

January 21, 2015

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| | |
|----------------|------------|
| Rating | BUY |
| Price | Rs29 |
| Target Price | Rs35 |
| Implied Upside | 20.7% |
| Sensex | 28,889 |
| Nifty | 8,730 |

(Prices as on January 21, 2015)

Trading data

| | |
|----------------------------|---------|
| Market Cap. (Rs bn) | 38.6 |
| Shares o/s (m) | 1,343.9 |
| 3M Avg. Daily value (Rs m) | 300.2 |

Major shareholders

| | |
|----------------|--------|
| Promoters | 0.00% |
| Foreign | 32.09% |
| Domestic Inst. | 9.88% |
| Public & Other | 58.03% |

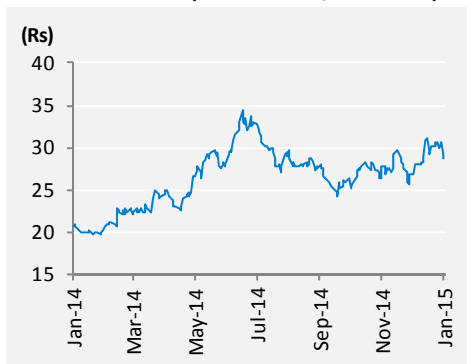
Stock Performance

| (%) | 1M | 6M | 12M |
|----------|-----|--------|------|
| Absolute | 6.7 | (12.5) | 38.6 |
| Relative | 1.1 | (24.8) | 2.6 |

How we differ from Consensus

| EPS (Rs) | PL | Cons. | % Diff. |
|----------|-----|-------|---------|
| 2016 | 4.2 | 4.4 | -5.9 |
| 2017 | 5.3 | 5.5 | -2.5 |

Price Performance (RIC: SIBK.BO, BB: SIB IN)



Source: Bloomberg

SIB's Q3FY15 numbers came in below expectations with PAT at Rs879mn (~38% YoY decline) despite strong treasury gains. Core performance was disappointing on weak NIMs, fees and opex. Asset quality slipped on higher delinquencies belonging to infrastructure, tyre and metal segments and resulted in interest reversal of Rs380mn. CASA mix also deteriorated by 60bp QoQ to 21.5% as current account deposits declined on sequential basis. Management has suggested for stable trends in asset quality going ahead. We retain our BUY rating with PT of Rs35.

- Weakness in operating metrics:** Reported NIMs have declined by 10bp QoQ as – (1) Fresh slippages increased to Rs1.64 bn (60% YoY increase) leading to in interest reversal of Rs380 mn, (2) CASA mix declined by 60bp QoQ, and, (3) Credit-deposit ratio eased marginally. NII thus declined 9% YoY while fee income remained flat on YoY basis. However treasury gains of Rs784 mn helped pull up total income growth to 10% YoY. Credit cost increased on high NPA provisions as delinquencies increased. SIB is struggling on cost side in the absence of favourable levers and hence, opex growth continues to remain high at ~19% YoY. However, PAT growth of 10% YoY was aided by depreciation write-back of Rs40m on account of lower yields however got offset to some extent due to Rs250mn of FITL provisions made during the quarter.
- Profitability to improve gradually:** Bank's gold loan business, earlier a high growth area, coupled with higher yields, has seen a sharp reversal, slowing down overall loan growth. Proportion of gold loans in the overall loan mix has thus declined to 14% vs 19% last year and has put pressure on yields. Opex is likely to remain elevated as SIB continues to add employees and provide for the impending wage hike – inline with the IBA discussion.
- Weak asset quality but management confident on outlook:** GNPA/NNPA have increased by ~19% QoQ however higher provisioning yet resulted in stable coverage ratio of ~43% (60.4% including technical write-offs). Management is confident on better asset quality and focus on CASA which will help will bring back NIMs at 3%. The bank has deferred the capital raising plan as it looks for a better price to do the same.

| Key financials (Y/e March) | 2014 | 2015E | 2016E | 2017E |
|-----------------------------|--------|--------|--------|--------|
| Net interest income (Rs m) | 13,988 | 14,333 | 17,187 | 19,789 |
| Growth (%) | 9.2 | 2.5 | 19.9 | 15.1 |
| Operating profit (Rs m) | 8,843 | 9,124 | 10,574 | 12,469 |
| PAT (Rs m) | 5,075 | 4,069 | 5,627 | 7,170 |
| EPS (Rs) | 3.8 | 3.0 | 4.2 | 5.3 |
| Growth (%) | 0.6 | (19.8) | 38.3 | 27.4 |
| Net DPS (Rs) | 0.8 | 0.9 | 1.0 | 1.1 |

| Profitability & Valuation | 2014 | 2015E | 2016E | 2017E |
|---------------------------|------|-------|-------|-------|
| NIM (%) | 2.68 | 2.45 | 2.58 | 2.58 |
| RoAE (%) | 16.6 | 12.1 | 15.1 | 17.1 |
| RoAA (%) | 0.97 | 0.70 | 0.85 | 0.93 |
| P / BV (x) | 1.2 | 1.1 | 1.0 | 0.9 |
| P / ABV (x) | 1.3 | 1.2 | 1.0 | 0.9 |
| PE (x) | 7.6 | 9.5 | 6.9 | 5.4 |
| Net dividend yield (%) | 2.8 | 3.0 | 3.3 | 3.7 |

Source: Company Data; PL Research

NII disappoints as margins drop on higher interest reversals of Rs380mn, while also some impact from shift in loan book

Core fee growth was subdued at 1.5% YoY, while other income was driven by large treasury gains during the quarter of Rs784mn.

High slippages and shortfall on FITL provision of Rs250mn was reason for higher provisions. While shortfall provision on FITL will conclude in Q4FY15.

Assets quality sharply on high slippages of Rs1.64bn of which, Rs400mn slipped from restructured book which was infra related account. Other slippages were from Tyre, Steel and Commercial real estate segment.

Advances growth has come down further to 9% YoY. Growth has been dragged down by contraction in gold loan book. Infra loan growth has shown uptick sequentially but strong growth was followed from Housing & MSME segments

Exhibit 1: Q3FY15 – Weak quarter

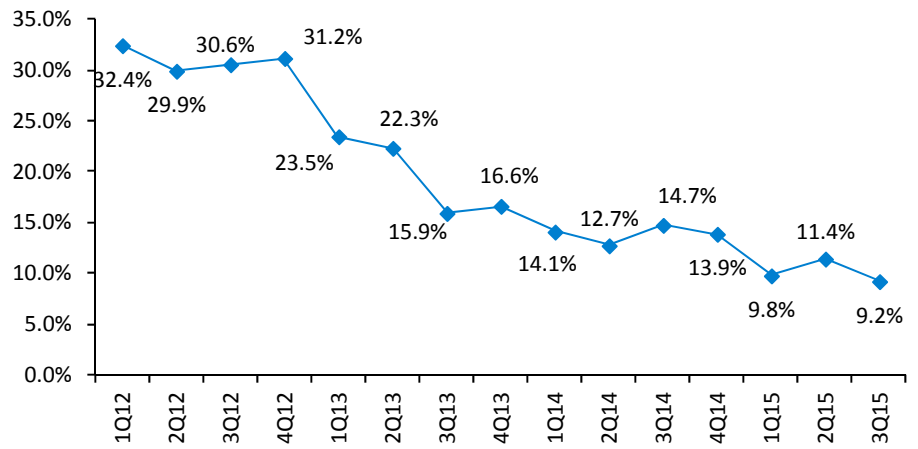
| | 3Q14 | 2Q15 | 3Q15 | YoY gr. | QoQ gr. |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Interest income | 12,501 | 13,123 | 13,068 | 4.5% | -0.4% |
| Interest expenses | 8,997 | 9,540 | 9,869 | 9.7% | 3.4% |
| Net interest income | 3,505 | 3,584 | 3,199 | -8.7% | -10.7% |
| Non-interest income | 846 | 936 | 1,603 | 89.5% | 71.2% |
| Operating expenses | 2,192 | 2,411 | 2,608 | 19.0% | 8.2% |
| Employee | 1,274 | 1,349 | 1,550 | 21.7% | 14.9% |
| Others | 918 | 1,061 | 1,058 | 15.2% | -0.3% |
| Pre prov profit | 2,159 | 2,109 | 2,194 | 1.6% | 4.0% |
| Provisions | 20 | 957 | 860 | 4155.9% | -10.2% |
| Profit before tax | 2,139 | 1,152 | 1,335 | -37.6% | 15.8% |
| Provision for tax | 726 | 389 | 455 | -37.3% | 17.0% |
| Profit after tax | 1,413 | 763 | 879 | -37.8% | 15.2% |
| Balance Sheet | | | | | |
| Loans | 333,218 | 353,713 | 363,938 | 9.2% | 2.9% |
| Deposits | 446,452 | 466,935 | 484,591 | 8.5% | 3.8% |
| - Savings | 77,340 | 84,560 | 85,980 | 11.2% | 1.7% |
| - Current | 17,660 | 18,590 | 18,260 | 3.4% | -1.8% |
| CASA ratio (%) | 21.7% | 22.1% | 21.5% | -0.2% | -0.6% |
| Gross NPAs | 5,546 | 5,532 | 6,613 | 19.2% | 19.5% |
| Net NPAs | 3,919 | 3,184 | 3,796 | -3.2% | 19.2% |
| Gross NPAs % | 1.66% | 1.55% | 1.80% | 0.1% | 0.3% |
| Net NPAs % | 1.18% | 0.90% | 1.04% | -0.1% | 0.1% |
| Provision coverage (%) | 29.3% | 42.4% | 42.6% | 13.3% | 0.2% |
| Credit costs (%) | 0.07% | 1.01% | 0.95% | 0.9% | -0.1% |
| Reported NIMs | 3.00% | 2.80% | 2.70% | -0.3% | -0.1% |
| Cost to income | 50.4% | 53.3% | 54.3% | 3.9% | 1.0% |

Source: Company Data, PL Research

Exhibit 2: Retail loans growth esp. Housing remains was strong but SME & Agri growth has been aiding overall loan growth

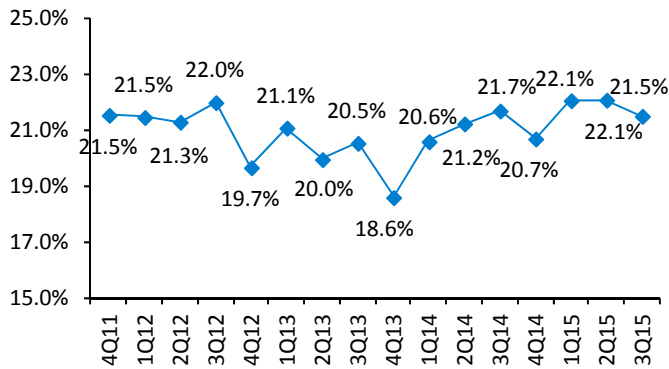
| | 3Q14 | 2Q15 | 3Q15 | YoY gr. | QoQ gr. |
|-----------------------|----------------|----------------|----------------|-------------|-------------|
| Agri | 14,080 | 34,070 | 37,390 | 165.6% | 9.7% |
| MSME | 47,300 | 62,560 | 64,950 | 37.3% | 3.8% |
| Infra | 59,430 | 44,640 | 47,600 | -19.9% | 6.6% |
| Housing | 15,420 | 17,220 | 19,150 | 24.2% | 11.2% |
| Gold Loans | 64,180 | 57,070 | 51,470 | -19.8% | -9.8% |
| Total Advances | 333,218 | 353,713 | 363,938 | 9.2% | 2.9% |

Exhibit 3: Loan growth comes down further, primarily led by gold loan book running off



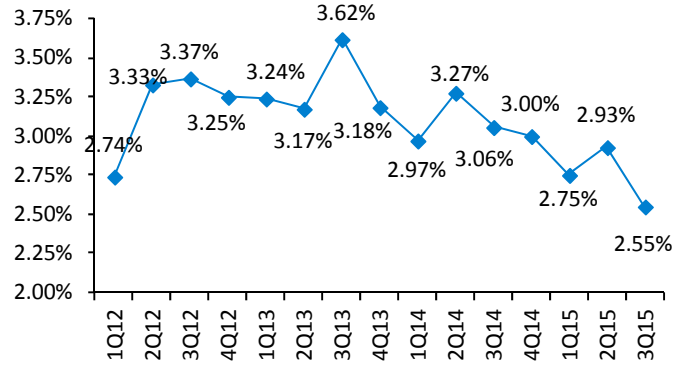
Source: Company Data, PL Research

Exhibit 4: CASA growth has been slowing down from past few quarters especially CA balances



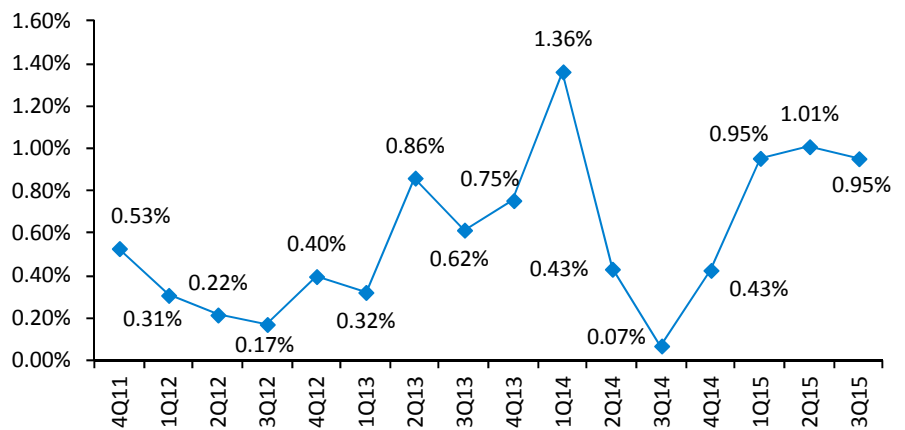
Source: Company Data, PL Research

Exhibit 5: NIMs slide on impact from fall in yields and large interest reversal

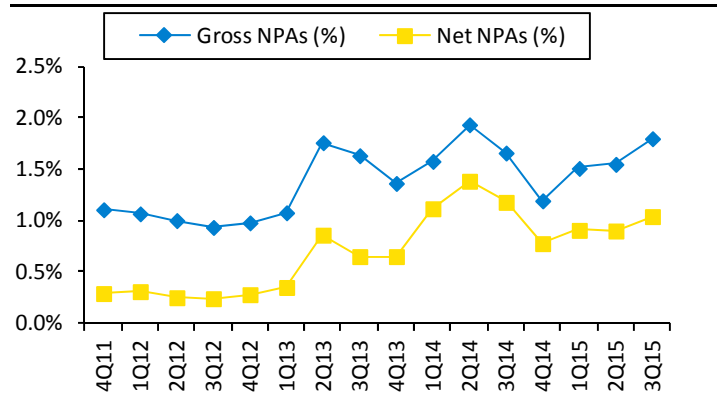


Source: Company Data, PL Research

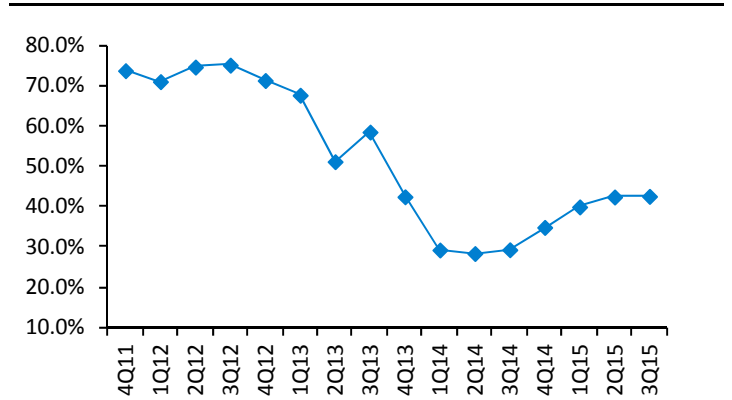
Exhibit 6: Credit costs remain elevated despite being marginally down sequentially



Source: Company Data, PL Research

Exhibit 7: Asset quality slips on some large slippages including one from restructured book


Source: Company Data, PL Research

Exhibit 8: Provision coverage ratio remains steady at ~42%


Source: Company Data, PL Research

Exhibit 9: We retain BUY rating with target price of Rs35 per share

| | |
|---------------------------|--------------|
| Risk free rate | 8.0% |
| Equity Risk Premium | 6.0% |
| Beta | 1.30 |
| Cost of Equity | 15.8% |
| Terminal growth | 5.0% |
| Normalised ROE | 17.3% |
| Stage 2 growth | 12.0% |
| Sep-16 PT | 35 |
| Implied Sep-16 P/B | 1.1 |
| Implied Sep-16 P/E | 7.4 |

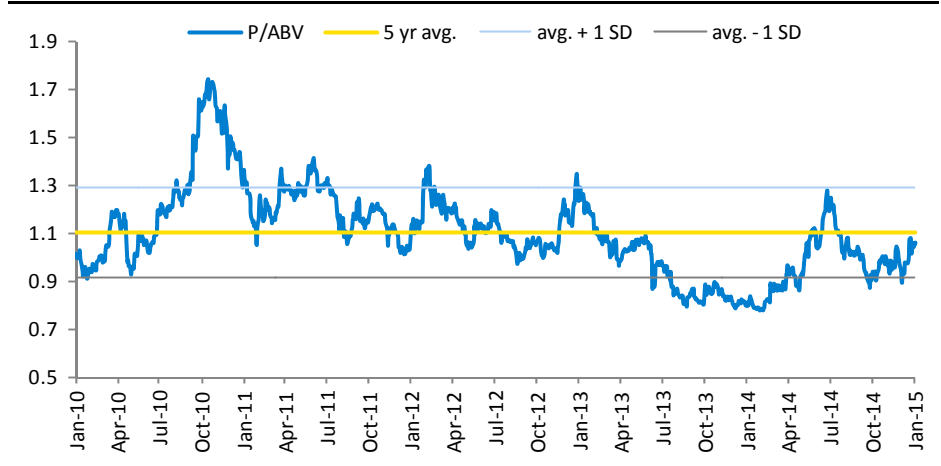
Source: Company Data, Bloomberg, PL Research

Exhibit 10: We cut our earnings on margin impact from loan book mix & high slippages, while increase our credit cost assumptions slightly

| | 2015E | | | 2016E | | |
|-------------|--------|--------|----------|--------|--------|----------|
| | New | Old | Variance | New | Old | Variance |
| NII | 14,333 | 15,487 | -7.45% | 17,187 | 17,683 | -2.80% |
| PPOP | 9,124 | 9,579 | -4.75% | 10,574 | 10,916 | -3.13% |
| PAT | 4,069 | 4,747 | -14.27% | 5,627 | 6,079 | -7.44% |
| NIMs | 2.5% | 2.7% | -0.20% | 2.6% | 2.7% | -0.06% |
| Credit Cost | 0.9% | 0.7% | 0.14% | 0.6% | 0.5% | 0.06% |
| ROA | 0.7% | 0.8% | -0.12% | 0.9% | 0.9% | -0.06% |
| ROE | 12.1% | 13.9% | -1.87% | 15.1% | 16.0% | -0.83% |

Source: Company Data, PL Research

Exhibit 11: SIB's multiples have lagged other peer banks as profitability has been weaker



Source: Company Data, PL Research

Income Statement (Rs m)

| Y/e March | 2014 | 2015E | 2016E | 2017E |
|-------------------------|---------------|---------------|---------------|---------------|
| Int. Earned from Adv. | 39,497 | 42,844 | 48,319 | 54,612 |
| Int. Earned from Inv. | 9,545 | 10,712 | 12,105 | 13,736 |
| Others | 1,108 | 776 | 892 | 892 |
| Total Interest Income | 50,151 | 54,332 | 61,316 | 69,241 |
| Interest expense | 36,163 | 39,999 | 44,129 | 49,452 |
| NII | 13,988 | 14,333 | 17,187 | 19,789 |
| Growth (%) | 9.2 | 2.5 | 19.9 | 15.1 |
| Treasury Income | 707 | 1,650 | 900 | 800 |
| NTNII | 2,977 | 3,424 | 4,040 | 4,768 |
| Non Interest Income | 3,685 | 5,074 | 4,940 | 5,568 |
| Total Income | 53,835 | 59,406 | 66,256 | 74,809 |
| Growth (%) | 12.9 | 10.3 | 11.5 | 12.9 |
| Operating Expense | 8,829 | 10,283 | 11,553 | 12,887 |
| Operating Profit | 8,843 | 9,124 | 10,574 | 12,469 |
| Growth (%) | 4.2 | 3.2 | 15.9 | 17.9 |
| NPA Provisions | 1,777 | 3,352 | 2,419 | 2,078 |
| Investment Provisions | (285) | — | — | — |
| Total Provisions | 1,554 | 3,352 | 2,419 | 2,078 |
| PBT | 7,289 | 5,772 | 8,155 | 10,391 |
| Tax Provisions | 2,214 | 1,703 | 2,528 | 3,221 |
| Effective Tax Rate (%) | 30.4 | 29.5 | 31.0 | 31.0 |
| PAT | 5,075 | 4,069 | 5,627 | 7,170 |
| Growth (%) | 1.0 | (19.8) | 38.3 | 27.4 |

Balance Sheet (Rs m)

| Y/e March | 2014 | 2015E | 2016E | 2017E |
|--------------------------|----------------|----------------|----------------|----------------|
| Par Value | 1 | 1 | 1 | 1 |
| No. of equity shares | 1,344 | 1,344 | 1,344 | 1,344 |
| Equity | 1,344 | 1,344 | 1,344 | 1,344 |
| Networth | 32,364 | 35,097 | 39,230 | 44,749 |
| Adj. Networth | 29,547 | 31,033 | 34,666 | 40,399 |
| Deposits | 474,911 | 526,599 | 594,337 | 690,547 |
| Growth (%) | 7.3 | 10.9 | 12.9 | 16.2 |
| Low Cost deposits | 98,249 | 109,533 | 124,216 | 145,015 |
| % of total deposits | 20.7 | 20.8 | 20.9 | 21.0 |
| Total Liabilities | 548,520 | 621,845 | 708,414 | 825,330 |
| Net Advances | 362,299 | 402,151 | 458,453 | 536,390 |
| Growth (%) | 13.9 | 11.0 | 14.0 | 17.0 |
| Investments | 143,518 | 168,437 | 192,124 | 222,388 |
| Total Assets | 548,543 | 621,845 | 708,414 | 825,330 |

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

| Y/e March | Q4FY14 | Q1FY15 | Q2FY15 | Q3FY15 |
|----------------------------|--------------|--------------|--------------|--------------|
| Interest Income | 13,026 | 13,447 | 13,123 | 13,068 |
| Interest Expense | 9,379 | 10,038 | 9,540 | 9,869 |
| Net Interest Income | 3,647 | 3,409 | 3,584 | 3,199 |
| Non Interest Income | 965 | 1,212 | 936 | 1,603 |
| CEB | — | — | — | — |
| Treasury | — | — | — | — |
| Net Total Income | 4,612 | 4,620 | 4,520 | 4,803 |
| Operating Expenses | 2,563 | 1,977 | 2,411 | 2,608 |
| Employee Expenses | 1,611 | 1,459 | 1,349 | 1,550 |
| Other Expenses | 953 | 518 | 1,061 | 1,058 |
| Operating Profit | 2,049 | 2,643 | 2,109 | 2,194 |
| Core Operating Profit | 2,049 | 2,643 | 2,109 | 2,194 |
| Provisions | 282 | 946 | 957 | 860 |
| Loan loss provisions | — | — | — | — |
| Investment Depreciation | — | — | — | — |
| Profit before tax | 1,766 | 1,697 | 1,152 | 1,335 |
| Tax | 520 | 431 | 389 | 455 |
| PAT before EO | 1,246 | 1,267 | 763 | 879 |
| Extraordinary item | — | — | — | — |
| PAT | 1,246 | 1,267 | 763 | 879 |

Key Ratios

| Y/e March | 2014 | 2015E | 2016E | 2017E |
|----------------------|--------|--------|--------|--------|
| CMP (Rs) | 29 | 29 | 29 | 29 |
| Equity Shrs. Os. (m) | 1,344 | 1,344 | 1,344 | 1,344 |
| Market Cap (Rs m) | 38,639 | 38,639 | 38,639 | 38,639 |
| M/Cap to AUM (%) | 7.0 | 6.2 | 5.5 | 4.7 |
| EPS (Rs) | 3.8 | 3.0 | 4.2 | 5.3 |
| Book Value (Rs) | 24 | 26 | 29 | 33 |
| Adj. BV (100%) (Rs) | 23 | 25 | 28 | 32 |
| P/E (x) | 7.6 | 9.5 | 6.9 | 5.4 |
| P/BV (x) | 1.2 | 1.1 | 1.0 | 0.9 |
| P/ABV (x) | 1.3 | 1.2 | 1.0 | 0.9 |
| DPS (Rs) | 0.8 | 0.9 | 1.0 | 1.1 |
| Dividend Yield (%) | 2.8 | 3.0 | 3.3 | 3.7 |

Profitability (%)

| Y/e March | 2014 | 2015E | 2016E | 2017E |
|-----------|------|-------|-------|-------|
| NIM | 2.7 | 2.4 | 2.6 | 2.6 |
| RoAA | 1.0 | 0.7 | 0.8 | 0.9 |
| RoAE | 16.6 | 12.1 | 15.1 | 17.1 |

Efficiency

| Y/e March | 2014 | 2015E | 2016E | 2017E |
|----------------------------|------|-------|-------|-------|
| Cost-Income Ratio (%) | 50.0 | 53.0 | 52.2 | 50.8 |
| C-D Ratio (%) | 76.3 | 76.4 | 77.1 | 77.7 |
| Business per Emp. (Rs m) | — | — | — | — |
| Profit per Emp. (Rs lacs) | — | — | — | — |
| Business per Branch (Rs m) | 859 | 828 | 817 | 828 |
| Profit per Branch (Rs m) | 5 | 4 | 4 | 5 |

Asset Quality

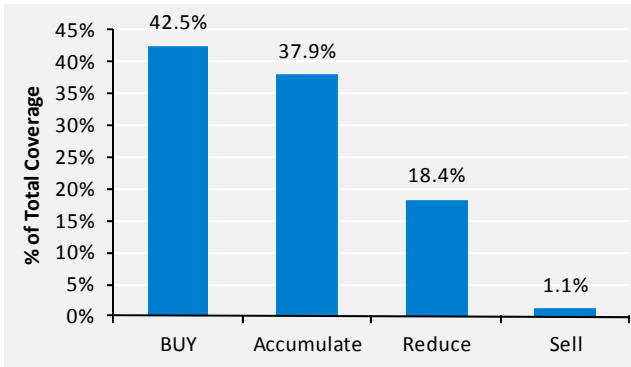
| Y/e March | 2014 | 2015E | 2016E | 2017E |
|----------------------------|-------|-------|-------|-------|
| Gross NPAs (Rs m) | 4,326 | 7,055 | 8,675 | 9,138 |
| Net NPAs (Rs m) | 2,817 | 4,064 | 4,564 | 4,350 |
| Gr. NPAs to Gross Adv. (%) | 1.2 | 1.8 | 1.9 | 1.7 |
| Net NPAs to Net Adv. (%) | 0.8 | 1.0 | 1.0 | 0.8 |
| NPA Coverage (%) | 34.9 | 42.4 | 47.4 | 52.4 |

Source: Company Data, PL Research.

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| | | |
|--------------------------|---|--|
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| Accumulate | : | Outperformance to Sensex over 12-months |
| Reduce | : | Underperformance to Sensex over 12-months |
| Sell | : | Over 15% underperformance to Sensex over 12-months |
| Trading Buy | : | Over 10% absolute upside in 1-month |
| Trading Sell | : | Over 10% absolute decline in 1-month |
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