

THE COMPASS

NPA divergence a blip for IndusInd

Business performance, outlook healthy; gains from Bharat Financial acquisition to reflect from second half

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After the March 2018 quarter (Q4) result, the IndusInd Bank stock fell over 2 per cent intra-day, mainly because of the divergence of ₹13.5 billion in non-performing assets (NPA) reported by the bank pertaining to FY17.

NPA divergence is the difference between gross NPA reported by the bank and those assessed by the RBI. This divergence also affected the bank's asset quality indicators to some extent.

Having said that, most analysts are positive on the stock and expect it to be in the green soon. Not surprising then, the stock closed just 0.6 per cent lower.

"The history of strong performance, satisfactory Q4 numbers (apart from divergence) and acquisition of Bharat Financial (near completion) make it an attractive business franchise. The management has indicated that it is considering to enter into new businesses (including insurance), which will be an interesting development," said Lalitabh Shrivastawa, assistant vice-president, research, Sharekhan, who sees a 15-18 per cent upside



potential over a year's time.

The company's core business performance remains strong. Advances, a key indicator of a lender's business performance, surged 28.2 per cent year-on-year (y-o-y). While the corporate loan book increased by a strong 29.8 per cent, consumer loan book was up 25.7 per cent. A 47 per cent y-o-y rise in vehicle disbursement boosted the bank's consumer loan book. Since the bank has a tie-up with Ashok Leyland (a group concern) for commercial vehicle financing (accounting for a major chunk of the bank's consumer loan book), strong vehicle sales growth projected for Ashok Leyland will drive the bank's loan book in the near term.

However, higher growth in corporate loans restricted the margin expansion (NIM, which remained flat), though remained in line with expectations, as it attracted lower yield (9.1 per cent against 13.9 per cent on consumer loans).

The numbers also indicate improved quality of the outstanding loan book. Share of total stressed pool (gross NPAs plus restructured assets) declined to 1.2 per cent of advances as of March 2018 from 1.3 per cent a year ago as well as sequentially. Even, the share of AAA- and AA-rated accounts, indicating lower default risk, in the corporate loan book has increased to over 36 per cent from 30 per cent in the March 2017 quarter. Though net NPA ratio was up a bit, it was largely due to the divergence reported and an account being classified as fraud.

The bank expects the acquisition of Bharat Financial to be completed by July 2018. "Bharat Financial being a microfinance company will help the bank to strengthen its rural exposure and also improve the latter's margin and other operating matrix," said Asutosh Kumar Mishra, analyst at Reliance Securities.