

South Indian Bank

Sector: Banking /Mid-Cap | Earnings Update – 1QFY20

MARKETPERFORMER

29 July 2019

Background: South Indian Bank (SIB), among the mid-sized banks in the private sector space, operates a network of about 870 branches, 53 extension centres and about 1,400 ATMs. The bank's business is largely skewed towards the Southern state with half of its branches located in Kerala. SIB has established a strong brand recall among the Keralite-NRI Diaspora. With no identifiable promoters SIB is run by a team of professionals. As of 1QFY20 the bank had deposits of ~INR 817bn and a loan book of ~INR 6636bn. SIB is the first private sector bank to open a NRI branch in 1992 and an industrial finance branch in 1993.

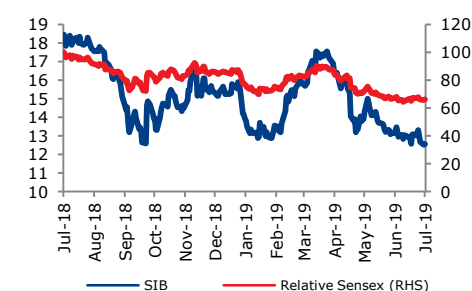
Sensex	37,686
Nifty	11,189
Price	INR 12
Target Price (12 months)	INR 15
Recommendation	MARKETPERFORMER
52 Week High/Low	INR 18.8/12.4
Bloomberg / Reuters	SIB IN/SBK.BO
Equity (shares in mn)	1,809.7
Mkt. Cap (bn)	INR 23.1/\$ 0.3
Avg. Daily Vol. ('000)	16,958
Avg. Daily Vol. (mn)	INR 217.1 / \$ 3.1

Shareholding	Mar 18	Dec 18	Mar 19
Promoters (%)	0.00	0.00	0.00
FII (%)	25.73	32.33	23.20
DII (%)	13.04	14.94	8.62
Others (%)	61.23	52.73	68.18
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2019	2020E	2021E
Net Interest Inc	20.2	25.1	29.1
Other Inc	7.3	6.2	6.4
Pre Prov Profit	12.7	17.3	21.7
PAT	2.8	6.3	7.2
EPS	1.6	3.5	4.0
EPS growth (%)	(16.2)	125.0	13.9
PE	8.2	3.7	3.2
P /ABV	0.5	0.5	0.4
Div Yield (%)	2.0	5.5	5.5
ROA (%)	0.3	0.7	0.7
ROE (%)	5.3	11.2	12.4
Tier - 1 (%)	10.0	9.8	9.6
CAR (%)	12.6	12.2	11.8

Performance %	1M	3M	12M
SIB	-4.6	-23.5	-32.0
Sensex	-3.3	-3.1	2.8



Management reduces guidance, as corporate loan book outlook appears muted

- SIB's loan book showed a sound growth of 13% YoY in 1QFY20 (down 0.1% QoQ). The growth was led by Retail (25% YoY, 3% QoQ) and Agriculture (14% YoY, 4% QoQ) segments. The share of retail segment as a proportion of total loan book is 30%, upward by 300 bps YoY driven by LAP (average ticket size of 38 lakhs) and gold loan portfolios. Management reiterated that their focus will continue to be on Retail, MSME and Agri segments and expects muted growth in corporate book. They have revised their guidance on the loan book to 15-18% from 18-20% for FY20E.
- Within the Retail portfolio, growth was largely driven by LAP (58% YoY) and Gold Loans (53% YoY) segments, contributing to 36% of the retail book.
- Deposits grew by 13% YoY (1.6% QoQ) to INR 817bn, with Savings account deposits growing at 9% YoY (1% QoQ). Overall CASA grew by 10% YoY. the share of CASA in total deposits dropped up by 10 bps to 24.1% from 24.2% in 4QFY19. NRI Deposits constituting 27% of total deposits grew by a healthy 11% YoY (2% QoQ).
- Net Interest Income growth increased 8.4% YoY (7.4% QoQ) at INR 5.3bn, due to a 19 bps YoY (18bps QoQ) spike in yield on advances. Cost of funds also spiked up by 24bps to 5.82%. As a result, NIMs dipped by 7bps YoY to 2.53%. The management targets to take NIMs to 2.8% by FY20E through better pricing on the asset side.
- GNPA in absolute numbers increased by 24% YoY (1% QoQ) and NNPA (absolute numbers) by 18% YoY (down 1% QoQ). The bank recognised fresh slippages worth INR 2.4bn and agricultural slippages were to the tune of INR 1bn. The bank highlighted that slippages going ahead would be to the tune of INR 2.5bn and recoveries amounting to INR 5bn per quarter. The management retains the outlook for coming quarters, with an aim to attain recoveries close to INR 6bn for FY20.
- Provisioning costs in 1QFY20 plunged by 11% YoY (down 6% QoQ) and PCR inched up to 45.1% from 42.5% in 1QFY20 and the management expects a similar improvement going forward. Cost to Income ratio dropped 218bps YoY to 55.7% and management has guided for a further drop of 200 bps going forward. As a result, PAT surged 220% YoY to INR 740mn (4% QoQ). With a fall in fee income by 24% QoQ, we do not believe the bank's guidance to bring down the C/I to ~50% to be feasible by FY20E.
- The bank plans to raise funds through equity/ bond route in FY20E to sustain its growth target and maintain CAR (12.2% in 1QFY20, flat YoY).

Valuation: SIB continues to shift its focus from corporate loans towards Retail & SME loans which would help them contain the credit costs and maintain the margins at current levels. The Stock currently trades at 0.46x P/ABV of FY21E. Given the muted outlook on NIMs and our expectation of a marginal growth in loan book dampened by subdued corporate book growth, we rate the stock a MARKETPERFORMER, with a target price of INR 15, assigning a 0.5X P/ABV FY21E. **Risk:** Lower than expected recoveries; tougher ramp up of retail loan book; higher credit costs due to ECL model (IND-AS).

Results Summary 1QFY20

Y/E March (INR bn)	1QFY20	1QFY19	YoY Growth	4QFY19	QoQ Growth
Net Interest Income	5.36	4.94	8%	4.99	7%
Other Income	1.82	1.46	24%	2.36	-22%
Pre Provisioning Profit	3.18	2.70	17%	3.28	-3%
PAT	0.74	0.23	221%	0.71	4%
Cost / Income (%)	55.70	57.88		50.94	
Gross NPA (%)	4.96	4.54		4.92	
Net NPA (%)	3.41	3.27		3.45	
Prov Coverage ratio (%)	45.10	39.10		42.46	
CAR (%)	12.20	12.23		12.60	

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