

3 May 2024

South Indian Bank

Decent quarter, ~1% RoA sustainable; maintaining a Buy

Muted NII and lower Treasury income led to the decline in South Indian Bank's Q4 operating profit. Lower provisions aided profitability, with a 0.98% RoA (down 7bps q/q). Asset quality improved across segments. With stress from the legacy book recognised, the focus now shifts to profitability. We expect the bank to deliver a sustainable, 1%, RoA from now. We retain our Buy rating, with a 12-mth TP of Rs39, 0.9x P/ABV on the FY26e book.

Asset quality improves. Slippages were Rs2.9bn (1.5% of loans), lower than last quarter's figure and better than we expected. Lower slippages and strong recoveries led to a 24bps q/q decline in the GNPA ratio, which came at 4.5%. Also, the SMA-2 book fell sequentially and is now <1% of loans. The standard restructured book was Rs7.7bn (down 13.6% q/q), ~1% of loans. With stress from the legacy book recognised and the GNPA from the new book after Oct'20 (~Rs566bn) at 31bps, the slippage rate ahead is expected to hold below ~2%. Accordingly, we model FY25 GNPA at 3.9% and NNPA at 1.2%.

RoA to normalise ~1%. Q4 NIM was 3.38% (up 19bps q/q) on account of increase in yields and increase in C/D ratio. On a steady-state basis, we expect NIM to stabilise near 3.4%. With an easing slippage run-rate, credit cost is expected to be modest. With a stable margin, modest opex and provisioning, we expect the RoA to stabilise near 1%.

Valuation. Our TP of Rs39 is based on the two-stage DDM model. This implies a 0.9x P/ABV multiple on its FY26e book. **Risks:** Higher stress arising from the corporate book; less-than-expected loan growth.

Key financials (YE Mar) (Rs m)	FY22	FY23	FY24	FY25e	FY26e
Net interest income	22,398	30,121	33,321	38,049	44,165
Pre-provisioning profit	12,476	15,073	18,677	21,785	26,440
Provisions	13,396	3,991	3,389	5,011	5,766
PAT	450	7,751	10,701	12,547	15,464
EPS (Rs)	0.2	3.7	4.1	4.8	5.9
NIM (%)	2.6	3.2	3.3	3.4	3.5
Cost-Income (%)	61.9	60.6	61.5	60.6	58.8
RoE (%)	0.8	12.4	13.8	13.4	14.5
RoA (%)	0.0	0.7	1.0	1.0	1.1
Advances growth (%)	3.3	16.4	11.8	14.0	16.0
GNPA (%)	5.9	5.1	4.5	3.9	3.1
CAR (%)	15.9	17.3	19.9	18.8	17.9
P / E (x)	134.0	7.8	7.0	6.0	4.9
P / BV (x)	1.0	0.9	0.9	0.8	0.7
P / ABV (x)	1.3	1.0	0.9	0.8	0.7

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price (12-mth): Rs.39

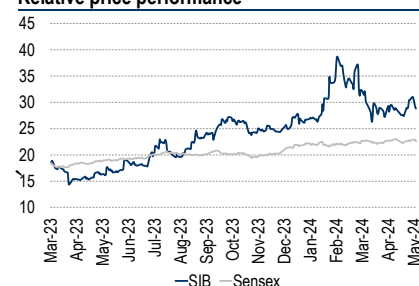
Share Price: Rs.29

Key data	SIB IN / SIBK.BO
52-week high / low	Rs37 / 15
Sensex / Nifty	73878 / 22476
3-m average volume	\$18.2m
Market cap	Rs75bn / \$903m
Shares outstanding	2616m

Shareholding pattern (%)	Mar'24	Dec'23	Sep'23
Promoters	-	-	-
- of which, Pledged	-	-	-
Free float	100.0	100.0	100.0
- Foreign institutions	15.2	14.7	15.0
- Domestic institutions	4.7	7.6	6.6
- Public	80.2	77.7	78.4

Estimates revision (%)	FY25e	FY26e
Net interest income	0.2	1.7
Pre-provisioning profit	(2.4)	0.1
PAT	(3.1)	(0.1)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net interest income	22,398	30,121	33,321	38,049	44,165
NII growth (%)	-6.9	34.5	10.6	14.2	16.1
Non-interest income	10,341	8,126	15,155	17,277	20,041
Total income	32,739	38,247	48,476	55,326	64,206
Total inc. growth (%)	-10.0	16.8	26.7	14.1	16.0
Operating expenses	20,263	23,174	29,799	33,541	37,766
PPoP	12,476	15,073	18,677	21,785	26,440
PPoP growth (%)	-24.9	20.8	23.9	16.6	21.4
Provisions	13,396	3,991	3,389	5,011	5,766
PBT	-920	11,082	15,288	16,774	20,674
Tax	-1,370	3,331	4,587	4,227	5,210
PAT	450	7,751	10,701	12,547	15,464
PAT growth (%)	-27.4	1,623.6	38.1	17.3	23.2
EPS (Rs)	0.2	3.7	4.1	4.8	5.9
DPS (Rs)	0.0	0.3	0.3	0.5	0.6

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	2,093	2,093	2,616	2,616	2,616
Reserves & surplus	56,439	64,654	85,646	96,938	1,10,856
Deposits	8,91,421	9,16,514	10,19,203	11,41,507	13,01,318
Borrowings	32,945	69,939	39,121	41,077	43,131
Total liabilities	10,00,511	10,76,982	11,74,128	13,10,383	14,87,086
Advances	5,99,934	6,98,044	7,80,607	8,89,891	10,32,274
Investments	2,14,450	2,46,418	2,39,770	2,49,361	2,64,323
Cash & bank bal.	1,12,034	70,805	1,00,222	1,12,248	1,25,718
Fixed & other assets	74,106	61,714	53,529	58,882	64,771
Total assets	10,00,524	10,76,982	11,74,128	13,10,383	14,87,086
No. of shares (m)	2,093	2,093	2,616	2,616	2,616
Deposits growth (%)	7.8	2.8	11.2	12.0	14.0
Advances growth (%)	3.3	16.4	11.8	14.0	16.0
Share capital	2,093	2,093	2,616	2,616	2,616

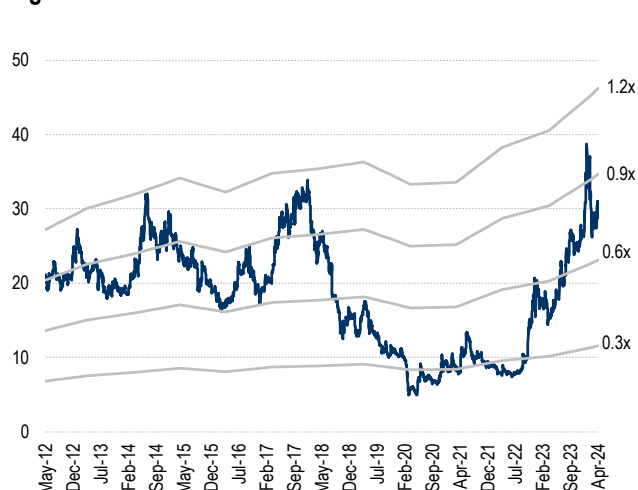
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis, %

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
NIM	2.6	3.2	3.3	3.4	3.5
Other inc. / total inc.	31.6	21.2	31.3	31.2	31.2
Cost-income	61.9	60.6	61.5	60.6	58.8
Provision coverage	51.3	65.1	68.7	70.0	70.0
Dividend payout	0.0	8.1	7.3	10.0	10.0
Credit-deposit	67.3	76.2	76.6	78.0	79.3
Investment-deposit	24.1	26.9	23.5	21.8	20.3
Gross NPA	5.9	5.1	4.5	3.9	3.1
Net NPA	3.0	1.9	1.5	1.2	0.9
BV (Rs)	28.0	31.9	33.7	38.1	43.4
Adj. BV (Rs)	22.0	27.6	30.7	35.3	40.8
CAR	15.9	17.3	19.9	18.8	17.9
- Tier 1	13.2	14.7	17.7	16.9	16.3
RoE	0.8	12.4	13.8	13.4	14.5
RoA	0.0	0.7	1.0	1.0	1.1

Source: Company, Anand Rathi Research

Fig 4 – Price-to-Book band



Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Quarterly snapshot

Fig 7 – Income statement

(Rs m)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Interest income	18,983	19,730	20,250	21,290	21,841	22,747
Interest expense	10,731	11,158	12,173	12,984	13,651	14,000
NII	8,252	8,572	8,078	8,306	8,190	8,747
Y/Y growth	44.0	43.4	33.9	14.3	-0.7	2.0
Non-interest income	(342)	3,454	3,613	3,558	4,524	3,460
Total income	7,910	12,026	11,691	11,864	12,714	12,207
Y/Y growth	-0.5	50.0	37.6	20.9	60.7	1.5
Operating expenses	5,877	6,410	6,788	7,259	7,880	7,872
of which, staff cost	3,357	3,292	4,030	4,176	4,596	4,127
PPoP	2,032	5,616	4,902	4,604	4,835	4,335
Y/Y growth	-27.4	95.0	54.7	8.2	137.9	-22.8
Total provisions	414	390	1,985	513	486	406
PBT	1,618	5,226	2,917	4,092	4,349	3,929
Tax	591	1,887	894	1,344	1,295	1,054
PAT	1,028	3,339	2,024	2,748	3,054	2,876
Y/Y growth	NM	22.7	75.4	23.2	197.2	-13.9

Source: Company, Anand Rath Research

Fig 8 – Balance sheet

(Rs m)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Equity capital	2,093	2,093	2,093	2,093	2,093	2,616
Reserves & Surplus	61,402	64,654	66,679	68,806	71,868	85,646
Deposits	9,06,717	9,16,514	9,54,990	9,70,853	9,91,547	10,19,203
Borrowings	47,727	69,939	56,455	58,982	42,125	39,121
Other liabilities	20,393	23,783	25,189	26,699	27,509	27,543
Total Liabilities	10,38,333	10,76,982	11,05,406	11,27,432	11,35,141	11,74,128
Deposits y/y growth, %	2.6	2.8	8.3	9.7	9.4	11.2
Deposits q/q growth, %	2.5	1.1	4.2	1.7	2.1	2.8
Cash and cash balances	68,185	70,805	68,014	81,477	68,792	1,00,222
Advances	6,79,202	6,98,044	7,17,418	7,25,876	7,53,399	7,80,607
Investments	2,29,252	2,46,418	2,59,310	2,59,297	2,53,346	2,39,770
Other Assets	61,693	61,715	60,664	60,782	59,605	53,529
Total Assets	10,38,333	10,76,982	11,05,406	11,27,432	11,35,141	11,74,128
Advances y/y growth, %	18.3	16.4	14.3	10.3	10.9	11.8
Advances q/q growth, %	3.2	2.8	2.8	1.2	3.8	3.6

Source: Company, Anand Rath Research

Fig 9 – Asset quality movement

Break-up of GNPA (Rs m)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Opening balance	38,561	38,436	37,083	38,039	37,139	36,824
Slippages	3,310	3,580	4,870	3,150	3,060	2,890
Reductions	3,436	4,933	3,914	4,050	3,375	3,511
Closing balance	38,436	37,083	38,039	37,139	36,824	36,203
GNPA (%)	5.5	5.1	5.1	5.0	4.7	4.5
Gross slippage ratios (%)	2.0	2.1	2.8	1.8	1.7	1.5

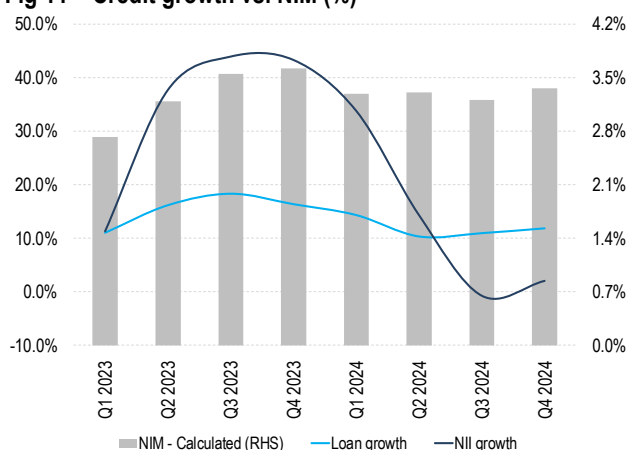
Source: Company, Anand Rath Research

Fig 10 – Break-up of advances (%)

Break-up of GNPA (Rs m)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Corporate	32.0	33.0	33.0	37.0	38.0	40.0
Retail	22.0	22.0	22.0	23.0	23.0	22.0
Agri	20.0	20.0	20.0	19.0	19.0	19.0
MSME	26.0	25.0	25.0	21.0	20.0	19.0

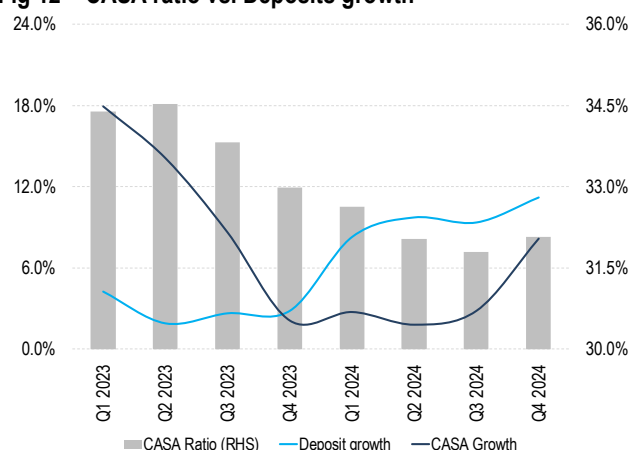
Source: Company, Anand Rath Research

Fig 11 – Credit growth vs. NIM (%)



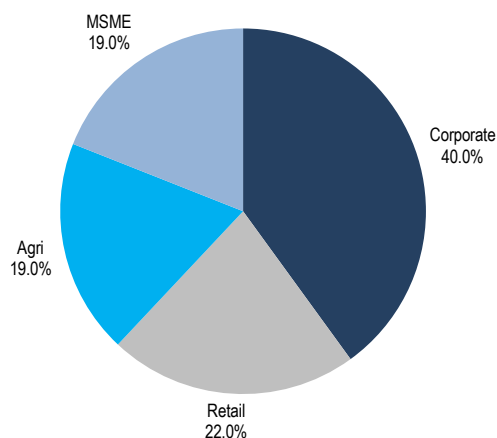
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposits growth



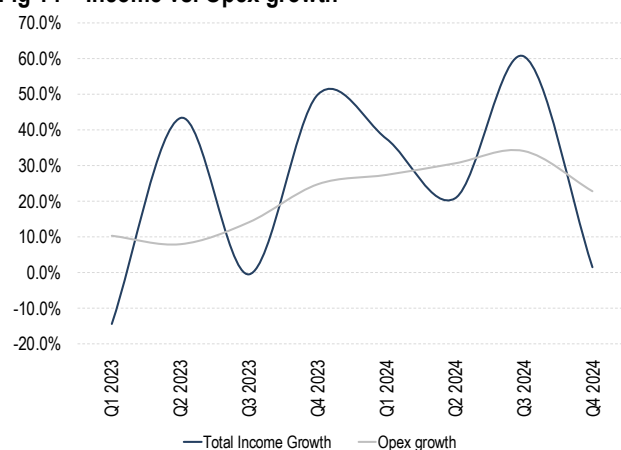
Source: Company, Anand Rathi Research

Fig 13 – Loan break-up



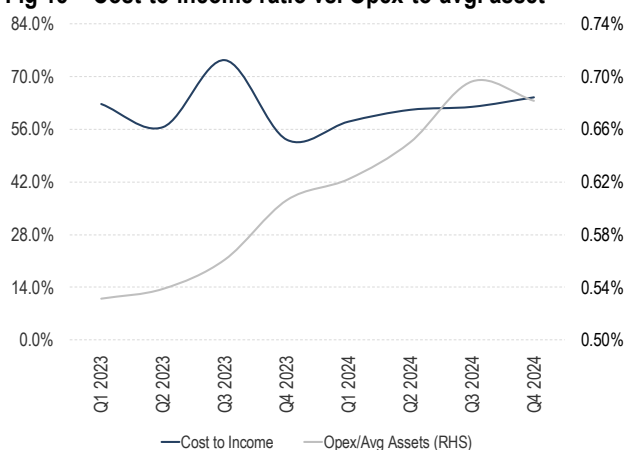
Source: Company, Anand Rathi Research

Fig 14 – Income vs. Opex growth



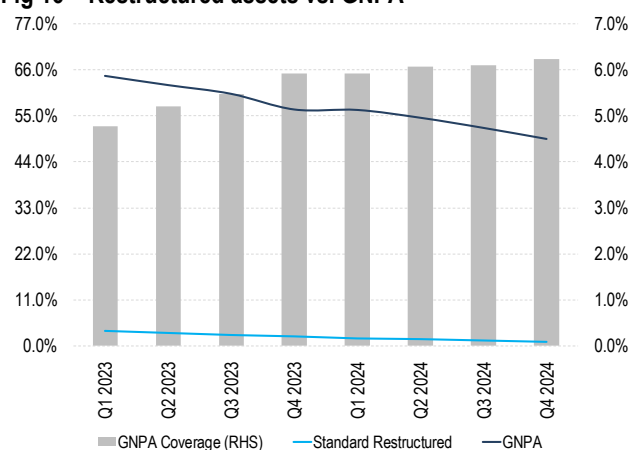
Source: Company, Anand Rathi Research

Fig 15 – Cost-to-income ratio vs. Opex-to-avg. asset



Source: Company, Anand Rathi Research

Fig 16 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Valuation

- Our TP of Rs39 is based on the two-stage DDM model. This implies a ~0.9x P/ABV multiple on its FY26e book.

Fig 17 – Change in estimates

(Rs m)	FY25e			FY26e		
	New	Old	Chg (%)	New	Old	Chg (%)
Net interest income	38,049	37,971	0.2	44,165	43,423	1.7
Pre-provisioning profit	21,785	22,328	(2.4)	26,440	26,411	0.1
PAT	12,547	12,947	(3.1)	15,464	15,475	(0.1)

Source: Anand Rathi Research

Risks

- **Higher credit costs.** Higher slippages and lower recoveries could lead to elevated credit costs.
- **Slow loan growth.** Slower loan growth may notably mar our forecasts.

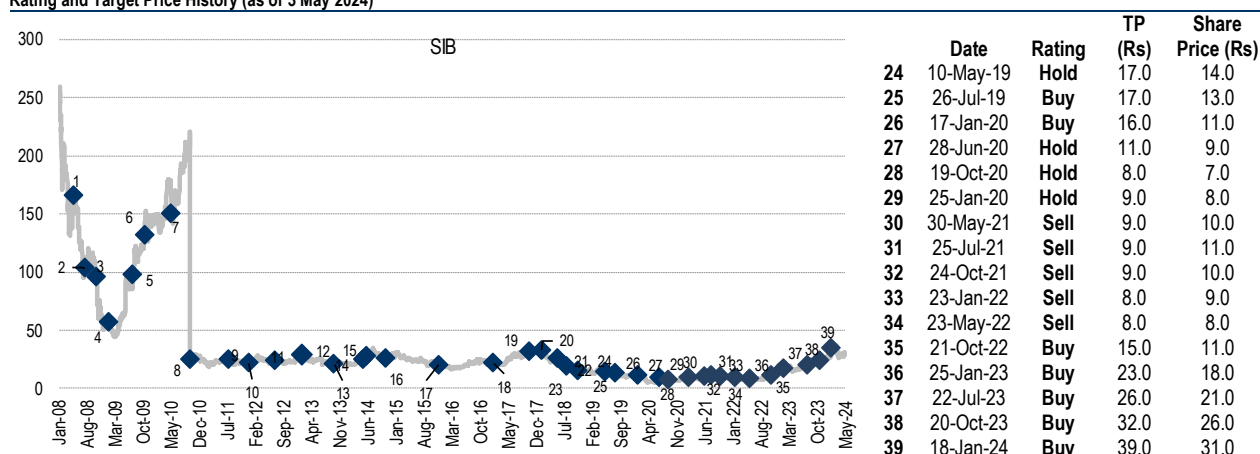
Appendix

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Additional information on recommended securities/instruments is available on request.

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