

South Indian Bank

NOT RATED

Revamping to remain competent

Summary

We attended analyst meet hosted by South Indian Bank (SIB) which showcased its vision for 2024. Management highlighted its strategies for near to long term with focus on 6Cs, launching new product; creating robust operational team supported by technology platform and revamping credit policy with focus on quality. Also, leveraging existing and new talent pool to improve underwriting through training and experts, build strong analytical tools for portfolio, and improve collection through analytics, managing NPA through focus on recoveries and rationalization of branches and ATMs. Bank lays its vision for 2024 with philosophy of "Fair to customers, Fair to bank". In Q2FY21, NII grew by 13.5% YoY while PAT declined by 23.0% YoY led by increase in provisions; ROA at 0.3%. However; on asset quality front, GNPA and NNPA reduced to 4.9% and 2.6% respectively. Bank targets to achieve RoA at 1% and RoE at 13% by FY24. At CMP, stock is trading at P/BV of 0.3x FY23 consensus estimates.

Key highlights

- Focus on 6Cs for next 3 years-** Bank has lay down a strategy for growth in next 3 years by focusing on 6Cs- **a) capital-** Bank will be raising capital (equity + debt) amounting to Rs12.5bn in tranches with first tranche by Mar'21 **b) CASA-** building low cost CASA book by building relationship at branch level while on NRI front will expand horizon to target NRI around the world apart from middle east **c) C/I ratio-** reduce C/I by increasing income or reducing cost; on income front focus will be on non-credit related income through cross sell and up sell opportunities however on cost side will optimize existing branch network with merger or relocation of branches or synergies with new subsidiaries by focusing on outsourcing **d) Competency building-** by reorienting the organizational structure by leveraging existing talent **e) Customer focus-** will approach Phygital approach at branches with personalized services for legacy customers and complete digital for next gen customers **f) Compliance-** Bank will be focusing adherence to higher integrity standards and zero tolerance for internal and external cross.
- Focus on quality asset with new product-** Bank will continues to focus on Retail, MSME and Agri. and adopt calibrated approach towards corporate while bank has drawn plan to revamp existing products and launch new retail products like LAS, SBL, IPO Funding, Dealer Funding, Tractor funding etc. in phases w.e.f. 1st April 2021. In Corporate, focus will be on building high rated quality book through approach of cross sell of treasury, retail and SME products.
- Focus on improvement in yield of products and strong product growth-** To enhance NIM bank set up target yield like for Agri- 9.2%-10%, Retail gold- 10%-11.5%, Agri. gold- 9%-10%, Business loans- 9.3%-10.3% within that can leverage in SME book, Personal loan- 10%-10.5%, LAP- 10%-10.5%, Home loan- 8%-8.8%, Corporate will be doing on need basis and will look at 8%-9% while overall targeting yield at 10% range However; on growth front Agri. and gold loan would be 10-12%, retail gold- 30%-35%, PL will be doubling in 1-3 years and overall targeting credit growth of 10-15% by Mar'22 and further 20%.

TP	-
CMP	Rs9
Potential upside / downside	-
Previous Rating	-

V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	-	-	-
Consensus	1.0	1.8	3.1
% difference	-	-	-

Shareholding Pattern (%)

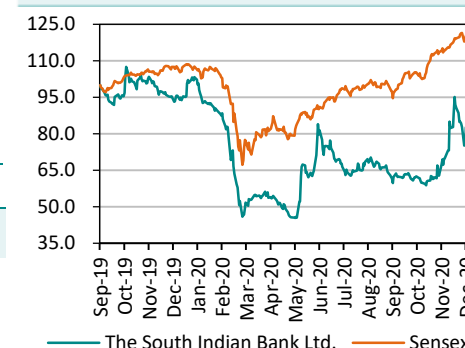
Promoters	0.0
FII	8.6
DII	1.0
Public	90.4

Price Performance (%)

	-1m	-3m	-12m
Absolute	21.7	33.5	(10.8)
Rel to Sensex	13.8	8.1	(25.4)

Key Stock Data	
Bloomberg / Reuters	SIB IN/ SIBK.NS
Sector	Banking
Shares o/s (mn)	1,810
Market cap. (Rs mn)	16,668
Market cap. (US\$ mn)	227
3-m daily average value (Rs mn)	256.9
52-week high / low	Rs11.40/4.85
Sensex / Nifty	47,613 / 13,933

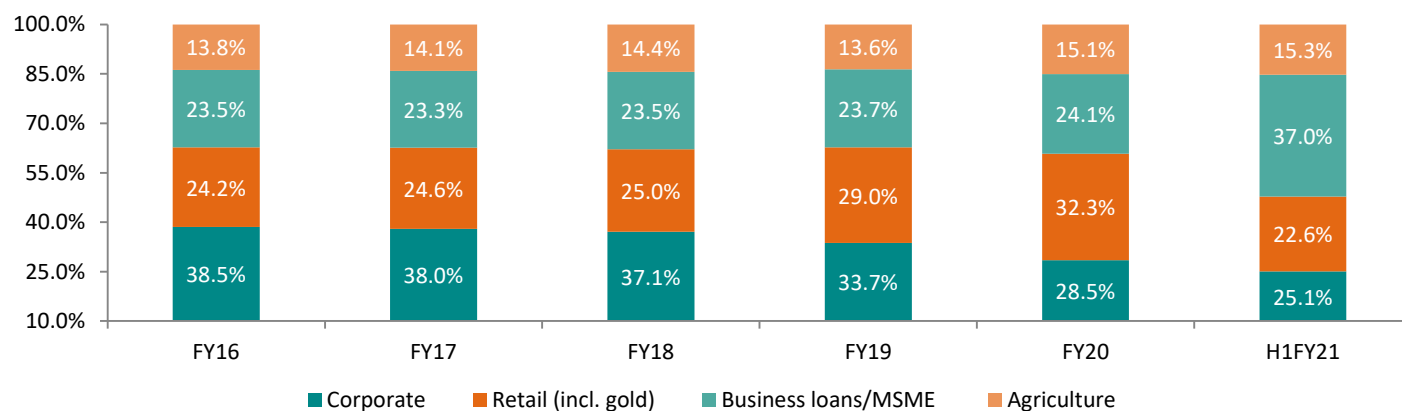
Relative to Sensex (%)



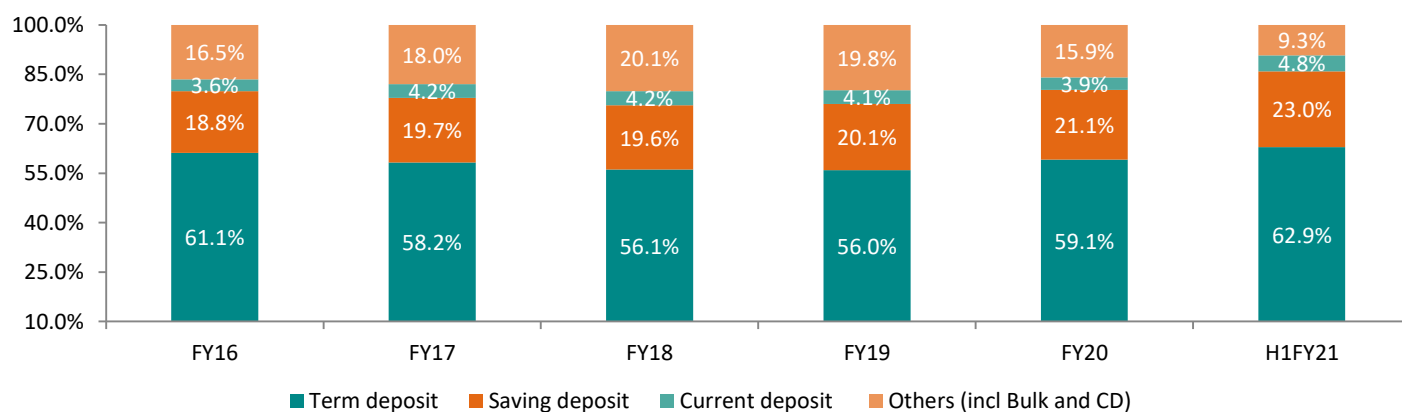
Financial snapshot

	(Rs mn)				
Year	FY2016	FY2017	FY2018	FY2019	FY2020
NII	15,097	16,754	19,655	20,197	23,175
Net Profit	3,333	3,925	3,349	2,475	1,046
EPS (Rs)	2.2	2.6	1.9	1.4	0.6
ABV (Rs)	27.6	23.1	21.2	17.5	18.4
PER (x)	4.1	3.5	5.0	6.7	15.9
P/ABV (x)	0.3	0.4	0.4	0.5	0.5
ROE (%)	8.7	8.1	6.4	4.6	1.9
ROA (%)	0.6	0.6	0.4	0.3	0.1
GNPA (%)	3.8	2.5	3.6	4.9	5.0
NNPA (%)	2.9	1.5	2.6	3.5	3.3
CAR	11.8	12.4	12.7	12.6	13.4

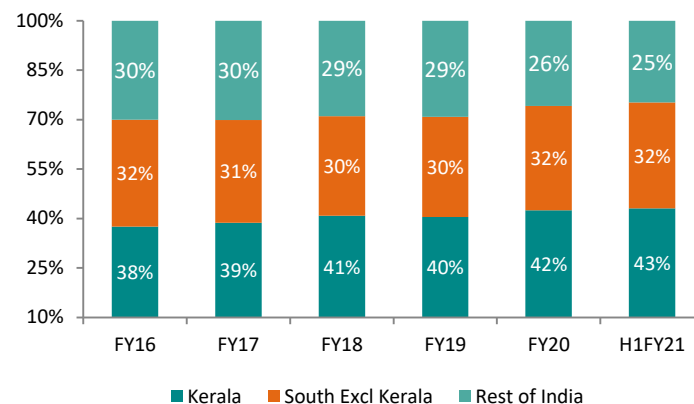
Source: Company; IDBI Capital Research

Exhibit 1: Focus is on Retail, MSME and agriculture while Corporate segment declining YoY


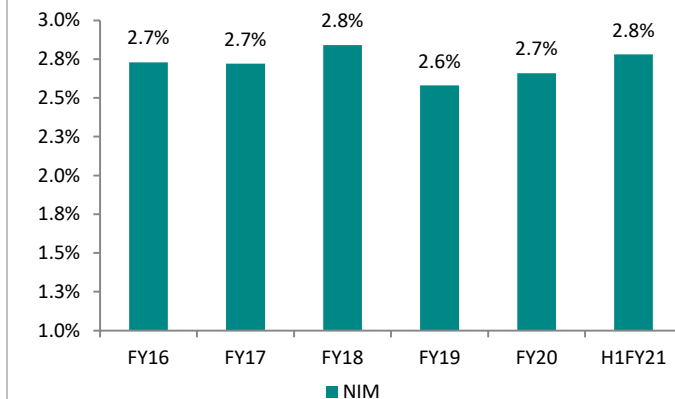
Source: Company; IDBI Capital Research

Exhibit 2: Term deposit continues to remain major chunk of deposit


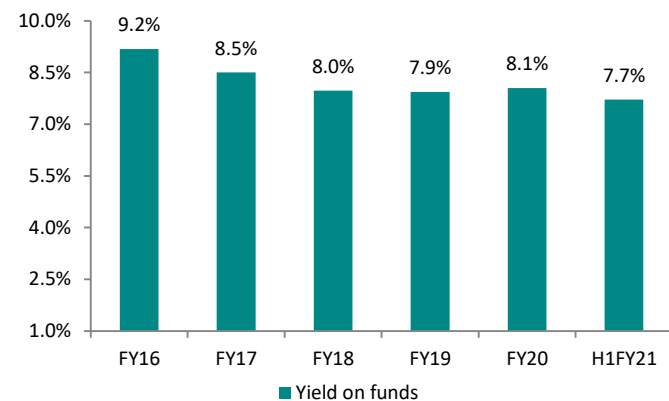
Source: Company, IDBI Capital Research

Exhibit 3: Advances across ROI decline


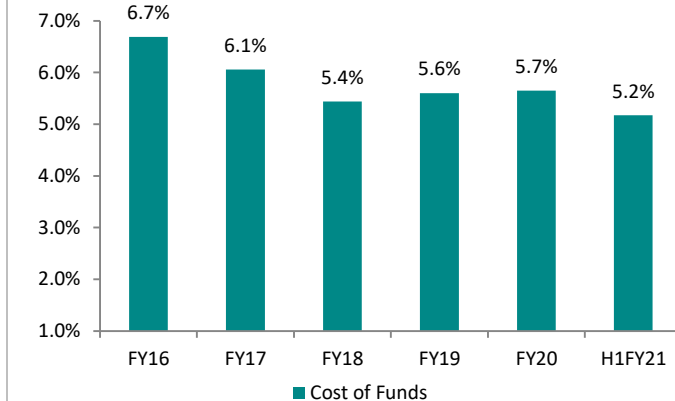
Source: Company; IDBI Capital Research

Exhibit 4: NIM continues to remain at 2.7-2.8% level


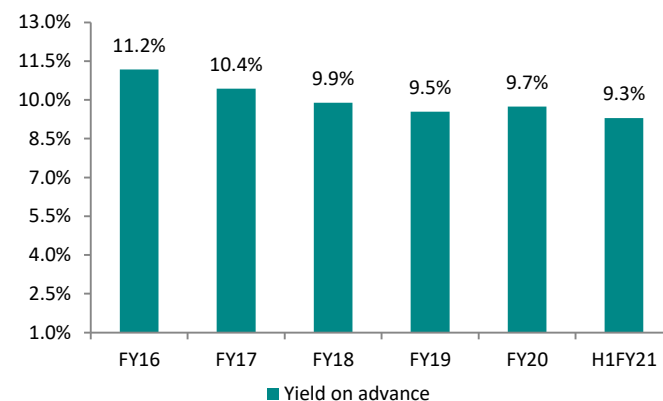
Source: Company; IDBI Capital Research

Exhibit 5: Yield of funds declined in H1FY21


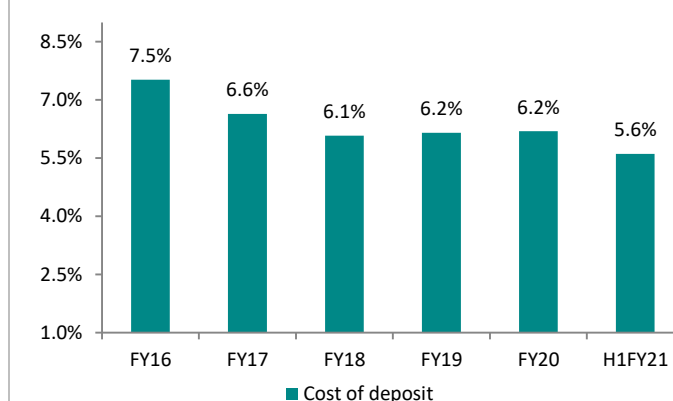
Source: Company; IDBI Capital Research

Exhibit 6: Cost remain low in H1FY21


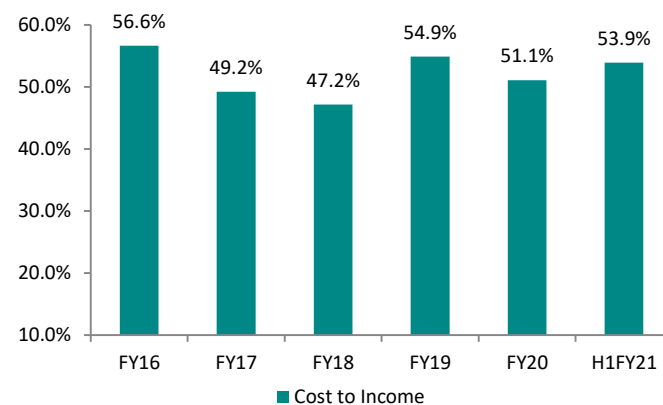
Source: Company; IDBI Capital Research

Exhibit 7: Yield declines


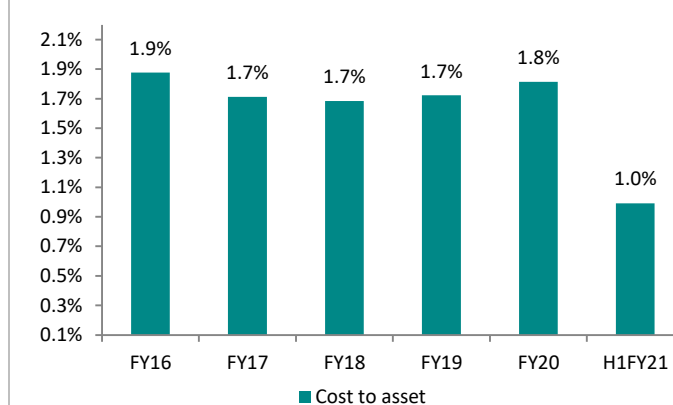
Source: Company; IDBI Capital Research

Exhibit 8: Cost of deposit reduce YoY and remain at 5.6%


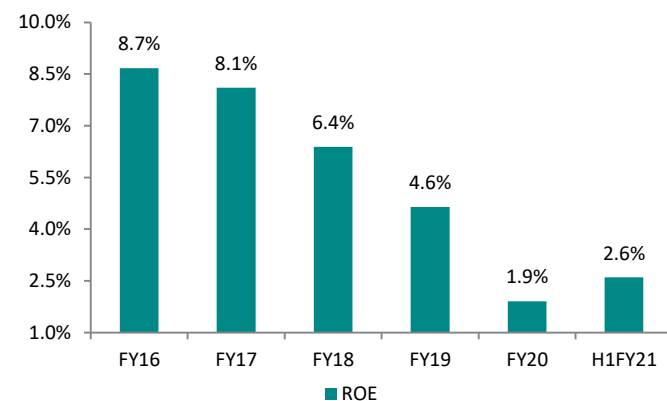
Source: Company; IDBI Capital Research

Exhibit 9: Cost-to-income remain high


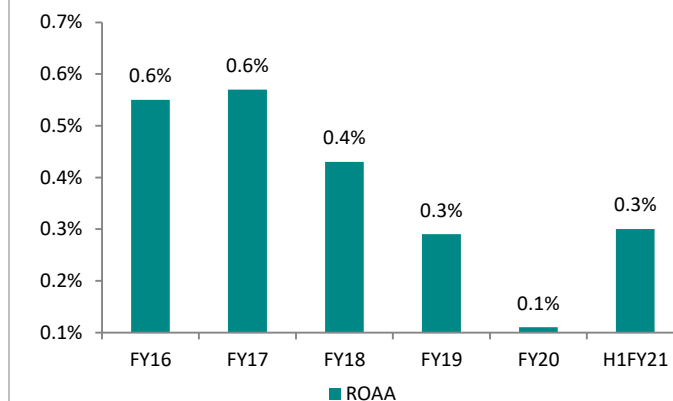
Source: Company; IDBI Capital Research

Exhibit 10: Cost-to-assets to ease in FY21


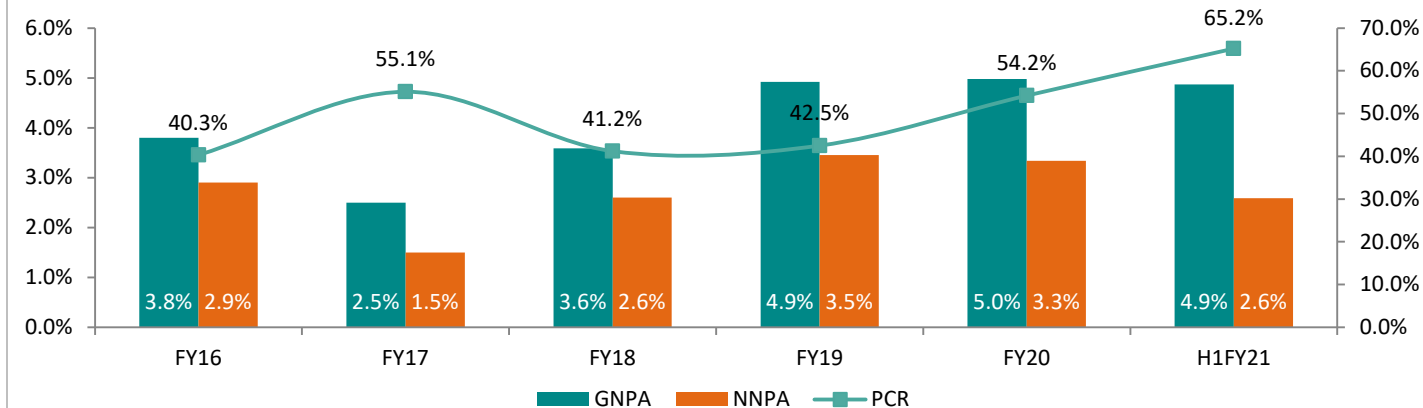
Source: Company; IDBI Capital Research

Exhibit 11: ROE target of 13% by FY24


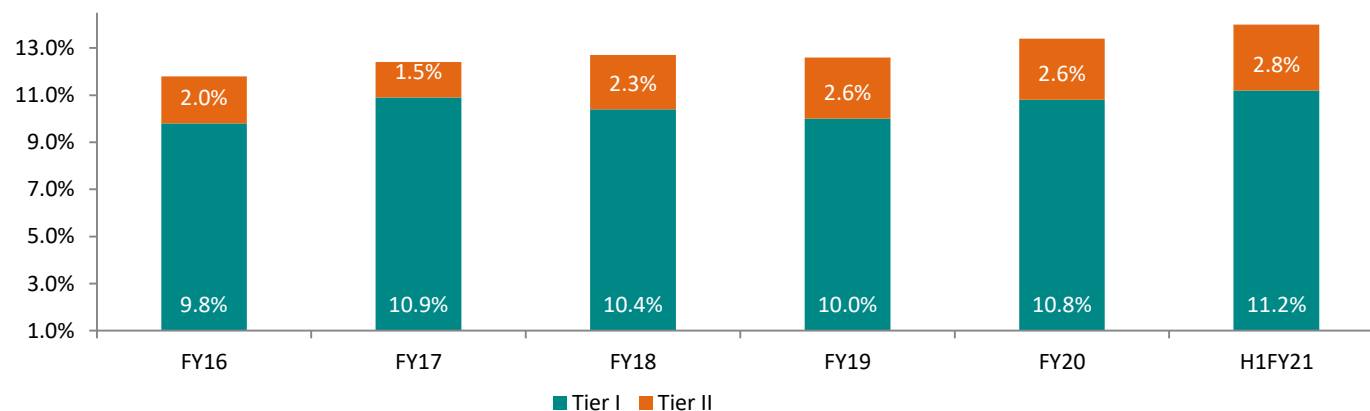
Source: Company; IDBI Capital Research

Exhibit 12: ROA target of 1% + by FY24


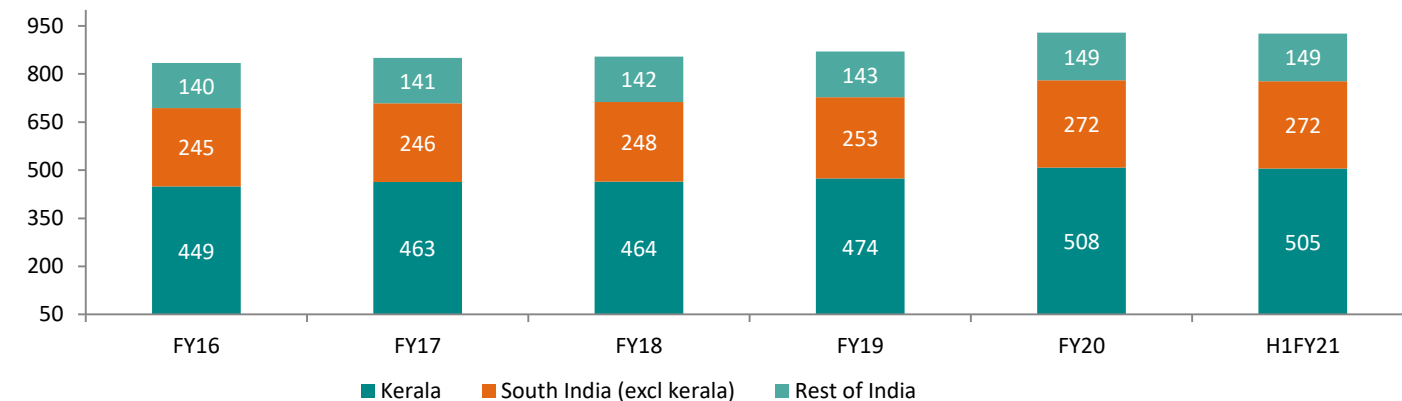
Source: Company; IDBI Capital Research

Exhibit 13: GNPA % continue to remain at 4.9%-5% while PCR continue to rise


Source: Company, IDBI Capital Research

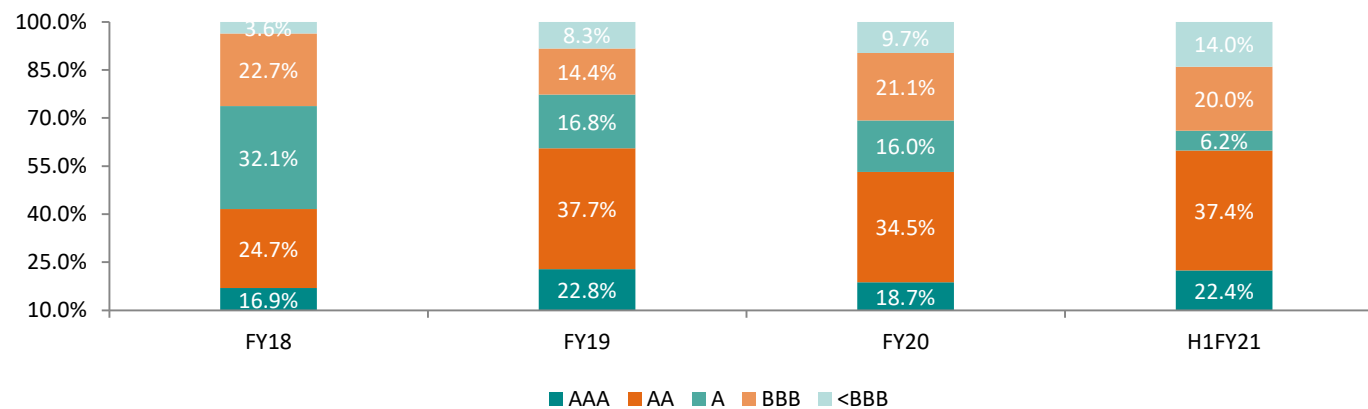
Exhibit 14: CRAR continues to remain strong


Source: Company, IDBI Capital Research

Exhibit 15: Added 92 branches since FY16 and increase to 926 in H1FY21


Source: Company, IDBI Capital Research

Exhibit 16: Standard advance above (Rs 100Cr)- BB & below book continue to increase while A rated portfolio continues to decline



Source: Company, IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY17	FY18	FY19	FY20
Interest earned	58,471	61,928	68,765	77,638
Interest expended	(41,717)	(42,273)	(48,568)	(54,463)
Net interest income	16,754	19,655	20,197	23,175
Other Income	7,156	8,373	7,262	10,458
Operating Income	23,910	28,028	27,459	33,633
Operating expenses	(11,764)	(13,220)	(15,069)	(17,176)
Employee expenses	(6,765)	(7,132)	(8,214)	(9,413)
Other expenses	(4,999)	(6,088)	(6,855)	(7,763)
Pre-Provision Profit	12,146	14,808	12,390	16,457
Provision	(6,144)	(9,809)	(8,585)	(14,961)
PBT	6,002	4,999	3,805	1,496
Taxes	(2,077)	(1,650)	(1,330)	(450)
Net profit	3,925	3,349	2,475	1,046

Balance Sheet

(Rs mn)

Year-end: March	FY17	FY18	FY19	FY20
Capital	1,803	1,809	1,810	1,810
Reserves	46,652	50,603	51,544	52,938
Networth	48,455	52,412	53,354	54,748
Deposits	661,175	720,296	804,201	830,339
Borrowings	19,578	40,434	49,032	68,932
Total Liabilities & Equity	743,122	826,859	922,792	970,329
Cash & Bank with RBI	38,877	42,210	48,227	41,898
Investments	194,297	183,631	190,814	206,253
Advances	463,895	545,629	626,937	644,395
Fixed Assets	6,561	6,808	7,087	8,000
Other Assets	39,492	48,581	49,727	69,783
Total assets	743,122	826,859	922,792	970,329

Financial Ratios

(%)

Year-end: March	FY17	FY18	FY19	FY20
Growth				
Deposits	18.7	8.9	11.6	3.3
Advances	12.9	17.6	14.9	2.8
NII	11.0	17.3	2.8	14.7
Pre-Provision Profit	38.1	21.9	(16.3)	32.8
Net Profit	17.8	(14.7)	(26.1)	(57.7)
Spreads (%)				
Yield on Assets	8.5	8.0	7.9	8.1
Cost of Funds	6.1	5.4	5.6	5.7
NIM	2.7	2.8	2.6	2.7
CASA	23.8	23.8	24.2	25.0
Operating Efficiency (%)				
Cost-to-Income	49.2	47.2	54.9	51.1
Cost-to-Assets	1.7	1.7	1.7	1.8
Asset Quality (%)				
GNPA	2.5	3.6	4.9	5.0
NNPA	1.5	2.6	3.5	3.3
Provision Coverage	55.1	41.2	42.5	54.2
Credit Cost	1.3	1.8	1.4	2.3
Capital Adequacy (%)				
CAR	12.4	12.7	12.6	13.4
Tier I	10.9	10.4	10.0	10.8
Valuations				
EPS (Rs)	2.6	1.9	1.4	0.6
ABV (Rs)	23.1	21.2	17.5	18.4
P/E (x)	3.5	5.0	6.7	15.9
P/ABV (x)	0.4	0.4	0.5	0.5
ROE (%)	8.1	6.4	4.6	1.9
ROA (%)	0.6	0.4	0.3	0.1

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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