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IndusInd Bank Saga: Devina Mehra proved right, says 'she is a nervous investor in banks and lenders'

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Devina Mehra, Founder & CMD of First Global, has long emphasized on the inherent risks in banking.

IndusInd Bank's revelation of a 2.35 per cent decline in net worth due to discrepancies in its derivative trades has brought to the fore concerns about the risks inherent in the banking sector. This came from non-compliance with Reserve Bank of India (RBI) regulations on derivatives, enforced from April 2024. Devina Mehra, Founder & CMD of First Global, has long emphasized on the inherent risks in banking. Responding to this, Devina Mehra, in her post on LinkedIn, explained why she is a "nervous investor in banks and lenders". She said, "It is in the structure of the business where negative surprises will always outweigh positive surprises."

She highlighted how banks do not benefit proportionally when their borrowers succeed but take direct hits when things go wrong. "When banks lend and their customer does very well, unlike equity investors they do not get any extra income. In fact, on the margin they may well have to reduce interest rates. On the other hand, when something goes wrong with the borrower, the bank has to take a hit. This is one business where higher than expected growth may not be a good thing at all except that you come to know of the problems created only some years later," Devina Mehra said.

Her post comes just a day after IndusInd Bank announced that an internal review of its derivative portfolio revealed discrepancies, which could hit its net worth by approximately 2.35 per cent as of December 2024. As of December 31, the Bank's net worth was at Rs 65,102 crore and the impact is likely to be around Rs 1,530 crore, which is more than Rs 1,401.3 crore net profit in the third quarter of FY25.

She went on to highlight another key concern – leverage. "…the risk of losses on highly leveraged trading/ investment positions (because a bank is inherently a leveraged institution) and this can deal a blow – sometimes a fatal one – to a bank," Devina Mehra added.

To support her assertion, she cited two banking failures – "After all a single trader took down the 200+ year old Barings Bank and a couple of years ago the Silicon Valley Bank's troubles also arose out of their bond book, rather than credit," she stated.

Devina Mehra ended her post saying, "It is at the end of the day, a highly leveraged precarious business. More important, as an outside investor, you never know where the problems are hiding in either the credit or the trading book."

"So yes, हम तो डर डर कर ही निवेश करते हैं।," she said.