

SOUTH BANK

Industry **BANKING**
Bloomberg **SIB IN**
BSE CODE **532218**

Asset Quality Deteriorates

3Q FY19 Results-

South Bank reported decline in net profit by 27% YoY due to lower NII growth. NII grew by only 2% YoY due to the rising cost of funds. NIM declined by 22 bps YoY at 2.66%. Management expects NIM to increase by 10-15 bps in the next 2 quarters. Provisions grew by 32% YoY. Other income grew by 18% YoY due to increase in treasury gain led by fall in bond yield. Fee income grew by 12% YoY. Treasury gain stood at Rs 27 Cr as against Rs 11 Cr a year back.

Slippages were elevated to Rs 659 Cr v/s Rs 213 Cr a quarter back due to slip of IL&FS and EPS account of Rs 400 Cr and Rs 104 Cr respectively into NPA. GNPA/NNPA ratio stood at 4.88%/3.54% as against 4.61%/3.16% in Q2FY19. NPA provisions during the quarter were at Rs 189 Cr and management expects the credit cost to remain at around 1% for FY19. PCR were low at 41%. Restructured asset increased to Rs 200 Cr v/s Rs 22 Cr a quarter back. Going forward slippages is expected to be in the range of Rs 200-250 Cr per quarter.

Advances grew at 15% YoY driven by both corporate and retail segments. Corporate book grew at 14% YoY, whereas retail advances grew at 30% YoY. Gold loan grew robust at 39% YoY.

Deposits grew strong at 14% YoY, which is highest over the last 7 quarters. Term deposit comprises of 76% of the total deposits. CASA ratio stood at 24.3%.

View and Valuation

Asset quality was deteriorated due to slip of IL&FS and EPC account amounting to Rs 400 Cr and Rs 104 Cr into NPA which was standard as of Q2FY19. Stress as a restructured asset also increased by Rs 180 Cr on account of Kerala flood. However after spike in slippages in 3Q FY19, management is positive on assets quality outlook and guided slippages in the range of Rs 200-250 Cr per quarter. Specific PCR has declined to 28% which is will keep the credit cost elevated going ahead. NIM has shown some improvement due to increase in yield led by rising MCLR rates and stable cost. We expect gradual improvement in NIM going ahead. Retail advances growth remained strong but overall loan book continues to remain moderate. We expect earnings to remain under pressure due to elevated credit cost but any gain in treasury income will have some relief. We reduce our FY20 earnings estimates by 10%. Fundamentals look weak but valuation provides comfort. Currently the stock is trading at 0.5x BVPS FY20e. We maintain BUY on the stock with the reduced target price of Rs 16.

Key Risks to our rating and target

- NIM performance.
- Slippages will be under key watch.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	1510	1675	1966	2053	2459
PPP	879	1215	1481	1267	1714
PAT	333	393	335	236	629
NIM %	2.7	2.6	2.7	2.5	2.7
EPS (Rs)	2	2	2	1	3
EPS growth (%)	8.5	-11.8	-15.0	-29.5	166.7
ROE (%)	9.0	9.0	6.6	4.4	11.1
ROA (%)	0.5	0.6	0.4	0.3	0.6
BV	28	27	29	30	33
P/B (X)	0.6	0.8	0.8	0.5	0.4
P/E (x)	7.1	9.8	12.3	10.9	4.1

RATING	BUY
CMP	14
Price Target	16
Potential Upside	13%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	32.45/12.45
Mkt Capital (Rs Cr)	2570
Free float (%)	100%
Avg. Vol 1M (,000)	14018
No. of Shares (Cr)	181
Promoters Pledged %	0%

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**3Q FY 19 Results
Below Expectation**
Subdued Core Earnings

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	1,577	1,589	1,654	1,697	1,735	10%	2%	5,847	6,193	5.9%
Interest Exp.	1,068	1,097	1,160	1,190	1,216	14%	2%	4,172	4,227	1.3%
NII	509	492	494	506	520	2%	3%	1,675	1,966	17.3%
Other Income	159	179	146	158	187	18%	18%	716	837	17.0%
Total Income	668	671	640	664	706	6%	6%	2,391	2,803	17.2%
Ope Exp.	338	360	371	355	374	11%	6%	1,176	1,322	12.4%
PPP	330	311	270	310	332	1%	7%	1,215	1,481	21.9%
Provisions	154	149	232	205	203	32%	-1%	614	981	59.7%
PBT	176	162	38	105	129	-27%	23%	600	500	-16.7%
Tax	61	48	15	35	45	-26%	29%	208	165	-20.6%
Net Profit	115	114	23	70	84	-27%	20%	393	335	-15%

NIM improved sequentially.

NIM declined by 22 bps YoY to 2.66% due to decline in yield and increase in cost of fund. Yield on advances has decreased by 24 bps YoY to 9.64% and yield on total assets stood at 7.97%. Cost of deposit increased by 15 bps YoY to 6.16% ,while cost of fund has increased by 19 bps YoY to 5.59%. Average yield on Housing loan portfolio is 9.23%, MSME is 10.90%, and Agriculture is 10.44%. Management expects NIM to be increase in next 2 quarter by 10 to 15 bps.

Total income grew by 6% YoY to Rs 706 Cr while operating expenses grew by 11% YoY to Rs 374 Cr which led C/I ratio to increase from 50.6% to 53% YoY.

Advances growth driven by retail segment

Advances grew by 15% YoY backed by strong growth in retail advances. Gold/Retail Ex Gold increased by 39% to 28% YoY. Retail book portfolio increased from 26% to 30% YoY while corporate advances increased from 4 % to 14 % YoY. On the other hand SME declined from 26% to 6% YoY. Exposure towards AAA increased to17% to 25% YoY while exposure towards AA increased to 21% to 31% YoY.

Deposit for the quarter grew by 14% YoY and 4% QoQ, while CASA ratio declined by 5bps YoY to 24.3%. CD ratio has increased by 1bps YoY to 76.4%. NRI deposit has increased by 14% YoY.

Other income was strong.

Other income increased by 18.24% from Rs 159 Cr to Rs 188 Cr. Transaction fees increased by 6% from Rs 67 Cr to Rs 71 Cr. Technology increased by 19% from Rs 31 Cr to Rs 37 Cr. Forex increased by 43% from Rs 7 Cr to Rs 10 Cr. Profit on sale of investment increased by 145% from Rs 11Cr to Rs 27 Cr.

Slippages increased

GNPA has increased from 4.61% to 4.88% QoQ while NNPA has increased from 3.16 % to 3.54% QoQ. Slippages during the quarter increased from Rs 213 Cr to Rs 659 Cr QoQ led by corporate slippages Rs 503 Cr, MSME slippage Rs 119 Cr, Retail slippage Rs 34 Cr, and Agriculture slippage Rs 3 Cr. Corporate slippage includes Rs 400 Cr from large infrastructure conglomerate and Rs103 Cr from EPC contractors.Slippage ratio during the quarter stood at 1.09%.Slippages guidelines Rs 200 Cr -Rs 250 Cr per quarter.

PCR stood at 41% to 42% QoQ. Credit cost increased by 36bps to 1.31% QoQ.Management is expecting PCR to be in the range of 65% - 70% in FY20.Outstanding SMA 2 stands at 2.98%.SME2 book amounting to Rs 1896 Cr.

Concall Highlights

- Management expects NIM to be increase in next 2 quarter by 10 to 15 bps.
- Advances grew by 15% YoY with growth driver continued to be in MSME, Mortgage loan, agriculture and gold loan.
- Average yield on Housing loan portfolio is 9.23%, MSME is 10.90%, and Agriculture is 10.44%.
- The provisions for non-performing asset is Rs 1086 Cr during the quarter and the management expects the credit cost to remain at around 1% for FY19.
- Bank restructured outstanding book of Rs 200 Cr in Q3FY19. During the quarter bank has restructured the accounts under RBI dispensation under natural calamity amounting to Rs 178 Cr comprising of MSME, Agriculture, Educational, Home loan. There was no addition to restructured book in QFY19.
- Slippages stands at Rs 659 Cr in Q3FY19 while cash recovery was Rs 37 Cr, upgrades were Rs 120 Cr and write off were Rs 218 Cr and total deduction was Rs 375 Cr. Previously company expects recovery of Rs 500 Cr, so Rs 500 Cr target will be fully achieved by the year end. There is no meaningful slippage in the quarter from Kerala flood.
- Slippages guidelines Rs 200 Cr -Rs 250 Cr per quarter.
- Slippage ratio during the quarter stood at 1.09%. High slippages on account of classification of Exposure towards IL&Fs to Rs 400 Cr and EPC contractors amounting to Rs 104 Cr as NPA.
- Provision coverage stood at 41%. Management is expecting PCR to be in the range of 65% - 70% in FY20.
- Outstanding SMA 2 stands at 2.98%. SME2 book amounting to Rs 1896 Cr.
- Management expects ROA to be in the range of 1 to 1.14% after FY20. On a standalone basis management expects ROA should reach 1% in Q2FY20.
- Management expects to raise equity in FY20. CRAR stands at 11.8% for the quarter.
- During the quarter the bank has not sold any asset to ARC.

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	44.2	41.3	50.6	53.7	57.9	53.4	53.0	2.41	-0.37
Empl. Cost/ Tot. Exp. %	55.6	52.0	54.7	53.7	57.0	55.3	54.0	-0.68	-1.34
Other Exp/Tot. Exp.%	44.4	48.0	45.3	46.3	43.0	44.7	46.0	0.68	1.34
Provision/PPP %	59.1	98.6	46.7	47.8	85.9	66.1	61.2	14.45	-4.89
Tax Rate %	34.6	34.4	34.6	29.7	39.5	33.3	34.9	0.33	1.67
Int Exp./Int Inc. (%)	69.1	67.2	67.7	69.0	70.1	70.1	70.1	2.36	-0.09
Other Inc./Net Inc. %	32.2	35.8	23.8	26.6	22.8	23.8	26.4	2.67	2.67
PAT/ Net Income %	14.9	0.6	17.2	17.0	3.6	10.6	11.9	-5.34	1.31
RoE %	8.2	0.3	9.1	8.8	1.8	5.3	6.4	-2.72	1.05
RoA %	0.6	0.0	0.6	0.6	0.1	0.3	0.4	-0.20	0.06

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.1	10.0	9.9	9.6	9.5	9.5	9.6	-0.33	0.05
Yield (Total Assets)	8.1	8.1	5.4	7.8	8.0	7.9	8.0	2.57	0.04
Cost of Deposits	6.2	6.1	6.0	6.0	6.1	6.1	6.1	0.09	0.03
Cost Of Funds	5.6	5.4	5.4	5.4	5.6	5.6	5.6	0.19	0.02
NIM	2.8	3.0	2.9	2.7	2.6	2.6	2.7	-0.22	0.05

Exhibit: Yield and Cost

Yield on Total assets increased while cost of fund remains same

■ Yield on Total Assets ■ Cost Of Funds

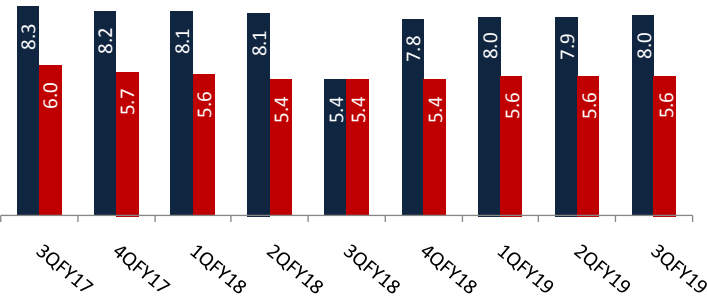
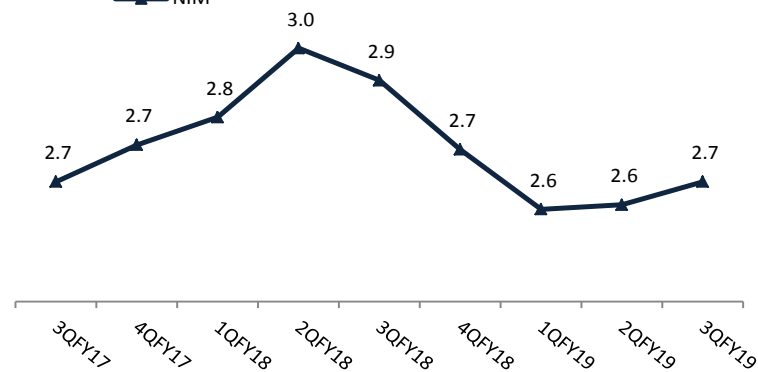


Exhibit: Net Interest Margin

NIM on improving trend

▲ NIM



Other Income Break Up

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Transaction Fees	45	59	54	64	67	69	59	60	71
Technology	22	27	30	29	31	31	32	35	37
Forex	8	9	8	9	7	11	9	11	10
Total Core Fee Income	75	95	92	102	105	111	100	106	118
Growth YoY %	(15.7)	11.8	(10.7)	29.1	40.0	16.8	8.7	3.9	12.4
Other	57	25	39	110	43	55	30	39	43
Profit on Sale of Inv.	127	18	89	68	11	13	16	13	27
Total Other Income	259	138	220	280	159	179	146	158	188
Growth YoY %	69.3	-	27.2	91.8	(38.6)	29.7	(33.6)	(43.6)	18.2

Exhibit: Advances Growth %

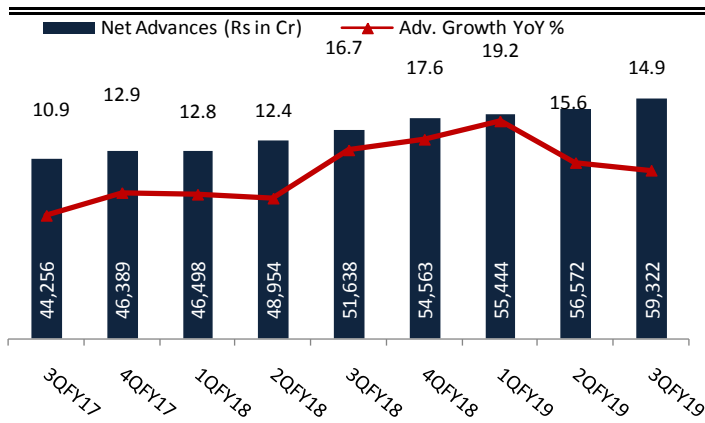
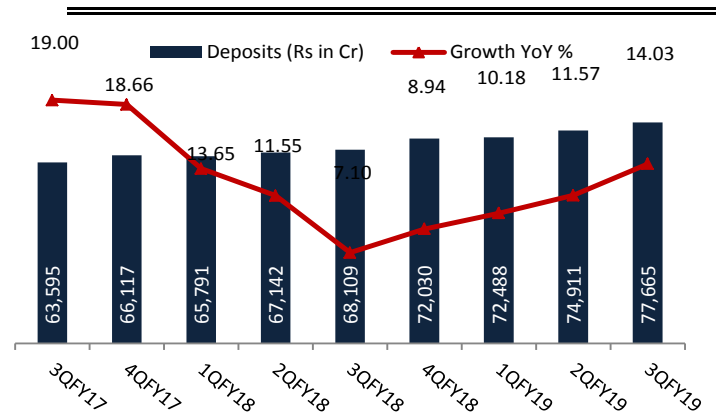


Exhibit: Disbursement Growth %



Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	1,695	1,765	1,774	1,981	2,552	2,646	2,930	65%	11%
GNPA %	3.61	3.57	3.40	3.59	4.54	4.61	4.88	1.48	0.27
NNPA (Rs in Cr)	1,183	1,256	1,211	1,416	1,814	1,785	2,100	73%	18%
NNPA %	2.54	2.57	2.35	2.60	3.27	3.16	3.54	1.19	0.38
Slippages (Rs in Cr)	686	252	258	614	609	213	659	155%	209%
Stand Restr. Assets %	0.52	0.51	0.48	0.10	0.04	0.04	0.34	-0.14	0.30
Net Stress Assets %	3.06	3.08	2.83	2.70	3.31	3.19	3.88	37%	21%
PCR %	45	44	49	41	39	42	41	-8.18	-0.73
Credit Cost %	1.59	1.01	1.83	1.14	1.27	0.95	1.31	-0.52	0.36
Prov/Avg Adv% (Annl.)	1.93	3.80	1.23	1.12	1.68	1.46	1.40	0.18	-0.06

Sector wise Slippages %

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Agriculture	0.5	0.9	0.3	0.4	0.2	0.7	0.1	0.2	0.0
SME	0.4	0.6	0.9	0.8	0.2	0.3	1.7	0.8	0.8
Retail Credit	0.1	0.9	0.6	0.3	0.4	0.2	0.4	0.4	0.2
Corporate	0.7	2.4	3.5	0.5	-	2.4	1.5	0.1	2.4

Exhibit: Asset Quality

GNPA and NNPA increased

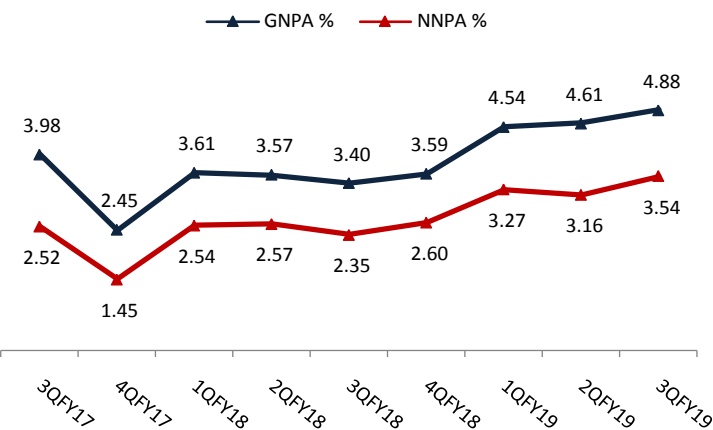
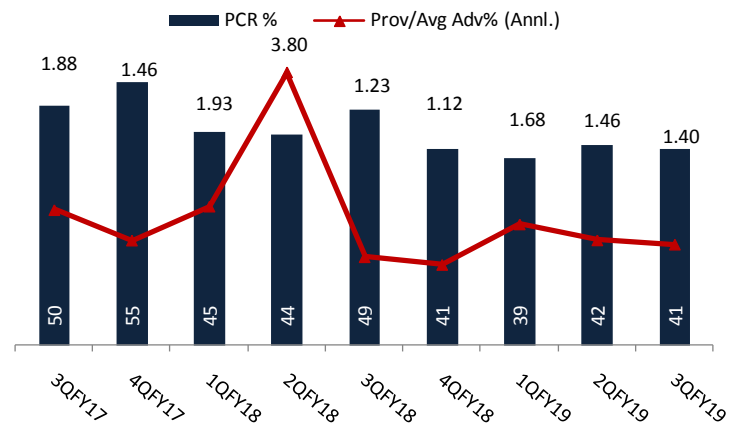


Exhibit: Provisions

PCR declined



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	134	134	135	135	180	181	181	181
>> Equity Capital	134	134	135	135	180	181	181	181
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	2872	3236	3457	3711	4668	5062	5211	5732
Networth	3006	3370	3592	3846	4848	5243	5392	5913
Deposits	44262	47491	51912	55721	66117	72030	79746	93303
Change (%)	21.3	7.3	9.3	7.3	18.7	8.9	10.7	17.0
>> CASA Deposits	8233	9825	10686	12459	15747	17142	19538	23326
Change (%)	14.7	19.3	8.8	16.6	26.4	8.9	14.0	19.4
Borrowings	1285	2731	2232	2315	1958	4043	4880	4712
Other Liabilities & Provisions	1242	1394	1380	1294	1388	1370	1415	1466
Total Liabilities	49795	54986	59116	63175	74312	82686	91433	105393
Cash & Bank	4336	3218	3595	3099	3888	4221	4016	4294
Investments	12523	14352	14086	14619	19430	18363	19139	23326
Change (%)	33.2	14.6	-1.9	3.8	32.9	-5.5	4.2	21.9
Advances	31816	36230	37392	41086	46389	54563	62202	70910
Change (%)	16.6	13.9	3.2	9.9	12.9	17.6	14.0	14.0
Fixed Assets	396	412	479	487	656	681	715	751
Other Assets	724	774	3564	3884	3949	4858	5362	6113
Total Assets	49795	54986	59116	63175	74312	82686	91433	105393

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	4,434	5,015	5,286	5,557	5,847	6,193	6,893	7,950
Interest expended	3,153	3,616	3,920	4,048	4,172	4,227	4,839	5,491
Net Interest Income	1,281	1,399	1,366	1,510	1,675	1,966	2,053	2,459
Change (%)	25.4	9.2	(2.3)	10.5	11.0	17.3	4.5	19.7
Other Income	335	368	497	517	716	837	690	852
Change (%)	35.6	10.0	34.9	4.1	38.3	17.0	(17.6)	23.5
>> Core Fee Income	200	258	289	320	352	410	448	506
>> Treasury Income	58	70	166	136	253	181	81	146
>> Others	78	41	42	61	111	246	161	200
Total Net Income	1,616	1,767	1,863	2,027	2,391	2,803	2,743	3,311
Operating Expenses	767	883	1,047	1,148	1,176	1,322	1,477	1,597
Change (%)	24.3	15.1	18.6	9.6	2.5	12.4	11.7	8.1
>> Employee Expenses	473	529	634	692	677	713	815	835
Pre-provisioning Profit	849	884	816	879	1,215	1,481	1,267	1,714
Change (%)	30.2	4.2	(7.7)	7.7	38.1	21.9	(14.5)	35.3
Provisions	161	155	414	370	614	981	905	761
Change (%)	103.3	(3.5)	166.4	(10.7)	66.2	59.7	(7.7)	(16.0)
PBT	656	729	446	510	600	500	361	953
Tax	154	221	138	176	208	165	125	324
Profit After Tax	502	508	307	333	393	335	236	629
Change (%)	25.1	1.0	(39.5)	8.5	17.8	(14.7)	(29.5)	166.7

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
Loan Growth (%)	16.6	13.9	3.2	9.9	12.9	17.6	14.0	14.0
Deposit Growth (%)	21.3	7.3	9.3	7.3	18.7	8.9	10.7	17.0
C/D Ratio (%)	71.9	76.3	72.0	73.7	70.2	75.8	78.0	76.0
CASA (%)	18.6	20.7	20.6	22.4	23.8	23.8	24.5	25.0
Investment/Deposit (%)	28.3	30.2	27.1	26.2	29.4	25.5	24.0	25.0
CRAR (%)	13.7	12.4	12.1	11.8	12.4	12.7	11.5	11.0
>> Tier 1 (%)	-	10.8	10.5	9.8	10.9	10.4	9.5	9.1
>> Tier 2 (%)	-	1.6	1.6	2.0	1.5	2.3	2.0	1.9

Assets Quality Metrics

Gross NPA	434	433	643	1,562	1,149	1,981	3,022	3,455
Gross NAP (%)	1.3	1.2	1.7	3.8	2.5	3.6	4.8	4.8
Net NPA	250	282	357	1,185	675	1,416	2,115	2,073
Net NPA (%)	0.8	0.8	1.0	2.9	1.5	2.6	3.4	2.9
Slippages (%)	1.9	2.0	1.4	4.3	4.2	3.9	3.2	1.4
Provision Coverage (%)	53.2	62.7	61.0	40.2	55.1	41.2	40.6	54.1
Provision/Average Advances (%)	0.5	0.5	1.1	0.9	1.4	1.9	1.6	1.1

Margin Metrics

Yield On Advances (%)	12.1	11.6	11.3	11.1	10.2	9.4	9.3	9.5
Yield On Investment (%)	6.8	7.1	7.4	7.0	7.2	6.7	6.8	6.9
Yield on Earning Assets (%)	10.3	10.1	9.9	9.8	9.2	8.5	8.5	8.6
Cost Of Deposits (%)	7.6	7.5	7.4	7.1	6.5	5.8	6.0	5.9
Cost Of Funds (%)	7.5	7.4	7.4	7.1	6.5	5.8	6.0	6.0
Spread (%)	2.9	2.6	2.5	2.7	2.6	2.7	2.5	2.7
NIM (%)	3.0	2.8	2.6	2.7	2.6	2.7	2.5	2.7

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	71.1	72.1	74.2	72.8	71.3	68.3	70.2	69.1
Fee Income/NII (%)	15.6	18.4	21.2	21.2	21.0	20.9	21.8	20.6
Cost to Income (%)	47.5	50.0	56.2	56.6	49.2	47.2	53.8	48.2
Cost on Average Assets (%)	1.8	1.8	2.0	2.0	1.8	2.6	2.5	2.4
Tax Rate (%)	23.4	30.4	31.1	34.6	34.6	33.0	34.7	34.0

Valuation Ratio Metrics

EPS (Rs)	4	4	2	2	2	2	1	3
Change (%)	5.9	0.6	(39.7)	8.5	(11.8)	(15.0)	(29.5)	166.7
ROAE (%)	19.4	15.9	8.8	9.0	9.0	6.6	4.4	11.1
ROAA (%)	1.1	1.0	0.5	0.5	0.6	0.4	0.3	0.6
Dividend Payout (%)	18.7	21.2	26.4	20.3	18.4	21.6	38.3	14.4
Dividend yield (%)	2.9	3.6	2.4	2.8	1.9	1.8	3.5	3.5
Book Value (Rs)	22	25	27	28	27	29	30	33
Change (%)	17.3	11.7	6.1	7.1	(5.6)	7.8	2.8	9.7
ABVPS (Rs)	21	23	24	20	23	21	18	21
P/B (X)	1.1	0.9	0.9	0.6	0.8	0.8	0.5	0.4
P/E (X)	6.5	5.9	11.1	7.1	9.8	12.3	10.9	4.1

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	9.6	9.3	9.1	8.5	7.9	7.9	8.1
<i>Interest expended</i>	6.9	6.9	6.6	6.1	5.4	5.6	5.6
<i>Net Interest Income</i>	2.7	2.4	2.5	2.4	2.5	2.4	2.5
<i>Non-Fund Based Income</i>	0.7	0.9	0.8	1.0	1.1	0.8	0.9
>> <i>Core Fee Income</i>	0.5	0.5	0.5	0.5	0.5	0.5	0.5
>> <i>Trading and Other Income</i>	0.2	0.4	0.3	0.5	0.5	0.3	0.4
<i>Core Operating Income</i>	3.2	2.9	3.0	2.9	3.0	2.9	3.0
<i>Total Income</i>	3.4	3.3	3.3	3.5	3.6	3.2	3.4
<i>Total Operating Expenses</i>	1.7	1.8	1.9	1.7	1.7	1.7	1.6
>> <i>Employee Expenses</i>	1.0	1.1	1.1	1.0	0.9	0.9	0.8
>> <i>Other Expenses</i>	0.7	0.7	0.7	0.7	0.8	0.8	0.8
<i>Operating Profit</i>	1.7	1.4	1.4	1.8	1.9	1.5	1.7
<i>Provisions</i>	0.3	0.7	0.6	0.9	1.2	1.0	0.8
<i>Others</i>	-	0.1	-	-	-	-	-
<i>PBT</i>	1.4	0.8	0.8	0.9	0.6	0.4	1.0
<i>Tax</i>	0.4	0.2	0.3	0.3	0.2	0.1	0.3
<i>PAT/RoA</i>	1.0	0.5	0.5	0.6	0.4	0.3	0.6
>> <i>Equity Multiplier (x)</i>	16.4	16.4	16.4	15.8	15.6	16.4	17.4
<i>RoE</i>	15.9	8.8	9.0	9.0	6.6	4.4	11.1

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