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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

19 October 2025

IndusInd Bank

Microfinance stress weighs in on profitability

RESULT UPDATE

Sector: Banks **Rating:** HOLD
CMP: Rs 751 **Target Price:** Rs 800

Stock Info

Nifty	25,710
Bloomberg Code	IIB IN
Equity shares	779mn
52-wk High/Low	Rs 1358/ 606
Face value	Rs 10
M-Cap	Rs 586bn/ USD 6.7bn
3-m Avg volume (NSE)	Rs 3.37bn

Financial Snapshot (Rs bn)

Y/E March	FY26E	FY27E	FY28E
NII	181	188	212
PPP	89	96	113
PAT	11	36	46
EPS (Rs)	14	46	59
EPS Gr. (%)	-59	232	28
BV/Sh (Rs)	842	888	946
Adj. BV/Sh (Rs)	799	846	909

Ratios

NIM (%)	3.4	3.6	3.7
C/I ratio (%)	64.7	63.3	61.0
RoA (%)	0.2	0.7	0.8
RoE (%)	1.7	5.3	6.4

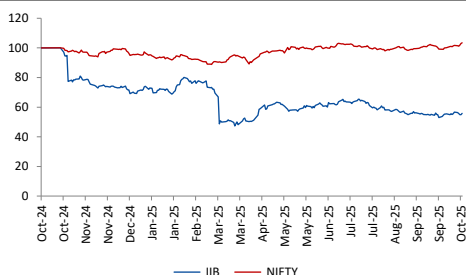
Valuations

P/E (x)	54.3	16.4	12.8
P/BV (x)	0.9	0.8	0.8
P/ABV (x)	0.9	0.9	0.8

Shareholding pattern (%)

	Mar'25	Jun'25	Sep'25
Promoter	15.8	15.8	15.8
-Pledged	-	-	-
FII	29.5	33.7	34.4
DII	36.3	33.2	31.6
Others	17.9	16.9	17.9

Stock Performance



IndusInd Bank has reported a net loss during the quarter of Rs.4.4Bn due to (i) Accelerated provisioning due to persistent elevated MFI stress (ii) Contraction in margins led by lower MFI disbursements. The Net Interest Margin was at 3.32%, down -14bps QoQ and -76bps YoY. The Yield on advances declined by -30bps QoQ and by -99 bps YoY to 11.3%. This was partially offset by a decline of -21bps QoQ in Cost of Deposits to 6.2%. The management expects the margins to improve once the disbursements in Micro Finance segment pick up. The annualised gross slippage ratio increased by 4 bps QoQ and 99bps YoY to 3% in 2Q. The credit costs stood at 3.2%, up by 113bps QoQ and 112 bps YoY. The bank made additional accelerated provision in the quarter amounting to Rs. 8.46bn owing to the persistent elevated stress in MFI segment due to which the provisions increased to Rs. 26.2bn, up 50.9% QoQ and 44.1% YoY. The management stated that it expects the pace of accelerated provisions to decline going forward. We would continue to be watchful of the bank's performance going forward and wait for signs of stability. We continue to maintain our HOLD rating for IndusInd bank with a revised price target of Rs. 800 (Rs. 840 earlier). We are valuing the bank at 0.9x on its FY27E book value per share of Rs. 888.

Elevated slippages in MFI leading to higher provisions: The annualised gross slippage ratio increased by 4 bps QoQ and 99bps YoY to 3% in 2Q. Gross slippages by key segments; vehicle finance at Rs. 6.9bn, Corporate Rs.0.6bn, other retail Rs.6.97bn and microfinance Rs. 10.83bn. The bank continued to experience elevated stress levels in the MFI segment. The bank has written off Rs. 15.79bn of microfinance loans and increased coverage on the residual MFI NPA to strengthen the balance sheet. The increase of Rs. 8.96 bn in the provisions is solely on account of elevated MFI slippages. The bank has undertaken additional steps to improve the quality of the MFI portfolio in the subsequent cycles including conducting income assessment of every borrower, Voter ID checks and further field verifications. It has also carved out a dedicated collections team focused exclusively on 90 plus TPD customers and started availing the credit guarantee scheme CGFMU cover for disbursements done in FY26. The bank has switched to an in-house collection model rather than selling to ARCs which has resulted in improved recoveries and thus net slippages have improved more than gross slippages. The credit costs stood at 3.2%, up by 113bps QoQ and 112 bps YoY. The GNPA ratio improved marginally by 4bps QoQ to 3.60% while the NNPA declined by -8bps to 1.04%. The management aims to reduce the NNPA to 0.5%-0.6% levels in the medium term. Even though the management expects the pace of additional provisioning to decline going forward, higher provisions may continue in the near future.

Net Interest Margins under pressure: The Net Interest Margin was at 3.32%, down -14bps QoQ and -76bps YoY. The Yield on advances declined by -30bps QoQ and by -99 bps YoY to 11.3%. This was partially offset by a decline of -26bps QoQ in Cost of Funds to 5.43% with a decline of -21bps QoQ in Cost of Deposits to 6.2%. The relatively muted disbursements in MF segment have adversely impacted the Yields on Advances. The Cost of Deposits declined on the back of the rate cuts taken by the bank. The management expects the margins to improve once the disbursements in Micro Finance segment picks up combined with a shift in asset mix. The CD ratio has been maintained at 82% in 2Q.

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Advances and deposits continue witnessing de-growth: The net advances de-grew by -2.3% QoQ and by -8.8% YoY to Rs. 3,259bn. The vehicle finance business saw a dip in disbursements between GST cut announcements till the implementation as customers deferred their purchases. This resulted in disbursements for the 2Q declining by -4% YoY and no sequential loan growth. Further, the bank remained cautious in disbursements in the MFI segment while the disbursements in corporate and retail segments were steady. The management further believes that Vehicle finance, along with Micro finance business is a key pillar for the bank. It will be further strengthened by investing in distribution and leveraging digital capabilities. The deposits de-grew -1.9% QoQ and by -5.5% YoY to Rs. 3,898bn. The bank has exited non LCR accretive CD and wholesale deposits which resulted in the de-growth. Out of the total sequential decline, ~1.2% was contributed solely by shedding off CD's. Going forward, the bank will aim to improve the retailisation of the deposits with focus on CASA mobilization.

Lacklustre Pre-Provision Operating Profits (PPOP): The PPOP declined by -23.5% QoQ and -43.5% YoY to Rs. 20.3bn. The Net Interest Income declined by -5% QoQ and by -17.5% YoY to Rs. 44.1bn. Further, other income de-grew to Rs. 16.5bn, down 23.6% QoQ (24.5% YoY) owing to some strong treasury and recovery gains in 1Q. Going forward, the management expects the fee/assets income to improve to ~1.5% levels in the medium term. The operating expenses declined to Rs. 40.3bn, down 2.8% QoQ on the back of focused cost optimization across various functions.

Updates on top management: The bank is in the middle of forming a new senior management team. The bank has hired a new CFO, new head of internal audit, new head of business transformation, and new Head of marketing. A new head of HR is expected to join soon. Further the bank is also actively closing the gaps in the leadership in business side of corporates and retail.

Valuation and recommendation: We would continue to be watchful of the bank's performance going forward and wait for signs of stability. We continue to maintain our **HOLD** rating for IndusInd bank with a revised price target of Rs. 800 (Rs. 840 earlier). We are valuing the bank at 0.9x on its FY27E book value per share of Rs. 888.

Key takeaways from 2QFY26 earnings call:

1. Asset Quality

- The bank has switched to an in-house collection model rather than selling to ARCs which has resulted in improved recoveries and thus net slippages have improved more than gross slippages.
- The MFI slippages remained elevated during the quarter and the bank undertook accelerated provision on a prudent basis to rationalize its outstanding book.
- The bank has written off Rs.15.79bn of microfinance loans and increased coverage on the residual MFI NPA to strengthen the balance sheet. The increase of Rs. 8.96 bn in the provisions is solely on account of elevated MFI slippages.
- The bank has undertaken additional steps to improve the quality of the MFI portfolio in the subsequent cycles including conducting income assessment of every borrower, Voter ID checks and further field verifications.
- The bank has carved out a dedicated collections team to focus exclusively on the 90 plus TPD customers and started availing the credit guarantee scheme CGFMU coverage for disbursements done in FY26. This covers ~22% of the standard book with the coverage expected to continue in the coming quarters.
- The 31 days to 90 days past due book was 3.2% in September '25 versus 2.2% in June '25
- The overall asset quality in the corporate loans segment was healthy with negligible net slippages in 2Q.
- The Bank does not foresee any stress in its gems and Jewelry business with no accounts in SMA-1 and SMA-2 categories.
- Elevated slippages in the micro finance segment kept overall gross and net slippages broadly unchanged at 0.76 and 0.63% respectively.
- Gross slippages by key segments where vehicle finance was Rs. 6.9bn, Corporate Rs.0.6bn, other retail Rs.6.97bn and microfinance Rs.10.83bn.
- The SMAs1 and SMA2 book was at 26 bps versus 33 bps YoY. Net security receipts have declined to 17 bps versus 31 bps YoY and restructured advances have also declined to 8 bps versus 29 bps in the previous year.
- The management will aim to reduce the NPA to 0.5%-0.6% levels in the medium term from current 1.04%, indicating higher provisions to continue going forward.

2. Margin Aspects

- The drop in NII as well as NIMs is attributable largely to the reduction in MFI.
- NIM was supported to an extent by a 26 basis reduction in cost of funds on the back of deposit rate cut which was offset by the impact of lower asset yield due to corporate loan repricing and adverse loan mix.
- The disbursements on the MF segment have been relatively muted which have adversely affected the Advances yields. The management expects the margins to improve once the disbursements in MF segment picks up along with a shift in asset mix.
- Credit to Deposits ratio has been maintained at 82% for 2Q

3. Advances

- The vehicle finance business saw a dip in disbursements between GST cut announcements till the implementation as customers deferred their purchases. This resulted in disbursements for the for 2Q declining by -4% YoY and no sequential loan growth.
- However, post the GST rate cuts, the same has seen good traction. The management expects the traction to continue as a combination of festive season demand and benefit of GST rate cut.
- The bank remained cautious in disbursements in the MFI segment while the disbursements in corporate and retail segments were steady.
- The Merchant loan book stood at Rs.72.6bn up 5% YoY. The CGTSME guarantee covers 63% of this book. The share of the non-MFI book now stands at 25% v/s 15% YoY. On an overall basis, the management believes that the tighter norms will adversely impact disbursements in the near term but they should, along with the credit guarantee help reduce the extreme swings in credit costs through the cycle.
- The bank has resumed corporate lending which were tactically slowed down earlier for balance sheet management. Within the corporate banking, the focus remains on granular mid and small corporates with better risk adjusted returns and being selective in the large corporate space.
- The management further believes that Vehicle finance, along with Micro finance business is a key pillar for the bank. It will be further strengthened by investing in distribution and leveraging digital capabilities.
- The management also views the MSME space where the bank's presence is not significant, to be an important growth driver along with traditional retail asset businesses, home loans, affordable housing, gold loans, agri financing, etc.
- Going forward, the management will prioritise on stabilizing and streamlining the various processes and controls before vying for growth

4. Deposits

- The bank has exited non LCR accretive CD and wholesale deposits as a result of which deposits de-grew by 2% QoQ. Out of the -2% decline, ~1.2% was contributed solely by shedding of CD's.
- The bank will aim to improve the retailisation of the deposits with focus on CASA mobilization

5. Other Income

- The overall non interest income declined sequentially since 1Q had some strong treasury and recovery gains.
- The management expects to improve the fee/ asset at ~1.5% over the medium term

6. Opex and Leadership Hiring

- The operating expenses declined 5% QoQ driven by disciplined cost optimization across functions.

- The bank has hired a new CFO, new head of internal audit, new head of business transformation, new Head of marketing have been hired. A new head of HR is expected to join soon.
- The bank is in the process of closing gaps in leadership in the business side of corporates and retail.

7. Other Highlights

- For Bharat Financials (BFIL) the qualified auditor report is mainly on account of past period irregularities, but there is no new financial impact. Further, the qualifications also pertained to certain subsidiaries which were immaterial.
- The management is targeting achieving a 1% ROA in the medium term

Exhibit 1: Quarterly performance

P&L (INR, mn)	Q2 FY26	Q1 FY26	% qoq	Q2 FY25	% yoy
Interest Earned	1,16,086	1,22,639	(5.3)	1,26,863	(8.5)
Interest Expended	(71,993)	(76,241)	(5.6)	(73,390)	(1.9)
Net Interest Income	44,094	46,398	(5.0)	53,473	(17.5)
Fee income	15,430	15,320	0.7	21,250	(27.4)
Non-fee Income	1,050	6,242	(83.2)	589	78.2
Other Income	16,480	21,562	(23.6)	21,839	(24.5)
Total Net Income	60,573	67,961	(10.9)	75,312	(19.6)
Employee Expense	(12,671)	(12,958)	(2.2)	(10,927)	16.0
Other operating expense	(27,622)	(28,481)	(3.0)	(28,467)	(3.0)
Operating expenses	(40,293)	(41,439)	(2.8)	(39,394)	2.3
PPOP	20,280	26,522	(23.5)	35,918	(43.5)
Core PPOP	19,230	20,279	(5.2)	35,329	(45.6)
Provisions	(26,224)	(17,378)	50.9	(18,201)	44.1
PBT	(5,944)	9,144	(165.0)	17,717	(133.5)
Tax	1,496	(2,301)	(165.0)	(4,462)	(133.5)
PAT	(4,448)	6,843	(165.0)	13,255	(133.6)
Key Ratios (%)	Q2 FY26	Q1 FY26	chg qoq	Q2 FY25	chg yoy
Net interest margin	3.32	3.46	-14bps	4.08	-76bps
Yield on advances	11.32	11.62	-30bps	12.31	-99bps
Cost of deposits	6.23	6.44	-21bps	6.55	-32bps
CASA ratio	31.0	31.0	0bps	36.0	-500bps
Loan to Deposit ratio	83.6	84.0	-42bps	86.5	-294bps
Non-interest income/Total income	27.2	31.7	-452bps	29.0	-179bps
Fee Income to Avg. Total Assets	1.2	1.1	4bps	1.6	-43bps
Cost to Income ratio	66.5	61.0	554bps	52.3	1421bps
Opex to Avg. Total Assets	3.0	3.0	-1bps	2.9	9bps
Annualised Slippage Ratio	3.0	3.0	4bps	2.0	99bps
Credit Cost	3.2	2.0	113bps	2.1	112bps
Gross NPA	3.6	3.6	-4bps	2.1	149bps
Provision Coverage	72.0	70.0	200bps	70.0	200bps
Net NPA	1.0	1.1	-8bps	0.6	40bps
RoE	(0.3)	0.5	-84bps	1.0	-132bps
RoA	(2.7)	3.7	-639bps	8.1	-1079bps
Capital adequacy ratio	17.1	16.6	47bps	16.5	59bps
Tier 1 capital ratio	15.9	15.5	40bps	15.2	67bps

Source: Company, Systematix Institutional Research

Exhibit 2: Advances and Deposits break-up

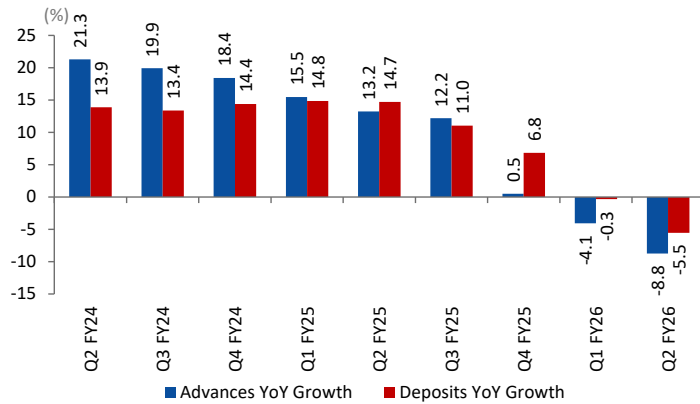
Particulars (Rs mn)	Q2 FY26	Q1 FY26	% qoq	Q2 FY25	% yoy
Loan book	32,58,810	33,36,940	(2.3)	35,71,590	(8.8)
Corporate & Comm. Banking	13,11,210	13,24,210	(1.0)	16,61,180	(21.1)
Large Corporates	7,16,270	7,26,990	(1.5)	9,07,060	(21.0)
Mid size Corporates	4,59,200	4,59,320	(0.0)	5,66,500	(18.9)
Small Corporates	1,35,740	1,37,900	(1.6)	1,87,620	(27.7)
Consumer Finance	19,47,600	20,12,730	(3.2)	19,10,410	1.9
Commercial vehicle loans	3,58,800	3,59,860	(0.3)	3,41,830	5.0
Small CV	44,240	43,660	1.3	40,910	8.1
2Wheeler loans	49,670	52,520	(5.4)	49,140	1.1
PV	3,04,900	3,01,260	1.2	2,74,380	11.1
Tractor	75,080	76,080	(1.3)	81,560	(7.9)
Equipment financing	1,29,390	1,30,190	(0.6)	1,18,370	9.3
Business Banking	1,81,950	1,79,730	1.2	1,74,990	4.0
Loan against property	1,25,810	1,24,810	0.8	1,14,010	10.3
Credit cards	1,07,470	1,10,590	(2.8)	1,09,320	(1.7)
Personal Loans	1,08,040	1,06,810	1.2	87,320	23.7
Merchant Advances	72,620	73,040	(0.6)	57,900	25.4
BL, AHL, Others	1,76,420	1,70,100	3.7	1,33,450	32.2
Microfinance	2,13,210	2,84,080	(24.9)	3,27,230	(34.8)
Deposits	38,97,874	39,71,440	(1.9)	41,26,792	(5.5)
Current	3,19,160	3,38,920	(5.8)	5,26,060	(39.3)
Saving	8,78,540	9,11,130	(3.6)	9,53,380	(7.8)
Term	27,00,174	27,21,390	(0.8)	26,47,352	2.0

Source: Company, Systematix Institutional Research

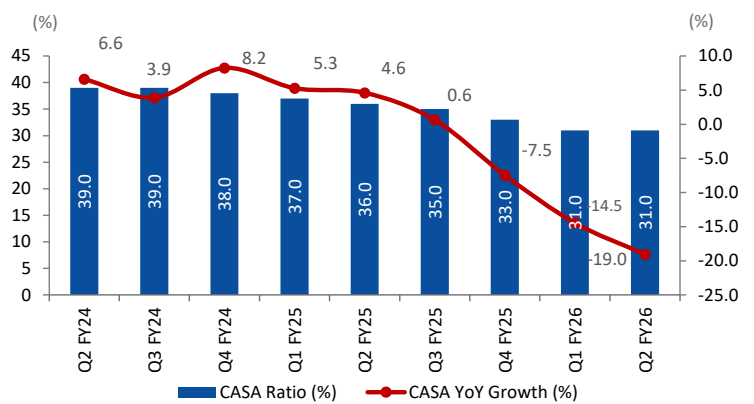
Exhibit 3: Actuals Vs Expectation

Q2FY26 (Rs. mn)	Actuals	Estimates	Variance
Net Interest Income	44,094	44,857	(1.7)
Pre-Prov. Operating Profit	20,280	22,581	(10.2)
Profit After Tax	-4,448	4,936	(190.1)

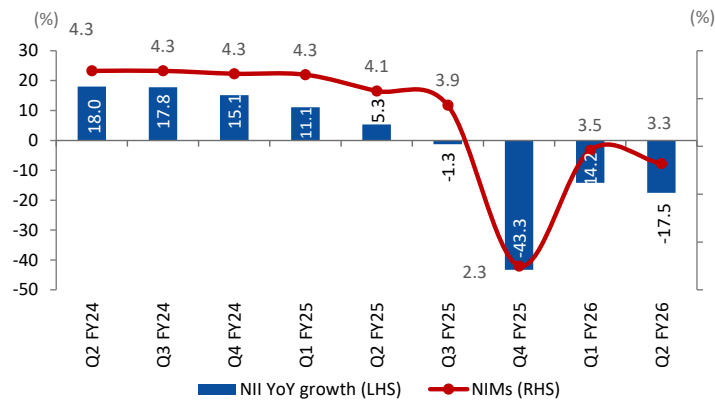
Source: Company, Systematix Institutional Research

Exhibit 4: Advances and Deposits YoY Growth (%)

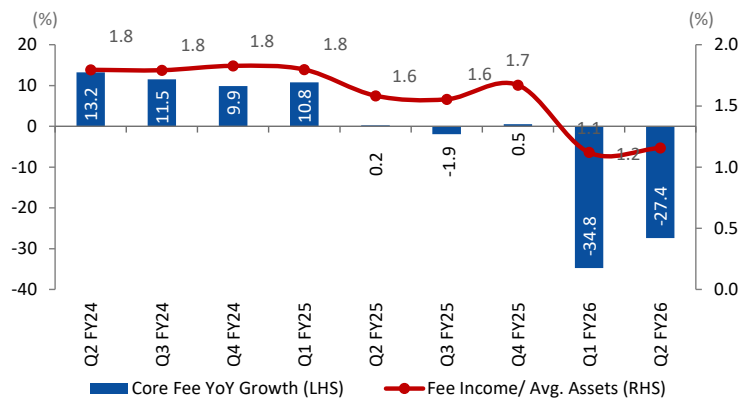
Source: Company, Systematix Institutional Research

Exhibit 5: CASA Ratio and CASA YoY Growth (%)

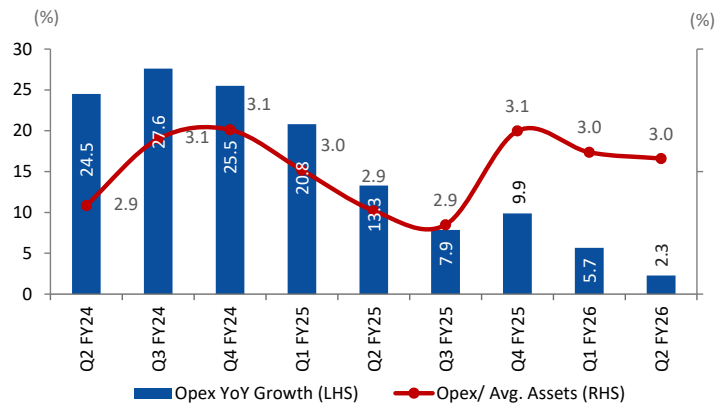
Source: Company, Systematix Institutional Research

Exhibit 6: NII YoY Growth and NIM (%)

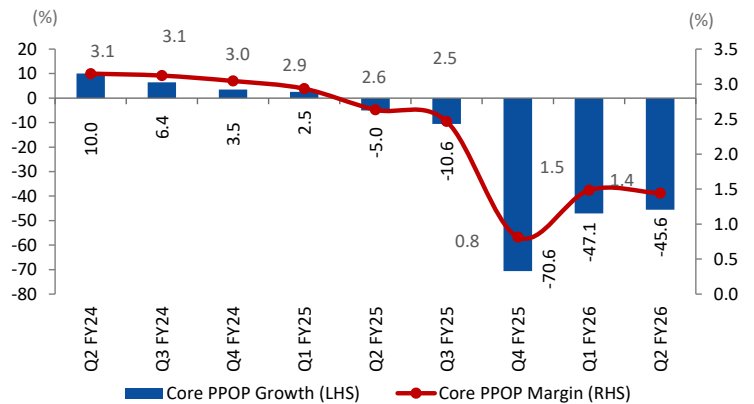
Source: Company, Systematix Institutional Research

Exhibit 7: Fee Income YoY Growth and as % of average assets (%)

Source: Company, Systematix Institutional Research

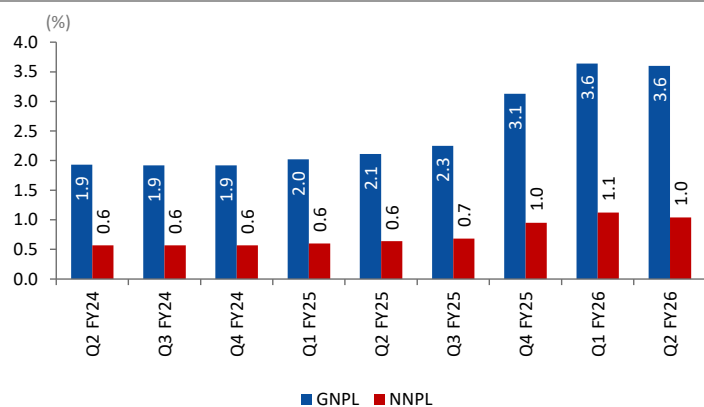
Exhibit 8: Opex YoY growth and as % of average assets (%)

Source: Company, Systematix Institutional Research

Exhibit 9: Core PPOP YoY Growth and Margin (%)

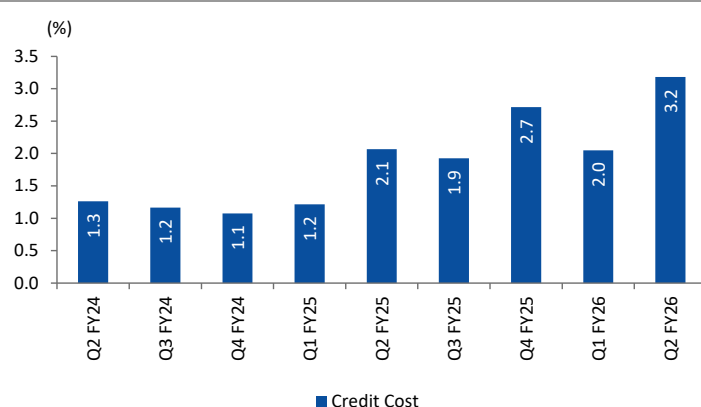
Source: Company, Systematix Institutional Research

Exhibit 10: GNPA and NNPA Ratio (%)



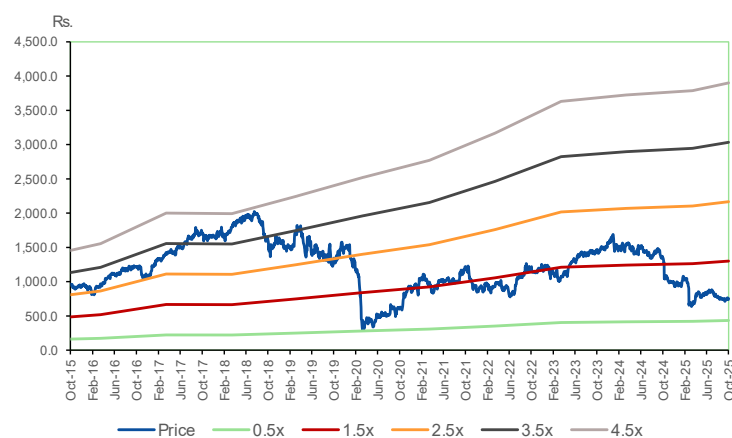
Source: Company, Systematix Institutional Research

Exhibit 11: Credit Cost (%)



Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward P/BV (x) trajectory



Source: Company, Systematix Institutional Research

Exhibit 13: 1-year forward P/BV (x) near long term average



Source: Company, Systematix Institutional Research

Exhibit 14: Revised vs earlier estimates

Particulars (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net Interest Income	1,81,228	1,88,483	2,11,627	2,04,540	2,29,561	2,61,581	(11.4)	(17.9)	(19.1)
Pre-Prov. Operating Profit	89,273	95,828	1,13,113	1,42,781	1,63,507	1,90,310	(37.5)	(41.4)	(40.6)
Profit after tax	10,771	35,731	45,825	68,508	81,682	97,131	(84.3)	(56.3)	(52.8)

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs bn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	457	487	468	467	506
Interest expense	(251)	(296)	(286)	(279)	(294)
Net interest income	206	190	181	188	212
Fee Income	87	89	62	62	67
Other Income	7	(12)	10	11	11
Total Non-interest income	94	77	72	73	78
Total income	300	267	253	261	290
Operating expenses	(143)	(161)	(164)	(166)	(177)
PPoP	157	106	89	96	113
Core PPOP	150	119	79	85	102
Provisions	(38)	(70)	(75)	(48)	(52)
Profit before tax	119	36	14	48	61
Taxes	(30)	(10)	(4)	(12)	(15)
Net profit	89	26	11	36	46

Source: Company, Systematix Institutional Research

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YE: Mar (%)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	9.4	9.1	8.7	8.7	8.8
Interest expense	(5.2)	(5.5)	(5.3)	(5.2)	(5.1)
Net interest income	4.2	3.6	3.4	3.5	3.7
Non-interest income	1.9	1.4	1.3	1.4	1.4
Total income	6.2	5.0	4.7	4.8	5.0
Operating expenses	(2.9)	(3.0)	(3.0)	(3.1)	(3.1)
PPoP	3.2	2.0	1.7	1.8	2.0
Provisions	(0.8)	(1.3)	(1.4)	(0.9)	(0.9)
Profit before tax	2.5	0.7	0.3	0.9	1.1
Taxes	(0.6)	(0.2)	(0.1)	(0.2)	(0.3)
Net profit	1.8	0.5	0.2	0.7	0.8

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	8	8	8	8	8
Reserves & surplus	620	637	648	684	729
Net worth	628	645	656	691	737
Deposits	3,848	4,111	3,906	4,145	4,467
Borrowings	476	537	356	311	322
Other liabilities	197	247	334	382	434
Total liabilities	5,149	5,540	5,251	5,529	5,961
Total cash & equ.	368	592	402	365	390
Investments	1,065	1,145	1,144	1,205	1,269
Advances	3,433	3,450	3,347	3,581	3,903
Fixed assets	22	24	26	29	31
Other assets	261	330	333	350	367
Total assets	5,149	5,540	5,251	5,529	5,961

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY24	FY25	FY26E	FY27E	FY28E
Growth Trend (%)					
Net interest income	17.2	(7.7)	(4.8)	4.0	12.3
Total Income	16.5	(11.0)	(5.3)	3.3	11.0
PPoP	9.7	(32.4)	(16.1)	7.3	18.0
Net profit	21.1	(70.5)	(59.2)	231.7	28.3
Advances	18.4	0.5	(3.0)	7.0	9.0
Deposits	14.4	6.8	(5.0)	6.1	7.8
Return Ratios (%)					
Return on Average Equity	15.2	4.2	1.7	5.3	6.4
Return on Average Assets	1.8	0.5	0.2	0.7	0.8
Per share data (Rs)					
EPS	115	34	14	46	59
BVPS	807	828	842	888	946
ABVPS	782	786	799	846	909
Valuation multiples (x)					
P/E	6.5	22.1	54.3	16.4	12.8
P/BV	0.9	0.9	0.9	0.8	0.8
P/ABV	1.0	1.0	0.9	0.9	0.8
Spread Analysis (%)					
Net interest margin	4.3	3.6	3.4	3.6	3.7
Yield on loans	12.0	11.5	11.1	11.0	11.1
Cost of deposits	6.0	6.6	6.4	6.4	6.4
Loan-deposit ratio	89.2	83.9	85.7	86.4	87.4
Opex control (%)					
Cost/Income ratio	47.5	60.2	64.7	63.3	61.0
Cost to average assets	2.9	3.0	3.0	3.1	3.1
Asset quality (%)					
Gross NPL ratio	1.9	3.1	3.4	3.1	2.7
Gross Slippage ratio	1.9	3.1	2.8	2.3	2.0
Total Credit Cost	1.2	2.0	2.2	1.4	1.4
Net NPA ratio	0.6	1.0	1.0	0.9	0.7

Source: Company, Systematix Institutional Research

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