

Background & Business

IndusInd Bank (IIB) is a fast growing new generation private sector bank having a market cap of Rs. 1,201 bn. It was founded by Hinduja Group as a corporate bank in 1994. It currently has a loan book of Rs. 1,506 bn, which has grown at a CAGR of 27% over the past 5 years. Corporate banking and commercial banking (CB) contributes ~60% to the loan book with the balance being contributed by consumer finance (CF). In CB segment it provides services in the fields of investment banking, transaction banking, capital markets, working capital financing, etc. In CF segment, it provides vehicle financing, Equipment financing, LAP, credit cards etc. It has a pan India presence with 1,410 branches spread across every state in India.

Investment Thesis

- Best performing mid-sized private sector bank** - A relative assessment of leading private sector banks shows that IIB has displayed strong capabilities to grow its loan book without vitiating either profitability or asset quality, which we believe puts IIB on a firm footing to benefit from the next uptick in credit cycle.
- Stellar credit growth to sustain** - Over the past five years IIB loan book has grown at a CAGR of 27%. This has far exceeded its peers by a healthy margin indicating market share expansion.
- Focus on growing fee income to boost profit growth** - IIB's fee-based income at 38% of its total income and 2.3% of the total assets is the highest amongst all the private sector banks.
- Merger with Bharat Financial Inclusion** - merger with BFI is expected to benefit IIB with (a) access to diversified and granular retail loan book leading to higher margins, (b) a strong PSL book (c) rise in cross-sell opportunities and (d) scale benefits with combined customers to cross 20 mn by 2020. This merger is return accretive from the day of merger.

Outlook

IndusInd is our preferred pick in the private sector banking space. It is one of the fastest growing private sector bank. We expect its loan book to grow at 25-28% over the next 5 years. IIB has shown exemplary performance even with respect to control on asset quality, wherein despite economic downturn, the Bank has consistently held NNPA at sub 1% level and maintained credit cost at an avg. 50bps over the past five years, which is comparable to HDFC Bank, market leader in the space. Strong domain knowledge, diversified loan book, new product introductions and aggressive branch expansion will provide multiple levers for growth going forward. Further, stable margin outlook coupled with operating leverage and an able management at the helm make the bank a likely candidate to enter the big league going forward

