

## Background & Business

IndusInd Bank (IIB) is a fast-growing new generation private sector bank having a market cap of Rs.903bn. It was founded by Hinduja Group as a corporate bank in 1994. It currently has a loan book of Rs.1,863 bn as of March 2019, which has grown at a CAGR of 28% over FY14-FY19. Corporate banking and commercial banking (CB) contributes 61% to the loan book and balance is 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. IIB has pan India presence with 1,665 branches spread across India.

From : 29-01-2016  
 To : 31-05-2019  
 Performance : 73%  
 Recommendation : OPEN

## Investment Thesis

- 1) **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, which we believe puts IIB on a firm footing to benefit from the next uptick in credit cycle. Going forward, for FY20, the bank is on track to achieve its internal targets of loan book growth of 25-30%, CASA ratio of 40%, expansion of branch network to over 2,000 and doubling customer base to over 20 mn
- 2) **Stellar credit growth to sustain** – Over the past five years, IIB loan book has grown at a CAGR of 28%. This has far exceeded its peers by a healthy margin indicating market share increase.
- 3) **Focus on growing fee income to boost profit growth** - IIB's fee-based income at 39% of its total income and 2.0% of the total assets, is the highest amongst all the private sector banks.
- 4) **Merger with Bharat Financial Inclusion** – IIB has completed its merger with Bharat Financial Inclusion (BFI), which is a micro finance institution. The merger 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, (d) scale benefits with combined customers to cross 20 mn by 2020 and (e) improvement in the return ratios for the bank.
- 5) **Adequately capitalised to support growth** - Both the entities, IIB and BFI, are well capitalized with CAR of 14.2% and 36% (Q3FY19), respectively. Thus, the bank is expected to fund the medium-term goals as well as higher expected operating expenses due to merger, through internal accruals.

## Outlook

IndusInd is our preferred pick in the private sector banking space. It is one of the fastest growing private sector banks. We expect the consolidated loan book (IIB+BFI) to grow at ~23% CAGR over the next 5 years. Despite higher provisioning in FY19 due to the bank's exposure to IL&FS, it is confident of maintaining asset quality at ~65 bps going forward. Strong domain knowledge, diversified loan book, new product introductions, aggressive branch expansion and merger with BFI will provide multiple levers for growth going forward. Further, stable margin outlook coupled with operating leverage and an able management at the helm, makes IIB a likely candidate to enter the big league going forward.

