IndusInd Bank | REDUCE

An uphill task ahead

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IIB reported net loss of INR 4.4bn due to – i) ~9%/6% YoY decline in loans/deposits to drive consolidation in balance sheet, resulting in subdued margins/operating performance, and ii) higher than expected credit cost of ~3.2% (vs 1.9% of JMFe) due to pain in MFI portfolio. NIM (reported) contraction of 14bps QoQ (vs. 10bps JMFe) and subdued treasury income impacted overall operating profitability (-21% lower than JMFe). Furthermore, elevated stress in MFI portfolio drove credit cost higher at 3.2%, up 113bps QoQ. The management highlighted its continued focus on improving risk management/underwriting process, and formalizing leadership structure by on-boarding new leaders to enhance strategic depth. We believe these changes will keep pressure on growth/RoE in the near to medium term before it starts reflecting positively. We have cut our earnings by ~18%-70% for FY26-27E to factor consolidation in balance sheet. We expect loan CAGR of ~5% during FY25-28E and average RoA/RoE ~0.7/6% over FY26E-28E. Hence, we downgrade stock to Reduce (as per our rating system) with a revised TP of INR 775, valuing bank at 0.9x FY27E BVPS.

- **Assets quality challenges led to force clean-up of book:** MFI portfolio continue to remain under pressure as gross slippages (annualized.) inched up to ~15% (vs. 11 in 1QFY26), though bank wrote off INR 15.8bn MFI loans. Moreover, slippages in other retail/vehicle finance continue to remain elevated at 3.6%/2.9% (vs. 3.7%/3.1% in 1QFY26). Even, within segments, NPAs in CV/Small CV/2WL/Tractor segment has inched-up. Thus, overall credit cost accelerated to 3.2% from 2.0% in 1QFY26.
- **Muted business momentum:** Banks loans/deposits declined 9%/6% YoY as management decided to improve granularity in deposits and quality of individual assets-portfolio. This balance sheet consolidation led to weaker operating performance. CASA declined 19%/4% YoY/QoQ. Reported NIM declined 14bps QoQ, as ~40bps drop in loan yields outweighed the 26bps reduction in cost of funds. Moreover, muted fee and treausry income impacted overall operating profitability (-21% lower than JMFe), down 24% QoQ.
- **Roadmap formed:** The bank's management has outlined a strategic roadmap focused on: (a) strengthening risk management, collections, and underwriting with a dedicated team for 90+ DPD accounts; (b) enhancing leadership depth through key appointments, including a new CFO and business heads; and (c) addressing operational gaps and targeting new profit pools to build a more granular franchise.
- **Valuation and view:** The bank is undergoing a transition phase marked by balance sheet consolidation, leadership restructuring, and a strategic pivot toward risk containment. While these steps are structurally positive for long-term sustainability, near-term operating metrics remain under pressure. Given the ongoing stress in asset quality and earnings volatility, we expect average ROE/ROE to remain subdued at 0.7%/6% over FY26-28E. Hence, we **downgrade stock to Reduce (as per our new rating system) with a revised target price of INR 775, valuing bank at 0.9x FY27E BVPS. Risk to our call: Sustained improvement in asset quality and operating metrics would be key triggers for re-rating.**

Recommendation and Price Target	
Current Reco.	REDUCE
Previous Reco.	HOLD
Current Price Target (12M)	775
Upside/(Downside)	1.5%
Previous Price Target	800
Change	-3.1%

Key Data – IIB IN	
Current Market Price	INR764
Market cap (bn)	INR595.1/US$6.8
Free Float	77%
Shares in issue (mn)	778.3
Diluted share (mn)	
3-mon avg daily val (mn)	INR3,405.0/US$38.7
52-week range	1,360/605
Sensex/Nifty	84,246/25,816
INR/US$	87.9

Price Performance			
%	1M	6M	12M
Absolute	2.6	-3.9	-43.3
Relative*	0.6	-10.4	-45.3

** To the BSE Sensex*

Financial Summary					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	90,428	36,619	12,557	42,876	64,679
Net Profit (YoY) (%)	9.6%	-59.5%	-65.7%	241.4%	50.9%
Assets (YoY) (%)	12.5%	7.6%	-0.8%	7.2%	9.5%
ROA (%)	1.8%	0.5%	0.2%	0.8%	1.0%
ROE (%)	15.3%	4.2%	1.9%	6.4%	9.0%
EPS	115.0	33.9	16.1	55.0	83.0
EPS (YoY) (%)	20.7%	-70.5%	-52.5%	241.4%	50.9%
PE (x)	**6.6**	**22.5**	**47.4**	**13.9**	**9.2**
BV	802	822	837	886	961
BV (YoY) (%)	14.6%	2.6%	1.8%	5.9%	8.4%
P/BV (x)	**0.95**	**0.93**	**0.91**	**0.86**	**0.79**

Source: Company data, JM Financial. Note: Valuations as of 20/Oct/2025

Key quarterly trends

Exhibit 1. IIB : 2Q26 – Results summary

IndusInd Bank 2QFY26 results- Snapshot							
(INR bn)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)	JMF est	A/E (%)
Interest Income	126.9	122.6	116.1	-8%	-5%	119.8	-3%
Interest Expenses	73.4	76.2	72.0	-2%	-6%	74.3	-3%
Net Interest Income	**53.5**	**46.4**	**44.1**	**-18%**	**-5%**	**45.4**	**-3%**
Non-interest Income	21.8	21.6	16.5	-25%	-24%	22.1	-26%
Total Income	**75.3**	**68.0**	**60.6**	**-20%**	**-11%**	**67.6**	**-10%**
Opex	39.4	41.4	40.3	2%	-3%	42.0	-4%
Operating Profit	**35.9**	**26.5**	**20.3**	**-44%**	**-24%**	**25.6**	**-21%**
Provisions	18.2	17.4	26.2	44%	51%	15.9	65%
PBT	**17.7**	**9.1**	**(5.9)**	**-134%**	**-165%**	**9.7**	**-161%**
Tax	4.5	2.3	(1.5)	-134%	-165%	2.4	-161%
PAT	**13.3**	**6.8**	**(4.4)**	**-134%**	**-165%**	**7.2**	**-161%**
Reported profit	**13.3**	**6.8**	**(4.4)**	**-134%**	**-165%**	**7.2**	**-161%**
Loans (Rs bn)	3,572	3,337	3,259	-9%	-2%	3,320	-2%
Deposit (Rs bn)	4,127	3,971	3,898	-6%	-2%	3,991	-2%
Yield (on IEA) (%)	9.9%	9.6%	9.3%	**(65) bps**	**(35) bps**	9.4%	**(15) bps**
CoF (%)	6.5%	6.7%	6.5%	**(1) bps**	**(23) bps**	6.6%	**(9) bps**
NIM calc (%)	**4.2%**	**3.6%**	**3.5%**	**(66) bps**	**(12) bps**	**3.5%**	**(2) bps**
GNPA (%)	2.1%	3.6%	3.6%	150 bps	(4) bps	4.0%	-0.43%
NNPA (%)	0.6%	1.1%	1.0%	40 bps	(7) bps	1.2%	-0.20%
Credit cost (%)	**2.1%**	**2.0%**	**3.2%**	**112 bps**	**113 bps**	**1.9%**	**127 bps**
Gross Slippages (%)	2.1%	3.0%	3.1%	100 bps	7 bps	0.0%	**308 bps**
Net Slippages (%)	1.4%	2.4%	2.5%	115 bps	8 bps	2.3%	**23 bps**
ROA (%)	1.0%	0.5%	-0.3%	(132) bps	(83) bps	0.5%	**(87) bps**
ROE (%)	8.1%	4.2%	-2.7%	(1,083) bps	(694) bps	4.4%	**(713) bps**

Source: Company, JM Financial

Exhibit 2. IIB – Loan book mix (INR bn)

Loan book mix (INR bn)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
Comm. Vehicle Loans	342	360	359	5%	-0.3%
Equipment Financing	118	130	129	9%	-0.6%
Tractor	82	76	75	-8%	-1.3%
PV (earlier Utility Vehicle Loans)	274	301	305	11%	1.2%
Two wheeler loans	49	53	50	1%	-5.4%
Small CV (Three Wheeler Loans)	41	44	44	8%	1.3%
Vehicle loans	**906**	**964**	**962**	**6%**	**-0.2%**
Credit card	109	111	107	-2%	-2.8%
Loans against property	114	125	126	10%	0.8%
Others (Home, Personal, Merchant)	279	350	357	28%	2.0%
PL	87	107	108	24%	1.2%
Merchant loans	58	73	73	25%	-0.6%
BL, AHL & Others	133	120	121	-9%	0.7%
Home loans	-	50	55	NA	11.0%
Business Banking	175	180	182	4%	1.2%
Microfinance	327	284	213	-35%	-24.9%
Total Retail	**1,910**	**2,013**	**1,948**	**2%**	**-3.2%**
Large corporates	907	727	716	-21%	-1.5%
Mid-size corporates	567	459	459	-19%	0.0%
Small corporates	188	138	136	-28%	-1.6%
Corporate & Commercial Banking	**1,661**	**1,324**	**1,311**	**-21%**	**-1.0%**
Total Advances	**3,572**	**3,337**	**3,259**	**-9%**	**-2.3%**

Source: Company, JM Financial

Exhibit 3. IIB – Loan Book Mix (%)

Loan book mix (%)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
Comm. Vehicle Loans	10%	11%	11%	1%	0%
Equipment Financing	3%	4%	4%	1%	0%
Tractor	2%	2%	2%	0%	0%
PV (earlier Utility Vehicle Loans)	8%	9%	9%	2%	0%
Two wheeler loans	1%	2%	2%	0%	0%
Small CV (Three Wheeler Loans)	1%	1%	1%	0%	0%
Vehicle loans	**25%**	**29%**	**30%**	**4%**	**1%**
Credit card	3%	3%	3%	0%	0%
Loans against property	3%	4%	4%	1%	0%
Others (Home, Personal, Merchant)	8%	10%	11%	3%	0%
PL	2%	3%	3%	1%	0%
Merchant loans	2%	2%	2%	1%	0%
BL, AHL & Others	4%	4%	4%	0%	0%
Home loans	0%	1%	2%	2%	0%
Business Banking	5%	5%	6%	1%	0%
Microfinance	9%	9%	7%	-3%	-2%
Total Retail	**53%**	**60%**	**60%**	**6%**	**-1%**
Large corporates	25%	22%	22%	-3%	0%
Mid size corporates	16%	14%	14%	-2%	0%
Small corporates	5%	4%	4%	-1%	0%
Corporate & Commercial Banking	**47%**	**40%**	**40%**	**-6%**	**1%**
Total Advances	**100%**	**100%**	**100%**	**0%**	**0%**

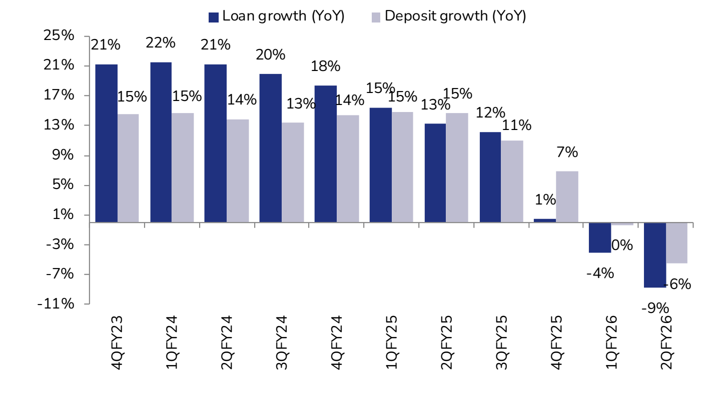
Source: Company, JM Financial

Exhibit 4. IIB deposit composition

Deposit Composition (INR bn)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
Current	526	339	319	-39.33%	-5.83%
Saving	953	911	879	-7.85%	-3.58%
CASA	1,479	1,250	1,198	-19.04%	-4.19%
Time	2,647	2,721	2,700	2.00%	-0.78%
Total Deposits	**4,127**	**3,971**	**3,898**	**-5.55%**	**-1.85%**
Current	12.7%	8.5%	8.2%	-4.6%	-0.3%
Saving	23.1%	22.9%	22.5%	-0.6%	-0.4%
CASA	35.8%	31.5%	30.7%	-5.1%	-0.7%
Time	64.2%	68.5%	69.3%	5.1%	0.7%
Total	**100%**	**100%**	**100%**		

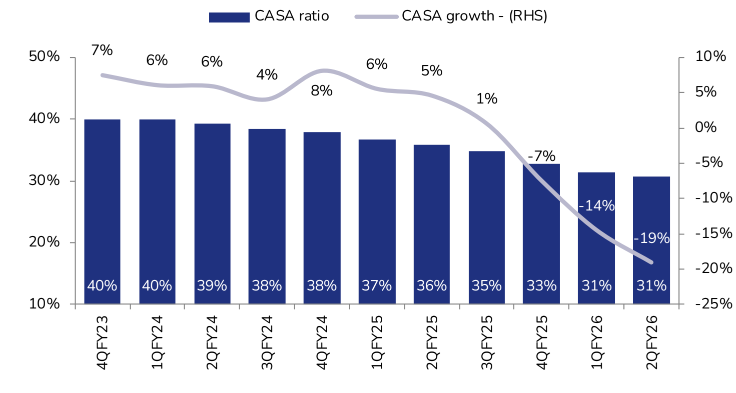
Source: Company, JM Financial

Exhibit 5. Loans/deposits declined as bank focuses on granularity in deposits and quality of individual assets-portfolio



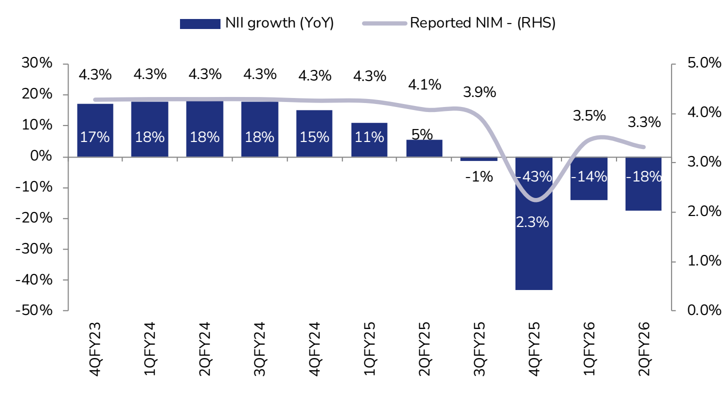
Source: Company, JM Financial

Exhibit 6. CASA declined 19%/4% YoY/QoQ mainly due to significant fall in CA



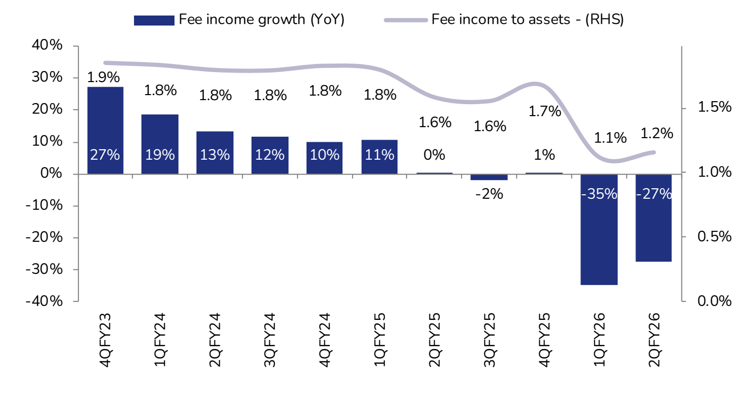
Source: Company, JM Financial

Exhibit 7. Reported NIM declined 14bps QoQ, as 40bps drop in loan yields outweighed the 26bps reduction in cost of funds



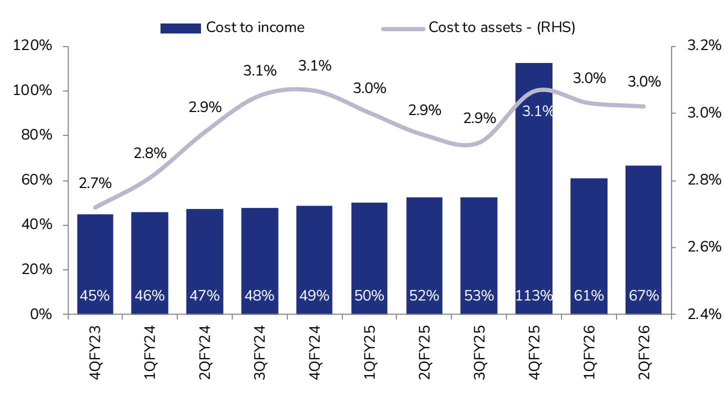
Source: Company, JM Financial

Exhibit 8. Fee income growth was flat at 1% QoQ



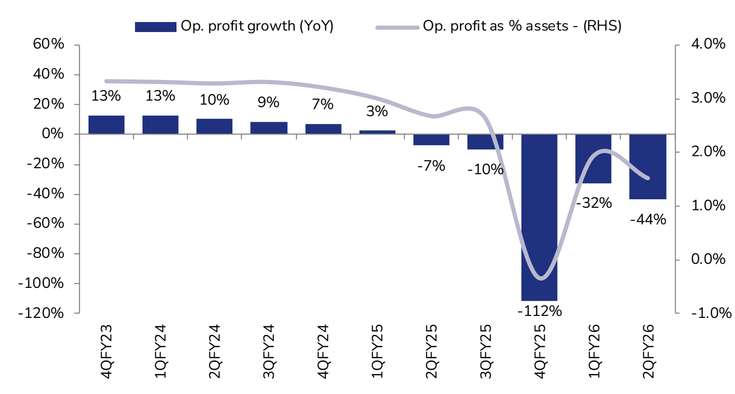
Source: Company, JM Financial

Exhibit 9. Cost ratios are expected to stay elevated during the transition phase



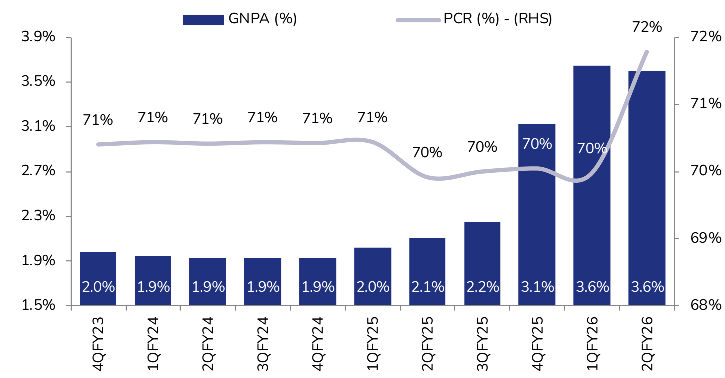
Source: Company, JM Financial

Exhibit 10. Balance sheet consolidation led to weaker operating performance



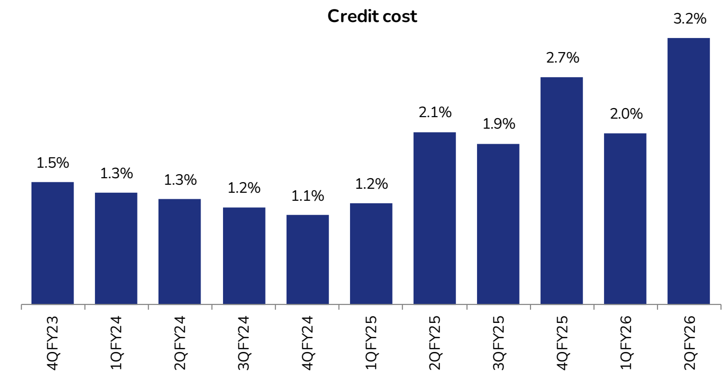
Source: Company, JM Financial

Exhibit 11. GNPA was stable, whereas PCR inched up owing to higher provisions during the quarter



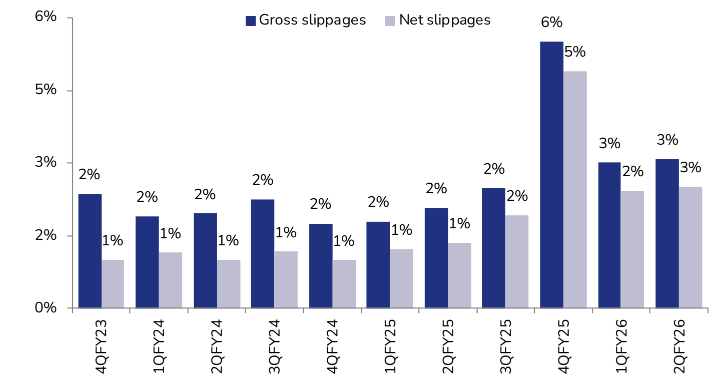
Source: Company, JM Financial

Exhibit 12. Elevated stress in MFI portfolio drove overall credit cost higher at 3.2%



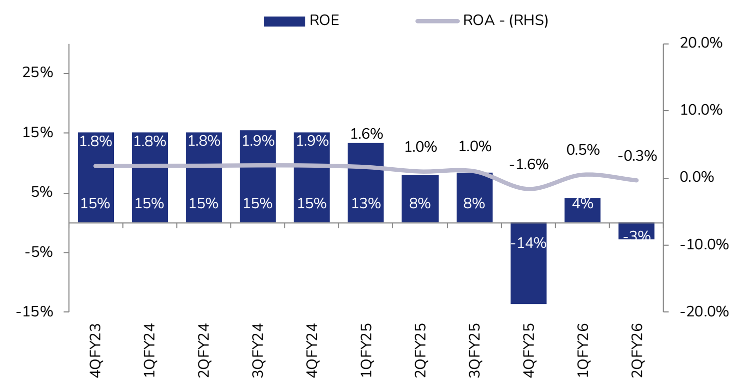
Source: Company, JM Financial

Exhibit 13. MFI portfolio continue to remain under pressure as overall slippages increase



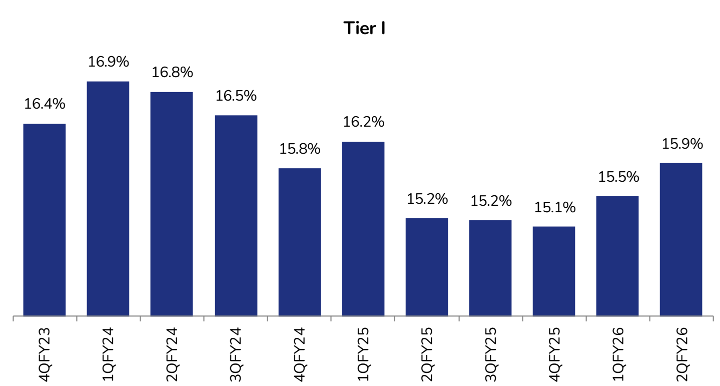
Source: Company, JM Financial

Exhibit 14. Return metrics subdued due to overall weak performance



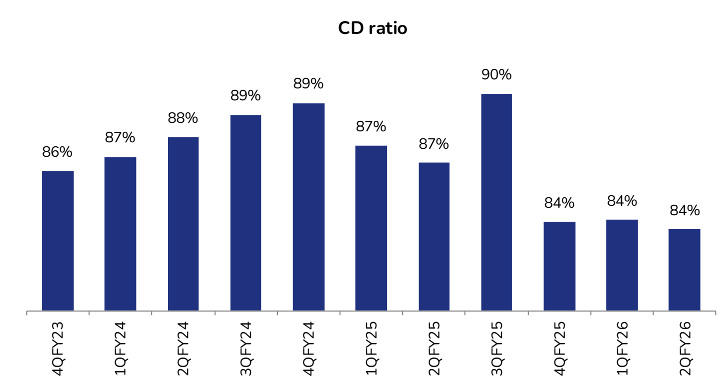
Source: Company, JM Financial

Exhibit 15. Capital position stable



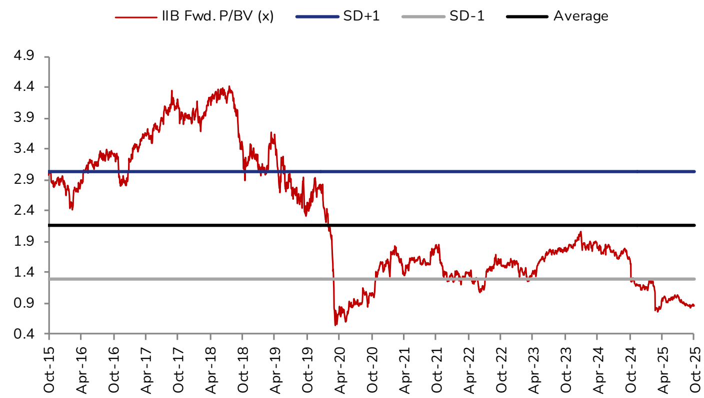
Source: Company, JM Financial

Exhibit 16. CD ratio fairly stable on a sequential basis



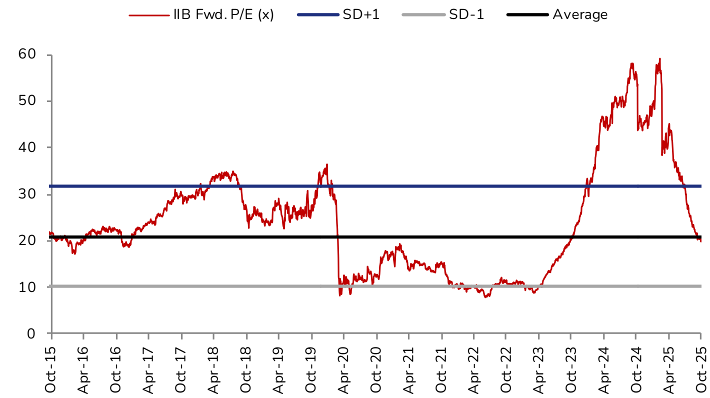
Source: Company, JM Financial

Exhibit 17. Stock currently trades at 0.9x one year fwd BVPS amid challenges and balance sheet consolidation



Source: Company, Bloomberg, JM Financial, Note: Price as of 17th Oct 2025

Exhibit 18. …similarly, it's getting reflected in one-year fwd P/E



Source: Company, Bloomberg, JM Financial, Note: Price as of 17th Oct 2025

Exhibit 19. Change in estimates

	New estimates			Old estimates			Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Recommendation	**REDUCE**			**HOLD**					
Target price (Rs)	**775**			**800**			**-3%**		
Assumptions									
YoY loan growth	-3.7%	9.2%	11.5%	4.0%	11.8%	13.0%	-770 bps	-252 bps	-149 bps
Net interest margins (calculated)	3.44%	3.57%	3.67%	3.61%	3.65%	3.69%	-17 bps	-8 bps	-2 bps
Fee income to asset	1.22%	1.42%	1.51%	1.44%	1.50%	1.53%	-22 bps	-8 bps	-2 bps
Cost to assets	3.0%	3.0%	2.9%	3.0%	3.0%	2.9%	-5 bps	-1 bps	-2 bps
Credit cost	2.16%	1.4%	1.08%	1.71%	1.54%	1.30%	44 bps	-15 bps	-23 bps
Outputs (Rs bn)									
NII	**177**	**188**	**209**	**190**	**206**	**232**	**-7%**	**-9%**	**-10%**
Other income	78	89	99	97	104	110	-19%	-15%	-10%
Total income	**255**	**277**	**308**	**287**	**311**	**342**	**-11%**	**-11%**	**-10%**
Opex	165	171	181	172	183	198	-4%	-6%	-9%
Operating profit	**90**	**106**	**128**	**115**	**128**	**144**	**-22%**	**-18%**	**-11%**
Provisions	73	48	41	60	59	56	21%	-17%	-26%
Net Profit	**13**	**43**	**65**	**41**	**52**	**66**	**-70%**	**-18%**	**-2%**
EPS (Rs)	16	55	83	53	67	85	-70%	-18%	-2%
ROA (%)	**0.2%**	**0.8%**	**1.0%**	**0.7%**	**0.9%**	**1.0%**	**-50 bps**	**-11 bps**	**7 bps**
ROE (%)	1.9%	6.4%	9.0%	6.2%	7.4%	8.8%	-430 bps	-106 bps	23 bps
BVPS	**837**	**886**	**961**	**870**	**930**	**1,007**	**-4%**	**-5%**	**-5%**

Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss (INR bn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income	206	190	177	188	209
Profit on Investments	4	5	9	6	4
Exchange Income	15	-13	7	8	9
Fee & Other Income	75	84	62	75	86
Non-Interest Income	**94**	**77**	**78**	**89**	**99**
Total Income	**300**	**267**	**255**	**277**	**308**
Operating Expenses	143	161	165	171	181
Pre-provisioning Profits	**157**	**106**	**90**	**106**	**128**
Loan-Loss Provisions	30	68	71	45	38
Provisions on Investments	0	0	1	1	1
Others Provisions	7	-7	1	3	3
Total Provisions	**37**	**60**	**73**	**48**	**41**
PBT	**120**	**46**	**17**	**57**	**86**
Tax	30	10	4	14	22
PAT (Pre-Extraordinaries)	**90**	**37**	**13**	**43**	**65**
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	**90**	**37**	**13**	**43**	**65**
Dividend paid	13	0	1	4	6
Retained Profits	**78**	**37**	**11**	**39**	**58**

Source: Company, JM Financial

Key Ratios

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)					
Deposits	14.4%	6.8%	-1.4%	8.0%	10.0%
Advances	18.4%	0.5%	-3.7%	9.2%	11.5%
Total Assets	12.5%	7.6%	-0.8%	7.2%	9.5%
NII	17.2%	-7.7%	-7.2%	6.5%	11.3%
Non-interest Income	15.0%	-18.1%	1.8%	13.4%	11.4%
Operating Expenses	25.0%	12.7%	2.7%	3.8%	5.5%
Operating Profits	9.7%	-32.4%	-15.6%	17.6%	20.9%
Core Operating profit	0.0%	0.0%	0.0%	0.0%	0.0%
Provisions	2.2%	62.2%	21.6%	-33.8%	-14.5%
Reported PAT	9.6%	-59.5%	-65.7%	241.4%	50.9%
Yields / Margins (%)					
Interest Spread	3.84%	3.08%	2.85%	3.03%	3.14%
NIM	4.50%	3.79%	3.44%	3.57%	3.67%
Profitability (%)					
Non-IR to Income	31.3%	28.8%	30.7%	32.0%	32.1%
Cost to Income	47.5%	60.2%	64.7%	61.8%	58.6%
ROA	1.84%	0.49%	0.23%	0.75%	1.05%
ROE	15.3%	4.2%	1.9%	6.4%	9.0%
Assets Quality (%)					
Slippages	3.40%	5.17%	4.40%	3.20%	2.50%
Gross NPA	1.92%	3.13%	3.89%	3.76%	3.17%
Net NPAs	0.57%	0.95%	1.20%	1.16%	0.97%
Provision Coverage	70.6%	70.2%	70.0%	70.0%	70.0%
Specific LLP	1.20%	2.04%	2.16%	1.39%	1.08%
Net NPAs / Networth	3.2%	5.1%	6.1%	6.1%	5.3%
Capital Adequacy (%)					
Tier I	15.82%	15.10%	15.49%	15.32%	15.17%
CAR	17.23%	16.24%	16.69%	16.48%	16.28%

Source: Company, JM Financial

Balance Sheet (INR bn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	8	8	8	8	8
Reserves & Surplus	616	633	644	683	741
Deposits	3,848	4,111	4,053	4,376	4,814
Borrowings	476	537	595	597	656
Other Liabilities	197	247	193	225	231
Total Liabilities	**5,146**	**5,537**	**5,492**	**5,889**	**6,451**
Investments	1,065	1,145	1,348	1,343	1,368
Net Advances	3,433	3,450	3,323	3,630	4,048
Cash & Equivalents	368	592	418	472	547
Fixed Assets	19	21	24	26	29
Other Assets	261	330	379	417	459
Total Assets	**5,146**	**5,537**	**5,492**	**5,889**	**6,451**

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	4.24%	3.56%	3.20%	3.31%	3.39%
Other Income / Assets	1.93%	1.44%	1.42%	1.56%	1.60%
Total Income / Assets	6.17%	5.00%	4.62%	4.87%	5.00%
Cost / Assets	2.93%	3.01%	2.99%	3.01%	2.93%
PBP / Assets	3.24%	1.99%	1.63%	1.86%	2.07%
Provisions / Assets	0.78%	1.32%	1.33%	0.85%	0.67%
PBT / Assets	2.46%	0.68%	0.30%	1.01%	1.40%
Tax rate	25.1%	26.9%	25.2%	25.2%	25.2%
ROA	1.84%	0.49%	0.23%	0.75%	1.05%
RoRWAs	2.48%	0.66%	0.30%	0.99%	1.38%
Leverage	8.2	8.6	8.4	8.5	8.6
ROE	15.3%	4.2%	1.9%	6.4%	9.0%

Source: Company, JM Financial

Valuations

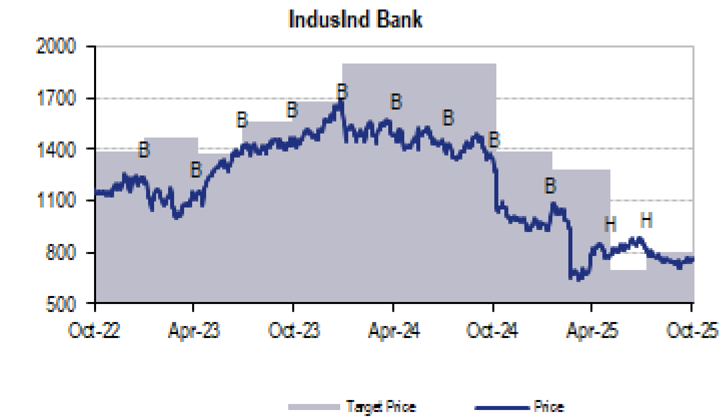
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	0.8	0.8	0.8	0.8	0.8
EPS (INR)	115.0	33.9	16.1	55.0	83.0
EPS (YoY) (%)	20.7%	-70.5%	-52.5%	241.4%	50.9%
PER (x)	6.6	22.5	47.4	13.9	9.2
BV (INR)	802	822	837	886	961
BV (YoY) (%)	14.6%	2.6%	1.8%	5.9%	8.4%
ABV (INR)	802	822	837	886	961
ABV (YoY) (%)	14.6%	2.6%	1.8%	5.9%	8.4%
P/BV (x)	0.95	0.93	0.91	0.86	0.79
P/ABV (x)	0.95	0.93	0.91	0.86	0.79
DPS (INR)	16.5	0.0	1.6	5.5	8.3
Div. yield (%)	2.2%	0.0%	0.2%	0.7%	1.1%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
30-Mar-21	Buy	1,075	
30-Apr-21	Buy	1,100	2.3
27-Jul-21	Buy	1,100	0.0
27-Oct-21	Buy	1,325	20.5
29-Jan-22	Buy	1,325	0.0
29-Apr-22	Buy	1,325	0.0
20-Jul-22	Buy	1,270	-4.2
28-Jul-22	Buy	1,270	0.0
19-Oct-22	Buy	1,390	9.4
18-Jan-23	Buy	1,470	5.8
24-Apr-23	Buy	1,375	-6.5
18-Jul-23	Buy	1,560	13.5
19-Oct-23	Buy	1,675	7.4
19-Jan-24	Buy	1,900	13.4
25-Apr-24	Buy	1,900	0.0
29-Jul-24	Buy	1,900	0.0
24-Oct-24	Buy	1,380	-27.4
2-Feb-25	Buy	1,280	-7.2
22-May-25	Hold	700	-45.3
29-Jul-25	Hold	800	14.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

New Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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