

May 25th, 2009

BUY

MEDIUM RISK

PRICE Rs.92

TARGET Rs.130

BFSI


EARLIER RECO

BUY	
Price	Rs.52
Target	Rs.130
Date	Jan. 23, 2009

SHARE HOLDING (%)

FII	35.9
FI / MF	12.1
Body Corporates	9.3
Public & Others	42.8

STOCK DATA

Reuters Code	SIBK.BO	
Bloomberg Code	SIB@IN	
BSE Code	532218	
NSE Symbol	SOUTHBANK	
Market Capitalization	Rs.10362 Mn US\$ 219.6 Mn	
Shares Outstanding	113 mn	
52 Weeks (H/L)	Rs.126 / 43	
Avg. Daily Volume (6m)	105, 336 Shares	
Price Performance (%)		
1M	3M	6M
49	108	64
200 Days EMA Rs.66		
Part of  Bonanza		



Decent Performance; Well Capitalized

During Q4FY09, South Indian Bank (SIB) registered Net profit of Rs.502.6mn with a growth of 12.09% YoY. Although growth is lower than expected, but it was because of high Employee expense (due to high wage revision and salary arrears provisions) and relatively higher NPL provisions. Adjusted for one-time salary provisions, performance was very strong. SIB reported strong NII growth of 41% YoY due to healthy margin expansion. Its Non-interest income grew by 36% owing to high treasury gains. Core Fee income reported de-growth of 50% YoY, which is a concern area. Bank is well capitalized with CAR of 14.76% with high proportion of Tier I.

Slower Business Growth but High Margins

Total business of the bank has increased to Rs.302.4 bn registering a growth of 16.7% YoY. Deposits grew by 19.4% YoY led by high term deposit growth resulting in lower CASA. This was due to shifting of customers from Saving to Term deposit as expected. The bank reduced its bulk deposits share to 17% in FY09. It consciously lowered its advances growth to 13% in order to maintain asset quality. The growth in advances was witnessed mainly in corporate and retail (non-housing) segments whereas housing segment reported a degrowth of 23% QoQ due to high repayments by HFCs. Credit Deposit ratio decreased drastically from 71% in FY08 to 64% currently. Incremental CDR was only 37%. However, NIM improved by 30 bps YoY to 2.9% due to sharp rise in yields and relatively smaller rise in funding cost due to strong liability franchise. We expect CDR to improve in FY10 due to high lending activity and hence, in FY10 we expect margins to be maintained at current levels.

Robust Asset Quality: Temporary Deterioration Due To Technical Reasons

In absolute terms, Gross and Net NPL increased by 26% and 214% QoQ respectively and in ratio terms, it grew by 33bps and 74bps respectively to 2.18% & 1.13%. Coverage ratio decreased to 48%. However, the increase in gross NPL and net NPL was mainly due to slippage of certain major account on technical reasons and these account have already been regularized in Q1FY10, so we will see lower Net NPL ratios in Q1FY10. Excluding temporary spike, Gross NPL ratio improved by 51bps and Net NPL ratio by 10bps to 1.34% and 0.29% respectively whereas coverage ratio is maintained at 80%. The bank has restructured loans to the tune of Rs.2.4bn, which is 2% of advances.

Very Strong Deposit Franchise -38% Low Cost Deposit

SIB has access to deposits and remittances from NRIs mostly from the Gulf region, which accounts for about 18% of its deposits. It is taking various measures to reap these low cost funds, although the current slump in the Gulf has impacted its growth of NRI Deposits. The bank has high low-cost deposits (to the extent of 38-39%) considering NRE deposit and CASA of +23%, which will ensure low funding cost going forward.

OUTLOOK & VALUATION

We believe the bank is good defensive stock on asset quality front in the current challenging times, given its loan book constituents and good NPL management. We expect Net Profit to grow by 16-17%, Advance by 19-20% and Deposit by 16-18% in FY10-11E. The stock currently trades at 0.8x FY10E ABV and 4.6x FY10E earnings. We believe that the stock could trade at target ABV multiple of 1.1x on back of its conservative business model which makes the stock a defensive play in the current market scenario. Reiterate 'BUY' rating on the stock with target price of Rs. 130.

KEY FINANCIALS

Y/E Mar.	EPS (Rs.)	EPS (% Chg)	ROE (%)	NIM (%)	CASA (%)	CAR (%)	P/ABV (x)	PER (x)	Div Yield (%)
FY 09E	17.2	(8.6)	15.7	2.8	22.7	13.9	0.9	5.3	3.3
FY 10E	20.2	17.2	16.2	2.7	22.1	13.4	0.8	4.6	3.6
FY 11E	23.5	16.5	16.5	2.7	22.2	12.6	0.7	3.9	3.9

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Please refer to important disclosures at the end of the report

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INVESTMENT THESIS

South Indian Bank (SIB) has a dominant presence in Kerala and Tamil Nadu that contributes +65% of the total business. It had a total branch network of over 501 (100% CBS) with 83% in south India. It has more focus on small ticket loans of Retail and SME segments, which are backed by high securities and hence has relatively lower asset quality risk. The Bank is well capitalized with CAR of 14% with high Tier-1 ratio of 12.4%, which we believe will help the bank for future growth. The stock has high dividend yield of 3.5%. The bank has access to high NRE deposit of 18%, which coupled with CASA of +25% results in low funding cost. Given the strong regional presence with good network base, excellent deposit franchise and high asset quality, SIB can be a M&A candidate in coming years.

OUTLOOK & VALUTION

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QUARTERLY RESULTS STATEMENT

(Rs.mn)

Y/E March	Q4FY09	Q4FY08	YoY Growth	Q3FY09	QoQ Growth
Interest earned	4,730	3,580	32.1%	4,415	7.1%
Interest Expended	3,250	2,532	28.3%	2,953	10.1%
Net Interest Income	1,480	1,048	41.3%	1,462	1.2%
Other income	443	325	36.3%	465	-4.7%
Operating income	1,923	1,373	40.1%	1,927	-0.2%
Total Operating expenses	962	533	80.4%	925	4.0%
- Employee expenses	695	312	122.6%	641	8.5%
Operating profit	962	840	14.5%	1,002	-4.0%
Provisions and contingencies	145	164	-11.6%	178	-18.9%
PBT	817	677	20.8%	824	-0.8%
Provision for Tax	315	228	37.9%	282	11.6%
PAT	503	448	12.1%	542	-7.3%
PPP (ex treasury)	810	801	1.1%	970	-16.5%
EPS	4.4	5.0	-10.3%	4.8	-7.3%
BUSINESS					
Advances	121,450	107,540	12.9%	113,400	7.1%
Deposits	189,020	151,560	24.7%	164,390	15.0%
- CASA deposits	42,870	36,488	17.5%	40,280	6.4%
- Term deposits	146,150	115,072	27.0%	124,110	17.8%
RATIO (%)	Q4FY09	Q4FY08	YoY Ch. (bps)	Q3FY09	QoQ Ch. (bps)
Gross NPLs	2.18	1.78	40.0	1.85	33
Net NPLs	1.13	0.33	80.0	0.39	74
Coverage ratio	48.45	81.98	(3,352)	79.41	(3,095)
ROA Annualised	1.09	1.01	8	1.11	(2)
C/I Ratio	50.00	38.82	1,118	48.00	199
Capital Adequacy Ratio	13.89	13.80	9	14.62	(73)
- Tier I CAR	12.44	8.84	360	13.24	(80)
Yield on Advances (Calculated)	11.73	10.58	115	11.48	25
Cost of Deposits (Reported)	7.26	6.72	54	7.40	(14)
NIM (Reported)	2.92	2.62	30	3.00	(8)
CASA Ratio	22.68	24.08	(140)	24.50	(182)
LDR	64.25	70.96	(670)	68.98	(473)

Source: Company, Sushil Finance Research Estimates

PROFIT & LOSS STATEMENT

(Rs.mn)

Y/E March	FY11E	FY10E	FY09E	FY08
Interest Income	22,470	19,327	16,869	13,092
Interest expense	15,354	13,184	11,640	9,151
Net interest income	7,116	6,144	5,229	3,941
NII Growth %	15.8%	17.5%	32.7%	7.2%
Other income	2,050	1,836	1,643	1,246
- Treasury Gains	428	390	354	136
Total income	9,166	7,980	6,872	5,187
Operating expenses	3,809	3,533	3,285	2,481
Pre-provision Profit	5,357	4,447	3,587	2,707
Total Provision	1,360	989	573	389
-Provision for NPL	988	694	374	271
PBT	3,997	3,458	3,014	2,318
Provision for Tax	1,339	1,176	1,066	801
PAT	2,658	2,282	1,948	1,516
PAT Growth %	16.5%	17.2%	28.5%	45.6%
PPP (Ex Treasury)	4,929	4,057	3,233	2,571
PPP Growth %	21.5%	25.5%	25.8%	7.7%

BALANCE SHEET STATEMENT

(Rs.mn)

As on 31 st March	FY11E	FY10E	FY09E	FY08
Cash balances	30,136	26,612	27,165	17,027
Advances	174,762	144,896	121,450	104,538
Investments	77,474	68,777	60,752	45,722
- Government Securities	65,979	57,877	50,327	35,903
Fixed assets	1,649	1,499	1,363	1,128
Current assets	3,438	3,125	2,841	2,486
Total Assets	287,460	244,910	213,572	170,899
Equity Capital	1,130	1,130	1,130	904
Reserves & Surplus	16,024	13,846	12,000	10,706
Shareholders' funds	17,154	14,976	13,130	11,610
Deposits	257,087	217,654	189,020	151,561
- Demand deposits	57,037	48,120	42,870	36,488
- Term deposits	200,050	169,534	146,150	115,073
Borrowings	4,384	4,249	4,120	1,826
- Subordinated debt	1,550	1,550	1,550	1,550
Current liabilities	8,835	8,032	7,302	5,902
Total Liabilities	287,460	244,910	213,572	170,899

Source: Company, Sushil Finance Research Estimates

FINANCIAL RATIO STATEMENT

Y/E March	FY11E	FY10E	FY09E	FY08
Profitability Ratios				
EPS (Rs)	23.5	20.2	17.2	18.9
Earnings growth (%)	16.5	17.2	(8.6)	27.5
CEPS (Rs)	24.7	21.3	18.4	18.1
PPP / Share (Rs)	48.6	40.5	32.9	31.3
ROAA (%)	1.0	1.0	1.0	1.0
ROAE (%)	16.5	16.2	15.7	16.1
Dividend per share (Rs)	3.6	3.3	3.0	3.0
Dividend Payout (%)	18.1	19.1	20.4	20.9
Efficiency Ratios (%)				
Interest exp / Interest Income	68.3	68.2	69.0	69.9
Cost-Income ratio (Excl Treasury)	43.6	46.5	50.4	49.1
Other Inc (Ex tr.) / Total Income (Ex tr.)	18.6	19.1	19.8	22.0
Cost Asset Ratio	1.3	1.4	1.5	1.5
CASA	22.2	22.1	22.7	24.1
Tax rates	33.5	34.0	35.4	34.6
Asset Quality Ratios (%)				
Gross NPLs	2.2	1.9	2.1	1.8
Net NPLs	0.9	0.7	1.1	0.3
Coverage	59.4	61.8	48.5	82.0
Provision/ Loans	0.6	0.5	0.3	0.3
Asset-Liability Profile (%)				
Capital Adequacy Ratio	12.6	13.4	13.9	13.8
- Tier I CAR	11.5	12.0	12.4	12.1
Adv. / Deposit Ratio	68.0	66.6	64.3	69.0
Loan Growth	20.6	19.3	16.2	32.0
Deposit Growth	18.1	15.1	24.7	23.8
Asset Growth	17.4	14.7	25.0	25.2
Equity / Assets	6.0	6.1	6.1	6.8
Equity / Loans	9.8	10.3	10.8	11.1
Spreads Analysis (%)				
Yield on Advances	10.5	10.7	11.2	10.5
Yield on Investments	6.7	6.5	6.7	7.3
Cost of funds	6.4	6.4	6.7	6.6
NIM (Calculated)	2.7	2.7	2.8	2.6
Valuation				
BV/share (Rs)	150.1	130.9	114.5	126.3
Adjusted BV / Share (Rs)	134.7	120.0	101.0	120.5
Dividend Yield (%)	3.9	3.6	3.3	3.3
P/E (x)	3.9	4.6	5.3	4.9
P/PPP (x)	1.9	2.3	2.8	2.9
P/ABV (x)	0.7	0.8	0.9	1.0

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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