IndusInd Bank (INDBA)

ICICI Direct

CMP: ₹ 768 | Target: ₹ 825 (7%) | Target Period: 12 months | HOLD

October 20, 2025

Result Update

ICICI Securities – Retail Equity Research

Weak quarter, recovery expected to be gradual…

About the stock: IndusInd Bank is a Hinduja group promoted newer age private sector bank and is the fifth largest private bank in India. The bank has full product suite with strong moat in vehicle and micro finance business.

- The bank has a strong presence with pan India branch network of 3,116 branches (3,054 ATMs) and a large customer base of ~4.2 crore

Q2FY26 performance: IndusInd Bank reported a weak Q2FY26, marked by slower MFI and vehicle disbursements and subdued business momentum. Advances fell 9% YoY (–2% QoQ) to ₹3.26 lakh crore, while deposits contracted 6% YoY (–2% QoQ) to ₹3.89 lakh crore amid continued shedding of high-cost deposits. NII declined 17.5% YoY (–5% QoQ) to ₹4,409 crore, with NIM slipping 14 bps QoQ to 3.32% on lower high-yield mix and corporate repricing. Provisions rose sharply by 49% QoQ to ₹2,631 crore due to accelerated MFI write-offs, leading to a net loss of ₹437 crore. GNPA/NNPA rose to 3.6%/1.04%, though PCR improved to 71.6% supported by aggressive provisioning.

Investment Rationale

- **Weak quarter; asset quality drag persists, recovery gradual**: Business momentum remained weak as advances declined 9% YoY (–2% QoQ) to ₹3.26 lakh crore, led by contraction in MFI loans (–25% QoQ) and moderation in vehicle finance disbursements (–9% QoQ). NIMs contracted 14 bps QoQ to 3.32%, reflecting lower high-yield mix and corporate loan repricing. Provisions surged 49.5% QoQ to ₹2,631 crore, driven by accelerated MFI write-offs of ₹2,507 crore, including ₹1,579 crore from BFIL, resulting in a net loss of ₹437 crore. GNPA/NNPA rose to 3.6%/1.04%, though PCR improved to 71.6% aided by higher provisioning. C/I ratio worsened to 66.22% (up 399 bps) sequentially. Management expects NIM and earnings recovery from Q3FY26, led by gradual pickup in MFI disbursements, better deposit pricing, and shift toward secured retail and MSME segments.

- **Leadership transition underway, strategic reset in focus**: The appointment of key senior executives across finance, audit, legal, and transformation marks a crucial phase of stabilization for IndusInd Bank, following a challenging operational quarter. While leadership clarity is improving with key roles filled and the upcoming onboarding of BFIL's new CEO, near-term execution remains critical. The management's focus on restoring operational discipline, strengthening risk controls, and recalibrating growth in the MFI and vehicle portfolios is expected to drive gradual normalization.

Rating and Target Price

- While leadership strengthening and portfolio recalibration are encouraging, near-term earnings visibility remains weak due to elevated credit costs and subdued MFI growth. The bank continues to face pressure on margins and asset quality normalization is likely to be gradual. Factoring in near-term profitability drag and delayed recovery in high-yield segments, we revise multiple downwards to ~0.9x FY27E BV and thus change our rating to Hold with target price of ₹825.

IndusInd Bank

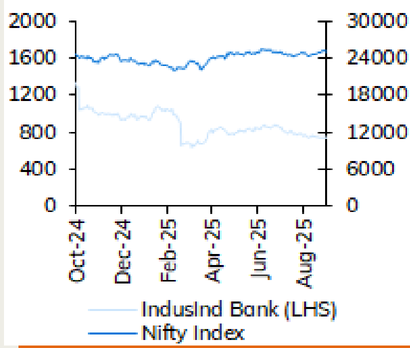
Particulars

Particulars	Amount
Market Capitalisation	₹ 57,807 crore
52 week H/L	1,360 / 605
Net worth	₹ 64,836 crore
Face Value	10
DII Holding (%)	34
FII Holding (%)	32

Shareholding Pattern

(in %)	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	16	16	16	16
FII	25	30	34	34
DII	42	36	33	32
Others	17	18	17	18

Price Chart



Key Risks

(i) Higher than anticipated business growth

(ii) MFI stress persists

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Key Financial Summary

₹ Crore	FY23	FY24	FY25	3 year CAGR (FY22-FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	17,592	20,616	19,031	8.3%	18,421	20,142	2.9%
PPP	14,419	15,864	10,661	-6.5%	9,625	10,515	-0.7%
PAT	7,443	8,977	2,575	-18.8%	1,679	3,846	22.2%
ABV	682	782	784		812	858	
P/E	8	13	23		36	16	
P/ABV	1.1	1.0	1.0		0.9	0.9	
RoA	1.7	1.9	0.5		0.3	0.7	
RoE	14.5	15.2	4.0		2.6	5.6	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance & Growth Overview

- IndusInd Bank reported moderation in business volumes during Q2FY26, impacted by slower disbursement in the microfinance and vehicle finance segment. Advances declined ~9% YoY / 2% QoQ to ₹3,25,900 crore, primarily led by contraction in MFI portfolio. Deposit stood at ₹3,89,600 crore (~6% YoY / ~2% QoQ) as the bank continued to exit high-cost wholesale deposits, maintaining a CD ratio of 84%.
- The CASA ratio remained stable at ~31%, with total current and savings deposits at ₹1,19,771 crore.
- The bank reported a net loss of ₹437 crore, reversing from a profit in the same period last year, primarily due to elevated provisions, write-offs, and weak core income.
- Vehicle disbursement, at ₹10,265 crore (–4% YoY / –9% QoQ), were impacted by deferred purchases following GST-related change. The bank reiterated Vehicle Finance as a key pillar of its growth strategy, with asset quality in the segment remaining stable.
- Merchant loans stood at ₹7,262 crore, with 63% of the book covered under CGTSME guarantee.
- The retail segment is expected to contribute meaningfully to growth going forward, while management emphasized to prioritize platform stabilization and asset quality normalization first.

Margins

- NIM declined to 3.32% (–76 bps YoY / –14 bps QoQ), reflecting lower yields on account of corporate loan repricing and an unfavorable loan mix following MFI contraction.
- 26 bps sequential decline in cost of funds (to 5.43%) and 21 bps reduction in cost of deposits (to 6.23%) provided some cushion, driven by savings account repricing.
- Management expects NIM improvement from Q3FY26, supported by recovery in MFI disbursement and gradual portfolio rebalancing toward higher-yielding retail and MSME segments.

Asset Quality and credit cost

- Microfinance slippages remained elevated during the quarter, prompting accelerated provisioning and write-offs to rationalize the NPA book. The bank wrote off ₹2507 crore out of which ₹1,579 crore were MFI loans which helped improve the PCR to 71.6% and strengthen the residual portfolio.
- Asset quality ex-MFI remained stable, showing sequential improvement in both gross and net slippages across vehicle, retail, and corporate segments. The SMA-1/2 book improved to 26 bps (vs 33 bps YoY).
- For loans disbursed in FY26, ~22% of standard MFI book is covered under CGFMU guarantee, which is expected to mitigate credit cost volatility.
- Credit costs spiked in Q2FY26 due to accelerated provisioning and write-offs in the MFI book. Provisions and contingencies rose ~45% YoY to ₹2,631 crore, aiding improvement in coverage.
- Management aims to reduce net NPA ratio from 1.04% to 50–60 bps in the medium term, supported by prudent provisioning and portfolio diversification toward less volatile MSME and retail assets.

Other Updates

- The bank strengthened its leadership bench during Q2FY26 with the appointment of a new CFO, Legal Counsel, Head of Internal Audit, and Head of Business Transformation. Additional key hires include Head of HR, Head of Marketing, and Head of Digital, which are expected to join shortly.
- The bank is also onboarding a new CEO for its microfinance subsidiary (BFIL) in November 2025.
- Medium-term strategic priorities include achieving 1% RoA, lowering the cost-to-assets ratio, and improving branch productivity.

Exhibit 1: Variance Analysis

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
NII	4,409.4	5,347.3	-17.5	4,639.8	-5.0	Moderation in growth and declining proportion of high yield book impact yields
NIM (%)	3.3	4.1	-76 bps	3.5	-14 bps	Run-down and higher slippages in MFI impacted margins
Other Income	1,651.3	2,185.0	-24.4	2,156.9	-23.4	
Net Total Income	6,060.7	7,532.2	-19.5	6,796.7	-10.8	
Staff cost	1,664.1	1,504.9	10.6	1,805.3	-7.8	
Other OpEx	2,349.2	2,427.5	-3.2	2,424.2	-3.1	
PPP	2,047.3	3,599.8	-43.1	2,567.3	-20.3	Moderation, margin pressure impacted operating performance
Provision	2,631.2	1,820.1	44.6	1,760.0	49.5	MFI stress continue to persist
PBT	-583.9	1,779.7	-132.8	807.3	NA	
Tax Outgo	-146.9	448.5	-132.8	203.3	NA	
PAT	-436.9	1,331.3	-132.8	604.1	NA	Muted operational performance and higher provision marred earnings
Key Metrics						
GNPA	12,058.0	7,638.5	57.9	12,480.6	-3.4	Accelerated write-off in Q2FY26
NNPA	3,399.0	2,282.0	48.9	3,721.5	-8.7	
Credit book	325,881.0	357,159.0	-8.8	333,694.0	-2.3	Cautious stance in MFI and muted corporate disbursement
Deposit book	389,600.0	412,397.0	-5.5	397,144.0	-1.9	De-growth seen in liabilities; shedding of high cost deposit underway

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	45,748.2	48,667.7	48,106.2	50,892.7
Interest Expended	25,132.3	29,636.3	29,684.7	30,750.9
Net Interest Income	20,615.9	19,031.3	18,421.4	20,141.8
Growth (%)	17.2	-7.7	-3.2	9.3
Non Interest Income	9,395.8	7,690.4	7,938.5	8,926.9
Net Income	30,011.7	26,721.8	26,359.9	29,068.7
Employee cost	5,373.9	6,027.8	7,014.9	8,110.8
Other operating Exp.	8,773.7	10,032.5	9,719.7	10,443.3
Operating Income	15,864.1	10,661.4	9,625.3	10,514.6
Provisions	3,884.9	7,135.6	7,401.2	5,421.1
PBT	11,979.2	3,525.8	2,224.1	5,093.5
Taxes	3,002.2	950.3	544.9	1,247.9
Net Profit	8,977.0	2,575.4	1,679.2	3,845.6
Growth (%)	20.6	-71.3	-34.8	129.0
EPS (₹)	115.3	33.1	21.6	49.4

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of shares (crore)	77.8	77.9	77.9	77.9
EPS (₹)	115.3	33.1	21.6	49.4
DPS (₹)	16.5	3.7	2.4	5.5
BV (₹)	807.0	826.6	854.4	897.5
ABV (₹)	781.7	784.4	812.3	857.8
P/E	13.0	23.2	35.6	15.6
P/BV	2.1	0.9	0.9	0.9
P/ABV	1.0	1.0	0.9	0.9
Yields & Margins (%)				
Net Interest Margins	4.8	4.3	3.9	4.0
Yield on assets	10.5	10.3	10.2	10.2
Avg. cost on funds	6.2	6.6	6.5	6.5
Yield on average advances	12.0	11.8	11.4	11.5
Avg. Cost of Deposits	6.0	6.3	6.2	6.2
Quality and Efficiency (%)				
Cost to income ratio	47.1	60.1	63.5	63.8
Credit/Deposit ratio	89.3	84.0	85.2	84.4
GNPA	1.9	3.2	3.4	2.7
NNPA	0.6	1.0	1.0	0.8
RoE	15.2	4.0	2.6	5.6
RoA	1.9	0.5	0.3	0.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	778.0	779.1	779.1	779.1
Employee Stock Options	103.5	142.9	142.9	142.9
Reserves and Surplus	62,325.7	63,913.8	66,079.1	69,437.7
Networth	63,207.2	64,835.7	67,001.0	70,359.6
Deposits	384,585.7	410,862.3	398,754.2	444,276.5
Borrowings	47,611.4	53,703.6	52,513.1	57,236.8
Other Liabilities & Provisions	19,689.3	24,705.6	26,879.2	29,686.1
Total	515,093.7	554,107.1	545,147.4	601,559.0
Application of Funds				
Fixed Assets	2,324.0	2,496.4	2,841.5	3,256.2
Investments	106,486.5	114,456.7	126,032.8	138,782.9
Advances	343,298.3	345,018.6	339,746.7	375,038.2
Other Assets	26,077.8	32,759.9	35,747.1	44,984.0
Cash with RBI & call money	36,907.4	59,375.5	40,779.3	39,497.8
Total	515,094.0	554,107.1	545,147.4	601,559.0

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	12.5	7.6	-1.6	10.3
Advances	18.4	0.5	-1.5	10.4
Deposit	14.4	6.8	-2.9	11.4
Total Income	16.5	2.2	-0.6	6.7
Net interest income	17.2	-7.7	-3.2	9.3
Operating expenses	24.7	13.5	4.2	10.9
Operating profit	20.6	-32.8	-9.7	9.2
Net profit	20.6	-71.3	-34.8	129.0
Net worth	14.6	2.5	3.4	5.0
EPS	21.0	-71.3	-34.8	129.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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