

CMP: ₹ 28.1

Target: ₹ 35 (25%)

Target Period: 12 months

BUY

March 27, 2024

Acceleration in transformation to drive valuation

About the stock: South Indian Bank (SOUBAN) is old private sector bank based out of Kerala. The bank has undergone business transformation which has led to gradual improvement in business performance over past years.

- Distribution network with 948 branches & 1315 ATMs with strong presence in south India.
- Loan book at ₹ 77686 crore with ~36% book from Kerala. Diversified asset mix with corporate/ retail/ business/ agriculture segments contributing ~38%/ 23%/ 20%/ 19% in loan book

Q3FY24 performance: Healthy momentum in credit growth continued at 11% YoY & 4% QoQ to ₹75340 crore, led by corporate segment. New book stands at ~67% of total book. Deposit growth came at 9% YoY & 2% QoQ with CASA ratio at 31.8%. Treasury propelled earnings and RoA which came at 1.07%. Continued pressure on margins led to ~12 bps QoQ decline at 3.19%. Expenses included wage provision of ₹24 crore and one-time provisioning on fraud of ₹28.6 crore. Asset quality of new book remained resilient resulting in lower slippages at 0.34% & credit cost at 0.25%. GNPA/ NNPA ratio witnessed decline of ~22 bps/ 9 bps QoQ at 4.74%/ 1.61%.

Investment Rationale

- Focus on five areas to pedal transformation journey: Post restructuring, now the focus is on five-pronged strategy to steer growth and profitability. 1.) Focus to accelerate growth in MSME & retail portfolio through empowerment of branches to meet customer needs; 2.) improve branch productivity through increased training and improving "Tooth to Tail" ratio from 75:25 to 85:15; 3.) Acknowledging relatively higher CI ratio (~62% in Q3FY24), the bank is set to review employee and operating expenses; 4.) Focus on non-branch sourcing of business through partnerships; 5.) Enhance control & compliance architecture to ensure smooth business processes.
- Focus on retail & MSME segment to aid margins: Accelerating MSME & retail loans will aid margins, however, shift towards non-corporate segment could keep growth volatile. Expect advance growth at ~13% in FY24-26E with gradual uptick in proportion of MSME & retail loans. Healthy liabilities franchise, recent capital raising & scope to increase CD ratio is seen to keep margins steady at ~3.2-3.3% in FY24-26E. Further, resilience of new book (~67% of total advances) and run down in old book is seen to keep slippages and thus credit cost benign.

Rating and Target Price

- With business transformation imbibed & new competitive leadership, current trajectory of business restructuring is expected to continue. Increased focus on retail & MSME segment to aid granularization and margins which is expected to drive RoA at ~0.9-1% ahead. Valuing the stock at 0.8x FY26E BV, we assign a target of ₹ 35 and recommend a BUY.



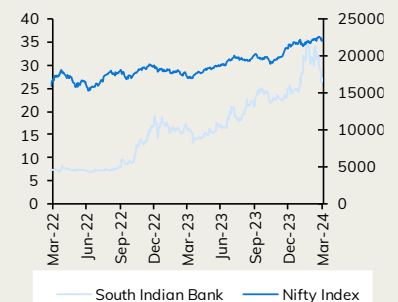
Particulars

Particulars	Amount
Market Capitalisation	7,032
52 week H/L	36.9/12.6
Net Worth	6,674
Face Value	1.00
DII Holding (%)	7.61
FII Holding (%)	14.68

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	-	-	-	-
FII	14.6	13.6	15.0	14.7
DII	7.6	7.8	6.6	7.6
Others	77.8	78.6	78.4	77.7

Price Chart



Key risks

- Substantial delinquencies from old loan book
- Higher than expected margin pressure

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 year CAGR (FY21-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
NII	2317.7	2406.9	2239.7	3012.1	84.0%	3279.6	3731.4	4242.8	12.1%
PPP	1645.9	1661.6	1247.5	1507.3	106.0%	1834.0	1938.2	2392.6	16.7%
PAT	104.9	61.9	44.9	775.1	26.4%	1023.7	1056.1	1345.2	20.2%
BV	28.5	26.2	26.5	30.4		33.83	37.86	43.00	
P/E	56.1	95.0	131.0	7.6		7.2	7.0	5.5	
P/ABV	1.0	1.1	1.1	0.9		0.8	0.7	0.7	
RoA	0.1	0.1	0.0	0.7		0.9	0.8	0.9	
RoE	2.1	1.2	0.8	13.0		11.6	10.7	12.0	

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24E	FY25E	FY26E
Interest Income	7233	8268	9451	10802
Interest Expense	4221	4989	5720	6560
Net interest income	3012	3280	3731	4243
% growth	34%	9%	14%	14%
Other income	813	1463	1316	1514
Total income	3825	4742	5048	5757
Operating expenses	2317	2908	3110	3364
Operating profit (PPP)	1507	1834	1938	2393
Provisions	399	469	530	599
Profit before tax	1108	1365	1408	1794
Tax	333	341	352	448
PAT	775	1024	1056	1345
% growth	1626%	32%	3%	27%

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24E	FY25E	FY26E
Sources of Funds				
Paid-up capital	209	262	262	262
Reserves & surplus	6465	8588	9644	10989
Networth	6675	8849	9905	11251
Borrowings	6994	6295	5980	5681
Other liabilities	2378	2616	2878	3166
Deposits	91651	102650	114968	128764
Total	107698	120410	133731	148861
Application of Funds				
Fixed assets	878	966	1062	1168
Net value of investments	24642	26367	28212	30187
Loans and advances	69804	78181	88344	99829
Other assets	5294	6258	8337	9279
Cash with RBI & Call money	7081	8638	7774	8396
Total	107698	120410	133731	148861

Source: Company, ICICI Direct Research

Exhibit 2: Key ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E
No. of Equity Shares	209	262	262	262
BV	30.4	33.8	37.9	43.0
ABV	26.3	29.0	33.5	39.2
P/BV	0.9	0.8	0.7	0.7
P/ABV	1.1	1.0	0.8	0.7
NIM %	3.2	3.3	3.3	3.4
GNPA	5.1	4.6	4.1	3.6
NNPA	1.9	1.6	1.3	1.0
ROA %	0.7	0.9	0.8	0.9
ROE %	13.0	11.6	10.7	12.0

Source: Company, ICICI Direct Research

Exhibit 4: Growth ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E
Total Assets	7.6%	11.8%	11.1%	11.3%
Advances	16.4%	12.0%	13.0%	13.0%
Deposits	2.8%	12.0%	12.0%	12.0%
Total Income	16.8%	24.0%	6.4%	14.0%
Net Interest Income	34.5%	8.9%	13.8%	13.7%
Operating Expenses	14.4%	25.5%	6.9%	8.2%
Net Profit	1626%	32.1%	3.2%	27.4%

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Vishal Narnolia, MBA, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.