

Retail Equity Research
South Indian Bank Ltd.
Banking

Accumulate

BSE CODE : 532218 NSE CODE: SOUTHBANK
BLOOMBERG CODE: SIB:IN SENSEX : 80,040

12 Months Investment Period Rating as per Small Cap
CMP Rs.27 TARGET Rs.32 RETURN 19% ↑
(Closing: 25-07-24)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Robust growth and improved profitability

South Indian Bank, is a private sector bank headquartered in Kerala. The bank has 955 branches, with majority of them in South India. Currently, the bank has a loan book size of Rs.82,580cr and a deposit base of Rs.103,532cr.

- The bank reported strong Q1 results, with key business parameters such as advance growth, asset quality, and PCR showing improvement.
- Advances have remained strong, growing 11%YoY during Q1FY25, driven by strong disbursements in corporate book.
- PAT grew by 46%YoY, aided by strong growth in fee income and lower provisions. Additionally, NIM stabilized at 3.4% as stress from the cost of deposits was passed on.
- Asset quality improved, with GNPA/NNPA at 4.5%/1.4%. The Provision Coverage Ratio (PCR) increased to 79.2% compared to 76.5% in Q1FY24.
- With stress from legacy books decreasing, the focus now shifts to profitability. We expect the bank to deliver more than a 1% ROA in the medium term. We give an Accumulate rating with a target price of Rs.32 based on 0.75x FY26E BVPS .

Strong advance growth and corporate disbursements

The bank continued to showcase improvement in its key business parameters. Growth has accelerated with disbursement of Rs.33,482cr compared to Rs.22,108cr during Q1FY24. Total advances grew by 11% YoY to Rs.82,580cr, with corporate segment constituting 41% of the loan book, growing at 23% YoY, and gold loans constituting 20%, growing at 13%YoY. The bank has churned the large corporate books with better rated corporates. The share of A and above-rated large corporates stands at 98% in Q1FY25. The bank's deposit lagged behind, increasing 8.4%YoY, with retail deposits (96% of total deposit) growing at 8%YoY. The CASA ratio stands at 32% in Q1FY25. We expect advances to grow at 15% over FY25-26E, while deposits are estimated to grow at 13% over the same period.

NII and PAT expands

With strong advance growth and improving asset quality, interest income grew by 14%YoY. The yield on advance remained stable at 9.17%, while the cost of deposits has increased to 5.40% from 4.85% in Q1FY24. NII during Q1FY25 stood at Rs.865.77cr compared to Rs.807.8cr during Q1FY24. The bank's PAT increased by 46%YoY to Rs.202cr. As of Q1FY25, total slippages stood at Rs.346cr. The cost-to-income ratio of the bank decreased to 60.57% sequentially.

Reduced stress and enhanced loan quality

The bank has successfully improved the quality of its advance book, with the new loan book (73% of total book) witnessing a lower NNPA of only 0.1%. GNPA/NNPA stands at 4.5%/1.39%, improving from 5.13%/1.79% in Q1FY24. The Provision Coverage Ratio increased from 76.5% in Q1FY24 to 79.2% this quarter. Management envisions diversifying the loan portfolio by increasing proportion of the high yielding assets like auto loans, housing loans, and so on.

Outlook & valuation.

Under the new management, SIB has been realigning their balance sheet with quality lending and an improved CASA mix. The new book has seen higher yields with low slippages. We expect credit growth of 15% during FY25-26. As the percentage of new book increases, ROE is expected to be 14% by FY26. Hence, we give an Accumulate rating with a revised target price of Rs.32 based on 0.75x FY26E BVPS.

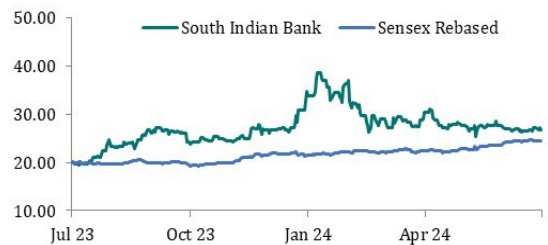
Company Data

Market Cap (Rs cr.)	6,998.2
Outstanding Shares (cr.)	261.6
Free Float (%)	100.0
Dividend Yield	1.1
52 week high (Rs)	36.9
52 week low (Rs)	17.9
6m average volume (cr.)	4.4
Beta	1.1
Face value (Rs)	1.0

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	-	-	-
FII's	14.7	15.2	13.4
MFs/Institutions	7.6	4.6	5.1
Public	77.7	80.2	81.5
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-10.6%	-19.4%	34.6%
Absolute Sensex	8.8%	14.3%	22.5%
Relative Return*	-19.4%	-33.7%	12.1%

*over or under performance to benchmark index



Standalone (Rs cr)	FY24A	FY25E	FY26E
NII	3,332	3,581	4,282
Growth(%)	10.6	7.5	19.6
NIM(%)	3.5	3.4	3.6
Provisions	339	348	352
Adj. PAT	1,070	1,191	1,494
Growth(%)	38.1	11.3	25.4
Adj. EPS	4.1	4.6	5.7
Growth(%)	10.4	11.3	25.4
BVPS	33.7	37.8	42.9
Adj BVPS	28.7	33.1	38.3
P/E	6.5	5.9	4.7
P/B	0.8	0.7	0.6
ROA(%)	1.0	1.0	1.1
ROE (%)	13.8	12.7	14.2

Quarterly Financials (Standalone)

(Rs cr)	Q1FY25	Q4FY24	QoQ Growth (%)	Q1FY24	YoY Growth (%)
Interest Income	2,314	2,275	1.7	2,025	14.3
Interest Expense	1,449	1,400	3.5	1,217	19.0
Net Interest Income (NII)	866	875	-1.0	808	7.2
Fee and Other Income	422	346	21.9	361	-
Total Income	1,287	1,221	5.5	1,169	10.2
Expenditure	780	787	-0.9	679	14.9
Pre-Provision Profit	508	434	17.1	490	3.6
Provision	113	41	178.1	199	-43
PBT	395	393	0.5	291	35.4
Tax	101	105	-4.5	89	13
Reported PAT	294	288	2.3	202	45.6
Adjustment	-	-	-	-	-
Adj. PAT	294	288	2.3	202	45.6
Diluted EPS (Rs)	1.1	1.4	-17.0	1.0	15

Change in Estimates

Year / Rs cr	Old estimate		New estimate		Change(%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (NII)	3,799	4,175	3,581	4,282	-5.7	2.6
Net Interest Margin (%)	3.46	3.34	3.43	3.61	-3bps	27bps
Pre-Provision Profit	1,862	2,178	2,074	2,517	11.4	15.6
Adj. PAT	1,097	1,260	1,191	1,494	8.6	18.6
EPS (Rs)	5.2	6	4.6	5.7	-11.5	-5.0

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	6,587	7,233	8,613	9,584	10,651
Interest Expense	4,347	4,221	5,281	6,003	6,368
Net Int. Income	2,240	3,012	3,332	3,581	4,282
Change (%)	-6.9	34.5	10.6	7.5	19.6
Non Int. Income	1,034	813	1,516	1,860	2,041
Operating Income	3,274	3,825	4,848	5,441	6,323
Change (%)	-10.0	16.8	26.7	12.2	16.2
Operating Exp.	2,026	2,317	2,980	3,367	3,807
Pre Prov. Profit	1,248	1,507	1,868	2,074	2,517
Prov. & Conting.	1340	399	339	348	352
PBT	-92	1,108	1,529	1,726	2,165
Change (%)	-	-	37.9	12.9	25.4
Tax	-137	333	459	535	671
Tax Rate (%)	148.9	30.1	30.5	31.0	31.0
Reported PAT	45	775	1,070	1,191	1,494
Adj*	-	-	-	-	-
Adj. PAT	45	775	1,070	1,191	1,494
Change (%)	-	1622.8	38.1	11.3	25.4
No. of shares (Cr)	209	209	262	262	262
EPS (Rs)	0.2	3.7	4.1	4.6	5.7
Change (%)	-27.4	1622.7	10.4	11.3	25.4
DPS (Rs)	-	0.30	-	0.50	0.60

BALANCE SHEET

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	3,677	4,639	6,660	6,287	7,604
Loans & Advances	59,993	69,804	78,061	88,989	103,245
Investments	21,445	24,642	23,977	26,262	26,426
Gross Fixed Assets	1417	1468	1550	1795	1993
Net Fixed Assets	752	754	846	893	1002
CWIP	59	124	120	100	140
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	234	21	-	-	-
Other Assets	13,892	7,713	7,749	8,276	9,292
Total Assets	100,052	107,698	117,413	130,807	147,709
Deposits	89,142	91,651	101,920	114,181	129,233
Debt Funds	3294	6,994	3,912	4,111	4,336
Other Liabilities	1,761	2,378	2,754	2,632	2,919
Provisions	-	-	-	-	-
Equity Capital	211	209	264	262	262
Reserves & Surplus	5644	6,465	8,562	9,622	10,958
Shareholder's Funds	5,854	6,675	8,826	9,883	11,220
Total Liabilities	100,052	107,698	117,413	130,807	147,709
BVPS (Rs)	28.0	31.9	33.7	37.8	42.9
Change(%)	0.8	14.0	5.8	12.0	13.5
Adj. BVPS (Rs)	14.3	25.7	28.7	33.1	38.3
Change(%)	-2.4	79.5	11.5	15.4	15.7

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
Interest yield (%)	8.2	8.2	9.0	9.2	9.0
Cost of funds (%)	4.8	4.4	4.9	5.4	5.1
Spread(%)	3.4	3.8	4.1	3.8	3.9
NIM (%)	2.8	3.4	3.5	3.4	3.6
ROE (%)	0.8	12.4	13.8	12.7	14.2
ROA (%)	0.05	0.8	1.0	1.0	1.1
Business Growth					
Loans & Advances (%)	3.3	16.4	11.8	14.0	16.0
Deposits (%)	7.8	2.8	11.2	12.0	13.2
Operating Ratios					
Cost to Income (%)	61.9	60.6	61.5	61.9	60.2
CASA (%)	33.2	34.4	32.1	30.0	29.0
Asset Quality					
GNPA (%)	5.9	5.1	4.5	4.0	3.9
NNPA (%)	2.9	1.8	1.4	1.2	1.1
Capital Adequacy					
CAR (%)	15.9	17.3	15.6	15.6	15.6
Valuation					
P/E (x)	124.1	7.2	6.5	5.9	4.7
P/B (x)	1.0	0.8	0.8	0.7	0.6
Adj. P/B (x)	1.9	1.0	0.9	0.8	0.7

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

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

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