

October 17, 2020

## Q2FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	10		11	
NII (Rs. m)	27,943	30,270	26,619	29,148
% Chng.	5.0	3.8		
Op. Profit (Rs. m)	16,776	17,486	15,035	15,594
% Chng.	11.6	12.1		
EPS (Rs.)	1.5	3.0	2.0	2.3
% Chng.	(25.5)	30.7		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII (Rs m)	23,175	25,609	27,943	30,270
Op. Profit (Rs m)	16,456	16,007	16,776	17,486
PAT (Rs m)	1,046	2,030	2,763	5,486
EPS (Rs.)	0.6	1.1	1.5	3.0
Gr. (%)	(57.8)	94.1	36.1	98.6
DPS (Rs.)	0.3	-	0.2	0.3
Yield (%)	4.5	-	3.0	4.5
NIM (%)	2.6	2.8	3.0	3.0
RoAE (%)	1.9	3.7	4.8	9.0
RoAA (%)	0.1	0.2	0.3	0.5
P/BV (x)	0.2	0.2	0.2	0.2
P/ABV (x)	0.4	0.5	0.4	0.3
PE (x)	11.6	6.0	4.4	2.2
CAR (%)	13.4	14.0	13.8	13.7

### Key Data

SIBK.BO | SIB IN

52-W High / Low	Rs.12 / Rs.5
Sensex / Nifty	39,983 / 11,762
Market Cap	Rs.12bn/ \$ 165m
Shares Outstanding	1,810m
3M Avg. Daily Value	Rs.199.9m

### Shareholding Pattern (%)

Promoter's	-
Foreign	17.79
Domestic Institution	1.10
Public & Others	81.11
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(7.6)	13.6	(33.0)
Relative	(9.2)	(13.1)	(35.3)

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## Better asset quality clarity but will hit earnings

### Quick Pointers:

- Exit moratorium book stood at 26% as compared to 36% in Jun'20; collection efficiency was at 80% in Sep'20 which is on the lower side.
- Management estimates Rs14.0bn of slippages in H2FY21 itself out of the Rs17.0bn stress from exit morat book, while another Rs12bn of restructuring.

**SIB's earnings were below our estimate at Rs650mn (PLe: Rs794mn) on back of higher provisioning on overdue loans, not classified NPAs due to court ruling and legacy NPAs. Positive outcomes in 2Q21 were (i) better NII growth of 14% YoY led by tailwinds from lower cost of deposit and (ii) better retail liability pickup. Negligible slippages helped asset quality but otherwise the bank identified Rs1.36bn of NPAs and made adequate provisioning on same, taking PCR to 48% (excl. technical w.off). We believe provisions should remain elevated as slippages of Q2 & from COVID impact will hit asset quality, which should bring down PCR to 42-43% in FY21. We adjust our numbers with higher slippages, credit cost and take impact of restructuring into consideration. Accordingly, retain BUY and rollover to Sep-22 ABV with revised TP of Rs10 (from 11) based on 0.5x multiple.**

- Better NII growth:** NII grew by 13.5% YoY led from a sharp drop of 34bps QoQ in cost of deposits and steady yields, helping a strong NIM improvement of 32bps QoQ to 2.94% Other income was slightly slower on lower treasury gains, although core other income was solid with marginal fee improvement and recovery from w.off accounts. Although, continuing impact from wage settlement, staff opex was up leading to lower flattish growth in PPOP.
- Business growth momentum slow:** Loans grew by 1% YoY with slower growth in retail at 4% YoY and de-growth of 17% YoY in corporate, while business loans growth was good with 12% YoY growth led by Govt guaranteed credit. **On liabilities front,** CASA mix grew to 28% growing 12% YoY/4% QoQ, while bank reduced its bulk deposits by 27% YoY/20% QoQ helping improve retail deposits profile. Growth of 12% YoY has been maintained in the NR deposit base.
- Asset quality benefits from lower slippages:** GNPA/NNPA ratio reduced by 6/50bps respectively to 4.9%/2.6% with PCR improving to 48% (excl. technical w.off). Bank reported negligible Rs520mn of slippages, while couldn't account for Rs1.4bn of slippages due to court ruling, which could likely follow through in Q3FY21. Exit moratorium book stood 26% v/s 36% in Jun'20 and hence management expects 10% of this book (Rs17bn) to eventually slip to NPAs of which major part could slip in H2FY21, while 7-8% (Rs12bn) to get into restructuring. Eventually 5% of book will be RSA+NPA by FY21 end. Management expects bank will continue to provide for the stress book, though has provided some and eventually PCR should remain in band of 40-45% (60-65% incl. technical w.off).

**Exhibit 1: Elevated provisions continue to impact earnings**

Better NII growth at 13.5% YoY supported by lower cost of funds

Other income de-grew as treasury income fell sharply

Staff cost has been elevated due to the wage revision being taken in staggered manner

Provision levels remain high but partially provides for potential slippages and COVID hits

Loan growth flattish at 1.4% YoY with Deposits also showing flattish trends, de-growing 0.4% YoY

Margins improve on better funding cost management

Asset quality remained more or less stable with increased provisioning and flat advances pushing PCR to 65%

CASA mix of 27% continues to see slow growth

(Rs m)	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)
Interest Income	18,988	19,540	(2.8)	18,869	0.6
Interest Expended	12,357	13,697	(9.8)	13,000	(4.9)
<b>Net interest income (NII)</b>	<b>6,631</b>	<b>5,843</b>	<b>13.5</b>	<b>5,869</b>	<b>13.0</b>
-Treasury income	330	830	(60.2)	1,400	(76.4)
Other income	2,399	2,492	(3.7)	2,850	(15.8)
<b>Total income</b>	<b>9,030</b>	<b>8,335</b>	<b>8.3</b>	<b>8,719</b>	<b>3.6</b>
Operating expenses	4,890	4,221	15.9	4,682	4.5
-Staff expenses	3,060	2,332	31.2	2,803	9.2
-Other expenses	1,831	1,889	(3.1)	1,879	(2.6)
<b>Operating profit</b>	<b>4,140</b>	<b>4,115</b>	<b>0.6</b>	<b>4,037</b>	<b>2.5</b>
Core operating profit	3,810	3,285	16.0	2,637	44.5
Total provisions	3,264	3,063	6.5	2,931	11.4
<b>Profit before tax</b>	<b>876</b>	<b>1,051</b>	<b>(16.7)</b>	<b>1,106</b>	<b>(20.8)</b>
Tax	225	206	9.0	290	(22.3)
<b>Profit after tax</b>	<b>651</b>	<b>845</b>	<b>(23.0)</b>	<b>817</b>	<b>(20.3)</b>
<b>Balance sheet (Rs m)</b>					
Deposits	8,26,205	8,29,470	(0.4)	8,24,690	0.2
Advances	6,38,686	6,29,934	1.4	6,45,930	(1.1)
<b>Ratios (%)</b>					
<b>Profitability ratios</b>					
Yield on Advances	9.25%	9.78%	(53)	9.35%	(10)
Cost of Funds	5.03%	5.72%	(69)	5.33%	(30)
<b>NIM</b>	<b>2.94%</b>	<b>2.69%</b>	<b>25</b>	<b>2.62%</b>	<b>32</b>
RoAA	0.27%	0.35%	(8)	0.33%	(6)
<b>Asset Quality</b>					
Gross NPL (Rs m)	31,822	31,452	1.2	32,454	(1.9)
Net NPL (Rs m)	16,554	21,932	(24.5)	19,929	(16.9)
Gross NPL ratio (%)	4.87	4.92	(5)	4.93	(6)
Net NPL ratio (%)	2.59	3.48	(89)	3.09	(50)
Coverage ratio (Rep) (%)	65.20	48.10	1,710	58.80	640
<b>Business &amp; Other Ratios</b>					
CASA mix	27.81	24.90	291	26.89	92
Cost-income ratio	54.16	50.64	352	53.70	46
Non int. inc / total income	26.57	29.90	(333)	32.69	(612)
Credit deposit ratio	77.30	75.94	136	78.32	(102)
CAR	13.94	12.08	186	13.49	45
Tier-I	11.20	9.60	160	10.80	40

Source: Company, PL

## Q2FY21 Conference Call Highlights

### Business Outlook

- **Liabilities:** Overall deposits growth remained flattish though CASA ratio continues to gain but at a slow rate.
- **Advances:** Focus remains on non-corporate portfolio with Agri, Retail and Gold loans driving growth with Business growth of 10% expected for FY22.

### Fee/Margin/Opex

- Other Income impacted adversely as treasury profits fell significantly
- NIMs aided by low cost of funds and management expects 3% NIMs for FY21

### Asset Quality

- COVID Provisions continue to be maintained ~Rs10bn with an additional provision of Rs0.25bn made during the quarter prudentially. Management expects to push PCR incl. w.off to 60%-63%/60%-66% for 2H21/FY22 and PCR exc. w.off to 40%-42%/41%-43% for 2H21/FY22.
- Slippages fell drastically and halved sequentially to Rs0.52bn but is expected to rise in 2H21. For the BB & Below book, Rs4.4bn is a D rated Calcutta based Cement company under consortium with a very high probability of resolution by Nov'20. Rs1.15bn each is from a BB and C rated account, both retail accounts having high probability of resolution
- **Collection Efficiency:** For Sept'20 overall collection efficiency has reached ~80% levels with the same being better for Retail at ~90%, though lower for Corporate and Business Loans at ~70%/~65% respectively
- **26% of Loan book fell under moratorium (details provided in Exhibit 2 below) and ~10% of Morat Book** viz. ~Rs17bn is expected to slip to NPA (~Rs14bn in FY21 and ~Rs3bn in FY22). Of the Rs14bn expected to slip into NPA in FY21, Rs6bn to come from Corporate loans, Rs3.5bn from Personal Loans and Rs4.5bn from Business Loans
- **Restructuring:** On an overall basis, Rs12bn is expected to fall under restructuring of which Rs2.75bn to come from Corporate book, Rs3bn from Personal loans and Rs6.25bn from Business Loans

### Others

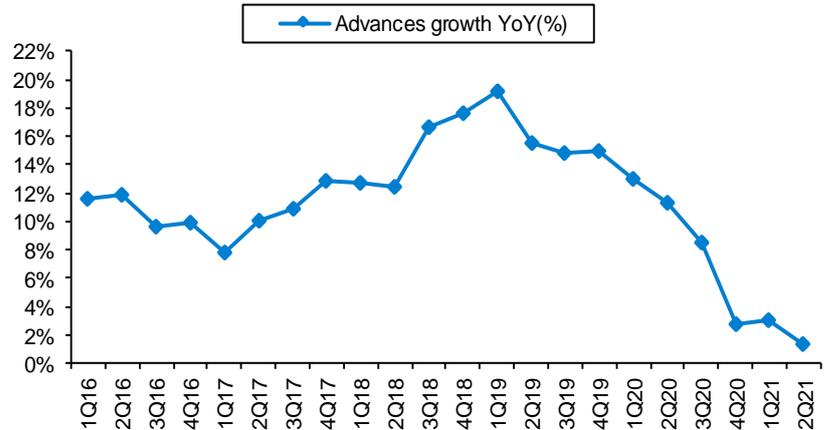
- **Capital Adequacy:** Management expects to raise capital in 2 tranches, viz a small 1<sup>st</sup> tranche and bigger tranche in FY22

#### Exhibit 2: Breakup of Advances under Moratorium

Segment (Rs mn)	1Q21		2Q21*	
	Loans under Moratorium	as a % of Segment	Loans under Moratorium.	as a % of Segment
Agri	11,120	11.4%	11,070	11.1%
Biz Loans	90,150	39.8%	62,920	26.1%
Personal Loans	69,410	45.9%	54,970	37.1%
Corporate	67,940	37.2%	41,700	25.4%
<b>Total</b>	<b>2,38,620</b>	<b>36.3%</b>	<b>1,70,650</b>	<b>26.1%</b>

Source: Company, PL; \*Note: As on 31.08.2020

**Exhibit 3: Advances growth remains weak mainly due to Corporate de-growth and fewer lending avenues**



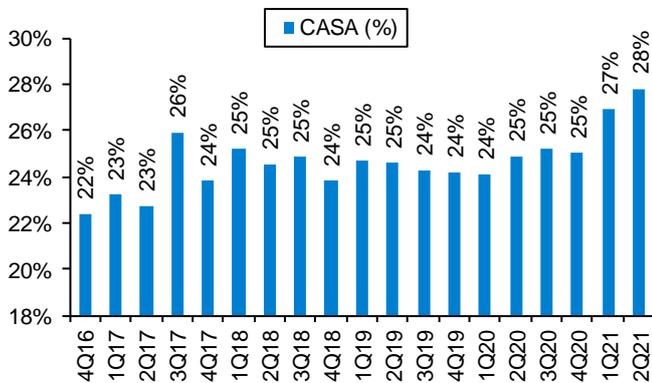
Source: Company, PL

**Exhibit 4: Corporate downtrend continues partially due to reclassification also while Agri & MSME push growth**

Break-up of Advances	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)
Agriculture	99,990	84,840	17.9	97,780	2.3
Biz Loans	2,41,500	2,14,940	12.4	2,26,540	6.6
Personal Loans	1,47,980	1,42,450	3.9	1,51,310	(2.2)
Corporate	1,64,020	1,96,970	(16.7)	1,82,560	(10.2)
<b>Total Advances</b>	<b>6,53,490</b>	<b>6,39,200</b>	<b>2.2</b>	<b>6,58,190</b>	<b>(0.7)</b>
<b>Loan Mix</b>					
Agriculture	15.3%	13.3%	203	14.9%	45
Biz Loans	37.0%	33.6%	333	34.4%	254
Personal Loans	22.6%	22.3%	36	23.0%	(34)
Corporate	25.1%	30.8%	(572)	27.7%	(264)

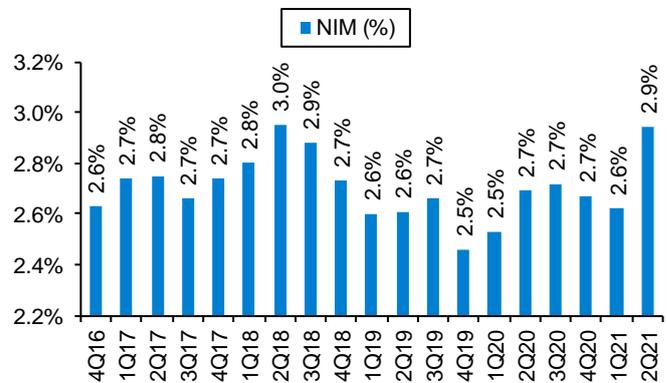
Source: Company, PL **Note** – Bank has reclassified certain segments of retail

**Exhibit 5: CASA improvement on good trajectory**



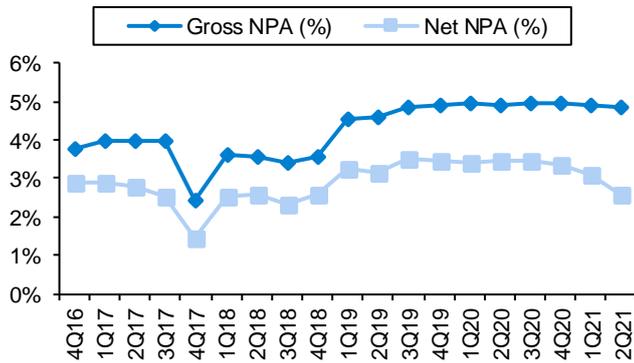
Source: Company, PL

**Exhibit 6: NIMs helped by lower cost of funding**



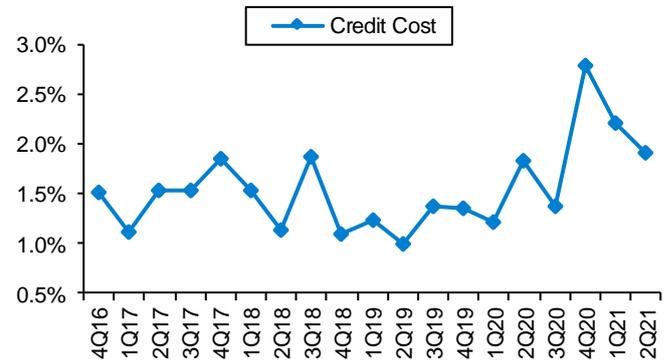
Source: Company, PL

**Exhibit 7: Asset Quality remains steady**



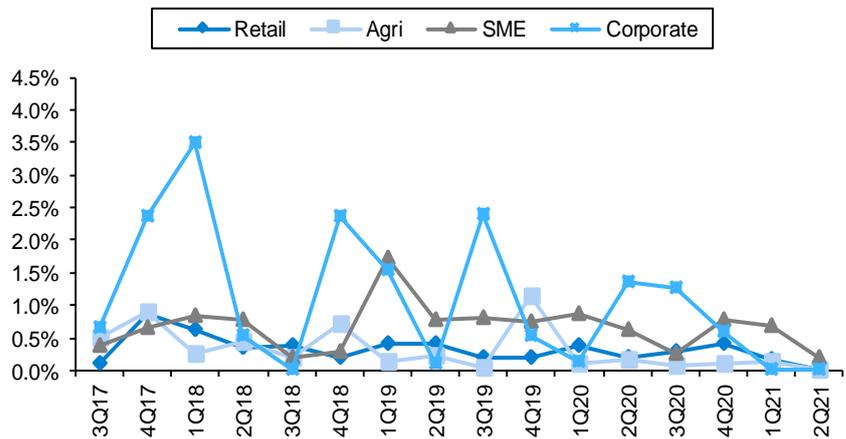
Source: Company, PL

**Exhibit 8: Provisions coming off on lower slippages**



Source: Company, PL

**Exhibit 10: Slippages seem to improve across all cohorts on account of moratorium standstill**



Source: Company, PL

**Exhibit 11: We model in restructuring in our BV estimate**

COVID restructuring	FY21E	FY22E	FY23E
Gross Restructured Asset	39,248	28,651	22,522
<i>Restructured Asset as % of loans</i>	<i>3.0%</i>	<i>2.0%</i>	<i>1.4%</i>
Provisions Held	3,925	8,222	11,601
<i>% incremental provision rate</i>	<i>10%</i>	<i>15%</i>	<i>15%</i>
<i>% overall provisioning cover</i>	<i>10%</i>	<i>29%</i>	<i>52%</i>
<b>Net RSA</b>	<b>35,323</b>	<b>20,429</b>	<b>10,922</b>
<i>RSA post Slippage/Recovery/Upgrade</i>	<i>24,726</i>	<i>14,300</i>	<i>7,645</i>
<b>Book Value impact</b>	<b>12.4</b>	<b>7.2</b>	<b>3.8</b>

Source: Company, PL

**Exhibit 12: Change in earnings estimates – We lower loan growth but reduce cost of deposit, while increase provisions**

(Rs mn)	Old			Revised			% Change		
	FY20E	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income	24,899	26,619	29,148	25,609	27,943	30,270	2.9	5.0	3.8
Operating profit	15,188	15,035	15,594	16,007	16,776	17,486	5.4	11.6	12.1
Net profit	2,789	3,710	4,199	2,030	2,763	5,486	(27.2)	(25.5)	30.7
<i>Loan Growth (%)</i>	<i>4.9</i>	<i>8.0</i>	<i>10.0</i>	<i>1.0</i>	<i>7.9</i>	<i>10.0</i>	<i>(3.9)</i>	<i>(0.1)</i>	<i>(0.0)</i>
Credit Cost (bps)	182.0	138.0	125.0	200.0	180.0	125.0	18.0	42.0	-
EPS (Rs)	1.5	2.0	2.3	1.1	1.5	3.0	(27.2)	(25.5)	30.7
ABVPS (Rs)	19.5	21.1	23.7	12.7	16.7	21.6	(35.0)	(21.2)	(9.1)
<b>Price target (Rs)</b>	<b>11</b>			<b>10</b>			<b>(8)</b>		
<b>Recommendation</b>	<b>BUY</b>			<b>BUY</b>					

Source: Company, PL

**Exhibit 13: We revise our TP to Rs10 (from Rs11) based on 0.5x Sep-22 ABV**

PT calculation and upside	
Terminal growth	5.0%
Market risk premium	7.3%
Risk-free rate	6.8%
Adjusted beta	1.05
<b>Cost of equity</b>	<b>14.4%</b>
<b>Fair price - P/ABV</b>	<b>10</b>
<b>Target P/ABV</b>	<b>0.5</b>
<b>Target P/E</b>	<b>4.4</b>
Current price, Rs	7
<b>Upside (%)</b>	<b>51%</b>
Dividend yield (%)	4%
<b>Total return (%)</b>	<b>55%</b>

Source: Company, PL

**Exhibit 14: One year Forward P/ABV chart**



Source: Company, PL



**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-20	BUY	11	7
2	09-Jul-20	BUY	11	8
3	08-Jul-20	BUY	11	8
4	28-Jun-20	BUY	11	9
5	14-Apr-20	BUY	11	6
6	17-Jan-20	BUY	18	11
7	03-Jan-20	BUY	18	10
8	18-Oct-19	BUY	18	10

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Hold	480	468
2	Bank of Baroda	BUY	65	44
3	Federal Bank	BUY	67	53
4	HDFC Bank	BUY	1,265	1,234
5	HDFC Life Insurance Company	Reduce	533	579
6	ICICI Bank	BUY	462	402
7	ICICI Prudential Life Insurance Company	Hold	424	434
8	IDFC First Bank	Sell	21	32
9	IndusInd Bank	BUY	680	623
10	Kotak Mahindra Bank	Accumulate	1,389	1,320
11	Max Financial Services	Accumulate	651	610
12	Punjab National Bank	BUY	40	29
13	SBI Life Insurance Company	Accumulate	920	828
14	South Indian Bank	BUY	11	7
15	State Bank of India	BUY	276	198

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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