

July 14, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs25	Rs30
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,600
Sensex	18,618

Price Performance (%)	1M	3M	6M	12M
Absolute	(4)	6	6	33
Rel. to Nifty	(6)	12	9	28

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	30/17
Market Cap (Rs bn/USD mn)	28/629
Daily Avg Volume (No of sh)	1339553
Daily Avg Turnover (US\$m)	0.7

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	-	-	-
FII/NRI	36.2	38.6	37.6
Institutions	10.5	10.2	13.2
Private Corp	9.7	9.8	9.3
Public	43.7	41.4	39.9

Source: Capitaline

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- SIB's Q1FY12 results inline with expectations with NII of Rs2.1bn and net profit of Rs825mn
- The NII grew by 22.5% to Rs2.1bn led by strong 8.1%qoq growth in advances, albeit NIM's contracted by 42bps qoq to 2.4% higher than expected
- The asset quality remained stable with GNPA and NNPA at 1.1% and 0.3%. The provision cover also remained higher at 72.7%
- We remain positive with 30% CAGR in PAT over FY11-13E, robust Tier I and clean asset quality. Maintain ACCUMULATE with TP of Rs30. High gold loan portfolio a key risk

Strong balance sheet growth puts pressure on NIMs; NII in line

SIB's NII for the quarter has grown by 22.5% yoy to Rs2.1bn driven by 31.2%yoy (8.1% qoq) growth in advances, albeit NIM's contracted by 42bps qoq to 2.4%, higher than as expected.

The bank business grew by a strong 7.2%qoq led by 6.5%qoq growth in deposits and 8.1%qoq growth in advances which has put pressure of 42bps on NIMs. Driven by 12.2% qoq growth in term deposits, the cost of funds rose by 48bps qoq.

We expect NIMs to move upwards in coming quarters as the bank has recently raised its base rate and BPLR by 50bps in Jul-11.

Yield Analysis

%	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY bps	QoQ bps
Yield on advances	10.3	10.5	10.9	11.3	11.4	114	12
Yield on funds	8.5	8.8	8.7	9.0	9.1	58	6
Cost of Funds	5.9	5.8	5.8	6.2	6.7	79	48
NIM	2.6	3.0	2.9	2.8	2.4	-21	-42
NIMs #	-	3.0	3.0	3.1	2.8	-	-29

Source: Company, Emkay Research. Calculated based on average quarterly balances # reported and cumulative

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	7,768	2,338	2.1	12.4	1.0	16.8	11.8	2.0
FY2011	9,878	2,925	2.6	14.5	1.0	17.6	9.5	1.7
FY2012E	11,545	3,843	2.6	19.3	1.0	15.5	7.2	1.3
FY2013E	14,017	4,906	3.3	21.4	1.1	14.8	5.6	1.1

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Net Interest Income	1,674	1,973	2,048	2,216	2,050	22.5	-7.5
Other Income	417	449	497	605	516	23.9	-14.7
Fee Income	81	85	87	100	94	15.5	-6.3
Net Income	2,090	2,422	2,545	2,821	2,566	22.8	-9.1
Total Operating Expenses	1,046	1,174	1,116	1,289	1,135	8.4	-12.0
As % Of Net Income	50.1	48.5	43.9	45.7	44.2	-11.7	-3.2
Employee Expenses	675	774	691	759	690	2.3	-9.0
As % Of Net Income	32.3	32.0	27.1	26.9	26.9	-16.6	0.0
Other Expenses	372	400	426	530	444	19.6	-16.2
As % Of Net Income	17.8	16.5	16.7	18.8	17.3	-2.6	-7.9
Operating Profit	1,044	1,248	1,429	1,532	1,431	37.1	-6.6
As % Of Net Income	49.9	51.5	56.1	54.3	55.8	11.7	2.7
Provisions	167	68	299	265	209	25.3	-21.1
Prov for NPA	109	15	194	150	28	-74.6	-81.5
PBT	877	1,180	1,129	1,268	1,222	39.3	-3.6
Total Tax	293	410	377	450	398	36.1	-11.6
Adjusted PAT	585	770	753	817	824	40.9	0.8
Extra Ordinary Items	0	0	0	0	0		
Reported PAT	585	770	753	817	824	40.9	0.8
Reported EPS	0.5	0.7	0.7	0.7	0.7	39.3	0.8

Source: Company, Emkay Research

Retail drives balance sheet growth but puts pressure on low cost deposits

A steep 14.2% qoq growth in retail advances resulted in 8.1% qoq growth in overall advances. However, steep growth was largely funded by term deposits and consequently the low cost deposits stood at 31.2% of total deposits, down 350bps qoq.

Deposit mix

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
CASA	59.7	59.8	60.5	64.0	67.9	13.8	6.0
CASA (%)	25.6	23.9	22.4	21.5	21.5	-412	-9
NRI deposit	35.7	36.9	37.0	39.0	30.8	-13.7	-21.1
NRI (%)	15.3	14.7	13.7	13.1	9.7	-556	-339
Other Deposit	138.0	154.0	172.5	194.2	217.8	57.9	12.2
Total deposits	233.3	250.6	270.0	297.2	316.5	35.6	6.5

Source: Company, Emkay Research

Advances mix

Rs bn	Q1FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Large corporate/others	29,710	32,600	35,860	20.7	10.0
SME	20,950	22,340	22,270	6.3	-0.3
Agriculture	29,590	36,880	34,290	15.9	-7.0
Retail	88,610	113,067	129,130	45.7	14.2
Total advances	168,860	204,887	221,550	31.2	8.1

Source: Company, Emkay Research

Core operating profit grows by 27% yoy

The sharp contraction in NIMs also impacted overall operating performance as the core operating profit (adjusted for pension expenses) grew by 27% yoy and declined 6% qoq.

Core operating profit growth slower than reported

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Reported operating profit	1,044	1,248	1,429	1,532	1,431	37.1	-6.6
Less: Trading gains	92	62	97	143	149	62.0	4.7
Core operating profit	1,136	1,310	1,526	1,675	1,580	39.1	-5.6
Add: Gratuity/ Pension provisions	170	170	123	102	78	-53.9	-23.1
Adjusted operating profit	1,306	1,480	1,649	1,776	1,659	27.0	-6.6

Source: Company, Emkay Research

Other Income

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Fee/Commission income	81	85	87	100	94	15.5	-6.3
Trading gains/(losses)	92	62	97	143	149	62.0	4.7
Forex gains/(losses)	41	47	48	55	49	19.3	-9.9
Other non int income	202	254	265	317	223	10.8	-29.5
Total	417	449	497	614	516	23.9	-16.0
Fee/Forex/others	324	386	400	472	367	13.0	-22.3

Source: Company, Emkay Research

Asset quality stable

The asset quality remained largely stable with GNPA and NNPA at 1.1% and 0.3% of advances. The PCR also remained robust at 73%.

Asset quality

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Gross NPLs	2,231	2,277	2,536	2,303	2,364	6.0	2.6
Net NPLs	648	671	743	600	646	-0.3	7.6
Gross NPLs (%)	1.3	1.3	1.3	1.1	1.1		
Net NPLs (%)	0.4	0.4	0.4	0.3	0.3		
Provision cover (%)	71.0	70.5	70.7	73.9	72.7		
Net NPLs/Net worth (%)	4.2	4.1	4.4	3.2	3.3		

Source: Company, Emkay Research

CAR remains extremely comfortable

SIB is comfortably placed in terms of capital adequacy with CAR of 13.5% with tier I CAR of 10.9%. SIB is looking to raise Rs10bn through a QIP in Q2FY12 which will raise the tier I CAR to 16-17%.

Valuations and view

We expect SIB's net profit to grow at CAGR of 30% over FY11-13E with RoEs of 15% (post dilution). A high tier I CAR and robust asset quality are strong positives in bank's favour. We find the valuations at 1.3x FY12E ABV and 1.1x FY12 ABV attractive. Maintain accumulate with price target of Rs30. Higher concentration of gold loans (20%) in loan portfolio is key risk to the bank.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	5,683	7,911	9,194	11,106
Other income	2,085	1,967	2,351	2,911
Net income	7,768	9,878	11,545	14,017
Operating expenses	3,662	4,625	5,125	5,939
Pre provision profit	4,106	5,253	6,420	8,079
PPP excl treasury	3,266	4,859	6,145	7,804
Provisions	433	799	567	608
Profit before tax	3,673	4,454	5,853	7,471
Tax	1,335	1,529	2,010	2,565
Tax rate	36%	34%	34%	34%
Profit after tax	2,338	2,925	3,843	4,906

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.7	3.0	2.7	2.7
Non-II/avg assets	0.9	0.7	0.6	0.6
Fee income/avg assets	0.1	0.1	0.1	0.1
Opex/avg assets	1.4	1.4	1.3	1.2
Provisions/avg assets	0.3	0.2	0.1	0.1
PBT/avg assets	1.4	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	16.8	17.6	15.5	14.8
GNPA (%)	1.3	1.1	1.0	1.0
NNPA (%)	0.4	0.3	0.4	0.5

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	1,130	1,130	1,487	1,487
Reserves	13,723	17,322	29,764	33,451
Net worth	14,853	18,473	31,251	34,939
Deposits	230,115	297,211	360,964	436,786
Borrowings	10,372	12,519	16,139	19,486
Total liabilities	255,340	328,202	408,354	491,211
Assets				
Cash and bank	19,877	24,661	33,303	46,211
Investments	70,262	88,577	107,308	125,505
Customer assets	159,523	205,548	256,770	307,992
Others	5,678	9,416	10,973	11,503
Total assets	255,340	328,202	408,354	491,211

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	2,338	2,925	3,843	4,906
Shares in issue (mn)	1,130	1,130	1,487	1,487
EPS (Rs)	2.1	2.6	2.6	3.3
PER (x)	11.8	9.5	9.5	7.4
FDEPS(Rs)	2.1	2.6	3.4	4.3
FDPER (x)	11.8	9.5	7.2	5.6
Book value (Rs)	13.0	15.0	20.0	22.5
P/BV (x)	1.9	1.6	1.2	1.1
Adj book value (Rs)	12.4	14.5	19.3	21.4
P/ABV (x)	2.0	1.7	1.3	1.1
P/PPP (x)	6.7	5.3	5.7	4.5
Dividend yield (%)	1.6	2.0	2.4	2.9

Recommendation History: South Indian Bank – SIB IN

Date	Reports	Reco	CMP	Target
02/05/2011	South Indian Bank Q4FY11 Result Update	Buy	22	30
20/01/2011	South Indian Bank Q3FY11 Result Update	Buy	22	30
21/10/2010	South Indian Bank Q2FY11 Result Update	Accumulate	28	30
15/07/2010	South Indian Bank Q1FY11 Result Update	Buy	186	230

Recent Research Reports

Date	Reports	Reco	CMP	Target
23/06/2011	Banking Sector Update			
16/06/2011	Banking Sector Update			
17/05/2011	State Bank of India Q4FY11 Result Update	Hold	2,414	2,480
16/05/2011	ICRA Q4FY11 Result Update	Accumulate	1,101	1,280

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