

Retail Equity Research (South India Focus)

**SOUTH INDIAN BANK Ltd**

Banking

BSE CODE : 532218 NSE CODE: SOUTHBANK  
BLOOMBERG CODE: SIB:IN SENSEX : 36,546

**BUY**

12M Investment Period

Rating as per Mid cap

CMP Rs13.5 TARGET Rs17.4 RETURN 29% ↑

(Closing:08-02-19)

**Strategic realignment to impact positively...**

South Indian Bank (SIB) is a mid-sized private commercial bank having a network of 857 branches across India with a loan book size of ~Rs60,000cr

- SIB has realigned the loan book in favor of the retail and SME segments with dedicated verticals, strategically shifting away from large corporate loans.
- Revival in loan growth (CAGR of 16%) in next two years led by renewed focus in retail and SME segments, which is expected to grow at a CAGR of 29% and 17% respectively over FY18-20E.
- Strategy and roadmap in place to improve CASA over a long term, which eventually helps to reduce the cost of funds.
- We factor GNPA and NNPA at 4.2% and 2.9% by FY20E and provision burden to stabilise in the coming years, leading to 11% CAGR in earnings over FY18-20E.
- We have a positive outlook in loan growth and earnings for a longer term. Though we expect overhang of asset quality issues in the near to medium term, with the stock trading at much lower valuation, we value SIB at 0.55x FY20E BVPS of Rs 31.7 with a target price of Rs17.4 and recommend to BUY.

**Growth outlook realigned with retail oriented loan book...**

SIB has realigned the loan book in favor of the retail and SME segments, strategically shifting away from large corporate loans over the last few years. Robust retail network, improving economic activities and demand outlook for retail adds impetus to the loan growth while de-risking the balance sheet. Loan growth had been tepid for three years till FY16 while showing signs of improvement from FY17 and significant improvement in FY18. SME and retail books have grown at 18% and 21% respectively helping the overall loan book to grow at 18% in FY18. We factor 16% CAGR in loan book over FY18-20E.

**Asset quality risk slowly coming down...**

Asset quality outlook has significantly improved with legacy risk assets already recognized in NPA. GNPA and NNPA spiked to 4.88% and 3.54% by Q3FY19 on account of Rs400 slippages in IL&FS exposure. Going forward, the loan book growing through less risky lower ticket size retail and SME augurs well for asset quality outlook and is expected to improve by FY20E.

**Retail network growing slowly and constantly...**

SIB currently has 857 branches spread across different states, while 83% in South India. The large retail network amid expanding national and increasing penetration in Southern markets will support the retail loan momentum. SIB had 794 branches in FY14. The bank constantly and slowly added new branches annually and reached 857 branches as on Q3 FY19.

**Valuation...**

We have a positive outlook in loan growth at 16% CAGR over FY18-20E, which aid a PAT growth of over 11% during the same period. But we do expect the overhang of asset quality issues in near to medium term, and to get moderate by FY20E. The stock is currently trading at much lower valuation of 0.45x/0.42x respectively for FY19E/FY20E P/B. Hence we value South Indian Bank at 0.55x FY20E BVPS of Rs31.7 and recommend Buy rating with a target price of Rs17.4.

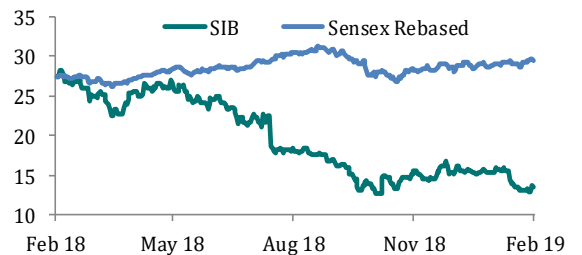
**Company Data**

Market Cap (cr)	Rs. 2,434
Outstanding Shares (cr)	181.0
Free Float	100%
Dividend Yield	3.0%
52 week high	Rs. 28
52 week low	Rs. 12
6m average volume (cr)	1.86
Beta	1.13
Face value	Rs. 1

Shareholding (%)	Q1FY19	Q2FY19	Q3FY19
Promoters	0.00	0.00	0.00
FPI's/FII's	32.34	30.18	25.74
MFs/Insti	14.94	12.44	13.05
Public	52.72	57.38	61.21
Total	100.0	100.0	100

Price Performance	3 month	6 Month	1 Year
Absolute Return	-13.2%	-25.3%	-51.4%
Absolute Sensex	3.9%	-3.5%	6.2%
Relative Return*	-17.2%	-21.8%	-57.6%

over or under performance to benchmark index



Standalone (cr)	FY18A	FY19E	FY20E
Interest Income	6,193	6,845	7,619
Interest Expense	4,227	4,699	5,196
NII	1,966	2,146	2,423
Growth (%)	17.3	9.2	12.9
NIM(%)	2.83	2.75	2.73
Provisions	981	977	979
Adj. PAT	335	264	414
Growth (%)	(14.8)	(21.2)	56.8
Adj. EPS	1.9	1.5	2.3
Growth (%)	(15.0)	(21.2)	56.8
P/E	7.28	9.24	5.90
P/B	0.47	0.45	0.42
Adj. P/B	0.64	0.73	0.68
ROE (%)	6.64	4.95	7.42

Abijith T Cherian  
Research Analyst

Valued at 0.55x FY20E BVPS of Rs31.7 with a target price of Rs17.4

Rating "Buy"

Revival in earnings growth expected by FY20E.

After a de-growth in FY19E, PAT to grow at ~57% in FY20E.

RoE to reach 7.4% by FY20E.

RoA to reach 0.42% by FY20E.

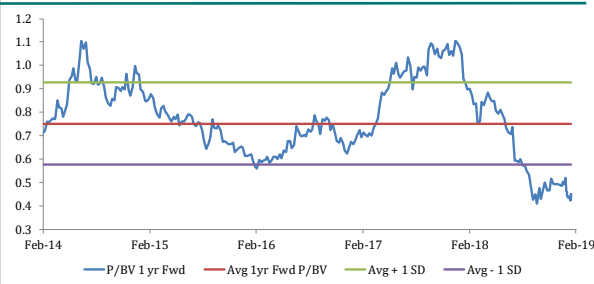
Currently trading at a discount over peers at 0.42x P/BV FY20E.

The discount in valuation to get narrowed in coming years.

## Valuations...

We have a positive outlook in loan growth at 16% CAGR over FY18-20E, which aid a PAT growth of over 11% during the same period. But we do expect the overhang of asset quality issues in near to medium term, and to get moderate by FY20E with the banks focus on retail and SME loans. The stock is currently trading at much lower valuation of 0.45x/0.42x respectively for FY19E/FY20E P/B. Hence we value South Indian Bank at 0.55x FY20E BVPS of Rs31.7 and recommend Buy rating with a target price of Rs17.4.

## P/BV one year forward



Source: Company, Geojit Research.

## Revival in earnings growth expected

In FY18, the PAT de-grew 15% YoY mainly on account of higher provisioning. Loan book grew 18%YoY while Net interest margin remained stable which supported the earnings momentum. Higher NPA provisions and muted loan growth had been impacting the earnings growth since FY13 till FY16. However, loan growth has picked up from FY17 onwards. Loan book grew at CAGR of 11% during 2014-18. GNPA almost tripled to more than 3.6% from 1.2% during the same period. NIMs had remained largely stable over the years helped by improving yields from changing loan mix.

NPAs have spiked up by Q3FY19 with all legacy risky assets recognized with GNPA at 4.88% and NNPA at 3.50%. The business momentum is picking up with focus on small ticket retail loans and moderate NPA provisioning, earnings are expected to significantly improve by FY20E.

On improving asset quality, provisioning hit would be minimal over the long term and profitability could see further improvement. Management is confident of economic revival and recognition of legacy books to influence the asset quality from FY20. We factor GNPA and NNPA at 4.2% and 2.9% by FY20E. ROE and ROA would see notable improvement over the next two years reaching 7.42% and 0.42% respectively by FY20E. We factor 11% CAGR in earnings over FY18-20E.

## Peer Comparison

	Market Cap (Rs cr)	Loan book (Rs Cr) FY18	Loan Book CAGR 4 years	Gross NPA (%) FY18	Net NPA (%) FY18	PAT growth			P/BV		
						FY18	FY19E	FY20E	FY18	FY19E	FY20E
Federal Bank	16,698	93,201	21%	3.11	1.78	6%	36%	34%	1.36	1.27	1.15
City Union Bank	13,657	28,230	15%	3.03	1.7	18%	16%	17%	3.27	2.79	2.41
Karur Vysya Bank	6,857	45,891	8%	6.56	4.16	-43%	13%	129%	0.91	1.05	0.95
Lakshmi Vilas Bank	1,547	26,937	20%	9.98	5.66	P-L*	L-L#	L-L#	0.66	1.02	1.18
Karnataka Bank	4,379	48,198	14%	4.7	3.0	-28%	53%	41%	0.61	0.6	0.55
DCB Bank	5,517	20,558	26%	1.79	0.72	23%	27%	32%	1.95	1.87	1.63
South Indian Bank	2,434	55,104	11%	3.6	2.6	-15%	-24%	59%	0.47	0.45	0.42

Source: Company, Bloomberg, Geojit Research.

South Indian Bank has been trading at a discount over its private peers in the last two years on the back of subdued business momentum and asset quality overhang. Earnings are expected to grow at a relatively healthy and stable momentum supported by loan growth, over the next few years. With a 11% CAGR growth in earnings, ROE will improve to 7.4%. With better earnings outlook and profitability, we expect South Indian Bank's discount over peers to narrow over the next two years.

Note: P-L\* Profit to Loss; L-L# Loss to Loss

No. of branches ~ 857

Branches in South India ~ 83%

No. of ATMs ~ 1407

Loan Book Size ~ Rs60,000 Crs

16% CAGR growth in loan book expected over FY18-20E.

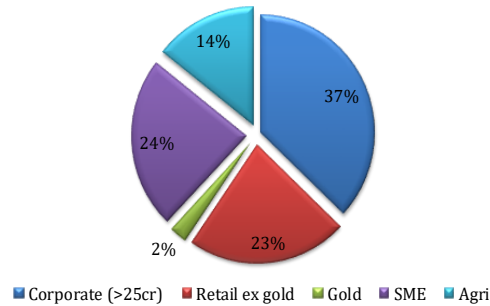
Robust growth in retail loan book

Corporate loan book mix brought down to 37% in FY18 from 42% in FY14 paving way for retail expansion.

### Investment Rationale...

The Bank had been successful in widening its network across India with 857 Branches, 53 Extension Counters, 1407 ATMs and 51 CRMs/CDMs. The Bank has opened 10 new outlets (4 Branches and 6 Extension Counters), 60 ATMs and 4 CRMs across the country during the financial year 2017-18. The branch network now covers 27 States and 3 Union Territories. The Bank plans to open a maximum of 10 new outlets (Branches and Extension Counters) and 50 ATMs/CRMs during the financial year 2018-19.

### Loan Book mix as of FY18



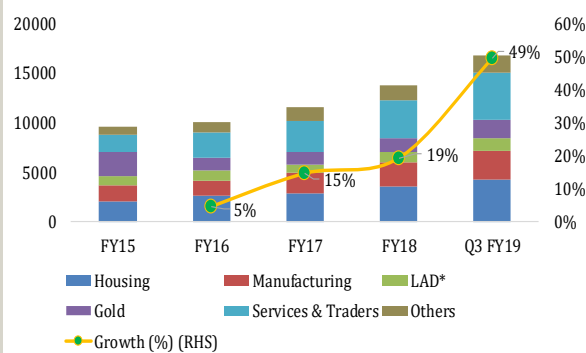
Source: Company, Geojit Research.

The business of SIB is growing at a good pace attaining a loan book size of Rs60,000cr as on Q3FY19. The loan growth outlook continues to be robust on the back of improving economic outlook and strong retail network. SME and retail books have grown at 18% and 19% respectively helping the overall loan book to grow 17% in FY18. We factor 16% CAGR in loan book over FY18E-20E.

### Retail, SME & Housing loans gains focus

The retail loan book of South Indian Bank is further granular in nature and the thrust has been on the SME loans. The Focus is largely on their established market in Kerala. The bank has set up a retail hub in Kochi to increase focus on housing finance and two more hubs are to be set up – one in South India and one in North India. Housing loan book has been outpacing other retail segments and has contributing 25.5% towards the total retail portfolio as in FY17 and maintained at the same level in FY18.

### Retail Loan book (Rs Crs)



Source: Company, Geojit Research.

### Retail expansion

South Indian Bank has strategically shifted away from large corporate loans and re-oriented the loan book towards SME and Retail during the last two years. Loan book has grown at a CAGR of 10.8% over FY14-18. Management has deliberately brought down the corporate loan book to de-risk the balance sheet. Share of corporate loans in the overall loan book reduced to 37% in FY18 from 42% in FY14.

SIB has a robust retail network with 857 branches as of Q3FY19. Kerala franchise providing a strong base with growth in advances led by expansion into other geographies, both in South India (ex-Kerala) and Rest of India. Expanding retail network is a key strength of SIB which also improves visibility on growth outlook. SIB has added ~300 new branches since FY11, doubling its retail network to around 900. Management targets of adding 35 new branches annually. Online presence and ATMs would also help in growing the network.

Note: LAD\* Loan Against Deposits

**Branch addition coupled with improving business per branch.**

**Retail hub in Kochi to cater Housing Finance Segment**

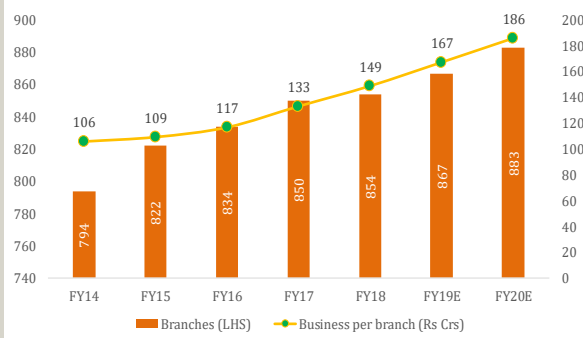
**SMEs ~ 20% CAGR growth in loans & advances over FY11-18.**

**Dedicated vertical to penetrate SME Banking.**

**Advances growth backed by changing loan book mix.**

**Increasing Mix of Retail, SME & Agri loans.**

### Branch addition



Source: Company, Geojit Research.

### Location advantage

South Indian Bank has 714 branches in South India with 465 branches based in Kerala, out of total 857 branch networks all over India. The renewed focus on retail is largely stimulated by the uninterrupted home loan market and stable consumer sentiments of Kerala. SIB has also set up a retail hub in Kochi to cater the housing finance segment.

### Becoming a Banker of Choice to SMEs

SIB targets to become banker of choice to SMEs thereby getting other business as well – including deposits, vehicle finance, etc. SME loan book has grown at a robust 20% CAGR during FY11-FY18. Further, SME loan amount has significantly increased from Rs.5,200cr in FY13 to Rs12,965cr by FY18.

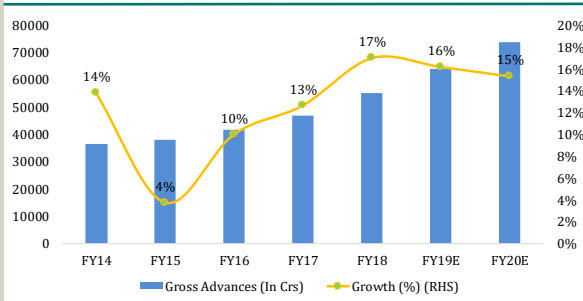
### Credit Risk Management

The Bank has a comprehensive credit risk management framework, which deals with identification, assessment, measurement and mitigation of credit risk. The framework includes Credit Risk Management Policy, Credit Risk Mitigation Policy, Model Risk & Rating Policy and Model Validation Framework. The Bank has devised two dimensional rating system and retail scoring system in line with RBI's guideline on Internal Rating Based (IRB) approach. Further, the Bank's Board has approved the methodology for estimation of risk components namely Probability of default (PD), Loss given Default (LGD) and Exposure at Default (EAD) for its Corporate and Retail exposures. Bank's credit risk management policy defines credit risk as the possibility of losses associated with the diminution in the credit worthiness of the borrower or the counter-party or the failure on the part of the borrower to meet its obligations in accordance with the agreed contractual terms.

### Loan book to grow at 16% CAGR

We factor 16% CAGR in loan book over FY18-20E with optimism over the changing loan mix. Retail, SME and agri will grow stronger, supporting the overall loan growth momentum. Corporate loan book will see further reduction in the overall loan book by FY20E. We factor 29% CAGR growth in retail loan book over FY18-20E, while we factor only 9% CAGR growth in Corporate loan book during the same period.

### Loans and Advances



Source: Company, Geojit Research.

### Loan Book Mix over the years

Segment/Year	FY15	FY16	FY17	FY18	FY19E	FY20E
Corporate (>25cr)	40.6%	38.5%	38.0%	37.1%	34.9%	32.9%
Retail ex gold	25.4%	20.9%	21.8%	22.6%	25.5%	28.0%
Gold	0.0%	3.3%	2.8%	2.5%	2.6%	2.7%
SME	23.2%	23.5%	23.3%	23.5%	23.7%	24.0%
Agri	10.7%	13.8%	14.1%	14.4%	13.3%	12.3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100.0%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company, Geojit Research.

**CASA to grow at 12.6% CAGR over FY18-20E.**

**Deposits to grow at 11% CAGR over FY18-20E.**

**IL&FS exposure at Rs400 Cr, slipped into NPA in Q3FY19**

**GNPA ~4.2% by FY20E**

**NNPA ~2.9% by FY20E**

### Retail momentum to reflect in deposits

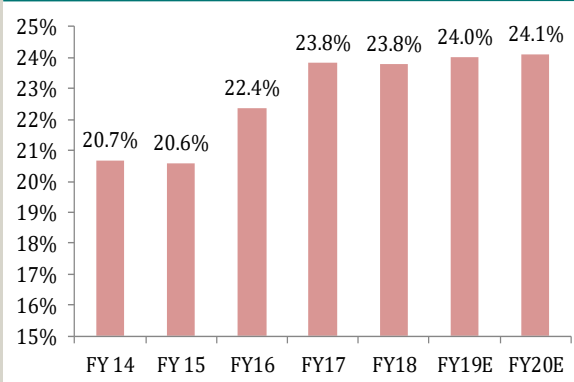
South Indian Bank's deposits book has grown at 11% CAGR during FY14-18. NRI deposits strengthen the deposit book by constituting 27% of the overall deposits in Q3FY19 and have grown at 12% in FY 2017-18. Despite the strong deposits' growth, CASA profile of the bank constitutes about 24% of the deposits book while term deposits constitute 76% of the overall deposits.

### CASA ratios to remain stable over medium term

The expanding retail franchise and better savings environment would marginally improve the CASA ratio going forward. We factor 14% and 12.2% CAGR growth in Current account and Savings account respectively over FY18-20E, resulting in a CASA growth of 12.6% during the same period. As of Q3FY19, the current account portion is of 18% and Savings account forms 82% of the CASA mix. Improving retail mix and granular loan book will be major triggers to watch out.

Deposits to advances ratio of 141% in FY18, leaves significant cushion to fund loan growth. Term deposits are expected to grow moderately while efforts would be to encourage CASA growth. Retail business momentum is likely to reflect in the deposits book. With the strong retail network, we factor 11% CAGR in deposits during FY18-20E.

### CASA Ratio



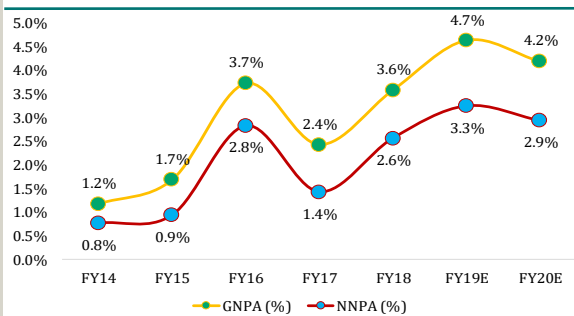
Source: Company, Geojit Research.

### Asset quality to improve by FY20E

As of Q3FY19 Gross NPA and Net NPA is at 4.88% and 3.54% respectively. Overall, the bank has around Rs400Cr exposure to IL&FS holding company and in ITNL (IL&FS Transportation Networks Limited), which has slipped into NPA during Q3FY19, and Rs60Cr provisions has been provided for the same. With zero exposure to aviation, telecommunication and EPC contracts, the management is confident that the bank is completely out of the corporate slippage problem and is not worried about any major slippages in corporate segments going forward. With legacy risk assets already recognized in NPA, the asset quality outlook has significantly improved.

Shift of focus from Large corporate to SMEs will help to bring down the stressed portfolio in near future. Currently the provision coverage ratio (PCR) of the bank stands at 41.17%. The loan book growth driven through lower ticket size retail and SME augurs well for asset quality outlook. Asset quality is expected to witness improvement by FY20E. We factor GNPA and NNPA at 4.2% and 2.9% respectively by FY20E.

### NPA Trend



Source: Company, Geojit Research.

**NIMs to be almost stable supported by declining interest yield and cost of funds.**

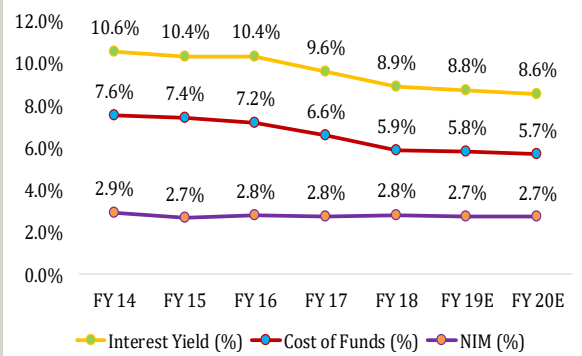
**Q3FY19 CAR at 11.8% against 11.5% RBI guidelines.**

**Further equity rising expected as per management guidelines.**

### Sustainable NIMs

Net Interest Margin's have remained stable at ~2.8% over the last three years on strong Net Interest Income growth over the last few years. We expect NIMs to remain stable over the next two years, supported by lower cost of funds. Changing loan mix skewed towards retail and SME (high yielding) segments would be a major factor that would support NIMs at current level. We factor almost stable margins at 2.7% over FY18-20E which would translate into 11% CAGR growth in Net Interest Income over the same period.

### Net Interest Margin



Source: Company, Geojit Research.

### Capital Adequacy Ratio

As per Basel III guidelines, the Bank is required to maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9% {11.5% including Capital Conservation Buffer (CCB)}, with minimum Common Equity Tier I (CET1) of 5.5% (8% including CCB) as on 31st March 2019. The Capital Adequacy Ratio of the Bank was 12.70% under Basel III norms as on March 31, 2018 as against the RBI mandated level of 10.8%. As of Q3FY19, the Capital Adequacy Ratio of the bank stands at 11.8% and as of March 2019, the CAR required as per RBI guidelines is 11.5%. According to the management guidelines, there can be equity rising in the coming year.

### Manpower strengths with young personnel

With the infusion of young personnel, Bank was able to maintain the average age of employees as 34 years as on FY18.

### Other income- A key focus of growth

- Focus on increasing banking services for SME, Retail, NRI deposits.
- Enhance treasury capabilities & increase branch strength.
- Expand POS & ATM network and leveraging technology.

### Digital initiatives to pay off

SIB has been among the early adopters of information technology to banking space. Over the years significant investments has been carried out in the IT infrastructure from the operational front to the customer support.

Information Technology and its huge potential to offer innovative solutions have paramount importance for growth and sustenance of Banks. The demand and expectations of the customers have increased and the turnaround time for rolling out a technology product in Banks has visibly diminished, which essentially calls for a robust, agile and adaptable system in place to execute projects right from initiation to execution. The Bank has been successfully functional with Finacle Core Banking Solution (CBS) from Infosys for several years and is the third Bank in the country to have migrated to the latest Finacle 10 version from the old Finacle 7 version. Being one among the first banks to do so, ensures that the Bank would have a very robust and renewed platform, which can be leveraged for better customer service. In its constant endeavour to ensure customer comfort, the Bank has introduced various technological initiatives which has started to bring operational synergies.

- 1,395 ATM network across the country.
- Point of Sale (POS) terminals to merchant customers.
- All variants of Debit Cards to ensure cashless purchases.
- Mobile Banking and M-commerce, Missed call services for retrieving balance through SMS etc. for customers.
- Investment in equity through primary and secondary market and tie-up with leading broking firms for online trade, to help customers to diversify their investment portfolio.

- Foreign inward Instantaneous remittance with own payment Hub system.
- Portfolio Investment Scheme for NRI Community, allowing them to invest in Indian equity market.
- Central Plan Scheme Monitoring System (CPSMS), which links to the DBT (Direct Beneficiary Transfer) for instant receipt of Govt. subsidies to the beneficiaries of various Govt. schemes.
- Kiosk based Financial Inclusion Solution to enable the Bank to extend reach, even in remote villages using technology enabled tools.
- Cash Deposit Machines, for customers to deposit money in their accounts quickly.
- Advanced version of Internet Banking Application with augmented security controls and enhanced customer friendly features, which offers 24/7/365 banking.
- Fraud Risk Management Solution (FRM) for ATM / POS / CNP channel to ensure customers are alerted when unauthorized transactions happen in their accounts.
- Business Process Management solution leading to a paperless environment.
- Payment Options such as Automated Clearing House (ACH) Payment Service, Cheque Truncation System, RTGS/NEFT etc.
- Account Opening for NRI/MSME directly through Bank's website.

### Financials...

The Net Operating Income (Net Interest Income and other income) of the Bank increased by Rs411cr (17%) from Rs2391cr to Rs2802cr from FY17 to FY18. The growth in Non-Interest Income was Rs121cr (17%) during the year. The Operating Profit for the year under review was Rs1480 cr before taxes and provisions as against Rs1215cr for the year 2016-17. The Net profit for the year was Rs334 cr as compared to a net profit of Rs393cr during the previous year.

During the year, the gross advances of the Bank registered a growth of 17%, to touch Rs55,109cr. In spite of subdued general economic activity, the Bank could do well in the retail segment including MSME. The Bank is now focusing on growing the retail lending segment with a view to transforming the Bank into a Retail Power House by 2020. Accordingly, the thrust is given to retail loan products, such as housing loan, vehicle loan, gold loan and MSME loans. The Bank has taken various steps to achieve the projected growth without compromising on quality of advances including centralisation of credit processing and tighter credit underwriting and monitoring standards.

During the year, the Bank has exceeded the regulatory prescription on the Priority sector and Agriculture sector. Hence it was resolved to trade the excess portfolio through Priority Sector Lending certificates (PSLC). As a result of trading in PSLC for an amount of Rs4,000cr in general Priority Sector and Rs1,300cr in Agriculture, an Income of (net) Rs52cr was generated. The total Priority Sector advances (net PSLC) as at the end of the financial year stood at Rs21,757cr constituting 46.89% of the Adjusted Net Bank Credit (ANBC) as against mandated 40%. Exposure to agriculture sector (net PSLC) amounted to Rs9030cr forming 19.46% of ANBC as at the end of the financial year as against mandated 18%.

SIB has been sustaining healthy earnings momentum supported by the strong traction in loan book growth. PAT has grown at a CAGR of 16% over FY11-16 with 18% CAGR in loan book. NIMs are stable over the years helped by strong yields from changing loan mix. We see potential for further improvement in ROE supported by strong earnings growth. Asset quality concerns are likely to recede over the next two years and provisioning burden is expected to moderate from FY18E. We factor this takes away major headwind and earnings would witness a strong revival with a CAGR of 11% over FY18-20E.

The total gross business of the Bank grew 12% YoY in FY18. Gross advances grew 17% YoY to Rs551 bn, while the deposits grew by 9%YoY to Rs720 bn. Operating profit grew 22% YoY and PAT de-grew by 15%YoY on account of higher provisioning during the year.

### Banking Industry - stepping to next growth phase

Conditions for investment have generally improved, amid low financial volatility, reduced banking sector fragilities, recovery in commodity sectors and a more solid global macroeconomic and political outlook. Financing costs generally remain low, and spreads have narrowed in many emerging markets, reflecting an uptick in risk appetite and consequent decline in risk premium. This has supported rising capital flows to emerging markets, including a rise in cross-border lending, and stronger credit expansion in both developed and developing economies. In 2018-19, Emerging and developing Asia is expected to grow broadly in the same pace as in 2017.

India's macroeconomic fundamentals continued to improve from last year on the back of significant policy initiatives by the Government, supported by a stable monetary policy. The recent 25bps reduction in the repo rate will also act as a boost to banks and financial companies. After lagging for five consecutive quarters, economic growth in India is turning around. India has emerged as the fastest growing major economy in the world. India's GDP is estimated to have increased to 6.7% in 2017-18 and is expected to grow by 7.2% in 2018-19, as per (Central Statistics Office) CSO estimates. Looking forward, the economic growth is expected to gather momentum.

Focusing on the banking sector, the coming year will test the effectiveness of the much awaited Insolvency and Bankruptcy Code (IBC). Successful resolution of cases admitted in National Company Law Tribunal (NCLT) is crucial to the banking sector, considering the large amount of stressed assets. Considering the sticky Non Performing Assets (NPA) menace, the Reserve Bank of India (RBI) laid out conservative asset classification norms. Though the RBI norms will cause short-term pain to the banking industry in terms of sector profitability and capital adequacy, the same would force banks to clean up their balance sheets. In addition to the NPA trouble, the recently discovered large value frauds in banks dented the image of Indian banks as flag bearers of financial prudence, conservatism and judicious lending. During the year under review, the Reserve Bank of India has initiated various measures to ensure that the system, operational processes, cyber security and risk management for the banking sector are sound, safe and healthy.

### Positive economic prospects

The growth of the banking industry is closely linked with the overall economic growth. India is one of the emerging world economies and will continue to be so for the few years to come. This will be coupled with the growth in infrastructure, industry, services and agriculture sector. Together, these are expected to boost the economy's corporate credit growth, providing better lending opportunities to banks.

**Rising income:** The rising income is expected to drive retail credit growth. India demonstrate a conservative outlook towards credit. But with higher disposable income and better exposure to products, consumers are gradually showing a positive willingness towards taking credit. This particularly holds true for young customers.

**Remonetisation:** With the accelerated pace of remonetisation and discretionary consumer spending held back by demonetisation is expected to have picked up from Q416-17 and will gather momentum over several quarters ahead. The recovery is also likely to be aided by the reduction in banks' lending rates due to large inflows of current and savings accounts (CASA) deposits. Although the fuller transmission impact might be impeded by stressed balance sheets of banks and the tepid demand for bank credit

### About the company...

South Indian Bank is one of the oldest bank in India which came into the existence during the swadeshi movement and was the first among the private sector banks in Kerala to become a scheduled bank in 1946 under the RBI Act. With a branch network of 857, 53 extensive counters and 1,407 ATMs, SIB has enhanced its presence across India. SIB is the third largest branch network among Private Sector banks, in India, with all its branches under Core banking System.

Opened a Currency Chest on behalf of the RBI in April 1992 and a NRI branch in November 1992. SIB is the first bank in the private sector to start an Industrial Finance Branch in March 1993. The first bank in Kerala to develop in-house, fully integrated branch automation software in addition to the in-house partial automation solution operational since 1992. The FIRST Kerala based bank to implement Core Banking System.

### Key Risks...

- Any unforeseen economic and industrial slowdown may impact the asset quality assumptions.
- Due to large exposure to SME, any further slowdown in economic activities may impact deposit and loan growth.



### Quarterly Financials (Standalone)

(Rscr)	Q3FY19	Q3FY18	YoY Growth (%)	9MFY19	9MFY18	YoY Growth (%)
Interest Income	1,735.16	1,576.96	10.03	5,085.58	4,603.83	10.46
Interest Expense	1,215.54	1,067.57	13.86	3,565.24	3,130.51	13.89
Net Interest Income (NII)	519.62	509.39	2.01	1,520.34	1,473.32	3.19
Fee and Other Income	186.77	158.81	17.61	490.56	658.58	-25.51
Total Income	706.39	668.20	5.72	2,010.90	2,131.90	-5.68
Expenditure	374.38	338.05	10.75	1,099.47	961.99	14.29
Provision	203.12	154.28	31.66	639.33	832.27	-23.18
PBT	128.89	175.87	-26.71	272.10	337.64	-19.41
Tax	45.04	60.87	-26.01	95.08	116.85	-18.63
Reported PAT	83.85	115.00	-27.09	177.02	220.79	-19.82
Adjustment	-	-	-	-	-	-
Adj. PAT	83.85	115.00	-27.09	177.02	220.79	-19.82
Diluted EPS (Rs)	0.46	0.64	-28.13	1.22	1.85	-34.05

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Interest Income	5,557	5,847	6,193	6,845	7,619
Interest Expense	4,047	4,172	4,227	4,699	5,196
<b>Net Int. Income</b>	<b>1,510</b>	<b>1,675</b>	<b>1,966</b>	<b>2,146</b>	<b>2,423</b>
<i>Change</i>	<i>10.5%</i>	<i>11.0%</i>	<i>17.3%</i>	<i>9.2%</i>	<i>12.9%</i>
Non Int. Income	517	716	837	685	808
Operating Income	2,027	2,391	2,803	2,831	3,230
<i>Change</i>	<i>8.8%</i>	<i>18.0%</i>	<i>17.2%</i>	<i>1.0%</i>	<i>14.1%</i>
Operating Exp.	1,148	1,176	1,322	1,451	1,619
Pre Prov. Profit	879	1,215	1,481	1,380	1,611
Prov. & Conting.	370	614	981	977	979
<b>PBT</b>	<b>510</b>	<b>601</b>	<b>500</b>	<b>403</b>	<b>631</b>
<i>Change</i>	<i>8.9%</i>	<i>17.8%</i>	<i>-16.8%</i>	<i>-19.4%</i>	<i>56.8%</i>
Tax	176	208	165	139	218
Tax Rate (%)	35%	35%	35%	35%	35%
Reported PAT	333	393	335	264	414
Adj*	0	0	0	0	0
<b>Adj. PAT</b>	<b>333</b>	<b>393</b>	<b>335</b>	<b>264</b>	<b>414</b>
<i>Change</i>	<i>8.5%</i>	<i>17.9%</i>	<i>-14.8%</i>	<i>-21.2%</i>	<i>56.8%</i>
No. of shares (mn)	135	180	181	181	181
EPS (Rs)	2.5	2.2	1.9	1.5	2.3
<i>Change</i>	<i>8.5%</i>	<i>-11.7%</i>	<i>-15.0%</i>	<i>-21.2%</i>	<i>56.8%</i>
DPS (Rs)	0.5	0.4	0.5	0.5	0.5

### BALANCE SHEET

Y.E March (Rs Cr)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash	2,472	3,078	3,256	1,642	2,669
Loans & Advances	41,086	46,389	54,563	63,413	73,157
Investments	14,744	19,430	18,363	19,832	21,022
Gross Fixed Assets	765	968	1,051	1,121	1,191
Net Fixed Assets	467	618	642	634	627
CWIP	20	38	39	38	38
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	92	92	92
Other Assets	4,682	4,759	5,729	6,214	7,169
<b>Total Assets</b>	<b>63,471</b>	<b>74,313</b>	<b>82,684</b>	<b>91,865</b>	<b>1,04,774</b>
Deposits	55,721	66,117	72,030	80,899	90,139
Debt Funds	2,615	1,958	4,043	4,045	7,211
Other Liabilities	1,294	1,388	1,370	1,506	1,685
Provisions	0	0	0	0	0
Equity Capital	135	180	181	181	181
Reserves & Surplus	3,707	4,669	5,060	5,234	5,557
Shareholder's Funds	3,846	4,852	5,243	5,416	5,740
<b>Total Liabilities</b>	<b>63,471</b>	<b>74,313</b>	<b>82,684</b>	<b>91,865</b>	<b>1,04,774</b>
<b>BVPS (Rs)</b>	<b>28.5</b>	<b>26.9</b>	<b>29.0</b>	<b>29.9</b>	<b>31.7</b>
<i>Change</i>	<i>7.0%</i>	<i>-5.5%</i>	<i>7.7%</i>	<i>3.3%</i>	<i>6.0%</i>
Adj. BVPS (Rs)	26.1	23.2	21.1	18.4	19.7
<i>Change</i>	<i>4.8%</i>	<i>-11.1%</i>	<i>-8.7%</i>	<i>-13.0%</i>	<i>7.1%</i>

### RATIOS

Y.E March	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Profitab. &amp; Return</b>					
Interest yield (%)	10.36	9.61	8.93	8.77	8.59
Cost of funds (%)	7.20	6.60	5.87	5.84	5.70
Spread.(%)	3.16	3.01	3.06	2.93	2.89
NIM (%)	2.81	2.75	2.83	2.75	2.73
ROE (%)	8.97	9.04	6.64	4.95	7.42
ROA(%)	0.60	0.58	0.43	0.30	0.42
<b>Business Growth</b>					
Loans & Advances (%)	9.88	12.91	17.62	16.22	15.37
Deposits (%)	7.34	18.66	8.94	12.31	11.42
<b>Operating Ratios</b>					
Cost to Income (%)	56.62	49.20	47.17	51.25	50.13
CASA (%)	22.36	23.82	23.80	24.02	24.09
<b>Asset Quality</b>					
GNPA (%)	3.74	2.44	3.59	4.65	4.21
NNPA (%)	2.84	1.43	2.57	3.26	2.94
<b>Capital Adequacy</b>					
CAR (%)	11.82	12.37	12.70	12.11	12.30
<b>Valuation</b>					
P/E (x)	5.46	6.19	7.28	9.24	5.90
P/B (x)	0.47	0.50	0.47	0.45	0.42
Adj. P/B (x)	0.52	0.58	0.64	0.73	0.68

## PRICE HISTORY



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
11 <sup>th</sup> Feb 19	BUY	17.4

## Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

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