

South India Bank

BSE SENSEX
35,929

S&P CNX
10,792

CMP: INR16

TP: INR20 (+24%)

Buy



Stock Info

Bloomberg	SIB IN
Equity Shares (m)	1,810
M.Cap.(INRb)/(USDb)	29.1 / 0.4
52-Week Range (INR)	35 / 12
1, 6, 12 Rel. Per (%)	2/-36/-57
12M Avg Val (INR M)	312
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E March	FY18	FY19E	FY20E
NII	19.7	21.3	25.3
OP	14.8	13.7	17.3
NP	3.3	2.6	5.1
NIM (%)	2.8	2.7	2.8
EPS (INR)	1.9	1.4	2.8
EPS Gr. (%)	-25.5	-22.5	94.4
BV/Sh (INR)	28.3	29.0	31.1
ABV (INR)	22.8	21.8	24.2
RoE (%)	6.6	4.9	9.1
RoA (%)	0.4	0.3	0.5
Payout (%)	25.8	45.8	25.7

Valuations

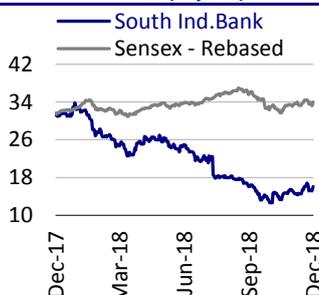
P/E (x)	7.9	10.2	5.2
P/BV (x)	0.5	0.5	0.5
P/ABV (x)	0.6	0.7	0.6
Div Yield (%)	3.3	4.5	4.9

Shareholding pattern (%)

As On	Sep-18	Jun-18	Sep-17
Promoter	0.0	0.0	0.0
DII	12.5	14.9	12.3
FII	30.2	32.3	37.9
Others	57.4	52.7	49.8

FII Includes depository receipts

Stock Performance (1-year)



Retail segment gaining focus

Asset quality pressure to ease gradually

We met the MD & CEO and key management of South Indian Bank during our visit to their retail and IT hub in Kochi. Key takeaways:

Retail Banking gaining focus

Declining market share in its home state of Kerala has been a wake-up call for SIB. To recoup the recent loss in market share, SIB now aims to leverage its existing customer relationship by cross selling. The bank has constituted a separate 'business development channel' in addition to its existing branch network to speed up the sourcing of retail products. Also, the bank has centralized and automated its retail and SME lending operations, account opening operations and IT operations over the last two years.

Tie-up with DSAs and OEMs to augment retail loan sourcing

SIB has signed up with 200 Direct Selling Agents (DSAs) in six locations (excluding Kerala). For auto loans, SIB has added 76 people through Teamlease on an outsourced basis. SIB has also tied up with OEMs like M&M and TAMO for passenger vehicles and aims to significantly expand this relationship (186 branches identified) in different geographies.

Progress on key retail products

Home and Vehicle loans: On a monthly basis, the bank handles ~550-600 files in home and auto loans. Average Ticket Size in home loans is INR2.9m, which is expected to increase once the bank starts disbursing loans in the ex- Kerala market. Approval rates are 30-35% for DSAs, while it ranges between 70-75% for internally sourced customers. A few years ago, turnaround time (TAT) for auto loans was 3-4 days, which the bank has brought down to 24hrs.

Third party distribution: SIB has tie-ups with LIC, Kotak Life and SBI Life for life insurance, while it has tie-ups with TTK Cigna and Max Bupa for general insurance.

Credit card: SIB offers co-branded credit cards with SBI; in this arrangement, SIB earns the sourcing fee while all loans and liabilities are on SBI's books.

Retail liability profile to improve gradually

SIB has created separate verticals for current account, savings account and salaried customers, thereby improving service and monitoring in each of these segments. It has also revamped its government business by opening CASA accounts for panchayats, government bodies, etc. SIB is also actively participating in implementation of government welfare schemes like DBT. According to management, of the 20 states that the bank operates in, 10 states have CASA above 30% while other regions have CASA below 20%, which is a drag for its CASA mix.

Asset Quality to be under watch in near term

- **Impact of Kerala floods:** State dispensation due to Kerala floods is only available for housing loans, agri loans, education loans, and MSME loans. Restructuring is allowed only on the carved-out portion and not on the total exposure to the borrower. The portion that is not restructured is treated as standard in the books.
- Apart from the GNPA of INR26.5b (4.6% of the advances), an EPC account which was classified as standard restructured in 2QFY19 has turned NPA this quarter. The total exposure (including the non-fund based exposure) now stands at INR1.04b.
- **IL&FS exposure is INR4.2b** on which the bank has provided INR0.2b. Bank will further provide INR0.4b taking the PCR on this exposure to 15%.
- **Security receipts:** Bank has already sold INR17.8b of NPAs (in 2QFY18) to ARCs at 33% discount on which it held 25% provision. The bank is expecting INR2.5b of additional provisions on the same. Total SMA-2 book is INR23.7b, which includes one road project above INR1b and the rest in the range of INR0.5-0.6b.
- SIB has also segregated roles and responsibilities at various levels in the bank's hierarchy to ensure checks and balances while sanctioning loans. For e.g. the country-head is responsible for business generation whereas actual sanctioning of loans is done by the EVP-credit. Loans above INR0.25b are sanctioned by a committee, which meets twice a week.

Digital banking to further aid customer experience

- SIB has all the products (Mobile APP, IMPS, RTGS, Bharat QR code, etc.) in its kitty to serve SME customers/traders in Kerala. Only 32% of transactions happen through its branches, and management is making efforts to further migrate customers to either mobile banking or internet banking.
- Typically, ATMs is a loss-making segment for small banks. But in SIB's case, being net acquirers the bank earns fees on the same (Bank earned INR370m for 1HFY19 from ATM fees). Bank estimates that the cost of ATM recalibrations (due to the RBI guidelines) would be INR120m over the next three years.

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 36% of the book v/s 41% in FY15. 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 gradually. Given residual stressed assets on the books and the provisioning required towards ARC sale/IL&FS etc., we believe that slippages/credit costs should remain slightly elevated in the near-term. We thus, arrive at FY20E RoA/RoE of 0.5%/9.1%. Maintain Buy with a TP of INR20 (0.8x FY20E ABV).

Financials and valuations

Income Statement								(INR M)	
Y/E March	2012	2013	2014	2015	2016	2017	2018	2019E	2020E
Interest Income	35,834	44,343	50,151	52,862	55,572	58,471	61,928	73,873	87,096
Interest Expense	25,617	31,535	36,163	39,200	40,475	41,716	42,273	52,618	61,814
Net Interest Income	10,217	12,808	13,988	13,662	15,097	16,754	19,655	21,256	25,282
Growth (%)	29.2	25.4	9.2	-2.3	10.5	11.0	17.3	8.1	18.9
Non Interest Income	2,471	3,349	3,685	4,971	5,174	7,156	8,372	7,284	8,377
Total Income	12,688	16,158	17,672	18,633	20,271	23,910	28,028	28,540	33,659
Growth (%)	28.4	27.3	9.4	5.4	8.8	18.0	17.2	1.8	17.9
Operating Expenses	6,173	7,672	8,829	9,813	11,478	11,764	13,220	14,835	16,314
Pre Provision Profits	6,515	8,486	8,843	8,820	8,793	12,146	14,808	13,705	17,344
Growth (%)	24.0	30.2	4.2	-0.3	-0.3	38.1	21.9	-7.4	26.6
Core PPP	6,107	7,909	8,145	7,180	7,427	9,621	13,008	12,205	15,544
Change (%)	25.7	29.5	3.0	-11.8	3.4	29.5	35.2	-6.2	27.4
Provisions (excl tax)	792	1,927	1,554	4,570	3,696	6,144	9,809	9,736	9,627
PBT	5,723	6,559	7,289	4,250	5,097	6,002	4,999	3,969	7,717
Tax	1,707	1,536	2,214	1,608	1,764	2,077	1,650	1,369	2,663
PAT	4,017	5,023	5,075	2,642	3,333	3,925	3,349	2,600	5,055
Growth (%)	37.3	25.1	1.0	-47.9	26.1	17.8	-14.7	-22.4	94.4

Balance Sheet

Y/E March	2012	2013	2014	2015	2016	2017	2018	2019E	2020E
Equity Share Capital	1,134	1,339	1,344	1,350	1,350	1,803	1,809	1,809	1,809
Reserves & Surplus	20,570	28,724	32,360	34,544	37,106	46,574	50,603	52,010	55,766
Net Worth	21,704	30,062	33,704	35,894	38,456	48,377	52,412	53,819	57,575
Deposits	365,005	442,623	474,911	519,125	557,207	661,175	720,296	821,137	952,519
Growth (%)	22.8	21.3	7.3	9.3	7.3	18.7	8.9	14.0	16.0
of which CASA Dep	71,793	82,328	98,249	106,863	124,590	157,470	171,417	193,788	224,795
Growth (%)	12.1	14.7	19.3	8.8	16.6	26.4	8.9	13.1	16.0
Borrowings	5,882	12,846	27,308	22,325	23,150	19,578	40,434	41,945	48,185
Other Liabilities & Prov.	11,109	12,420	13,937	13,819	12,936	13,990	13,697	15,067	16,574
Total Liabilities	403,701	497,950	549,860	591,163	631,749	743,120	826,859	931,969	1,074,853
Current Assets	26,405	43,359	32,179	35,951	30,995	38,877	42,210	44,266	51,324
Investments	93,999	125,235	143,518	140,861	146,189	194,297	183,631	191,133	208,895
Growth (%)	5.3	33.2	14.6	-1.9	3.8	32.9	-5.5	4.1	9.3
Loans	272,807	318,155	362,299	373,916	410,857	463,895	545,629	638,386	753,295
Growth (%)	33.1	16.6	13.9	3.2	9.9	12.9	17.6	17.0	18.0
Fixed Assets	3,775	3,961	4,122	4,790	4,870	6,561	6,808	7,174	7,778
Other Assets	6,714	7,240	7,742	35,644	38,837	39,490	48,581	51,010	53,560
Total Assets	403,701	497,950	549,860	591,163	631,749	743,120	826,859	931,969	1,074,853

Asset Quality

	(%)								
GNPA (INR m)	2,672	4,339	4,326	6,435	15,624	11,490	19,803	28,631	29,544
NNPA (INR m)	765	2,495	2,817	3,571	11,853	6,746	14,158	18,673	17,811
GNPA Ratio	0.98	1.36	1.19	1.72	3.80	2.48	3.63	4.48	3.92
NNPA Ratio	0.28	0.78	0.78	0.95	2.88	1.45	2.59	2.93	2.36
Slippage Ratio	0.72	1.79	1.85	1.36	4.10	3.88	3.59	4.00	2.60
Credit Cost	0.09	0.45	0.40	1.12	0.94	1.40	1.94	1.50	1.40
PCR (Excl Tech. write off)	71.4	42.5	34.9	44.5	24.1	41.3	28.5	34.8	39.7

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2012	2013	2014	2015	2016	2017	2018	2019E	2020E
Yield and Cost Ratios (%)									
Avg. Yield-Earning Assets	10.1	10.1	9.8	9.7	9.7	9.1	8.4	9.0	9.2
Avg. Yield on loans	12.0	12.1	11.6	11.3	11.1	10.2	9.4	9.3	9.4
Avg. Yield on Investments	6.9	6.9	7.2	6.7	7.1	7.3	6.8	9.0	9.8
Avg. Cost-Int. Bear. Liab.	7.7	7.7	7.6	7.5	7.2	6.6	5.9	6.5	6.6
Avg. Cost of Deposits	7.6	7.6	7.5	7.4	7.1	6.5	5.8	6.0	6.1
Interest Spread	2.4	2.4	2.2	2.2	2.5	2.5	2.6	2.5	2.6
Net Interest Margin	3.0	3.0	2.8	2.6	2.8	2.7	2.8	2.7	2.8

Profitability Ratios (%)

CAR	14.0	13.9	12.4	12.0	11.8	12.4	12.7	11.2	10.1
Tier I	11.5	12.1	10.8	10.4	9.8	10.9	10.4	9.2	8.4
Tier II	2.5	1.9	1.6	1.6	2.0	1.5	2.3	2.0	1.7

Business and Efficiency Ratios (%)

Loans/Deposit Ratio	74.7	71.9	76.3	72.0	73.7	70.2	75.8	77.7	79.1
CASA Ratio	19.7	18.6	20.7	20.6	22.4	23.8	23.8	23.6	23.6
Cost/Assets	1.5	1.5	1.6	1.7	1.8	1.6	1.6	1.6	1.5
Cost/Total Income	48.7	47.5	50.0	52.7	56.6	49.2	47.2	52.0	48.5
Cost/ Core Income	50.3	49.2	52.0	57.7	60.7	55.0	50.4	54.9	51.2
Int. Expense/Int.Income	71.5	71.1	72.1	74.2	72.8	71.3	68.3	71.2	71.0
Fee Income/Total Income	16.3	17.2	16.9	17.9	18.8	19.4	23.5	20.3	19.5
Non Int. Inc./Total Income	19.5	20.7	20.8	26.7	25.5	29.9	29.9	25.5	24.9
Empl. Cost/Total Expense	60.6	61.6	59.9	64.6	60.3	57.5	54.0	55.3	55.3
Investment/Deposit Ratio	25.8	28.3	30.2	27.1	26.2	29.4	25.5	23.3	21.9

Profitability Ratios and Valuation

RoE	20.0	19.4	15.9	8.8	9.0	9.0	6.6	4.9	9.1
RoA	1.1	1.1	1.0	0.5	0.5	0.6	0.4	0.30	0.50
RoRWA	2.4	2.2	1.8	1.0	0.9	0.9	0.7	0.5	0.8
Book Value (INR)	18.4	21.9	24.5	26.0	27.9	26.1	28.3	29.0	31.1
Growth (%)	18.2	18.7	12.1	6.1	7.3	-6.4	8.1	2.7	7.2
Price-BV (x)							0.5	0.5	0.5
Adjusted BV (INR)	18.0	20.6	23.1	24.2	21.8	23.5	22.8	21.8	24.2
Price-ABV (x)							0.6	0.7	0.6
EPS (INR)	3.5	4.1	3.8	2.3	2.5	2.5	1.9	1.4	2.8
Growth (%)	37.1	14.5	-6.9	-39.7	8.2	0.9	-25.5	-22.5	94.4
Price-Earnings (x)							7.9	10.2	5.2
Dividend Per Share (INR)	0.6	0.7	0.8	0.6	0.5	0.4	0.5	0.7	0.7
Dividend Yield (%)							3.3	4.5	4.9

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
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