IndusInd Bank (INDBA)

CMP: ₹ 892 | Target: ₹ 950 (7%) | Target Period: 12 months | **HOLD**

Result Update

January 27, 2026

Gradual normalisation, recovery hinges on execution...

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 3,120 branches (3,063 ATMs) and a large customer base of ~4.2 crore

Q3FY26 performance: IndusInd Bank reported a modest sequential recovery in Q3FY26, aided by margin expansion and lower provisioning, though balance sheet growth remained muted. Advances declined to ₹3.17 lakh crore down 13.5% YoY (–2.6% QoQ) and deposits to ₹3.93 lakh crore down 3.8% YoY (1.1% QoQ). NII declined 12.7% YoY (3.5% QoQ) to ₹4,562 crore, supported by improvement in reported NIM to 3.52% down –41 bps YoY (+20 bps QoQ; normalized 3.35%) driven by TD repricing, liquidity optimisation and interest on IT refund, partly offset by an adverse loan mix from continued MFI rundown. Provisions came at ₹2,096 crore, up 20.2% YoY (–20.3% QoQ), enabling a return to profitability with PAT of ₹128 crore. GNPA/NNPA at 3.56%/1.04%, down 4bps/flat QoQ respectively, and PCR maintained at 72%.

Investment Rationale

- **Stabilisation phase with improving operating levers**: Management commentary indicates that the bank is moving past the worst of balance-sheet stress, with sequential improvement in margins and asset-quality indicators in Q3FY26. Reported NIM improved 20 bps QoQ to 3.52%, however, excluding interest om tax refund which is one-off, margins were up 3 bps QoQ at ~3.35%, aided by term-deposit repricing and lower bulk funding. SMA-1/2 moderated to 17 bps (vs 26 bps QoQ), suggesting easing incremental stress. Vehicle finance disbursements rebounded sharply to ₹12,900 crore (+26% QoQ) with improving asset-quality trends, and microfinance early delinquencies (31–90 DPD) also showed sequential improvement to 2.4% (vs 3.2% in Q2FY26). Management expects gradual margin improvement over coming quarters as deposit cost soften further and portfolio mix shifts toward higher-yielding segments.
- **RoA normalisation to be gradual, levers identified**: Management outlined RoA recovery framework, targeting ~1% RoA over a multi-year (~3-year) horizon. RoA normalisation will be driven by a combination of levers, including credit cost moderation as MFI stress eases and portfolio mix improves, margin expansion through lower cost of funds and higher share of better-yielding assets, and gradual recovery in fee income businesses. In parallel, cost rationalisation remains a key focus area, with operating efficiency expected to improve as balance-sheet growth resumes and the current denominator effect reverses. Management cautioned that the recovery path may be uneven and non-linear, with sustained execution and deposit mobilisation critical to achieving durable RoA normalisation.

Rating and Target Price

Normalisation is likely to be gradual, with near-term earnings visibility constrained by elevated credit cost and slow recovery in high-yielding segments. While operating metrics are improving sequentially, sustained profitability revival will take time. Rolling to FY28E, factoring RoA conservatively of 0.8% FY28E, we value the bank at ~1x FY28E BV and thus maintain our rating to Hold with target price of ₹950 (earlier ₹825).

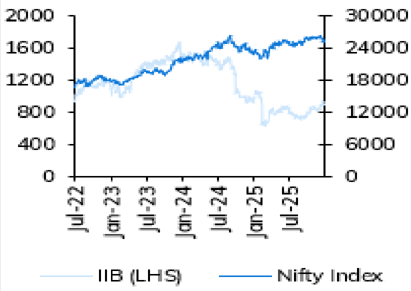
Particulars

Particulars	Amount
Market Capitalisation	₹ 69,529 crore
52 week H/L	1,087 / 605
Net worth	₹ 64,905 crore
Face Value	10
DII Holding (%)	35.0
FII Holding (%)	31.6

Shareholding Pattern

(in %)	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	15.8	15.8	15.8	15.8
FII	29.5	34.0	34.0	31.6
DII	36.3	33.0	32.0	35.0
Others	18.4	17.2	18.2	17.6

Price Chart



Key Risks

(i) Higher than anticipated business growth

(ii) Delay in moderation in slippages

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Key Financial Summary

₹ Crore	FY24	FY25	3 year CAGR (FY22-FY25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
NII	20,616	19,031	8.3%	17,941	18,772	21,237	3.7%
PPP	15,864	10,661	-6.5%	9,013	9,839	12,439	5.3%
PAT	8,977	2,575	-18.8%	592	2,591	4,852	23.5%
ABV	782	784		801	836	883	
P/E	13	27		117	27	14	
P/ABV	1.1	1.1		1.1	1.1	1.0	
RoA	1.9	0.5		0.1	0.5	0.8	
RoE	15.2	4.0		0.9	3.9	6.9	

Source: Company, ICICI Direct Research

ICICI Securities – Retail Equity Research

Concall highlights and outlook

Performance and growth overview

- Vehicle Finance:
  - Disbursements improved sharply to ₹12,900 crore (+26% QoQ), aided by GST-related changes and pickup across MHCVs, tractors and PVs.
  - Asset quality trends improved sequentially; management expects FY26 slippages to be lower than FY25.
- Microfinance (BFIL)
  - Portfolio continued to run down due to contractual repayments, though incremental disbursements resumed in a calibrated manner under tighter underwriting.
  - Early stress indicators improved (lower 31–90 DPD), with CGFMU coverage expected to rise to ~38% of the standard book, reducing tail risk.
  - Leadership: New MD & CEO for BFIL onboarded.
- Rural & Priority Banking (Non-MFI)
  - Merchant loans: ₹7,338 crore, up ~16% YoY, spread across ~5.79 lakh borrowers (management continues to scale this).
  - Affordable housing: ₹2,692 crore, up ~25% YoY.
  - Kisan Credit & other rural loans: ₹4,267 crore, broadly steady QoQ.
- Credit card growth moderated as the bank remained watchful on asset quality and rationalised low-return spends.
- Wholesale Banking portfolio remained strong with ~82% A-and-above rated customers and stable asset quality
- Medium-term roadmap articulated as:
  - FY27: Grow in line with industry
  - FY28: Begin gaining market share
  - FY29: Build leadership in select focus segments
- Medium-term focus remains on restoring ~1% RoA, lowering cost-to-asset and improving branch productivity, with deposit mobilisation and MFI normalization as key monitorables.

Margins

- Reported NIM improved to 3.52% (up 20 bps QoQ), aided by term deposit repricing, lower bulk funding and liquidity optimisation.
- NIM included ~17 bps one-off positive impact due to receipt of interest on tax refund and interest recovery. Excluding these one-offs, normalized NIM stood at ~3.35%, up 3 bps QoQ.
- Cost of deposits declined ~14 bps QoQ to 6.09%, providing incremental support to margins.
- Management expects gradual margin improvement as deposit cost soften further and portfolio mix shifts toward higher-yielding retail, vehicle finance and MSME segments.

Asset Quality and credit cost

- Management reiterated its medium-term target to reduce net NPA to ~50–70 bps, supported by prudent provisioning and portfolio diversification.
- Improvement was seen in SMA-1/2 buckets, which declined to 17 bps (vs 26 bps QoQ).
- Reduction seen in restructured assets and security receipts, indicating continued cleanup of legacy stress.
- 31–90 DPD improved to 2.4% in Dec'25 vs ~3.2% in Sep'25, suggesting moderation in incremental stress formation.
- Management reiterated that MFI remains a strategically important business from both a profitability and PSL (SMF/agri) perspective, but growth will remain risk-averse and proportional (~7–8% of loan book).

Other Updates

- Management outlined a three-year "PACE" strategy:
  - Protect core franchises (vehicle finance, rural/MFI, corporate),
  - Accelerate key priorities (low-cost deposits, mid-market expansion),
  - Customer centricity via unified branch and digital engagement,

  - Execution excellence through tighter cost control and productivity improvement.
- Preliminary estimate of ECL impact indicated at ~1.5–1.7% of the loan book (pre-tax), subject to final RBI guidelines.
- Bank made provision of ~₹230 crore in Q3FY26 related to new labour code

Exhibit 1: Variance Analysis

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
NII	4,561.7	5,228.1	-12.7	4,409.4	3.5	De-growth in advances impacted NII
NIM (%)	3.5	3.9	-41 bps	3.3	20 bps	One-off interest on IT refund and recovery aided margins
Other Income	1,707.2	2,355.0	-27.5	1,651.3	3.4	
Net Total Income	6,268.9	7,583.1	-17.3	6,060.7	3.4	
Staff cost	1,904.9	1,482.8	28.5	1,664.1	14.5	~₹230 crore of one-off impact related to labour provision
Other OpEx	2,094.3	2,499.7	-16.2	2,349.2	-10.8	
PPP	2,269.6	3,600.7	-37.0	2,047.3	10.9	Business moderation partially offset by margin expansion
Provision	2,095.8	1,743.6	20.2	2,631.2	-20.3	Stress in MFI and auto book keep slippages elevated
PBT	173.8	1,857.0	-90.6	-583.9	NA	
Tax Outgo	45.9	454.7	-89.9	-146.9	NA	
PAT	127.9	1,402.4	-90.9	-436.9	NA	Earnings turn in profit
Key Metrics						
GNPA	11,604.6	8,375.3	38.6	12,058.0	-3.8	Accelerated write-off continued in Q3FY26
NNPA	3,304.0	2,495.8	32.4	3,399.0	-2.8	
Credit book	317,536.0	366,889.0	-13.5	325,881.0	-2.6	Cautious stance in CV and muted corporate disbursement
Deposit book	393,815.0	409,438.0	-3.8	389,600.0	1.1	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)	FY25	FY26E	FY27E	FY28E
Interest Earned	48,667.7	47,083.9	48,727.1	54,255.4
Interest Expended	29,636.3	29,142.7	29,955.5	33,018.4
Net Interest Income	19,031.3	17,941.3	18,771.6	21,237.0
Growth (%)	-7.7	-5.7	4.6	13.1
Non Interest Income	7,690.4	7,535.7	8,160.2	9,192.0
Net Income	26,721.8	25,477.0	26,931.8	30,429.0
Employee cost	6,027.8	7,080.5	7,659.1	8,115.2
Other operating Exp.	10,032.5	9,383.6	9,433.6	9,875.2
Operating Income	10,661.4	9,012.9	9,839.0	12,438.7
Provisions	7,135.6	8,223.7	6,407.4	6,012.3
PBT	3,525.8	789.2	3,431.6	6,426.4
Taxes	950.3	197.3	840.7	1,574.5
Net Profit	2,575.4	591.9	2,590.9	4,851.9
Growth (%)	-71.3	-77.0	337.7	87.3
EPS (₹)	33.1	7.6	33.3	62.3

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Valuation				
No. of shares (crore)	77.9	77.9	77.9	77.9
EPS (₹)	33.1	7.6	33.3	62.3
DPS (₹)	3.7	0.8	3.7	6.9
BV (₹)	826.6	842.3	871.4	925.7
ABV (₹)	784.4	801.1	835.8	882.7
P/E	27.0	117.4	26.8	14.3
P/BV	1.1	1.1	1.0	1.0
P/ABV	1.1	1.1	1.1	1.0
Yields & Margins (%)				
Net Interest Margins	4.3	3.9	3.9	4.0
Yield on assets	10.3	10.2	10.1	10.2
Avg. cost on funds	6.6	6.4	6.4	6.4
Yield on average advances	11.8	11.4	11.5	11.6
Avg. Cost of Deposits	6.3	6.1	6.1	6.1
Quality and Efficiency (%)				
Cost to income ratio	60.1	64.6	63.5	59.1
Credit/Deposit ratio	84.0	80.7	80.0	81.1
GNPA	3.2	3.5	3.0	2.7
NNPA	1.0	1.0	0.8	0.8
RoE	4.0	0.9	3.9	6.9
RoA	0.5	0.1	0.5	0.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Sources of Funds				
Capital	779.1	779.1	779.1	779.1
Employee Stock Options	142.9	142.9	142.9	142.9
Reserves and Surplus	63,913.8	65,133.1	67,400.2	71,634.2
Networth	64,835.7	66,055.0	68,322.1	72,556.1
Deposits	410,862.3	398,754.2	444,276.5	489,218.1
Borrowings	53,703.6	44,499.5	48,582.2	52,900.0
Other Liabilities & Provisions	24,705.6	26,737.8	29,522.9	32,601.6
Total	554,107.1	536,046.6	590,703.8	647,275.7
Application of Funds				
Fixed Assets	2,496.4	2,841.5	3,256.2	3,754.6
Investments	114,456.7	126,032.8	138,782.9	149,067.6
Advances	345,018.6	321,734.1	355,224.2	396,818.8
Other Assets	32,759.9	44,658.9	53,942.7	58,790.4
Cash with RBI & call money	59,375.5	40,779.3	39,497.8	38,844.2
Total	554,107.1	536,046.6	590,703.8	647,275.7

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total assets	7.6	-3.3	10.2	9.6
Advances	0.5	-6.7	10.4	11.7
Deposit	6.8	-2.9	11.4	10.1
Total Income	2.2	-3.1	4.2	11.5
Net interest income	-7.7	-5.7	4.6	13.1
Operating expenses	13.5	2.5	3.8	5.3
Operating profit	-32.8	-15.5	9.2	26.4
Net profit	-71.3	-77.0	337.7	87.3
Net worth	2.5	1.9	3.5	6.2
EPS	-71.3	-77.0	337.7	87.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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