

The South Indian Bank Ltd

Industry	BANKING
Bloomberg	SIB IN
BSE CODE	532218

Retail Traction to Drive Advances growth & Margin Buoyancy

RATING	ACCUMULATE
CMP	14
Price Target	16
Potential Upside	14%

Rating Change	↔
Estimate Change	↓
Target Change	↔

Stock Info

52wk Range H/L	19/12
Mkt Capital (Rs Cr)	2403
Free float (%)	100%
Avg. Vol 1M (,000)	9069
No. of Shares (Cr)	181
Promoters Pledged %	0%

Financial	FY19	FY20E	FY21E
NII	6877	7950	9046
PPP	1239	1483	1880
PAT	248	432	645
NIM %	2.5	2.6	2.6
EPS (Rs)	1	2	4
EPS	-26.1	74.5	49.3
ROE (%)	4.7	7.8	10.8
ROA (%)	0.3	0.4	0.6
BV	29	31	35
P/B (X)	0.6	0.4	0.4
P/E (x)	12.1	5.4	3.6

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1QFY20 Result Update

- ❑ NII has grown at 8% YoY highest in couple of quarters on the back of margin improvement and healthy advances growth of 13% YoY. Other Income has grown at 25% YoY on the back of rise in treasury income. C/I ratio has improved from 33% to 27.5% YoY. PAT has grown multifold to Rs 73 Cr on the back of lower provisioning. NIM has improved QoQ from 2.46% to 2.53%.
- ❑ AUM has grown at the rate of 13% YoY on the back of strong growth in the retail segment at 25% YoY. The growth in the SME segment stood at 14%, other segment grew at 14% while the corporate segment grew at a slower rate of 3% YoY. Deposit grew at the rate of 13% YoY to Rs 81723 Cr with CASA at 24%.
- ❑ GNPA increased from 4.92% to 4.96% QoQ, while the NNPA declined by 3.45% to 3.41% QoQ. Slippage during the quarter declined to Rs 241 Cr from Rs 368 Cr while recovery stood at Rs 219 Cr from Rs 166 Cr as at 1QFY20.

Retail Growth Remained Healthy

AUM has grown at the rate of 13% YoY on the back of retail growth of 25% YoY. Retail growth was mainly led by LAP segment & Gold segment at 58% YoY & 53% YoY growth while vehicle & housing segment has grown at 28% YoY. Management has increased its Kerala portfolio to 45% highest in couple of years. Management has slowed down corporate segment to 3% due to higher delinquency in the segment. Almost more than 72% of the corporate exposure is to A or above A credit rating corporate.

GNPA has Increased Marginally

GNPA stood at 4.96% while NNPA stood at 3.41% and PCR stood improved from 42% to 45%. GNPA in the agri segment has improved QoQ from 1.15% to 11 bps, for SME segment it has increased from 75 bps to 88 bps, Retail credit it has increased from 20 bps to 39 bps while for corporate segment has improved significantly to 12 bps from 53 bps QoQ. Provision for NPA segment stood at Rs 184 Cr in 1QFY20. Credit cost has decreased to 1.17% from 1.25% QoQ. SMA-2 has increased from 1.7% to 2.65% YoY. SMA 2 less than 5 Cr is around 4762 account contributing to Rs 400 Cr. SMA 2 above 5 Cr is around Rs 600 Cr. The exposure to the particular HFC under resolution stood at Rs 150 Cr.

NII/NIM stands Improved

NII has grown at 8% YoY on the back of improved Margin. NIM has improved to 2.53% from 2.46% QoQ. Yield on the advances has increased from 9.51% to 9.69% QoQ. Cost of fund has increased from 5.72% to 5.82% YoY while cost of deposit has remained almost at a similar level of 6.32%.

View and Valuation

South bank continues to report weak performance led by moderate loan growth and elevated credit cost. On the NIM front the downfall is likely to be arrested and going ahead it is expected to improve on the back of rise of pricing power in retail and hike in the MCLR rate. SOUTHBANK has almost recognised most of its corporate stress exposure, the SMA 2 majorly consist of less than Rs 50 Cr ticket size accounts contributing up to Rs 1000 Cr. We remain cautious of the rising stress in the MSME segment. However management has optimistically guided for improvement in the slippages trend with rise in the PCR to 75% which will keep credit cost at elevated level. Management has guided for Rs 1000 Cr of slippages, Rs 500 Cr of recovery and Rs 200 Cr of credit cost per quarter going ahead. We remain cautious due to lag in operational efficiency and has decreased the estimates for FY20 by 6%. We maintain ACCUMULATE with P/B 0.5x for FY21 at Rs 16.

Key Risks to our rating and target

- ❑ Intensive competition can drag the NIM as well as growth
- ❑ Rising stress in MSME segment can increase the delinquency

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1QFY20 Results
Below Expectation
Moderate Growth

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,654	1,697	1,735	1,791	1,895	15%	6%	6,193	6,877	11.0%
Interest Exp.	1,160	1,190	1,216	1,292	1,359	17%	5%	4,227	4,857	14.9%
NII	494	506	520	499	536	8%	7%	1,966	2,020	2.8%
Other Income	146	158	187	236	182	25%	-23%	837	726	-13.3%
Total Income	640	664	706	735	718	12%	-2%	2,803	2,746	-2.0%
Ope Exp.	371	355	374	407	400	8%	-2%	1,322	1,507	14.0%
PPP	270	310	332	328	318	18%	-3%	1,481	1,239	-16.3%
Provisions	232	205	203	219	205	-11%	-6%	981	858	-12.5%
PBT	38	105	129	108	113	196%	4%	500	381	-23.9%
Tax	15	35	45	38	39	161%	4%	165	133	-19.4%
Net Profit	23	70	84	71	73	218%	4%	335	248	-26%

Concall Highlights

- NIM is expected to improve by 10-20 bps with improvement in the pricing & improvement in MCLR rate (1 year MCLR being base). NIM is expected to remain in the range of 2.7-2.75%.
- C/I ratio is expected to improve by 2% going ahead; the improvement will lead by growth in the other income. Management has tied up with many insurance companies for distribution of third party products and expects rise in transaction fee from higher share of incremental disbursement in Retail & MSME segment.
- The incremental growth is expected to be driven by Retail (home loan, mortgage, auto and gold loans) followed by agri segment & MSME segment at a growth rate of 15-18% for FY20. Management expects moderate growth in the corporate segment going ahead.
- Gold loan portfolio is basically agriculture subvention portfolio where management is not able to get proper pricing in the current environment.
- Management is cautious grows MSME due to liquidity strain in the market with emerging opportunity in Ahmedabad, Kolkata, Mumbai & Delhi.
- Management focuses on CASA improvement by 100 bps. Bulk deposits have declined by 3%.
- Up gradation stands at Rs 87 Cr and Write of Rs 132 Cr. NPA is mainly led by corporate segment, where resolution may take some time. Management has decrease the share of corporate portfolio as the corporate losses has gone up.
- Moratorium for Kerala flood is currently available till Dec 31 2019. Restructured book for agriculture and natural calamity is around Rs 164 Cr. MSME dispensation is at Rs 107 Cr. Totalling dispensation to Rs 292 Cr.
- Management has guided to contain the slippages at Rs 1000 Cr for FY20, with Rs 200 Cr of credit cost per quarter (it does not cover any dilution in the asset cover) at the rate of 1-1.1%. Recovery target stands at Rs 500 Cr. Management has guided to increase the PCR to 65% in next 7-8 quarters.
- The credit quality in Kerala is standard; management cautiously expects 30% of slippages in the book going ahead.
- SMA-2 has increased from 1.7% to 2.65% YoY.
- SMA 2 less than 5 Cr is around 4762 account contributing to Rs 400 Cr.
- SMA 2 above 5 Cr is around Rs 600 Cr.
- SMA 2 between 50 and 100 Cr there is 1 road project which is getting resolved.
- SMA 2 above 100 Cr is NIL.
- The exposure to the particular HFC under resolution stood at Rs 150 Cr.
- LAP is basically sourced from internal portfolio with very less reliance on the DSA portfolio.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	50.6	53.7	57.9	53.4	53.0	55.4	55.7	-2.14	0.30
Empl. Cost/ Tot. Exp. %	54.7	53.7	57.0	55.3	54.0	52.0	55.9	-1.05	3.91
Other Exp/Tot. Exp.%	45.3	46.3	43.0	44.7	46.0	48.0	44.1	1.05	-3.91
Provision/PPP %	46.7	47.8	85.9	66.1	61.2	66.9	64.5	-21.32	-2.36
Tax Rate %	34.6	29.7	39.5	33.3	34.9	35.0	34.9	-4.59	0.00
Int Exp./Int Inc. (%)	67.7	69.0	70.1	70.1	70.1	72.1	71.7	1.61	-0.39
Other Inc./Net Inc. %	23.8	26.6	22.8	23.8	26.4	32.1	25.4	2.56	-6.71
PAT/ Net Income %	17.2	17.0	3.6	10.6	11.9	9.6	10.2	6.61	0.62
PAT Gr %	3.3	51.0	(77.3)	1,523	(27.1)	(38.2)	218.0	295.26	256.17
NII Gr %	22.0	12.1	7.3	0.6	2.0	1.5	8.4	1.10	6.92
PPP Gr %	(12.4)	10.7	(28.9)	(32.7)	0.6	5.4	17.8	46.74	12.44

Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	9.9	9.6	9.5	9.5	9.6	9.5	9.7	0.19	0.18
Yield (Total Assets)	5.4	7.8	8.0	7.9	8.0	7.9	8.1	0.16	0.18
Cost of Deposits	6.0	6.0	6.1	6.1	6.1	6.3	6.3	0.26	0.02
Cost Of Funds	5.4	5.4	5.6	5.6	5.6	5.7	5.8	0.24	0.10
NIM	2.9	2.7	2.6	2.6	2.7	2.5	2.5	-0.07	0.07

Exhibit: Yield and Cost

Yield on Total assets increased along with cost of fund.

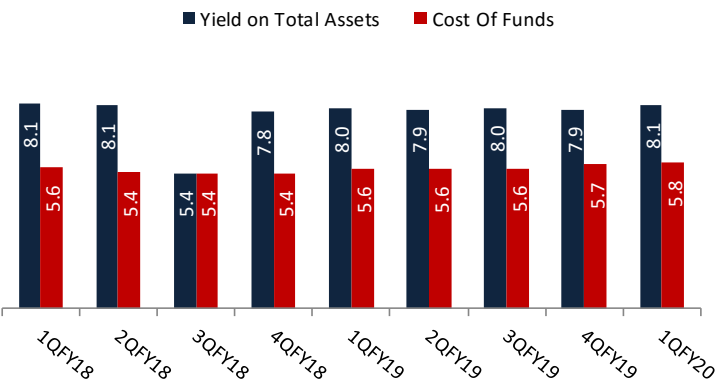
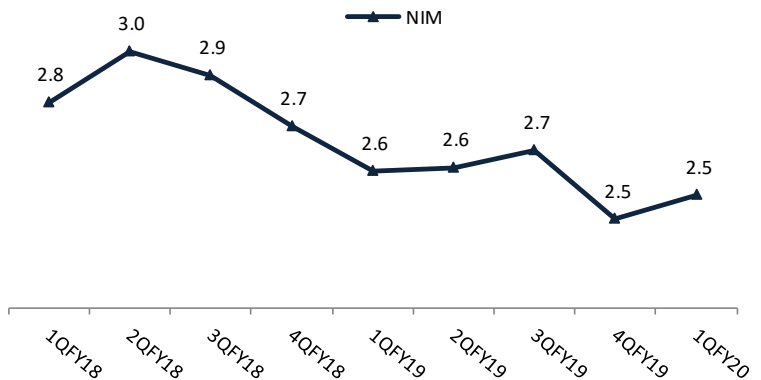


Exhibit: Net Interest Margin

NIM has remained stable



Other Income Break Up

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Transaction Fees	54	64	67	69	59	60	71	86	65
Technology	30	29	31	31	32	35	37	33	29
Forex	8	9	7	11	9	11	10	14	13
Total Core Fee Income	92	102	105	111	100	106	118	133	107
Growth YoY %	(11)	29	40	17	9	4	12	20	7
Other	39	110	43	55	30	39	43	37	26
Profit on Sale of Inv.	89	68	11	13	16	13	27	65	49
Total Other Income	220	280	159	179	146	158	188	235	182
Growth YoY %	27	92	(39)	30	(34)	(44)	18	31	25

Exhibit: Advances Growth %

Moderated Advance Growth

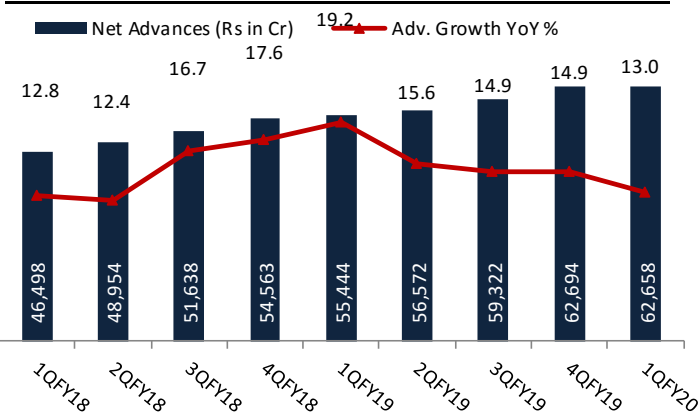
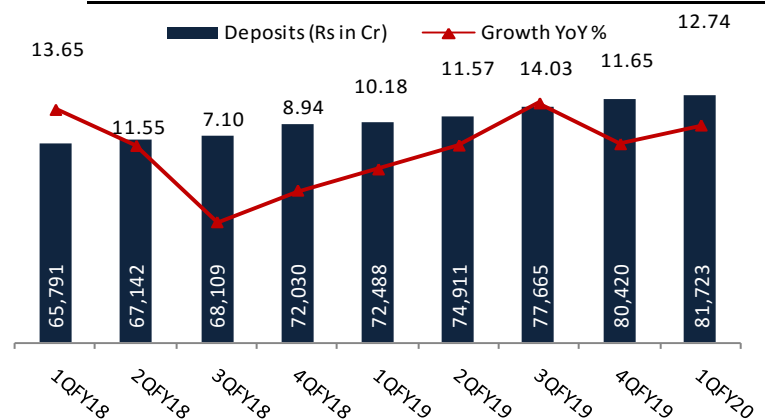


Exhibit: Deposit Growth %

Deposit Growth improves



Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	1,774	1,981	2,552	2,646	2,930	3,132	3,154	24%	1%
GNPA %	3.40	3.59	4.54	4.61	4.88	4.92	4.96	0.42	0.04
NNPA (Rs in Cr)	1,211	1,416	1,814	1,785	2,100	2,164	2,135	18%	-1%
NNPA %	2.35	2.60	3.27	3.16	3.54	3.45	3.41	0.14	-0.04
Slippages (Rs in Cr)	258	614	609	213	659	368	241	-60%	-35%
Stand Restr. Assets %	0.48	0.10	0.04	0.04	0.34	0.34	0.47	0.43	0.12
Net Stress Assets %	2.83	2.70	3.31	3.19	3.88	3.79	3.87	0.57	0.08
PCR %	49	41	39	42	41	42	45	5.90	2.54
Credit Cost %	1.83	1.14	1.27	0.95	1.31	1.25	1.17	-0.09	-0.08
Prov/Avg Adv% (AnnL.)	1.23	1.12	1.68	1.46	1.40	1.44	1.31	-0.38	-0.13

Sector wise Slippages %

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Agriculture	0.27	0.44	0.18	0.71	0.14	0.22	0.04	1.15	0.11
SME	0.85	0.78	0.18	0.30	1.72	0.76	0.80	0.75	0.88
Retail Credit	0.61	0.34	0.38	0.18	0.40	0.42	0.20	0.20	0.39
Corporate	3.51	0.53	-	2.36	1.54	0.09	2.38	0.53	0.12

Exhibit: Asset Quality

GNPA increased while NNPA decrease

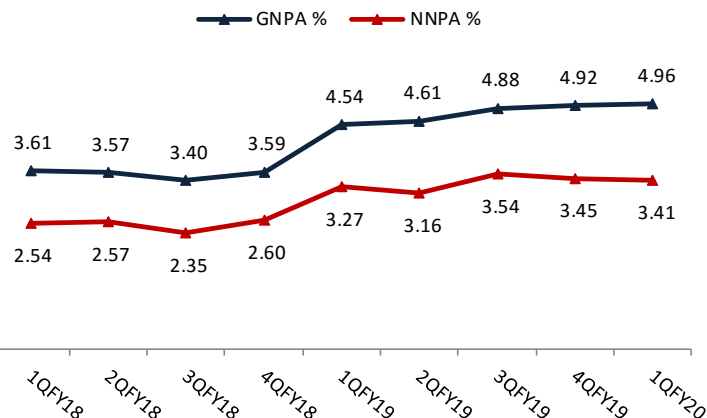
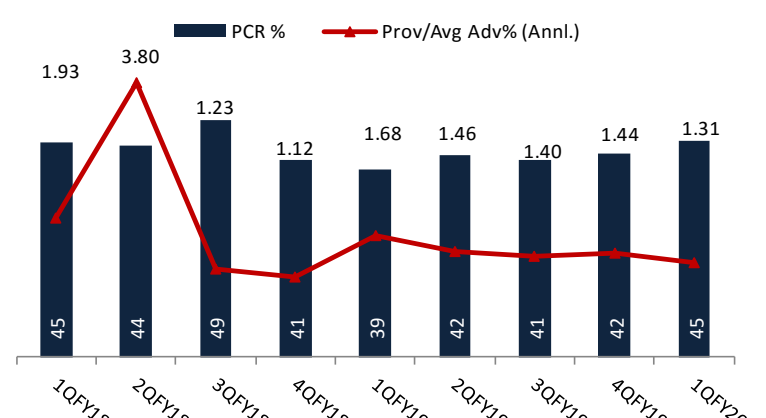


Exhibit: Provisions

PCR has improved



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	134	135	135	180	181	181	181	181
>> Equity Capital	134	135	135	180	181	181	181	181
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	3236	3457	3711	4668	5062	5156	5512	6103
Networth	3370	3592	3846	4848	5243	5337	5693	6284
Deposits	47491	51912	55721	66117	72030	80420	94041	108147
Change (%)	7.3	9.3	7.3	18.7	8.9	11.6	16.9	15.0
>> CASA Deposits	9825	10686	12459	15747	17142	19467	23510	27037
Change (%)	19.3	8.8	16.6	26.4	8.9	13.6	20.8	15.0
Borrowings	2731	2232	2315	1958	4043	4903	4702	5948
Other Liabilities & Provisions	1394	1380	1294	1388	1370	1619	1612	1854
Total Liabilities	54986	59116	63175	74312	82686	92279	106047	122232
Cash & Bank	3218	3595	3099	3888	4221	4823	5101	6219
Investments	14352	14086	14619	19430	18363	19081	22570	25955
Change (%)	14.6	-1.9	3.8	32.9	-5.5	3.9	18.3	15.0
Advances	36230	37392	41086	46389	54563	62694	71471	82191
Change (%)	13.9	3.2	9.9	12.9	17.6	14.9	14.0	15.0
Fixed Assets	412	479	487	656	681	709	744	781
Other Assets	774	3564	3884	3949	4858	4973	6161	7085
Total Assets	54986	59116	63175	74312	82686	92279	106047	122232

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	5,015	5,286	5,557	5,847	6,193	6,877	7,950	9,046
Interest expended	3,616	3,920	4,048	4,172	4,227	4,857	5,578	6,267
Net Interest Income	1,399	1,366	1,510	1,675	1,966	2,020	2,372	2,779
Change (%)	9.2	(2.3)	10.5	11.0	17.3	2.8	17.4	17.2
Other Income	368	497	517	716	837	726	833	949
Change (%)	10.0	34.9	4.1	38.3	17.0	(13.3)	14.7	13.9
>> Core Fee Income	258	289	320	352	410	457	473	551
>> Treasury Income	70	166	136	253	181	121	244	278
>> Others	41	42	61	111	246	148	116	120
Total Net Income	1,767	1,863	2,027	2,391	2,803	2,746	3,205	3,728
Operating Expenses	883	1,047	1,148	1,176	1,322	1,507	1,721	1,848
Change (%)	15.1	18.6	9.6	2.5	12.4	14.0	14.2	7.4
>> Employee Expenses	529	634	692	677	713	821	907	954
Pre-provisioning Profit	884	816	879	1,215	1,481	1,239	1,483	1,880
Change (%)	4.2	(7.7)	7.7	38.1	21.9	(16.3)	19.7	26.7
Provisions	155	414	370	614	981	858	827	902
Change (%)	(3.5)	166.4	(10.7)	66.2	59.7	(12.5)	(3.6)	9.1
PBT	729	446	510	600	500	381	656	978
Tax	221	138	176	208	165	133	224	332
Profit After Tax	508	307	333	393	335	248	432	645
Change (%)	1.0	(39.5)	8.5	17.8	(14.7)	(26.1)	74.5	49.3

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	13.9	3.2	9.9	12.9	17.6	14.9	14.0	15.0
Deposit Growth (%)	7.3	9.3	7.3	18.7	8.9	11.6	16.9	15.0
C/D Ratio (%)	76.3	72.0	73.7	70.2	75.8	78.0	76.0	76.0
CASA (%)	20.7	20.6	22.4	23.8	23.8	24.2	25.0	25.0
Investment/Deposit (%)	30.2	27.1	26.2	29.4	25.5	23.7	24.0	24.0
CRAR (%)	12.4	12.1	11.8	12.4	12.7	12.6	11.5	10.0
>> Tier 1 (%)	10.8	10.5	9.8	10.9	10.4	10.0	9.4	8.3
>> Tier 2 (%)	1.6	1.6	2.0	1.5	2.3	2.6	2.1	1.6

Assets Quality Metrics

Gross NPA	433	643	1,562	1,149	1,981	3,132	3,579	4,086
Gross NAP (%)	1.2	1.7	3.8	2.5	3.6	4.9	4.9	4.9
Net NPA	282	357	1,185	675	1,416	2,164	2,326	2,451
Net NPA (%)	0.8	1.0	2.9	1.5	2.6	3.5	3.3	3.0
Slippages (%)	2.0	1.4	4.3	4.2	3.9	3.5	1.6	1.4
Provision Coverage (%)	62.7	61.0	40.2	55.1	41.2	42.5	47.3	54.1
Provision/Average Advances (%)	0.5	1.1	0.9	1.4	1.9	1.5	1.2	1.2

Margin Metrics

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

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	72.1	74.2	72.8	71.3	68.3	70.6	70.2	69.3
Fee Income/NII (%)	18.4	21.2	21.2	21.0	20.9	22.6	20.0	19.8
Cost to Income (%)	50.0	56.2	56.6	49.2	47.2	54.9	53.7	49.6
Cost on Average Assets (%)	1.8	2.0	2.0	1.8	2.6	2.6	2.6	2.4
Tax Rate (%)	30.4	31.1	34.6	34.6	33.0	34.9	34.2	34.0

Valuation Ratio Metrics

EPS (Rs)	3.8	2.3	2.5	2.2	1.9	1.4	2.4	3.6
Change (%)	0.6	(39.7)	8.5	(11.8)	(15.0)	(26.1)	74.5	49.3
ROAE (%)	15.9	8.8	9.0	9.0	6.6	4.7	7.8	10.8
ROAA (%)	1.0	0.5	0.5	0.6	0.4	0.3	0.4	0.6
Dividend Payout (%)	21.2	26.4	20.3	18.4	21.6	18.3	10.5	14.0
Dividend yield (%)	3.6	2.4	2.8	1.9	1.8	1.5	1.9	3.8
Book Value (Rs)	25	27	28	27	29	29	31	35
Change (%)	11.7	6.1	7.1	(5.6)	7.8	1.7	6.7	10.4
ABVPS (Rs)	23	24	20	23	21	18	19	21
P/B (X)	0.9	0.9	0.6	0.8	0.8	0.6	0.4	0.4
P/E (X)	5.9	11.1	7.1	9.8	12.3	12.1	5.4	3.6

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	9.6	9.3	9.1	8.5	7.9	7.9	8.0	7.9
<i>Interest expended</i>	6.9	6.9	6.6	6.1	5.4	5.6	5.6	5.5
<i>Net Interest Income</i>	2.7	2.4	2.5	2.4	2.5	2.3	2.4	2.4
<i>Non-Fund Based Income</i>	0.7	0.9	0.8	1.0	1.1	0.8	0.8	0.8
>> <i>Core Fee Income</i>	0.5	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	0.3
<i>Core Operating Income</i>	3.2	2.9	3.0	2.9	3.0	2.8	2.9	2.9
<i>Total Income</i>	3.4	3.3	3.3	3.5	3.6	3.1	3.2	3.3
<i>Total Operating Expenses</i>	1.7	1.8	1.9	1.7	1.7	1.7	1.7	1.6
>> <i>Employee Expenses</i>	1.0	1.1	1.1	1.0	0.9	0.9	0.9	0.8
>> <i>Other Expenses</i>	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
<i>Operating Profit</i>	1.7	1.4	1.4	1.8	1.9	1.4	1.5	1.6
<i>Provisions</i>	0.3	0.7	0.6	0.9	1.2	1.0	0.8	0.8
<i>Others</i>	-	0.1	-	-	-	-	-	-
<i>PBT</i>	1.4	0.8	0.8	0.9	0.6	0.4	0.7	0.9
<i>Tax</i>	0.4	0.2	0.3	0.3	0.2	0.2	0.2	0.3
<i>PAT/RoA</i>	1.0	0.5	0.5	0.6	0.4	0.3	0.4	0.6
>> <i>Equity Multiplier (x)</i>	16.4	16.4	16.4	15.8	15.6	16.5	18.0	19.1
<i>RoE</i>	15.9	8.8	9.0	9.0	6.6	4.7	7.8	10.8

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