

South Indian Bank

Sector: Banking /Mid-Cap | Earnings Update – 2QFY19

BUY

19 October 2018

Background: South Indian Bank (SIB), among the mid-sized banks in the private sector space, operates a network of about 857 branches and about 1,395 ATMs. The bank's business is largely skewed towards the Southern state with half of its branches located in Kerala. SIB has established a strong brand recall among the Keralite-NRI Diaspora. With no identifiable promoters SIB is run by a team of professionals. As of 2QFY19 the bank had deposits of ~INR 749bn and a loan book of ~INR 574bn. The bank looks to add a maximum of ~40 branches including extension counter in the coming quarters.

Sensex	34,780
Nifty	10,453
Price	INR 15
Target Price	INR 22
Recommendation	BUY

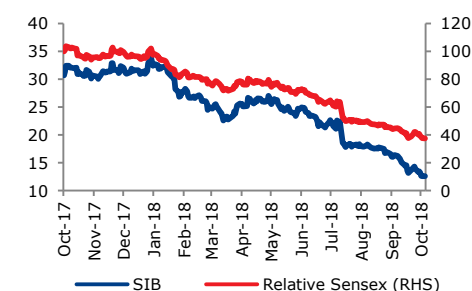
52 Week High/Low	INR 34.8/12.5
Bloomberg / Reuters	SIB IN/SBK.BO
Equity (shares in mn)	1,809.7
Mkt. Cap in mn	INR 26,892.1/\$ 364.0
Avg. Daily Vol. ('000)	13,416
Avg. Daily Vol. (mn)	INR 199.4 / \$ 2.7

Shareholding	Sep 17	Jun 18	Sep 18
Promoters (%)	0.00	0.00	0.00
FII (%)	37.90	32.33	30.16
DII (%)	12.27	14.94	12.45
Others (%)	49.83	52.73	57.39
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Net Interest Inc	19.7	19.7	23.3
Other Inc	8.4	5.5	5.5
Pre Prov Profit	14.8	10.8	13.9
PAT	3.3	1.6	3.8
EPS	1.9	0.9	2.1
EPS growth (%)	14.2	(53.6)	142.7
PE	8.0	17.3	7.1
P /ABV	0.7	0.7	0.6
Div Yield (%)	2.7	4.7	4.7
ROA (%)	0.6	0.2	0.4
ROE (%)	6.8	3.0	7.2
Tier – 1 (%)	10.5	10.2	10.3
CAR (%)	12.7	12.2	11.8

Performance %	1M	3M	12M
SIB	-23.2	-41.7	-61.1
Sensex	-8.5	-4.6	7.5



Healthy growth in AUM, but Nil flattish; PAT beats estimates due to lower provisions

- SIB's loan book showed a steady growth of 15.5% YoY in 2QFY19 (2.2% QoQ) in line with CSEC's estimate of 15.2% YoY. The growth was predominantly led by Retail (33.5% YoY, 5.9% QoQ) and Gold loans (13.2%YoY, 3.8% QoQ) segments. Management has guided that their focus will continue to be on Mid-corporate and MSME segments and the loan book would grow in the range of 18-20% in 2HFY19.
- Within the Retail portfolio, growth was largely driven by Manufacturing (48.4% YoY, 6.6% QoQ) and Service & Traders (41.6% YoY, 6.1% QoQ) segments.
- The corporate book grew by 12.7% YoY and this quarter also saw a spike in exposure towards corporates with below BBB credit rating to 9.3% (of advances with ticket size of INR 1bn or more) in 2QFY19 from 5% in 1QFY19 (based on external ratings). However the management sounds confident of nil slippages from this segment, based on their performance in the past.
- Deposits grew by 11.6% YoY (3.3% QoQ) to INR 749bn (vs. CSEC estimate of 12.6% YoY), with Savings account deposits growing at 13.5%YoY (2.8% QoQ). Overall CASA grew by 11.5% YoY. However, the share of CASA in total deposits fell marginally to 24.5% from 24.6% in 2QFY18, due to higher growth (11.6%YoY) witnessed in Time Deposits and muted growth in current account deposits (2.8% YoY). NRI Deposits constituting 27.3% of total deposits grew by a healthy 14.4% YoY (4% QoQ).
- Net Interest Income growth was flat at 0.6% YoY (2.5% QoQ) and it stood at INR 5.1bn (vs. CSEC estimate of INR 5.7bn), due to a 53bps YoY (flat QoQ) fall in yield on advances. Cost of funds also spiked up by 15bps YoY to 5.57% (-1bp QoQ). However, the resultant dip in NIMs was limited to only 34bps YoY (+1bp QoQ) and it stood at 2.61% for the quarter, backed by healthy growth in advances. The management has guided that increase in MCLR will be reflected in yields only from the coming quarters as assets (advances) are linked to 1 year MCLR. Going forward, the management expects the NIM to reach 2.8 by FY19E.
- GNPA in absolute numbers increased by 49.8% YoY (3.7% QoQ) and NNPA (absolute numbers) by 50.9% YoY (de grew by 1.6% QoQ). Retail slippages increased to 0.42% of (retail) advances from 0.40% in 1QFY19. However corporate & SME slippages fell to 0.09% and 0.76% respectively from 1.54% and 1.72% in 1QFY19. The management has already provided for 50% of their exposure towards IBC cases and has clarified that they have an exposure to an infrastructure conglomerate, worth INR 1.04bn, which is classified as a stressed advance and amount worth INR 100mn has been provided for. The company has maintained its slippage guidance for ex corporate book for FY19E at INR 6bn.
- Other Income tanked by 43.7% YoY to INR 1.6bn, due to de-growth of 6.3% YoY in fee income, lower treasury profits and no sale of PSLC certificates in 2QFY19. Operating profit also de- grew by 32.7% YoY (+14.9%QoQ) to INR 3.1bn.
- Provisioning costs in 2QFY19 tanked by 54.9% YoY (-11.6% QoQ), on account higher base in 2QFY18. PCR fell to 41.9% from 44.1% in 2QFY18. Cost to Income ratio had spiked in 1QFY19, owing to decline in other income, but the same improved by 451bps in 2QFY19 to 53.4%, led by 4.3% sequential dip in opex. As a result PAT surged to INR 701mn vs. INR 43mn in 2QFY18 (vs. CSEC's estimate of INR 353mn). Going forward, the management expects to take the C/I ratio to below 50% levels by FY19E, if treasury income reaches their targeted levels.

Valuation:

SIB continues to shift its focus from corporate loans towards Retail & SME loans which would help them contain the credit costs and maintain the margins at current levels. Fresh slippages in this quarter is a disappointment, but the management is confident about recovering the dues in FY19 itself. However, the increased exposure to below BBB rating borrowers poses a cause of concern. The Stock currently trades at 0.6x P/ABV of FY20E. We maintain a BUY rating on the stock and revise the target price to INR 22, assigning a 0.9X P/ABV FY20E.

Risk: Lower than expected recoveries; tougher ramp up of retail loan book; higher credit costs due to ECL model (IND-AS).

Results Summary 2QFY19

Y/E March (INR bn)	2QFY19	2QFY18	YoY Growth	1QFY19	QoQ Growth
Net Interest Income	5.06	5.03	0.6%	4.94	2.5%
Other Income	1.58	2.80	-43.7%	1.46	8.2%
Pre Provisioning Profit	3.10	4.60	-32.7%	2.70	14.9%
PAT	0.70	0.04	1534.7%	0.23	204.3%
Cost / Income (%)	53.37	41.27		57.88	
Gross NPA (%)	4.61	3.57		4.54	
Net NPA (%)	3.16	2.57		3.27	
Prov Coverage ratio (%)	41.90	44.10		39.10	
CAR (%)	12.11	11.74		12.23	

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