

January 20, 2011

Reco	Previous Reco
Buy	Accumulate
CMP	Target Price
Rs22	Rs30
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,712
Sensex	19,047

Price Performance				
(%)	1M	3M	6M	12M
Absolute	(11)	(21)	17	46
Rel. to Nifty	(7)	(17)	12	34

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	SIB@IN
Equity Capital (Rs mn)	1130
Face Value(Rs)	1
No of shares o/s (mn)	1130
52 Week H/L	30/13
Market Cap (Rs bn/USD mn)	25/549
Daily Avg Volume (No of sh)	7193457
Daily Avg Turnover (US\$mn)	4.2

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	-	-	-
FII/NRI	0.0	0.0	0.0
Institutions	35.9	40.3	36.8
Private Corp	12.1	11.3	16.1
Public	9.3	8.8	8.2

Source: Capitaline

Kashyap Jhaveri

kashyap.jhaveri@emkayglobal.com

+91 22 6612 1249

Pradeep Agrawal

pradeep.agrawal@emkayglobal.com

+91 22 6612 1340

- **SIB's Q3FY11 net profit at Rs753mn was better than consensus estimates (in line with ours) driven by strong 38.3%yoy growth in NII**
- **The NII growth was led by a strong 6.4%qoq growth in advances and stable NIMs. Some part of the growth was back ended during the quarter**
- **The asset quality remained stable with GNPA at 1.3% and NNPA at 0.4%. Provision cover stood strong at 71%.**
- **We remain extremely positive with strong RoEs + robust Tier I + clean asset quality. Recent correction provides good entry point. Upgrade to BUY. High gold loan portfolio a key risk**

NII growth inline with expectation

SIB's NII for the quarter has grown by 38.3% yoy driven by 32.3% yoy (6.4% qoq) growth in advances, even as the NIMs remained stable at 3%. Despite strong growth in deposits, the cost of funds has gone up by just 6bps qoq.

Yield Analysis

%	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY bps	QoQ bps
Yield on advances	11.1	10.7	10.3	10.5	10.9	-28	33
Yield on Investments	6.1	6.0	6.6	7.1	6.5	37	-57
Yield on funds	8.6	8.4	8.5	8.8	8.7	8	-6
Cost of Funds	6.0	6.0	5.9	5.8	5.8	-16	6
NIM	2.6	2.5	2.6	3.0	2.9	24	-12
NIMs #	2.8			3.0	3.0	23	3

Source: Company, Emkay Research

Calculated based on average quarterly balances # reported and cumulative

Some back ended growth pushes up deposit/advances growth

SIB has grown its deposits by aggressive 7% qoq to take advantage of some lending opportunities which arose at the back end of the quarter. And hence, the growth in term deposits was high at 12.1% qoq. As a result the CASA proportion has also declined by 147bps to 22.4%. The advances also grew by strong 6.4% qoq to Rs189bn.

Deposit mix

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
CASA	50.0	53.2	59.7	59.8	60.5	20.9	1.1
CASA (%)	24.2	23.1	25.6	23.9	22.4	-183	-147
NRI deposit	35.3	35.6	35.7	36.9	37.0	4.8	0.4
NRI (%)	17.1	15.5	15.3	14.7	13.7	-339	-100
Other Deposit	121.1	141.3	138.0	154.0	172.5	42.4	12.1
Total deposits	206.4	230.1	233.3	250.6	270.0	30.8	7.7

Source: Company, Emkay Research

Valuation table

Y/E March 31 (Rs mn)	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2009	6,872	1,948	1.7	10.2	1.0	15.8	12.7	2.2
FY2010	7,768	2,338	2.1	12.4	1.0	16.8	10.6	1.8
FY2011E	9,727	3,030	2.7	14.4	1.0	18.9	8.2	1.5
FY2012E	11,939	3,966	3.5	17.7	1.1	21.1	6.3	1.2

Source: Company, Emkay Research

Key financials – Quarterly (P/L restated – please see note)

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Net Interest Income	1,482	1,503	1,674	1,973	2,048	38.2	3.8	5,695	4,185	36.1
Other Income	431	439	417	449	497	15.3	10.8	1,362	1,646	-17.2
Fee Income	77	86	81	85	87	13.1	2.3	254	216	17.4
Net Income	1,913	1,941	2,090	2,422	2,545	33.0	5.1	7,057	5,832	21.0
Total Operating Expenses	967	831	1,046	1,174	1,116	15.4	-4.9	3,336	2,951	13.1
As % Of Net Income	50.6	42.8	50.1	48.5	43.9	-13.2	-9.5	47.3	50.6	
Employee Expenses	616	451	675	774	691	12.2	-10.7	2,139	1,932	10.7
As % Of Net Income	32.2	23.2	32.3	32.0	27.1	-15.7	-15.1	30.3	33.1	
Other Expenses	352	380	372	400	426	21.1	6.4	1,197	1,018	17.5
As % Of Net Income	18.4	19.6	17.8	16.5	16.7	-9.0	1.3	17.0	17.5	
Operating Profit	946	1,110	1,044	1,248	1,429	51.1	14.5	3,721	2,881	29.1
As % Of Net Income	49.4	57.2	49.9	51.5	56.1	13.5	8.9	52.7	49.4	
Provisions	195	-31	167	68	299	53.8	341.3	534	464	15.1
Prov for NPA	99	-56	109	15	194	96.0	1,209.5	318	406	-21.8
PBT	751	1,261	877	1,180	1,129	50.4	-4.3	3,187	2,418	31.8
Total Tax	363	161	293	410	377	3.8	-8.1	1,079	1,175	-8.1
Adjusted PAT	388	1,100	585	770	753	93.8	-2.3	2,108	1,243	69.6
Extra Ordinary Items	0	-120	0	0	0			0	0	
Reported PAT	388	995	585	770	753	93.8	-2.3	2,108	1,243	69.6
Reported EPS	0.3	1.0	0.5	0.7	0.7	91.5	-2.3	1.8	1.1	68.2

Source: Company, Emkay Research

Note: Numbers for all preceding quarters for FY10 adjusted for the accounting error

Fee income growth strong

The fee income (including forex and others) has shown a strong growth of 18.2% yoy and 3.6% qoq. We believe that for SIB the CEB portion is likely to grow at slower pace due to lower income from products like TT/DD etc.

Other Income

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Fee/Commission income	77	86	81	85	87	13.1	2.3	173	156	10.5
Trading gains/(losses)	93	61	92	62	97	4.5	55.8	159	349	-54.4
Forex gains/(losses)	51	43	41	47	48	-6.6	2.4	95	110	-14.2
Other non int income	210	249	202	254	265	26.2	4.2	520	376	38.2
Total	431	439	417	449	497	15.3	10.8	946	991	-4.6
Fee/Forex/others	339	378	324	386	400	18.2	3.6	787	642	22.5

Source: Company, Emkay Research

Strong growth in core operating profit

The core operating profit has grown by strong 70.6% yoy driven by strong operating revenues. During the quarter, SIB has also provided Rs123mn for pension provisions of the total required provisions of Rs1.5bn.

Strong growth in core operating profit

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Reported operating profit	946	1,110	1,044	1,248	1,429	51.1	14.5	3,721	2,881	29.2
Less: Trading gains	93	61	92	62	97	4.5	55.8	159	349	
Add: pension/gratuity provisions			170	176	123	NA	-30.3	469		
Core operating profit	853	1,049	1,122	1,362	1,455	70.6	6.8	4,031	2,532	59.2

Source: Company, Emkay Research

Higher tax rate in Q3FY10 helps further

While SIB's operating performance was strong, it was further aided by higher effective tax rate in Q3FY10. Compared to 48.3% effective tax rate in Q3FY10, the tax rate in Q3FY11 was at 33.3% resulting in sharp swing in the profit after tax. As a result, though the profit before tax grew by 50.4% yoy, the profit after tax grew by 94.0% yoy.

Asset quality remains stable; slippages controlled

The asset quality remains stable during the quarter with GNPA and NNPA remaining flat at 1.3% and 0.4%.

Asset quality

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Gross NPLs	2,139	2,110	2,231	2,277	2,536	18.6	11.4
Net NPLs	567	616	648	671	743	30.9	10.7
Gross NPLs (%)	1.5	1.3	1.3	1.3	1.3		
Net NPLs (%)	0.4	0.4	0.4	0.4	0.4		
Provision cover (%)	73.5	70.8	71.0	70.5	70.7		
Net NPLs/Net worth (%)	3.8	4.1	4.2	4.1	4.4		

Source: Company, Emkay Research

CAR remains extremely comfortable

The tier I CAR for the quarter was extremely strong at 12.3%. We believe that SIB would not need any funds for growth for at least next two years. SIB has benefited from the composition of loan book in favour of loans against gold, small savings and deposits resulting in lower RWAs.

Valuations and view

High RoEs (20% over FY11-12E), high tier I CAR (12.3%) along with low NPAs, makes SIB one of the best bets amongst the old private sector banks. We find the valuations at 1.5x FY11E ABV and 1.2x FY12 ABV, extremely attractive and recent correction in the stock provides good entry point. Upgrade to BUY with price target of Rs30. Higher concentration of gold loans (20%) in loan portfolio is key risk to the bank.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	5,229	5,683	7,824	9,583
Other income	1,643	2,085	1,903	2,355
Net income	6,872	7,768	9,727	11,939
Operating expenses	3,285	3,662	4,660	5,415
Pre provision profit	3,587	4,106	5,066	6,523
PPP excl treasury	3,233	3,266	4,791	6,248
Provisions	573	433	476	514
Profit before tax	3,014	3,673	4,590	6,009
Tax	1,066	1,335	1,561	2,043
<i>Tax rate</i>	35%	36%	34%	34%
Profit after tax	1,948	2,338	3,030	3,966

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	1,130	1,130	1,130	1,130
Reserves	11,910	13,723	16,091	19,264
Net worth	13,040	14,853	17,221	20,394
Deposits	180,923	230,115	300,912	355,501
Borrowings	9,872	10,372	12,618	15,307
Total liabilities	203,835	255,340	330,751	391,203
Assets				
Cash and bank	20,359	19,877	29,031	34,297
Investments	58,104	70,262	92,253	106,447
Customer assets	121,168	159,523	202,244	242,434
Others	4,204	5,678	7,284	7,836
Total assets	203,835	255,340	330,751	391,203

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	3.0	2.7	2.9	2.9
Non-ll/avg assets	0.9	0.9	0.6	0.7
Fee income/avg assets	0.1	0.1	0.1	0.1
Opex/avg assets	1.6	1.4	1.4	1.4
Provisions/avg assets	0.2	0.3	0.1	0.1
PBT/avg assets	1.5	1.4	1.4	1.5
Tax/avg assets	0.5	0.5	0.5	0.5
RoA	1.0	1.0	1.0	1.1
RoAE	15.8	16.8	18.9	21.1
GNPA (%)	2.2	1.3	1.2	0.9
NNPA (%)	1.1	0.4	0.4	0.1

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	1,948	2,338	3,030	3,966
Shares in issue (mn)	1,130	1,130	1,130	1,130
EPS (Rs)	1.7	2.1	2.7	3.5
PER (x)	12.7	10.6	8.2	6.3
FDEPS(Rs)	1.7	2.1	2.7	3.5
FDPER (x)	12.7	10.6	8.2	6.3
Book value (Rs)	11.4	13.0	15.1	17.9
P/BV (x)	1.9	1.7	1.5	1.2
Adj book value (Rs)	10.2	12.4	14.4	17.7
P/ABV (x)	2.2	1.8	1.5	1.2
P/PPP (x)	6.9	6.0	4.9	3.8
Dividend yield (%)	1.4	1.8	2.3	2.7

Recommendation History: South Indian Bank – SIB IN

Date	Reports	Reco	CMP	Target
21/10/2010	South Indian Bank Q2FY11 Result Update	Accumulate	28	30
15/07/2010	South Indian Bank Q1FY11 Result Update	Buy	186	230
05/05/2010	South Indian Bank Q4FY10 Result Update	Hold	150	162
03/03/2010	South Indian Bank- Initiating Coverage	Buy	146	180

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/01/2011	LIC Housing Finance Q3FY11 Result Update	UR	170	UR
17/01/2011	Axis Bank Q3FY11 Result Update	Hold	1,227	1,300
28/12/2010	Allahabad Bank Management Meet Update	Buy	216	300
27/12/2010	Bank of Baroda Company Update	Buy	889	1,160

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.