

Indian Bank shuns peers to become top Asian bank stock

Chennai/Mumbai, Feb 7: Indian Bank, a century-old state-owned lender based in the country's south, has emerged as Asia's top-performing bank stock in the past year, driven by a focus on consumer loans that are less likely to sour than corporate advances.

The Chennai-based firm is aiming to boost retail lending, which includes mortgages and loans underpinned by gold as collateral, to account for 60% of its loan book over the next two years – up from 52% at the end of December – according to chief executive officer Mahesh Kumar Jain.

“We are positioning ourselves as a strong retail and mid-segment bank as growth in that segment is consistent,” Jain said in an interview last month. “We are not expanding our book in corporate credit” except to companies where the bank sees “visible cash flows,”

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PRAVEEN I,
Analyst at Cholamandalam Securities

he said. Investors have been favoring consumer lenders over their commercial-focused peers amid a surge in bad loans from corporate debtors that has given India the highest stressed-loan ratio among Asia's major economies. Shares of government banks with large cor-

porate books like Syndicate Bank and Andhra Bank have underperformed their peers in the past 12 months amid concerns over corporate repayments.

Indian Bank, meanwhile, has

more than tripled in the year to February 6, the most among 198 Asian lenders valued at more than \$1 billion, data compiled by Bloomberg show. Manappuram Finance and Muthoot Finance are

Top performer

Indian Bank trounces peers in Asia in past year
Normalised as of Mar 2, 2016



Source: Bloomberg

among other consumer-focused lenders that have rallied in that time. All of the 9 analysts tracking Indian Bank recommend investors buy or hold the stock, giving it a consensus rating of 4.33% out of five, the highest among India's state-run banks, according to ratings compiled by Bloomberg.

There are signs that the stock is due for a breather: Analysts have a consensus 12-month target price of ₹287.11 on the stock – 1.7% below its close on Monday – and its price-to-book valuation had jumped to 0.88 times, close to the most expensive level in three years, data compiled by Bloomberg show.

Even at that price, Indian Bank's equity is still trading at a discount to its net assets.

“Indian Bank is considered as the best bet among public sector banks right now due to their strong consumer-assets book and

falling concerns on asset quality,” said Praveen I, a Chennai-based analyst at Cholamandalam Securities. “If the retail loans move to 60% of the total, that would be highest among top lenders in the country. Even after the rally, it is a good buy at current valuations.”

HDFC Bank has the biggest relative exposure among India's lenders to consumer loans, which account for about 55% of its domestic book, exchange filings show. With its focus on retail lending, Indian Bank's bad loans are no longer a major concern for investors, Praveen said, adding that management's guidance also suggests an improvement in coming quarters. The lender has stayed clear of highly indebted corporates that may find it tough to repay loans and is expecting asset quality to improve with a revival in the economy. *Bloomberg*