

South Indian Bank

Performance Highlights

Particulars (Rs cr)	1QFY11	4QFY10	% chg (qoq)	1QFY10	% chg (yoy)
Net Interest Income	167	79	112.2	152	9.8
Pre-Prov Profit	104	52	102.3	107	(2.3)
PAT	58	39	51.3	60	(2.8)

Source: Company, Angel Research

South Indian Bank announced its 1QFY2011 results, reporting net profit of Rs58cr in line with our estimates. The core business performance of the bank was above expectations on the back of strong traction in CASA deposits. The bank has been consistently growing its advances above industry levels during the past few quarters, with improving asset quality and profitability. On the valuation front, due to the recent sharp run up in the price, **we maintain our Neutral rating on the stock.**

Business growth above industry with commendable asset quality and profitability:

The bank's business growth continued to show strong traction, with advances growth at 33.6% yoy and deposits at 25.1% yoy. CASA deposits stood at Rs5,852cr (up 9.9% qoq) and constituted 25.1% (up by around 200bp qoq) of total deposits. NRI deposits constituted 16.1% of total deposits. Asset quality remained stable with the gross and net NPA ratio at 1.3% and 0.4% respectively, and a healthy provision coverage ratio of 71%.

Outlook and Valuation

We expect the bank to deliver profitable growth above the average growth rate of its peer group and sustain normalised RoE at 14-16% levels. At current levels the stock is trading at fair valuations of 6.8x FY2012E EPS of Rs28.5 and 1.1x FY2012E ABV of Rs171.9. Hence, **we maintain our Neutral rating on the stock.**

Key Financials

Particulars (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
NII	523	568	684	800
% chg	32.7	8.7	20.4	16.9
Net Profit	195	234	254	322
% chg	28.4	20.0	8.7	26.9
NIM (%)	2.9	2.5	2.5	2.5
EPS (Rs)	17.2	20.7	22.5	28.5
P/E (x)	10.9	9.1	8.4	6.8
P/ABV (x)	1.8	1.5	1.3	1.1
RoA (%)	1.0	1.0	0.9	1.0
RoE (%)	16.0	17.0	16.2	17.9

Source: Company, Angel Research

NEUTRAL

CMP	Rs193
Target Price	-

Investment Period	-
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Stock Info

Sector	Banking
Market Cap (Rs cr)	2,175
Beta	0.8
52 Week High / Low	196/93
Avg. Daily Volume	129,254
Face Value (Rs)	10
BSE Sensex	17,956
Nifty	5,394
Reuters Code	SIBK.BO
Bloomberg Code	SIB@IN

Shareholding Pattern (%)

Promoters	-
MF / Banks / Indian Fls	11.3
FII / NRIs / OCBs	40.3
Indian Public / Others	48.4

Abs. (%)	3m	1yr	3yr
Sensex	2.1	26.0	17.4
SIB	10.0	95.3	58.1

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Exhibit 1: 1QFY2011 Performance

Parameter (Rs cr)	1QFY11	4QFY10	% chg (qoq)	1QFY10	% chg (yoy)
Interest Earned	540	514	5.1	465	16.1
Interest Expenses	373	435	(14.3)	313	19.2
Net Interest Income	167	79	112.2	152	9.8
Non-Interest Income	42	44	(5.0)	56	(25.6)
Total Income	209	123	70.3	208	0.3
Operating Expenses	105	71	47.1	102	3.1
Pre-Prov Profit	104	52	102.3	107	(2.3)
Provisions & Cont.	17	(3)	(642.2)	10	60.1
PBT	88	55	60.4	96	(9.1)
Prov. for Taxes	29	16	82.2	36	(19.5)
PAT	58	39	51.3	60	(2.8)
EPS (Rs)	5.2	3.4	51.3	5.3	(2.8)
Cost to Income (%)	50.1	58.0		48.7	
Effective Tax Rate (%)	33.4	29.4		37.7	
Net NPA (%)	0.4	0.4		0.7	

Source: Company, Angel Research

Exhibit 2: 1QFY2011 Actual v/s Estimates

Parameter	Estimates	Actual	Variation (%)
Net Interest Income	158	167	5.8
Non-Interest Income	41	42	2.2
Total Income	199	209	5.1
Operating Expenses	96	105	9.0
Pre-Prov Profit	103	104	1.5
Provisions & Cont.	14	17	20.7
PBT	89	88	(1.5)
Prov. for Taxes	30	29	(3.3)
PAT	59	58	(0.5)

Source: Company, Angel Research

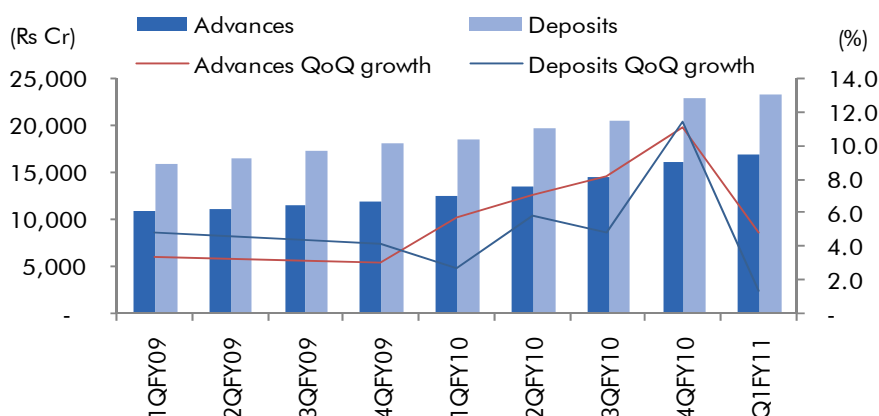
Robust business growth continued

The bank's business growth continued to register strong traction, with advances growth at 33.6% yoy and deposits growth at 25.1% yoy. The bank's CASA deposits stood at Rs5,852cr (up 9.9% qoq) and constituted 25.1% (up by around 200bp sequentially) of total deposits. NRI deposits constituted 16.1% of total deposits, which costs approx 3% for the bank.

The key drivers for growth in advances were the disbursements to the power and infrastructure sectors, and the loans against gold. The bank has been quite aggressively growing the high-yielding (12% avg. yield) and low-risk weighted short-term loans against gold, which stood at Rs3,000cr (up from Rs1,700cr in 1QFY2010). Management targets to lend Rs1,000cr incrementally in the remaining part of FY2011.

During the quarter, net interest income (NII) of the bank increased by 9.8% yoy to Rs167cr on the back of strong traction in CASA deposits. Reported NIMs improved marginally by 6bp sequentially to 2.83% from 2.77% in 4QFY2010.

Exhibit 3: Trend in advances and deposits

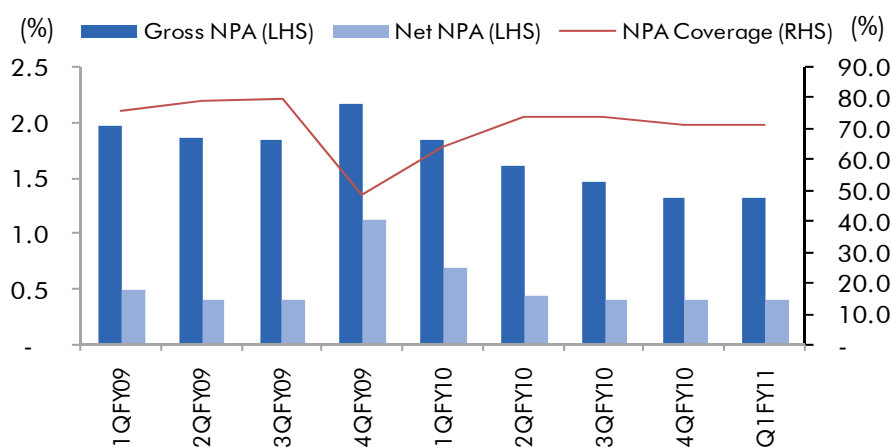


Source: Company, Angel Research

Healthy asset quality

The bank's gross and net NPAs have been on a steady decline since 4QFY2009, due to lower slippages and higher recoveries. The bank's gross NPAs were up 5.7% sequentially at Rs223cr; the gross and net NPA ratio remained flat sequentially at 1.3% and 0.4%, respectively. The bank maintained healthy provision coverage at 71%. The annualised gross slippage ratio for 1QFY2011 fell to 0.6% compared to 1.5% for FY2010.

Exhibit 4: NPAs declining



Source: Company, Angel Research

Operating expenses under control

SIB, during FY2010, had provided aggressively for employee cost during the first three quarters. As a result, operating expenses increased by 47.1% sequentially. The cost-to-income ratio of the bank deteriorated to 50.1% in 1QFY2011 as against 48.7% in 1QFY2010. During FY2011, the bank plans to add another 60 branches to its current network of 580 branches. Going forward, the bank's operating expenses are expected to grow in the range of 12-13% over FY2011-12E, thereby implying a sustainable cost-to-income ratio of 45% during the period.

Exhibit 5: Trend in productivity



Source: Company, Angel Research

Non-interest income continued to disappoint

During 1QFY2011, the bank's non-interest income excluding treasury increased 3.2% yoy, while the treasury income declined 64.1% yoy to Rs9.2cr resulting in decline of 25.6% yoy and 5.0% on a sequential basis in total non-interest income. Going forward, the growth in non-interest income excluding treasury is estimated to be in line with the advances growth. However, on account of lower treasury gains, overall non-interest income is estimated to decline by 16.4% in FY2011E.

Exhibit 6: Break-up of non-interest income

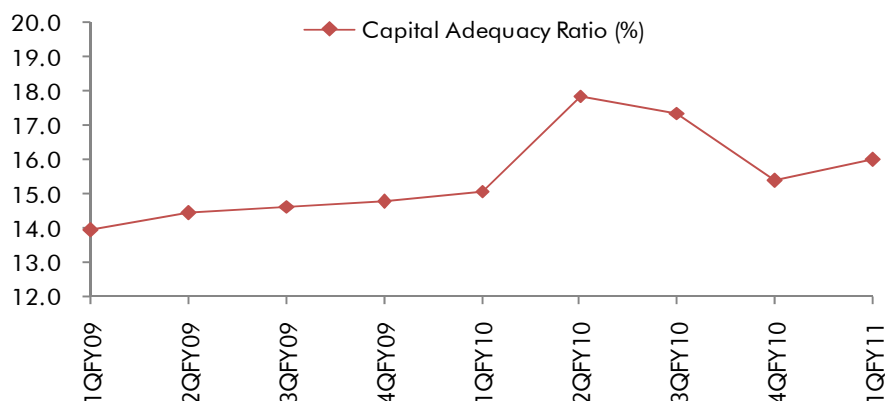
Parameter (Rs cr)	1QFY11	4QFY10	qoq (%)	1QFY10	yoy (%)
Non-Interest Income excluding Treasury	32	38	(15.8)	31	3.2
Treasury Gains	9	6	52.5	25	(64.0)
Total	42	44	(5.0)	56	(25.6)

Source: Company, Angel Research

Comfortable Capital Adequacy

The bank's capital adequacy ratio (CAR) stood at a comfortable 16.0%, with Tier-I capital of 13.1% at the end of 1QFY2011.

Exhibit 7: Comfortable capital adequacy



Source: Company, Angel Research

Investment Arguments

Profitable, cost-efficient and technologically up-to-date network

The bank's largely semi-urban branch network is concentrated in the southern states of the country. While enjoying customer loyalty that comes from years of association, the bank has ensured that it remains sufficiently in step with product, technology and service level developments in the industry thereby maintaining its market share over the past ten years. Thus, the bank's profitable, cost-efficient and technologically up-to-date network constitutes a reasonably attractive standalone franchise.

Niche NRI deposit base underpins deposit cost advantage over several peers

The bank's deposit franchise includes a niche NRI customer base that contributes a meaningful 16.1% of total deposits and gives it a distinguishing cost advantage over several of its peers. Thus, we believe that the bank will be relatively better-placed to protect its NIMs going forward.

Outlook and Valuation

At the CMP, the stock is trading at fair valuations of 6.8x FY2012E EPS of Rs28.5 and 1.1x FY2012E ABV of Rs171.9. Hence, **we maintain our Neutral rating on the stock.**

Exhibit 8: Key Assumptions

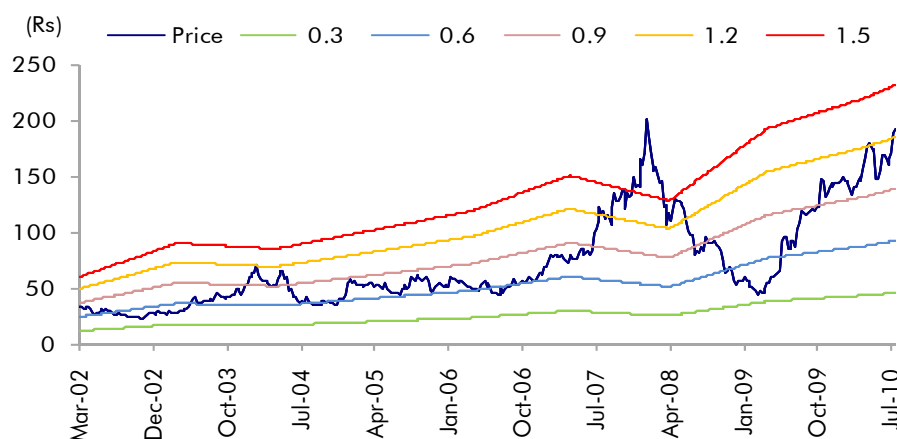
Particulars (%)	Earlier Estimates		Revised Estimates	
	FY2011E	FY2012E	FY2011E	FY2012E
Credit growth	19.0	20.0	19.0	20.0
Deposit growth	18.0	18.0	18.0	18.0
CASA Ratio	22.3	21.6	22.6	21.7
NIMs	2.5	2.5	2.5	2.5
Other Income growth	(16.8)	18.6	(16.4)	19.1
Growth in Staff Expenses	14.0	16.0	14.0	16.0
Growth in Other Expenses	14.0	16.0	14.0	16.0
Slippages	1.4	1.3	1.4	1.3
Coverage Ratio	73.1	74.5	73.3	74.7
Treasury gain/(loss) (% of investments)	0.3	0.3	0.3	0.3

Source: Company, Angel Research

Exhibit 9: Change in estimates

Particulars (Rs cr)	FY2011E			FY2012E		
	Earlier Estimates	Revised Estimates	Var (%)	Earlier Estimates	Revised Estimates	Var (%)
Net Interest Income	682	684	0.2	797	800	0.4
Non-Interest Income	173	174	0.4	206	207	0.9
Total Income	856	858	0.3	1,003	1,007	0.5
Operating Expenses	417	417	-	484	484	-
Pre-Prov Profit	438	441	0.6	518	523	0.9
Provisions & Cont.	55	56	0.7	34	35	2.6
PBT	383	385	0.5	485	489	0.8
Prov. for Taxes	130	131	0.5	165	166	0.8
PAT	253	254	0.5	320	322	0.8

Source: Company, Angel Research

Exhibit 10: P/ABV Bands - South Indian Bank


Source: Company, Angel research

Exhibit 11: Recommendation summary

Company	Reco	CMP (Rs)	Tgt Price (Rs)	Upside (%)	FY2012E P/ABV (x)	FY2012E Tgt P/ABV (x)	FY2012E P/E (x)	FY10-12E CAGR in EPS (%)	FY2012E RoA (%)	FY2012E RoE (%)
AXISBK	Accumulate	1,359	1,477	7.9	2.6	2.8	13.5	27.4	1.6	20.5
HDFCBK	Accumulate	2,039	2,204	8.1	3.3	3.5	17.6	34.3	1.7	20.0
ICICIBK	Buy	902	1,145	26.9	1.7	2.2	15.0	29.2	1.4	15.1
YesBk	Neutral	299	-	-	2.4	-	15.6	16.6	1.2	16.6
SIB	Neutral	193	-	-	1.1	-	6.8	17.1	1.0	17.9
FedBk	Neutral	357	-	-	1.1	-	7.6	31.4	1.4	14.6
SBI	Accumulate	2,441	2,596	6.3	1.4	1.6	10.7	25.7	1.0	19.5
BOI	Neutral	394	-	-	1.3	-	7.7	24.3	0.8	17.3
CorpBk	Accumulate	533	561	5.2	1.0	1.1	5.7	6.6	0.9	18.5
IndBk	Neutral	241	-	-	1.1	-	5.9	8.1	1.4	21.1
DenaBk	Buy	97	115	18.3	0.8	1.0	4.4	10.9	0.9	18.4
IOB	Accumulate	110	118	7.5	0.8	0.8	5.5	23.8	0.6	14.6
OBC	Neutral	372	-	-	1.0	-	6.2	15.0	0.9	16.6
PNB	Reduce	1068	948	(11.2)	1.5	1.3	7.4	8.3	1.2	21.6
UnionBk	Neutral	326	-	-	1.3	-	5.8	17.1	1.1	24.1

Source: Company, Angel Research

Income Statement (Rs cr)

Y/E March	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Interest Income	310	368	394	523	568	684	800
- YoY Growth (%)	20.7	18.5	7.2	32.7	8.7	20.4	16.9
Other Income	72	122	143	164	208	174	207
- YoY Growth (%)	(29.4)	68.1	17.3	15.2	26.9	(16.4)	19.1
Operating Income	382	489	537	687	777	858	1,007
- YoY Growth (%)	6.4	27.9	9.7	28.0	13.0	10.5	17.4
Operating Expenses	222	219	248	328	366	417	484
- YoY Growth (%)	22.1	(1.4)	13.4	32.4	11.5	14.0	16.0
Pre - Provision Profit	160	270	289	359	411	441	523
- YoY Growth (%)	(9.6)	68.4	6.8	24.3	14.5	7.4	18.7
Prov and Cont	87	124	57	57	43	56	35
- YoY Growth (%)	(44.8)	41.5	(54.0)	0.7	(24.5)	28.7	(37.7)
Profit Before Tax	73	146	232	301	367	385	489
- YoY Growth (%)	283.0	100.7	58.3	30.0	21.9	4.8	26.9
Prov. for Taxation	18	42	80	107	134	131	166
- as a % of PBT	24.7	28.9	34.6	35.4	36.4	34.0	34.0
PAT	55	104	152	195	234	254	322
- YoY Growth (%)	295.0	89.5	45.6	28.4	20.0	8.7	26.9

Balance Sheet (Rs cr)

Y/E March	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Share Capital	70	70	90	113	113	113	113
Reserve & Surplus	570	654	1,071	1,191	1,372	1,573	1,828
Deposits	9,579	12,239	15,156	18,092	23,012	27,154	32,042
- Growth (%)	13	28	24	19	27	18	18
Borrowings	1	33	28	257	1	390	461
Tier 2 Capital	200	174	155	155	330	233	275
Other Liabilities & Provisions	407	483	590	575	706	667	835
Total Liabilities	10,827	13,653	17,090	20,384	25,534	30,130	35,554
Cash in Hand and with RBI	546	700	974	998	1,391	1,901	2,403
Bal. with banks & money at call	797	1,246	729	1,038	597	1,507	1,778
Investments	2,739	3,430	4,572	6,075	7,156	7,353	8,141
Advances	6,370	7,919	10,454	11,852	15,823	18,760	22,512
- Growth (%)	19	24	32	13	34	19	20
Fixed Assets	90	90	113	136	153	190	224
Other Assets	285	268	249	284	415	420	496
Total Assets	10,827	13,653	17,090	20,384	25,534	30,130	35,554
- Growth (%)	14.2	26.1	25.2	19.3	25.3	18.0	18.0

Ratio Analysis

Y/E March	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profitability ratios (%)							
NIMs	3.2	3.1	2.6	2.9	2.5	2.5	2.5
Cost to Income ratio	58.0	44.8	46.2	47.8	47.1	48.6	48.1
ROA	0.5	0.9	1.0	1.0	1.0	0.9	1.0
ROE	10.0	15.5	16.4	16.0	17.0	16.2	17.9
B/S ratios (%)							
CASA ratio	26.4	23.9	24.1	23.8	23.1	22.6	21.7
Credit/Deposit ratio	66.5	64.7	69.0	65.5	68.8	69.3	70.5
Networth/ Assets	18.5	18.2	16.6	15.4	16.7	17.8	18.2
CAR	13.0	11.1	13.8	14.8	15.4	13.3	11.9
- Tier I	8.4	8.8	12.1	13.2	12.4	10.9	9.8
Asset Quality (%)							
Gross NPAs	5.0	3.9	1.8	2.2	1.3	1.1	0.9
Net NPAs	1.9	1.0	0.3	1.1	0.4	0.3	0.2
Slippages	1.8	2.2	0.7	1.6	1.5	1.4	1.3
NPA prov / avg. assets	0.7	0.7	0.1	0.1	0.2	0.1	0.1
Provision Coverage	63.9	75.8	82.0	48.4	70.8	73.3	74.7
Per Share Data (Rs.)							
EPS	7.8	14.8	16.8	17.2	20.7	22.5	28.5
ABVPS (75% Cover)	85.9	100.1	126.3	107.6	129.1	147.3	171.9
DPS	1.8	2.5	3.0	3.0	4.0	4.0	5.0
Valuation Ratios							
PER (x)	24.1	12.7	11.2	10.9	9.1	8.4	6.8
P/ABVPS (x)	2.2	1.9	1.5	1.8	1.5	1.3	1.1
Dividend Yield	1.0	1.3	1.6	1.6	2.1	2.1	2.7
Dupont Analysis							
NII	3.1	3.0	2.6	2.8	2.5	2.5	2.4
(-) Prov. Exp.	0.9	1.0	0.4	0.3	0.2	0.2	0.1
Adj NII	2.2	2.0	2.2	2.5	2.3	2.3	2.3
Treasury	(0.0)	0.3	0.2	0.2	0.3	0.1	0.1
Int. Sens. Inc.	2.2	2.2	2.4	2.7	2.6	2.3	2.4
Other Inc.	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Op. Inc.	2.9	3.0	3.1	3.4	3.2	2.9	3.0
Opex	2.2	1.8	1.6	1.8	1.6	1.5	1.5
PBT	0.7	1.2	1.5	1.6	1.6	1.4	1.5
Taxes	0.2	0.3	0.5	0.6	0.6	0.5	0.5
ROA	0.5	0.9	1.0	1.0	1.0	0.9	1.0
Leverage	18.5	18.2	16.6	15.4	16.7	17.8	18.2
ROE	10.0	15.5	16.4	16.0	17.0	16.2	17.9

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Disclosure of Interest Statement

Disclosure of Interest Statement	South Indian Bank
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	