

**HOLD**  
 TP: Rs 870 | ▼ 3%

**INDUSIND BANK**

| Banking

| 11 March 2025

**Net worth impact led by accounting discrepancy; HOLD**

- Discrepancy in derivative portfolio account to adversely impact net worth by 2.35%, indicates weak internal controls
- RBI’s one-year extension of CEO’s tenure reflects management uncertainty at IIB and need for succession planning
- One-time impact of derivative portfolio, MFI book stress to hit near-term earnings; downgrade to HOLD; TP of Rs 870 valued at 0.9x FY27 ABV

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**Pre-tax earnings impact of ~Rs 21bn due to discrepancy in derivative portfolio accounting:** IIB in its internal review of processes has disclosed discrepancies in its derivative portfolio accounts related to foreign currency deposits and borrowings. The discrepancies in these derivative transactions pertain to the five to seven years prior to 1 April 2024. IIB has not entered any internal derivative trades post 1 April 2024. The bank estimates an adverse impact of ~Rs 21bn pre-tax or ~2.35% of its net worth as of Dec’24. IIB identified the discrepancy in the month of September / October 2024, post which it hired an external agency to review processes. The external agency’s final findings are expected by the end of Mar’25 and the adverse impact is likely to be passed through NII in the income statement in Q4FY25.

**Management uncertainty as RBI extends CEO’s tenure by one year:** We note that RBI was aware of the discrepancy in the derivative accounting. This could have led to the RBI approving the extension of Mr. Sumant Kathpalia’s (MD & CEO) term by a year rather than the three years as requested by the bank’s board. Also, IIB’s CFO (Mr. Gobind Jain) resigned in Jan’25, before the Q3FY25 results were published. We believe the one-year extension of the CEO’s term seems to be a stop-gap arrangement in the search for a replacement. This could likely result in lack of strategic direction and management uncertainty in the near term, in our view.

**Downgrade to HOLD; weak earnings visibility and management uncertainty:** The bank’s stock price took a hit due to various headwinds: (a) the RBI approving the CEO’s extension by one year vs. the three-year extension sought by the board, and (b) discrepancies in its derivative portfolio accounting leading to pre-tax one-off adverse impact of ~Rs 21bn, coupled with upfronting of provisions related to its microfinance portfolio in Q4FY25 expected to result in weak earnings visibility. We downgrade the stock to HOLD from BUY and a TP of Rs 870 (earlier Rs 1,190), valuing it at 0.9x FY27 ABV.

**Key changes**

Target	Rating
▼	▼

Ticker/Price	IIB IN/Rs 901
Market cap	US\$ 8.0bn
Free float	84%
3M ADV	US\$ 60.1mn
52wk high/low	Rs 1,576/Rs 881
Promoter/FPI/DII	16%/25%/42%

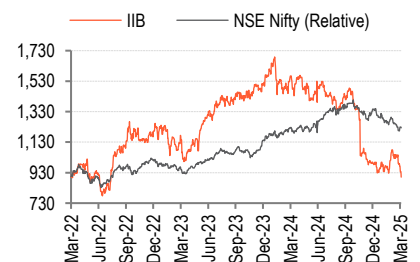
Source: NSE | Price as of 10 Mar 2025

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	2,06,159	1,99,410	2,40,009
NII growth (%)	17.2	(3.3)	20.4
Adj. net profit (Rs mn)	89,770	48,840	84,975
EPS (Rs)	115.5	62.7	109.1
Consensus EPS (Rs)	115.6	125.0	158.0
P/E (x)	7.8	14.4	8.3
P/BV (x)	1.1	1.1	1.0
ROA (%)	1.8	0.9	1.4
ROE (%)	15.2	7.6	12.3

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## Valuation methodology

Credit cost is likely to remain elevated in the near term due to stress in the Microfinance Institutions (MFI) segment. The one-off adverse impact of accounting discrepancy in its derivatives portfolio will also impact its Q4FY25 earnings. We expect IIB to deliver healthy return ratios (ROA/ROE of 0.9-1.4% and 8-12% in FY25-FY27E). We downgrade the stock to HOLD from BUY, with a TP of Rs 870 (from Rs 1,190), valuing it at 0.9x FY27 ABV.

**Fig 1 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Loan	38,44,941	42,67,884	48,22,709	38,62,106	43,71,903	50,05,829	(0.4)	(2.4)	(3.7)
Deposits	43,65,047	50,19,804	57,72,775	43,65,047	50,19,804	57,72,775	-	-	-
Assets	58,25,334	63,76,644	72,47,133	58,43,145	64,85,789	74,42,399	(0.3)	(1.7)	(2.6)
NII	1,99,410	2,40,009	2,63,952	2,20,548	2,47,016	2,66,200	(9.6)	(2.8)	(0.8)
PPOP	1,33,323	1,66,947	1,84,472	1,54,498	1,82,493	1,89,612	(13.7)	(8.5)	(2.7)
Provision	68,208	52,733	56,862	54,713	53,521	58,658	24.7	(1.5)	(3.1)
PAT	48,840	84,975	94,942	74,240	95,955	97,430	(34.2)	(11.4)	(2.6)

Source: BOBCAPS Research

**Fig 2 – Key valuation assumptions**

Components of Gordon growth model	(%)
Cost of equity (%)	14.0
Blended ROE (%)	12.9
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	6
Long term dividend payout ratio (%)	50
Justified P/BV Multiple (x)	0.9

Source: Company, BOBCAPS Research

**Fig 3 – Key operational assumptions**

(%)	FY24A	FY25E	FY26E	FY27E
Advances Growth	18.4	12.0	11.0	13.0
NII Growth	17.2	(3.3)	20.4	10.0
PPoP growth	10.0	(16.0)	25.2	10.5
PAT growth	20.6	(45.6)	74.0	11.7
NIM	4.1	3.6	3.9	3.9
GNPA	1.9	2.3	2.1	2.0
CAR	17.2	16.2	16.8	16.3

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- inability to sustain business growth, mainly in the vehicle finance book, and
- further deterioration in asset quality, which may lead to higher provisioning.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Net interest income</b>	<b>1,75,921</b>	<b>2,06,159</b>	<b>1,99,410</b>	<b>2,40,009</b>	<b>2,63,952</b>
NilI growth (%)	17.3	17.2	(3.3)	20.4	10.0
Non-interest income	81,728	93,958	93,164	1,09,818	1,29,426
Total income	2,57,649	3,00,117	2,92,574	3,49,827	3,93,378
Operating expenses	1,13,459	1,41,476	1,59,252	1,82,880	2,08,907
PPOP	1,44,190	1,58,641	1,33,323	1,66,947	1,84,472
PPOP growth (%)	10.6	10.0	(16.0)	25.2	10.5
Provisions	44,868	38,849	68,208	52,733	56,862
PBT	99,322	1,19,792	65,115	1,14,214	1,27,610
Tax	24,891	30,022	16,276	29,239	32,668
<b>Reported net profit</b>	<b>74,431</b>	<b>89,770</b>	<b>48,840</b>	<b>84,975</b>	<b>94,942</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>74,431</b>	<b>89,770</b>	<b>48,840</b>	<b>84,975</b>	<b>94,942</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity capital	7,759	7,783	7,790	7,790	7,790
Reserves & surplus	5,42,287	6,24,292	6,48,600	7,20,829	8,01,530
Net worth	5,50,046	6,32,076	6,56,390	7,28,619	8,09,320
Deposits	33,61,202	38,45,857	43,65,047	50,19,804	57,72,775
Borrowings	4,90,112	4,76,114	4,57,070	5,07,347	5,32,715
Other liab. & provisions	1,77,006	1,96,893	3,46,827	1,20,873	1,32,324
<b>Total liab. &amp; equities</b>	<b>45,78,366</b>	<b>51,50,940</b>	<b>58,25,334</b>	<b>63,76,644</b>	<b>72,47,133</b>
Cash & bank balance	5,67,768	3,69,074	4,69,498	5,06,782	5,82,799
Investments	8,30,757	10,64,865	12,14,840	12,41,912	14,37,666
Advances	28,99,237	34,32,983	38,44,941	42,67,884	48,22,709
Fixed & Other assets	2,80,605	2,84,018	2,96,055	3,60,065	4,03,959
<b>Total assets</b>	<b>45,78,366</b>	<b>51,50,940</b>	<b>58,25,334</b>	<b>63,76,644</b>	<b>72,47,133</b>
Deposit growth (%)	14.6	14.4	13.5	15.0	15.0
Advances growth (%)	21.3	18.4	12.0	11.0	13.0

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
EPS	96.0	115.5	62.7	109.1	121.9
Dividend per share	14.0	0.0	9.4	16.4	18.3
Book value per share	708.9	812.1	842.6	935.3	1,038.9

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
P/E	9.4	7.8	14.4	8.3	7.4
P/BV	1.3	1.1	1.1	1.0	0.9
Dividend yield (%)	1.6	0.0	1.0	1.8	2.0

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Net interest income	4.1	4.2	3.6	3.9	3.9
Non-interest income	1.9	1.9	1.7	1.8	1.9
Operating expenses	2.6	2.9	2.9	3.0	3.1
Pre-provisioning profit	3.4	3.3	2.4	2.7	2.7
Provisions	1.0	0.8	1.2	0.9	0.8
PBT	2.3	2.5	1.2	1.9	1.9
Tax	0.6	0.6	0.3	0.5	0.5
ROA	1.7	1.8	0.9	1.4	1.4
Leverage (x)	8.3	8.2	8.5	8.8	8.9
ROE	14.4	15.2	7.6	12.3	12.3

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Net interest income	17.3	17.2	(3.3)	20.4	10.0
Pre-provisioning profit	10.6	10.0	(16.0)	25.2	10.5
EPS	56.7	20.3	(45.7)	73.9	11.7
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	4.1	4.1	3.6	3.9	3.9
Fees / Avg. assets	0.3	0.3	0.4	0.4	0.4
Cost-Income	44.0	47.1	54.4	52.3	53.1
ROE	14.4	15.2	7.6	12.3	12.3
ROA	1.7	1.8	0.9	1.4	1.4
<b>Asset quality (%)</b>					
GNPA	2.0	1.9	2.3	2.1	2.0
NNPA	0.6	0.6	0.7	0.6	0.6
Slippage ratio	2.9	2.1	2.3	1.8	1.8
Credit cost	1.7	1.2	1.5	1.3	1.3
Provision coverage	70.0	70.0	70.3	71.4	71.4
<b>Ratios (%)</b>					
Credit-Deposit	86.3	89.3	88.1	85.0	83.5
Investment-Deposit	24.7	27.7	27.8	24.7	24.9
CAR	17.9	17.2	16.2	16.8	16.3
Tier-1	16.4	15.8	14.9	15.4	15.0

Source: Company, BOBCAPS Research

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**BUY** – Expected return >+15%

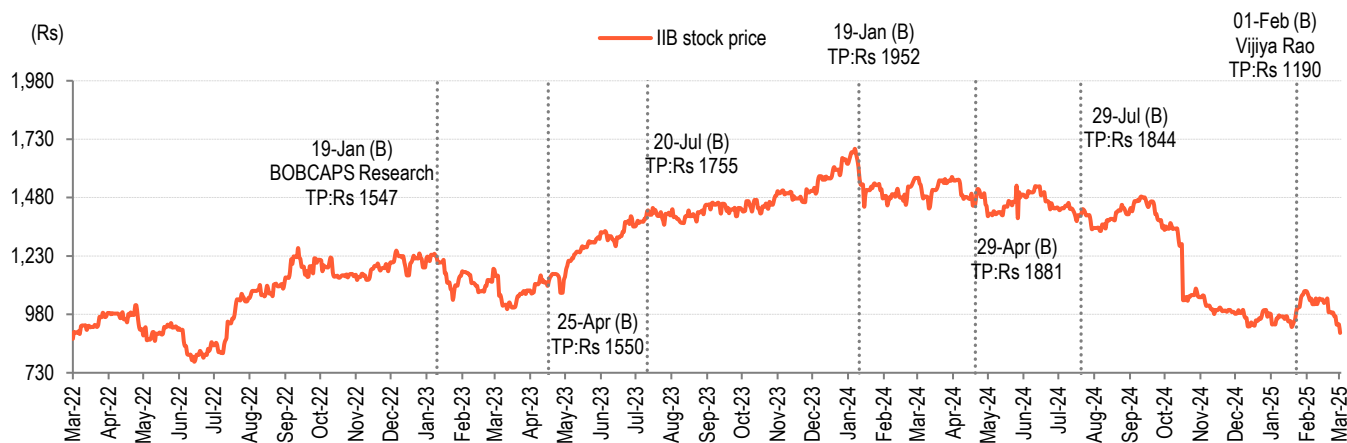
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): INDUSIND BANK (IIB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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