

Date: 18th Jan 2010

MF Global Sector – Financial

South India Bank

Q3FY10Result Update

Maintain :BUY

CMP: Rs 145

Target: Rs 200

Result Update

South Indian Bank's (SIB) net profit for 3QFY10 grew 15% YoY to Rs625m (v/s our estimate of Rs676m) below our expectation mainly on account of higher than estimate provisions. Key highlights are

Traction in assets growth: SIB business growth continued to show strong traction, with advances growth at 31% YoY and 10.8% QoQ; Deposit growth was healthy at 26% YoY and 5% QoQ. SIB was able to maintain its CASA at 24% of the total deposits. The key drivers for high growth in advances were the disbursals to the Power and Infrastructure sectors

Stable Margin: Margin remains stable at 3.1% because the cost of deposits reduced from 7.2% in 3QFY2009 to 5.5% in 3QFY2010, which is mainly because of a re-pricing of the high-cost term deposits. & the yield on advances remained reasonably stable to 11.4% 3QFY2010 as against 11.5% 3QFY2009.

Asset quality one of the best GNPA's and NNPA's in absolute terms remained marginally up on QoQ to Rs2,138mn (Increase of ~9mn) and Rs567mn (Increase of Rs ~3mn), respectively. GNPA ratio stood at 1.46% in 3QFY10 (v/s 1.61% in 2QFY10) and NNPA ratio at 0.39% (v/s 0.43% in 2QFY10). Provision coverage ratio was strong at 73%. Cumulatively, during 9MFY10, SIB has made a floating provision of Rs330m, which if netted off would bring down NNPA ratio to below~0.2%

Stable Operating Cost: Operating expenses were up by 5% yoy and flat sequentially, despite the addition of 20 branches and 30 ATMs in 3QFY09 with the cost-to-income ratio at 45.0%, as compared to 48.0% in 3QFY2009. Over the next year, the bank plans to add another 60 branches to the current network of 575 branches. As a result, cost-to-income ratio remains at high as 43% to 45% during this period

Declined Non-Interest Income: SIB Non Interest income decline by 6% YoY & 34% QoQ. Fee income declined by 14.0% yoy; however, the sequential growth of 26% in core fee income. We expect non-interest income to remain flat during FY2011E, mainly due to the absence of treasury gains, going forward

Valuation and view: We expect SIB to report EPS of Rs27 and ABVPS of Rs153 in FY11, and EPS of Rs33 and ABVPS of Rs182 in FY12, with RoE of ~17%. The stock trades at 4.4x FY12E EPS and 0.8x FY12E Adj. BV. We maintain Buy rating with a target price of Rs200 (1.1x FY12E BV), an upside of 38% from current valuations.

Sensex	17.554
Nifty	5252

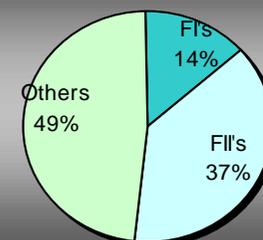
Stock Data

BSE Code	532218
NSE Code	SOUTHBANK
Bloomberg	SIB.IN
Reuters	SIBK.BO
Shares Issued (mn)	113.0
Market Cap (Rs mn)	16400
52 Wk H/L (Rs)	171/42
Face Value (Rs)	10
Avg.vol. (12M)	125,967

Return (%)

	1m	3m	12m
Absolute	3	2	157
Rel. to Sensex	(1)	(0.5)	63

Shareholding Pattern



Result Update



Particular (Rs mn)	Q3FY10	Q2FY10	QoQ%	Q3FY09	YoY%	9MFY10	9MFY09	YoY%	FY10E	FY09	YoY%
Interest Earned	4,877.9	4,688.0	4%	4,414.8	10%	14,218.5	12,139.3	17%	19,585.50	16,869.20	16%
Interest Expended	3,160.0	3,036.2	4%	2,952.5	7%	9,324.5	8,390.7	11%	12,527.50	11,640.40	8%
NII	1,717.9	1,651.8	4%	1,462.3	17%	4,894.0	3,748.6	31%	7,058.00	5,228.80	35%
Other Income	431.2	655.1	-34%	459.0	-6%	1,646.1	1,194.2	38%	1,905.70	1,676.30	14%
Total Income	2,149.1	2,306.9	-7%	1,921.3	12%	6,540.1	4,942.8	32%	8,963.70	6,905.10	30%
Employees	615.6	633.3	-3%	640.9	-4%	1,931.9	1,446.7	34%	2,677.30	2,141.80	25%
Other expenses	351.5	334.9	5%	278.5	26%	1,018.4	870.9	17%	1,732.10	1,530.20	13%
TOTAL EXPENSES	967.1	968.2	0%	919.4	5%	2,950.3	2,317.6	27%	4,409.40	3,672.00	20%
PPP	1,182.0	1,338.7	-12%	1,001.9	18%	3,589.8	2,625.2	37%	4,554.30	3,233.10	41%
Provisions & Contingencies	194.6	164.6	18%	178.2	9%	463.5	428.5	8%	624.90	219.50	185%
PBT	987.4	1,174.1	-16%	823.7	20%	3,126.3	2,196.7	42%	3,929.40	3,013.60	30%
Taxes	362.8	448.4	-19%	281.7	29%	1,174.9	751.7	56%	1,375.30	1,066.10	29%
PAT	624.6	725.7	-14%	542.0	15%	1,951.4	1,445.0	35%	2,554.10	1,947.50	31%

Profit & Loss and Balance Sheet – Rs mn

Profit & Loss	FY08	FY09E	FY10E	FY11E	FY12E	Balance Sheet	FY08	FY09E	FY10E	FY11E	FY12E
Interest income	12,912	16,869	19,586	24,609	33,393	Owned Fund	11,610	13,040	15,594	18,652	22,431
Interest expenses	9,151	11,640	12,528	16,633	23,040	Borrowed Fund	153,387	185,043	253,794	303,729	357,659
Net Interest Income	3,761	5,229	7,058	7,976	10,353	Total equity & liabilities	164,997	198,084	269,388	322,381	380,090
Non Interest income	1,477	1,676	1,906	2,393	2,071	YoY %		20%	36%	20%	18%
Operating income	5,239	6,905	8,964	10,369	12,424						
Operating expenses	2,792	3,672	4,409	5,084	5,885	Cash & Bank Balance	17,027	20,359	41,196	29,961	35,354
Pre-provisions profit	2,446	3,233	4,554	5,284	6,539	Investment	45,722	60,752	78,978	98,722	118,466
Provisions & Contingencies	129	220	625	917	1,139	Advances	104,538	118,520	154,076	200,299	250,374
Tax	801	1,066	1,375	1,310	1,620	Net Current Assets	(2,289)	(1,547)	(4,862)	(6,602)	(24,104)
Net Profit	1,516	1,948	2,554	3,057	3,780	Total assets	164,997	198,084	269,388	322,381	380,090
EPS	17	17	23	27	33	ABVPS	123	102	129	153	182

Financial Ratio

Key Data	FY08	FY09	FY10E	FY11E	FY12E	Key Ratios	FY08	FY09	FY10E	FY11E	FY12E
EPS	16.7	17.2	22.6	27.0	33.4	NII/ATA	2.2%	2.6%	2.9%	2.8%	3.0%
BVPS	126.3	113.8	136.4	163.4	196.9	OE/ATA	1.6%	1.8%	1.8%	1.8%	1.7%
ABVPS	122.6	101.9	129.2	152.8	181.9	OP/ATA	1.4%	1.6%	1.9%	1.9%	1.9%
P/E (x)	8.6	8.4	6.4	5.3	4.3	Prov/ ATA	0.1%	0.1%	0.3%	0.3%	0.3%
P/BV (x)	1.2	1.3	1.1	0.9	0.7	ROAA	0.9%	1.0%	1.1%	1.1%	1.2%
P/ABVPS (x)	1.2	1.4	1.1	1.0	0.8	ROE	13.3%	15.2%	16.6%	16.6%	17.0%
Assets Quality						Growth %					
GNPA	1,884.8	2,605.6	2,696.3	4,006.0	5,633.4	NII	2.3%	39.0%	35.0%	13.0%	29.8%
NNPA	339.7	1,343.1	808.9	1,201.8	1,690.0	Total Income	7.1%	31.8%	29.8%	15.7%	19.8%
GNPA %	1.8%	2.2%	1.8%	2.0%	2.3%	Net Profit	45.6%	28.4%	31.1%	19.7%	23.6%
NNPA %	0.3%	1.1%	0.5%	0.6%	0.7%	Advances	32.0%	13.4%	30.0%	30.0%	25.0%
Provision coverage	82.0%	48.5%	70.0%	70.0%	70.0%	Total Assets	20.9%	20.1%	36.0%	19.7%	17.9%

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