

India

HOLD (no change)

Consensus ratings*: Buy 17 Hold 17 Sell 10

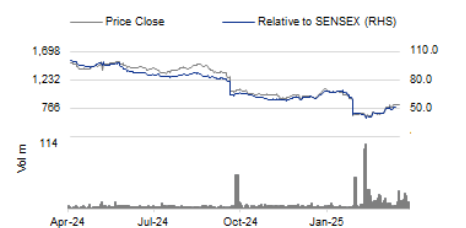
Current price: Rs770
 Target price: ▼ Rs840
 Previous target: Rs860
 Up/downside: 9.1%
 InCred Research / Consensus: 0.3%

Reuters: INBK.NS
 Bloomberg: IIB IN
 Market cap: US\$7,004m
 Rs599,833m
 Average daily turnover: US\$96.4m
 Rs8257.8m
 Current shares o/s: 839.9m
 Free float: 0.0%

*Source: Bloomberg

Key changes in this note

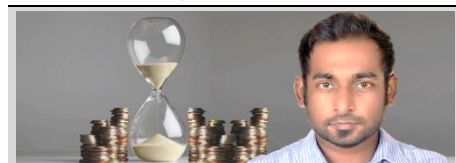
- We have cut earnings estimates factoring in the impact of new accounting lapses.
- We have cut the risk-free rate by 25bp.
- We introduce FY28F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.0)	(26.2)	(45.3)
Relative (%)	(9.3)	(31.9)	(50.2)

Major shareholders	% held
	0.0
	0.0
	0.0

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IndusInd Bank**New accounting lapses surprise negatively**

- IIB posted a net loss of Rs22bn in 4Q, mainly owing to accelerated provisioning on fresh accounting lapses i.e. misclassification of MFI loans as standard.
- IIB's chairman indicated that selection process of the new CEO is in an advanced stage and the RBI has asked to submit the proposal by Jun 2025.
- We trim our target price to Rs840 (9% upside) as we cut our estimates post fresh accounting lapses. Risk-reward appears balanced at 0.8x FY27F BV.

The impact owing to accounting lapses rises to Rs49bn vs Rs28bn

IndusInd Bank (IIB) reported a net loss of Rs22bn in 4QFY25. Adjusting for accounting lapses (~Rs49bn pre-tax, vs. Rs28bn disclosed earlier), the bank would report a pre-tax profit of Rs21-24bn. The new disclosure of accounting lapses was mainly owing to misclassification of certain microfinance or MFI loans as standard assets, which are now classified as NPAs (~Rs19bn, of which provision has been made for 95% during the quarter) and incorrectly recorded fee income of Rs1.7bn. Reported margin stood at 2.25% in 4QFY25, mainly impacted by accounting lapses and reclassification to other income (Rs7.6bn). Adjusting for this, core margin would be closer to 3.5%. Other income declined QoQ (Rs7.1bn vs. Rs23.5bn last quarter) as the bank took a Rs19.6bn hit on derivatives accounting lapse. Adjusting for this, other income would be ~Rs25bn (vs. 23.5bn last quarter). Opex grew by 10% YoY (+6% QoQ). Despite utilization of contingent buffers (~150bp), credit costs inched up QoQ (272bp vs. 193bp) mainly led by ~200bp of accelerated provision on misclassification of MFI loans. The CET-1 ratio remains healthy at 15.1%. IIB holds healthy liquidity (avg. LCR at 139% for QTD Jun 2025).

Update on management transition; comfortable 4Q/FY25 financials

IIB's chairman indicated that the bank's board is at an advanced stage of the selection process for a new chief executive officer or CEO. Also, the Reserve Bank of India or RBI has advised the board to submit the proposal for appointment of the new CEO by 30 Jun 2025. Moreover, the chairman noted that IIB's board has worked with the management and statutory auditors to undertake an enhanced and more rigorous review of the financials for 4QFY25/FY25. All the issues brought to the board has been provided for and IIB looks to start the new financial year on a clean slate.

Concerns over management transition limiting a material rerating

IIB's valuation will continue to remain under pressure (trading at 0.8x F27F BV), mainly led by concerns around management transition. We trim earnings estimates as we lower our margin assumptions and build in elevated credit costs. Fresh accounting lapses and lower earnings reduces our FY27F BV estimate by 5% to ~Rs950. This impact will be partly offset by reduced risk-free rate (by 25bp to 6.75% vs. 7% earlier). Consequently, we trim our target price to Rs840 (Rs860 earlier), assigning a multiple of 0.9x on F27F BV. Retain HOLD rating. Upside risks: Better-than-expected asset quality outcome, clarity on management transition, & better-than-expected core margin progression. Downside risks: Further accounting/internal control lapses & worsening operational/asset quality outcomes.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	206,159	190,313	194,962	229,967	267,818
Total Non-Interest Income (Rsm)	93,879	76,842	108,815	124,568	142,794
Operating Revenue (Rsm)	300,038	267,155	303,777	354,535	410,612
Total Provision Charges (Rsm)	(37,987)	(70,301)	(66,449)	(57,029)	(57,333)
Net Profit (Rsm)	89,498	26,429	40,086	65,389	84,553
Core EPS (Rs)	11.50	3.39	5.15	8.39	10.85
Core EPS Growth	21%	(70%)	52%	63%	29%
FD Core P/E (x)	66.96	226.96	149.64	91.73	70.94
DPS (Rs)	16.50	0.00	10.00	15.00	15.00
Dividend Yield	2.14%	0.00%	1.30%	1.95%	1.95%
BVPS (Rs)	80.7	82.8	87.9	95.3	104.7
P/BV (x)	9.54	9.30	8.76	8.08	7.36
ROE	15.2%	4.2%	6.0%	9.2%	10.9%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	4QFY24	3QFY25	4QFY25	YoY (%)	QoQ (%)
Net Interest Income	53,764	52,281	30,483	-43%	-42%
Other Income	25,005	23,502	7,088	-72%	-70%
--Core Fee	22,930	21,230	23,050	1%	9%
--Treasury Income	2,150	2,320	-15,960	-842%	-788%
--Misc. Income	-75	-48	-2	-97%	-96%
Total income	78,769	75,783	37,571	-52%	-50%
--Core Revenue	76,694	73,511	53,533	-30%	-27%
Operating Expenses	38,498	39,794	42,297	10%	6%
--Staff Expenses	10,491	10,695	10,995	5%	3%
--Other Operating Expenses	28,007	29,099	31,302	12%	8%
Operating Profit	40,271	35,989	-4,725	-112%	-113%
--Core PPOP	38,196	33,717	11,237	-71%	-67%
Provisions	8,991	17,436	24,166	169%	39%
PBT	31,280	18,553	-28,891	-192%	-256%
Tax	7,812	4,540	-6,531	-184%	-244%
PAT	23,468	14,013	-22,360	-195%	-260%
EPS	30	18	-29		
Advances	3,432,983	3,668,890	3,450,186	1%	-6%
Deposits	3,847,929	4,094,380	4,110,781	7%	0%
LD Ratio	89%	90%	84%		
CASA Ratio	38%	35%	33%		
Margins (%)	4.26	3.93	2.25	-2.01	-1.68
Overall provisions (in bps)	107	193	272		
---Credit cost (in bps)	107	193	272		
GNPA	66,934	83,753	110,464	65%	32%
GNPA Ratio (%)	1.92%	2.25%	3.13%		
NNPA	19,689	24,958	32,871	67%	32%
NNPA Ratio (%)	0.57	0.68	0.95		
PCR	47,245	58,795	77,593	64%	32%
PCR Ratio (%)	71%	70%	70%		
Slippage	14,280	22,000	50,140	251%	128%
--% of trailing loans	2.1%	2.7%	5.8%		
CET-1 Ratio (%)	15.8%	15.2%	15.1%		
RoA	1.9%	1.0%	-1.7%		
RoE	15.2%	8.5%	-14.1%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Rs bn	New Estimates			Old Estimates			Change	
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY26F	FY27F
Net Interest Income	190	195	230	268	203	238	-4%	-3%
--Growth YoY	-8%	2%	18%	16%	-6%	17%		
Non-Interest Income	77	109	125	143	112	129	-2%	-3%
--Growth YoY	-18%	42%	14%	15%	21%	15%		
Total Income	267	304	355	411	315	367	-3%	-3%
--Growth YoY	-11%	14%	17%	16%	2%	17%		
Opex	161	184	210	240	184	210	0%	0%
--Growth YoY	13%	14%	14%	14%	14%	14%		
PPOP	106	120	144	170	131	157	-8%	-8%
--Growth YoY	-32%	13%	20%	18%	-11%	20%		
Provision	70	66	57	57	62	57	8%	0%
--as % of avg. loans	204	182	137	120	159	134		
PBT	36	54	87	113	69	100	-22%	-12%
Tax	10	14	22	28	17	25	29%	14%
PAT	26	40	65	85	52	74	-22%	-12%
--Growth YoY	-70%	52%	63%	29%	-17%	44%		
Advances	3,450	3,864	4,444	5,110	3,966	4,561	-3%	-3%
--Growth YoY	1%	12%	15%	15%	5%	15%		
Deposits	4,111	4,604	5,295	6,089	4,605	5,295	0%	0%
--Growth YoY	7%	12%	15%	15%	9%	15%		
Book Value	828	879	953	1,047	917	1,003	-4%	-5%
--Growth YoY	3%	6%	8%	10%	5%	9%		
EPS	34	51	84	109	66	96	-22%	-12%
--Growth YoY	-71%	52%	63%	29%	-17%	44%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key highlights

- IIB's loan book grew by 1% YoY and declined by 5% QoQ. This was mainly owing to letting go of corporate loans (down 16% QoQ) to shore up liquidity (exit LCR at 136%). Vehicle loans grew by 8% YoY (+2% QoQ) and consumer loans, including business banking, were up 18% YoY (+6% QoQ). MFI loans declined by 5% QoQ (down 21% YoY), partly owing to reclassification of loans from standard assets to NPAs (amounting to Rs19bn).
- Gross slippage increased QoQ (Rs50bn vs. Rs22bn). Adjusted for MFI misclassification (Rs19bn), gross slippage stood at Rs31bn (3.7% annualized). Recovery & upgrades were broadly steady (Rs5.3bn vs. Rs4.8bn) while write-offs were materially higher QoQ (Rs18bn vs. Rs9.8bn). Headline GNPA's increased by 31% QoQ to Rs110bn and the GNPA ratio was up 88bp at 3.13%. PCR remained steady at 70%. This was helped by accelerated provisioning on misclassification of MFI exposure (i.e. ~95% provisioning; credit cost of ~200 bp) and utilization of contingent provision (Rs13.3bn; ~150bp of loans). Net NPA ratio increased QoQ (0.95% vs. 0.68%). The outstanding restructured loan book moderated to 12bp vs. 18bp last quarter. SMA 1&2 books collectively stood at 24bp vs. 20bp last quarter.
- MFI collection efficiency has been on an improving trend and new stress formation has been moderating. Management noted that the normalized trend is a few quarters away as the asset quality situation in some states is still evolving and has not yet stabilized. MFI guardrails have been implemented effective 1st Apr 2025. On disbursements, IIB noted that it would remain cautious in the MFI segment, but in the other segments its business as usual.
- The gems & jewellery portfolio stands at 2.6% of loans. Management noted that it is comfortable with the current portfolio and there is zero SMA 1 or 2 exposure.
- Corporate loan book slippage of Rs2bn includes a lumpy real estate account (Rs1.4bn). On a full-year basis, the slippage improved to 0.4% vs. 0.5% last year.
- Retail deposits per LCR grew by 9% YoY (down 2% QoQ) and contributed 45% to overall deposits vs. 44% last year. Management noted that it carries healthy liquidity with exit LCR at 136% as on 31 Mar 2025 (absolute excess liquidity of Rs620bn).

Figure 3: Financial summary

IndusInd Bank

Profit and Loss Statement

Rsm (Year-end March)	FY25	FY26F	FY27F	FY28F
Total interest earned	486,677	517,781	594,449	689,881
Total Interest Expense	296,364	322,819	364,482	422,064
Net Interest Income	190,313	194,962	229,967	267,818
CEB	47,270	54,865	63,726	74,026
Capital Gains	-12,110	8,000	8,000	8,000
Forex Income	9,690	10,659	12,258	14,097
Others	31,992	35,291	40,584	46,672
Total Non Interest Income	76,842	108,815	124,568	142,794
Total Income	267,155	303,777	354,535	410,612
--Employee Expenses	43,014	48,390	54,439	61,244
--Other Expenses	117,693	135,347	155,649	178,996
Total Operating Expenses	160,707	183,737	210,088	240,240
Pre provision profit	106,449	120,040	144,447	170,372
--Loan Loss Provisions	70,301	65,000	55,000	55,000
--Other Provisions	0	1,449	2,029	2,333
Total provisions	70,301	66,449	57,029	57,333
PBT	36,147	53,591	87,418	113,039
Tax	9,718	13,505	22,029	28,486
PAT	26,429	40,086	65,389	84,553
Core Operating profit	118,617	112,040	136,447	162,372

Balance Sheet Data

Rsm (Year-end March)	FY25	FY26F	FY27F	FY28F
Shareholders' equity	644,926	685,012	742,610	815,478
Deposits	4,110,781	4,604,075	5,294,686	6,088,889
Borrowings	537,036	644,443	773,331	927,997
Other Liabilities & Provisions	247,442	278,123	313,407	353,983
Total Liabilities	5,540,184	6,211,653	7,124,034	8,186,347
Cash & Balances with RBI	508,894	331,598	382,885	442,252
Balances with Banks	82,764	99,317	119,180	143,016
Investments	1,144,968	1,512,506	1,715,977	1,961,785
Advances	3,450,186	3,864,209	4,443,840	5,110,416
Fixed Assets	23,558	24,736	25,973	27,271
Other Assets	329,814	379,287	436,180	501,606
Total Assets	5,540,184	6,211,653	7,124,034	8,186,347
Earning Assets	5,186,812	5,807,630	6,661,882	7,657,470
Capital Adequacy				
CET 1 Ratio	15.1%	14.2%	13.3%	12.8%
Tier 1 Ratio	15.1%	14.2%	13.3%	12.8%
Tier 2 Ratio	1.1%	1.0%	0.9%	0.8%
Capital Adequacy Ratio	16.2%	15.2%	14.2%	13.6%

Source: Company Data, InCred Research

E: InCred Research Estimates

Per Share Data and Valuations

Rs (Year-end March)	FY25	FY26F	FY27F	FY28F
Per Share Data				
EPS	33.9	51.5	83.9	108.5
Book Value	827.8	879.3	953.2	1046.8
Core Op. Profit	152.3	143.8	175.1	208.4
DPS	0.0	10.0	15.0	15.0
Valuations				
P/E	22.6	14.9	9.1	7.1
Price to Book	0.9	0.9	0.8	0.7
Price to Core Op. Profit	5.0	5.3	4.4	3.7
Dividend Yield	0.0%	1.3%	2.0%	2.0%

Ratio Analysis

Year-end March	FY25	FY26F	FY27F	FY28F
Spread Analysis				
Average yield on assets	9.6%	9.5%	9.6%	9.7%
Cost of earning assets	5.8%	5.9%	5.9%	5.9%
Net Interest Margin (Reported)	3.6%	3.5%	3.6%	3.7%

Growth Ratios

Net Interest Income	-8%	2%	18%	16%
Non Interest Income	-18%	42%	14%	15%
Operating expenses	13%	14%	14%	14%
Core Operating Profit	-21%	-6%	22%	19%
Net Profit	-70%	52%	63%	29%
EPS	-71%	52%	63%	29%
Deposits	7%	12%	15%	15%
Advances	1%	12%	15%	15%
Total Assets	8%	12%	15%	15%

Profitability Ratios

Core Fee to Asset	1.7%	1.7%	1.7%	1.8%
Return On Equity	4.1%	6.0%	9.2%	10.9%
Return On Assets	0.5%	0.7%	1.0%	1.1%
Return On RWA	0.7%	0.9%	1.3%	1.5%

Efficiency Ratios

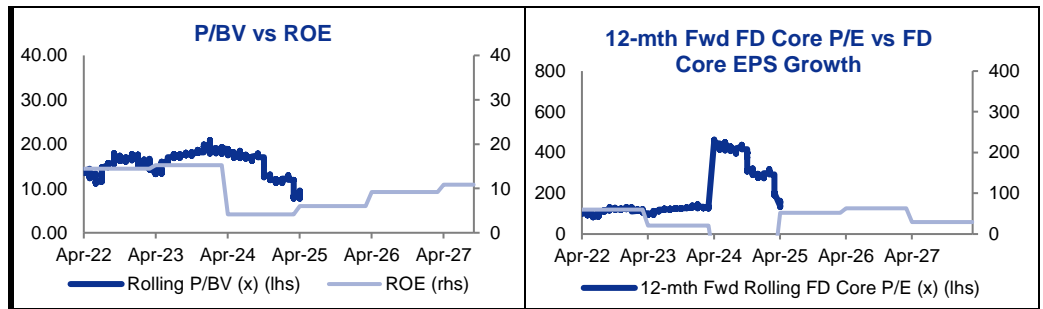
Cost to Income Ratio	60.2%	60.5%	59.3%	58.5%
Expenses/Avg Assets	3.0%	3.1%	3.1%	3.1%

Asset Quality

Credit Costs / Advances (bps)	204	182	137	120
Gross NPL	110464	145175	171824	189461
Net NPL	32871	38007	47666	53721
Reserve Coverage	77593	107168	124158	135740
Gross NPL Ratio	3.1%	3.6%	3.7%	3.6%
Net NPL Ratio	1.0%	1.0%	1.1%	1.1%
Coverage Ratio	70%	74%	72%	72%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	206,159	190,313	194,962	229,967	267,818
Total Non-Interest Income	93,879	76,842	108,815	124,568	142,794
Operating Revenue	300,038	267,155	303,777	354,535	410,612
Total Non-Interest Expenses	(142,635)	(160,707)	(183,737)	(210,088)	(240,240)
Pre-provision Operating Profit	157,403	106,449	120,040	144,447	170,372
Total Provision Charges	(37,987)	(70,301)	(66,449)	(57,029)	(57,333)
Operating Profit After Provisions	119,415	36,147	53,591	87,418	113,039
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	119,415	36,147	53,591	87,418	113,039
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	119,415	36,147	53,591	87,418	113,039
Exceptional Items					
Pre-tax Profit	119,415	36,147	53,591	87,418	113,039
Taxation	(29,918)	(9,718)	(13,505)	(22,029)	(28,486)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	89,498	26,429	40,086	65,389	84,553
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	89,498	26,429	40,086	65,389	84,553
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	87.8%	86.5%	83.9%	83.9%	83.9%
Avg Liquid Assets/Avg Assets	94.2%	94.0%	93.6%	93.5%	93.5%
Avg Liquid Assets/Avg IEAs	111.3%	110.6%	110.3%	108.1%	108.2%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.20%	2.04%	1.82%	1.37%	1.20%
Provision Charge/Avg Assets	0.78%	1.32%	1.13%	0.86%	0.75%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	3,432,983	3,450,186	3,864,209	4,443,840	5,110,416
Liquid Assets & Invst. (Current)	1,065,267	1,144,968	1,512,506	1,715,977	1,961,785
Other Int. Earning Assets					
Total Gross Int. Earning Assets	4,498,250	4,595,155	5,376,715	6,159,817	7,072,201
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	4,498,250	4,595,155	5,376,715	6,159,817	7,072,201
Intangible Assets					
Other Non-Interest Earning Assets	261,108	329,814	379,287	436,180	501,606
Total Non-Interest Earning Assets	283,086	353,372	404,022	462,152	528,878
Cash And Marketable Securities	368,016	591,658	430,915	502,066	585,269
Long-term Investments					
Total Assets	5,149,352	5,540,185	6,211,653	7,124,035	8,186,347
Customer Interest-Bearing Liabilities	3,847,929	4,110,782	4,604,075	5,294,687	6,088,890
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	4,324,044	4,647,817	5,248,518	6,068,018	7,016,887
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	197,337	247,442	278,123	313,407	353,983
Total Liabilities	4,521,381	4,895,259	5,526,641	6,381,424	7,370,870
Shareholders Equity	627,971	644,926	685,012	742,610	815,478
Minority Interests					
Total Equity	627,971	644,926	685,012	742,610	815,478

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	17.2%	(7.7%)	2.4%	18.0%	16.5%
Operating Profit Growth	9.7%	(32.4%)	12.8%	20.3%	17.9%
Pretax Profit Growth	21%	(70%)	48%	63%	29%
Net Interest To Total Income	68.7%	71.2%	64.2%	64.9%	65.2%
Cost Of Funds	6.15%	6.61%	6.52%	6.44%	6.45%
Return On Interest Earning Assets	11.1%	10.7%	10.4%	10.3%	10.4%
Net Interest Spread	4.97%	4.10%	3.86%	3.86%	3.98%
Net Interest Margin (Avg Deposits)	5.72%	4.78%	4.47%	4.65%	4.71%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	24%	66%	55%	39%	34%
Interest Return On Average Assets	4.24%	3.56%	3.32%	3.45%	3.50%
Effective Tax Rate	25.1%	26.9%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	14.3%		19.4%	17.9%	13.8%
Return On Average Assets	1.84%	0.49%	0.68%	0.98%	1.10%

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.

Sector Ratings

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.