

The South Indian Bank

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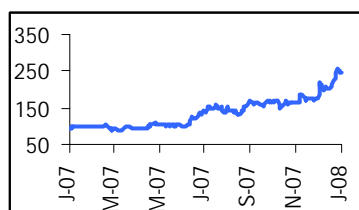
Shareholding (%)

FII's	46.9
FI's/Banks	4.6
MF/Insurance Co.	4.6
Others	43.9

Share price performance

52-week high/low (Rs)	287 / 86		
	-1m	-3m	-12m
Abs (%)	14.2	49.6	169.7
Rel* (%)	11.3	36.1	106.8

*to Nifty

Stock chart

A Consistent Performer

During Q3FY08, South Indian Bank (SIB) reported a 10%, 12%, and 64% YoY growth in NII, operating profits, and PAT respectively. The bank also reported a 14% QoQ growth in PAT at Rs407.2mn in Q3Fy08 as compared to Rs356.9mn in Q2FY08.

During the quarter, SIB's deposits and advances grew by 32.5% and 30% respectively. Post QIP placement, the bank's CAR stood at 14.92% and NIM at 2.7% in Q3FY08. We believe that the current CAR and network of 487 branches will help SIB in sustaining its business growth. The stock has run up by 50% since our earlier recommendation (at Rs166 in result update for Q2FY08). At the CMP of Rs250, the stock trades at 1.9x FY08EBV and 1.7x FY09EBV. We recommend 'HOLD' on the stock owing to the current pressure on NIM that has dropped from 2.93% in Q2FY08 to 2.7% in Q3FY08; this was mainly due higher bulky deposits and lower CASA at 23.32%. We continue to remain positive on the performance of the bank.

Robust growth in business: During Q3FY08, SIB reported a 32.5% growth in deposits and a 30% growth in advances as compared to the corresponding period last year. The ratio of CASA to total deposits was lower at 23.32% in Q3FY08 as against 25.1% in Q3FY07. The CASA has reduced mainly due to the increasing interest rates and locking in of bulky deposits at higher incremental cost; this pressurised margins that fell from 2.93% in Q2Fy08 to 2.7% in Q3FY08.

Steady operational performance: SIB reported a 12% YoY growth in operating profits, from Rs611.7mn in Q3FY07 to Rs683.3mn in Q3FY08. The operating performance highlights the focus of the management on the bank's core business.

Improvement in Yields and CASA: SIB's yields on advances improved from 10.63% in Q2FY08 to 10.7% in Q3FY08; during the same period, the bank's cost of deposits increased from 6.56% to 6.74%. Currently, the yield on investment is at 6.91% as the AFS portfolio has a lower duration at 0.58years and comprises 40% of the total investment portfolio. The bank's NIMs fell from 2.93% in Q2FY08 to 2.7% in Q3FY08. CASA ratio increased from 22% to 23.32% during the same period.

Hold

Rs248

January 10, 2008

Market cap

Rs bn 22

US\$ mn 568

Avg 3m daily volume

192,192

Avg 3m daily value

Rs mn 36

Shares outstanding (mn)

90

Reuters/Bloomberg

SIBK.BO/SIB.IN

NSE/BSE

SOUTHBANK

Sensex

20,870

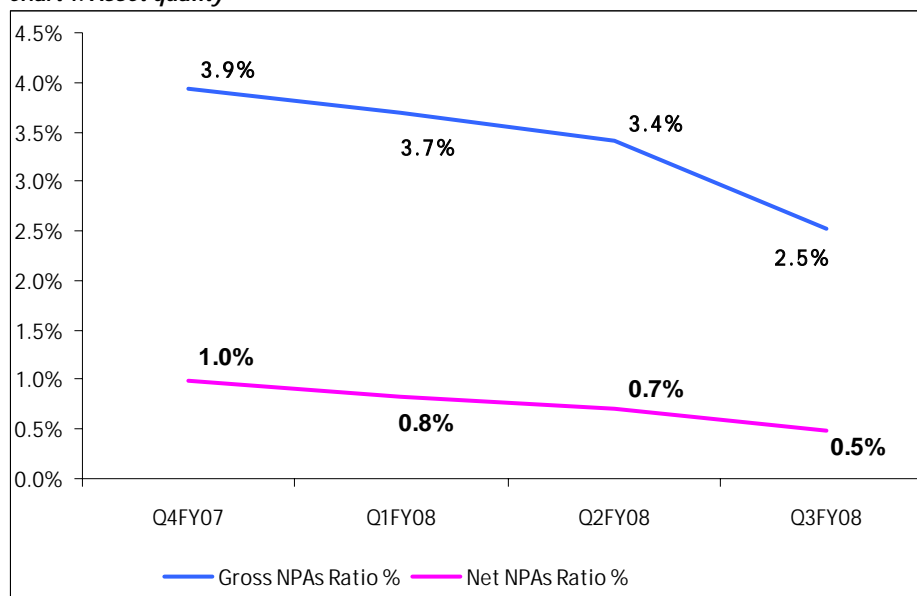
Nifty

6,272

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Improving Asset Quality: SIB's asset quality has been improving consistently since the past few quarters. The bank's GNPA fell from 6% in Q3FY07 to 2.53% in Q3FY08, and also improved sequentially from 3.41% in Q2FY08 (see chart below).

Chart 1. Asset quality



Source: IISL research, company

Outlook and Valuations

At the CMP of Rs248, the stock trades at 1.9x FY08E ABV of Rs127 and 1.7x FY09E ABV of Rs137. We change our recommendation on the stock from a 'BUY' to a 'HOLD'. Despite a 30% growth in advances and a 10% YoY and 7% QoQ growth in NII, the bank's NIM has fallen from 2.93% in Q2FY08 to 2.7% Q3FY08, mainly due to :

1. Hardening of interest rates that has built up bulky deposits at higher incremental cost
2. Lower CASA at 23.32%

We continue to remain positive on the SIB's earnings.

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Table 1. Quarterly result table

Rs mn	Q3FY08	Q3FY07	YoY (%)	Q2FY08	QoQ (%)
Interest Earned	3,388.9	2,489.5	36.1	3,101.1	9.3
- Interest on Advance	2,459.7	1,787.4	37.6	2,270.3	8.3
- Income on Investment	778.0	575.5	35.2	662.2	17.5
- Interest on Balances	151.2	126.6	19.4	168.6	(10.3)
Interest Expended	2,419.6	1,605.6	50.7	2,194.9	10.2
Net Interest Income (NII)	969.3	883.9	9.7	906.2	7.0
Other Income	366.1	221.0	65.7	357.1	2.5
Net Operating Income (NOI)	1,335.4	1,104.9	20.9	1,263.3	5.7
Operating Expenses	652.1	493.2	32.2	585.0	11.5
- Employee Cost	393.1	290.0	35.6	363.4	8.2
- Other Operating Expenses	259.0	203.2	27.5	221.6	16.9
Operating Profit	683.3	611.7	11.7	678.3	0.7
Provisions and Contingencies	64.2	164.7	(61.0)	86.0	(25.3)
PBT pre exceptional income	619.1	447.0	38.5	592.3	4.5
Exceptionals/Extraordinary	-	-	NA	33.5	(100.0)
PBT post exceptional income	619.1	447.0	38.5	625.8	(1.1)
Tax	211.9	198.6	6.7	201.9	5.0
PAT excluding exceptional income	407.2	248.4	63.9	390.4	4.3
PAT including exceptional income	407.2	248.4	63.9	423.9	(3.9)
Equity Capital	904.1	476.8	89.6	704.1	28.4
EPS (Excluding Exceptional Treasury Gain)	4.5	5.2	(13.5)	5.5	(18.8)
EPS (Including Exceptional Treasury Gain)	4.5	5.2	(13.5)	6.0	(25.2)
Ratios(%)	-	-	-	-	-
Int Exp/Int Earned	71.4	64.5	NA	70.8	NA
Cost/NOI	48.8	44.6	NA	46.3	NA
Other income/NOI	27.4	20.0	NA	28.3	NA
Tax/PBT	34.2	44.4	NA	34.1	NA

Source: IISL research, company

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