

Target: Rs. 14
CMP INR. 10.73 (FY24 P/ Adj.Bv 0.6X)
BUY
Index Details

Sensex	50,651.90
Nifty	15,197.70
Industry	Banking

Scrip Details

Mkt Cap (INR Cr)	2,245.51
O/S Share (Cr)	209.27
52 Wk H/L (INR)	11.83/4.85
Div Yield (%)	2.25
FVPS (INR)	1.00

The South Indian Bank Ltd (SIB) based out of Thrissur (Kerala) is one of the earliest banks in South India. The bank, after reporting subdued numbers in the recent past has now recalibrated its approach with the new management and redefined business strategies. This is evident from its recent performance in which the bank has successfully improved its CASA deposits stood at an all-time high CASA ratio of 29.7% along with simultaneously decreasing its exposure in the Standard Large Corporate Advances (INR 100 Cr and above) from 27% of total advances in FY15 to 5% of total advances in FY21.

Further, with the bank's focus on retail banking (Deposits and Advances), growing its low-cost CASA and NRI deposits, coupled with change in business strategy from branch banking to establishment of verticals for each segment of retail assets, we expect a turnaround in this stock in the coming period.

Shareholding Pattern

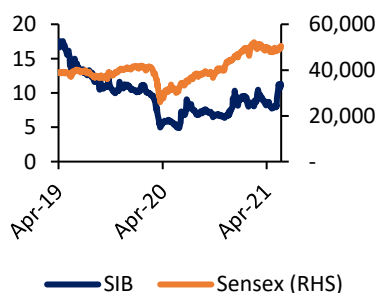
Shareholder	%
Promoters	0.00
Institutional	25.31
Public	74.69
Total	100.00

We initiate coverage on South Indian Bank Ltd with a price target of INR 14.0 per share, which represents a potential upside of 30.8% from the CMP of INR 10.73 (FY24 P/Adj BV 0.75 x) over a period 24 months.

Our optimism stems from the following:

Advances for the year FY21 witnessed a de-growth of 9.9% YoY to INR 58,065 cr majorly on account of a decline in corporate book, which was in-line with the bank's strategy. Going ahead, we expect bank's advances to grow by 15% CAGR for the period FY21-FY24 to INR 88,173 cr mainly aided by strong growth in Retail (17.2% CAGR) and Agri book (15.3% CAGR).

In-line with the bank's strategy to reduce the exposure within the corporate segment, the bank's corporate book declined by ~26% YoY to INR 14,721 cr as on 31st March 2021. Going ahead, we expect a growth in this segment to remain subdued at 4.3% CAGR for the period FY21-FY24 to INR 16,795 cr.

SIB Ltd. vs. Sensex

Key Financials (INR crores)

	Net Int Income	Non-Int Income	PPOP	PAT	EPS ₹	BVPS ₹	RoAA (%)	RoAE (%)	P/E (x)	P/Adj BV (x)
FY20	2,317.5	1,045.8	1,645.6	104.6	0.6	30.3	0.1	1.9	19.2	0.6
FY21	2,406.9	1,185.5	1,617.9	61.9	0.3	27.8	0.1	1.1	37.6	0.7
FY22E	2,767.3	1,007.4	1,672.9	171.4	0.7	24.9	0.2	2.8	16.3	0.9
FY23E	3,208.7	1,211.6	2,047.1	375.1	1.4	26.4	0.3	5.6	7.4	0.6
FY24E	3,822.0	1,428.4	2,559.3	648.1	2.5	28.9	0.5	9.0	4.3	0.6

Deposit growth aided by CASA growth:

Deposits for the period FY21 remained flat at INR 82,710 cr. Reduction in bulk deposits were offset by strong growth in low-cost NRI deposits (+11.4% YoY) and improved CASA ratio of 29.7% as on 31st March 2021.

Going ahead, we expect deposits to grow at 11% CAGR to INR 1,13,042.8 cr by FY24. CASA ratio is expected to improve to 33%.

NIMs to expand over the projected period:

In line with the bank's decision to re-jig its portfolio with focus on high yielding gold loans and retail advances, coupled with shifting towards building granular liability franchise, we expect NIMs to expand by 77 bps to 3.5% for FY24

Asset Quality

The bank, for the period ended FY21 reported GNPA and NNPA of 6.97% and 4.71% respectively. Further, with bank's expectation of restructuring of INR 575-600 cr worth loans under Resolution Framework 2.0 and a higher share of 37.3% in BBB and below rated corporates, we expect NPA levels to remain elevated at 7.4% and 5.2%, respectively for FY22. Going ahead, we expect the GNPA and NNPA levels to remain elevated at 6.7% and 3% given the bank's focus on lending to lower risk profiles.

Capital Adequacy

In FY21 Tier 1 capital improved to 12.8% as a result of bank raising INR 240 cr in March 2021. Further, with the bank's plan to raise another INR 510 cr in equity during FY22 along with strong growth in bottom line and bank's strategy of lending in a risk calibrated approach to retail customers will help in maintaining sufficient capital to support future growth.

Valuation

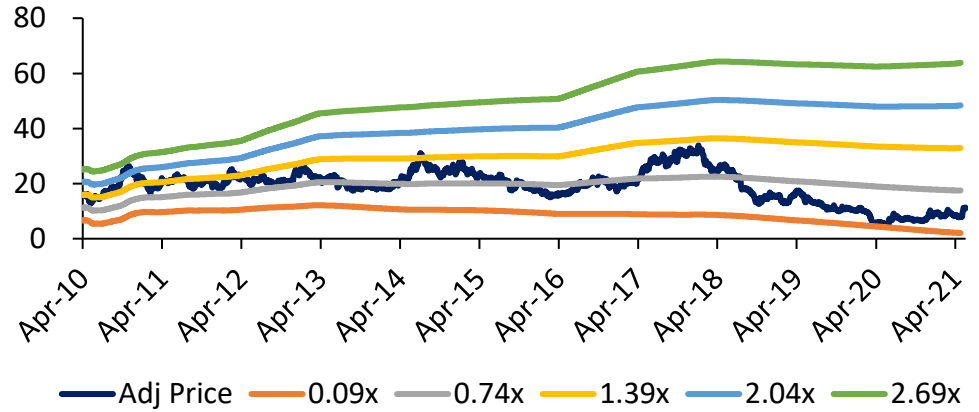
We initiate coverage on South Indian Bank with a BUY recommendation on the stock with a price target of INR 14 per share, which represents a potential upside of 30.8% from the CMP of INR 10.73.

**Risk Factors:**

- **A slower-than-expected uptick in India's economic growth amid the ongoing Covid-19 outbreak and possible impact of 2nd wave could adversely affect the lending growth.**
- **The bank's asset quality has displayed signs of deterioration with GNPA and NNPA for FY21 standing at 7% and 4.7% respectively. Higher share of 37.3% in BBB and below rated corporate book for loans above Rs. 100 Cr will drag the asset quality in the near-term.**

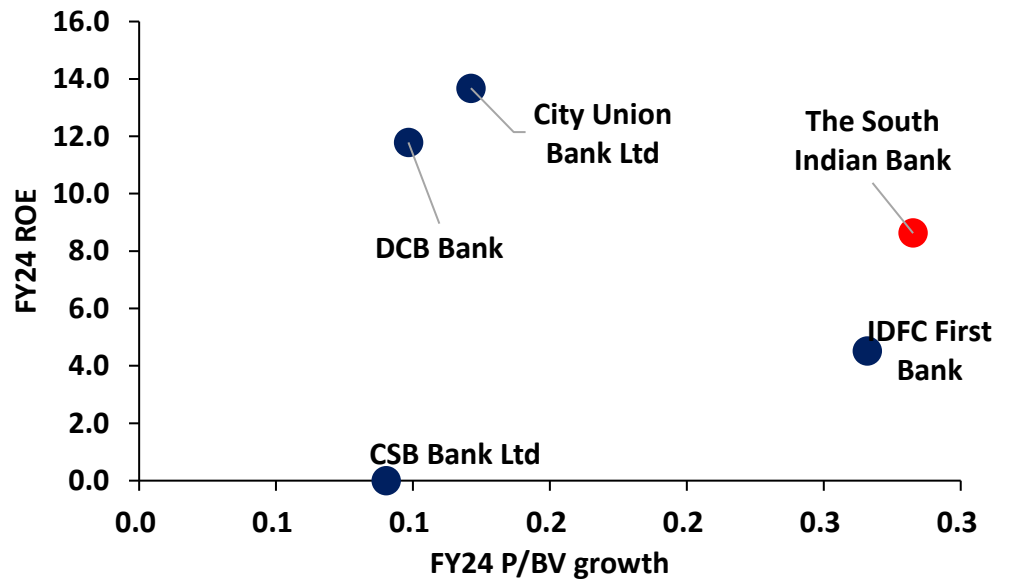
Valuation Band Chart

1 year forward P/B band chart



Source: Ventura Research

Peer comparison

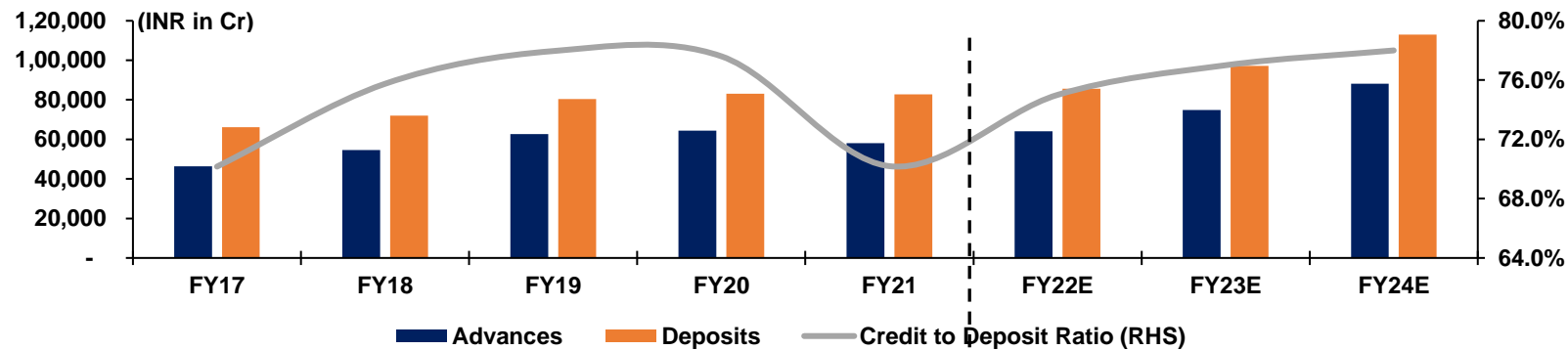


Source: Ventura Research

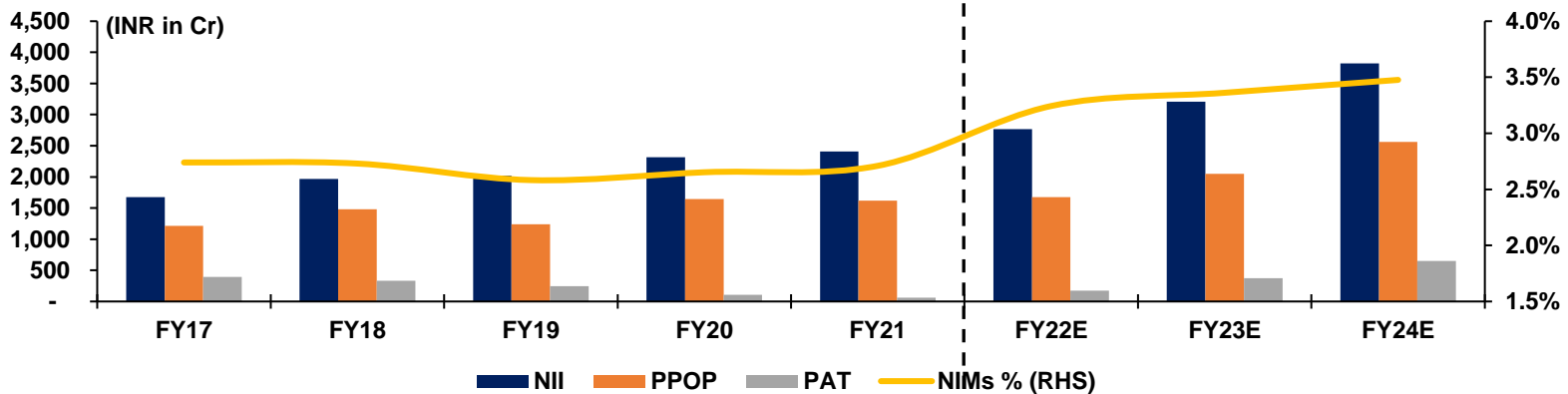
Story of South Indian Bank Ltd. in pictorial format

Performance charts of South Indian Bank Ltd.

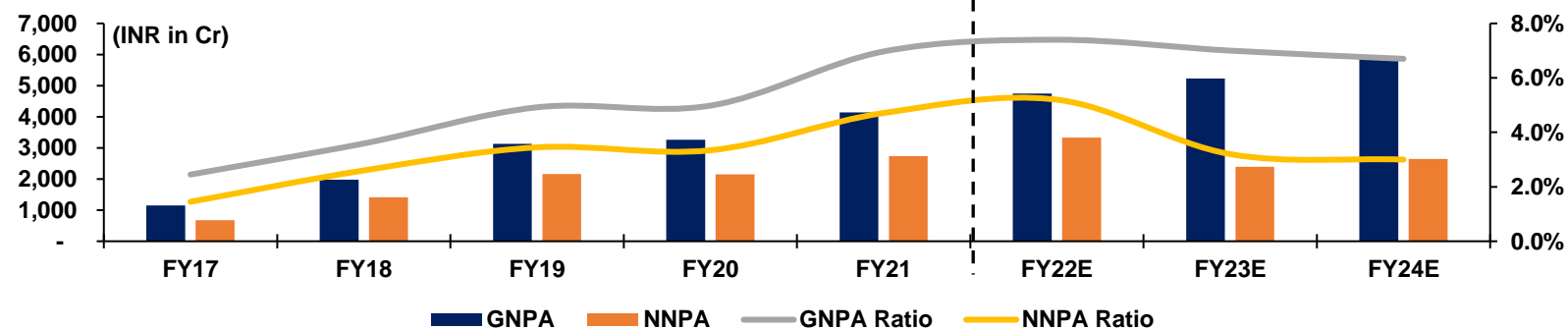
Advances and Deposits



Profitability and Margins



Asset Quality



Source: Company Reports, Ace Equity and Ventura Research

Quarterly Financials

Particulars (INR Cr.)	FY17	FY18	FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	FY21
Interest Earned	5,847.1	6,192.8	6,876.5	1,894.9	1,954.0	1,967.3	1,947.7	7,763.8	1,886.9	1,898.8	1,812.0	1,707.8	7,305.5
Interest Expended	4,171.7	4,227.3	4,856.8	1,359.2	1,369.7	1,365.5	1,351.9	5,446.3	1,300.0	1,235.7	1,215.6	1,147.3	4,898.5
Net Interest Income	1,675.4	1,965.5	2,019.7	535.7	584.3	601.8	595.8	2,317.5	586.9	663.1	596.4	560.5	2,406.9
NIM (%)	2.7	2.7	2.6	2.5	2.7	2.7	2.7	2.7	2.6	2.9	2.6	2.6	2.7
Operating Profit	1,214.6	1,480.8	1,239.0	317.6	411.5	383.1	533.4	1,645.6	403.7	414.0	377.5	422.8	1,617.9
Provisions and Contingencies	614.4	980.9	858.5	205.0	306.3	260.9	723.8	1,496.1	293.1	326.4	499.5	412.3	1,531.3
Profit Before Tax	600.2	499.9	380.5	112.6	105.1	122.2	-190.4	149.6	110.6	87.6	-122.0	10.5	86.7
Profit After Tax	392.5	334.9	247.5	73.3	84.5	90.5	-143.7	104.6	81.7	65.1	-91.6	6.8	61.9
Advances	46,389	54,563	62,694	62,658	62,993	64,329	64,439	64,439	64,593	63,869	61,602	58,056	58,056
Deposits	66,117	72,030	80,420	81,723	82,947	80,451	83,034	83,034	82,469	82,621	83,537	82,711	82,711
CASA (%)	23.8	23.8	24.2	24.1	24.9	25.2	25.0	25.0	26.9	27.8	27.9	29.7	29.7
Capital Adequacy Ratio (Basel III)	12.4	12.7	12.6	12.2	12.1	12.0	13.4	13.4	13.5	14.0	14.5	15.4	15.4
Tier 1	10.9	10.4	10.0	9.7	9.6	9.6	10.8	10.8	10.8	11.2	11.6	12.8	12.8
Tier 2	1.5	2.3	2.6	2.5	2.5	2.4	2.6	2.6	2.7	2.8	2.9	2.6	2.6
GNPA (%)	2.5	3.6	4.9	5.0	4.9	5.0	5.0	5.0	4.9	4.9	4.9	7.0	7.0
NNPA (%)	1.5	2.6	3.5	3.4	3.5	3.4	3.3	3.3	3.1	2.6	2.1	4.7	4.7
Provision Coverage Ratio (%)	55.1	41.2	42.5	45.1	48.1	50.4	54.2	54.2	58.8	65.2	72.0	58.7	58.7

Source: Company Reports and Ventura Research

Key Management Personnel

Key Person	Designation	Details
Mr. Murali Ramakrishnan	MD & CEO	Mr. Mruali Ramakrishnan has a Post Graduate Diploma in Finance and Marketing from IIM Bangalore. He has more than 32 years of experience in Retail & MSME Credit, Risk Management Policy and Business Intelligence Unit. Prior to joining the bank he was Head SME, Head Credit & Risk and Regional Head International Banking Group of ICICI Bank
Mr. Thomas Joseph K	EVP and Group Business Head	He holds a Bachelors Degree in Engineering and Diploma in Management & CAIB and has been associated with SIB for 37 years. He manages various portfolio including Credit, Risk Management, Technology, Marketing, Corporate Financial Management, Regional Head, and Human Resource
Ms. Chithra H	Chief Financial Officer	She is a fellow member of the Institute of Chartered Accountants of India & Certified Associate of the Indian Institute of Banking & Finance. She has been associated with SIB for over 25 years and has a rich experience in the field of Finance, Compliance, Treasury Back office, Branch operations and Regional Head.
Mr. Doraivel Sambandam	Chief Credit Officer	Mr, Sambandam has over 28 years of experience encompassing credit risk management, corporate credit, SME and MSME credit, business technology & automation, compliance etc. Prior to joining the bank, he had more than 18 years of experience in ICICI Bank in handling various business segments like Corporate, SME and Retail including HL, Auto loans, CV and PL.

Source: Company Reports and presentation.

Financials and Projections

Y/E March (INR crore)	FY20	FY21	FY22E	FY23E	FY24E	Y/E March (INR crore)	FY20	FY21	FY22E	FY23E	FY24E
Income Statement						Ratio Analysis					
Interest Income	7,763.8	7,305.5	7,224.3	8,158.7	9,574.6	Efficiency Ratio (%)					
Interest Expense	5,446.3	4,898.5	4,457.1	4,950.0	5,752.6	Int Expended / Int Earned	70.1	67.1	61.7	60.7	60.1
Net Interest Income	2,317.5	2,406.9	2,767.3	3,208.7	3,822.0	Int Income / Total Funds	8.0	7.8	7.1	7.0	7.2
YoY change (%)	14.7	3.9	15.0	16.0	19.1	NII / Total Income	26.3	28.3	33.6	34.2	34.7
Non Interest Income	1,045.8	1,185.5	1,007.4	1,211.6	1,428.4	Other Inc. / Total Income	11.9	14.0	12.2	12.9	13.0
Total Net Income	3,363.3	3,592.4	3,774.7	4,420.3	5,250.4	Op. Exp. / Total Income	19.5	23.3	25.5	25.3	24.5
Total Operating Expenses	1,717.6	1,974.5	2,101.7	2,373.2	2,691.1	Net Profit / Total Funds	0.1	0.1	0.2	0.3	0.5
Pre Provision profit	1,645.6	1,617.9	1,672.9	2,047.1	2,559.3	Credit / Deposit	77.6	70.2	75.0	77.0	78.0
YoY change (%)	32.8	-1.7	3.4	22.4	25.0	Investment / Deposit	24.8	24.6	25.4	24.4	23.1
Provisions	1,496.1	1,531.3	1,443.8	1,545.7	1,692.9	NIM	2.7	2.8	3.2	3.4	3.5
Profit Before Tax	149.6	86.7	229.2	501.5	866.4	Solvency					
YoY change (%)	-60.7	-42.1	164.4	118.8	72.8	Gross NPA (Rs. Cr)	3,261.8	4,143.2	4,748.4	5,235.3	5,907.6
Taxes	45.0	24.8	57.7	126.4	218.3	Net NPA (Rs. Cr)	2,150.8	2,734.5	3,336.7	2,393.3	2,645.2
Net profit	104.6	61.9	171.4	375.1	648.1	Gross NPA (%)	5.0	7.0	7.4	7.0	6.7
YoY change (%)	-57.7	-40.8	176.9	118.8	72.8	Net NPA (%)	3.3	4.7	5.2	3.2	3.0
Balance Sheet						Capital Adequacy Ratio (%)					
Cash & Balances with RBI	2,806.0	3,304.7	3,042.9	3,454.5	3,681.3	Tier I Capital (%)	13.4	15.4	15.3	14.5	14.1
Inter bank borrowing	1,383.8	5,463.2	5,304.5	4,856.5	5,086.9	Tier II Capital (%)	10.8	12.8	12.9	12.2	12.1
Investments	20,625.3	20,321.1	21,743.6	23,700.5	26,070.5	Per Share Data (₹)					
Loan and Advances	64,439.5	58,056.5	64,167.9	74,790.1	88,173.4	EPS	0.6	0.3	0.7	1.4	2.5
Other Assets	6,978.3	6,208.6	6,862.1	7,998.1	9,429.3	Book Value	30.3	27.8	24.9	26.4	28.9
Total Assets	97,032.9	94,149.2	1,01,933.3	1,15,732.3	1,33,533.0	Adj Book Value of Share	18.4	14.7	12.1	17.2	18.7
Deposits	83,033.9	82,710.6	85,557.2	97,130.0	1,13,042.8	Valuation Ratio					
Borrowings	6,893.2	4,108.3	7,707.2	9,606.7	10,325.4	Price/Earnings (x)	18.6	36.3	16.3	7.4	4.3
Other Liability	1,628.4	1,521.1	2,178.2	2,129.9	2,651.0	Price/Book Value (x)	0.4	0.4	0.4	0.4	0.4
Equity	181.0	209.3	260.3	260.3	260.3	Price/Adj.Book Value (x)	0.6	0.7	0.9	0.6	0.6
Reserves	5,293.8	5,597.9	6,228.3	6,603.4	7,251.5	Return Ratio					
Share warrant O/s	2.5	2.1	2.1	2.1	2.1	RoAA (%)	0.1	0.1	0.2	0.3	0.5
Total Liabilities	97,032.9	94,149.2	1,01,933.3	1,15,732.3	1,33,533.0	RoAE (%)	1.9	1.1	2.8	5.6	9.0
	0.0	0.0	0.0	0.0	0.0	Growth Ratio (%)					
Dupont Analysis						Interest Income					
% of Average Assets						12.9	-5.9	-1.1	12.9	17.4	
Net Interest Income	2.4	2.5	2.8	2.9	3.1	Interest Expenses	12.1	-10.1	-9.0	11.1	16.2
Non Interest Income	1.1	1.2	1.0	1.1	1.1	Other Income	44.0	13.4	-15.0	20.3	17.9
Net Income	3.6	3.8	3.9	4.1	4.2	Total Income	15.9	-3.6	-3.1	13.8	17.4
Operating Expenses	1.8	2.1	2.1	2.2	2.2	Net profit	-57.7	-40.8	176.9	118.8	72.8
Operating Profit	1.7	1.7	1.7	1.9	2.1	Deposits	3.3	-0.4	3.4	13.5	16.4
Provisions & Contingencies	1.6	1.6	1.5	1.4	1.4	Advances	2.8	-9.9	10.5	16.6	17.9
Taxes	0.0	0.0	0.1	0.1	0.2						
ROAA	0.1	0.1	0.2	0.3	0.5						

Source: Company Reports, Ace Equity and Ventura Research

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