

South Indian Bank

Performance Highlights

Particulars (₹ cr)	3QFY15	2QFY15	% chg (qoq)	3QFY14	% chg (yoy)
NII	320	358	(10.7)	350	(8.7)
Pre-prov. profit	219	211	4.0	216	1.6
PAT	88	76	15.2	141	(37.8)

Source: Company, Angel Research

South Indian Bank has reported a weak set of numbers for 3QFY2015. Its PAT for the quarter de-grew by 37.8% yoy, primarily on account of lower net interest income (NII) and higher provisioning.

NIM and Asset quality witness pressure

During 3QFY2015, the bank's advances and deposits grew at a moderate pace of 9.2% and 8.5% yoy, respectively. Within advances, retail advances de-grew by 13.1% yoy. Gold loans, which form a part of retail advances, de-grew by 32.5% yoy, thus leading to a de-growth in retail advances. Strong traction was witnessed in the SME loan book which grew by 40.3%, whereas the Corporate book increased by 17% yoy. CASA deposits grew by 10.6% yoy with CASA ratio up by 39bp yoy to 21.5% in 3QFY2015. The Reported NIM for the bank declined by 10bp qoq to 2.7%, due to interest reversal of ₹38cr on account of NPA in 3QFY2015. Growth in Other income (excl. Treasury income) was lower at 2% yoy, whereas Trading gains during the quarter came in at ₹78cr, leading to an 89.5% yoy growth in non-interest income. Employee expenses went up by 21.7% yoy and 15% qoq with addition of 200 employees over last quarter, leading to increase in cost to income ratio by 98bp qoq to 54.3%.

On the asset quality front, the Gross NPA ratio increased by 25bp qoq to 1.8%, whereas the Net NPA ratio went up by 14bp qoq to 1% in 3QFY2015. The Annualized Slippage ratio came in higher at 1.8% in 3QFY2015 as compared to 0.9% and 1.3% in 2QFY2015 and 3QFY2014, respectively. Slippages from restructured book came in at ₹44cr for the quarter. The PCR (incl. technical write-offs) for the bank declined by 250bp qoq to 60.4%. Going forward, the Management expects the Gross NPA ratio to be maintained at around 1.8% for FY2015.

Outlook and valuation: Asset quality issues continued to linger during the quarter. With an improvement in the macro-economic environment, the bank expects the Gross NPA ratio to stabilize at current levels. Currently the stock trades at 1.0x FY2016E ABV. **With negatives factored in lower valuations, we recommend an Accumulate rating on the stock with a price target of ₹32.**

Key financials (standalone)

Particulars (₹ cr)	FY2013	FY2014	FY2015E	FY2016E
NII	1,281	1,399	1,364	1,525
% chg	25.4	9.2	(2.5)	11.8
Net profit	502	508	387	467
% chg	25.1	1.1	(23.7)	20.6
NIM (%)	2.9	2.7	2.4	2.4
EPS (₹)	3.8	3.8	2.9	3.5
P/E (x)	7.7	7.6	10.0	8.3
P/ABV (x)	1.4	1.3	1.1	1.0
RoA (%)	1.1	1.0	0.7	0.7
RoE (%)	20.5	16.6	11.4	12.6

Source: Company, Angel Research; Note: CMP as of January 21, 2015

ACCUMULATE

CMP	₹29
Target Price	₹32

Investment Period	12 Months
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Stock Info	
Sector	Banking
Market Cap (₹ cr)	3,875
Beta	1.1
52 Week High / Low	35/19
Avg. Daily Volume	15,56,581
Face Value (₹)	1
BSE Sensex	28,888
Nifty	8,730
Reuters Code	SIBK.NS
Bloomberg Code	SIB@IN

Shareholding Pattern (%)	
Promoters	NA
MF / Banks / Indian Fls	9.9
FII / NRIs / OCBs	32.1
Indian Public / Others	58.0

Abs. (%)	3m	1yr	3yr
Sensex	8.7	35.9	72.5
SIB	13.2	38.7	24.5

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Exhibit 1: 3QFY2015 performance (standalone)

Particulars (₹ cr)	3QFY15	2QFY15	% chg (qoq)	3QFY14	% chg (yoy)	FY2014	FY2013	% chg
Interest earned	1,307	1,312	(0.4)	1,250	4.5	5,015	4,434	13.1
- on Advances / Bills	1,033	1,032	0.1	983	5.1	3,950	3,576	10.5
- on investments	259	261	(0.9)	247	5.0	954	746	27.9
- on balance with RBI & others	15	19	(20.8)	21	(27.2)	111	112	(1.0)
Interest Expended	987	954	3.4	900	9.7	3,616	3,153	14.7
Net Interest Income	320	358	(10.7)	350	(8.7)	1,399	1,281	9.2
Other income	160	94	71.2	85	89.5	368	335	10.0
- Other Income excl. treasury	82	82	0.5	80	2.0	299	277	7.7
- Treasury	78	12	547.9	4	1,723.3	70	58	20.9
Operating income	480	452	6.3	435	10.4	1,767	1,616	9.4
Operating expenses	261	241	8.2	219	19.0	883	767	15.1
- Employee expenses	155	135	14.9	127	21.7	529	473	11.9
- Other Opex	106	106	(0.3)	92	15.2	354	295	20.1
Pre-provision Profit	219	211	4.0	216	1.6	884	849	4.2
Provisions & Contingencies	86	96	(10.2)	2	4,155.9	155	193	(19.4)
PBT	133	115	15.8	214	(37.6)	729	656	11.1
Provision for Tax	46	39	17.0	73	(37.3)	221	154	44.2
PAT	88	76	15.2	141	(37.8)	508	502	1.0
Effective Tax Rate (%)	34.1	33.8	34bp	33.9	19bp	30.4	23.4	696bp

Source: Company, Angel Research

Exhibit 2: 3QFY2015 performance analysis (standalone)

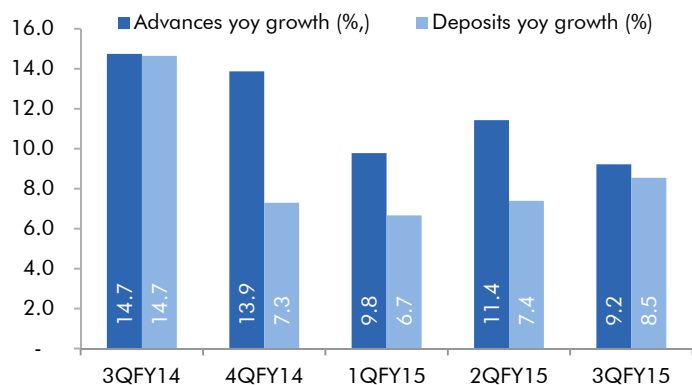
Particulars	3QFY15	2QFY15	% chg (qoq)	3QFY14	% chg (yoy)
Balance sheet					
Advances (₹ cr)	36,394	35,371	2.9	33,322	9.2
Deposits (₹ cr)	48,459	46,693	3.8	44,645	8.5
Credit-to-Deposit Ratio (%)	75.1	75.8	(65)bp	74.6	47bp
Current deposits (₹ cr)	1,826	1,859	(1.8)	1,756	4.0
Saving deposits (₹ cr)	8,598	8,456	1.7	7,672	12.1
CASA deposits (₹ cr)	10,424	10,315	1.1	9,428	10.6
CASA ratio (%)	21.5	22.1	(58)bp	21.1	39bp
CAR (%)	11.4	12.1	(75)bp	12.2	(82)bp
Profitability Ratios (%)					
Cost of deposits*	7.97	7.95	2bp	8.1	(14)bp
Yield on advances*	11.8	11.96	(17)bp	12.4	(57)bp
Reported NIM*	2.7	2.80	(10)bp	3.0	(32)bp
Cost-to-income ratio	54.3	53.3	98bp	50.4	393bp
Asset quality					
Gross NPAs (₹ cr)	661	553	19.5	555	19.2
Gross NPAs (%)	1.8	1.55	25bp	1.7	14bp
Net NPAs (₹ cr)	380	318	19.2	392	(3.1)
Net NPAs (%)	1.0	0.9	14bp	1.2	(14)bp
Provision Coverage Ratio (%)	60.4	62.9	(250)bp	55.8	461bp
Slippage ratio (%)	1.8	0.9	94bp	1.3	52bp

Source: Company, Angel Research; Note: *Annualised

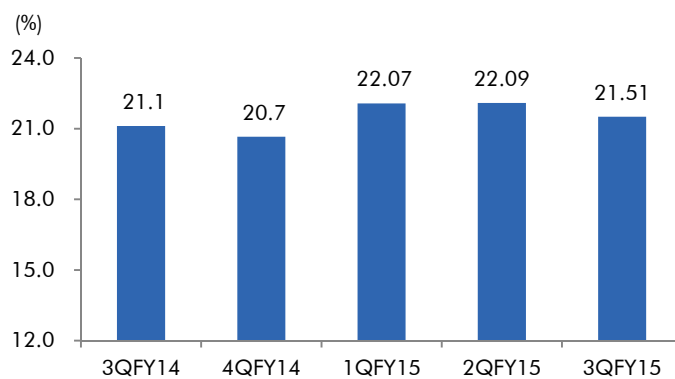
Business growth steady; NIM declines to 2.7% for 3QFY2015

During 3QFY2015, the bank registered a moderate growth in business, as advances and deposits grew at 9.2% and 8.5% yoy, respectively. Growth in advances was driven by Agriculture and SME segment (40.3% yoy) and Corporate Loan book (17.0% yoy). The retail loan book declined by 13.1% yoy, mainly on account of a correction in the value of the gold loans portfolio, due to fall in gold prices. The bank's gold loan portfolio accounts for 14% of total loans, of which 10% of total loans are accounted by PSL, while the remaining 4% is accounted by non-PSL. The Average LTV of the gold loan portfolio stands at 66% as against 72-73% last year.

Going forward, the Management has guided that the loan book would grow at an above industry growth rate with traction from Home Loan, Auto loan, MSME and Agri sectors. CASA deposits grew by 10.6% yoy with saving deposits growing by 12.1% yoy to ₹8,598cr. The CASA ratio improved by 39bp yoy to 21.5% with bulk deposits as a proportion of total deposits falling from 17% in 3QFY2014 to 11.5% in 3QFY2015.

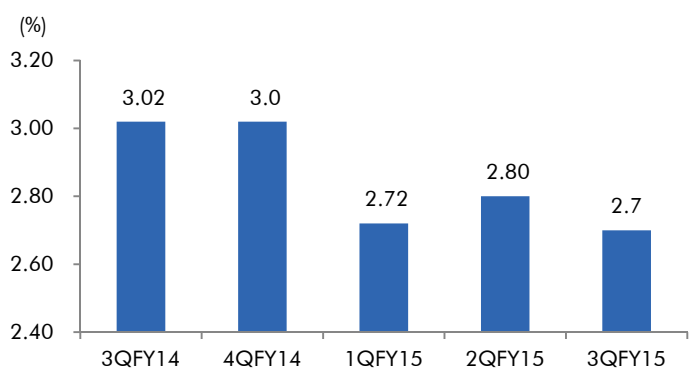
Exhibit 3: Business growth moderates


Source: Company, Angel Research

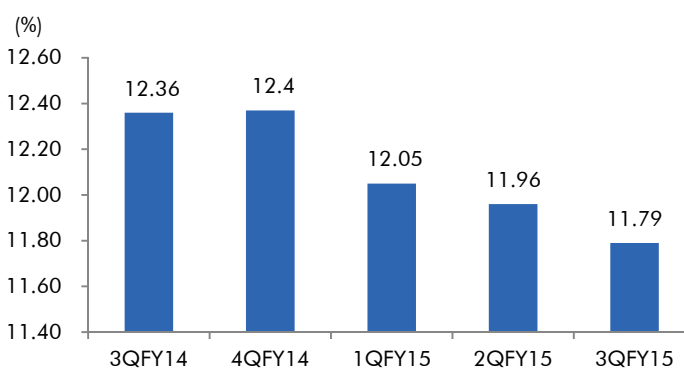
Exhibit 4: CASA ratio improves


Source: Company, Angel Research; Note: Excluding FCNR, RFC

The Reported NIM for the bank came in at 2.7% for 3QFY2015 as against 2.8% in 2QFY2015. The Cost of deposits for the bank came in at 7.97% for 3QFY2015, as against 7.95% in 2QFY2015, while yield on advances fell to 11.79% for 3QFY2015, as against 11.96% in 2QFY2015, as there was an interest reversal of ₹38cr on account of NPA.

Exhibit 5: NIM* falls qoq


Source: Company, Angel Research; Note: *cumulative

Exhibit 6: Yield on advances dips sequentially


Source: Company, Angel Research

Steady growth in non-interest income

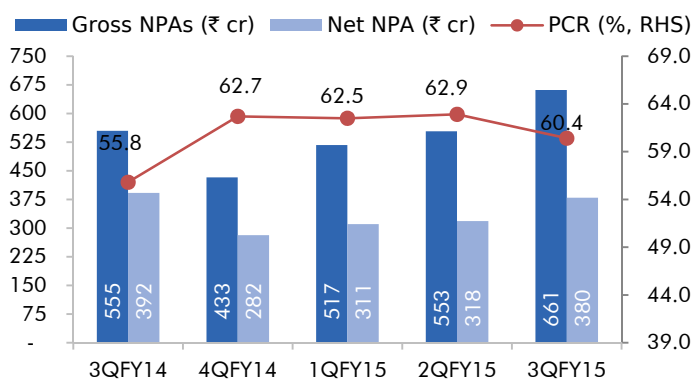
Growth in Other income (excl. Treasury income) was lower at 2% yoy, whereas Trading gains during the quarter came in at Rs78cr, leading to 89.5% yoy growth in non-interest income. Traction was also seen in recovery of bad debts, which increased from ₹93cr in 3QFY2014 to ₹195cr in 3QFY2015.

Asset Quality pressure continues

The bank's Asset quality deteriorated during the quarter with the Gross NPA ratio increasing from 1.55% in 2QFY2015 to 1.8% in 3QFY2015. In absolute terms, Gross NPAs increased from ₹553cr in 2QFY2015 to ₹661cr in 3QFY2015 (growth of 19.5% qoq). Slippages for the quarter came in at ₹164cr as compared to ₹79.2cr in 2QFY2015 (annualized slippage rate of 1.8% as against 0.87% in 2QFY2015). Of the total slippages, ₹92cr of slippages came from three sectors, ie Tyre, Steel and Commercial Real Estate. The Management expects Gross NPAs to be contained around 1.8% in FY2015.

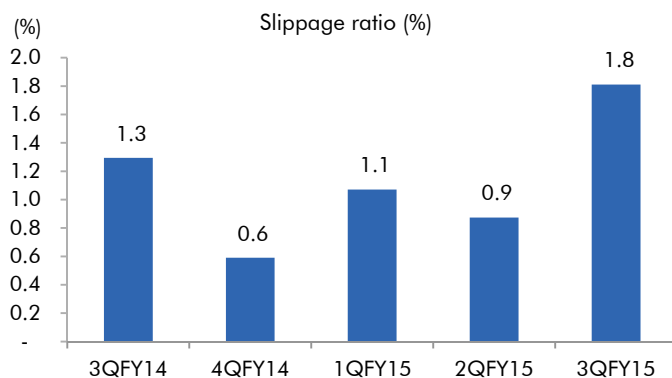
There was an increase of ₹40cr in the restructured book in the quarter under review. The Restructured book increased to ₹1,938cr in 3QFY2015. The Management does not see any significant increase in the restructured book going forward.

Exhibit 7: Asset quality worsens.....



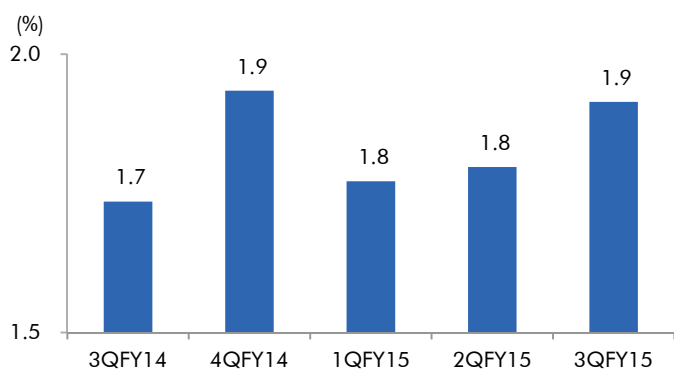
Source: Company, Angel Research

Exhibit 8: ...owing to higher slippages



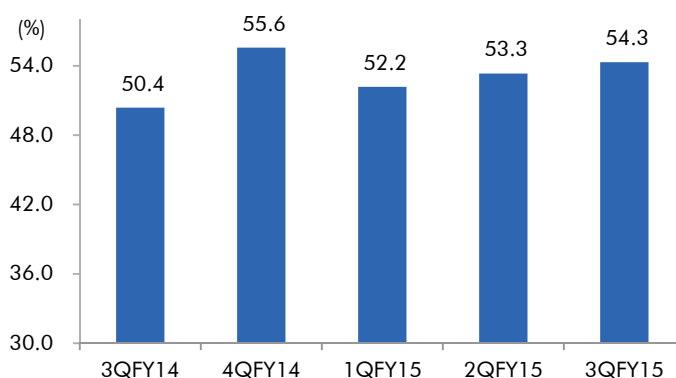
Source: Company, Angel Research

Exhibit 9: Opex. to average assets trend



Source: Company, Angel Research

Exhibit 10: Higher Cost to income ratio qoq



Source: Company, Angel Research

Outlook and valuation

Asset quality issues continued to linger during the quarter. With an improvement in the macro-economic environment, the bank expects the Gross NPA ratio to stabilize at current levels. Currently the stock trades at 1.0x FY2016E ABV. **With negatives factored in lower valuations, we recommend an Accumulate rating on the stock with a price target of ₹32.**

Exhibit 11: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	FY2016E P/ABV (x)	FY2016E Tgt. P/ABV (x)	FY2016E P/E (x)	FY2014-16E EPS CAGR (%)	FY2016E RoA (%)	FY2016E RoE (%)
HDFCBk	Accumulate	1,020	1,077	5.6	4.0	4.3	19.6	21.3	2.0	22.2
ICICIBk*	Buy	368	429	16.6	2.5	2.9	15.2	19.3	1.7	16.4
YesBk	Buy	855	998	16.7	2.6	3.0	14.1	16.3	1.7	19.7
AxisBk	Buy	547	643	17.5	2.6	3.0	14.7	18.4	1.9	18.4
SBI*	Accumulate	326	355	8.9	1.8	1.7	13.6	28.2	0.8	13.8
FedBk	Neutral	145	-	-	1.4	-	11.8	11.6	1.2	12.9
SIB	Accumulate	29	32	16.9	1.0	1.2	8.3	(4.1)	0.7	12.6
BOB	Buy	1,128	1,307	15.9	1.1	1.3	8.3	13.8	0.8	13.8
PNB	Buy	216	267	23.8	1.0	1.3	7.0	29.6	0.9	14.1
BOI	Buy	302	373	23.6	0.7	0.9	5.0	19.7	0.6	13.0
IndBk	Buy	216	255	18.1	0.7	0.8	5.8	23.4	0.8	11.2
Vijaya Bank	Buy	50	58	16.7	0.7	0.8	5.4	38.9	0.5	12.4
UnionBk	Accumulate	247	265	7.0	0.9	1.0	6.1	23.4	0.6	13.2
CanBk	Buy	470	548	16.6	0.8	1.0	6.2	19.4	0.6	12.5
IDBI#	Accumulate	77	81	6.2	0.5	0.6	5.2	45.7	0.6	10.1

Source: Company, Angel Research; Note: *Target multiples=SOTP Target Price/ABV (including subsidiaries), #Without adjusting for SASF

Company Background

South Indian Bank (SIB) is a small old generation private sector bank with ~83% of its branches in southern India (large base in Kerala and Tamil Nadu). Like Federal Bank, SIB also has a large NRI customer base (approx. 20% of total deposits). The bank was aggressively focusing on the gold loan portfolio that accounted for ~14% of the bank's loan book as of 3QFY2015. However the focus will shift to housing, auto and SME loans going forward.

Income statement (standalone)

Y/E March (₹ cr)	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Net Interest Income	568	791	1,022	1,281	1,399	1,364	1,525
- YoY Growth (%)	8.7	39.2	29.2	25.4	9.2	(2.5)	11.8
Other Income	208	197	247	335	369	485	459
- YoY Growth (%)	26.9	(5.6)	25.6	35.5	10.0	31.5	(5.3)
Operating Income	777	988	1,269	1,616	1,767	1,849	1,984
- YoY Growth (%)	13.0	27.2	28.4	27.3	9.4	4.6	7.3
Operating Expenses	366	463	617	767	883	1,024	1,091
- YoY Growth (%)	11.5	26.3	33.5	24.3	15.1	16.0	6.5
Pre - Provision Profit	411	525	652	849	884	825	894
- YoY Growth (%)	14.5	27.9	24.0	30.2	4.2	(6.8)	8.4
Prov. and Cont.	43	80	79	193	155	264	207
- YoY Growth (%)	(24.5)	84.4	(0.7)	143.3	(19.4)	69.6	(21.5)
Profit Before Tax	367	446	572	656	729	561	687
- YoY Growth (%)	21.9	21.3	28.5	14.6	11.1	(23.0)	22.4
Prov. for Taxation	134	153	171	154	221	174	220
- as a % of PBT	36.4	34.3	29.8	23.4	30.4	31.0	32.0
PAT	234	293	402	502	508	387	467
- YoY Growth (%)	20.0	25.1	37.3	25.1	1.1	(23.7)	20.6

Balance sheet (standalone)

Y/E March (₹ cr)	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Share Capital	113	113	113	134	134	134	134
Reserve & Surplus	1,372	1,734	2,057	2,873	3,236	3,535	3,900
Deposits	23,012	29,721	36,501	44,262	47,491	51,765	58,495
- Growth (%)	27.2	29.2	22.8	21.3	7.3	9.0	13.0
Borrowings	1	25	323	1,020	2,472	2,761	3,116
Tier 2 Capital	330	265	265	265	258	195	190
Other Liab. & Prov.	706	962	1,111	1,242	1,394	1,593	1,867
Total Liabilities	25,534	32,820	40,370	49,795	54,986	59,983	67,702
Cash balances	1,391	1,828	1,572	1,697	2,201	2,588	2,925
Bank balances	597	638	1,069	2,639	1,017	1,200	1,354
Investments	7,156	8,924	9,400	12,524	14,352	15,413	17,341
Advances	15,823	20,489	27,281	31,816	36,230	39,491	44,624
- Growth (%)	33.6	29.5	33.1	16.6	13.9	9.0	13.0
Fixed Assets	153	357	378	396	412	450	508
Other Assets	415	585	671	724	774	842	950
Total Assets	25,534	32,820	40,370	49,795	54,986	59,983	67,702
- Growth (%)	25.3	28.5	23.0	23.3	10.4	9.1	12.9

Ratio Analysis (standalone)

Y/E March	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Profitability ratios (%)							
NIMs	2.5	2.8	2.9	2.9	2.7	2.4	2.4
Cost to Income ratio	47.1	46.8	48.7	47.5	50.0	55.4	55.0
RoA	1.0	1.0	1.1	1.1	1.0	0.7	0.7
RoE	17.0	18.5	21.6	20.5	16.6	11.4	12.6
B/S ratios (%)							
CASA ratio	23.1	21.5	19.7	18.6	20.7	21.5	21.6
Credit/Deposit ratio	68.8	68.9	74.7	71.9	76.3	76.3	76.3
Net worth/ Assets	16.7	18.4	19.7	18.4	17.2	17.0	17.2
CAR	15.4	14.0	14.0	11.5	11.7	12.3	11.9
- Tier I	12.4	11.3	11.5	9.9	10.2	10.8	10.5
Asset Quality (%)							
Gross NPAs	1.3	1.1	1.0	1.4	1.2	1.4	1.4
Net NPAs	0.4	0.3	0.3	0.8	0.8	0.7	0.7
Slippages	1.5	0.7	0.8	1.9	2.0	1.8	1.8
NPA prov / avg. assets	0.2	0.1	0.1	0.3	0.2	0.3	0.2
Provision Coverage	70.8	73.9	71.4	56.7	49.8	61.2	62.6
Per Share Data (₹)							
EPS	2.1	2.6	3.5	3.8	3.8	2.9	3.5
ABVPS (75% cover)	12.9	15.0	17.8	20.4	22.8	25.2	28.0
DPS	0.4	0.5	0.6	0.7	0.8	0.6	0.7
Valuation Ratios							
PER (x)	13.9	11.1	8.1	7.7	7.6	10.0	8.3
P/ABVPS (x)	2.2	1.9	1.6	1.4	1.3	1.1	1.0
Dividend Yield	1.4	1.7	2.1	2.4	2.8	1.9	2.3
DuPont Analysis							
NII	2.5	2.7	2.8	2.8	2.7	2.4	2.4
(-) Prov. Exp.	0.2	0.3	0.2	0.4	0.3	0.5	0.3
Adj NII	2.3	2.4	2.6	2.4	2.4	1.9	2.1
Treasury	0.3	0.1	0.1	0.1	0.1	0.3	0.2
Int. Sens. Inc.	2.6	2.6	2.7	2.5	2.5	2.2	2.2
Other Inc.	0.6	0.5	0.6	0.6	0.6	0.6	0.6
Op. Inc.	3.2	3.1	3.3	3.2	3.1	2.8	2.8
Opex	1.6	1.6	1.7	1.7	1.7	1.8	1.7
PBT	1.6	1.5	1.6	1.5	1.4	1.0	1.1
Taxes	0.6	0.5	0.5	0.3	0.4	0.3	0.3
RoA	1.0	1.0	1.1	1.1	1.0	0.7	0.7
Leverage	16.7	18.4	19.7	18.4	17.2	17.0	17.2
RoE	17.0	18.5	21.6	20.5	16.6	11.4	12.6

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1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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