

The South Indian Bank

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Shareholding (%)

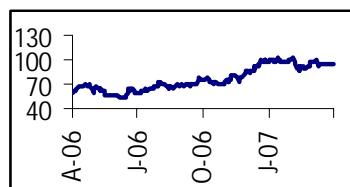
FII's	35.0
FI's/Banks	4.4
MF/Insurance Co.	2.6
Others	58.0

Share price performance

52-week high/low (Rs)	106 / 50		
	-1m	-3m	-12m
Abs (%)	2.1	-3.3	58.9
Rel* (%)	-6.5	-3.8	43.8

*to Nifty

Stock chart



Crossing Milestones

South Indian Bank (SIB) posted Q4FY07 results that have surpassed our expectation with operating profit and PAT growing by 48% and 38% YoY respectively. Growth in profitability was mainly driven by significant increase in interest income and reduction in operating expense. While NIM improved to 3.11% (3.01% in Q3FY07), NNPA's reduced to 0.98% (1.49% in Q3FY07) and CAR reduced to 11.1% (11.8% in Q3FY07). Increasing profit visibility, improving balance sheet quality and our rising confidence in the bank's capability to expand its reach creates an investment opportunity considering its cheap valuations. We maintain 'Buy' rating on the stock. We maintain 'Buy' rating on the stock. Currently, the stock trades at an adjusted PBV of 0.96x FY07 and PBV of 0.91x FY07.

NII grows 40%: SIB has reported 40% growth in net interest income (NII) at Rs1.19bn in Q4FY07 as compared to Rs798mn in the same period last year. Also, NII has grown sequentially by 27% to Rs1.19bn in Q4FY07 as compared to Rs884mn in Q3FY07. Interest on balances shot up substantially to Rs240mn in Q4FY07 as compared to Rs68mn in the same period last year. This has been due to interest earned on CRR balances that the RBI had declared earlier, which is now dropped to 0.5% in its revised CRR hike.

On YoY basis, SIB's deposits grew by 27% to reach Rs122.3bn; advances jumped 23% to touch Rs83.1bn. The bank has set itself a business target of Rs250bn for FY08, which in our opinion is achievable.

100% CBS coverage will improve CASA: The bank's CASA ratio decreased from 26% in Q3FY07 to 24% in Q4FY07; we expect CASA ratio to improve to 28% by end of FY08E, this will be achievable since the bank has already bought all its branches under CBS. This is expected to enable the bank to mobilise deposits.

De-risked investment portfolio: SIB's investment portfolio remains well-managed and de-risked, marked by an SLR ratio of 26%, HTM investments at 61% and average duration of AFS portfolio at 0.74 years.

Strong profitability growth: SIB's interest income jumped 40% YoY owing to robust credit growth and improved yield on advances. On YoY basis, however, operating profit, PBT, and PAT grew substantially by 48%, 20% and 39%

Buy

Rs94

April 24, 2007

Market cap

Rs bn 7

US\$ mn 158

Avg 3m daily volume

191,597

Avg 3m daily value

Rs mn 18

Shares outstanding (mn)

70

Reuters

SIBK.BO

Bloomberg

SIB IN

Sensex

13,928

Nifty

4,085

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respectively, on the back of lower operating expense and higher interest income. The bank's fee-income has increased due to incremental revenue from third-party distribution business and an upward revision in service charges to make them at par with market rates. The bank has made provision of Rs136.5mn Q4FY07 as compared to Rs259.7mn in the same period last year; this was on account of gratuity, leave encashment and pension.

Other highlights: Asset quality continued to improve as NNPA's reduced to 0.98% in Q4FY07 against 1.49% in Q2FY07 and 1.86% in Q4FY06. The bank aims to further bring down NNPA's to 0.5% by FY08. We believe that in view of the bank's stated NPA targets, heavy NPA provisioning would affect PAT growth in FY08 (reserve coverage at 75% in Q4FY07 as compared to 65% in the same period last year). CAR stood at comfortable at 11.08% (tier-I capital at 8.84% headroom to raise Rs3bn of tier-II capital).

Table 1. Quarterly result table

Rs mn	Q4FY07	Q4FY06	YoY (%)	Q3FY07	QoQ (%)
Interest Earned	2,831.9	2,022.8	40.0	2,489.5	13.8
- Interest on Advance	2,005.8	1,485.0	35.1	1,787.4	12.2
- Income on Investment	586.0	470.2	24.6	575.5	1.8
- Interest on Balances	240.1	67.6	255.2	126.6	89.7
Interest Expended	1,713.4	1,224.7	39.9	1,605.6	6.7
Net Interest Income (NII)	1,118.5	798.1	40.1	883.9	26.5
Other Income	254.0	291.4	(12.8)	221.0	14.9
Net Operating Income (NOI)	1,372.5	1,089.5	26.0	1,104.9	24.2
Operating Expenses	596.9	567.5	5.2	493.2	21.0
- Employee Cost	393.4	303.1	29.8	290.0	35.7
- Other Operating Expenses	203.5	264.4	(23.0)	203.2	0.1
Operating Profit	775.6	522.0	48.6	611.7	26.8
Provisions and Contingencies	503.4	294.3	71.0	164.7	205.6
PBT pre exceptional income	272.2	227.7	19.5	447.0	(39.1)
Exceptionals/Extraordinary	-	-	NA	-	NA
PBT post exceptional income	272.2	227.7	19.5	447.0	(39.1)
Tax	46.6	64.6	(27.9)	198.6	(76.5)
PAT excluding exceptional income	225.6	163.1	38.3	248.4	(9.2)
PAT including exceptional income	225.6	163.1	38.3	248.4	(9.2)
Equity Capital	704.1	476.8	47.7	704.1	-
EPS (Excluding Exceptional Treasury Gain)	3.2	3.4	(6.3)	3.5	(9.2)
EPS (Including Exceptional Treasury Gain)	3.2	3.4	(6.3)	3.5	(9.2)
Ratios(%)	-	-	-	-	-
Int Exp/Int Earned	60.5	60.5	NA	64.5	NA
Cost/NOI	43.5	52.1	NA	44.6	NA
Other income/NOI	18.5	26.7	NA	20.0	NA
Tax/PBT	17.1	28.4	NA	44.4	NA

Source: IISL research, company

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