

**Sector: Banking**

Sensex:	18,220
CMP (Rs):	194
Target price (Rs):	229
Upside (%):	18.1
52 Week h/l (Rs):	199/106
Market cap (Rscr) :	2,187
6m Avg vol ('000Nos):	561
No of o/s shares (mn):	113
FV (Rs):	10
Bloomberg code:	SIB IB
Reuters code:	SIBK.BO
BSE code:	532218
NSE code:	SOUTHBANK

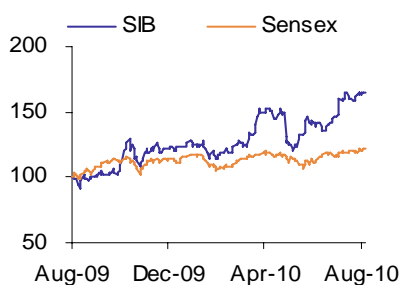
Prices as on 10 Aug, 2010

**Shareholding pattern**

June '10	(%)
Promoters	-
Institutions	51.6
Non prom corp hold	8.8
Public & others	39.6

**Performance rel. to sensex**

(%)	1m	3m	1yr
SIB	0.5	29.3	50.1
Federal Bank	(10.7)	10.2	29.7
ING Vysya Bank	(5.6)	1.5	31.0
Karnataka Bank	(5.5)	25.8	9.1

**Share price trend**

**SIB is set to sail faster post a successful transformation**

Under the aegis of new management, South Indian Bank (SIB) has transformed from a traditional, inefficient, treasury-focused, regional private bank to a modern, tech savvy, efficient, core operation focused and regionally more diversified private bank. The brand equity of the bank has witnessed a sea change, which is reflected in the 22% and 24% balance sheet and loan CAGR over FY05-10. With transformation complete, SIB is set for a smoother and sturdier growth over the next three years through execution on its strategic plan – 'Vision 2013'. Under this, the bank is targeting a robust 25% business CAGR over FY10-13 and further improvement in efficiency levels. With credit environment turning favourable and a credible management, we are confident that SIB would achieve its targets.

**28% NII CAGR over FY10-12; adequately capitalized for growth**

On the back of firm margin and 24% credit growth, we expect SIB to deliver a strong 28% NII CAGR over FY10-12. Bank's NIM is likely to move in a narrow band of 2.6-2.9% in the medium term cushioned by improvement in C/D ratio and strong deposit franchise that includes low-cost NRI deposits. Presently, SIB has the highest Tier-I capital amongst private banks at 13.1% providing more than sufficient headroom to grow at the targeted pace. The bank's balance sheet is one of the strongest in the industry with a high Tier-1 capital, low RWA/IEA ratio (45%) and negligible net NPLs (0.4%).

**Asset quality to remain stable; RoE to improve**

The asset quality of SIB has significantly improved over the past five quarters with GNPLs declining from 2.2% in Q4 FY09 to 1.3% in Q1 FY11. With conservative provisioning, the NNPLs have come down to 0.4% from 1.1% in the aforesaid period and PCR has crossed the 70% mark. Going ahead, we expect NPL levels to remain stable with strong loan book expansion. The FY10 RoA and RoE of SIB at 1% and 17% respectively were better than many private banks and we expect the RoE to improve to 19% by FY12 despite being conservative with respect to treasury income and provisioning.

**Superior fundamentals but valuation at discount to peers**

SIB trades at a 10-30% discount to comparable peers such as Federal Bank, ING Vysya Bank, Karnataka Bank and Dhanalakshmi Bank despite its superior growth profile, stronger balance sheet and higher RoE. We expect this anomaly to correct in the next 3-6 months. Further with no promoter interest, SIB is also an attractive M&A play.

**Valuation summary**

Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Total operating income	6,872	7,768	9,188	11,536
yoy growth (%)	32.5	13.0	18.3	25.6
Operating profit (pre-provisions)	3,587	4,106	4,904	6,395
Net profit	1,947	2,338	2,599	3,395
yoy growth (%)	28.4	20.0	11.2	30.6
EPS (Rs)	17.2	20.7	23.0	30.0
BVPS (Rs)	113.8	129.8	147.6	171.2
P/E (x)	11.2	9.3	8.4	6.4
P/BV (x)	1.7	1.5	1.3	1.1
ROE (%)	15.9	17.0	16.6	18.9
ROA (%)	1.0	1.0	1.0	1.0
CAR (%)	14.8	15.4	13.9	13.5

Source: Company, India Infoline Research

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**Recommendation parameters for fundamental reports:**

**Buy** – Absolute return of over +10%

**Market Performer** – Absolute return between -10% to +10%

**Sell** – Absolute return below -10%

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