

South Indian Bank

Performance Highlights

Particulars (₹ cr)	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)
NII	340	347	(1.9)	341	(0.2)
Pre-prov. profit	181	165	9.6	221	(18.1)
PAT	65	16	300.1	127	(48.4)

Source: Company, Angel Research

South Indian Bank has reported a weak set of numbers for 1QFY2016. Its PAT for the quarter declined by 48.4% yoy, primarily on account of lower net interest income (NII) and lower other income.

Advances growth improves, however NIM falls qoq

During 1QFY2016, the bank's advances and deposits grew at a moderate pace of 11.6% and 12.6% yoy, respectively. Within advances, the SME+Agri loan book grew at a healthy pace, ie at 24.9% yoy, while the corporate book grew by 16.9% yoy. Retail advances continued to dip; they declined by 8% yoy as Gold loans fell by 27% yoy. The Management expects gold loans to pick up pace and has guided for a 20% yoy growth for FY2016. CASA deposits grew by 14% yoy with the CASA ratio improving to 22.3%. The Reported NIM for the bank fell by 16bp qoq to 2.5% and going forward, the Management expects it to increase to 2.85% in FY2016 with improving CASA ratio and repricing of deposits at lower rates. Growth in Other income (excl. Treasury income) was healthy at 19.1% yoy; however treasury income de-grew during the quarter, leading to a 14.3% yoy decline in non-interest income. Employee expenses went up by 7.9% yoy. The bank will be adding only 175 employees in FY2016 and targets cost to income to be around 55% in FY2016.

On the asset quality front, the Gross NPA ratio increased by 14bp qoq to 1.85%, while the Net NPA ratio came in at 1.21% as compared to 0.96% in 4QFY2015. Slippages during the quarter were higher at ₹175cr; the major contributors were a food processing account (to the tune of ₹60cr) and a textile account (₹28cr). The PCR (including technical write-offs) for the bank fell by 450bp qoq to 56.13%. The bank has restructured 1 steel account worth ₹100cr with outstanding standard restructured book at ₹2,170cr. Going forward, the Management expects the Gross NPA ratio to be around 1.7% in FY2016.

Outlook and valuation: Asset quality issues continue to be a concern for the bank. Going forward, due to weak outlook on asset quality and subdued margin for the bank, **we recommend a Neutral rating on the stock.** At CMP, the stock trades at 0.8x FY2017E ABV

Key financials (standalone)

Particulars (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
NII	1,399	1,366	1,444	1,664
% chg	9.2	(2.3)	5.7	15.2
Net profit	508	307	358	492
% chg	1.0	(39.5)	16.5	37.3
NIM (%)	2.7	2.5	2.4	2.4
EPS (₹)	3.8	2.2	2.6	3.6
P/E (x)	6.4	10.9	9.3	6.8
P/ABV (x)	1.1	1.0	1.0	0.9
RoA (%)	1.0	0.5	0.6	0.7
RoE (%)	16.6	9.2	9.9	12.5

Source: Company, Angel Research; Note: CMP as of July 17, 2015

NEUTRAL

CMP	₹24
Target Price	-

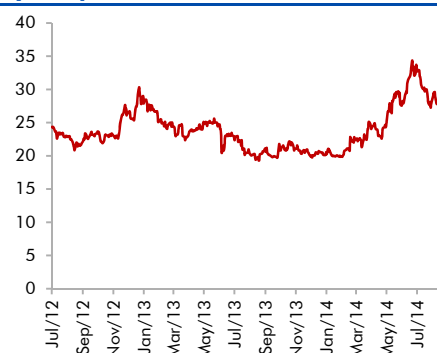
Investment Period	-
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Stock Info	
Sector	Banking
Market Cap (₹ cr)	3,247
Beta	1.0
52 Week High / Low	33.3/22.5
Avg. Daily Volume	5,87,424
Face Value (₹)	1
BSE Sensex	28,463
Nifty	8,610
Reuters Code	SIBK.NS
Bloomberg Code	SIB:IN

Shareholding Pattern (%)	
Promoters	NA
MF / Banks / Indian Fls	12.9
FII / NRIs / OCBs	28.2
Indian Public / Others	59.0

Abs. (%)	3m	1yr	3yr
Sensex	0.1	11.4	66.4
SIB	(4.4)	(26.6)	(1.2)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2016 performance (standalone)

Particulars	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)	FY2015	FY2014	% chg
Interest earned	1,377	1,322	4.1	1,345	2.4	5,286	5,015	5.4
- on Advances / Bills	1,083	1,043	3.8	1,045	3.6	4,153	3,950	5.1
- on investments	280	268	4.5	265	5.8	1,054	954	10.4
- on balance with RBI & others	14	11	23.9	34	(60.1)	80	111	(28.3)
Interest Expended	1,036	975	6.3	1,004	3.2	3,920	3,616	8.4
Net Interest Income	340	347	(1.9)	341	(0.2)	1,366	1,399	(2.3)
Other income	104	122	(14.9)	121	(14.3)	497	368	34.9
Other income excl. treasury	90	94	(4.8)	75	19.1	465	299	55.8
- Treasury Income	14	28	(49.1)	46	(69.2)	32	70	(54.7)
Operating income	444	469	(5.3)	462	(3.9)	1,863	1,767	5.4
Operating expenses	263	304	(13.4)	241	9.2	1,047	883	18.6
- Employee expenses	157	198	(20.4)	146	7.9	634	529	19.8
- Other Opex	106	106	(0.3)	95	11.2	413	354	16.8
Pre-provision Profit	181	165	9.6	221	(18.1)	816	884	(7.7)
Provisions & Contingencies	80	138	(42.3)	51	55.2	371	155	138.5
- Provisions for NPAs	41	60	(30.9)	82	(50.0)	219	110	98.8
- Provisions for Investments	20	7	195.5	5	305.0	14	(29)	(148.1)
- Provisions for Standard Assets	9	11	(11.4)	(1)	(1,024.5)	36	45	(19.4)
- Other Provisions	9	61	(85.9)	(35)	(124.2)	102	29	250.4
PBT	101	27	272.2	170	(40.3)	446	729	(38.9)
Provision for Tax	36	11	230.5	43	(16.2)	138	221	(37.5)
PAT	65	16	300.1	127	(48.4)	307	508	(39.5)
Effective Tax Rate (%)	35.6	40.1	(449)bp	25.4	1023bp	31.1	30.4	68bp

Source: Company, Angel Research

Exhibit 2: 1QFY2016 performance analysis (standalone)

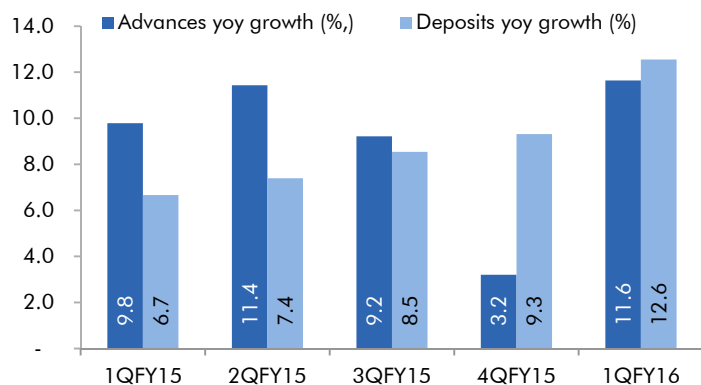
Particulars	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)
Balance sheet					
Advances (₹ cr)	38,243	37,392	2.3	34,255	11.6
Deposits (₹ cr)	52,324	51,912	0.8	46,489	12.6
Credit-to-Deposit Ratio (%)	73.1	72.0	106bp	73.7	(60)bp
Current deposits (₹ cr)	2,034	1,818	11.9	1,879	8.2
Saving deposits (₹ cr)	9,622	8,868	8.5	8,382	14.8
CASA deposits (₹ cr)	11,656	10,686	9.1	10,261	13.6
CASA ratio (%)	22.3	20.6	169bp	22.1	20bp
CAR (%)	11.4	12.0	(61)bp	12.2	(79)bp
Tier 1 CAR (%)	10.0	10.4	(40)bp	10.7	(73)bp
Profitability Ratios (%)					
Cost of deposits	7.85	7.99	(14)bp	8.0	(19)bp
Yield on advances	11.49	11.74	(25)bp	12.1	(56)bp
Reported NIM	2.54	2.70	(16)bp	2.7	(18)bp
Cost-to-income ratio	59.3	64.8	(555)bp	52.2	709bp
Asset quality					
Gross NPAs (₹ cr)	714	643	10.9	517	38.0
Gross NPAs (%)	1.85	1.71	14bp	1.5	35bp
Net NPAs (₹ cr)	464	357	29.9	311	49.4
Net NPAs (%)	1.2	1.0	25bp	0.9	30bp
Provision Coverage Ratio (%)	56.1	60.6	(450)bp	62.5	(637)bp
Slippage ratio (%)	1.9	1.8	12bp	1.1	80bp
Loan loss prov. to avg assets (%)	0.3	0.4	(14)bp	0.6	(34)bp

Source: Company, Angel Research

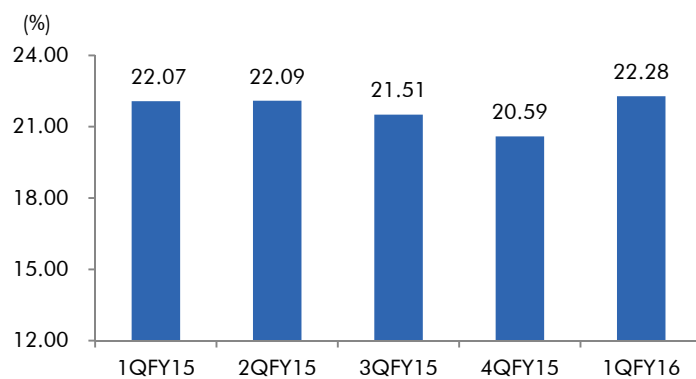
Advances growth improves; however NIM falls to 2.5%

During 1QFY2016, the bank registered a moderate growth in business, as advances and deposits grew at 11.6% and 12.6% yoy, respectively. Growth in advances was driven by Agriculture + SME segment (24.9% yoy) and Corporate book which grew by 16.9% yoy. Growth in the Corporate segment has been in the mid-Corporate category of ₹25-75cr loan size, rather than in large-Corporate. Retail advances continued to dip; they declined by 8% yoy as Gold loans fell by 27% yoy. The Management expects gold loans to pick up pace and has guided for 20% yoy growth for FY2016 with introduction of a 3-month product.

Going forward, the Management has guided that the loan book growth in FY2016 would be better with traction from Home Loan, Auto loan, MSME and Agri sectors while the Gold loan book is expected to grow from the current levels. CASA deposits grew by 14% yoy during the quarter with savings deposits growing at a healthy pace of 14.8%, resulting in CASA ratio improving to 22.3%.

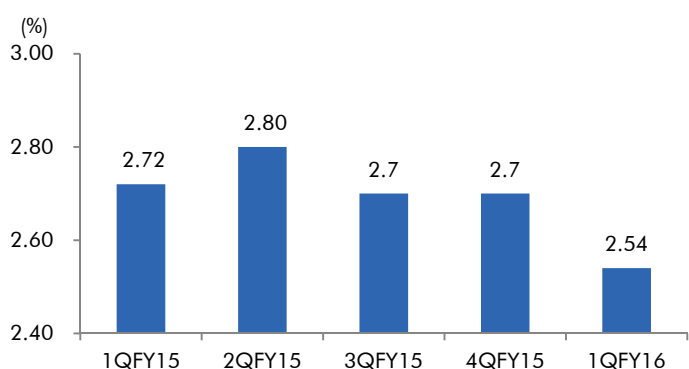
Exhibit 3: Steady business growth


Source: Company, Angel Research

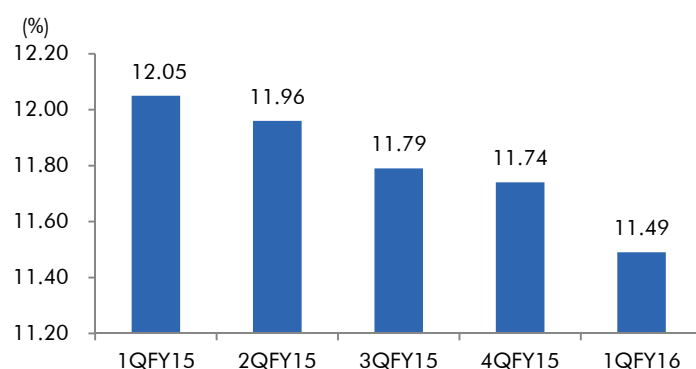
Exhibit 4: CASA ratio improves qoq


Source: Company, Angel Research; Note: Excluding FCNR, RFC

The Reported NIM for the bank dipped by 16bp qoq to 2.5% for 1QFY2016. The Cost of deposits for the bank came in at 7.85% for 1QFY2016, as against 7.99% in 4QFY2015, while the yield on advances fell to 11.49% for 1QFY2016, as against 11.74% in 4QFY2015. Interest reversal of ₹25cr impacted the NIM by 5bp during the quarter. The Management expects the NIM to increase to 2.85% in FY2016 with improving CASA ratio and repricing of deposits at lower rates.

Exhibit 5: NIM* falls qoq


Source: Company, Angel Research; Note: *cumulative

Exhibit 6: Yield on advances dips sequentially


Source: Company, Angel Research

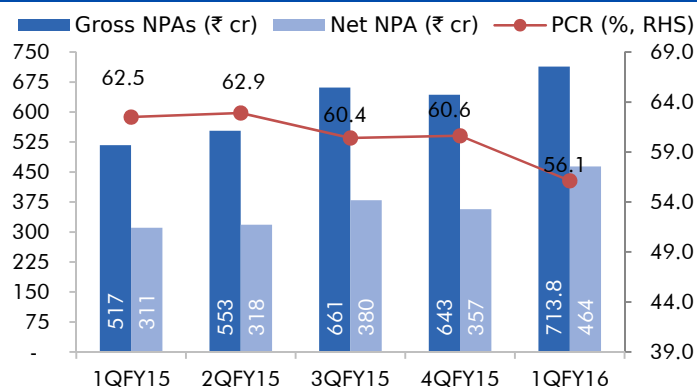
Healthy growth in non-interest income (excl treasury)

Growth in Other income (excl. Treasury income) was healthy at 19.1% yoy; however, treasury income de-grew during the quarter, leading to a 14.3% yoy de-growth in non-interest income.

Asset Quality deteriorates qoq

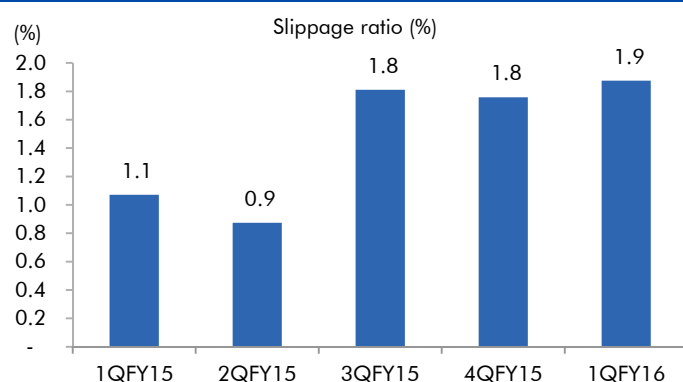
On the asset quality front, the Gross NPA ratio increased by 14bp qoq to 1.85%, while the Net NPA ratio came in at 1.21%, as compared to 0.96% in 4QFY2015. Slippages during the quarter were higher at ₹175cr, mainly contributed by a food processing account to the tune of ₹60cr, which will be upgraded in the next quarter according to the Management. The PCR (incl. technical write-offs) for the bank fell by 450bp qoq to 56.13%. The bank has restructured 1 steel account worth ₹100cr with outstanding standard restructured book at ₹2,170cr. Going forward, the Management expects the Gross NPA ratio to be around 1.7% in FY2016.

Exhibit 7: Asset quality worsens



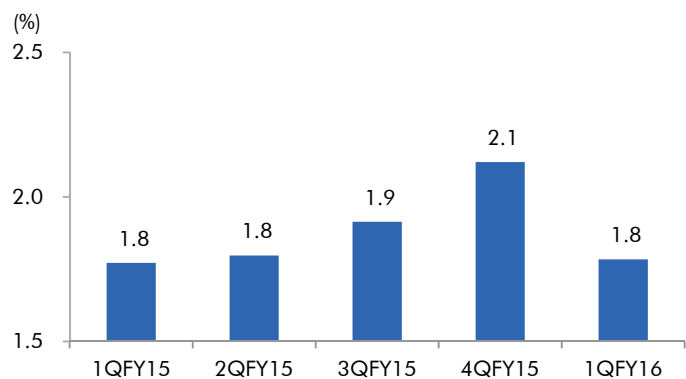
Source: Company, Angel Research

Exhibit 8: Slippage ratio increases qoq



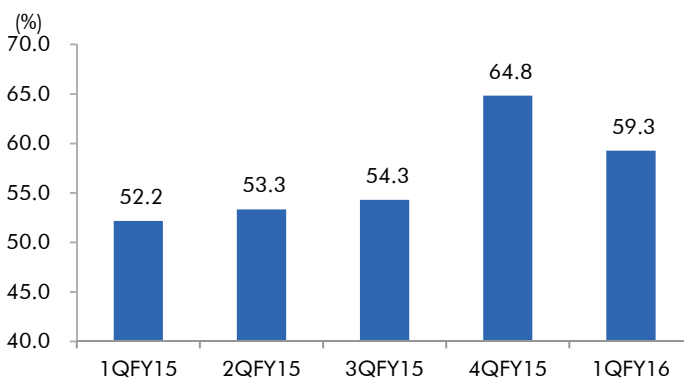
Source: Company, Angel Research

Exhibit 9: Opex. to average assets trend



Source: Company, Angel Research

Exhibit 10: Higher Cost to income ratio yoy



Source: Company, Angel Research

Outlook and valuation

Asset quality issues continue to be a concern for the bank. Going forward, due to weak outlook on asset quality and subdued margin for the bank, **we recommend a Neutral rating on the stock.** At CMP, the stock trades at 0.8x FY2017E ABV

Exhibit 11: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2017E P/ABV (x)	FY2017E Tgt. P/ABV (x)	FY2017E P/E (x)	FY15-17E EPS CAGR (%)	FY2017E RoA (%)	FY2017E RoE (%)
HDFCBk	Accumulate	1,116	1,255	12.5	3.3	3.8	17.8	24.1	2.0	20.2
ICICIBk*	Buy	316	392	24.2	2.1	2.4	11.7	19.0	1.7	16.2
YesBk	Buy	819	1,006	22.8	2.1	2.6	11.3	23.0	1.6	20.3
AxisBk	Buy	600	716	19.3	2.4	2.9	12.8	22.8	1.9	20.1
SBI*	Accumulate	267	297	11.1	1.3	1.2	9.9	23.8	0.8	13.9
FedBk	Neutral	71	-	-	0.7	1.3	5.3	6.7	1.1	12.9
SIB	Neutral	24	-	-	0.8	0.9	6.7	26.5	0.7	12.5
BOB	Neutral	153	-	-	0.7	0.8	6.2	27.3	0.7	12.2
PNB	Neutral	141	-	-	0.6	0.7	5.2	28.8	0.7	12.0
BOI	Neutral	174	-	-	0.4	0.4	3.7	35.8	0.4	10.3
IndBk	Neutral	137	-	-	0.4	0.4	4.3	23.9	0.7	9.3
Vijaya Bank	Neutral	41	-	-	0.5	0.6	5.8	17.7	0.4	9.3
OBC	Neutral	173	-	-	0.4	0.4	3.7	69.1	0.5	9.8
Allahabad Bank	Neutral	89	-	-	0.4	0.4	3.3	57.6	0.6	11.5
UnionBk	Neutral	169	-	-	0.5	0.5	4.2	19.3	0.6	11.6
CanBk	Neutral	289	-	-	0.5	0.5	4.1	11.7	0.5	11.0
IDBI#	Neutral	65	-	-	0.4	0.4	4.2	69.1	0.6	10.1
DenaBk	Neutral	45	-	-	0.4	0.4	4.2	50.0	0.4	8.4

Source: Company, Angel Research; Note: *Target multiples=SOTP Target Price/ABV (including subsidiaries), #Without adjusting for SASF

Company Background

South Indian Bank is a small old generation private sector bank with ~83% of its branches in southern India (large base in Kerala and Tamil Nadu). Like Federal Bank, SIB also has a large NRI customer base (approx. 23% of total deposits). The bank was aggressively focusing on the gold loan portfolio that accounts for ~12% of the bank's loan book as of 1QFY2016. However the focus has now shifted to housing, auto and SME loans.

Income statement (standalone)

Y/E March (₹ cr)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Net Interest Income	791	1,022	1,281	1,399	1,366	1,444	1,664
- YoY Growth (%)	39.2	29.2	25.4	9.2	-2.3	5.7	15.2
Other Income	197	247	335	368	497	486	551
- YoY Growth (%)	(5.6)	25.6	35.5	10.0	34.9	(2.2)	13.2
Operating Income	988	1,269	1,616	1,767	1,863	1,930	2,215
- YoY Growth (%)	27.2	28.4	27.3	9.4	5.4	3.6	14.7
Operating Expenses	463	617	767	883	1,047	1,126	1,238
- YoY Growth (%)	26.3	33.5	24.3	15.1	18.6	7.5	10.0
Pre - Provision Profit	525	652	849	884	816	805	976
- YoY Growth (%)	27.9	24.0	30.2	4.2	-7.7	(1.4)	21.3
Prov. and Cont.	80	79	193	155	371	258	225
- YoY Growth (%)	84.4	(0.7)	143.3	(19.4)	138.5	(30.5)	(12.7)
Profit Before Tax	446	572	656	729	446	547	752
- YoY Growth (%)	21.3	28.5	14.6	11.1	-38.9	22.8	37.3
Prov. for Taxation	153	171	154	221	138	189	260
- as a % of PBT	34.3	29.8	23.4	30.4	31.1	34.6	34.6
PAT	293	402	502	508	307	358	492
- YoY Growth (%)	25.1	37.3	25.1	1.0	(39.5)	16.5	37.3

Balance sheet (standalone)

Y/E March (₹ cr)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Share Capital	113	113	134	134	137	137	137
Reserve & Surplus	1,734	2,057	2,873	3,234	3,454	3,732	4,112
Deposits	29,721	36,501	44,262	47,491	51,913	58,661	67,460
- Growth (%)	29.2	22.8	21.3	7.3	9.3	13.0	15.0
Borrowings	25	323	1,020	2,531	2,038	2,298	2,633
Tier 2 Capital	265	265	265	200	195	190	185
Other Liab. & Prov.	962	1,111	1,242	1,394	1,380	1,642	1,871
Total Liabilities	32,820	40,370	49,795	54,984	59,116	66,660	76,399
Cash balances	1,828	1,572	1,697	2,201	2,442	2,933	3,373
Bank balances	638	1,069	2,639	1,017	1,154	1,301	1,491
Investments	8,924	9,400	12,524	14,352	16,717	18,581	21,119
Advances	20,489	27,281	31,816	36,230	37,392	42,253	48,590
- Growth (%)	29.5	33.1	16.6	13.9	3.2	13.0	15.0
Fixed Assets	357	378	396	412	479	540	619
Other Assets	585	671	724	772	933	1,053	1,206
Total Assets	32,820	40,370	49,795	54,984	59,116	66,660	76,399
- Growth (%)	28.5	23.0	23.3	10.4	7.5	12.8	14.6

Ratio Analysis (standalone)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Profitability ratios (%)							
NIMs	2.8	2.9	2.9	2.7	2.5	2.4	2.4
Cost to Income ratio	46.8	48.7	47.5	50.0	56.2	58.3	55.9
RoA	1.0	1.1	1.1	1.0	0.5	0.6	0.7
RoE	18.5	21.6	20.5	16.6	9.2	9.9	12.5
B/S ratios (%)							
CASA ratio	21.5	19.7	18.6	20.7	20.8	20.6	20.5
Credit/Deposit ratio	68.9	74.7	71.9	76.3	72.0	72.0	72.0
Net worth/ Assets	18.4	19.7	18.4	17.2	17.0	17.5	18.2
CAR	14.0	14.0	11.5	12.4	12.2	11.6	11.1
- Tier I	11.3	11.5	9.9	10.8	10.7	10.2	9.8
Asset Quality (%)							
Gross NPAs	1.1	1.0	1.4	1.2	1.7	2.0	1.9
Net NPAs	0.3	0.3	0.8	0.8	1.0	1.0	0.9
Slippages	0.7	0.8	1.9	2.0	2.1	2.0	1.8
NPA prov / avg. assets	0.1	0.1	0.3	0.3	0.3	0.3	0.2
Provision Coverage	73.9	71.4	56.7	56.5	56.6	56.9	60.8
Per Share Data (₹)							
EPS	2.6	3.5	3.8	3.8	2.2	2.6	3.6
ABVPS (75% cover)	15.0	17.8	20.4	22.8	23.7	25.5	28.5
DPS	0.5	0.6	0.7	0.8	0.5	0.5	0.7
Valuation Ratios							
PER (x)	9.6	7.0	6.6	6.6	10.9	9.2	6.7
P/ABVPS (x)	1.7	1.4	1.2	1.1	1.0	0.9	0.8
Dividend Yield	2.0	2.4	2.8	3.2	2.2	2.1	2.9
DuPont Analysis							
NII	2.7	2.8	2.8	2.7	2.4	2.3	2.3
(-) Prov. Exp.	0.3	0.2	0.4	0.3	0.6	0.4	0.3
Adj NII	2.4	2.6	2.4	2.4	1.7	1.9	2.0
Treasury	0.1	0.1	0.1	0.1	0.3	0.2	0.2
Int. Sens. Inc.	2.6	2.7	2.5	2.5	2.0	2.1	2.2
Other Inc.	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Op. Inc.	3.1	3.3	3.2	3.1	2.6	2.7	2.8
Opex	1.6	1.7	1.7	1.7	1.8	1.8	1.7
PBT	1.5	1.6	1.5	1.4	0.8	0.9	1.1
Taxes	0.5	0.5	0.3	0.4	0.2	0.3	0.4
RoA	1.0	1.1	1.1	1.0	0.5	0.6	0.7
Leverage	18.4	19.7	18.4	17.2	17.0	17.5	18.2
RoE	18.5	21.6	20.5	16.6	9.2	9.9	12.5

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Disclosure of Interest Statement	South Indian Bank
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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