



South Indian Bank Q2 FY16 Quarterly Update

MARKET DATA

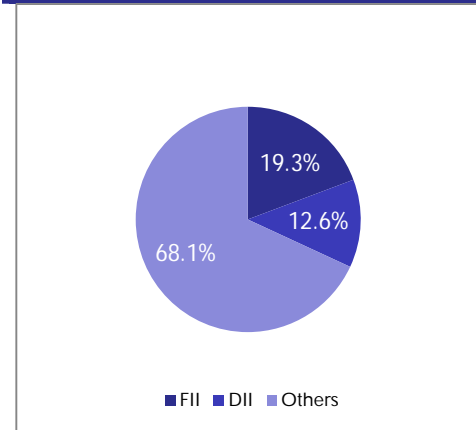
Fig. in ` (in Cr.) except Ratios

Networth	3,751
Price/Book Value Ratio (FY16E)	0.9
EPS-Unit Curr. (FY16E)	2.49
Market Price (4/11/2015)	21
P/E Ratio (FY16E)	8.0
52 Week High (15/01/2015)	32
52 Week Low (25/08/2015)	19
Market Capitalisation	2,829

AVERAGE MONTHLY VOLUME ('000)

BSE	313.4
NSE	2,507.8

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 ` Cr	Q2 FY16	Q2 FY15	% YoY	Q1 FY16	%QoQ	FY15	FY14	% YoY
Interest Income	1,405	1,312	7%	1,377	2%	5,286	5,015	5%
Interest Expenses	1,017	954	7%	1,036	-2%	3,920	3,616	8%
Net Interest Income	388	358	8%	340	14%	1,366	1,399	-2%
Other Income	121	94	29%	104	17%	497	369	35%
Total Income	510	452	13%	444	15%	1,863	1,767	5%
Operating Expenses	297	241	23%	263	13%	1,047	883	19%
Operating Profits before provisions	213	211	1%	181	18%	816	884	-8%
Total Provisions	67	96	-30%	80	-15%	414	155	166%
PBT	146	115	26%	101	44%	446	729	-39%
Taxes	52	39	34%	36	45%	138	221	-37%
PAT	93	76	22%	65	43%	307	508	-39%

Steady loan book growth led by Agri and SME segments

On sequential basis, loan book for SIB grew by 3.6% (12.1% YoY) led by 8.9% (57.1% YoY) growth in Agri segment, 6.6% (12.3% YoY) growth in SME segment and 3.3% (17.4% YoY) growth in the Corporate book. However, Retail segment de-grew by 1.2% (10.3% YoY) due to continuous pressure on gold loan portfolio. Corporate and Agri segment contribution remained around 42% and 13% respectively. Retail share in the loan book fell marginally to 22%. Management continues to focus on retail book, especially housing and SME loans going ahead due to challenges in the corporate book.

Steady NIM for the quarter; Expected pressure going forward

NIMs improved by 27bps QoQ (up 1bp YoY) to 2.81% due to fall in the cost of deposit which was more than that in yield on advances. Yield on advances decreased by 11bps QoQ (58bps YoY). Cost of funds significantly declined by 32bps QoQ (42bps YoY) due to reduction in deposit rates. CASA has improved by 52bps QoQ (80bps YoY) and supported fall in the cost of funds on sequential as well as YoY basis. NIMs are expected to be under pressure in FY17 due to proposed change in the base rate calculation methodology. Cost to Income ratio remained at 58.19%.

Sharp deterioration in Asset Quality

Slippages rose by 27% QoQ (181%YoY) to `222 cr majorly contributed by slippages in corporate segment which sharply rose by 35 bps to 0.95%. GNPA jumped by 39bps QoQ (69bps YoY) to 2.2% due to weak economic recovery. GNPA in absolute terms increased by 25% QoQ (61% YoY) to `892 cr. Provision coverage ratio was down 83bps QoQ (761bps YoY). Credit costs stood at 0.7%, decreasing by 15bps QoQ (40 bps YoY). Restructured portfolio stood at `2,313 crores with power discoms and Construction EPC contributing 44% and 31% respectively. Also, it has sizeable exposure to an auto company which recently defaulted on its bond redemption.

Other Highlights

Other income grew by 17% to `121 crs. QoQ (29% YoY) due increase in profit on sale of Investments by `28 crs. to `42crs. However, Fee income de-grew by 17% QoQ (2% YoY) due to fall in transaction fee component. Bank has charged `1.7 cr on account of shortfall on financial asset sold to Asset Reconstruction Company and unamortised balance on of `3.3 crs. to be amortised over the next two quarters.

Outlook and valuation

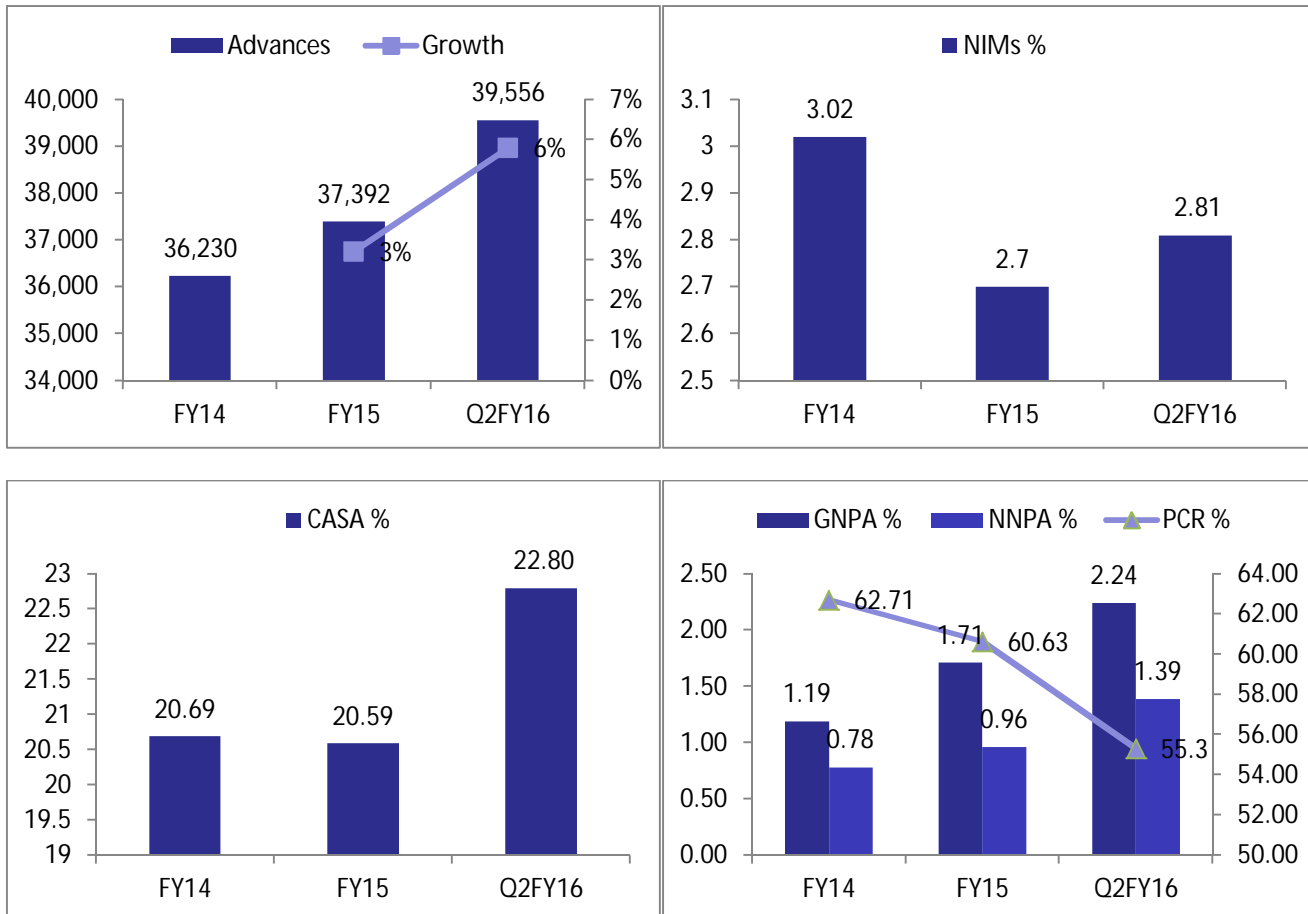
Weak asset quality and increasing pressure on CASA due to changes in the technology would continue to put pressure on the bank's performance. Banks like SIB are clouded by technology related changes and also competition from recently awarded small banks and payment bank licensees. Channel checks continue to suggest CASA share of large banks increasing at the expense of other banks like SIB. Accordingly, we build in, those pressures in our model and expect ROE of 11.5% and 12.7% in FY17E and FY18E. We maintain BUY rating with revised target price of `25 with an upside potential of 19% by Mar'16.

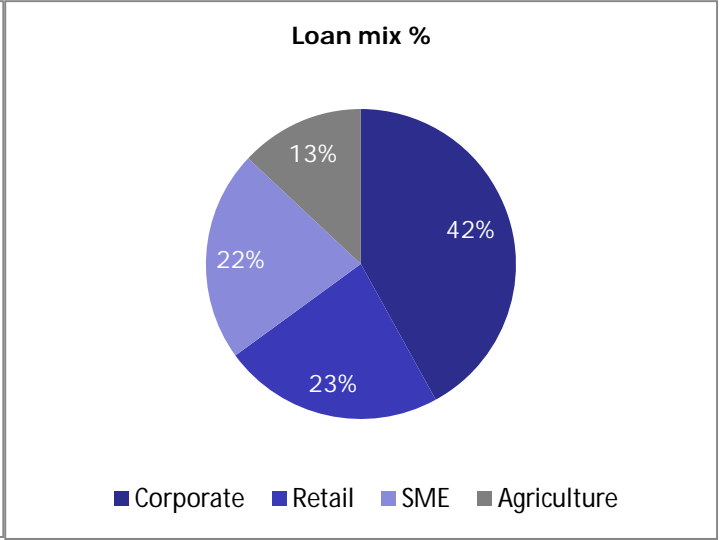
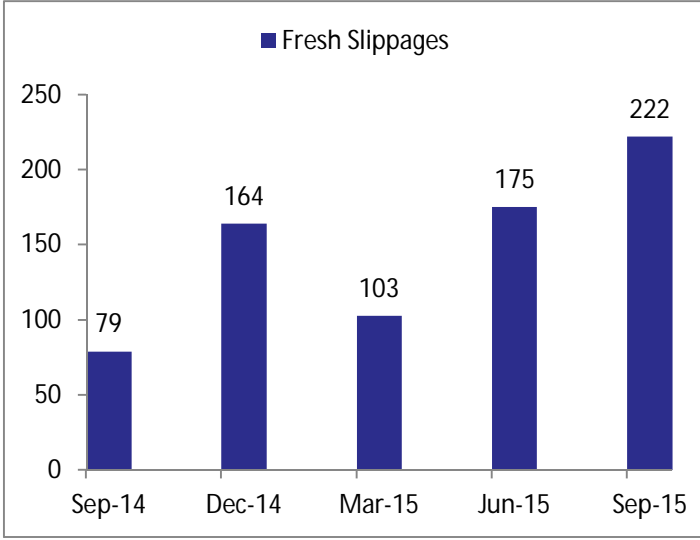


Q2 FY16 CONFERENCE CALL HIGHLIGHTS: -

- To focus on Retail especially housing loan and MSME segment going ahead
- Housing loans and auto loans to grow at 30% due to low base
- Volatile gold prices accounted for decrease in gold loan portfolio
- Bank has reasonable exposure to Amtek group of companies
- Cost to income ratio to be around 56% for FY16 and bank to focus to bring it down to 50% in medium term
- Deterioration in asset quality as recovery measures did not fructify
- One standard account amounting to ₹ 95 crs. slipped into restructured portfolio. Two accounts amounting to ₹ 119 crs. and ₹ 95 crs. were the major contributors to fresh slippages
- Two account may slip into NPA category if economy worsens
- No account under 5/25 scheme
- Increase in employee cost for the quarter due to non-recurring expenses of ₹ 10 crs.
- Retail hub in cochin to increase focus on housing finance to be fully operational from Q3FY16
- May look at strategic alliances and/or consultancy support to tackle competition from payment banks and small banks
- To focus on Gulf and North Kerala to garner savings account going ahead

Graphs of important parameters







QUARTERLY PERFORMANCE:

Particulars	Sep-15	Sep-14	% YoY	Jun-15	%QoQ	FY15	FY14	% YoY
Interest Income	1,405	1,312	7%	1,377	2%	5,286	5,015	5%
Interest Expenses	1,017	954	7%	1,036	-2%	3,920	3,616	8%
Net Interest Income	388	358	8%	340	14%	1,366	1,399	-2%
Other Income	121	94	29%	104	17%	497	369	35%
Fee Income	60	61	-2%	72	-17%	258	223	16%
Total Income	510	452	13%	444	15%	1,863	1,767	5%
Operating Expenses	297	241	23%	263	13%	1,047	883	19%
Employee	179	135	32%	157	14%	634	529	20%
Others	118	106	11%	106	11%	413	354	17%
Operating Profits before provisions	213	211	1%	181	18%	816	884	-8%
Total Provisions	67	96	-30%	80	-15%	414	155	166%
PBT	146	115	26%	101	44%	446	729	-39%
Taxes	52	39	34%	36	45%	138	221	-37%
PAT	93	76	22%	65	43%	307	508	-39%
EPS	0.7	0.6	22%	0.5	40%	2.3	3.8	-40%
Asset Quality								
GNPA Rs. Cr	892	553	61%	714	25%	643	433	49%
NNPA Rs. Cr	550	318	73%	464	18%	357	282	27%
GNPA %	2.24	1.55	69	1.85	39	1.71	1.20	51
NNPA %	1.39	0.9	49	1.21	18	0.96	0.8	16
PCR % Reported	55.3	62.91	-761	56.13	-83	60.63	62.71	-208
Slippages *	222	79	181%	175	27%	500	628	-20%
Slippage Ratio % *	2.24	0.89	135	1.83	41	1.34	1.73	-40
Restructured Assets	2,000	1,748	14%	1,975	1%	1,882	1,413	33%
Credit Cost %	0.68	1.08	-40	0.83	-15	1.11	0.43	68
Ratios %								
Fees income to Advances *	0.61	0.69	-9	0.76	-15	0.69	0.61	8
Cost to Income ratio	58.19	53.33	486	59.27	-108	56.19	49.96	624
Tax Rate	35.85	33.77	207	35.60	25	31.06	30.37	69
Loan/Deposit	74.58	75.75	-117	73.09	149	72.03	76.29	-426
CASA % *	22.8	22	80	22.28	52	20.59	20.7	-11
RoA %	0.62	0.8	-13	0.45	17	0.52	1.0	-48
CAR (Basel III) %	11.86	12.13	-27	11.4	46	12.01	12.42	-41
Tier I %	9.6	10.69	-109	10	-40	10.43	10.79	-36
Opex to Loan book	3.00	2.73	27	2.75	24	2.80	2.44	36
Margins %								
Yield on Advances	11.38	11.96	-58	11.49	-11	11.74	12.37	-63
Cost of Deposits	7.53	7.95	-42	7.85	-32	7.99	8.13	-14
Quarterly NIMs	2.81	2.8	1	2.54	27	2.7	3.0	-30



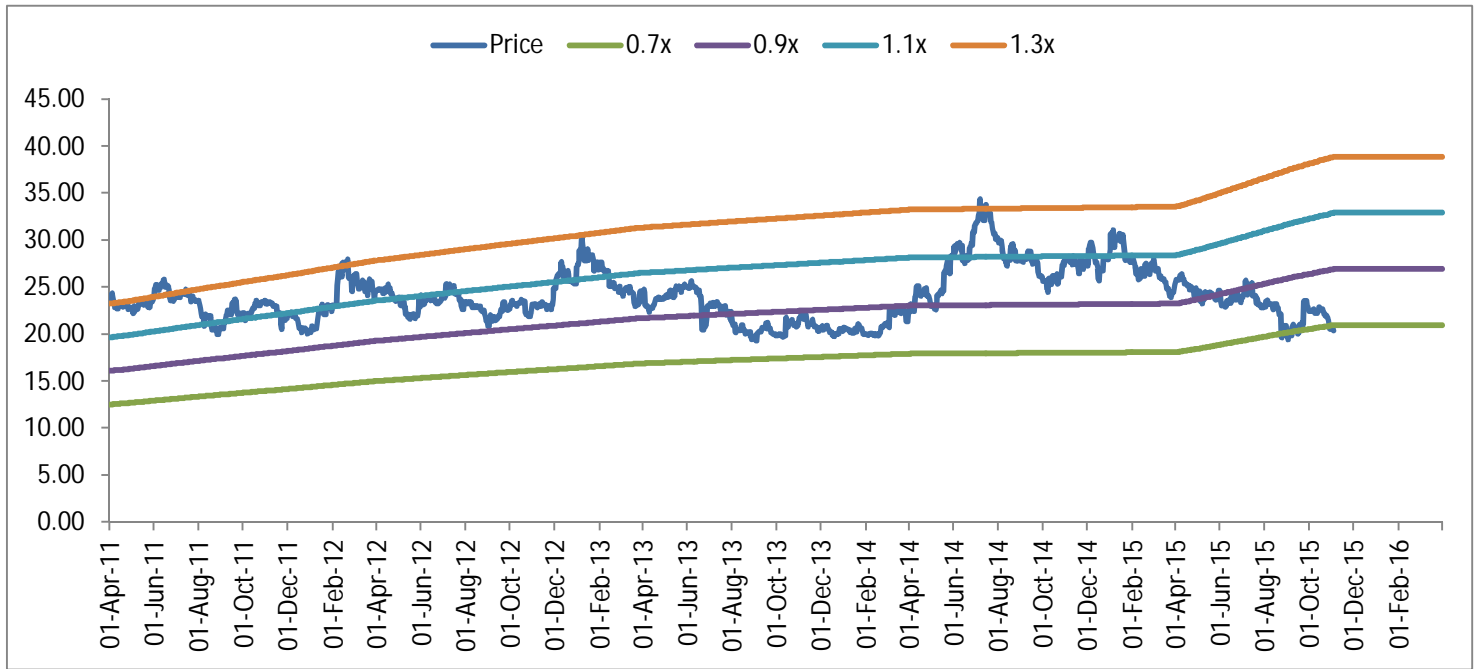
ROA Tree	Sep-15	Jun-15	Mar-15	Dec-14	Sep-14	FY15	FY14
Interest Income	9.9%	9.8%	9.3%	9.8%	10.1%	9.3%	9.6%
Interest Expenses	7.2%	7.3%	6.8%	7.4%	7.4%	6.9%	6.9%
Net Interest Income	2.7%	2.4%	2.4%	2.4%	2.8%	2.4%	2.7%
Other Income	0.9%	0.7%	0.9%	1.2%	0.7%	0.9%	0.7%
Fee Income	0.4%	0.5%	0.9%	0.5%	0.5%	0.5%	0.4%
Total Income	3.6%	3.1%	3.3%	3.6%	3.5%	3.3%	3.4%
Operating Expenses	2.1%	1.9%	2.1%	2.0%	1.9%	1.8%	1.7%
Employee	1.3%	1.1%	1.4%	1.2%	1.0%	1.1%	1.0%
Others	0.8%	0.8%	0.7%	0.8%	0.8%	0.7%	0.7%
Operating Profits before provisions	1.5%	1.3%	1.2%	1.6%	1.6%	1.4%	1.7%
Exceptional Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Total Provisions	0.5%	0.6%	1.0%	0.6%	0.7%	0.7%	0.3%
PBT	1.0%	0.7%	0.2%	1.0%	0.9%	0.8%	1.4%
Taxes	0.4%	0.3%	0.1%	0.3%	0.3%	0.2%	0.4%
PAT (RoA)	0.7%	0.5%	0.1%	0.7%	0.6%	0.5%	1.0%
Average Assets/ Average Equity	15.51	15.80	16.40	15.16	15.18	16.40	16.44
RoE	10.2%	7.3%	1.9%	10.0%	9.0%	8.8%	15.9%



OUTLOOK & VALUATION: -

Weak asset quality and increasing pressure on CASA due to changes in the technology would continue to put pressure on the bank's performance. Banks like SIB are clouded by technology related changes and also competition from recently awarded small banks and payment bank licensees. Channel checks continue to suggest CASA share of large banks increasing at the expense of other banks like SIB. Accordingly, we build in, those pressures in our model and expect ROE of 11.5% and 12.7% in FY17E and FY18E. We maintain BUY rating due to sharp drop in the stock price with revised target price of ₹25 with an upside potential of 19% by Mar'16.

P/BV (Forward)





Balance Sheet

Particulars ` Cr	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS :					
Capital	134	135	135	135	135
Reserves Total	3,234	3,454	3,830	4,302	4,891
Equity Application Money	2	2	2	2	2
Deposits	47,491	51,912	56,065	60,551	66,000
Borrowings	2,731	2,232	1,869	2,050	2,266
Other Liabilities & Provisions	1,394	1,380	1,733	2,097	2,450
TOTAL LIABILITIES	54,986	59,116	63,634	69,137	75,744
APPLICATION OF FUNDS :					
Cash & Balances with RBI	2,201	2,442	1,513	1,342	1,270
Balances with Banks & money at Call	1,017	1,154	1,009	895	847
Investments	14,352	16,717	18,222	19,862	21,649
Advances	36,230	37,392	41,531	45,559	50,357
Fixed Assets	412	479	462	503	551
Other Assets	774	933	897	976	1,070
TOTAL ASSETS	54,986	59,116	63,634	69,137	75,744

Profit and Loss Account

Particulars, ` Cr	FY14	FY15	FY16E	FY17E	FY18E
Interest Earned	5,015	5,286	5,544	5,940	6,417
Interest expended	3,616	3,920	3,984	4,177	4,413
Net Interest Income	1,399	1,366	1,559	1,763	2,005
Other Income	368	497	547	601	662
NII+ Other Inc.	1,767	1,863	2,106	2,364	2,666
Employees Cost	529	634	690	746	826
Op, Admin & Other exp	354	413	479	519	574
Profit Before Provision & Cont	884	816	937	1,099	1,266
Provisions & Contingencies	155	371	353	364	353
PBT	729	446	584	735	914
Provision for Tax	221	138	200	250	311
PAT	508	307	385	485	603



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%	6.9%	6.7%	6.5%
Net Interest Margin	2.7%	2.5%	2.6%	2.7%	2.8%
Profitability Ratio					
RoE, %	15.9%	8.8%	10.2%	11.5%	12.7%
RoA, %	1.0%	0.5%	0.6%	0.7%	0.8%
Interest Expense/Interest Income	72.1%	74.2%	71.9%	70.3%	68.8%
Non-Interest Income/Total Income	20.8%	26.7%	26.0%	25.4%	24.8%
Efficiency Ratio					
Cost/Income	50.0%	56.2%	55.5%	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%	74.1%	75.2%	76.3%
CASA/Deposit	20.7%	20.6%	22.5%	22.7%	22.9%
Investment/Deposits	30.2%	32.2%	32.5%	32.8%	32.8%



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