IndusInd Bank Ltd.

Retail Idea | Financial Services

Wiping The Slate Clean!

DALAL & BROACHA
STOCK BROKING PVT. LTD.

etail Research Desk

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❖ About IndusInd Bank

IndusInd Bank is India's fifth-largest private sector lender, serving over 41 million customers through an extensive network of 7,174 touchpoints, including 3,081 branches across the country. The bank holds a strong position in the microfinance sector, ranking as the second-largest microfinance lender in India through its subsidiary, Bharat Financial Inclusion. As of Q4FY25, its microfinance loan book stood at ₹30,909 crores. In addition, the bank reported total advances of ₹3,45,019 crores and deposits of ₹4,10,862 crores, with Current and Savings Account (CASA) deposits amounting to ₹1,34,789 crores, reflecting a CASA ratio of 32.8%.

As of Q4FY25, the bank's Gross Non-Performing Asset (NPA) ratio stood at 3.13%, while the Net NPA ratio was at 0.95%. The Provision Coverage Ratio (PCR) remained healthy at 70%.

In recent months, IndusInd Bank has faced heightened scrutiny over its accounting practices and internal controls following multiple reports of irregularities and fraud. These issues have led to several senior-level resignations and have prompted external audits. While the concerns are serious, the overall financial impact has remained manageable thus far.

❖ What We Think?

We believe that the majority of issues related to accounting irregularities, inadequate internal controls, and other associated concerns that have come to light over the past six months are now being actively addressed. These concerns have prompted audits by well-established external agencies, and we expect that the enhanced regulatory oversight by the Reserve Bank of India (RBI) will contribute significantly to resolving these matters over time.

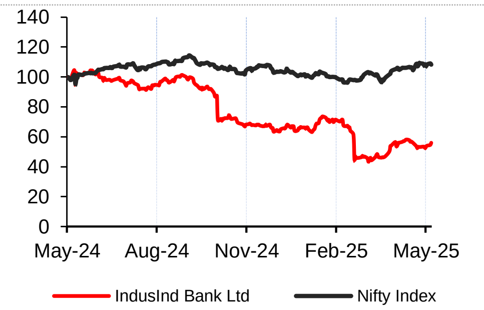
However, the near-term business outlook remains subdued. The bank has reported a sharp quarter-on-quarter (QoQ) decline of 15.7% in its corporate loan book, along with a contraction in its microfinance (MFI) portfolio—down 5% QoQ and 21% year-on-year (YoY). These trends are likely to exert continued pressure on the bank's Net Interest Margins (NIMs) and, consequently, its overall return ratios. That said, we believe a large part of the negative sentiment is already reflected in the current market price. The stock is trading at approximately 0.83 times its FY27E book value, suggesting a valuation that factors in much of the downside risks.

Rating	TP (Rs)	Up/Dn (%)
BUY	**983**	**20**

Market Data		
Current price	**Rs**	**821**
Market Cap (Rs.Bn)	(Rs Bn)	639
Market Cap (US$ Mn)	(US$ Mn)	7,514
Face Value	Rs	10
52 Weeks High/Low	Rs	1550 / 605.4
Average Daily Volume	('000)	5,556
BSE Code		532187
Bloomberg		IIB.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-25	Dec-24
Promoters	15.83	16.29
Public	84.17	83.71
Total	**100.00**	**100.00**

Source: BSE

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❖ Why We Think So?

➢ *The Issue At Play!*

Derivatives Accounting Issue: The core issue at IndusInd Bank pertained to the accounting treatment of derivative transactions. The discrepancy arose from inconsistent methodologies applied to internal and external foreign exchange deals. While internal transactions between desks managing dollar and yen deposits were recorded on an accrual basis, external transactions with banks were accounted for using mark-to-market valuation. This mismatch led to an overstatement of profits in previous years and a deferral of valuation losses, which have now accumulated to ₹1,959.98 crore.

Issue with MFI Transactions: The Internal Audit Department (IAD) submitted its report on May 8, 2025, revealing that a cumulative amount of ₹674 crore had been incorrectly recorded as interest income over three quarters of FY 2024-25. This misstatement was fully reversed as of January 10, 2025.
Additionally, following a whistle-blower complaint, the Audit Committee of the Board directed the IAD to examine transactions recorded under "Other Assets" and "Other Liabilities." In its report dated May 8, 2025, the IAD identified unsubstantiated balances totaling ₹595 crore in the "Other Assets" accounts. These balances were subsequently offset against corresponding entries in the "Other Liabilities" accounts in January 2025.

➢ *How Are They Being Addressed?*

Financial Clean Up: IndusInd Bank reported a significant loss of ₹22.3 billion, primarily driven by multiple one-off items across various operational categories. Key contributors to the loss include:

1. A ₹19.6 billion impact related to derivative accounting recorded under non-interest income.
2. A reversal of ₹1.8 billion from interest income, along with an additional ₹17.9 billion provision for bad loans — representing 95% provisioning against ₹18.9 billion of new slippages, mainly from the microfinance (MFI) portfolio.
3. Further reversals related to MFI, including ₹6.7 billion in interest income and ₹1.7 billion in fee income.
4. An increase of ₹1 billion in interest expenses.
5. ₹1.3 billion in provisions related to unrealizable expenses.
6. Prior-period adjustments, including ₹2 billion in expenses and ₹1.3 billion in income.
7. The regrouping of ₹7.6 billion from interest income to non-interest income and ₹1.6 billion from provisions to operating expenses.
8. Full utilization of the ₹13.3 billion contingent buffer.

As a result of these adjustments, several key financial metrics were adversely affected: Net Interest Margin (NIM) declined to 2.3%, slippages increased to 5.5%, and credit costs rose to 2.7%. Management emphasized that the bulk of the financial impact has been recognized during the quarter, with the objective of entering FY26 on a cleaner and more stable footing.

Leadership Change: Following the revelation of accounting irregularities, IndusInd Bank has witnessed significant leadership departures. Chief Financial Officer Mr. Gobind Jain resigned in January 2025, and subsequently, Chief Executive Officer Mr. Sumant Kathpalia and Deputy CEO Mr. Arun Khurana stepped down in April 2025, after the submission of a detailed report on the matter by PwC. The bank has characterized the irregularities as a case of fraud against the institution and has initiated legal proceedings against employees found to be involved. IndusInd Bank is currently in the process of identifying a new CEO and plans to submit its recommendation to the RBI by June 30, 2025, for approval.

Stricter Regulatory Oversight: Following the recent issues, IndusInd Bank has come under increased regulatory scrutiny, particularly from the Reserve Bank of India (RBI). This has led to a comprehensive review of the bank's balance sheet, resulting in greater transparency and a cleaner financial position. The heightened oversight is also expected to strengthen internal controls and governance, helping to prevent similar issues in the future. With most concerns now addressed, the bank is better positioned to move forward on a stronger footing.

Balance Sheet Remains Resilient: Unlike past sectoral issues such as those faced by Yes Bank—which were largely driven by poor asset quality—IndusInd Bank's recent challenges are primarily due to inadequate internal processes and procedures. These issues have resulted in a one-time impact of approximately 3.38% on the bank's capital base, which has been fully accounted for in the Q4 FY25 balance sheet. Despite this, the bank's financial position remains strong, with a capital adequacy ratio of 16.24%, a liquidity coverage ratio of 118%, and a provision coverage ratio of 70%. While the advances book has been affected—with a sequential decline of 15.7% in the corporate segment and 5.08% in the microfinance segment, resulting in an overall 6% drop in the advances book and subdued NII growth expectations—a gradual recovery is anticipated following the appointment of a new management team.

❖ What Do We Expect?

We expect IndusInd Bank to witness a gradual recovery over the next two years, with FY26 likely to mark a phase of stabilization. Margins (NIMs) are expected to compress due to the declining interest rate environment, a shrinking microfinance (MFI) portfolio, and higher liquidity coverage, all of which could weigh on return on assets (ROA). A key catalyst to monitor will be the appointment of a new CEO and the strategic direction that follows. We assign a valuation of 1.0x FY27E P/B (BBG consensus book value), which translates to a target price of ₹983.

❖ Key Risks

Any incremental negative news flow related to the bank could hinder its recovery and potentially lead to adverse outcomes, making it essential to monitor developments closely going forward.

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