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IndusInd Bank saga: Devina Mehra shares why she is a 'nervous investor' in bank stocks

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IndusInd Bank saga: 'It is in the structure of the business where negative surprises will ALWAYS outweigh positive surprises,' Devina Mehra said on banking sector.

IndusInd Bank saga: Devina Mehra shares why she is a 'nervous investor' in bank stocks

IndusInd Bank's recent revelation of a 2.35% decline in net worth due to discrepancies in its derivative trades has reignited concerns about the risks inherent in the banking sector. The issue stems from non-compliance with Reserve Bank of India (RBI) regulations on derivatives, enforced from April 2024.

This revelation has reignited concerns about the inherent risks in banking, a point long emphasized by Devina Mehra, Founder & CMD of First Global. In her post on X (formerly Twitter), Mehra explained why she remains a "nervous investor" in banks, citing their structural vulnerabilities.

Higher Negative Surprises

"Negative surprises will ALWAYS outweigh positive surprises," Mehra wrote, highlighting how banks do not benefit proportionally when their borrowers succeed but take direct hits when things go wrong. This imbalance, she argues, makes banking a business where problems tend to emerge years later, often catching investors off guard.

"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," Mehra wrote.

Banking: A Highly Leveraged and Precarious Business

Mehra also highlighted another key concern — leverage. Banks operate with highly leveraged positions, meaning they borrow money to fund their lending and trading activities. While leverage amplifies gains in good times, it can also magnify losses, sometimes to catastrophic levels.

To illustrate her point, she cited two infamous banking failures:

Barings Bank Collapse (1995) – A single trader, Nick Leeson, racked up massive losses through unauthorized derivatives trading, ultimately bringing down the 200-year-old institution.

Silicon Valley Bank (SVB) Collapse (2023) – The US-based bank faced a crisis not due to bad loans, but due to mismanagement of its bond portfolio, proving that banking risks extend beyond traditional lending.

The IndusInd Connection

While IndusInd Bank's current troubles stem from derivative trade discrepancies, rather than bad loans, the broader point remains the same: banks often face risks that are not immediately visible to investors. The recent episode reinforces Mehra's belief that banking is a structurally fragile industry, where unforeseen shocks can erode investor confidence overnight.

Ending her tweet with a mix of caution and humor, she wrote:

"हम तो डर डर कर ही निवेश करते हैं।" (We invest with fear and caution.)

As IndusInd Bank navigates this regulatory setback, Mehra's warning serves as a timely reminder: for investors, banks are not just about high growth and profits — they come with hidden risks that can surface when least expected.