



South Indian Bank Q3 FY16 Quarterly Update

MARKET DATA

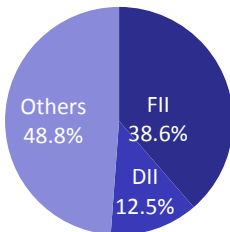
Fig. (Rs. in Cr.) except Ratios

Networth (FY16E)	3,916
Price/Book Value Ratio (FY16E)	0.7
EPS-Unit Curr. (FY16E)	2.5
Market Price (16/2/2016)	18
P/E Ratio (FY16E)	7.1
52 Week High (4/3/2015)	29
52 Week Low (12/2/2016)	17
Market Capitalisation	2,363

AVERAGE MONTHLY VOLUME ('000)

BSE	677
NSE	3403

SHAREHOLDING PATTERN



RETURN (%)	3M	6M	12M
Stock	-13.2	-15.7	-27.1
BSE	-5.7	-1.6	-4.6

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Quarterly Performance:

Particulars Rs in crs	Q3 FY16	Q3 FY15	y-o-y	Q2 FY16	q-o-q	FY15	FY14	y-o-y
Interest Income	1,408	1,307	8%	1,405	0%	5,286	5,015	5%
Interest Expenses	1,001	987	1%	1,017	-2%	3,920	3,616	8%
Net Interest Income	407	320	27%	388	5%	1,366	1,399	-2%
Other Income	153	160	-4%	121	26%	497	369	35%
Total Income	560	480	17%	510	10%	1,863	1,767	5%
Operating Expenses	297	261	14%	297	0%	1,047	883	19%
Operating Profits before provisions	263	219	20%	213	23%	816	884	-8%
Total Provisions	106	86	24%	67	58%	414	155	166%
PBT	157	133	17%	146	8%	446	729	-39%
Taxes	55	46	21%	52	6%	138	221	-37%
PAT	102	88	16%	93	9%	307	508	-39%

Loan book growth moderation led by Retail (ex-gold), SME and Agri segments

On sequential basis, loan book for SIB grew by 1% (10% y-o-y) led by 4% growth in retail (ex-gold), 4% growth in SME segment and 4% growth in the Agri segment. Retail loan book continues to witness a decline in gold loan with the portfolio falling by 12% q-o-q & 49% y-o-y. Corporate segment contribution decreased from ~42% to ~41% & Agri segment contribution increased from ~13% to ~14% respectively to the total loan book mix. Retail & SME share in the loan book remained at 23% & 22% respectively. Going forward, Management will continue to focus on retail book, especially housing and SME loans due to challenges in the corporate book.

NIMs to remain stable going ahead

NIMs improved by 11bps q-o-q (up 22bp y-o-y) to 2.92% due to fall in the cost of deposit which was more than that in yield on advances. Yield on advances decreased by 17bps q-o-q (58bps y-o-y) and cost of funds declined by 15bps q-o-q (59bps y-o-y). CASA has improved by 23bps q-o-q (153bps y-o-y) and supported fall in the cost of funds. Management has guided NIMs to be in the range of 2.6-2.8%. Cost to Income ratio has declined from 58.2% in Q2 FY16 to 53%.

Sharp deterioration in Asset Quality

Slippages rose by 65% q-o-q (124% y-o-y) to Rs. 367 crs majorly contributed by slippages in corporate segment which sharply rose by 85bps to 1.80%. GNPA jumped by 51bps q-o-q (95bps y-o-y) to 2.8% due to weak economic recovery. GNPA in absolute terms increased by 24% q-o-q (68% y-o-y) to Rs. 1108 crs. Provision coverage ratio was down 500bps q-o-q (1011bps y-o-y) due to write offs of older NPAs which carried higher provisions and addition of fresh slippages during the quarter. Credit costs stood at 1.07%, increasing by 38bps q-o-q (12bps y-o-y). Restructured portfolio stood at Rs. 1,930crs with Power Discoms and Construction EPC contributing 46% and 33% respectively. Govt's Uday scheme targeted towards power discoms will immensely benefit SIB.

Other Highlights

Other income grew by 26% q-o-q (down 4% y-o-y) to Rs. 153crs due increase in profit on sale of Investments by Rs. 50crs. However, Fee income grew by 12% q-o-q (3% y-o-y) due to increase in transaction fee component.

Outlook and Valuation

Weak asset quality continues to put pressure on the bank's performance. The steel import, weak commodity prices have weakened credit profile of many borrowers and may put pressure on SIB. Banks like SIB are clouded by technology related changes and also competition from recently awarded small banks and payment bank licensees. However, SIB is taking steps like creating a centralized marketing team and processing structures which will guide the branches in terms of moving the technology products. Management has guided an ambitious target of improving CASA by 2% every year mainly through NRI business. We have considered a modest growth of 0.5% & 1% in CASA for FY16E & FY17E in our model. We expect ROE to be 9.1% & 10% in FY17E and FY18E. We revise our rating from BUY to HOLD with a target price of Rs.21 (1.1x FY17E Adj.BV of Rs. 20 after providing for 70% provisioning on GNPA shortfall & Security Receipts and 50% on restructured assets & strategic debt restructuring (SDR).

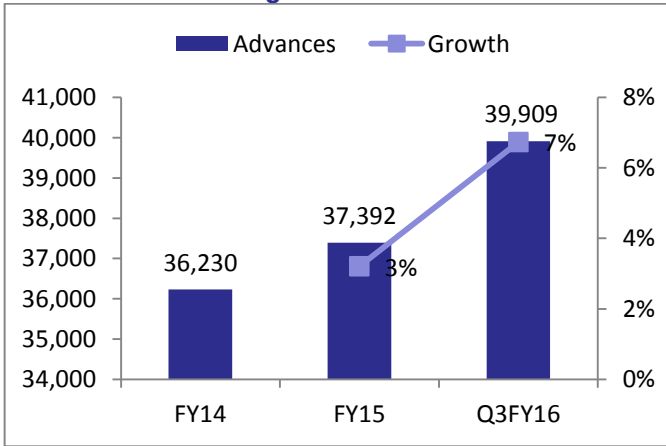


Q3 FY16 CONFERENCE CALL HIGHLIGHTS: -

- To focus on Retail especially housing loan and MSME segment going ahead
- Housing loans and auto loans advances have increased by 31% and 40% due to low base.
- In the housing segment, SIB has sanctioned Rs. 199crs worth of housing loans during Q3 FY16. SIB has established a retail processing centre to further penetrate in this segment.
- Management guided cost to income ratio to be ~55% for FY17E.
- Management says NPAs added during this quarter has high level of collateral (~70% LTV) and expect low losses.
- No account under 5/25 scheme and 1 account in SDR amounting to Rs. 150crs.

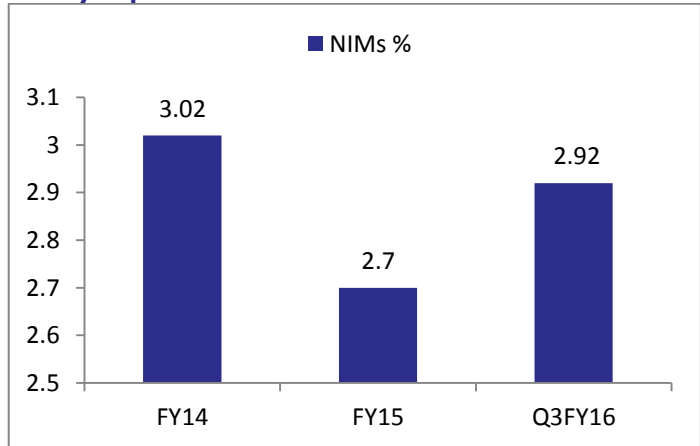
Graphs of important parameters

Moderate Loan book growth



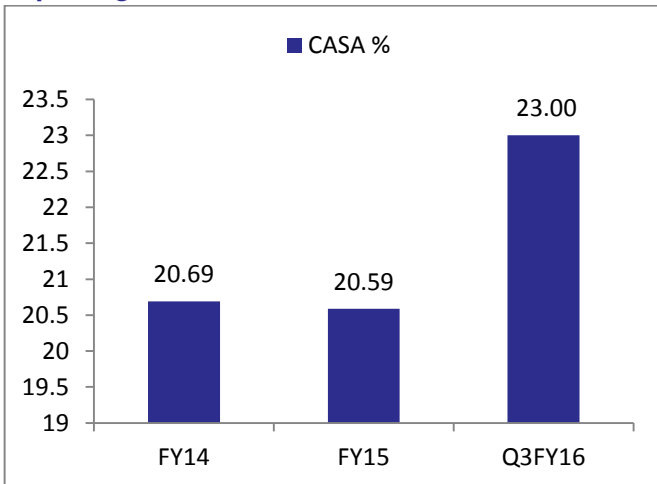
*Source – Company, Dimensional Securities

Steady improvement in NIMs



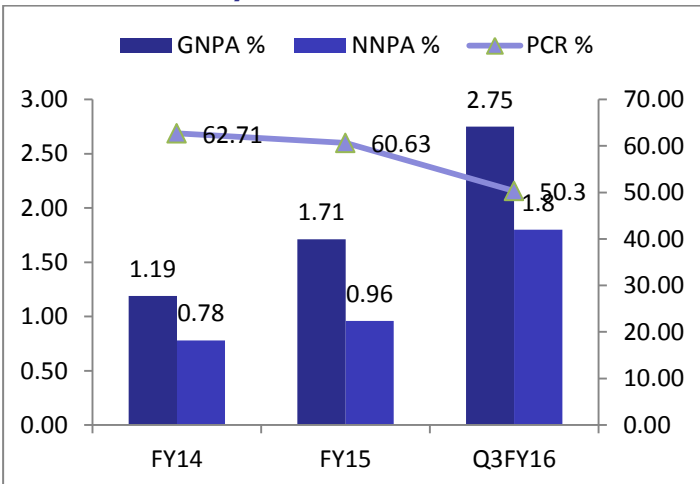
*Source – Company, Dimensional Securities

Improving CASA



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Weak Asset Quality



*Source – Company, Dimensional Securities


QUARTERLY PERFORMANCE:

Particulars	Dec-15	Dec-14	y-o-y	Sep-15	q-o-q	FY15	FY14	y-o-y
Interest Income	1,408	1,307	8%	1,405	0%	5,286	5,015	5%
Interest Expenses	1,001	987	1%	1,017	-2%	3,920	3,616	8%
Net Interest Income	407	320	27%	388	5%	1,366	1,399	-2%
Other Income	153	160	-4%	121	26%	497	369	35%
Fee Income	67	65	3%	60	12%	258	223	16%
Total Income	560	480	17%	510	10%	1,863	1,767	5%
Operating Expenses	297	261	14%	297	0%	1,047	883	19%
Employee	185	155	19%	179	3%	634	529	20%
Others	112	106	6%	118	-5%	413	354	17%
Operating Profits before provisions	263	219	20%	213	23%	816	884	-8%
Total Provisions	106	86	24%	67	58%	414	155	166%
PBT	157	133	17%	146	8%	446	729	-39%
Taxes	55	46	21%	52	6%	138	221	-37%
PAT	102	88	16%	93	9%	307	508	-39%
EPS	0.8	0.7	16%	0.7	11%	2.3	3.8	-40%
Asset Quality								
GNPA Rs. Cr	1,108	661	68%	892	24%	643	433	49%
NNPA Rs. Cr	716	380	89%	550	30%	357	282	27%
GNPA %	2.75	1.8	95	2.24	51	1.71	1.20	51
NNPA %	1.8	1.0	76	1.39	41	0.96	0.8	16
PCR % Reported	50.3	60.41	-1011	55.3	-500	60.63	62.71	-208
Slippages	367	164	124%	222	65%	500	628	-20%
Slippage Ratio %	3.68	1.80	188	2.24	143	1.34	1.73	-40
Restructured Assets	1,930	1,763	9%	2,000	-4%	1,882	1,413	33%
Credit Cost %	1.07	0.94	12	0.68	38	1.11	0.43	68
Ratios %								
Fees income to Advances	0.67	0.72	-4	0.61	-15	0.69	0.61	8
Cost to Income ratio	53.0	54.31	-128	58.19	-108	56.19	49.96	624
Tax Rate	35.14	34.11	103	35.85	25	31.06	30.37	69
Loan/Deposit	74.68	75.10	-42	74.58	149	72.03	76.29	-426
CASA %	23.0	21.5	153	22.8	52	20.59	20.7	-11
RoA %	0.66	0.6	3	0.62	17	0.52	1.0	-48
CAR (Basel III) %	11.7	11.38	32	11.86	46	12.01	12.42	-41
Tier I %	9.4	10.01	-61	9.6	-40	10.43	10.79	-36
Opex to Loan book	2.98	2.87	11	3.00	24	2.80	2.44	36
Margins %								
Yield on Advances	11.21	11.79	-58	11.38	-17	11.74	12.37	-63
Cost of Deposits	7.38	7.97	-59	7.53	-15	7.99	8.13	-14
Quarterly NIMs	2.92	2.70	22	2.81	11	2.7	3.0	-30

*Source – Company, Dimensional Securities

**ROA Tree Analysis:**

ROA Tree	Dec-15	Sep-15	Jun-15	Mar-15	Dec-14	FY15	FY14
Interest Income	9.7%	9.9%	9.8%	9.3%	9.8%	9.3%	9.6%
Interest Expenses	6.9%	7.2%	7.3%	6.8%	7.4%	6.9%	6.9%
Net Interest Income	2.8%	2.7%	2.4%	2.4%	2.4%	2.4%	2.7%
Other Income	1.1%	0.9%	0.7%	0.9%	1.2%	0.9%	0.7%
Fee Income	0.5%	0.4%	0.5%	0.9%	0.5%	0.5%	0.4%
Total Income	3.9%	3.6%	3.1%	3.3%	3.6%	3.3%	3.4%
Operating Expenses	2.1%	2.1%	1.9%	2.1%	2.0%	1.8%	1.7%
Employee	1.3%	1.3%	1.1%	1.4%	1.2%	1.1%	1.0%
Others	0.8%	0.8%	0.8%	0.7%	0.8%	0.7%	0.7%
Operating Profits before provisions	1.8%	1.5%	1.3%	1.2%	1.6%	1.4%	1.7%
Exceptional Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Total Provisions	0.7%	0.5%	0.6%	1.0%	0.6%	0.7%	0.3%
PBT	1.1%	1.0%	0.7%	0.2%	1.0%	0.8%	1.4%
Taxes	0.4%	0.4%	0.3%	0.1%	0.3%	0.2%	0.4%
PAT (RoA)	0.7%	0.7%	0.5%	0.1%	0.7%	0.5%	1.0%
Average Assets/ Average Equity	15.43	15.51	15.80	16.40	15.16	16.40	16.44
RoE	10.8%	10.2%	7.3%	1.9%	10.0%	8.8%	15.9%

*Source – Company, Dimensional Securities

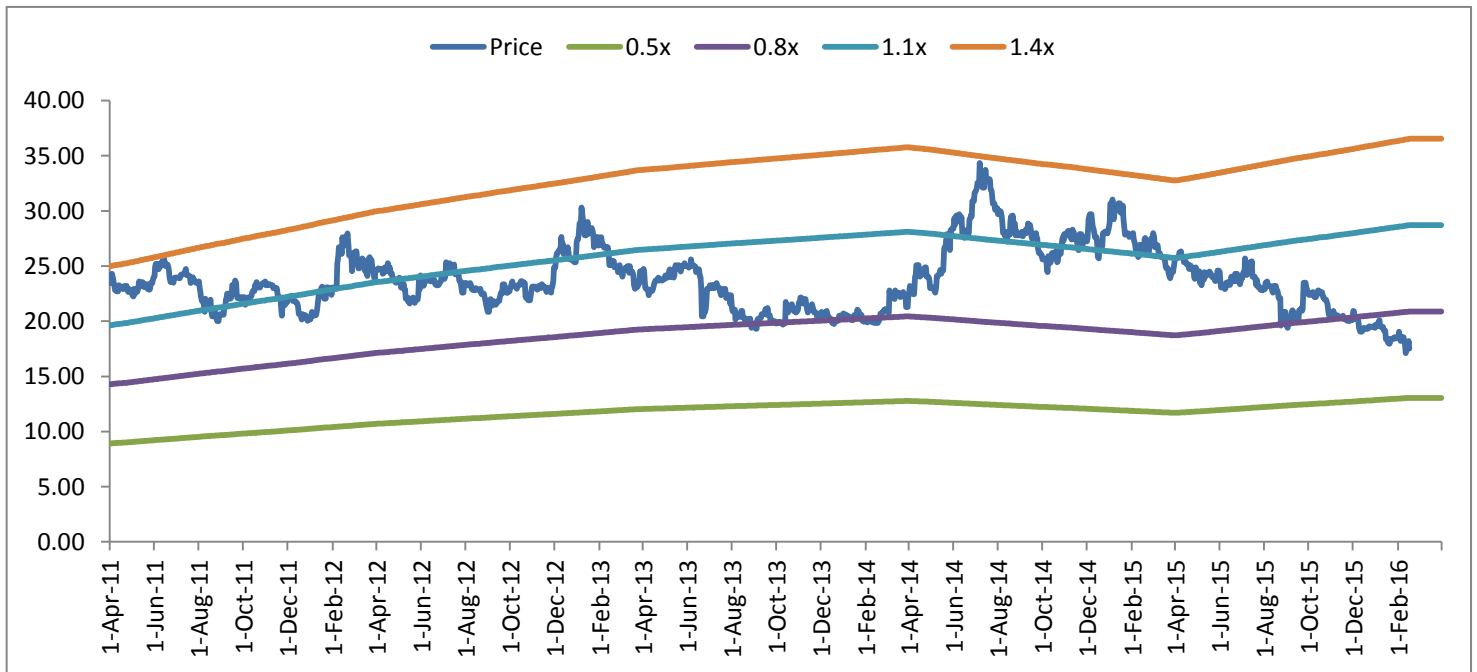


OUTLOOK & VALUATION: -

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P/BV (Forward)



*Source – Company, Dimensional Securities



Balance Sheet

Particulars, Rs. Crs	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS :					
Capital	134	135	135	135	135
Reserves Total	3,234	3,454	3,779	4,139	4,578
Equity Application Money	2	2	2	2	2
Deposits	47,491	51,912	53,859	58,707	63,990
Borrowings	2,731	2,232	1,749	1,909	2,090
Other Liabilities & Provisions	1,394	1,380	1,455	1,523	1,601
TOTAL LIABILITIES	54,986	59,116	60,980	66,414	72,397
APPLICATION OF FUNDS :					
Cash & Balances with RBI	2,201	2,442	2,156	2,350	2,561
Balances with Banks & money at Call	1,017	1,154	360	462	452
Investments	14,352	16,717	13,374	14,444	15,310
Advances	36,230	37,392	40,681	45,443	50,987
Fixed Assets	412	479	485	409	432
Other Assets	774	933	3,924	3,308	2,654
TOTAL ASSETS	54,986	59,116	60,980	66,414	72,397

*Source – Company, Dimensional Securities

Profit and Loss Account

Particulars, Rs. Cr	FY14	FY15	FY16E	FY17E	FY18E
Interest Earned	5,015	5,286	5,266	5,421	5,911
Interest expended	3,616	3,920	3,782	3,884	4,166
Net Interest Income	1,399	1,366	1,484	1,536	1,745
Other Income	368	497	547	601	662
NII+ Other Inc.	1,767	1,863	2,031	2,138	2,407
Employees Cost	529	634	659	675	745
Op, Admin & Other exp	354	413	458	469	518
Profit Before Provision & Cont	884	816	914	994	1,143
Provisions & Contingencies	155	371	407	432	459
PBT	729	446	507	562	684
Provision for Tax	221	138	173	191	233
PAT	508	307	334	371	452

*Source – Company, Dimensional Securities



Ratio Analysis

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Spread Analysis					
Yield on Earning Assets	9.8%	9.5%	9.3%	9.2%	9.1%
Cost of Funds	7.3%	7.3%	6.7%	6.5%	6.4%
Interest Spread	2.5%	2.2%	2.6%	2.7%	2.6%
Net Interest Margin (Calculated)	2.7%	2.5%	2.6%	2.6%	2.7%
Profitability Ratio					
RoE, %	15.9%	8.8%	8.9%	9.1%	10.0%
RoA, %	1.0%	0.5%	0.6%	0.6%	0.7%
Interest Expense/Interest Income	72.1%	74.2%	71.8%	71.7%	70.5%
Non-Interest Income/Total Income	20.8%	26.7%	26.9%	28.1%	27.5%
Efficiency Ratio					
Cost/Income	50.0%	56.2%	55.0%	53.5%	52.5%
Employee Cost/Operating Expenses	59.9%	60.5%	59.0%	59.0%	59.0%
Asset Liability Ratio					
Credit/Deposit	76.3%	72.0%	75.5%	77.4%	79.7%
CASA/Deposit	20.7%	20.6%	23.4%	23.9%	24.5%
Investment/Deposits	30.2%	32.2%	24.8%	24.6%	23.9%
Valuation Ratio					
Book Value (Adjusted), Rs.	23.0	24.0	23.4	26.1	29.5
EPS, Rs.	3.8	2.3	2.5	2.7	3.3
Dividend, Rs.	0.8	0.6	0.6	0.7	0.8
P/BV, x	1.0	0.7	0.7	0.7	0.6
P/E, x	5.9	7.7	7.1	6.4	5.2

Source: Company, Dimensional Securities

Note – Book Value – Adjusted for NPA



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