

October 21, 2010

Reco	Previous Reco
Accumulate	Buy
CMP	Target Price
Rs28	Rs30
EPS change FY11E/12E (%)	10.3/9.3
Target Price change (%)	25
Nifty	6,102
Sensex	20,261

Price Performance (%)	1M	3M	6M	12M
Absolute	26	46	62	88
Rel. to Nifty	24	30	40	56

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	28/13
Market Cap (Rs bn/USD mn)	31/699
Daily Avg Volume (No of sh)	10047499
Daily Avg Turnover (US\$m)	5.3

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	-	-	-
FII/NRI	37.6	40.3	36.8
Institutions	13.2	11.3	16.1
Private Corp	9.3	8.8	8.2
Public	39.9	39.6	39.0

Source: Capitaline

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- **SIB reported strong 39.4% growth in NII at Rs2.0bn and 57.4% yoy growth in PAT at Rs770mn, ahead of our expectations**
- **The growth was driven by 36% growth in advances and 35bps qoq expansion in NIMs**
- **The gross NPAs remained stable at Rs2.3bn. Slippages controlled at Rs260mn, 0.6% of advances. Provision cover stood strong at 71%.**
- **Valuations reasonable at 1.6x FY12E ABV. However, leaves ~10% upside to our target price of Rs30 Downgrade from BUY to ACCUMULATE**

Strong NII growth better than expected

SIB's NII for the quarter has grown by 39.4% yoy (17.9% qoq) driven by 35.7% yoy growth in advances and 35bps qoq expansion in NIMs. The expansion in NIMs was driven by 27bps improvement in yield on advances.

Yield Analysis

%	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (bps)	QoQ (bps)
Yield on advances	11.6	11.1	10.7	10.3	10.5	-104	23
Yield on funds	8.7	8.6	8.4	8.5	8.8	2	27
Cost of Funds	6.1	6.0	6.0	5.9	5.8	-33	-8
NIM	2.6	2.6	2.5	2.6	3.0	34	35

Source: Company, Emkay Research

Calculated based on average quarterly balances

Strong growth in advances puts marginal pressure on CASA

The CASA for the quarter grew by 25% yoy (flat qoq) as the balance sheet growth was strong. Resultantly, the CASA profile deteriorated to 24%, down 40bps yoy, 170bps qoq.

Deposit mix

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Current accounts	9.9	9.7	10.5	12.4	10.9	10.8	-12.0
Savings accounts	37.9	40.3	42.7	47.3	48.9	28.9	3.4
CASA	47.8	50.0	53.2	59.7	59.8	25.2	0.2
CASA (%)	24.3	24.2	23.1	25.6	23.9	-40	-172
NRI deposit	34.8	35.3	35.6	35.7	36.9	5.8	3.3
NRI (%)	17.7	17.1	15.5	15.3	14.7	-298	-59
Other Deposit	114.3	121.1	141.3	138.0	154.0	34.7	11.6
Total deposits	196.9	206.4	230.1	233.3	250.6	27.3	7.4

Source: Company, Emkay Research

Valuation table

Y/E March 31	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	16.0	2.7
FY2010	7,768	2,338	2.1	12.4	1.0	16.8	13.4	2.2
FY2011E	9,727	3,030	2.7	14.4	1.0	18.9	10.3	1.9
FY2012E	11,939	3,966	3.5	17.7	1.1	21.1	7.9	1.6

Source: Company, Emkay Research

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

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Net Interest Income	1,416	1,482	1,503	1,674	1,973	39.4	17.9	3,647	2,704	34.9
Other Income	655	431	439	417	449	-31.5	7.7	865	1,215	-28.8
Fee Income	60	77	86	81	85	42.2	4.9	167	139	19.9
Net Income	2,071	1,913	1,941	2,090	2,422	16.9	15.9	4,512	3,919	15.1
Total Operating Expenses	968	967	831	1,046	1,174	21.2	12.2	2,220	1,983	11.9
As % Of Net Income	46.8	50.6	42.8	50.1	48.5	3.6	-3.2	49.2	50.6	
Employee Expenses	634	616	451	675	774	22.1	14.7	1,449	1,317	10.0
As % Of Net Income	30.6	32.2	23.2	32.3	32.0	4.4	-1.0	32.1	33.6	
Other Expenses	335	352	380	372	400	19.4	7.6	771	667	15.7
As % Of Net Income	16.2	18.4	19.6	17.8	16.5	2.1	-7.1	17.1	17.0	
Operating Profit	1,102	946	1,110	1,044	1,248	13.2	19.6	2,292	1,935	18.4
As % Of Net Income	53.2	49.4	57.2	49.9	51.5	-3.2	3.2	50.8	49.4	
Provisions	165	195	-31	167	68	-58.8	-59.3	234	269	-12.9
Prov for NPA	82	99	-56	109	15	-81.9	-86.4	124	307	-59.7
PBT	938	751	1,261	877	1,180	25.9	34.5	2,058	1,666	23.5
Total Tax	448	363	161	293	410	-8.6	40.1	703	812	-13.5
Adjusted PAT	489	388	1,100	585	770	57.4	31.7	1,355	854	58.6
Extra Ordinary Items	0	0	-120	0	0			0	0	
Reported PAT	489	388	995	585	770	57.4	31.7	1,355	854	58.6
Reported EPS	0.4	0.3	1.0	0.5	0.7	55.6	30.2	1.2	0.8	57.6

Source: Company, Emkay Research

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

Recoveries and fees aid non-interest income

The other income has declined by 31% yoy driven by much lower trading gains in Q2FY11 compared with Q2FY10. However, strong growth in fee income and recoveries provided some support. There was a strong pick up in fee income, up 5% qoq, as expected driven by third party product distribution.

Other Income

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Fee/Commission income	60	77	86	81	85	42.2	4.9	167	139	19.9
Trading gains/(losses)	367	93	61	92	62	-83.1	-32.5	154	623	-75.2
Forex gains/(losses)	51	51	43	41	47	-8.4	12.8	88	110	-19.9
Other non int income	177	210	249	202	254	43.6	26.1	456	343	33.0
Total	655	431	439	417	449	-31.5	7.7	865	1,215	-28.8

Source: Company, Emkay Research

Strong growth in core operating profit

The core operating profit has grown by strong 85% yoy or 43% qoq driven by strong operating revenues. During the quarter, SIB has also provided Rs176mn for pension/gratuity provisions of the total required provisions of Rs1.5bn.

Strong growth in core operating profit

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Reported operating profit	1,102	946	1,110	1,044	1,248	13.2	19.6	2,292	1,935	18.4
Less: Trading gains	367	93	61	92	62			154	623	
Add: pension/gratuity provisions					176					
Core operating profit	735	853	1,049	952	1,362	85.2	43.1	2,138	1,312	62.9

Source: Company, Emkay Research

Higher tax rate in Q2FY10 helps further

While SIB's operating performance was strong, it was further aided by higher effective tax rate in Q2FY10. Compared to 47.8% effective tax rate in Q2FY10, the tax rate in Q2FY11 was at 34.7% resulting in sharp swing in the profit after tax. As a result, though the profit before tax grew by 25.8% yoy, the profit after tax grew by 57.3% 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%. The slippages were also controlled at Rs260mn or at 0.6% (annualized).

Asset quality

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Gross NPLs	2,129	2,139	2,110	2,231	2,277	7.0	2.1
Net NPLs	564	567	616	648	671	18.9	3.6
Gross NPLs (%)	1.6	1.5	1.3	1.3	1.3		
Net NPLs (%)	0.4	0.4	0.4	0.4	0.4		
Provision cover (%)	73.5	73.5	70.8	71.0	70.5		
Net NPLs/Net worth (%)	3.9	3.8	4.1	4.2	4.1		

Source: Company, Emkay Research

Valuations and view

We find the current valuations 1.6x FY12E ABV reasonable looking at the improving RoE profile of the bank. We expect the RoEs to improve from low of 17% in FY10 to 21% in FY11E. We have upgraded our earnings estimates by 10.3%/9.3% for FY11E/12E taking into account robust performance of Q2FY11. We have upgraded our price target to Rs30. However, since the current market price leaves just ~10% upside to our TP, we downgrade the stock to ACCUMULATE.

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
Tax rate	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-II/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)	16.0	13.4	10.3	7.9
FDEPS(Rs)	1.7	2.1	2.7	3.5
FDPER (x)	16.0	13.4	10.3	7.9
Book value (Rs)	11.4	13.0	15.1	17.9
P/BV (x)	2.4	2.1	1.8	1.5
Adj book value (Rs)	10.2	12.4	14.4	17.7
P/ABV (x)	2.7	2.2	1.9	1.6
P/PPP (x)	8.7	7.6	6.2	4.8
Dividend yield (%)	1.1	1.4	1.8	2.2

Recommendation History: South Indian Bank – SIB IN

Date	Reports	Reco	CMP	Target
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
20/10/2010	Yes Bank Q2FY11 Result Update	Reduce	352	300
20/10/2010	Canara Bank Q2FY11 Result Update	Reduce	657	636
19/10/2010	CRISIL Q3CY10 Result Update	Accumulate	6,118	7,000
19/10/2010	HDFC Bank Q2FY11 Result Update	Reduce	2,366	2,100

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