

RESEARCH**INDUSIND BANK | TARGET: Rs 694 | -10% | SELL**

Accounting irregularities erode credibility and profitability

SUMMARY**INDUSIND BANK**

- Weak internal controls and delayed disclosures dent investors' confidence
- Asset quality adversely affected due to incorrect classification of MFI slippages; profitability impacted on accounting irregularities
- Downgrade to SELL from HOLD with revised TP of Rs 694 (earlier Rs 870), valued at 0.7x FY27E ABV

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SELL

TP: Rs 694 | ▼ 10%

INDUSIND BANK

| Banking

| 22 May 2025

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Weak internal controls and delayed disclosures dent investors' confidence: A series of negative events such as derivative accounting discrepancy (Rs 19.6bn), inflated interest income (Rs 6.7bn) and fee income (Rs 1.7bn) on the MFI portfolio during 9MFY25, and unsubstantiated balances in other assets (Rs 6.0bn), raises concerns regarding IIB's internal controls and risk management practices. In addition, there were a few other instances of incorrect accounting that impacted profitability. Joint auditors have filed for suspected offense involving fraud. Moreover, this negatively impacts investors' confidence on the reported financials.

Asset quality adversely affected on incorrect classification of MFI slippages: GNPA ratio was up 3.13% in Q4FY25 vs 2.25% in Q3FY25, led by higher slippages in the MFI book (GNPA at 13.18% vs 7.05% in Q3FY25). The higher MFI slippages were due to the bank reporting misclassification of microfinance loans as standard assets of Rs 18.9bn, which were recognised as slippage during Q4FY25 and had an adverse PnL impact of Rs 19.7bn. Credit cost was at 2.7% vs 2.0% in Q3FY25, despite utilisation of contingency buffer to the tune of Rs 13.3bn. Management opined that MFI slippages are expected to remain elevated in FY26, given the elections in few states, but are likely to improve from 2HFY26.

Profitability impacted due to accounting irregularities: IIB reported a negative PPoP of Rs 4.9bn and net loss of Rs 23.3bn. This was largely due to several accounting lapses and discrepancies. As a result, NIMs contracted 168bps QoQ to 2.25% in Q4FY25, mainly on rectification of inflated interest income and interest reversals. Management stated that NIMs, ex-one-offs, would have been 3.47% with PPoP of Rs 30.6bn. Loan growth was marginal at 0.5% YoY, given the bank's conservative liquidity management in Q4FY25.

Downgrade to SELL; weak earnings visibility and management uncertainty: IIB witnessed senior management exits in Apr'25. We expect muted loan growth at 8.7% CAGR in FY25-27E with lower return metrics vs previous performance. Downgrade to SELL from HOLD with TP of Rs 694 (earlier Rs 870), valuing it at 0.7x.

Key changes

Target	Rating
▼	▼

Ticker/Price	IIB IN/Rs 770
Market cap	US\$ 7.0bn
Free float	84%
3M ADV	US\$ 146.6mn
52wk high/low	Rs 1,550/Rs 606
Promoter/FPI/DII	16%/30%/36%

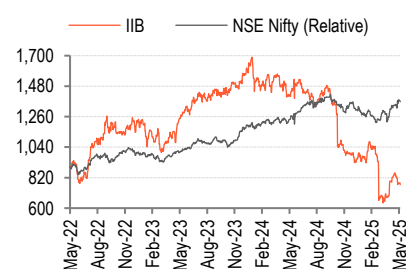
Source: NSE | Price as of 21 May 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	1,90,313	2,18,729	2,47,692
NII growth (%)	(7.7)	14.9	13.2
Adj. net profit (Rs mn)	25,754	69,813	78,231
EPS (Rs)	33.1	89.6	100.4
Consensus EPS (Rs)	66.9	96.7	118.1
P/E (x)	23.3	8.6	7.7
P/BV (x)	0.9	0.8	0.8
ROA (%)	0.5	1.2	1.3
ROE (%)	4.0	10.3	10.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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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

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