

## Bottom falls out; a lot left unanswered

11 March 2025

IndusInd Bank (IIB IN) has highlighted deficiencies in derivatives accounting and estimated an impact of ~2.4% of 9MFY25 net worth of ~INR 16bn post tax and ~INR 21bn pre-tax. Given the impact assessment, this leads to uncertainty in context of lower-than-expected tenure extension of MD & CEO Sumant Kathpalia and the exit of CFO Gobind Jain earlier. While the timing of this event is strange, coming on the heels of the lower tenure extension, there is a lot left unanswered: 1) Why was this not highlighted earlier, 2) How is such a lapse possible despite concurrent audits, 3) Why did the auditors not share any qualifications, 4) Are there any additional challenges, and 5) How did this issue go undetected for more than five years? This poses a series of questions on lapses in terms of processes and sanctity of book value. Beside the one-year extension of MD & CEO and key management positions, there are likely to be key transitions in the next couple of years, adding to more uncertainty. We expect further stock correction, but the question remains what comes next? We believe this event will shake investor confidence on franchise value. While valuation look low, book value sanctity is under question. We are yet to cut earnings estimates, given a pending external report, but earnings downgrade is imminent. We downgrade to **Sell** from Accumulate with a lower TP of INR 830 from INR 1,020.

**The question is only one or one of many?** IIB has highlighted issues in derivatives accounting. Interestingly, this accumulated over some time and amassed to INR 21bn (pre-tax). This benefitted NII and Other income, and thus reversal (which needs to pass through P&L) would hurt profitability. IIB has appointed an external agency to look into deficiencies and assess the impact. The question is whether the worst is over or is there is still more in store. Given the recent events, we are finding it difficult to make an assessment, and, thus, the bank is staring at significant risk of an earnings downgrade.

**What happened?** The bank internally hedged forex borrowers by entering internal derivative contracts with its trading desk. The trading desk then hedged this exposure externally in the market. External trade was marked to the market, meaning its value fluctuated with market rates, negatively affecting P&L. The internal trade was accounted for using swap cost accounting or swap valuation, affecting asset book instead of P&L. External trades moved with the market, but internal ones followed swap valuation, which might not reflect market movements. This mismatch could temporarily bolster reported NII while suppressing actual trading losses. But external hedge was MTM, and this created mismatch in income recognition. Over time, if internal trade diverged significantly from external market movements, the real impact surfaced when the trade was unwound or matured.

**Downgrade to Sell with a lower TP of INR 830:** The past year has been challenging for IIB. The outcomes have been less than desired and marred by event risks. This was reflected in price movement with more than 30% correction in the past six months. We have yet to prune our earnings estimates, but this event does create challenges around potential downside revision. Given the uncertainty, we downgrade IIB to **Sell** from Accumulate with a lower TP of INR 830 from INR 1,020 based on 0.8x (from 1.0x) FY27E P/BV.

### Key financials

YE March (INR bn)	FY23	FY24	FY25E	FY26E	FY27E
PPoP (INR bn)	143.5	157.4	151.2	173.9	199.8
YoY (%)	11.7	9.7	(4.0)	15.1	14.9
NP (INR bn)	73.9	89.5	63.9	94.2	108.8
YoY (%)	60.3	21.1	(28.6)	47.3	15.5
EPS (INR)	95.2	115.0	82.1	121.0	139.8
YoY (%)	60.0	20.7	(28.6)	47.3	15.5
P/PPoP (x)	4.9	4.4	4.6	4.0	3.5
RoAE (%)	14.5	15.4	9.9	13.2	13.6
RoAA (%)	1.8	2.0	1.3	1.7	1.7
P/E (x)	9.5	7.8	11.0	7.4	6.4
P/ABV (x)	1.3	1.2	1.1	1.1	1.1

Note: Pricing as on 10 March 2025; Source: Company, Elara Securities Estimate

Rating: **Sell**

Target Price: **INR 830**

Downside: **8%**

CMP: **INR 901**

As on 10 March 2025

### Key data

Bloomberg	IIB IN
Reuters Code	INBK.NS
Shares outstanding (mn)	779
Market cap (INR bn/USD mn)	702/8,036
Enterprise Value (INR bn/USD mn)	0/0
Avg daily volume 3M (INR mn/USD mn)	5,833/67
52 week high/low	1,576/881
Free float (%)	85

Note: as on 10 March 2025; Source: Bloomberg

### Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	15.1	15.1	15.1	15.1
% Pledged	45.5	45.5	45.5	50.9
FII	45.8	36.3	32.2	23.7
DII	26.9	28.3	33.1	40.2
Others	12.2	20.3	19.6	21.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(8.9)	(9.9)	0.6
IndusInd Bank	(8.5)	(37.3)	(42.4)
NSE Mid-cap	(18.3)	(17.8)	(0.7)
NSE Small-cap	(22.7)	(20.7)	(1.3)

Source: Bloomberg

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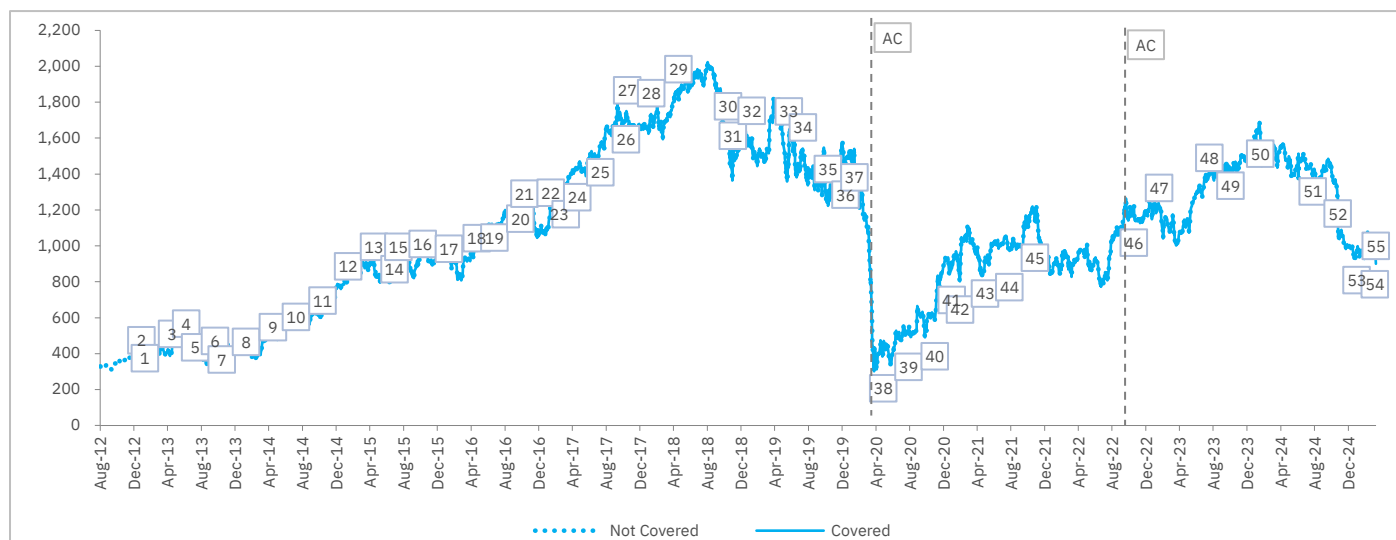


## Financials (YE March)

Income statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Net interest income</b>	<b>175,520</b>	<b>206,159</b>	<b>213,785</b>	<b>242,548</b>	<b>275,171</b>
YoY growth (%)	17.3	17.5	3.7	13.5	13.5
Fee income	74,396	79,390	86,245	97,255	110,190
Trading profits	(195)	6,989	5,000	5,500	5,500
Non-interest income	82,065	93,879	96,870	108,661	121,891
Net operating revenue	257,585	300,038	310,655	351,208	397,062
YoY growth (%)	15.0	16.5	3.5	13.1	13.1
Operating expenses	114,120	142,635	159,473	177,271	197,277
YoY growth (%)	19.4	25.0	11.8	11.2	11.3
<b>Pre-provisioning operating profit</b>	<b>143,465</b>	<b>157,403</b>	<b>151,182</b>	<b>173,937</b>	<b>199,785</b>
YoY growth (%)	11.7	9.7	(4.0)	15.1	14.9
Provisions for bad debts	38,856	37,987	65,737	48,049	54,400
Other provisions	3,013	-	-	-	-
Profit before tax	98,596	119,415	85,445	125,888	145,385
Tax	24,699	29,918	21,507	31,686	36,593
<b>Profit after tax</b>	<b>73,897</b>	<b>89,498</b>	<b>63,939</b>	<b>94,202</b>	<b>108,792</b>
YoY growth (%)	60.3	21.1	(28.6)	47.3	15.5
Balance sheet (INR mn)	FY23E	FY24E	FY25E	FY26E	FY27E
Customer loans	2,899,237	3,432,983	3,793,446	4,267,627	4,865,094
YoY growth (%)	21.3	18.4	10.5	12.5	14.0
Investments	831,162	1,065,267	1,164,520	1,281,883	1,459,390
Cash & bank balances	565,111	368,016	374,606	419,963	478,965
Fixed assets	16,910	11,237	11,850	12,000	11,688
Other assets	262,604	261,108	229,727	232,565	265,335
<b>Total Assets</b>	<b>4,575,024</b>	<b>5,138,611</b>	<b>5,574,149</b>	<b>6,214,038</b>	<b>7,080,471</b>
Net worth	543,200	617,231	671,219	753,662	850,694
Deposits	3,364,381	3,847,929	4,240,418	4,791,672	5,462,506
YoY growth (%)	14.6	14.4	10.2	13.0	14.0
Borrowings	490,112	476,114	459,183	442,257	508,917
Other liabilities	177,330	197,337	203,329	226,446	258,354
<b>Total Liabilities</b>	<b>4,575,024</b>	<b>5,138,611</b>	<b>5,574,149</b>	<b>6,214,038</b>	<b>7,080,471</b>
Key operating ratios	FY23	FY24E	FY25E	FY26E	FY27E
Lending yield	11.3	12.0	11.6	11.5	11.3
Cost of Funds	5.0	5.9	6.0	5.8	5.7
Spreads	4.0	4.1	3.7	3.8	3.8
Net interest margin	4.3	4.5	4.2	4.3	4.3
CASA Ratio	40.1	37.9	34.5	34.7	35.0
Non-interest income / operating income	31.9	31.3	31.2	30.9	30.7
Cost/income	44.3	47.5	51.3	50.5	49.7
Operating expense/avg assets	2.7	2.9	3.0	3.0	3.0
Credit costs / avg loans	1.5	1.2	1.8	1.2	1.2
Effective tax rate	25.1	25.1	25.2	25.2	25.2
Loan deposit ratio	86.2	89.2	89.5	89.1	89.1
ROA decomposition (%)	FY23	FY24E	FY25E	FY26E	FY27E
NII /Assets	4.3	4.5	4.2	4.3	4.3
Fees/Assets	2.0	1.9	1.8	1.8	1.8
Invst profits/Assets	(0.0)	0.2	0.1	0.1	0.1
Net revenues/Assets	6.4	6.5	6.1	6.2	6.2
Opex /Assets	(2.8)	(3.1)	(3.1)	(3.1)	(3.1)
Provisions/Assets	(1.1)	(0.8)	(1.3)	(0.9)	(0.9)
Taxes/Assets	(0.6)	(0.7)	(0.4)	(0.6)	(0.6)
Total costs/Assets	(4.5)	(4.6)	(4.8)	(4.5)	(4.5)
ROA	1.8	2.0	1.3	1.7	1.7
Equity/Assets	12.6	12.7	12.6	12.6	12.6
ROAE -RHS	14.5	15.4	9.9	13.2	13.6
Key financial ratios (%)	FY23	FY24E	FY25E	FY26E	FY27E
Tier I Capital adequacy	16.8	15.8	15.8	15.9	15.8
Gross NPL	2.0	1.9	2.3	2.4	2.6
Net NPL	0.6	0.6	0.7	0.7	0.8
Slippage ratio	2.8	2.1	2.3	2.1	2.2
Assets / equity (x)	8.4	8.3	8.3	8.2	8.3
Per share data					
EPS (INR)	95	115	82	121	140
YoY growth (%)	60	21	-29	47	15
BVPS (INR)	700	793	862	968	1,093
adj- BVPS (INR)	685	775	839	940	1,059
Dividend yield (%)	1.00	1.68	1.30	1.54	1.54
Valuation (x)					
P/BV	1.29	1.14	1.04	0.93	0.82
P/ABV	1.32	1.16	1.07	0.96	0.85
P/E	9.46	7.83	10.96	7.44	6.44

Note: Pricing as on 10 March 2025; Source: Company, Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price	
47	18-Jan-2023	Buy	INR 1,545	INR 1,223
48	18-Jul-2023	Buy	INR 1,646	INR 1,390
49	3-Oct-2023	Buy	INR 1,738	INR 1,435
50	18-Jan-2024	Buy	INR 1,890	INR 1,613
51	26-Jul-2024	Buy	INR 1,770	INR 1,404
52	24-Oct-2024	Buy	INR 1,600	INR 1,280
53	31-Dec-2024	Buy	INR 1,320	INR 960
54	7-Mar-2025	Accumulate	INR 1,050	INR 937
55	10-Mar-2025	Sell	INR 830	INR 901

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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