

India

HOLD (no change)

Consensus ratings*: Buy 17 Hold 18 Sell 9	
Current price:	Rs780
Target price:	Rs860
Previous target:	Rs1,050
Up/downside:	10%
InCred Research / Consensus:	2.5%
Reuters:	INBK.NS
Bloomberg:	IIB IN
Market cap:	US\$7,107m
	Rs607,818m
Average daily turnover:	US\$95.3m
	Rs8147.8m
Current shares o/s:	860.4m
Free float:	0.0%
*Source: Bloomberg	

Key changes in this note

- We revisit estimates to factor in the impact of accounting lapses over the past few months.
- We trim our sustainable RoE assumptions.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.0)	(23.8)	(44.6)
Relative (%)	(5.6)	(29.8)	(50.2)

Major shareholders	% held
	0.0
	0.0
	0.0

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IndusInd Bank

Revisiting estimates post accounting lapses

- New accounting lapses include incorrectly recorded interest on MFI business of Rs6.7bn (over 9MFY25) and wrongly netted-off balance sheet (Rs6bn).
- MFI accounting lapses increased the net worth impact to 3.1% post-tax, vs. 2.35% earlier. The RoA impact is ~10bp & adj. margin would be lower by 17bp.
- Valuations will continue to remain under pressure (at ~0.8x F27F book value), mainly led by concerns over asset quality & management transition.

Few more accounting lapses unearthed by internal audit department

Based on the review of the MFI business by the internal audit department of IndusInd Bank, it was highlighted that a cumulative sum of Rs6.74bn was incorrectly recorded as interest income over the past three quarters in FY25. The bank noted that this has been fully reversed on 10th Jan2025. Also, pursuant to a whistle-blower's complaint, the audit committee of the bank's board asked the internal audit department to review transactions in other assets and other liabilities. Based on the review, it was found that there were Rs5.95bn of unsubstantiated balances in other assets. These were offset against corresponding balances appearing in the other liabilities accounts in Jan 2025. Earlier, on 10 Mar 2025, the bank disclosed an accounting lapse on its derivatives exposure of ~Rs21bn pre-tax (works out to 2.35% of net worth post-tax).

Financial impact of accounting lapses so far

The impact of derivatives exposure will be partly taken through the interest income line and the rest through trading gains. Given the lack of clarity, we have taken the entire impact through the provisioning line for 4QFY25F. Moreover, recent unearthing of the incorrectly recorded interest income in the MFI business increases the negative impact on net worth to 3.1% post-tax, from 2.35% earlier (impact of accounting lapse on derivatives exposure). The margin impact due to the MFI business accounting lapse works out to ~17bp (annualized) and the RoA impact is ~10bp (post-tax). Based on these accounting lapses, we believe core margin could be structurally lower by 25-30bp. We therefore trim our margin assumptions to ~3.6%/3.7% for FY26/27F, from reported margin of 3.93% as of 3QFY25-end. We expect RoA of 0.9%/1.1% and RoE of ~8/10% during FY26F-27F.

Multiple concerns will cap material rerating; maintain HOLD

We believe the recent unearthing of accounting lapses will lead to increased scepticism around the quality of internal controls. Valuation will continue to remain under pressure despite trading at 0.8x F27F book value, mainly led by concerns around asset quality and management transition. In the near- to medium-term, the key positive catalyst will be better-than-expected asset quality outcome and any development indicating appointment of a private banker for the MD & CEO role. We maintain HOLD rating on the stock while we trim the target price to Rs860 (Rs1,050 earlier), assigning a multiple of 0.9x on FY27F BV. Upside risks: Better-than-expected asset quality outcome, clarity on management transition, and better than expected core margin progression. Downside risks: Further accounting/internal control lapses and worsening operational/asset quality outcomes.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	175,921	206,159	203,743	202,975	238,096
Total Non-Interest Income (Rsm)	81,664	93,879	96,301	111,601	128,647
Operating Revenue (Rsm)	257,585	300,038	300,044	314,576	366,743
Total Provision Charges (Rsm)	(44,868)	(37,987)	(85,411)	(61,705)	(57,082)
Net Profit (Rsm)	73,897	89,498	40,439	51,678	74,453
Core EPS (Rs)	9.52	11.50	5.19	6.63	9.56
Core EPS Growth	60%	21%	(55%)	28%	44%
FD Core P/E (x)	81.92	67.85	150.29	117.61	81.63
DPS (Rs)	14.00	16.50	0.00	10.00	15.00
Dividend Yield	1.79%	2.11%	0.00%	1.28%	1.92%
BVPS (Rs)	70.4	80.7	85.1	91.7	100.3
P/BV (x)	11.08	9.67	9.17	8.51	7.78
ROE	14.4%	15.2%	6.3%	7.5%	10.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: IndusInd Bank – DuPont analysis

DuPont analysis (as % of avg. assets)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25F	FY26F	FY27F
Net Interest Income	3.8%	3.7%	3.5%	4.1%	4.0%	3.9%	4.1%	4.2%	3.8%	3.5%	3.6%
Core Fee	2.2%	2.1%	2.0%	2.0%	1.4%	1.5%	1.8%	1.8%	1.7%	1.8%	1.8%
Core Revenue	5.9%	5.8%	5.6%	6.1%	5.4%	5.5%	5.9%	6.0%	5.5%	5.3%	5.4%
Opex	3.0%	2.8%	2.6%	2.8%	2.5%	2.5%	2.7%	2.9%	3.0%	3.1%	3.2%
--Staff Expenses	0.9%	0.9%	0.7%	0.8%	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%
--Other Opex	2.0%	1.9%	1.8%	2.1%	1.8%	1.8%	1.9%	2.1%	2.2%	2.3%	2.3%
Core PPOp	3.0%	3.0%	3.0%	3.3%	2.9%	3.0%	3.2%	3.1%	2.5%	2.1%	2.2%
Credit Costs (Provisions Less Invest.)	0.7%	0.5%	1.2%	1.4%	2.2%	1.6%	1.0%	0.8%	1.2%	1.1%	0.9%
Recovery from w/off	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Credit Costs	0.7%	0.5%	1.2%	1.4%	2.2%	1.6%	1.0%	0.8%	1.2%	1.1%	0.9%
Operating Profit	2.3%	2.5%	1.8%	1.9%	0.7%	1.3%	2.3%	2.3%	1.3%	1.0%	1.4%
Other Income/Expenses	0.4%	0.2%	0.2%	0.2%	0.4%	0.3%	0.0%	0.1%	-0.3%	0.1%	0.1%
--Net Treasury Gains	0.2%	0.1%	0.0%	0.0%	0.3%	0.1%	-0.1%	0.1%	-0.3%	0.1%	0.1%
----Capital Gains	0.2%	0.2%	0.0%	0.2%	0.4%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
----Provision for Investment	0.0%	-0.1%	-0.1%	-0.2%	-0.2%	-0.1%	-0.1%	0.0%	-0.4%	0.0%	0.0%
--Other Income	0.3%	0.1%	0.2%	0.2%	0.1%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%
Profit Before Tax (Before Exceptional Items)	2.7%	2.7%	2.0%	2.1%	1.1%	1.6%	2.3%	2.5%	1.0%	1.2%	1.5%
Exceptional Items/Minority Interest/Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PBT	2.7%	2.7%	2.0%	2.1%	1.1%	1.6%	2.3%	2.5%	1.0%	1.2%	1.5%
Tax	0.9%	0.9%	0.7%	0.6%	0.3%	0.4%	0.6%	0.6%	0.3%	0.3%	0.4%
RoA	1.8%	1.8%	1.3%	1.5%	0.8%	1.2%	1.7%	1.8%	0.8%	0.9%	1.1%
Leverage (x)	8	9	10	10	9	8	8	8	8	8	9
RoE	15.0%	16.0%	12.8%	14.4%	7.3%	10.1%	14.4%	15.2%	6.3%	7.5%	10.0%

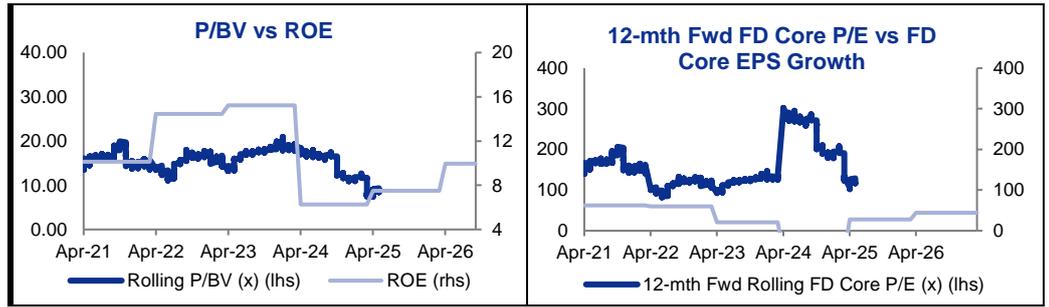
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest income	215	204	-5.3%	249	203	-18.6%	295	238	-19.3%
Non-Interest Income	92	96	4.5%	103	112	7.8%	118	129	9.0%
PPOP	146	139	-4.9%	175	131	-25.4%	208	157	-24.8%
PAT	62	40	-35.3%	91	52	-42.9%	108	74	-30.8%
EPS (Rs)	80.1	51.9	-35.2%	116.2	66.3	-42.9%	138.1	95.6	-30.8%
BV (Rs)	872.2	850.7	-2.5%	965.4	917.1	-5.0%	1,075.4	1,002.6	-6.8%
Net Advances	3,771.0	3,479.3	-7.7%	4,306.3	3,966.4	-7.9%	4,985.1	4,561.4	-8.5%
Deposits	4,206.9	4,111.4	-2.3%	4,774.3	4,604.8	-3.6%	5,517.6	5,295.5	-4.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	175,921	206,159	203,743	202,975	238,096
Total Non-Interest Income	81,664	93,879	96,301	111,601	128,647
Operating Revenue	257,585	300,038	300,044	314,576	366,743
Total Non-Interest Expenses	(114,120)	(142,635)	(160,758)	(183,783)	(210,125)
Pre-provision Operating Profit	143,465	157,403	139,286	130,793	156,618
Total Provision Charges	(44,868)	(37,987)	(85,411)	(61,705)	(57,082)
Operating Profit After Provisions	98,596	119,415	53,876	69,088	99,536
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	98,596	119,415	53,876	69,088	99,536
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	98,596	119,415	53,876	69,088	99,536
Exceptional Items					
Pre-tax Profit	98,596	119,415	53,876	69,088	99,536
Taxation	(24,699)	(29,918)	(13,436)	(17,410)	(25,083)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	73,897	89,498	40,439	51,678	74,453
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	73,897	89,498	40,439	51,678	74,453
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	83.9%	87.8%	86.8%	85.4%	86.1%
Avg Liquid Assets/Avg Assets	94.0%	94.2%	94.3%	94.1%	94.0%
Avg Liquid Assets/Avg IEAs	118.3%	111.3%	108.8%	109.6%	109.8%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provsns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.70%	1.20%	2.47%	1.66%	1.34%
Provision Charge/Avg Assets	1.04%	0.78%	1.60%	1.06%	0.86%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	2,899,237	3,432,983	3,479,330	3,966,436	4,561,402
Liquid Assets & Invst. (Current)	831,162	1,065,267	1,251,341	1,322,390	1,495,786
Other Int. Earning Assets					
Total Gross Int. Earning Assets	3,730,399	4,498,250	4,730,671	5,288,826	6,057,188
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	3,730,399	4,498,250	4,730,671	5,288,826	6,057,188
Intangible Assets					
Other Non-Interest Earning Assets	262,604	261,108	300,274	345,315	397,113
Total Non-Interest Earning Assets	282,530	283,086	323,351	369,546	422,555
Cash And Marketable Securities	565,112	368,016	445,273	513,545	601,313
Long-term Investments					
Total Assets	4,578,041	5,149,352	5,499,295	6,171,917	7,081,055
Customer Interest-Bearing Liabilities	3,364,382	3,847,929	4,111,400	4,604,768	5,295,483
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	3,854,494	4,324,044	4,616,081	5,210,385	6,022,224
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	177,330	197,337	220,503	247,143	277,780
Total Liabilities	4,031,824	4,521,381	4,836,584	5,457,529	6,300,004
Shareholders Equity	546,217	627,971	662,711	714,389	781,051
Minority Interests					
Total Equity	546,217	627,971	662,711	714,389	781,051

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	17.3%	17.2%	(1.2%)	(0.4%)	17.3%
Operating Profit Growth	12.3%	9.7%	(11.5%)	(6.1%)	19.7%
Pretax Profit Growth	60%	21%	(55%)	28%	44%
Net Interest To Total Income	68.3%	68.7%	67.9%	64.5%	64.9%
Cost Of Funds	5.17%	6.15%	6.66%	6.48%	6.40%
Return On Interest Earning Assets	10.6%	11.1%	10.9%	10.4%	10.5%
Net Interest Spread	5.48%	4.97%	4.21%	3.93%	4.13%
Net Interest Margin (Avg Deposits)	5.58%	5.72%	5.12%	4.66%	4.81%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	31%	24%	61%	47%	36%
Interest Return On Average Assets	4.09%	4.24%	3.83%	3.48%	3.59%
Effective Tax Rate	25.1%	25.1%	24.9%	25.2%	25.2%
Net Dividend Payout Ratio	14.7%	14.3%		15.1%	15.7%
Return On Average Assets	1.72%	1.84%	0.76%	0.89%	1.12%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.