

# Why investors are bullish on Indian Bank

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For more reasons than one, the Indian Bank stock is among the preferred picks in the mid-sized state-owned lenders' space. At a time when many public sector banks (PSBs) are grappling with profitability, asset quality, and loan growth issues, Indian Bank seems to score well. One reason is the bank has got its business mix right: 51 per cent retail loans and 49 per cent wholesale ones. This has helped the lender get ahead of most of its peers.

Indian Bank's latest March quarter (Q4) results also lend confidence. The bank's net interest income (NII) grew 22 per cent from a year ago to ₹1,385 crore in Q4, while net profit ran past *Bloomberg* consensus estimate of ₹288 crore, almost trebling to ₹320 crore. Net interest margin also improved as domestic NIM rose from 2.44 per cent a year ago to 2.75 per cent in Q4. On asset quality front, despite incremental provisions for bad loans remaining flat at ₹750 crore and gross non-performing assets (NPAs) ratio rising to 7.5 per cent of total loans in Q4 versus 6.7 per cent a year ago, net NPA ratio came off to 4.4 per cent, because of improvement in loan collections. This strong show saw the Indian Bank stock surge nine per cent on Tuesday. Other peers are yet to report their Q4 numbers.

For FY17, loan growth at five per cent (₹1.32 lakh crore) may look muted, but it is largely due to a 10.5 per cent decline in corporate segment. Retail loans led by housing, small businesses, and agriculture helped the portfolio grow 10 per cent to ₹69,319 crore in FY17. Liabilities improved, with low-cost current accounts and savings accounts rising to 37.65 per cent of total deposits in Q4 versus 31.94 per cent a year ago. Overall deposits inched up 2.4 per cent to ₹1.83 lakh crore.

However, a few of its peers do come close on asset quality and profit growth. For instance, Vijaya Bank has posted a strong 76 per cent growth in its net profit in the first nine months of FY17, and it is also ahead of Indian Bank on asset quality (see table). Syndicate Bank is slightly ahead on net NPA ratio, but lags on profit front. Nevertheless, even at 6.7 per cent levels, Indian Bank's net NPAs are high.

Having said that, Indian Bank has a lot of catching up to do, given that it is still small compared to some of its peers, which are as old as Indian Bank. Kishor Kharat, chief executive of Indian Bank, though sounds confident about his plan to



## INDIAN BANK: GETTING AHEAD OF PEERS

FOR 9 MONTHS ENDED DEC 2016

Name	Stock gains this year (%)	Profit* % chg	Gross NPA (%)	Net NPA (%)
Central Bank	22.4	-	14.1	8.5
Bank of India	48.2	-	13.4	7.1
IDBI Bank	6.8	-	15.2	9.6
Indian Bank**	40.8	97.6	7.5	6.7
Union Bank	32.4	-64.4	11.7	7.0
Vijaya Bank	63.1	76	7.0	4.7
Syndicate Bank	21.1	-50.4	8.7	5.6
Indian Overseas Bank	16.5	-	22.4	14.3

\*Net profit, y-o-y; Peers of Indian Bank have been selected on market value (₹6,700-₹20,000 cr) and deposit basis; \*\*FY17 financials; compiled by BS Research Bureau  
 Source: Capitaline

grow the lender in the coming five years. As part of the plan, he aims to double the bank's assets and liabilities to ₹6 lakh crore, and focus on reducing gross and net NPA ratios to below five and three per cent, respectively. The bank would remain committed to improve its retail loan book also, he says. Analysts also sound confident about Indian Bank's targets.

Asutosh Kumar Mishra, analyst at Reliance Securities, says that the loss of Indian Overseas Bank (market leader in the southern India), thanks to its asset quality, will be Indian Bank's gain. Indian Bank is also reaping gains from its restructuring that concluded about two years ago. "When most banks were aggressively expand-

ing their loan book till 2012-13, Indian Bank was focusing on getting its business right. From being the bank with highest restructuring book, the ratio has fallen to the lowest levels among PSBs," Mishra adds.

For this reason, analysts believe that as the next round of capital dilution happens, Indian Bank will be among the few PSBs to benefit from the exercise.

Capital adequacy ratio of 13.6 per cent will create value for shareholders. Eight of 11 analysts polled on *Bloomberg* recommend 'buy' and no one has 'sell' recommendation.

However, given the run-up in the past one year, immediate gains may be restricted. At ₹311, the stock trades near its all-time high prices.