio (BFIL)

- MFI disbursements rose sequentially, with 94% of loans in Q4FY25 routed through low-stress branches and vintage customers.
- Collection efficiency (excluding Karnataka) improved from 96.4% in February to 98.2% in March 2025. As a result, 31–90 DPD fell to 2.3% YoY (vs 4.1% YoY).
- MFI slippages surged to ₹3,509 crore in Q4FY25, including ₹1,885 crore, pertaining to prior misclassification, and another ~₹1,700 crore, related to incremental recognition.

### One-off adjustments & normalised financials

- One-offs in Q4FY25 included:
  - ₹1960 crore, related to discrepancy in derivatives which has been reversed,
  - ₹423 crore, MFI revenue reversal (net),
  - ₹595 crore, rectification of manual entries in other assets and liabilities (No impact on P&L),
  - ₹173 crore, reversal owing to incorrect recognition of fee income related to MFI business,
  - ₹760 crore, regrouping from interest to other income (No impact on P&L),
  - ₹158 crore, regrouping from provisions to opex (No impact on P&L)
- Adjusted for one-offs:
  - NII would have been ₹4700 crore,
  - Other income at ₹2500 crore,
  - Opex to be ₹4200 crore and PPOP at ₹3060 crore.
  - Normalised NIM stood at 3.47% vs reported 2.25%; decline attributable to excess liquidity, MFI interest reversal, and asset mix impact post slippages.
- There has been no material reclassification in corporate book yields; the reported yield declined to 8.07% from 8.8% QoQ, largely due to higher liquidity buffers and repo rate movement during the quarter.

### Asset quality & provisioning

- Gross slippages for Q4FY25 stood at:
  - Vehicle Finance: ₹657 crore,
  - Corporate: ₹220 crore,
  - Other Retail: ₹620 crore,
  - MFI: ₹3,509 crore (including ₹1,885 crore due to misclassification)
- The bank fully utilized its contingent provisions during the quarter to absorb elevated stress.

**Exhibit 1: Variance Analysis**

	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	Comments
NII	3,048.3	5,376.5	-43.3	5,228.1	-41.7	Reversal in interest income and pressure from additional liquidity impacted NII
NIM (%)	2.3	4.3	-201 bps	3.9	-168 bps	Moderation in disbursement in MFI book impacted yields and thus margins
Other Income	708.8	2,508.1	-71.7	2,355.0	-69.9	Derivative discrepancy of ₹1960 crore, absorbed in other income
Net Total Income	3,757.2	7,884.6	-52.3	7,583.1	-50.5	
Staff cost	1,601.7	1,410.2	13.6	1,482.8	8.0	
Other OpEx	2,646.4	2,392.8	10.6	2,499.7	5.9	CI ratio elevated to 113.1%
PPP	-490.9	4,081.5	-112.0	3,600.7	-113.6	
Provision	2,522.1	950.2	165.4	1,743.6	44.6	Recognition of stressed microfinance exposure led to elevated cost despite utilization of contingent provision
PBT	-3,013.0	3,131.3	-196.2	1,857.0	-262.2	
Tax Outgo	-684.0	782.2	-187.4	454.7	-250.4	
PAT	-2,328.9	2,349.1	-199.1	1,402.4	-266.1	Discrepancy losses remain elevated
<b>Key Metrics</b>						
GNPA	11,046.4	6,693.4	65.0	8,375.3	31.9	Elevated slippages led by MFI segment
NNPA	3,287.1	1,968.9	67.0	2,495.8	31.7	
Credit book	345,019.0	343,298.0	0.5	366,889.0	-6.0	De-growth in corporate book. Retail portfolio excl MFI remained steady
Deposit book	410,862.0	384,586.0	6.8	409,438.0	0.3	Liabilities remained broadly steady

Source: Company, ICICI Direct Research

## Financial Summary

**Exhibit 2: Profit and loss statement**

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	45,748.2	48,667.7	50,486.8	56,329.2
Interest Expended	25,132.3	29,636.3	30,742.4	33,807.7
Net Interest Income	20,615.9	19,031.3	19,744.4	22,521.5
Growth (%)	17.2	-7.7	3.7	14.1
Non Interest Income	9,395.8	7,690.4	9,646.0	10,436.6
Net Income	30,011.7	26,721.8	29,390.5	32,958.1
Employee cost	5,373.9	6,027.8	7,014.9	8,110.8
Other operating Exp.	8,773.7	10,032.5	11,088.7	12,291.6
Operating Income	15,864.1	10,661.4	11,286.8	12,555.7
Provisions	3,884.9	7,135.6	6,105.0	5,602.5
PBT	11,979.2	3,525.8	5,181.9	6,953.2
Taxes	3,002.2	950.3	1,269.6	1,703.5
Net Profit	8,977.0	2,575.4	3,912.3	5,249.7
Growth (%)	20.6	-71.3	51.9	34.2
EPS (₹)	115.3	33.1	50.2	67.4

Source: Company, ICICI Direct Research

**Exhibit 3: Key ratios**

(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Valuation</b>				
No. of shares (crore)	77.8	77.9	77.9	77.9
EPS (₹)	115.3	33.1	50.2	67.4
DPS (₹)	16.5	3.7	5.6	7.5
BV (₹)	807.0	826.6	879.3	938.1
ABV (₹)	781.7	784.4	832.6	880.1
P/E	13.0	25.5	16.8	12.5
P/BV	2.1	1.0	1.0	0.9
P/ABV	1.1	1.1	1.0	1.0
<b>Yields &amp; Margins (%)</b>				
Net Interest Margins	4.8	4.3	4.0	4.1
Yield on assets	10.5	10.3	10.3	10.4
Avg. cost on funds	6.2	6.6	6.3	6.3
Yield on average advances	12.0	11.8	11.4	11.6
Avg. Cost of Deposits	6.0	6.3	6.2	6.2
<b>Quality and Efficiency (%)</b>				
Cost to income ratio	47.1	60.1	61.6	61.9
Credit/Deposit ratio	89.3	84.0	84.4	84.1
GNPA	1.9	3.2	3.0	2.7
NNPA	0.6	1.0	1.0	1.1
RoE	15.2	4.0	5.9	7.4
RoA	1.9	0.5	0.7	0.8

Source: Company, ICICI Direct Research

**Exhibit 4: Balance sheet**

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Sources of Funds</b>				
Capital	778.0	779.1	779.1	779.1
Employee Stock Options	103.5	142.9	142.9	142.9
Reserves and Surplus	62,325.7	63,913.8	68,021.9	72,602.1
Networth	63,207.2	64,835.7	68,943.8	73,524.0
Deposits	384,585.7	410,862.3	448,653.2	500,024.9
Borrowings	47,611.4	53,703.6	58,573.9	63,740.1
Other Liabilities & Provisions	19,689.3	24,705.6	27,169.5	29,868.6
Total	515,093.7	554,107.1	603,340.3	667,157.6
<b>Application of Funds</b>				
Fixed Assets	2,324.0	2,496.4	2,841.5	3,256.2
Investments	106,486.5	114,456.7	126,032.8	138,782.9
Advances	343,298.3	345,018.6	378,509.6	420,765.3
Other Assets	26,077.8	32,759.9	50,254.2	60,424.8
Cash with RBI & call money	36,907.4	59,375.5	45,702.2	43,928.4
Total	515,094.0	554,107.1	603,340.3	667,157.6

Source: Company, ICICI Direct Research

**Exhibit 5: Growth ratios**

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	12.5	7.6	8.9	10.6
Advances	18.4	0.5	9.7	11.2
Deposit	14.4	6.8	9.2	11.5
Total Income	16.5	2.2	6.7	11.0
Net interest income	17.2	-7.7	3.7	14.1
Operating expenses	24.7	13.5	12.7	12.7
Operating profit	20.6	-32.8	5.9	11.2
Net profit	20.6	-71.3	51.9	34.2
Net worth	14.6	2.5	6.4	6.7
EPS	21.0	-71.3	51.9	34.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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