

South Indian Bank (SIB IN)

Rating: BUY | CMP: Rs15 | TP: Rs22

October 16, 2018

Q2FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	22		26	
NII (Rs. m)	21,126	23,921	21,903	25,358
% Chng.			(3.5)	(5.7)
Op. Profit (Rs. m)	12,886	14,456	15,074	17,216
% Chng.			(14.5)	(16.0)
EPS (Rs.)	1.8	2.6	2.7	3.5
% Chng.			(32.4)	(26.5)

Key Financials

	FY18	FY19E	FY20E	FY21E
NII (Rs m)	19,655	21,126	23,921	27,160
Op. Profit (Rs m)	14,808	12,886	14,456	16,071
PAT (Rs m)	3,349	3,339	4,694	5,435
EPS (Rs.)	1.9	1.8	2.6	3.0
Gr. (%)	(25.5)	(0.5)	40.6	15.8
DPS (Rs.)	0.5	0.5	0.5	0.6
Yield (%)	3.3	3.3	3.3	4.1
NIM (%)	2.7	2.6	2.6	2.7
RoAE (%)	6.6	6.2	8.3	8.9
RoAA (%)	0.4	0.4	0.5	0.5
P/BV (x)	0.5	0.5	0.5	0.4
P/ABV (x)	0.7	0.8	0.7	0.6
PE (x)	7.9	7.9	5.6	4.9
CAR (%)	12.7	13.1	13.3	13.3

Key Data

SIBK.BO | SIB IN

52-W High / Low	Rs.35 / Rs.12
Sensex / Nifty	35,162 / 10,585
Market Cap	Rs.26bn / \$ 360m
Shares Outstanding	1,810m
3M Avg. Daily Value	Rs.518.45m

Shareholding Pattern (%)

Promoter's	-
Foreign	30.16
Domestic Institution	12.45
Public & Others	57.39
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	(10.8)	(41.8)	(54.7)
Relative	(3.4)	(43.2)	(58.0)

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Steady quarter with limited impact from floods

Quick Pointers

- Steady asset quality with lower slippages in SME/Corporate, while flood related impact on asset quality is likely to be lower
- Margins came in steady but still below trend levels

SIB's earnings were relatively better in light of Kerala floods with flat NII growth on back of sustained loan growth of 15-16% YoY and controlled opex. Lower trading income continues to impact other income & PPOP, while MTM dispensation over four quarters has been also keeping provisions on higher side. Floods in Kerala did not hurt asset quality as was envisaged earlier with slippages of Rs2.13bn coming in lower than expectations but in-line with trends. Stock at 0.8x FY19 ABV remains attractive especially post recent correction and with no large impact from floods & risk of corporate slippage having lowered, hence we retain our BUY stance with revised TP of Rs22 based on 1.0x Sep-20 ABV (rolled over from Mar-20). What worries us is low provision cover of 33% (42% incl. technical w.off), lower CASA mix in tight liquidity scenario which will keep cost of funds up and consequently restrict recovery in NIMs.

- Decent operating performance in light of devastating floods:** NII growth was flattish v/s our expectation of de-growth as not much impact of floods was seen on interest income reversals/non payments or slower loan growth. Margins were flat sequentially at 2.6% in light of rising cost of funds scenario but remains quite lower than trends. PPOP was supported by better cost control of 10% YoY post taking full gratuity impact but lower trading income and slightly lower fees has kept PPOP recovery lower.
- Loan growth continues to be decent; liabilities profile remains weak:** Loan growth of 15.6% YoY witnessed momentum slowdown mainly in South non-Kerala book, while Kerala & non-south book saw good growth. Overall loans continued to be driven by retail (31% YoY) as technology changes and centralization has been helping, while loan growth was also supported by corporate and SME. On liabilities front, CASA mix remains steady at 24% with growth of 11-12% which is in-line with deposit growth, while bulk deposit form 18-19% of mix. Lower retail mix and lesser granular deposits can exert pressure on funding cost in tight liquidity scenarios and remains a weak point.
- Asset quality broadly steady but PCR still remains low:** Bank's asset quality remained broadly steady with GNPA/NNPA at 4.61%/3.16% with PCR of 32.6% (41.9% incl. technical w.off) has inched up 360bps/(280bps) QoQ but still remains at low. The bank has been mentioned NPA exposures have strong collateral and hence will not see high provisions requirement but given the environment and ageing could pose risks with high provisioning. Slippages came at Rs2.13bn (lower than envisaged) with very limited impact from floods in Kerala and lower slippages in Corporate/SME book (some RBI dispensation availed). Bank believes similar slippage trends to continue with gradual decreasing trend and should see better asset quality.
- Valuations cheap but some metrics remain weak –** Valuations have come off to 0.8x/0.7x FY19/FY20 ABV which are attractive but metrics like lower retail deposit mix, lower PCR, higher C/I and lower fees are structural weaknesses.

NII growth was muted on stable NIMs and slightly slower momentum in loan growth

Other income continues to suffer on lower treasury income while fee income has continued to see steady growth

Bank saw higher staff expenses on gratuity and wage hike provisions, while other opex growth was under control

Provisions came off on lower slippages and MTM losses

Loan growth continue to be mid-teens with momentum slightly slower

Margins sequentially were steady but remains much below trend levels

Asset quality was steady with PCR moving slightly up but remains lower than comfort levels

CASA mix has been stable with growth in line with deposit growth

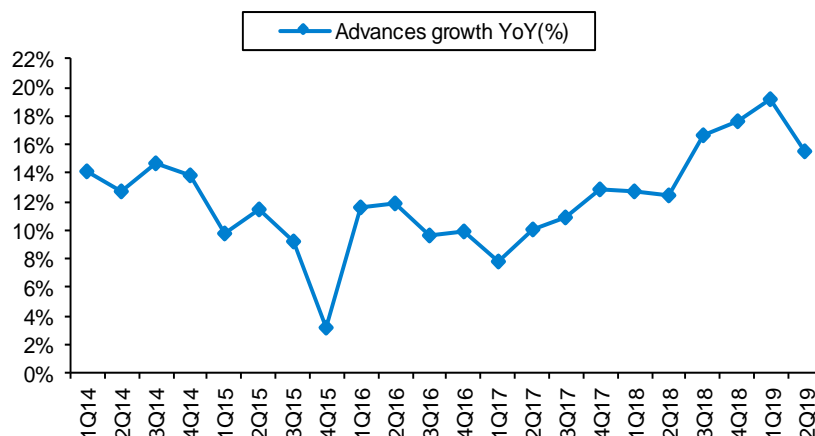
Tier-I remains at comfortable level of 10%, will raise Tier-II ahead

Exhibit 1: Lower treasury income weighs on PPOP, but core income better

(Rs m)	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)
Interest Income	16,965	15,362	10.4	16,539	2.6
Interest Expended	11,900	10,330	15.2	11,597	2.6
Net interest income (NII)	5,065	5,032	0.6	4,943	2.5
-Treasury income	130	680	(80.9)	160	(18.8)
Other income	1,579	2,805	(43.7)	1,459	8.2
Total income	6,644	7,837	(15.2)	6,402	3.8
Operating expenses	3,546	3,234	9.6	3,705	(4.3)
-Staff expenses	1,963	1,681	16.8	2,111	(7.0)
-Other expenses	1,583	1,554	1.9	1,594	(0.7)
Operating profit	3,098	4,603	(32.7)	2,696	14.9
Core operating profit	2,968	3,923	(24.3)	2,536	17.0
Total provisions	2,047	4,537	(54.9)	2,315	(11.6)
Profit before tax	1,051	66	NA	381	175.8
Tax	350	23	NA	151	132.1
Profit after tax	701	43	NA	230	204.4
Balance sheet (Rs m)					
Deposits	749,112	671,421	11.6	724,880	3.3
Advances	565,725	489,543	15.6	554,440	2.0
Ratios (%)					
Profitability ratios					
Yield on Advances	9.50%	10.03%	(53)	9.50%	-
Cost of Funds	5.57%	5.42%	15	5.58%	(1)
NIM	2.61%	2.95%	(34)	2.60%	1
RoAA	0.33%	0.02%	31	0.00%	33
Asset Quality					
Gross NPL (Rs m)	26,462	17,663	49.8	25,522	3.7
Net NPL (Rs m)	17,847	12,558	42.1	18,139	(1.6)
Gross NPL ratio (%)	4.61	3.57	104	4.54	7
Net NPL ratio (%)	3.16	2.57	59	3.27	(11)
Coverage ratio (Rep) (%)	41.90	44.09	(219)	39.10	280
Business & Other Ratios					
CASA mix	24.60	24.55	5	24.67	(7)
Cost-income ratio	53.37	41.27	1,210	57.88	(451)
Non int. inc / total income	23.77	35.79	(1,202)	22.79	97
Credit deposit ratio	75.52	72.91	261	76.49	(97)
CAR	12.10	11.74	36	12.20	(10)
Tier-I	10.00	10.40	(40)	10.10	(10)

Source: Company, PL

Exhibit 2: Loan growth momentum slowed down mainly on slower Ex-Kerala south book



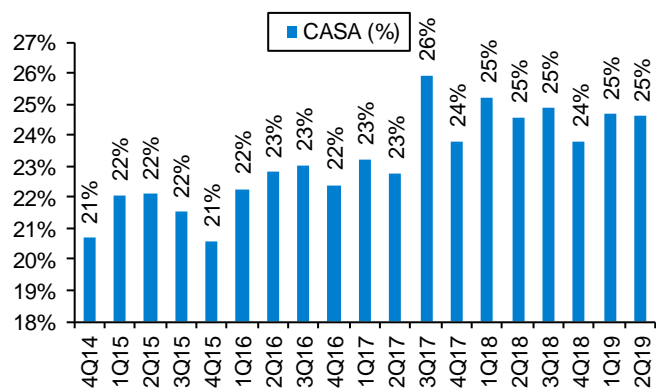
Source: Company, PL

Exhibit 3: Strong loan growth in retail while MSME & corporate provide support

Break-up of Advances	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	QoQ gr. (%)
Agri	78,870	71,850	9.8	78,510	0.5
MSME	133,160	124,250	7.2	131,370	1.4
Retail	160,610	122,340	31.3	152,000	5.7
Corporate	201,490	178,720	12.7	199,760	0.9
Total Advances	574,130	497,160	15.5	561,640	2.2
Loan Mix					
Agri	13.7%	14.5%	(0.7)	14.0%	(24.1)
MSME	23.2%	25.0%	(1.8)	23.4%	(19.7)
Retail	28.0%	24.6%	3.4	27.1%	91.1
Corporate	35.1%	35.9%	(0.9)	35.6%	(47.2)

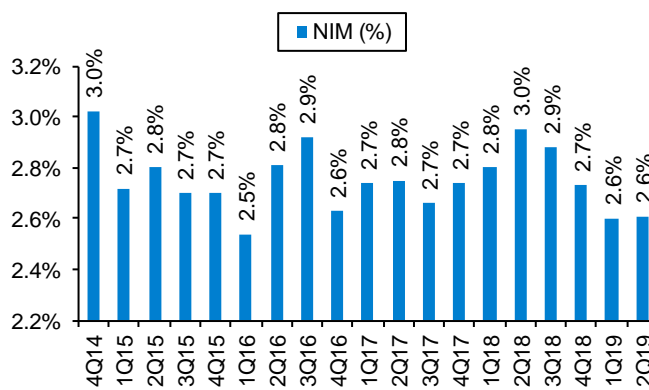
Source: Company, PL

Exhibit 4: CASA mix continues to remain steady

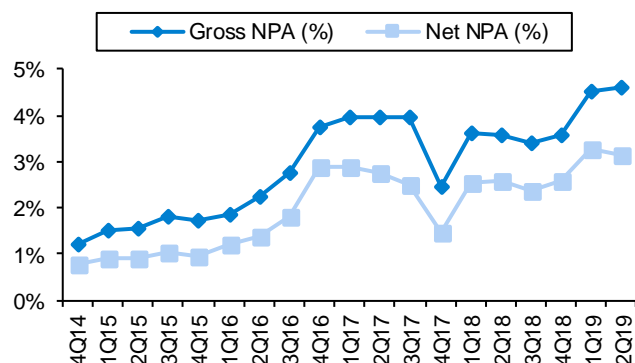


Source: Company, PL

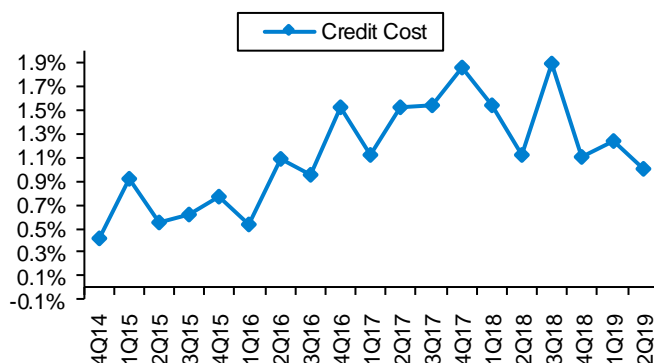
Exhibit 5: NIM steady QoQ but still lower from trend levels



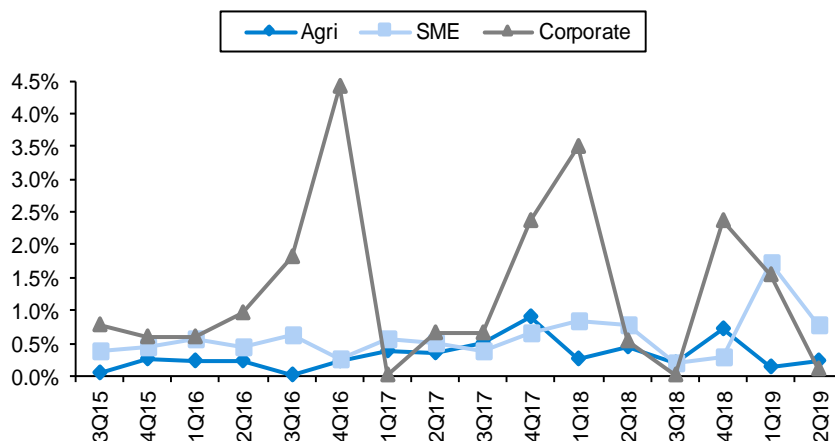
Source: Company, PL

Exhibit 6: Asset quality was steady with lower slippages...


Source: Company, PL

Exhibit 7: ...consequently credit cost came off


Source: Company, PL

Exhibit 8: Slippages from SME/Corporate have been lower


Source: Company, PL

Exhibit 9: Estimates change table- We slightly lower margin & loan growth, while factor in lower other income

(Rs mn)	Old		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
NII	21,903	25,358	21,126	23,921	(3.5)	(5.7)
Operating profit	15,074	17,216	12,886	14,456	(14.5)	(16.0)
Net profit	4,938	6,386	3,339	4,694	(32.4)	(26.5)
EPS (Rs)	2.7	3.5	1.8	2.6	(32.4)	(26.5)
ABVPS (Rs)	18.6	22.9	18.6	21.7	0.1	(5.2)
Price target (Rs)	26		22		(13.9)	
Recommendation	BUY		BUY			

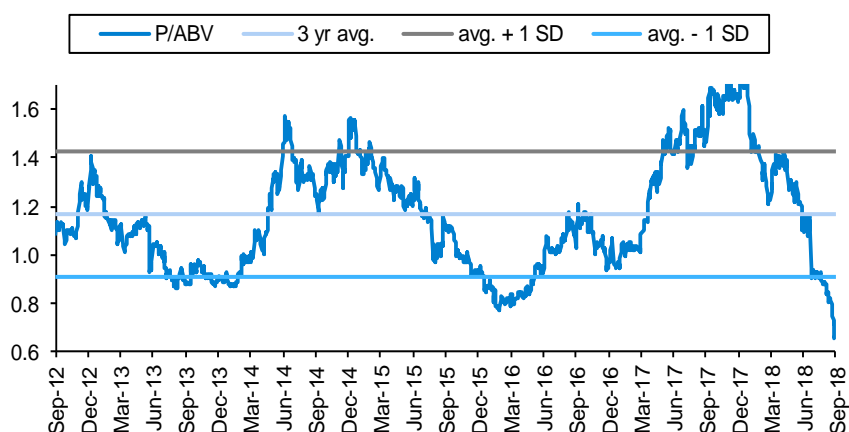
Source: Company, PL

Exhibit 10: We cut our TP to Rs22 (from Rs26) based on 1.0x (from 1.2x) Sep-20 ABV (rolled over from Mar-20)

PT calculation and upside	
Terminal growth	5.0%
Market risk premium	6.0%
Risk-free rate	8.0%
Adjusted beta	1.05
Cost of equity	14.3%
Fair price - P/ABV	22
Target P/ABV	1.0
Target P/E	8.0
Current price, Rs	15
Upside (%)	53%
Dividend yield (%)	3%
Total return (%)	56%

Source: Company, PL

Exhibit 11: One year Forward P/ABV chart



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Int. Earned from Adv.	47,692	54,793	64,541	76,668
Int. Earned from invt.	12,695	12,954	12,728	11,092
Others	1,351	1,492	1,736	1,848
Total Interest Income	61,928	69,557	79,369	90,022
Interest Expenses	42,273	48,431	55,447	62,862
Net Interest Income	19,655	21,126	23,921	27,160
Growth(%)	17.2	(0.7)	12.0	12.7
Non Interest Income	8,372	6,698	7,234	7,957
Net Total Income	28,028	27,824	31,155	35,117
Growth(%)	7.1	8.5	13.6	13.1
Employee Expenses	7,132	8,202	9,104	10,197
Other Expenses	5,450	6,159	7,083	8,216
Operating Expenses	13,220	14,938	16,699	19,046
Operating Profit	14,808	12,886	14,456	16,071
Growth(%)	21.9	(13.0)	12.2	11.2
NPA Provision	6,863	6,187	6,867	7,265
Total Provisions	9,809	7,866	7,398	7,898
PBT	4,999	5,020	7,058	8,173
Tax Provision	1,650	1,682	2,364	2,738
Effective tax rate (%)	33.0	33.5	33.5	33.5
PAT	3,349	3,339	4,694	5,435
Growth(%)	(14.7)	(0.3)	40.6	15.8

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Face value	1	1	1	1
No. of equity shares	1,809	1,809	1,809	1,809
Equity	1,809	1,809	1,809	1,809
Networth	52,412	54,885	58,712	63,065
Growth(%)	8.2	4.7	7.0	7.4
Adj. Networth to NNPA's	14,392	18,755	16,977	15,126
Deposits	7,20,296	8,03,130	8,91,474	9,93,994
Growth(%)	8.9	11.5	11.0	11.5
CASA Deposits	1,71,417	1,99,176	2,22,869	2,50,486
% of total deposits	23.8	24.8	25.0	25.2
Total Liabilities	8,26,839	9,30,342	10,31,875	11,49,659
Net Advances	5,45,629	6,32,929	7,40,527	8,73,822
Growth(%)	17.6	16.0	17.0	18.0
Investments	1,83,631	1,91,451	1,73,429	1,43,664
Total Assets	8,26,859	9,30,342	10,31,875	11,49,659
Growth (%)	11.3	12.5	10.9	11.4

Asset Quality

Y/e Mar	FY18	FY19E	FY20E	FY21E
Gross NPAs (Rs m)	19,803	27,918	27,052	25,917
Net NPAs (Rs m)	14,392	18,755	16,977	15,126
Gr. NPAs to Gross Adv.(%)	3.6	4.3	3.6	2.9
Net NPAs to Net Adv. (%)	2.6	3.0	2.3	1.7
NPA Coverage %	27.3	32.8	37.2	41.6

Profitability (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
NIM	2.7	2.6	2.6	2.7
RoAA	0.4	0.4	0.5	0.5
RoAE	6.6	6.2	8.3	8.9
Tier I	10.4	9.6	9.0	8.4
CRAR	12.7	13.1	13.3	13.3

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Interest Income	15,770	15,890	16,539	16,965
Interest Expenses	10,676	10,968	11,597	11,900
Net Interest Income	5,094	4,922	4,943	5,065
YoY growth (%)	0.6	6.3	12.6	15.2
CEB	670	690	590	600
Treasury	-	-	-	-
Non Interest Income	1,588	1,787	1,459	1,579
Total Income	17,358	17,677	17,998	18,544
Employee Expenses	1,849	1,933	2,111	1,963
Other expenses	1,532	1,667	1,594	1,583
Operating Expenses	3,381	3,600	3,705	3,546
Operating Profit	3,302	3,109	2,696	3,098
YoY growth (%)	(12.4)	10.7	(28.9)	(32.7)
Core Operating Profits	-	-	-	-
NPA Provision	2,298	1,517	1,741	1,332
Others Provisions	1,543	1,486	2,315	2,047
Total Provisions	1,543	1,486	2,315	2,047
Profit Before Tax	1,759	1,623	381	1,051
Tax	609	482	151	350
PAT	1,150	1,141	230	701
YoY growth (%)	3.3	51.0	(77.3)	1,523.4
Deposits	6,81,090	7,20,296	7,24,880	7,49,112
YoY growth (%)	7.1	8.9	10.2	11.6
Advances	5,16,380	5,45,629	5,54,440	5,65,725
YoY growth (%)	16.7	17.6	19.2	15.6

Key Ratios

Y/e Mar	FY18	FY19E	FY20E	FY21E
CMP (Rs)	15	15	15	15
EPS (Rs)	1.9	1.8	2.6	3.0
Book Value (Rs)	28	29	31	34
Adj. BV (70%)(Rs)	20	19	22	25
P/E (x)	7.9	7.9	5.6	4.9
P/BV (x)	0.5	0.5	0.5	0.4
P/ABV (x)	0.7	0.8	0.7	0.6
DPS (Rs)	0.5	0.5	0.5	0.6
Dividend Payout Ratio (%)	25.7	25.9	18.5	19.9
Dividend Yield (%)	3.3	3.3	3.3	4.1

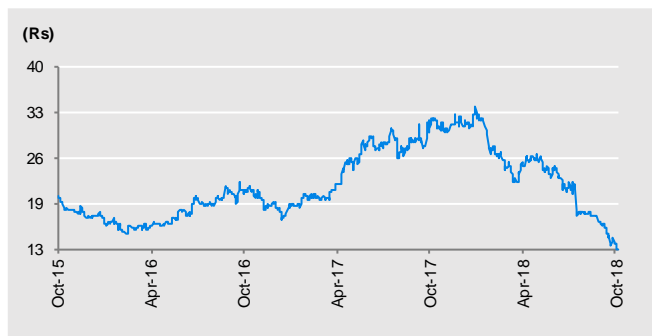
Efficiency

Y/e Mar	FY18	FY19E	FY20E	FY21E
Cost-Income Ratio (%)	47.2	53.7	53.6	54.2
C-D Ratio (%)	75.8	78.8	83.1	87.9
Business per Emp. (Rs m)	174	191	207	226
Profit per Emp. (Rs lacs)	5	4	6	7
Business per Branch (Rs m)	1,482	1,649	1,837	2,061
Profit per Branch (Rs m)	4	4	5	6

Du-Pont

Y/e Mar	FY18	FY19E	FY20E	FY21E
NII	2.68	2.57	2.61	2.66
Total Income	3.82	3.39	3.40	3.45
Operating Expenses	1.80	1.82	1.82	1.87
PPoP	2.02	1.57	1.58	1.58
Total provisions	1.34	0.96	0.81	0.77
RoAA	0.46	0.41	0.51	0.53
RoAE	6.98	6.51	8.63	9.29

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jan-18	BUY	37	33
2	10-Jan-18	BUY	40	32
3	13-Apr-18	BUY	40	26
4	15-May-18	BUY	40	26
5	10-Jul-18	BUY	40	22
6	23-Jul-18	BUY	26	19
7	05-Oct-18	BUY	26	14

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	624	586
2	Bank of Baroda	Accumulate	165	103
3	Bank of India	Reduce	89	79
4	Federal Bank	BUY	119	68
5	HDFC Bank	BUY	2,492	1,958
6	ICICI Bank	Accumulate	329	317
7	IDFC Bank	Accumulate	55	37
8	IndusInd Bank	BUY	2,000	1,627
9	Jammu & Kashmir Bank	BUY	94	40
10	Kotak Mahindra Bank	Hold	1,398	1,075
11	Punjab National Bank	Hold	79	65
12	South Indian Bank	BUY	26	14
13	State Bank of India	BUY	349	271
14	Union Bank of India	Reduce	79	68
15	YES Bank	BUY	250	215

PL's Recommendation Nomenclature (Absolute Performance)

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

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