

## South Indian Bank

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### Shareholding (%)

FII's	35.0
MFs	1.1
Banks/FI's	4.4
Insurance Co.	1.6
Others	57.9

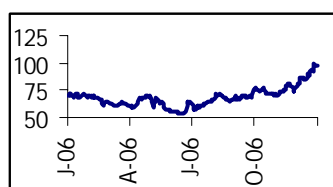
### Share price performance

52-week high/low (Rs) 106/50

	-1m	-3m	-12m
Abs (%)	21.3	37.8	33.6
Rel* (%)	17.4	26.8	-10.4

\*to Nifty

### Stock chart



### Story becomes more compelling!

South Indian Bank's (SIB's) Q3FY07 results surpassed our expectations at the operating profit (up 33% YoY) and PAT (up 20% YoY) levels. The growth in profitability was mainly driven by a significant increase in fee income, reduction in operating expenses, and strong recoveries. NIMs improved to 3.01% (2.91% in Q2FY07), NNPA's reduced to 1.49% (1.69% in Q2FY07), and CAR increased to 11.8% (11.5% in Q2FY07). Currently, the stock trades at an adjusted book value multiple of 1.08X FY07E, 0.86X FY08E, and 0.75X FY09E, implying a discount of about 20% to its peers. The increasing profit visibility, improving balance sheet quality, and our enhancing confidence in the bank's executional capabilities, prompts us to increase our target P/ABV multiple to 1.05X FY08E. This brings us to a price target of Rs119 over a one-year period, implying an upside of 23%.

**Business growth:** On a YoY basis, SIB's deposits grew by 27% to reach Rs109.3 bn; advances jumped 22% to touch Rs75.3 bn. The bank has set a target of Rs120 bn deposits and Rs80 bn advances by FY07; this target, in our opinion, is achievable. The bank's CASA ratio decreased from 27% in Q3FY06 to 26% in Q3FY07; we do not foresee any major improvement in the CASA ratio, going forward. SIB's investment portfolio remains well-managed and de-risked, marked by an SLR ratio at 26.9%, HTM investments at 80%, and average duration of the AFS portfolio at a low as 0.5 years.

**Strong profitability growth:** SIB's total interest income jumped 28% YoY owing to robust credit growth, improved yield on advances, and recoveries from interest suspense account. Nevertheless, to our disappointment, NII remained almost flat. On a YoY basis, however, operating profits, PBT, and PAT, grew handsomely by 33%, 39%, and 20% respectively, on the backdrop of lower operating expenses and higher fee-based income. The bank's fee-income increased significantly due to incremental revenues from third-party distribution business and an upward revision in service charges to make them at par with market rates. Treasury profits jumped from Rs6 mn in Q3FY06 to Rs38 mn in Q3FY07. VRS and better operational capabilities helped the bank in reducing its operating costs. The one-off income tax provision of Rs. 50 mn made in Q3FY07, however, contained the growth at the PAT level; the provision was made on the capital gain realised on sale of bank's stake in Bharat Overseas Bank during Q2FY07.

**Buy**

**Rs97**

January 16, 2007

**Market cap**

Rs bn 7

US\$ mn 154

**Avg 3m daily volume**

475,866

**Avg 3m daily value**

Rs mn 38

**Shares outstanding (mn)**

70

**Reuters**

SIBK.BO

**Bloomberg**

SIB IN

**Sensex**

14,115

**Nifty**

4,081

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**Other Highlights:** Asset quality continued to improve as NNPA's reduced to 1.49% in Q3FY07 against 1.69% in Q2FY07 and 2.42% in Q3FY06. The bank aims to bring down NNPA's to 1% by FY07 and to nil by FY08. We believe that in view of bank's stated NPA targets, heavy NPA provisioning would affect the PAT growth in Q4FY07. CAR stood comfortable at 11.8% (9.96% in Q3FY06).

**Valuation and Recommendation:** Current quarter results reinforce our belief in the bank's growth story and management. We have revised our FY07 EPS (pre-exceptional) by Rs. 0.9 to Rs. 11.3. We, however, have kept our FY08 EPS estimates unchanged. We have also worked out our rough-cut estimates for FY09, assuming stable interest rates and a slowed down YoY credit growth of 17%.

The stock has already appreciated by a staggering 37% in past two and a half months, since we initiated our coverage on the bank. Today, it trades at an adjusted book value multiple of 1.08X FY07E, 0.86X FY08E, and 0.75X FY09E. It also offers an attractive dividend yield of 2.7% FY07E and 3.2% FY08E. Its peer set (comprising Karur Vysya Bank, Karnataka Bank, City Union Bank, Bank of Rajasthan, and Federal Bank) trades at an average adjusted book value multiple of 1.36X FY07E and 1.14X FY08E (as per our estimates). The increasing profit visibility, improving balance sheet quality, and our enhanced confidence in the management's executional capabilities prompts us to increase our price target to Rs. 119 (1.05X ABV FY08E) over a one-year period; this implies an upside of 23% and a 25% discount to our target P/ABV for Federal Bank, SIB's immediate peer. We maintain our 'Buy' recommendation on the stock.

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Table 1. Quarterly result table

Rs mn	Q3FY07	Q3FY06	Y-o-Y (%)	Q2FY07	Q-o-Q (%)
Interest Earned	2,489.5	1,940.3	28.3	2,315.6	7.5
- Interest on Advance	1,787.4	1,457.7	22.6	1,655.7	8.0
- Income on Investment	575.5	448.4	28.3	516.0	11.5
- Interest on Balances	126.6	34.2	270.2	143.9	(12.0)
Interest Expended	1,605.6	1,087.4	47.7	1,472.1	9.1
Net Interest Income (NII)	883.9	852.9	3.6	843.5	4.8
Other Income	221.0	134.6	64.2	186.9	18.2
Net Operating Income (NOI)	1,104.9	987.5	11.9	1,030.4	7.2
Operating Expenses	493.2	527.0	(6.4)	548.4	(10.1)
- Employee Cost	290.0	311.0	(6.8)	306.8	(5.5)
- Other Operating Expenses	203.2	216.0	(5.9)	241.6	(15.9)
Operating Profit	611.7	460.5	32.8	482.0	26.9
Provisions and Contingencies	164.7	139.1	18.4	195.1	(15.6)
PBT pre exceptional income	447.0	321.4	39.1	286.9	55.8
Exceptional/Extraordinary	-	-	NA	228.4	(100.0)
PBT post exceptional income	447.0	321.4	39.1	515.3	(13.3)
Tax	198.6	114.9	72.8	98.8	101.0
PAT excluding exceptional income	248.4	206.5	20.3	188.1	32.1
PAT including exceptional income	248.4	206.5	20.3	416.5	(40.4)
Equity Capital	704.1	476.8	47.7	704.1	-
EPS (Excluding Exceptional Treasury Gain)	3.5	4.3	(18.5)	2.7	32.1
EPS (Including Exceptional Treasury Gain)	3.5	4.3	(18.5)	5.9	(40.4)
<b>Ratios(%)</b>	-	-	-	-	-
Int Exp/Int Earned	64.5	56.0	NA	63.6	NA
Cost/NOI	44.6	53.4	NA	53.2	NA
Other income/NOI	20.0	13.6	NA	18.1	NA
Tax/PBT	44.4	35.7	NA	34.4	NA

Source: IISL research, company

# South Indian Bank

## Financials

Profit & Loss						Key Ratios					
Rs mn	FY05	FY06	FY07E	FY08E	FY09E		FY05	FY06	FY07E	FY08E	FY09E
<b>Interest Earned</b>	<b>7,090.0</b>	<b>7,613.2</b>	<b>9,513.4</b>	<b>11,687.0</b>	<b>13,843.9</b>	<b>Spread Ratios</b>					
Interest Expended	4,520.7	4,511.4	6,057.2	7,376.6	8,769.9	Yield on Advances	9.15%	9.36%	9.70%	9.88%	9.95%
<b>Net Interest Income(NII)</b>	<b>2,569.3</b>	<b>3,101.8</b>	<b>3,456.1</b>	<b>4,310.4</b>	<b>5,073.9</b>	Yield on Investments	7.26%	6.37%	6.40%	6.50%	6.50%
Other Income	<b>1,081.6</b>	<b>905.0</b>	<b>953.1</b>	<b>1,051.8</b>	<b>1,182.1</b>	Cost of Int Bearing Dep	5.49%	5.10%	5.45%	5.82%	5.92%
- Commission, Exchange & Brokerage	214.5	224.7	247.1	271.8	304.5	NIM (NII/ Int Earn Assets)	2.85%	3.18%	3.10%	3.17%	3.18%
- Profit on sale of Investment(Net)	370.8	149.1	107.5	112.3	131.7	Fee Income / Avg Total Assets	0.23%	0.22%	0.20%	0.19%	0.18%
- Profit on Exchange Transactions(Net)	107.4	99.3	129.1	142.0	156.2						
- Miscellaneous Income	388.9	432.0	469.4	525.7	589.8	<b>Asset Ratios</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY08E</b>
<b>Net Operating Income (NOI)</b>	<b>3,650.9</b>	<b>4,006.8</b>	<b>4,409.2</b>	<b>5,362.2</b>	<b>6,256.1</b>	CASA Ratio	24.8%	26.4%	26.8%	27.7%	27.7%
Operating Expenses	1,870.8	2,260.6	2,101.8	2,290.8	2,560.1	C-D Ratio	63.2%	66.5%	68.0%	69.0%	70.0%
- Payments to / Provisions for employees	1,185.2	1,393.7	1,211.7	1,332.9	1,466.2	Gross NPA Ratio	6.57%	5.05%	3.92%	3.18%	3.13%
- Depreciation on Bank's property	124.1	122.3	131.6	139.1	154.5	Provision Coverage	54.69%	61.09%	71.61%	93.77%	94.99%
- Other Operating Expenses	561.5	744.6	758.5	818.8	939.5	Net NPA Ratio	3.81%	1.86%	1.03%	0.11%	0.08%
<b>Operating Profit</b>	<b>1,780.2</b>	<b>1,746.2</b>	<b>2,307.4</b>	<b>3,071.4</b>	<b>3,696.0</b>	Capital Adequacy Ratio	9.89%	13.02%	11.30%	10.17%	10.06%
Provisions & Contingencies	1,641.7	1,056.6	1,096.6	1,415.5	1,550.8	Tier I	5.68%	8.38%	8.70%	7.86%	7.72%
- Provision for NPAs (Net)	395.4	718.7	761.4	1,001.4	876.2	Tier II	4.21%	4.64%	2.59%	2.31%	2.35%
- Provisions for Standard Assets	28.0	97.0	128.6	174.1	424.6	Trading Income / Investments	1.05	0.51	0.35	0.30	0.30
- Prov for Depreciation of Investments	1,160.5	58.6	206.5	240.0	250.0	Operating Profit / Assets	1.90	1.72	1.91	2.10	2.16
- For others	57.8	182.3				Provs / Assets	1.75	1.04	0.91	0.97	0.91
PBT Pre exceptional Item	138.5	689.6	1,210.8	1,655.9	2,145.2	PAT / Assets	0.09	0.50	0.66	0.76	0.84
Exceptional Item	0.0	0.0	228.4	0.0	1.0	Assets / Equity	22.03	18.52	17.79	19.21	19.84
PBT Post Exceptional Item	138.5	689.6	1,439.2	1,655.9	2,146.2	ROA %	0.09%	0.50%	0.81%	0.76%	0.84%
Provision for Tax	51.4	180.6	465.1	546.4	707.9	ROE %	2.05%	9.29%	14.34%	14.56%	16.65%
PAT Pre Exceptional Item	87.1	509.0	795.8	1,109.5	1,437.3						
PAT Post Exceptional Item	87.1	509.0	974.2	1,109.5	1,438.3						
<b>Balance Sheet</b>						<b>Growth Ratios (YoY%)</b>					
Rs mn	FY05	FY06	FY07E	FY08E	FY09E		FY05	FY06	FY07E	FY08E	FY09E
Capital	476.8	704.1	704.1	704.1	704.1	Deposits	2.6	12.8	22.5	20.0	15.0
Reserves and Surplus	4,075.8	5,704.5	6,469.9	7,357.5	8,508.3	Advances	27.8	18.7	25.3	21.8	16.7
<b>Net Worth</b>	<b>4,552.6</b>	<b>6,408.5</b>	<b>7,174.0</b>	<b>8,061.5</b>	<b>9,212.4</b>	Investments	(20.9)	(12.6)	24.2	20.0	15.0
Deposits	84,923.1	95,786.6	117,338.6	140,806.3	161,927.2	Total Assets	2.4	14.2	23.1	19.6	15.0
- Demand Deposits	4,787.1	5,635.8	6,903.8	8,284.6	9,527.3	Net Interest Income	28.0	20.7	11.4	24.7	17.7
- Saving Deposits	16,263.0	19,663.1	24,578.9	30,723.6	35,332.1	Other Income	(54.0)	(16.3)	5.3	10.4	12.4
- Term & Other Deposits	63,873.0	70,487.7	85,855.9	101,798.1	117,067.8	Net Operating Income	(16.2)	9.7	10.0	21.6	16.7
Borrowings	37.3	7.2	1,173.4	1,408.1	1,619.3	Operating Expenses	(3.3)	20.8	(7.0)	9.0	11.8
Other Liabilities & Provisions	5,262.2	6,071.9	7,627.0	9,152.4	10,525.3	Operating Profit	(26.6)	(1.9)	32.1	33.1	20.3
<b>Total Capital &amp; Liabilities</b>	<b>94,775.2</b>	<b>108,274.3</b>	<b>133,312.9</b>	<b>159,428.3</b>	<b>183,284.1</b>	PBT Pre exceptional item	(89.5)	398.0	75.6	36.8	29.5
Cash & Balances with RBI	4,331.7	5,460.8	7,275.0	8,730.0	10,039.5	PAT Pre exceptional item	(89.7)	484.6	56.3	39.4	29.5
Balances with Banks & money at Call & Short Notice	2,680.6	7,973.9	10,142.4	10,299.9	10,203.0	PAT Post exceptional item	(89.7)	484.6	91.4	13.9	29.6
Investments	31,334.3	27,393.9	34,028.2	40,833.8	46,958.9						
- Quoted Government Securities	28,786.4	24,560.5	31,681.4	38,017.7	43,720.4	<b>Valuation Ratios</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Advances	53,652.6	63,702.3	79,790.2	97,156.3	113,349.1	EPS (Pre Excpnl, fully diluted Rs.)	1.8	7.2	11.3	15.8	20.4
Fixed Assets	776.0	898.0	903.8	1,000.1	1,114.4	EPS (Post Excpnl, fully diluted Rs.)	1.8	7.2	13.8	15.8	20.4
Other Assets	2,000.0	2,845.3	1,173.4	1,408.1	1,619.3	Operating Profit Per Share (OPES)	36.3	22.2	26.9	35.9	42.4
<b>Total Assets</b>	<b>94,775.2</b>	<b>108,274.3</b>	<b>133,312.9</b>	<b>159,428.3</b>	<b>183,284.1</b>	Dividend per Share (Rs.)	-	1.8	2.6	3.2	4.1
						Book Value (Rs.)	95.5	91.0	101.9	114.5	130.8
						Adj Book Value (Rs.)	52.7	74.2	90.2	113.0	129.6
<b>Operating Ratios (%)</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>	P/E (X) (pre exceptional item)	53.3	13.5	8.6	6.2	4.8
Int Exp/Int Earned	63.8	59.3	63.7	63.1	63.3	P/E (X) (post exceptional item)	53.3	13.5	7.0	6.2	4.8
Cost/Income Ratio	51.2	56.4	47.7	42.7	40.9	Price/OPES (X)	2.7	4.4	3.6	2.7	2.3
Employee Cost/Interest Income	16.7	18.3	12.7	11.4	10.6	P/BV (X)	1.02	1.07	0.95	0.85	0.74
Other Inc/Net Inc	29.6	22.6	21.6	19.6	18.9	Price / Adj Bk Value (X)	1.85	1.31	1.08	0.86	0.75
Tax/PBT	37.1	26.2	38.4	33.0	33.0	Dividend Yield (%)	0.0%	1.9%	2.7%	3.2%	4.2%

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