



South Indian Bank Q4 FY16 Quarterly Update

MARKET DATA

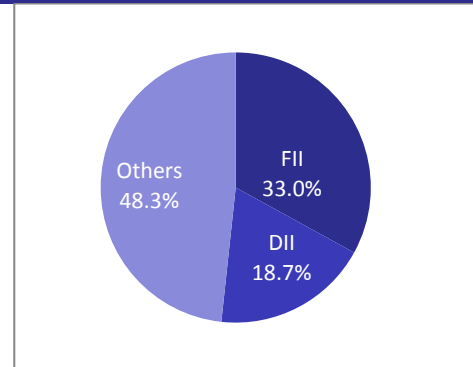
Fig. (Rs. in Cr.) except Ratios

Networth (FY17E)	4,179
Price/Book Value Ratio (FY17E)	0.8
EPS-Unit Curr. (FY17E)	2.6
Market Price (17/5/2016)	18
P/E Ratio (FY17E)	7.2
52 Week High (6/7/2015)	26
52 Week Low (29/2/2016)	16
Market Capitalisation	2,491

AVERAGE MONTHLY VOLUME ('000)

BSE	385
NSE	3,551

SHAREHOLDING PATTERN



RETURN (%)	3M	6M	12M
Stock	7.6	-10.0	-24.2
BSE	10.2	-0.4	-5.7

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In Q4 FY16, South Indian Bank (SIB) reported poor set of numbers. PAT was down q-o-q at Rs. 73crs due to lower NII, lower other income and higher credit cost. Asset quality further worsened in the quarter. Slippage was high at 8%. Yield on advances was low at 10.56% against base rate of 10%.

Loan book growth at 3% q-o-q led by Retail (ex-gold), SME and Agri segments

Sequentially, loan book for SIB grew by 3% (10% y-o-y) to Rs 411bn. Retail (ex-gold)\SME\Agri grew by 10%\8%\4% q-o-q respectively. Loan book mix remained stable with Retail\SME\Agri\Corporate exposure at 24%\24%\14%\39%. Management continues to guide for retail segment focus, especially housing and SME loans due to challenges in the corporate book and has guided a loan book growth of 15-16%.

Lower NIMs due to high interest income reversal

Yield on advances fell sharply to 10.56%-the bank has a base rate of 10%.NIMs fell by 29bps to 2.63% largely due to higher interest reversal (13bps impact) & contraction of spreads by 51bps. Forex income too declined sharply from Rs. 22crs to Rs 10 crs sequentially. Management has guided NIMs to be in the range of 2.8-2.9% for FY17E.

Sharp deterioration in Asset Quality

Slippages were very high at ~8.2% vs. run rate of ~1.7% over last 9 quarters. They were largely driven by corporate segment (iron & steel & EPC segments). GNPA & NNPA stood at 3.8% & 2.9% (up 102bps & 109bps sequentially) respectively. Credit cost was marginally up. Higher slippages led to PCR falling off by 10 percentage points to 40%. Standard restructured portfolio declined from Rs1930crs to Rs. 949crs as Rs 670crs of SEB loans of bonds were issued under UDAY. Stress outstanding as on Q4FY16- Security Receipts\SDR\Restructured book stood at Rs 221\290\949crs respectively.

Outlook and Valuation

Weak asset quality continues to put pressure on the bank's performance. Further, the bank has guided higher opex for FY17. We lower our earnings estimate by 6%/0.4% for FY17 & FY18E.

We expect ROE to be 9% & 10% in FY17E and FY18E respectively. We maintain a HOLD rating with a target price of Rs. 19 (1.0x P/ Adj.BV FY17E after providing for 70% provisioning on GNPA shortfall & Security Receipts and 50% on restructured assets & strategic debt restructuring (SDR).

Quarterly Performance:

Particulars Rs in crs	Q4 FY16	Q4 FY15	y-o-y	Q3 FY16	q-o-q	FY16	FY15	y-o-y
Interest Income	1,368	1,322	3%	1,408	-3%	5,557	5,286	5%
Interest Expenses	994	975	2%	1,001	-1%	4,048	3,920	3%
Net Interest Income	374	347	8%	407	-8%	1,510	1,366	10%
Other Income	139	122	14%	153	-9%	517	497	4%
Total Income	513	469	9%	560	-8%	2,027	1,863	9%
Operating Expenses	291	304	-4%	297	-2%	1,148	1,047	10%
Operating Profits before provisions	222	165	35%	263	-16%	879	816	8%
Total Provisions	116	138	-16%	106	9%	370	414	-11%
PBT	106	27	289%	157	-32%	510	446	14%
Taxes	33	11	203%	55	-40%	176	138	27%
PAT	73	16	347%	102	-28%	333	307	8%

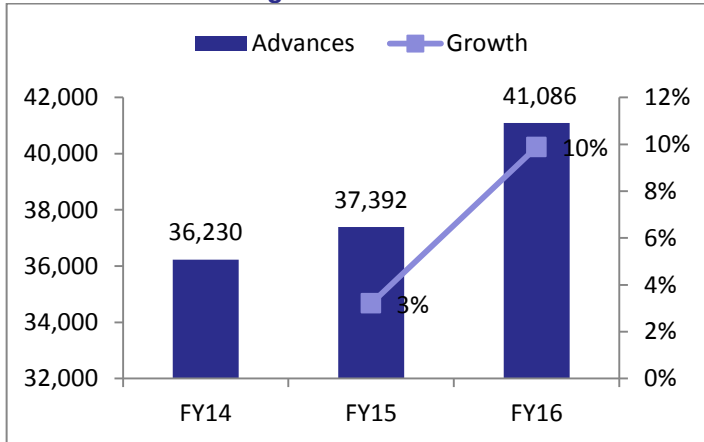


Q4 FY16 CONFERENCE CALL HIGHLIGHTS: -

- Management continues its focus on MSME & retail segment and has guided more than 20% growth in these segments including gold. Within the retail segment, bank is focusing on housing segment. In the corporate segment, bank has guided growth of ~10%. Overall, bank has guided ~15% growth in advances. Company’s vision 2020 to have retail/corporate mix in the ratio of 70:30 is well on track.
- Bank has guided CASA to improve by 2% every year and deposit growth of ~15% for FY17E.
- Management guided NIMs to be in the range of 2.8-2.9% for FY17E.
- Opex growth target to be in the range of 10-12% for FY17E.
- NRI deposits have grown by 24% y-o-y. Bank is not seeing any slowdown in NRI deposits from gulf, but has seen steady growth. Bank is not seeing people coming back from Gulf on account of job losses.
- Most of the slippages are coming from the corporate sector (Especially Iron & steel & EPC segment). Bank expects maximum slippages of Rs. 200-250crs for FY17 and no slippages from discoms. Slippages in the retail sector (where loans are < Rs. 25crs) came from textiles, auto dealers & micro-finance companies. Break up of slippages: additions of Rs. 845crs, recovery of Rs.135crs, upgrades of Rs.57crs and write off of Rs.199crs. Outstanding 5:25 refinancing stood at Rs. 91crs for FY16.
- Credit cost for FY16 stood at ~90bps. Management is confident that this is the peak and going forward credit cost should decline.

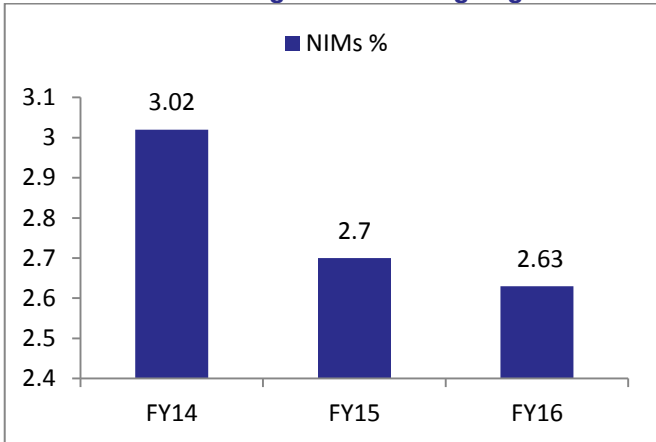
Graphs of important parameters

Moderate Loan book growth



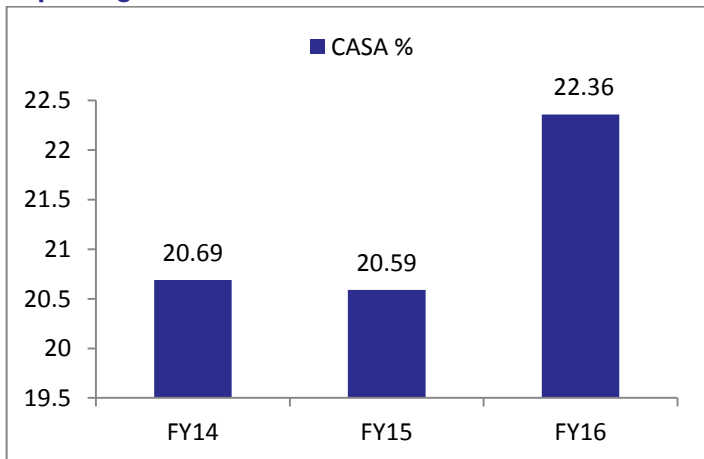
*Source – Company, Dimensional Securities

NIMs to be in the range of 2.8-2.9% going ahead



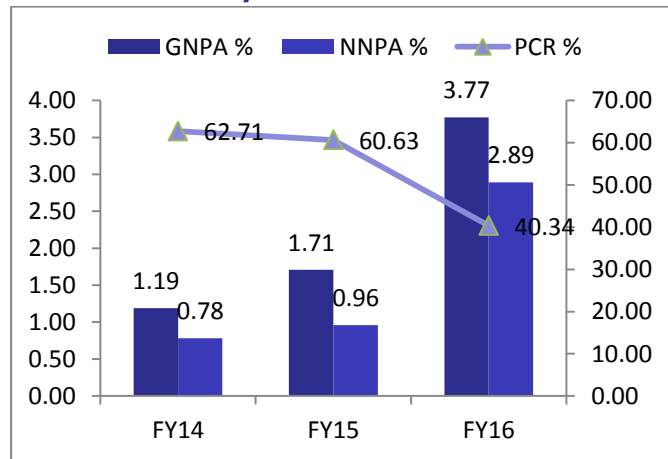
*Source – Company, Dimensional Securities

Improving CASA



*Source – Company, Dimensional Securities

Weak Asset Quality



*Source – Company, Dimensional Securities



QUARTERLY PERFORMANCE:

Particulars	Mar-16	Mar-15	y-o-y	Dec-15	q-o-q	FY16	FY15	y-o-y
Interest Income	1,368	1,322	3%	1,408	-3%	5,557	5,286	5%
Interest Expenses	994	975	2%	1,001	-1%	4,048	3,920	3%
Net Interest Income	374	347	8%	407	-8%	1,510	1,366	10%
Other Income	139	122	14%	153	-9%	517	497	4%
Fee Income	76	72	6%	67	13%	275	258	7%
Total Income	513	469	9%	560	-8%	2,027	1,863	9%
Operating Expenses	291	304	-4%	297	-2%	1,148	1,047	10%
Employee	172	198	-13%	185	-7%	692	634	9%
Others	120	106	13%	112	6%	456	413	10%
Operating Profits before provisions	222	165	35%	263	-16%	879	816	8%
Total Provisions	116	138	-16%	106	9%	370	414	-11%
PBT	106	27	289%	157	-32%	510	446	14%
Taxes	33	11	203%	55	-40%	176	138	27%
PAT	73	16	347%	102	-28%	333	307	8%
EPS	0.5	0.1	347%	0.8	-28%	2.5	2.3	8%
Asset Quality								
GNPA Rs. Cr	1,562	643	143%	1,108	41%	1,562	643	143%
NNPA Rs. Cr	1,185	357	232%	716	66%	1,185	357	232%
GNPA %	3.77	1.71	206	2.75	102	3.77	1.71	206
NNPA %	2.89	1.0	193	1.8	109	2.89	0.96	193
PCR % Reported	40.34	60.63	-2029	50.3	-996	40.34	60.63	-2029
Slippages	845	159	431%	367	130%	845	500	69%
Slippage Ratio %	8.23	1.70	653	3.68	455	2.06	1.34	72
Restructured Assets	949	1,882	-50%	1,930	-51%	949	1,882	-50%
Credit Cost %	1.13	1.47	-34bps	1.07	7bps	0.90	1.11	-21
Ratios %								
Fees income to Advances	0.74	0.77	-3	0.67	7	0.67	0.69	-2
Cost to Income ratio	56.7	64.8	-812	53.03	368	56.6	56.2	43
Tax Rate	31.2	40.1	-888	35.14	-393	34.6	31.1	356
Loan/Deposit	73.74	72.03	171	74.68	-94	73.74	72.03	171
CASA %	22.4	20.6	177	23.03	-67	22.36	20.59	177
RoA %	0.47	0.1	35	0.66	-19	0.54	0.52	2
CAR (Basel III) %	11.8	12.01	-21	11.7	10	11.8	12.01	-21
Opex to Loan book	2.83	3.25	-42	2.98	-14	2.79	2.80	-1
Margins (%)	2.98	2.87	11	3.00	24	2.80	2.44	36
Yield on Advances	10.56	11.74	-118	11.21	-65	10.56	11.74	-118
Cost of Deposits	7.24	7.99	-75	7.38	-14	7.24	7.99	-75
Quarterly NIMs	2.63	2.70	-7	2.92	-29	2.63	2.7	-7
Balance sheet								
Deposits	55,721	51,912	7%	53,441	4%	55,721	51,912	7%
Loan book	41,086	37,392	10%	39,909	3%	41,086	37,392	10%

*Source – Company, Dimensional Securities



ROA Tree Analysis:

ROA Tree	Mar-16	Dec-15	Sep-15	Jun-15	Mar-15	FY16	FY15
Interest Income	8.9%	9.7%	9.9%	9.8%	9.3%	9.2%	9.3%
Interest Expenses	6.5%	6.9%	7.2%	7.3%	6.8%	6.6%	6.9%
Net Interest Income	2.4%	2.8%	2.7%	2.4%	2.4%	2.5%	2.4%
Other Income	0.9%	1.1%	0.9%	0.7%	0.9%	0.8%	0.9%
Fee Income	0.5%	0.5%	0.4%	0.5%	0.9%	0.5%	0.5%
Total Income	3.4%	3.9%	3.6%	3.1%	3.3%	3.3%	3.3%
Operating Expenses	1.9%	2.1%	2.1%	1.9%	2.1%	1.9%	1.8%
Employee	1.1%	1.3%	1.3%	1.1%	1.4%	1.1%	1.1%
Others	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%
Operating Profits before provisions	1.5%	1.8%	1.5%	1.3%	1.2%	1.4%	1.4%
Exceptional Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Total Provisions	0.8%	0.7%	0.5%	0.6%	1.0%	0.6%	0.7%
PBT	0.7%	1.1%	1.0%	0.7%	0.2%	0.8%	0.8%
Taxes	0.2%	0.4%	0.4%	0.3%	0.1%	0.3%	0.2%
PAT (RoA)	0.5%	0.7%	0.7%	0.5%	0.1%	0.5%	0.5%
Average Assets/ Average Equity	16.44	15.43	15.51	15.80	16.40	16.44	16.40
RoE	7.8%	10.8%	10.2%	7.3%	1.9%	9.0%	8.8%

*Source – Company, Dimensional Securities

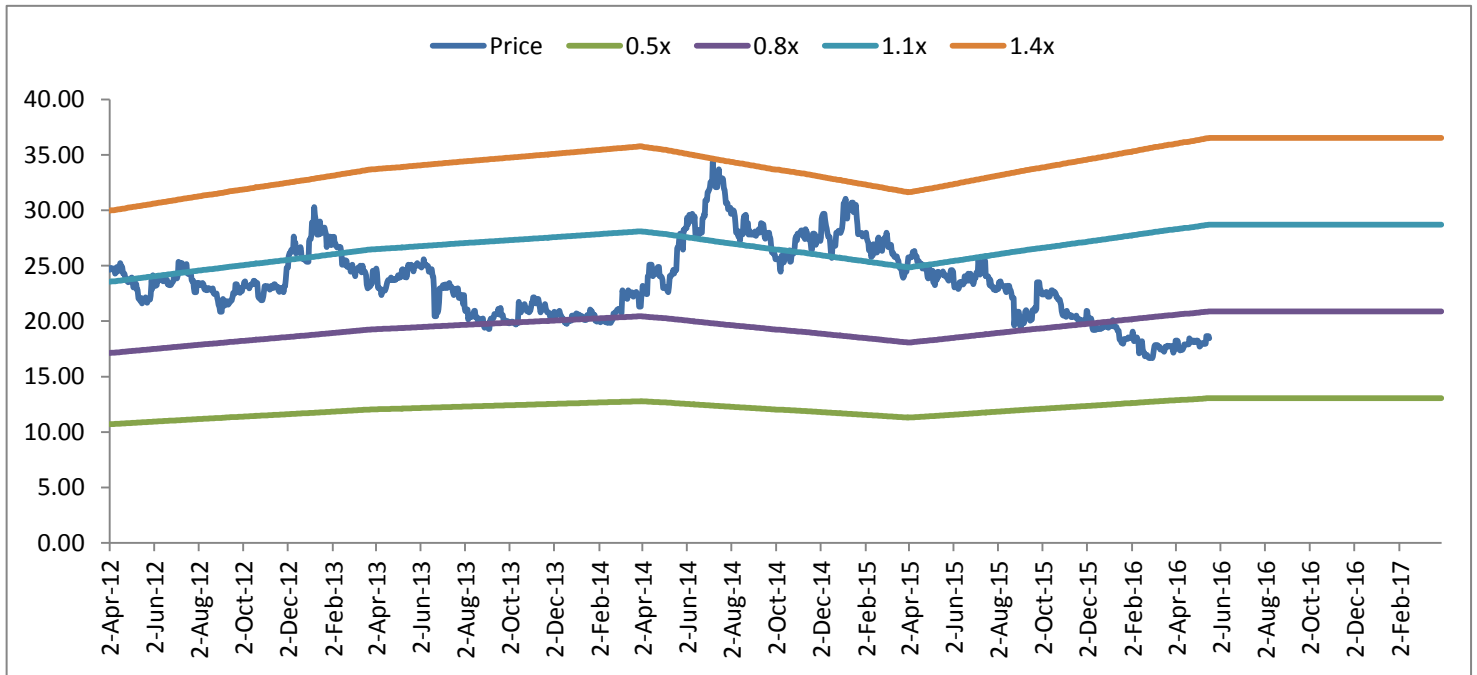


OUTLOOK & VALUATION: -

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P/BV (Forward)



*Source – Company, Dimensional Securities



Balance Sheet

Particulars, Rs. Crs	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS :					
Capital	134	135	135	135	135
Reserves Total	3,234	3,454	3,707	4,044	4,489
Equity Application Money	2	2	4	4	4
Deposits	47,491	51,912	55,721	62,964	71,779
Borrowings	2,731	2,232	2,315	2,622	2,998
Other Liabilities & Provisions	1,394	1,380	1,294	1,343	1,406
TOTAL LIABILITIES	54,986	59,116	63,175	71,112	80,811
APPLICATION OF FUNDS :					
Cash & Balances with RBI	2,201	2,442	2,476	2,520	2,873
Balances with Banks & money at Call	1,017	1,154	623	1,685	2,965
Investments	14,352	16,717	14,619	15,788	16,894
Advances	36,230	37,392	41,086	46,540	53,215
Fixed Assets	412	479	487	504	535
Other Assets	774	933	3,884	4,075	4,329
TOTAL ASSETS	54,986	59,116	63,175	71,112	80,811

*Source – Company, Dimensional Securities

Profit and Loss Account

Particulars, Rs. Cr	FY14	FY15	FY16	FY17E	FY18E
Interest Earned	5,015	5,286	5,557	5,916	6,674
Interest expended	3,616	3,920	4,048	4,323	4,829
Net Interest Income	1,399	1,366	1,510	1,593	1,845
Other Income	368	497	517	569	626
NII+ Other Inc.	1,767	1,863	2,027	2,162	2,471
Employees Cost	529	634	692	746	817
Op, Admin & Other exp	354	413	456	519	567
Profit Before Provision & Cont	884	816	879	897	1,087
Provisions & Contingencies	155	371	370	372	399
PBT	729	446	510	525	688
Provision for Tax	221	138	176	178	234
PAT	508	307	333	346	454

*Source – Company, Dimensional Securities



Ratio Analysis

Particulars	FY14	FY15	FY16	FY17E	FY18E
Spread Analysis					
Yield on Earning Assets	9.8%	9.5%	9.7%	9.6%	9.5%
Cost of Funds	7.3%	7.3%	7.0%	6.8%	6.7%
Interest Spread	2.5%	2.2%	2.6%	2.8%	2.8%
Net Interest Margin (Calculated)	2.7%	2.5%	2.6%	2.6%	2.6%
Profitability Ratio					
RoE, %	15.9%	8.8%	9.0%	8.6%	10.3%
RoA, %	1.0%	0.5%	0.5%	0.5%	0.6%
Interest Expense/Interest Income	72.1%	74.2%	72.8%	73.1%	72.4%
Non-Interest Income/Total Income	20.8%	26.7%	25.5%	26.3%	25.3%
Efficiency Ratio					
Cost/Income	50.0%	56.2%	56.6%	58.5%	56.0%
Employee Cost/Operating Expenses	59.9%	60.5%	60.3%	59.0%	59.0%
Asset Liability Ratio					
Credit/Deposit	76.3%	72.0%	73.7%	73.9%	74.1%
CASA/Deposit	20.7%	20.6%	22.4%	23.9%	24.5%
Investment/Deposits	30.2%	32.2%	26.2%	25.1%	23.5%
Valuation Ratio					
Book Value (Adjusted), Rs.	23.0	24.0	19.7	22.6	26.1
EPS, Rs.	3.8	2.3	2.5	2.6	3.4
Dividend, Rs.	0.8	0.6	0.6	0.6	0.6
P/BV, x	1.0	1.1	0.9	0.8	0.7
P/E, x	5.9	11.1	7.1	7.2	5.5

Source: Company, Dimensional Securities

Note – Book Value – Adjusted for NPA



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