

# South Indian Bank

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
35,544	10,802
Bloomberg	SIB IN
Equity Shares (m)	1808.8
M.Cap. (INR b)/(USD)	47.8/0.7
52-Week Range (INR)	35 / 22
1, 6, 12 Rel. Per (%)	0/-22/-11
12M Avg Val (INR M)	502.0
Free float (%)	100.0

## Financials & Valuation (INR Billion)

Y/E March	2018	2019E	2020E
NII	19.7	22.5	26.5
OP	14.8	17.6	21.5
NP	3.3	6.0	8.3
NIM (%)	2.8	2.9	3.0
EPS (INR)	1.9	3.3	4.6
BV/Sh (INR)	28.2	30.0	33.8
ABV (INR)	22.8	25.7	29.8
RoE (%)	6.6	11.0	14.0
RoA (%)	0.4	0.7	0.8
Payout (%)	38.9	25.6	18.4
<b>Valuations</b>			
P/E (x)	14.3	8.0	5.8
P/BV (x)	0.9	0.9	0.8
P/ABV (x)	1.2	1.0	0.9
Div Yield (%)	2.7	3.2	3.2

**CMP: INR26**
**TP: INR34 (+29%)**
**Buy**

## Loan growth picks up; asset quality deteriorates marginally

- SIB's reported PAT was flattish QoQ (-1%), but grew 51% YoY off a relatively low base. PPOP declined 6% QoQ, led by a 6% QoQ increase in opex with sequentially flat total income. Provisions of INR1.49b (1.1% annualized credit cost) came in below our estimate, leading to an 815bp QoQ decline in PCR to 41.2%. The bank utilized RBI's dispensation to spread MTM losses and provided INR129.6m, leaving INR344m to be provided over the next three quarters.
- NII declined 3% QoQ (+12% YoY), even as advances rose 5.7% QoQ (+17.6% YoY), as the NIM contracted 15bp QoQ to 2.73% due to a 14bp sequential decline in reported spreads. Opex grew 6% QoQ (+22% YoY; the bank utilized RBI's dispensation to spread out gratuity provisions, leaving INR204.5m to be further provided). CI ratio increased to 53.7% from 50.6% in 3QFY18.
- Loan growth of 5.7%/17.6% QoQ/YoY was led by robust growth in retail and agri (+19% YoY each), while corporate book grew 14% YoY, in line with the bank's retail-focused strategy. Corporate book has decreased to 37% of advances from 38% a year ago.
- Slippages were elevated at INR6.14b (INR2.58b in 3QFY18), of which INR1.9b were from restructured book (roads). Slippages declined in retail (0.18% v/s 0.38% in 3Q), but increased in agri (0.71% v/s 0.18% in 3Q) and SME (0.3% v/s 0.18% in 3Q). Recoveries, upgrades and write-offs came in at INR4.08b. Absolute GNPA increased 11.6% QoQ to INR19.8b (3.59%, +19bp QoQ), while NNPA rose 16.9% QoQ to INR14.2b (2.6%, +25bp), with calculated PCR down 326bp QoQ to 28.5%. Total net stressed loans at INR14.7b rose marginally QoQ (INR14.6b in 3Q), but declined to 2.7% of loans in percentage terms (2.8% in 3Q). The bank reported FY17 GNPA divergence of INR84m, excluding INR154m of non-funded exposure, which it had provided for and sold to an ARC
- **Other highlights:** a) CASA ratio stood at 23.8% (-110bp QoQ). b) 78% of corporate book is now investment grade (74% in 3Q).
- **FY18 highlights:** The bank reported PAT of INR3.3b for FY18 v/s INR3.9b for FY17, led by elevated NPA provision. Slippages for FY18 were 3.6% (v/s 3.9% in FY17), with majority of slippages in 4Q occurring from restructured books and RBI's revised stressed assets framework. Credit cost for the full year stood at 1.7% (v/s 1.4% in FY17). Calculated PCR stands at 28.5%.
- **Concall highlights:** 1) Management guided for credit cost of 1% for FY19, with slippages of INR6b. 2) Management aims to achieve PCR of ~70% (incl. technical write-offs) by 1HFY19, with recoveries of ~40%.

**Valuation view:** Management is focused on building a low-ticket loan book, with steady balance sheet clean-up, which has helped improve asset quality substantially. We believe the asset quality stress is largely behind us. We cut our FY19/20 estimates by 12%/7% to account for higher provisions and maintain our **Buy** rating with a TP of INR34 (1.1x FY20E ABV).

## Exhibit 1: Quarterly Performance

	FY17				FY18				FY17	FY18	4QFY18E	V/S our Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>Net Interest Income</b>	<b>3,736</b>	<b>4,452</b>	<b>4,175</b>	<b>4,391</b>	<b>4,607</b>	<b>5,032</b>	<b>5,094</b>	<b>4,922</b>	<b>16,754</b>	<b>19,655</b>	<b>5,333</b>	<b>-7.7</b>
% Change (YoY)	9.8	14.6	2.7	17.3	23.3	13.0	22.0	12.1	11.0	17.3	21.4	-9.3
Other Income	1,734	1,459	2,585	1,377	2,193	2,805	1,588	1,787	7,156	8,373	2,073	-13.8
<b>Total Income</b>	<b>5,471</b>	<b>5,911</b>	<b>6,760</b>	<b>5,768</b>	<b>6,800</b>	<b>7,837</b>	<b>6,682</b>	<b>6,709</b>	<b>23,910</b>	<b>28,028</b>	<b>7,405</b>	<b>-9.4</b>
% Change (YoY)	23.2	16.0	20.7	12.4	24.3	32.6	-1.2	16.3	18.0	17.2	28.4	-12.1
Operating Expenses	2,876	2,937	2,991	2,960	3,005	3,234	3,381	3,600	11,764	13,220	3,120	15.4
<b>Operating Profit</b>	<b>2,595</b>	<b>2,973</b>	<b>3,770</b>	<b>2,808</b>	<b>3,795</b>	<b>4,603</b>	<b>3,302</b>	<b>3,109</b>	<b>12,146</b>	<b>14,808</b>	<b>4,285</b>	<b>-27.5</b>
% Change (YoY)	43.4	39.6	43.3	26.3	46.2	54.8	-12.4	10.7	38.1	21.9	52.6	-41.9
Provisions	1,141	1,283	2,066	1,653	2,243	4,537	1,543	1,486	6,144	9,809	2,378	-37.5
<b>Profit Before Tax</b>	<b>1,454</b>	<b>1,690</b>	<b>1,703</b>	<b>1,155</b>	<b>1,552</b>	<b>66</b>	<b>1,759</b>	<b>1,623</b>	<b>6,002</b>	<b>4,999</b>	<b>1,907</b>	<b>-14.9</b>
Tax	503	585	590	400	537	23	609	482	2,077	1,650	654	-26.4
<b>Net Profit</b>	<b>951</b>	<b>1,105</b>	<b>1,114</b>	<b>755</b>	<b>1,015</b>	<b>43</b>	<b>1,150</b>	<b>1,141</b>	<b>3,925</b>	<b>3,349</b>	<b>1,253</b>	<b>-8.9</b>
% Change (YoY)	45.6	18.4	9.6	3.5	6.7	-96.1	3.3	51.0	17.8	-14.7	65.9	-14.8
<b>Operating Parameters</b>												
Deposit (INR b)	578.9	601.9	636.0	661.2	657.9	671.4	681.1	720.3	661.2	720.3	714.1	0.9
Loan (INR b)	412.4	435.5	442.6	463.9	465.0	489.5	516.4	545.6	463.9	545.6	542.8	0.5
Deposit Growth (%)	10.6	13.5	19.0	18.7	13.7	11.5	7.1	8.9	18.7	8.9	8.0	0.9
Loan Growth (%)	7.8	10.1	10.9	12.9	12.8	12.4	16.7	17.6	12.9	17.6	17.0	0.6
<b>Asset Quality</b>												
Gross NPA (INR b)	16.5	17.5	17.9	11.5	17.0	17.7	17.7	19.8	11.5	19.8	18.8	5.2
Gross NPA (%)	4.0	4.0	4.0	2.5	3.6	3.6	3.4	3.6	2.5	3.6	3.5	0.1
Net NPA (INR b)	11.9	12.1	11.2	6.7	11.8	12.6	12.1	14.2	6.7	14.2	12.8	10.2
Net NPA (%)	2.9	2.8	2.5	1.5	2.5	2.6	2.3	2.6	1.9	2.6	0.0	2.6
PCR (%)	27.8	30.9	37.6	41.3	30.3	28.9	31.8	28.5	41.3	28.5	31.8	-3.3

Source: MOSL, Company

## Exhibit 2: Quarterly Snapshot

	FY16				FY17				FY18				Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
<b>Profit and Loss (INR m)</b>														
<b>Net Interest Income</b>	<b>3,404</b>	<b>3,884</b>	<b>4,067</b>	<b>3,743</b>	<b>3,736</b>	<b>4,452</b>	<b>4,175</b>	<b>4,391</b>	<b>4,607</b>	<b>5,032</b>	<b>5,094</b>	<b>4,922</b>	<b>12</b>	<b>-3</b>
<b>Other Income</b>	<b>1,038</b>	<b>1,212</b>	<b>1,533</b>	<b>1,391</b>	<b>1,734</b>	<b>1,459</b>	<b>2,585</b>	<b>1,377</b>	<b>2,193</b>	<b>2,805</b>	<b>1,588</b>	<b>1,787</b>	<b>30</b>	<b>13</b>
<b>Total Income</b>	<b>4,442</b>	<b>5,096</b>	<b>5,600</b>	<b>5,134</b>	<b>5,471</b>	<b>5,911</b>	<b>6,760</b>	<b>5,768</b>	<b>6,800</b>	<b>7,837</b>	<b>6,682</b>	<b>6,709</b>	<b>16</b>	<b>0</b>
<b>Operating Expenses</b>	<b>2,633</b>	<b>2,965</b>	<b>2,970</b>	<b>2,911</b>	<b>2,876</b>	<b>2,937</b>	<b>2,991</b>	<b>2,960</b>	<b>3,005</b>	<b>3,234</b>	<b>3,381</b>	<b>3,600</b>	<b>22</b>	<b>6</b>
Employee	1,574	1,787	1,846	1,716	1,676	1,676	1,752	1,662	1,670	1,681	1,849	1,933	16	5
Others	1,059	1,178	1,124	1,195	1,200	1,262	1,239	1,298	1,336	1,554	1,532	1,667	28	9
<b>Operating Profits</b>	<b>1,809</b>	<b>2,130</b>	<b>2,631</b>	<b>2,223</b>	<b>2,595</b>	<b>2,973</b>	<b>3,770</b>	<b>2,808</b>	<b>3,795</b>	<b>4,603</b>	<b>3,302</b>	<b>3,109</b>	<b>11</b>	<b>-6</b>
<b>Core Operating Profits</b>	<b>1,668</b>	<b>1,710</b>	<b>2,131</b>	<b>1,923</b>	<b>2,025</b>	<b>2,463</b>	<b>2,500</b>	<b>2,628</b>	<b>2,905</b>	<b>3,923</b>	<b>3,192</b>	<b>2,979</b>	<b>13</b>	<b>-7</b>
<b>Provisions</b>	<b>795</b>	<b>675</b>	<b>1,064</b>	<b>1,163</b>	<b>1,141</b>	<b>1,283</b>	<b>2,066</b>	<b>1,653</b>	<b>2,243</b>	<b>4,537</b>	<b>1,543</b>	<b>1,486</b>	<b>-10</b>	<b>-4</b>
<b>PBT</b>	<b>1,014</b>	<b>1,456</b>	<b>1,567</b>	<b>1,060</b>	<b>1,454</b>	<b>1,690</b>	<b>1,703</b>	<b>1,155</b>	<b>1,552</b>	<b>66</b>	<b>1,759</b>	<b>1,623</b>	<b>40</b>	<b>-8</b>
Taxes	361	522	551	331	503	585	590	400	537	23	609	482	20	-21
<b>PAT</b>	<b>653</b>	<b>934</b>	<b>1,016</b>	<b>730</b>	<b>951</b>	<b>1,105</b>	<b>1,114</b>	<b>755</b>	<b>1,015</b>	<b>43</b>	<b>1,150</b>	<b>1,141</b>	<b>51</b>	<b>-1</b>
<b>Balance Sheet (INR B)</b>														
Loans	382	396	399	411	412	435	443	464	465	490	516	546	18	6
Deposits	523	530	534	557	579	602	636	661	658	671	681	720	9	6
<b>Asset Quality</b>														
GNPA	7,138	8,923	11,080	15,624	16,516	17,453	17,870	11,490	16,957	17,663	17,746	19,803	72	12
NNPA	4,640	5,496	7,160	11,853	11,918	12,064	11,157	6,746	11,825	12,558	12,108	14,158	110	17
<b>Ratios (%)</b>														
													Change (bps)	
<b>- Asset Quality Ratios</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>YoY</b>	<b>QoQ</b>
GNPA (%)	1.9	2.2	2.8	3.8	4.0	4.0	4.0	2.5	3.6	3.6	3.4	3.6	1	0
NNPA (%)	1.2	1.4	1.8	2.9	2.9	2.8	2.5	1.5	2.5	2.6	2.4	2.6	1	0
PCR (Calculated, %)	35	38	35	24	28	31	38	41	30	29	32	29	-13	-3

- Business Ratios														
Other Income to Total Income	23.4	23.8	27.4	27.1	31.7	24.7	38.2	23.9	32.3	35.8	23.8	26.6	2.8	2.9
Cost to Core Income	62.5	64.0	60.8	61.5	61.7	54.9	55.3	53.8	51.5	45.8	52.0	55.7	1.8	3.7
Tax Rate	35.6	35.8	35.1	31.2	34.6	34.6	34.6	34.6	34.6	34.4	34.6	29.7	-4.9	-4.9
Loan/Deposit	73.6	74.6	74.7	73.7	71.2	72.3	69.6	70.2	70.7	72.9	75.8	75.8	5.6	-0.1
CASA Reported	22.3	22.8	23.0	22.2	23.2	22.8	25.9	23.8	25.2	24.6	24.9	23.8	0.0	-1.1
CAR	11.4	11.9	11.7	11.8	11.7	11.1	11.1	12.4	12.1	11.7	12.5	12.7	0.3	0.2
Tier I	10.0	9.6	9.4	9.8	9.9	9.5	9.4	10.9	10.8	10.4	10.1	10.4	-0.50	0.30
- Profitability Ratios														
ROA	0.5	0.6	0.7	0.5	0.6	0.7	0.6	0.4	0.6	0.0	0.6	0.6	0.1	0.0
ROE	7.1	10.0	10.6	7.6	9.4	10.6	10.4	6.1	8.1	0.3	9.0	8.7	2.6	-0.3
Yield on Loans	11.5	11.4	11.2	10.6	10.9	10.6	10.3	10.0	10.1	10.0	9.9	9.6	-0.4	-0.3
Yield on Funds	9.4	9.3	9.2	8.8	8.7	8.7	8.3	8.2	8.1	8.1	8.0	7.8	-0.3	-0.1
Cost of Deposits	7.9	7.5	7.4	7.2	7.0	6.8	6.5	6.3	6.2	6.1	6.0	6.0	-0.3	0.0
Cost of Funds	7.1	6.7	6.6	6.4	6.3	6.2	6.0	5.7	5.6	5.4	5.4	5.4	-0.3	0.0
Margins	2.5	2.8	2.9	2.6	2.7	2.8	2.7	2.7	2.8	3.0	2.9	2.7	0.0	-0.2

Source: MOSL, Company

### Other highlights

- Retail/corporate loan books grew 6%/10% QoQ and 19%/14% YoY while SME book declined 2% QoQ (+18% YoY). Retail book grew to 25% (23.3% in 4QFY17) of the total book, while the corporate book declined to 37% (38% in 4QFY17) of the total book.
- CASA accretion increased to 9% YoY growth, due to 8%/11% YoY SA/CA growth. CASA ratio declined by 110bpQoQ to 23.8% (flattish YoY), along with a 29bp YoY fall in cost of deposits.
- Slippages were elevated at INR6.14b (INR2.58b in 3QFY18), of which corporate slippages were INR4.82b. Within corporate slippages INR1.9b was from restructured book (2 road accounts) and INR1.63b was driven by RBI's revised stressed asset framework. The bank further reported FY17 divergence of INR83.9m (GNPA). Slippages declined in retail (0.18% v/s 0.38% in 3Q), but increased in agri (0.71% v/s 0.18% in 3Q) and SME (0.3% vs 0.18% in 3Q). Recoveries, upgrades and write-offs came in at INR290m/INR530m and INR1.52b respectively. The bank sold INR1.65b of loans to ARCs during the quarter.
- Absolute GNPA increased 11.6% QoQ to INR19.8b (3.59%, +19bp QoQ), while NNPA rose 16.9% QoQ to INR14.2b (2.6%, +25bp), with calculated PCR declining 326bp QoQ to 28.5%. Total net stressed loans at INR14.7b rose marginally QoQ (INR14.6b in 3Q), but decreased to 2.7% of loans in percentage terms (2.8% in 3Q).



### 4QFY18 conference call highlights

#### Asset quality

- The bank sold three NPA accounts to ARCs for a consideration of INR1.65b (50% cash). The loan amount was INR4.78b, against which they had provisions of INR2.94b, with a net book value of INR1.84b.
- **Details of corporate slippage (total INR4.82b):** 2 road projects of INR1.9b slipped from restructured book, 2 other road projects of INR1.63b (due to RBI's revised framework), 1 jewellery account of INR1.29b from Kerala.

- The bank has one 5:25 account of INR3.05b. SR book stands at INR13.56b, with provisions of INR2.61b.
- **Breakup of reductions in GNPA:** INR4.09b – INR1.65b from ARC sale, INR290m of cash recoveries, INR530m of upgrades, INR1.52b of write-offs.
- **Divergence:** INR1.54b was the non-funded part where they have provided 100% and sold to ARC.
- They sold heavily provided assets to ARCs, without which PCR would have been ~45%.
- They have utilized the RBI dispensation for spreading out NCLT provisioning and have reached 40% PCR on secured exposures by FY18, remaining to be done by 1QFY19.

#### Balance-sheet & P&L related

- Gold loans expected to come back to 20% growth in FY19.
- INR180m of interest reversals during the quarter, IT refund of INR20-25m.
- Opex increased because they set up additional establishments in Cochin and added people.

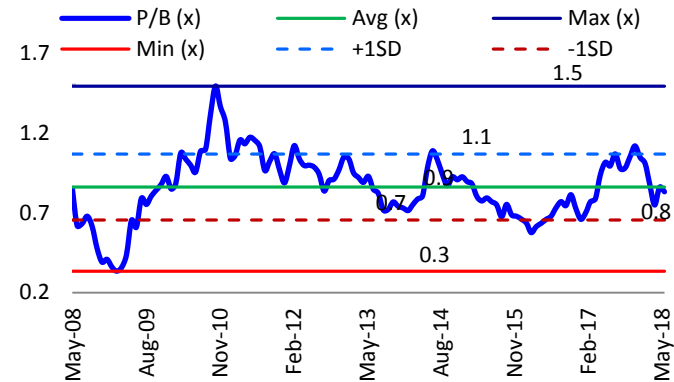
#### Guidance

- INR1.5b slippage/quarter (INR6b in FY19).
- 1% credit cost (INR6b) in FY19.
- Sep 19 – 70% PCR (incl. TWO), confident of recoveries of 40%.
- Will raise Tier II to meet 20% growth. Targeting 25% internally, so will look to raise equity in FY19.

#### Valuation and view

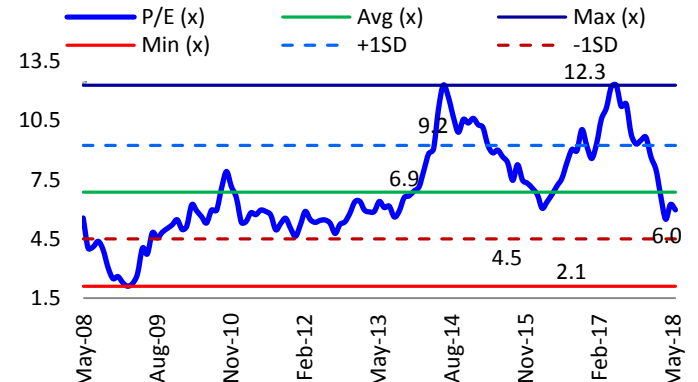
- Advances growth is picking up, led by low-risk retail loans as the bank steadily shifts its loan mix to retail; corporate now forms 37% of the book compared to 38% in 4QFY17. We like management's focus on granular low-ticket retail/SME loans, improving C/I ratio and a steady approach to balance sheet clean-up, which will help improve asset quality substantially.
- The bank has been remarkably proactive in asset quality stress recognition and providing for the same. Based on the small remaining quantum of stress on the books and the amount of provisioning already done, we believe that slippages/credit costs should be controlled from here. We thus arrive at FY19E/FY20E RoA of 0.68%/0.83% and RoE of 11%/14%.
- We have cut our estimates for FY19/FY20 by 12%/7% to account for higher provisions. However, in view of continued reduction in net stressed assets, comfortable capital position and improved profitability, we value the bank at INR34 (1.1x FY20E ABV) and maintain our **BUY** rating on the stock.

Exhibit 3: One-year forward P/BV



Source: MOSL, Company

Exhibit 4: One-year forward P/E



Source: MOSL, Company

Exhibit 5: We cut our estimates for FY19/FY20 by 12%/7% to account for higher provisions

INR B	Old Est		Revised Est		Variation (%)	
	FY19	FY20	FY19	FY20	FY19	FY20
Net Interest Income	23.6	27.4	22.5	26.5	-4.8	-3.3
Other Income	10.0	11.0	10.0	11.6	0.9	5.5
<b>Total Income</b>	<b>33.5</b>	<b>38.4</b>	<b>32.5</b>	<b>38.0</b>	<b>-2.9</b>	<b>-0.8</b>
Operating Expenses	14.7	16.1	14.9	16.5	1.5	2.5
<b>Operating Profits</b>	<b>18.8</b>	<b>22.2</b>	<b>17.6</b>	<b>21.5</b>	<b>-6.4</b>	<b>-3.0</b>
Provisions	8.4	8.6	8.5	8.9	1.1	3.4
<b>PBT</b>	<b>10.4</b>	<b>13.6</b>	<b>9.1</b>	<b>12.6</b>	<b>-12.5</b>	<b>-7.1</b>
Tax	3.6	4.7	3.1	4.4	-12.8	-7.2
<b>PAT</b>	<b>6.8</b>	<b>8.9</b>	<b>6.0</b>	<b>8.3</b>	<b>-12.3</b>	<b>-7.0</b>
<b>RoA</b>	<b>0.8</b>	<b>0.9</b>	<b>0.7</b>	<b>0.8</b>	<b>-14.9</b>	<b>-7.4</b>
<b>RoE</b>	<b>12.7</b>	<b>14.8</b>	<b>11.0</b>	<b>14.0</b>	<b>-13.2</b>	<b>-5.3</b>
EPS	4	5	3.3	4.6	-20.4	-14.3
BV	31	36	30.0	33.8	-3.4	-5.1
ABV	27	32	25.7	29.8	-3.3	-6.5

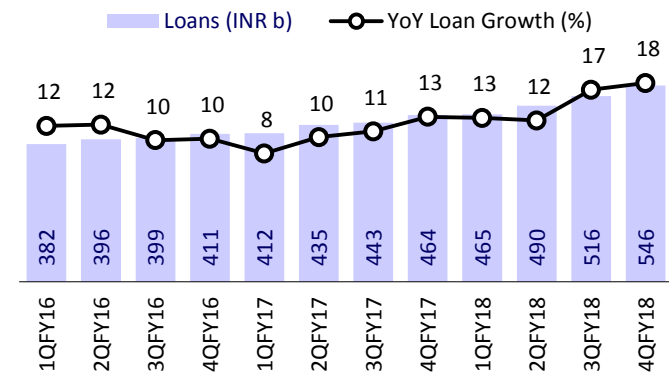
Exhibit 6: DuPont Analysis: Controlled opex and provisioning to lead to RoA/RoE expansion

INR (m)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	9.84	9.57	9.27	9.07	8.49	7.89	8.46	8.60
Interest expense	6.99	6.90	6.87	6.60	6.06	5.39	5.89	5.93
<b>Net interest income</b>	<b>2.84</b>	<b>2.67</b>	<b>2.39</b>	<b>2.46</b>	<b>2.43</b>	<b>2.50</b>	<b>2.56</b>	<b>2.67</b>
Fee income	0.61	0.57	0.58	0.62	0.67	0.88	0.98	0.98
Treasury Income	0.13	0.13	0.29	0.22	0.37	0.19	0.17	0.18
<b>Total Income</b>	<b>3.58</b>	<b>3.37</b>	<b>3.27</b>	<b>3.31</b>	<b>3.47</b>	<b>3.57</b>	<b>3.71</b>	<b>3.83</b>
<b>Operating costs</b>	<b>1.70</b>	<b>1.69</b>	<b>1.72</b>	<b>1.87</b>	<b>1.71</b>	<b>1.68</b>	<b>1.70</b>	<b>1.66</b>
Employee Costs	1.05	1.01	1.11	1.13	0.98	0.91	0.91	0.90
Other Expenses	0.65	0.68	0.61	0.74	0.73	0.78	0.79	0.76
<b>Operating Profit</b>	<b>1.88</b>	<b>1.69</b>	<b>1.55</b>	<b>1.43</b>	<b>1.76</b>	<b>1.89</b>	<b>2.01</b>	<b>2.17</b>
Core Operating Profit	1.75	1.55	1.26	1.21	1.40	1.70	1.84	1.99
<b>Provisions</b>	<b>0.43</b>	<b>0.30</b>	<b>0.73</b>	<b>0.60</b>	<b>0.89</b>	<b>1.25</b>	<b>0.97</b>	<b>0.90</b>
NPA Provisions	0.33	0.28	0.60	0.66	0.96	0.87	0.98	0.91
Other provisions	0.09	0.02	0.12	-0.06	-0.06	0.38	-0.01	-0.01
<b>PBT</b>	<b>1.45</b>	<b>1.39</b>	<b>0.82</b>	<b>0.83</b>	<b>0.87</b>	<b>0.64</b>	<b>1.04</b>	<b>1.27</b>
Tax	0.34	0.42	0.28	0.29	0.30	0.21	0.36	0.44
<b>ROA</b>	<b>1.11</b>	<b>0.97</b>	<b>0.54</b>	<b>0.54</b>	<b>0.57</b>	<b>0.43</b>	<b>0.68</b>	<b>0.83</b>
Leverage (x)	17.4	16.4	16.4	16.5	15.7	15.4	16.2	16.8
<b>ROE</b>	<b>19.4</b>	<b>15.9</b>	<b>8.8</b>	<b>9.0</b>	<b>9.0</b>	<b>6.6</b>	<b>11.0</b>	<b>14.0</b>

Source: MOSL, Company

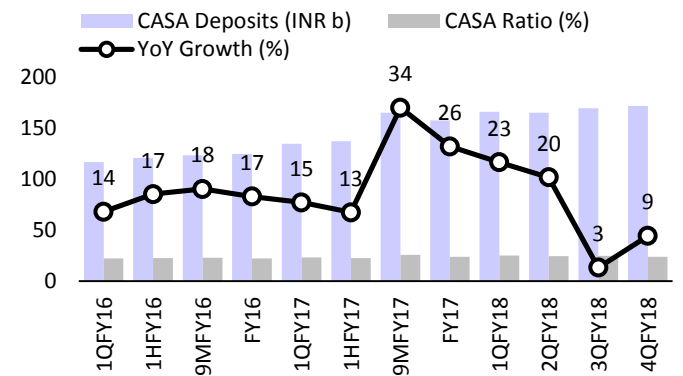
## Story in charts

**Exhibit 7: Loan book grew 17.6% on YoY basis, with CD ratio picking up to 75.8% v/s 70.2% a year ago**



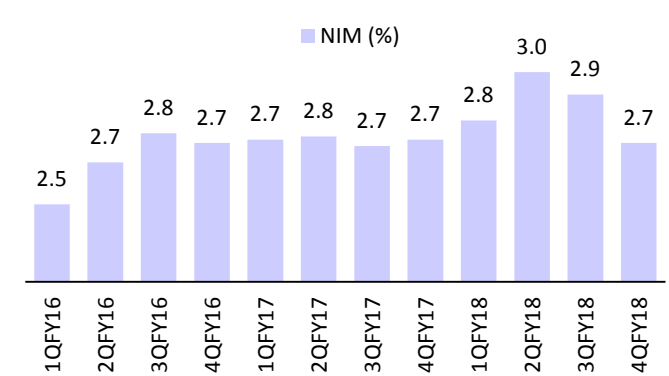
Source: Company, MOSL

**Exhibit 8: CASA ratio declined 110bp QoQ to 23.8%**



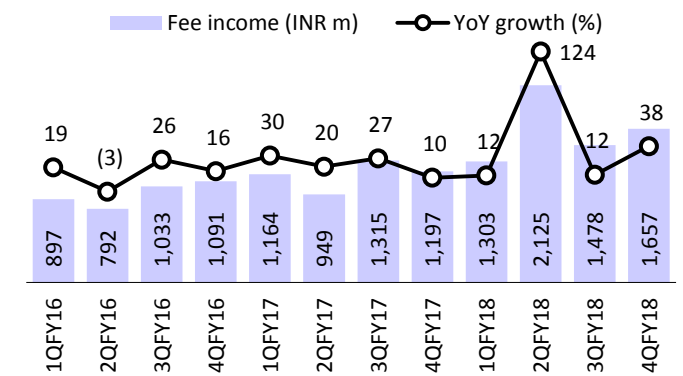
Source: Company, MOSL

**Exhibit 9: Reported margin shrunk 15bp on YoY basis**



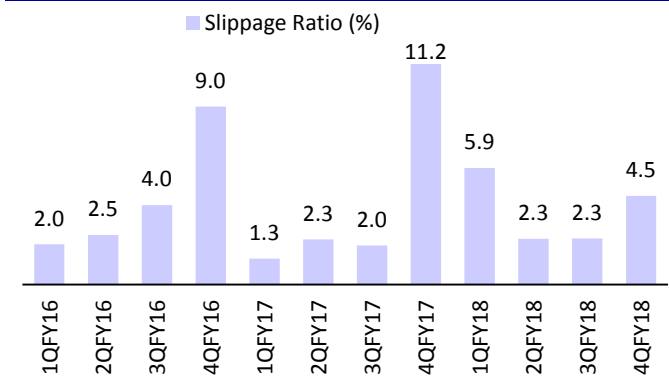
Source: Company, MOSL

**Exhibit 10: Fee income growth increased to 38% YoY**



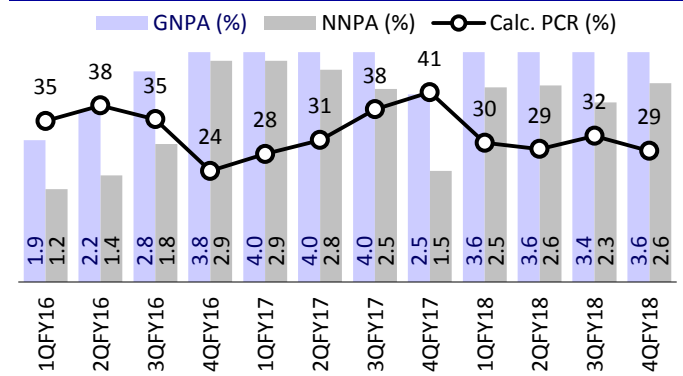
Source: Company, MOSL

**Exhibit 11: Annualized slippages(%) increased to 4.5% QoQ**



Source: Company, MOSL

**Exhibit 12: PCR decreased ~326bp QoQ**



Source: Company, MOSL



## Financials and valuations

Income Statement								(INR m)
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Interest Income	44,343	50,151	52,862	55,572	58,471	61,928	74,090	85,403
Interest Expense	31,535	36,163	39,200	40,475	41,716	42,273	51,624	58,919
<b>Net Interest Income</b>	<b>12,808</b>	<b>13,988</b>	<b>13,662</b>	<b>15,097</b>	<b>16,754</b>	<b>19,655</b>	<b>22,466</b>	<b>26,484</b>
Growth (%)	25.4	9.2	-2.3	10.5	11.0	17.3	14.3	17.9
Non Interest Income	3,349	3,685	4,971	5,174	7,156	8,373	10,047	11,554
<b>Total Income</b>	<b>16,158</b>	<b>17,672</b>	<b>18,633</b>	<b>20,271</b>	<b>23,910</b>	<b>28,028</b>	<b>32,513</b>	<b>38,038</b>
Growth (%)	27.3	9.4	5.4	8.8	18.0	17.2	16.0	17.0
Operating Expenses	7,672	8,829	9,813	11,478	11,764	13,220	14,918	16,504
<b>Pre Provision Profits</b>	<b>8,486</b>	<b>8,843</b>	<b>8,820</b>	<b>8,793</b>	<b>12,146</b>	<b>14,808</b>	<b>17,595</b>	<b>21,534</b>
Growth (%)	30.2	4.2	-0.3	-0.3	38.1	21.9	18.8	22.4
<b>Core PPP</b>	<b>7,909</b>	<b>8,145</b>	<b>7,180</b>	<b>7,427</b>	<b>9,621</b>	<b>13,308</b>	<b>16,095</b>	<b>19,734</b>
Change (%)	29.5	3.0	-11.8	3.4	29.5	38.3	20.9	22.6
Provisions (excl tax)	1,927	1,554	4,570	3,696	6,144	9,809	8,491	8,896
<b>PBT</b>	<b>6,559</b>	<b>7,289</b>	<b>4,250</b>	<b>5,097</b>	<b>6,002</b>	<b>4,999</b>	<b>9,104</b>	<b>12,638</b>
Tax	1,536	2,214	1,608	1,764	2,077	1,650	3,141	4,360
<b>PAT</b>	<b>5,023</b>	<b>5,075</b>	<b>2,642</b>	<b>3,333</b>	<b>3,925</b>	<b>3,349</b>	<b>5,963</b>	<b>8,278</b>
Growth (%)	25.1	1.0	-47.9	26.1	17.8	-14.7	78.1	38.8

Balance Sheet								
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Equity Share Capital	1,339	1,344	1,350	1,350	1,803	1,809	1,809	1,809
Reserves & Surplus	28,724	32,360	34,544	37,106	46,574	50,603	53,896	60,650
Net Worth	30,062	33,704	35,894	38,456	48,377	52,412	55,705	62,459
Deposits	4,42,623	4,74,911	5,19,125	5,57,207	6,61,175	7,20,296	8,28,340	9,52,591
Growth (%)	21.3	7.3	9.3	7.3	18.7	8.9	15.0	15.0
of which CASA Dep	82,328	98,249	1,06,863	1,24,590	1,57,470	1,69,270	1,95,488	2,24,812
Growth (%)	14.7	19.3	8.8	16.6	26.4	7.5	15.5	15.0
Borrowings	12,846	27,308	22,325	23,150	19,578	40,434	25,834	29,677
Other Liabilities & Prov.	12,420	13,937	13,819	12,936	13,990	13,697	15,067	16,574
Total Liabilities	4,97,950	5,49,860	5,91,163	6,31,749	7,43,120	8,26,859	9,24,946	10,61,301
Current Assets	43,359	32,179	35,951	30,995	38,877	42,210	42,975	49,420
Investments	1,25,235	1,43,518	1,40,861	1,46,189	1,94,297	1,83,631	1,84,975	2,03,176
Growth (%)	33.2	14.6	-1.9	3.8	32.9	-5.5	0.7	9.8
Loans	3,18,155	3,62,299	3,73,916	4,10,857	4,63,895	5,45,629	6,38,386	7,46,911
Growth (%)	16.6	13.9	3.2	9.9	12.9	17.6	17.0	17.0
Fixed Assets	3,961	4,122	4,790	4,870	6,561	6,808	7,601	8,233
Other Assets	7,240	7,742	35,644	38,837	39,490	48,581	51,010	53,560
Total Assets	4,97,950	5,49,860	5,91,163	6,31,749	7,43,120	8,26,859	9,24,946	10,61,301

Asset Quality								(%)
GNPA (INR m)	4,339	4,326	6,435	15,624	11,490	19,803	16,791	15,532
NNPA (INR m)	2,495	2,817	3,571	11,853	6,746	14,158	11,323	10,162
GNPA Ratio	1.36	1.19	1.72	3.77	2.06	3.63	2.63	2.08
NNPA Ratio	0.78	0.78	0.95	2.89	1.93	2.59	1.77	1.36
Slippage Ratio	1.79	1.85	1.36	4.10	3.88	3.59	2.00	2.00
Credit Cost	0.45	0.40	1.12	0.94	1.40	1.70	1.45	1.30
PCR (Excl Tech. write off)	42.5	34.9	44.5	24.1	41.3	28.5	32.6	34.6

## Financials and valuations

### Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
<b>Yield and Cost Ratios (%)</b>								
<b>Avg. Yield-Earning Assets</b>	<b>10.1</b>	<b>9.8</b>	<b>9.7</b>	<b>9.7</b>	<b>9.1</b>	<b>8.4</b>	<b>9.0</b>	<b>9.2</b>
Avg. Yield on loans	12.1	11.6	11.3	11.1	10.2	9.4	9.4	9.3
Avg. Yield on Investments	6.9	7.2	6.7	7.1	7.3	6.8	9.1	10.1
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>7.7</b>	<b>7.6</b>	<b>7.5</b>	<b>7.2</b>	<b>6.6</b>	<b>5.9</b>	<b>6.4</b>	<b>6.4</b>
Avg. Cost of Deposits	7.6	7.5	7.4	7.1	6.5	6.0	6.0	6.1
<b>Interest Spread</b>	<b>2.4</b>	<b>2.2</b>	<b>2.2</b>	<b>2.5</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>
<b>Net Interest Margin</b>	<b>3.0</b>	<b>2.8</b>	<b>2.6</b>	<b>2.8</b>	<b>2.7</b>	<b>2.8</b>	<b>2.9</b>	<b>3.0</b>

### Profitability Ratios (%)

CAR	13.9	12.4	12.0	11.8	12.4	11.1	10.4	9.9
Tier I	12.1	10.8	10.4	9.8	10.9	9.8	9.2	9.0
Tier II	1.9	1.6	1.6	2.0	1.5	1.3	1.1	1.0

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	71.9	76.3	72.0	73.7	70.2	75.8	77.1	78.4
CASA Ratio	18.6	20.7	20.6	22.4	23.8	23.5	23.6	23.6
Cost/Assets	1.5	1.6	1.7	1.8	1.6	1.6	1.6	1.6
Cost/Total Income	47.5	50.0	52.7	56.6	49.2	47.2	45.9	43.4
Cost/ Core Income	49.2	52.0	57.7	60.7	55.0	49.8	48.1	45.5
Int. Expense/Int.Income	71.1	72.1	74.2	72.8	71.3	68.3	69.7	69.0
Fee Income/Total Income	17.2	16.9	17.9	18.8	19.4	24.5	26.3	25.6
Non Int. Inc./Total Income	20.7	20.8	26.7	25.5	29.9	29.9	30.9	30.4
Empl. Cost/Total Expense	61.6	59.9	64.6	60.3	57.5	54.0	53.5	54.2
Investment/Deposit Ratio	28.3	30.2	27.1	26.2	29.4	25.5	22.3	21.3

### Profitability Ratios and Valuation

RoE	19.4	15.9	8.8	9.0	9.0	6.6	11.0	14.0
RoA	1.1	1.0	0.5	0.5	0.6	0.4	0.7	0.8
RoRWA	2.2	1.8	1.0	0.9	0.9	0.7	1.0	1.2
Book Value (INR)	21.9	24.5	26.0	28.5	26.6	28.2	30.0	33.8
Growth (%)	18.7	12.1	6.1	9.4	-6.7	6.3	6.4	12.4
<b>Price-BV (x)</b>					<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>
Adjusted BV (INR)	20.6	23.1	24.2	22.3	23.9	22.8	25.7	29.8
<b>Price-ABV (x)</b>					<b>1.1</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>
EPS (INR)	4.1	3.8	2.3	2.5	2.5	1.9	3.3	4.6
Growth (%)	14.5	-6.9	-39.7	8.2	0.9	-25.5	77.8	38.8
<b>Price-Earnings (x)</b>					<b>10.6</b>	<b>14.3</b>	<b>8.0</b>	<b>5.8</b>
Dividend Per Share (INR)	0.7	0.8	0.6	0.5	0.4	0.7	0.8	0.8
<b>Dividend Yield (%)</b>	<b>2.6</b>	<b>3.0</b>	<b>2.3</b>	<b>1.9</b>	<b>1.5</b>	<b>2.7</b>	<b>3.2</b>	<b>3.2</b>

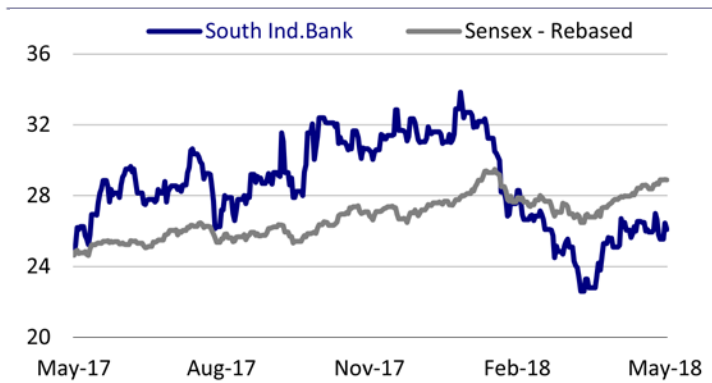


## Corporate profile: South India Bank

### Company description

One of the earliest banks in Southern part of India, South Indian Bank (SIB) was incorporated in 1928 at Thrissur in Kerala. Under the RBI Act, SIB was the first private sector bank in Kerala to become a Scheduled Commercial Bank in 1946. Currently, the bank is led by Mr. V. G. Mathew, MD & CEO. The bank has a strong presence in south India (80%+ branches). As on June 2016, the bank had a network of 838 branches and 1,291 ATMs.

### Exhibit 1: Sensex rebased



### Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	0.0	0.0	0.0
DII	15.6	15.2	13.8
FII	31.7	34.6	35.4
Others	52.8	50.3	50.8

Note: FII Includes depository receipts

### Exhibit 3: Top holders

Holder Name	% Holding
YUSUFFALI MUSALIAM VEETIL ABDUL KADER	4.9
FIRST CARLYLE VENTURES MAURITIUS	4.9
LAVENDER INVESTMENTS LIMITED	4.9
LIFE INSURANCE CORPORATION OF INDIA	3.2
IVA INTERNATIONAL FUND	2.6

### Exhibit 4: Top management

Name	Designation
Salim Gangadharan	Part Time Chairman
V G Mathew	Managing Director & CEO

### Exhibit 5: Directors

Name	Name
Cheryan Varkey	K Thomas Jacob
Francis Alapatt	Mohan Alapatt
John Joseph Alapatt	Parayil George John Tharakan
	Ranjana Salgaocar

\*Independent

### Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells	Statutory
S R Batliboi & Co LLP	Statutory
SVJS & Associates	Secretarial Audit

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	1.7	2.8	-38.3
FY19	3.6	3.7	-2.9
FY20	4.9	4.4	12.0

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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**South Indian Bank**

Analyst ownership of the stock

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