



South Indian Bank

 Relative to sector: **Outperformer**
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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 1,130 mn
Market cap	: Rs 24.6 bn
52 week high/low	: Rs 30/ Rs 13
Avg. daily vol. (6mth)	: 8.5 mn shares
Bloomberg code	: SIB IB
Reuters code	: SIBK.BO

Shareholding (%) Sep-10 QoQ chg

Promoters	: 0.0	0.0
FIs	: 37.6	(2.7)
MFs / UTI	: 6.5	1.8
Banks / FIs	: 6.8	0.1
Others	: 49.2	0.8

Financial Summary

Y/E Mar	PAT (Rs mn)	FDEPS (Rs)	EPS chg (%)	P/E (x)	BV (Rs.)	Adj. BV (Rs.)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2009	1,947	1.7	28	13	11	10	1.9	2.1	16	1.0	1.1
2010	2,338	2.1	19	11	13	12	1.7	1.8	17	1.0	0.4
2011E	2,847	2.5	22	9	15	14	1.5	1.5	18	1.0	0.4
2012E	3,414	3.0	20	7	17	17	1.2	1.3	19	1.0	0.3

Source: Company, ENAM Estimates

BALANCED BUSINESS MOMENTUM

South Indian Bank's (SIB) net profit rose 21% YoY to Rs 754 mn, led by healthy net interest income (NII) growth and lower operating expenses. Robust credit growth of 29% YoY provided traction to NII (up 19% YoY). Margins improved by 23 bps YoY and 3 bps QoQ to 3.03% led by balanced business growth. Opex rose 15% YoY as staff expenses growth moderated to 12% YoY. Asset quality deteriorated mainly due to ~Rs 180 mn slippage from a single account. Both gross NPAs and Net NPAs grew by 11% QoQ, with net slippage of Rs 253 mn.

Key highlights

- **Balanced biz growth:** Against the skewed biz growth for industry, SIB reported balanced growth with credit and deposits growing by 29% and 30% YoY resp. C-D ratio, at 71%, provides cushion to maintain its future biz momentum.
- **Employee benefit costs:** SIB has estimated provision of Rs 1.5 bn for pension & gratuity liabilities which are being amortized for next 3 years. With higher provision booked in 2QFY11, the bank has reduced it in 3QFY11 which led to muted staff expenses growth.
- **MFI exposure insignificant:** SIB has an exposure of ~Rs 2.4 bn towards the MFI sector (0.9%), of which Rs 450 mn is from an Andhra Pradesh based MFI.
- **Robust growth in fees income:** Other income rose 15% YoY, supported robust growth in fees income (25% YoY). Cost to income ratio improved 460 bps QoQ and to 44%.

Valuation & Target price

SIB is amongst few to have reported balanced biz growth, which clearly reflects in its accurate implementation of biz strategy. Margins are likely to remain stable, supported by adequate CASA and low cost NRI deposits. We expect SIB to generate an avg ROE of 18% and ROA of ~1% over FY10-FY12E, driven by improving operating metrics, stable NIM and robust asset quality. We have revised our EPS and BV estimates upwards by 2% for FY12E. We have a **BUY rating** on the stock with a TP of Rs 30 (10x FY12E EPS and 1.7x FY12E ABV).

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Interest Income	6,227	4,878	28	5,795	7	24,233	19,357	25
Interest Expended	4,179	3,160	32	3,822	9	16,457	13,674	20
Net Interest Income	2,048	1,718	19	1,973	4	7,776	5,683	37
Non-Interest Income	497	431	15	449	11	1,875	2,085	(10)
Net Income	2,545	2,149	18	2,422	5	9,651	7,768	24
Operating Expenses	1,116	967	15	1,174	(5)	4,549	3,662	24
Operating profit	1,429	1,182	21	1,248	14	5,102	4,106	24
Provision & Contingencies	298	195	53	68	-	852	433	97
PBT	1,130	987	14	1,180	(4)	4,250	3,673	16
Tax	377	363	4	410	(8)	1,402	1,336	5
Net Profit	754	625	21	770	(2)	2,847	2,338	22
No. of shares (mn)	1,130	1,130	-	1,130	-	1,130	1,130	-
Rep. EPS - non-annualized (Rs.)	0.7	0.6	20.7	0.7	(2.1)	2.5	2.1	21.8
Yields & Margins (%)								
Yield on advances	10.7	11.39	(70)bps	10.6	8 bps	10.5	11.1	(53)bps
Yield on investment	6.4	5.79	1 bps	6.3	6 bps	6.1	5.7	34 bps
Cost of deposits	6.40	7.03	(63)bps	6.34	6 bps	6.3	6.5	(24)bps
Net interest margin	3.03	2.80	23 bps	3.00	3 bps	2.8	2.5	24 bps
Cost to income ratio	44	45	(1)bps	48	(460)bps	47	47	(0)bps
Asset quality								
Gross NPAs (Rs mn)	2,536	2,139	19	2,277	11.4	2,637	2,110	25.0
Gross NPAs (%)	1.33	1.46	(13)bps	1.27	6 bps	1.26	1.32	(6)bps
Net NPAs (Rs mn)	743	567	31.0	671	10.76	791	616	28.5
Net NPAs (%)	0.39	0.39	0 bps	0.38	1 bps	0.38	0.39	(1)bps
Provisioning coverage (%)	71	73	(278)bps	71	16 bps	70	71	(82)bps
Capital (%)								
CAR	14.9	17.4	(246)bps	15.9	(97)bps	15.4	15.4	4 bps
Balance sheet (Rs. bn)								
Advances	192	149	29.1	177	8.3	207	158	31.1
Deposits	270	206	30.8	251	7.7	286	230	24.3
CASA (%)	22.4	22.5	(10)bps	23.9	(147)bps	23.6	23.1	47 bps

Source: Company, ENAM Research

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