

May 10, 2019

## Q4FY19 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	18		22	
NII (Rs. m)	22,313	25,338	23,349	25,779
% Chng.	(4.4)	(1.7)		
Op. Profit (Rs. m)	13,225	14,858	13,939	14,744
% Chng.	(5.1)	0.8		
EPS (Rs.)	1.6	2.3	2.4	2.6
% Chng.	(35.4)	(12.4)		

### Key Financials

	FY18	FY19	FY20E	FY21E
NII (Rs m)	19,655	20,197	22,313	25,338
Op. Profit (Rs m)	14,808	12,390	13,225	14,858
PAT (Rs m)	3,349	2,475	2,862	4,103
EPS (Rs.)	1.9	1.4	1.6	2.3
Gr. (%)	(25.5)	(26.2)	15.6	43.4
DPS (Rs.)	0.5	0.3	0.4	0.4
Yield (%)	3.4	2.1	2.6	3.0
NIM (%)	2.7	2.5	2.4	2.5
RoAE (%)	6.6	4.7	5.2	7.0
RoAA (%)	0.4	0.3	0.3	0.4
P/BV (x)	0.5	0.5	0.5	0.4
P/ABV (x)	0.7	0.9	0.8	0.7
PE (x)	7.6	10.3	8.9	6.2
CAR (%)	12.7	12.6	11.9	11.1

### Key Data

SIBK.BO | SIB IN

52-W High / Low	Rs.27 / Rs.12
Sensex / Nifty	37,463 / 11,279
Market Cap	Rs.25bn / \$ 364m
Shares Outstanding	1,810m
3M Avg. Daily Value	Rs.596.96m

### Shareholding Pattern (%)

Promoter's	-
Foreign	24.13
Domestic Institution	13.53
Public & Others	62.34
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(18.8)	(9.4)	(45.5)
Relative	(16.4)	(14.9)	(48.8)

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## Weak on all fronts

### Quick Pointers

- High Agri slippages & lower recoveries dented asset quality
- Margins came under tremendous pressure

**SIB's earnings were below expectations on back of (i) Muted NII on sharp decline in NIMs and (ii) continued provisions to improve PCR and provide on fresh slippages. Slippages in most segments were lower barring Agri and one a/c in corporate (from medical college in Kerala). SMA-2 book came off further to 1.71% from 2.2% in Mar'18. PPOP growth of 5.4% YoY was supported by better other income, while expenses control though helped are not reflecting in ratios. Management has to significantly work on improving PCR which stood at 31% (42.5% incl. technical w.off) and hence credit cost will remain high, while has to also work on improving pricing power to improve NIMs. Stock trades at 0.7x Mar-21 ABV which is cheap especially given the asset quality issues will be lower. We maintain BUY with TP of Rs18 (from Rs22) based on 0.8x Mar-21 ABV (rolled over from 1.0x Sep-20).**

**Weak on operational front:** NII growth was muted at 1.5% YoY on sharp decline in NIM of 20bps QoQ to 2.46% and despite loan growth being better at 15% YoY driven by 34% growth in retail book. Bank opted for higher cost of funding especially raising the Tier-II B3 bonds at 11.5% to shore up capital, while MCLR changes are not reflecting in yields. Management expects NIM to improve from hereon as liabilities funding get stabilized, while bias on retail/SME will help yields improvement.

**Loan growth momentum in line:** Loans growth 14.9% was driven by 34%YoY growth in retail, 16%YoY growth in MSME. Corporate book saw 5%YoY growth. Retail was largely driven by Gold loan, housing loan, LAP. On liabilities front, CASA mix was steady at 24% with growth of 14% YoY but was better than TDs growth of 11.4% YoY.

**Branch expansion increased other expense:** Bank added 13 branches during the quarter (9 in Kerala). This is to build up liability franchise and support loan growth from unchartered territories. We note that bank merely added 7 branches in last 7 quarters. Other expenses spiked 17% YoY.

**Treasury income supported income growth:** Treasury income rose 4x YoY to 650mn from quarterly average trend of 170mn. Provision pertaining to investment depreciation increased to 397mn from -73mn in 3Q19. We believe bank preferred to liquidate some portion of high duration book.

**Asset quality deteriorates on low recoveries; SMA2 book exhibiting encouraging trend:** Bank's recognized slippages of Rs3.68bn of which corporate (Medical college – Rs1.14bn) and MSME (Rs1.13bn) were major contributors. R&U came at Rs1.66bn (56% QoQ decline). SMA 2 book came at 1.7% (v/s 2.2% 4Q18). Bank slightly increased its PCR to 42.5% (incl TWO). Bank aims to reach 60% in FY20 and hence will keep credit cost higher.

**Exhibit 1: Weak core performance; higher provisions impact bottom line**

*NII growth was subdued due to declining NIMs as cost of funds rose by 32bps*

*Other income growth was strong driven by 4x growth in treasury income*

*C/I ratio expanded on low total income growth to 55.4%*

*Provisions inched up on NPA front & investment depreciation (~Rs400mn v/s -Rs73mn/+Rs85mn in 3Q19/4Q18)*

*Loan growth continues to be in mid-teens supported by growth in retail book*

*Margins saw sequential decline as yields decline while cost of funds rose*

*Asset quality deteriorated on higher Agri slippages and low recoveries (59% YoY decline); total slippage run-rate at 2.35% v/s 4.5% in 3Q18*

*CASA mix marginally declined on de-growth in CA, however SA growth was strong at 4.6%*

(Rs m)	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)
Interest Income	17,909	15,890	12.7	17,352	3.2
Interest Expended	12,916	10,968	17.8	12,155	6.3
<b>Net interest income (NII)</b>	<b>4,994</b>	<b>4,922</b>	<b>1.5</b>	<b>5,196</b>	<b>(3.9)</b>
-Treasury income	650	130	400.0	270	140.7
Other income	2,357	1,787	31.9	1,868	26.2
<b>Total income</b>	<b>7,350</b>	<b>6,709</b>	<b>9.6</b>	<b>7,064</b>	<b>4.1</b>
Operating expenses	4,075	3,600	13.2	3,744	8.8
-Staff expenses	2,119	1,933	9.6	2,022	4.8
-Other expenses	1,956	1,667	17.3	1,722	13.6
<b>Operating profit</b>	<b>3,276</b>	<b>3,109</b>	<b>5.4</b>	<b>3,320</b>	<b>(1.3)</b>
Core operating profit	2,626	2,979	(11.9)	3,050	(13.9)
Total provisions	2,192	1,486	47.4	2,031	7.9
<b>Profit before tax</b>	<b>1,084</b>	<b>1,623</b>	<b>(33.2)</b>	<b>1,289</b>	<b>(15.9)</b>
Tax	379	482	(21.3)	450	(15.9)
<b>Profit after tax</b>	<b>705</b>	<b>1,141</b>	<b>(38.2)</b>	<b>838</b>	<b>(15.9)</b>
<b>Balance sheet (Rs m)</b>					
Deposits	8,04,201	7,20,296	11.6	7,76,650	3.5
Advances	6,26,937	5,45,629	14.9	5,92,560	5.8
<b>Ratios (%)</b>					
<b>Profitability ratios</b>					
Yield on Advances	9.51%	9.61%	(10)	9.64%	(13)
Cost of Funds	5.72%	5.40%	32	5.59%	13
<b>NIM</b>	<b>2.46%</b>	<b>2.73%</b>	<b>(27)</b>	<b>2.66%</b>	<b>(20)</b>
RoAA	0.31%	0.56%	(25)	0.39%	(8)
<b>Asset Quality</b>					
Gross NPL (Rs m)	31,317	19,803	58.1	29,300	6.9
Net NPL (Rs m)	21,636	14,158	52.8	20,997	3.0
Gross NPL ratio (%)	4.92	3.59	133	4.88	4
Net NPL ratio (%)	3.45	2.59	86	3.54	(9)
Coverage ratio (Rep) (%)	42.46	41.20	126	41.17	129
<b>Business &amp; Other Ratios</b>					
CASA mix	24.21	23.80	41	24.30	(9)
Cost-income ratio	55.44	53.66	178	53.00	244
Non int. inc / total income	32.06	26.63	543	26.44	562
Credit deposit ratio	77.96	75.75	221	76.30	166
CAR	12.60	12.70	(10)	11.80	80
Tier-I	10.00	10.40	(40)	9.70	30

Source: Company, PL

## Q4FY19 Conference Call Highlights

### Business growth & Outlook

- Bank is eyeing loan growth of 18% YoY in FY20 with retail continuing 30% YoY growth momentum, SME at 20%YoY, agri at 15-20%YoY, mid corporate at 20%YoY while top corporate book. To improve SME growth, bank is eyeing higher ticket size (current quarter ticket size increased to Rs3.8mn from Rs3.1mn in 3Q19), but will be not compromise on collateral value. Accounts in loan category >Rs1.0bn reduced meaningfully to 314 from 381 in 3Q19 on change to lower categorization and repayments.
- Bank opened 13 branches during the quarter of which 9 were in Kerala. Bank mentioned about opportunities in Andhra Pradesh, to capitalize on which bank plans to open more branches in the state.
- Bank purchased total portfolio of Rs13bn in FY19, outstanding is Rs10bn (Rs3bn has been repaid). Portfolio was combination of gold loan, LAP and home loan.

### Margins/Other Income

- Bank has not seen rise in yields inspite of hikes in MCLR as bank focused on higher rated loans, while to shore up capital and liabilities bank relied on higher cost leading to rise in cost of funds by 40-50bps YoY & 13bps QoQ. NIM came at 2.58% for FY19 & 2.46% for 4Q19. Bank guides for 15-20bps expansion from exit NIM to 2.65% in FY20.
- Other income grew 32% YoY on treasury gains and result of various tie-ups with insurance firms. Bank expects fees to improve from both treasury & fees.

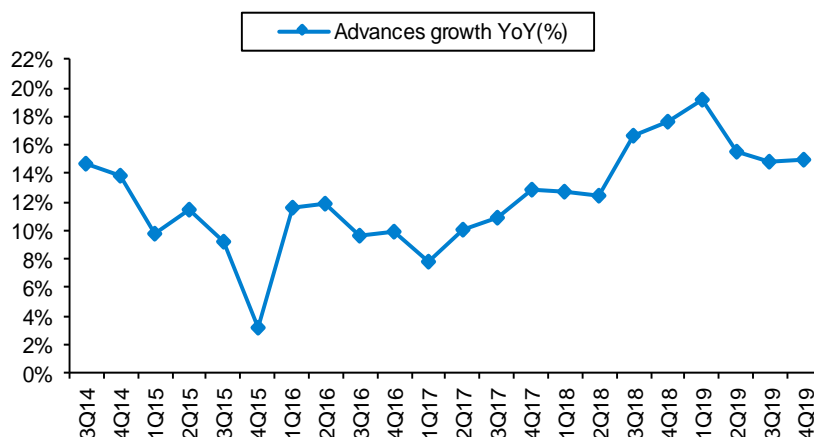
### Asset Quality

- **Below BBB** came at Rs7.73bn. they consists of four standard accounts. One account pertains to multi divisional company of a well-established group in Kolkata. Second is of a road project which was taken over by new group two years back. Third of a hotel project to a well-recognized NBFC in Kerala facing no stress as of date. **SMA-2** book has reduced materially to 1.71% (Rs10.9bn). These exposure pertains to 2 accounts in 250-500mn, amounting to 990mn.
- Corporate slippages of ~Rs1.14bn pertains to Medical college for which bank is sole lender. Issue pertains to regulatory licensing, bank has enough collateral. Agri slippages spurted on back of influence of debt waiver schemes. Bank has major exposure in Kerala/TN and a limited exposure in Karnataka. **Outlook:** Bank has guided for Rs2.5bn slippage run rate every quarter in FY20.
- **Risky exposures:** Currently, outstanding is Rs4.0bn with PCR of 15% on IL&FS. Bank has no exposure to aviation, epc, telecom, Reliance ADA, Essel.

### Capital Raising

- Bank raised tier II bonds of Rs2.5bn during month of March to shore up capital. These bonds came at steep 11.5% with semi-annual repayment. Bank has more approvals in place to raise Tier I and Tier II capital.

**Exhibit 2: Loan growth in mid-teens supported by retail growth**



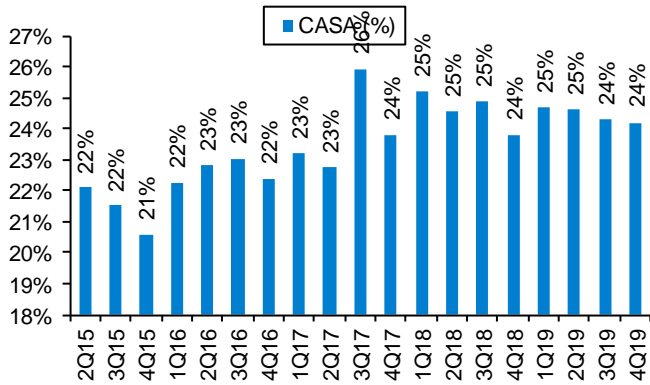
Source: Company, PL

**Exhibit 3: Retail outperforming other segments**

Break-up of Advances	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)
Agri	86,730	79,190	9.5	80,680	7.5
MSME	1,50,690	1,29,650	16.2	1,40,270	7.4
Retail	1,84,580	1,37,870	33.9	1,68,570	9.5
Corporate	2,14,360	2,04,380	4.9	2,11,100	1.5
<b>Total Advances</b>	<b>6,36,360</b>	<b>5,51,090</b>	<b>15.5</b>	<b>6,00,620</b>	<b>6.0</b>
<b>Loan Mix</b>					
Agri	13.6%	14.4%	(0.7)	13.4%	19.6
MSME	23.7%	23.5%	0.2	23.4%	32.6
Retail	29.0%	25.0%	4.0	28.1%	94.0
Corporate	33.7%	37.1%	(3.4)	35.1%	(146.2)

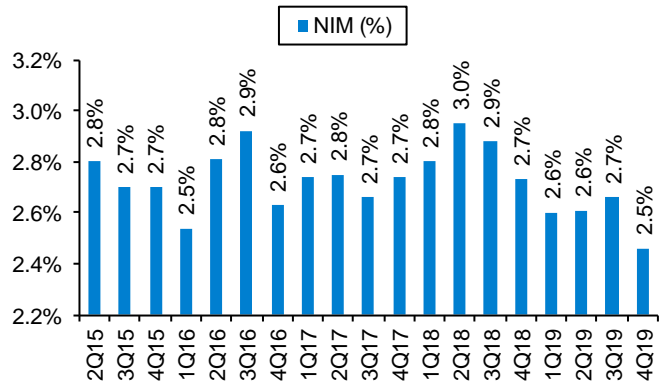
Source: Company, PL

**Exhibit 4: CASA mix impacted by de-growth in CA**



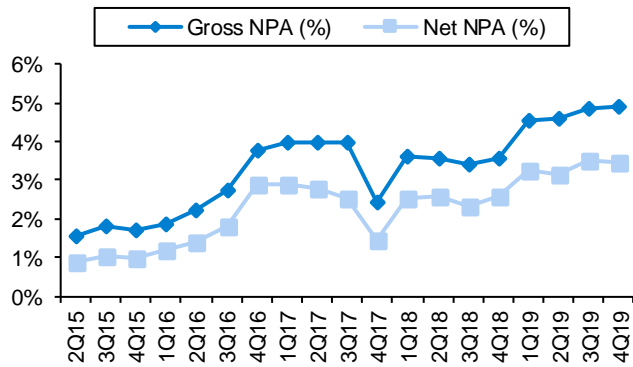
Source: Company, PL

**Exhibit 5: NIM sequentially declined as spread got impacted**



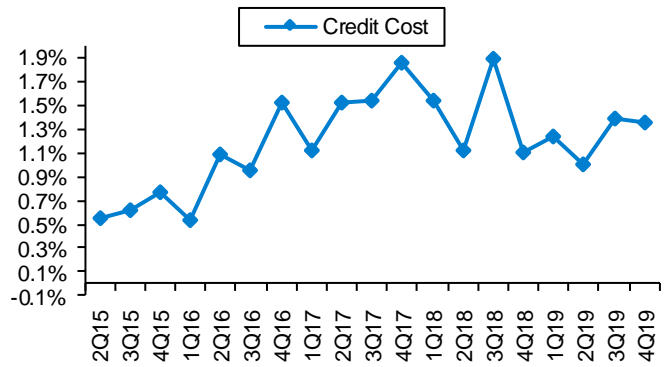
Source: Company, PL

**Exhibit 6: Asset quality inched up on low recoveries**



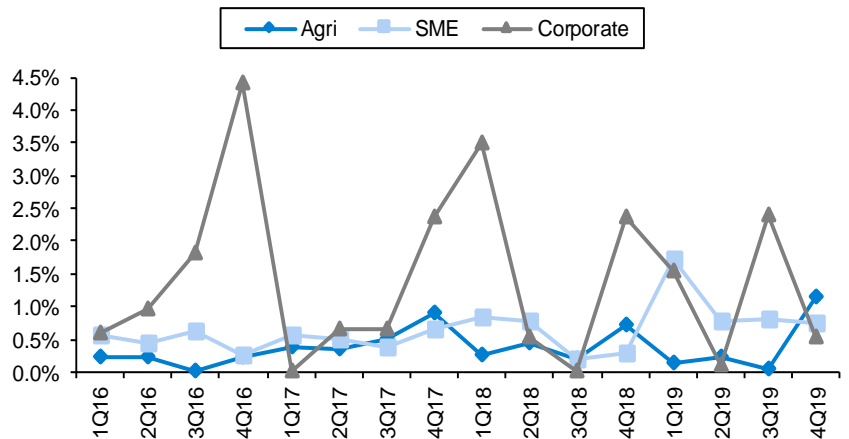
Source: Company, PL

**Exhibit 7: Credit cost continues to remain elevated**



Source: Company, PL

**Exhibit 8: Agri slippages spiked while corporate on significant decline**



Source: Company, PL

**Exhibit 9: We cut estimates to take impact on NIMs and higher provisions required to improve PCR**

(Rs mn)	Old		Revised		%Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net interest income	23,349	25,779	22,313	25,338	(4.4)	(1.7)
Operating profit	13,939	14,744	13,225	14,858	(5.1)	0.8
Net profit	4,429	4,682	2,862	4,103	(35.4)	(12.4)
EPS (Rs)	2.4	2.6	1.6	2.3	(35.4)	(12.4)
ABVPS (Rs)	21.0	24.1	18.0	21.6	(14.3)	(10.6)
<b>Price target (Rs)</b>	<b>22</b>		<b>18</b>		<b>(18.8)</b>	
<b>Recommendation</b>	<b>BUY</b>		<b>BUY</b>			

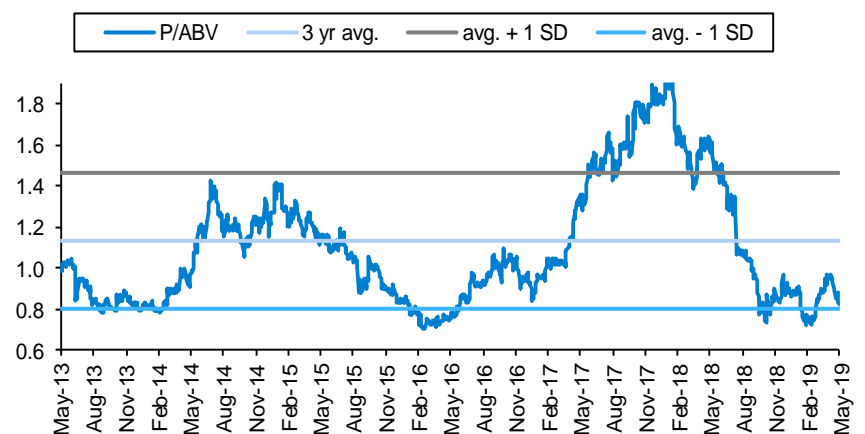
Source: Company, PL

**Exhibit 10: We lower TP to Rs18 (from Rs22) based on 0.8x Mar-21 ABV (rolled over from 1.0x Sep-20 ABV)**

PT calculation and upside	
Terminal growth	5.0%
Market risk premium	6.0%
Risk-free rate	7.5%
Adjusted beta	1.10
<b>Cost of equity</b>	<b>14.1%</b>
<b>Fair price - P/ABV</b>	<b>18</b>
<b>Target P/ABV</b>	<b>0.8</b>
<b>Target P/E</b>	<b>8.0</b>
Current price, Rs	15
<b>Upside (%)</b>	<b>19%</b>
Dividend yield (%)	2%
<b>Total return (%)</b>	<b>22%</b>

Source: Company, PL

**Exhibit 11: One year Forward P/ABV chart**



Source: Company, PL

**Income Statement (Rs. m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
Int. Earned from Adv.	47,692	53,964	63,000	74,391
Int. Earned from invt.	12,695	12,861	13,258	12,369
Others	1,351	1,584	1,569	1,801
<b>Total Interest Income</b>	<b>61,928</b>	<b>68,765</b>	<b>78,160</b>	<b>88,942</b>
Interest Expenses	42,273	48,568	55,847	63,605
<b>Net Interest Income</b>	<b>19,655</b>	<b>20,197</b>	<b>22,313</b>	<b>25,338</b>
Growth(%)	17.2	(2.0)	10.3	13.4
Non Interest Income	8,372	7,262	7,988	9,027
<b>Net Total Income</b>	<b>28,028</b>	<b>27,459</b>	<b>30,301</b>	<b>34,365</b>
Growth(%)	7.1	8.1	13.3	13.7
Employee Expenses	7,132	8,214	9,323	10,535
Other Expenses	5,450	6,185	7,113	8,180
<b>Operating Expenses</b>	<b>13,220</b>	<b>15,069</b>	<b>17,076</b>	<b>19,506</b>
<b>Operating Profit</b>	<b>14,808</b>	<b>12,390</b>	<b>13,225</b>	<b>14,858</b>
Growth(%)	21.9	(16.3)	6.7	12.3
NPA Provision	6,863	6,877	8,125	7,927
<b>Total Provisions</b>	<b>9,809</b>	<b>8,585</b>	<b>8,826</b>	<b>8,551</b>
<b>PBT</b>	<b>4,999</b>	<b>3,805</b>	<b>4,399</b>	<b>6,308</b>
Tax Provision	1,650	1,330	1,537	2,204
Effective tax rate (%)	33.0	34.9	34.9	34.9
<b>PAT</b>	<b>3,349</b>	<b>2,475</b>	<b>2,862</b>	<b>4,103</b>
Growth(%)	(14.7)	(26.1)	15.6	43.4

**Balance Sheet (Rs. m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
Face value	1	1	1	1
No. of equity shares	1,809	1,810	1,810	1,810
Equity	1,809	1,810	1,810	1,810
<b>Networth</b>	<b>52,412</b>	<b>53,353</b>	<b>56,801</b>	<b>60,141</b>
Growth(%)	8.2	1.8	6.5	5.9
Adj. Networth to NNPA's	14,392	21,636	21,902	18,712
<b>Deposits</b>	<b>720,296</b>	<b>804,201</b>	<b>900,705</b>	<b>1,004,286</b>
Growth(%)	8.9	11.6	12.0	11.5
CASA Deposits	171,417	194,670	220,673	248,059
% of total deposits	23.8	24.2	24.5	24.7
<b>Total Liabilities</b>	<b>826,839</b>	<b>922,775</b>	<b>1,032,389</b>	<b>1,150,185</b>
Net Advances	545,629	626,937	727,247	858,152
Growth(%)	17.6	14.9	16.0	18.0
Investments	183,631	190,814	189,707	164,303
<b>Total Assets</b>	<b>826,859</b>	<b>922,792</b>	<b>1,032,389</b>	<b>1,150,185</b>
Growth (%)	11.3	11.6	11.9	11.4

**Asset Quality**

Y/e Mar	FY18	FY19	FY20E	FY21E
Gross NPAs (Rs m)	19,803	31,323	33,902	31,439
Net NPAs (Rs m)	14,392	21,636	21,902	18,712
Gr. NPAs to Gross Adv.(%)	3.6	4.9	4.6	3.6
Net NPAs to Net Adv. (%)	2.6	3.5	3.0	2.2
NPA Coverage %	27.3	30.9	35.4	40.5

**Profitability (%)**

Y/e Mar	FY18	FY19	FY20E	FY21E
NIM	2.7	2.5	2.4	2.5
RoAA	0.4	0.3	0.3	0.4
RoAE	6.6	4.7	5.2	7.0
Tier I	10.4	10.0	9.2	8.4
CRAR	12.7	12.6	11.9	11.1

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Interest Income	16,539	16,965	17,352	17,909
Interest Expenses	11,597	11,900	12,155	12,916
<b>Net Interest Income</b>	<b>4,943</b>	<b>5,065</b>	<b>5,196</b>	<b>4,994</b>
YoY growth (%)	12.6	15.2	13.9	17.8
CEB	910	950	1,080	1,200
Treasury	-	-	-	-
Non Interest Income	1,459	1,579	1,868	2,357
<b>Total Income</b>	<b>17,998</b>	<b>18,544</b>	<b>19,219</b>	<b>20,266</b>
Employee Expenses	2,111	1,963	2,022	2,119
Other expenses	1,594	1,583	1,722	1,956
<b>Operating Expenses</b>	<b>3,705</b>	<b>3,546</b>	<b>3,744</b>	<b>4,075</b>
<b>Operating Profit</b>	<b>2,696</b>	<b>3,098</b>	<b>3,320</b>	<b>3,276</b>
YoY growth (%)	(28.9)	(32.7)	0.6	5.4
Core Operating Profits	-	-	-	-
NPA Provision	1,741	1,332	1,894	1,910
Others Provisions	2,315	2,047	2,031	2,192
<b>Total Provisions</b>	<b>2,315</b>	<b>2,047</b>	<b>2,031</b>	<b>2,192</b>
<b>Profit Before Tax</b>	<b>381</b>	<b>1,051</b>	<b>1,289</b>	<b>1,084</b>
Tax	151	350	450	379
<b>PAT</b>	<b>230</b>	<b>701</b>	<b>838</b>	<b>705</b>
YoY growth (%)	(77.3)	1,523.4	(27.1)	(38.2)
<b>Deposits</b>	<b>724,880</b>	<b>749,112</b>	<b>776,650</b>	<b>804,201</b>
YoY growth (%)	10.2	11.6	14.0	11.6
<b>Advances</b>	<b>554,440</b>	<b>565,725</b>	<b>592,560</b>	<b>626,937</b>
YoY growth (%)	19.2	15.6	14.8	14.9

**Key Ratios**

Y/e Mar	FY18	FY19	FY20E	FY21E
CMP (Rs)	14	14	14	14
EPS (Rs)	1.9	1.4	1.6	2.3
Book Value (Rs)	28	28	30	32
Adj. BV (70%)(Rs)	20	16	18	22
P/E (x)	7.6	10.3	8.9	6.2
P/BV (x)	0.5	0.5	0.5	0.4
P/ABV (x)	0.7	0.9	0.8	0.7
DPS (Rs)	0.5	0.3	0.4	0.4
Dividend Payout Ratio (%)	25.7	22.0	22.9	18.6
Dividend Yield (%)	3.4	2.1	2.6	3.0

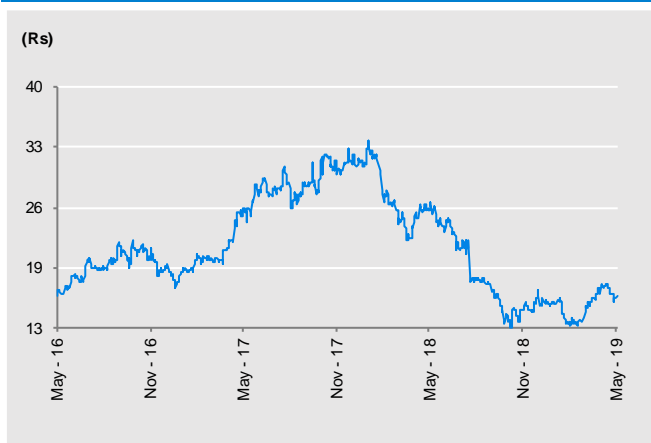
**Efficiency**

Y/e Mar	FY18	FY19	FY20E	FY21E
Cost-Income Ratio (%)	47.2	54.9	56.4	56.8
C-D Ratio (%)	75.8	78.0	80.7	85.4
Business per Emp. (Rs m)	174	183	198	216
Profit per Emp. (Rs lacs)	5	3	3	5
Business per Branch (Rs m)	1,482	1,645	1,835	2,058
Profit per Branch (Rs m)	4	3	3	5

**Du-Pont**

Y/e Mar	FY18	FY19	FY20E	FY21E
NII	2.68	2.47	2.43	2.47
Total Income	3.82	3.35	3.30	3.35
Operating Expenses	1.80	1.84	1.86	1.90
PPoP	2.02	1.51	1.44	1.45
Total provisions	1.34	1.05	0.96	0.83
RoAA	0.46	0.30	0.31	0.40
RoAE	6.98	4.90	5.43	7.32

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	15-May-18	BUY	40	26
2	10-Jul-18	BUY	40	22
3	23-Jul-18	BUY	26	19
4	5-Oct-18	BUY	26	14
5	16-Oct-18	BUY	22	15
6	7-Jan-19	BUY	22	15
7	21-Jan-19	BUY	22	16
8	5-Apr-19	BUY	22	18

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	837	741
2	Bank of Baroda	BUY	161	114
3	Bank of India	Reduce	89	106
4	Federal Bank	BUY	112	98
5	HDFC Bank	BUY	2,700	2,293
6	HDFC Standard Life Insurance Company	BUY	465	399
7	ICICI Bank	BUY	475	401
8	ICICI Prudential Life Insurance Company	BUY	511	368
9	IDFC First Bank	BUY	57	43
10	IndusInd Bank	BUY	1,791	1,768
11	Jammu & Kashmir Bank	BUY	76	59
12	Kotak Mahindra Bank	Hold	1,385	1,387
13	Max Financial Services	BUY	629	439
14	Punjab National Bank	Hold	83	73
15	SBI Life Insurance Company	BUY	779	612
16	South Indian Bank	BUY	22	18
17	State Bank of India	BUY	361	317
18	Union Bank of India	Reduce	79	93
19	YES Bank	Reduce	190	238

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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