

May 13, 2016

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Rating	<b>BUY</b>
Price	Rs18
Target Price	Rs22
Implied Upside	22.2%
Sensex	25,790
Nifty	7,900

(Prices as on May 12, 2016)

### Trading data

Market Cap. (Rs bn)	24.3
Shares o/s (m)	1,350.3
3M Avg. Daily value (Rs m)	61.2

### Major shareholders

Promoters	0.00%
Foreign	34.47%
Domestic Inst.	17.15%
Public & Other	48.38%

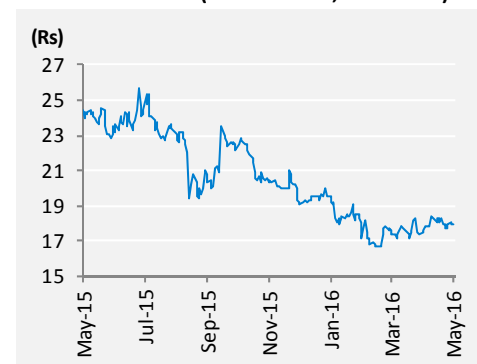
### Stock Performance

(%)	1M	6M	12M
Absolute	2.0	(12.0)	(25.0)
Relative	(0.6)	(11.7)	(21.0)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	3.2	3.2	-2.7
2018	3.9	3.8	2.4

### Price Performance (RIC: SIBK.BO, BB: SIB IN)



Source: Bloomberg

**SIB reported weak quarter as PAT stood at Rs730mn (~9% below PLe) adversely impacted by higher interest reversals and provisioning expenses. NII growth stood at tepid 8% YoY while margins declined 29bp QoQ (13bp due to interest reversals). Asset quality deteriorated sharply with fresh slippages spiking to Rs8.45bn led by elevated slippages in corporate segment resulting in 41% QoQ/ 65% QoQ rise in GNPL/NNPLs respectively, despite bank selling Rs2.3bn worth of loans to ARC. Management suggested that the book is largely cleansed and asset quality is likely to improve hereon and guided for ~15% YoY loan growth in FY17E. We have cut our FY17 estimates by 4% to factor in higher credit costs and delinquency rate. We revise our TP to Rs22 (from Rs24) based on 1.0x Sep-17E ABV.**

- **Weak operating performance:** SIB reported 9.5% YoY growth in total revenues on a low base (8.3% QoQ decline) as margins declined by 29bp QoQ (13bp QoQ due to interest reversals). Core-fee growth remained muted at 3.8% YoY while foreclosed transaction income declined sharply. However 4% YoY decline in operating expenses led by adjustment of pension liabilities helped improve operating profit growth to 35% YoY. Management maintains its guidance of 2.8-2.9% margins for FY17E aided by repricing of bulk deposits.
- **Loan growth stood at 10% YoY; retail (ex-gold) & agri remain growth drivers:** Loan growth stood at 10% YoY and was led by Agri, Retail (ex-gold) & SME. Retail loan book reported healthy uptick in loan growth at 7.6% QoQ and ex-gold retail growth was strong at 22% YoY. Agri portfolio also witnessed strong growth of ~41% YoY and SIB guided that with revived interest in gold the overall retail loan growth should be healthy for FY17E. SIB continues to de-focus on corporate loans and has thus guided for overall loan growth of 15% YoY for FY17E.
- **Asset quality remains patchy; outlook relatively better:** Asset quality deteriorated sharply with fresh slippages spiking to Rs8.45bn led by elevated slippages in corporate segment resulting in 41% QoQ/ 65% QoQ rise in GNPL/NNPLs respectively, despite bank selling Rs2.3bn worth of loans to ARC. O/s restructured portfolio has declined from Rs19.3bn in Q3FY16 to 9.49bn as Rs6.70bn worth of SEB loans were transferred to investment book on UDAY bond conversion. SIB suggested that the book is largely cleansed now and slippages from restructured could be 20% in FY17E.

Key financials (Y/e March)	2015	2016E	2017E	2018E
Net interest income	13,662	15,097	17,182	19,845
Growth (%)	(2.3)	10.5	13.8	15.5
Operating profit	8,820	8,793	9,360	10,989
PAT	3,073	3,333	4,264	5,272
EPS (Rs)	2.3	2.5	3.2	3.9
Growth (%)	(39.7)	8.2	27.9	23.6
Net DPS (Rs)	0.6	0.5	0.6	0.7

Profitability & Valuation	2015	2016E	2017E	2018E
NIM (%)	2.39	2.47	2.58	2.67
RoAE (%)	8.8	9.0	10.6	12.0
RoAA (%)	0.54	0.55	0.64	0.71
P / BV (x)	0.7	0.7	0.6	0.5
P / ABV (x)	0.8	1.0	0.9	0.8
PE (x)	7.9	7.3	5.7	4.6
Net dividend yield (%)	3.3	2.8	3.3	3.9

Source: Company Data; PL Research

**Exhibit 1: Q4FY16 – Weak performance continues mainly on asset quality**

*NII growth remained weak on high interest reversals and full impact of base rate cuts*

*Other income growth of 14% was driven by slightly better core fee income*

*Opex cost was lower as employee expenses declined mainly on adjustment of pension liabilities*

*Provisions remained elevated at 150bps of loans mainly from on amortization provisions from ARC sale, higher slippages & NPAs moving to lower buckets*

*Business growth remains tepid on de-growth in gold loan book and conscious slowdown in lending to corporate*

*NIMs saw a sharp decline of 29 bps QoQ to 2.63% with 13 bps impact from interest reversals. Apart from interest reversals yields decline was sharp*

*Asset quality deteriorated on high slippages mainly on fallout from corporate book in steel and EPC segment*

(Rs m)	Q4FY16	Q4FY15	YoY gr. (%)	Q3FY16	QoQ gr. (%)
Interest Income	13,679	13,224	3.4	14,077	(2.8)
Interest Expended	9,936	9,753	1.9	10,009	(0.7)
<b>Net interest income (NII)</b>	<b>3,743</b>	<b>3,471</b>	<b>7.8</b>	<b>4,067</b>	<b>(8.0)</b>
-Treasury income	300	277	8.3	500	(40.0)
Other income	1,391	1,219	14.0	1,533	(9.3)
<b>Total income</b>	<b>5,134</b>	<b>4,690</b>	<b>9.4</b>	<b>5,600</b>	<b>(8.3)</b>
Operating expenses	2,911	3,041	(4.3)	2,970	(2.0)
-Staff expenses	1,716	1,979	(13.3)	1,846	(7.0)
-Other expenses	1,195	1,062	12.5	1,124	6.3
<b>Operating profit</b>	<b>2,223</b>	<b>1,650</b>	<b>34.7</b>	<b>2,631</b>	<b>(15.5)</b>
Core operating profit	1,923	1,373	40.1	2,131	(9.8)
Total provisions	1,163	1,377	(15.6)	1,064	9.3
<b>Profit before tax</b>	<b>1,060</b>	<b>272</b>	<b>289.3</b>	<b>1,567</b>	<b>(32.3)</b>
Tax	331	109	202.8	551	(39.9)
<b>Profit after tax</b>	<b>730</b>	<b>163</b>	<b>347.1</b>	<b>1,016</b>	<b>(28.2)</b>
<b>Balance sheet (Rs m)</b>					
Deposits	557,207	519,125	7.3	534,410	4.3
Advances	410,858	373,916	9.9	399,090	2.9
Gross NPL (Rs m)	15,624	6,435	142.8	11,080	41.0
Net NPL (Rs m)	11,853	3,571	232.0	7,160	65.5
<b>Ratios (%)</b>					
<b>Profitability ratios</b>					
Yield on Advances	10.56%	11.61%	(105)	11.21%	(65)
Cost of Funds	6.38%	6.92%	(54)	6.55%	(17)
<b>NIM</b>	<b>2.63%</b>	<b>2.70%</b>	<b>(7)</b>	<b>2.92%</b>	<b>(29)</b>
RoA	0.47%	0.56%	(9)	0.66%	(19)
<b>Asset Quality</b>					
Gross NPL ratio	3.77%	1.71%	206	2.75%	102
Net NPL ratio	2.89%	0.96%	193	1.80%	109
Coverage ratio	40.34%	60.63%	(2,029)	50.29%	(995)
<b>Business &amp; Other Ratios</b>					
Low-cost deposit mix	22.40%	20.59%	181	23.03%	(63)
Cost-income ratio	56.70%	64.83%	(813)	53.03%	367
Non int. inc / total income	27.09%	26.00%	109	27.38%	(29)
Credit deposit ratio	73.74%	72.03%	2	74.68%	(94)
CAR	11.82%	12.01%	(19)	11.70%	12
Tier-I	9.80%	10.43%	(63)	9.42%	38

Source: Company Data, PL Research

## Key Q4FY16 Concall Highlights

### Balance sheet

- **Loan book** – Gold loan portfolio has been slow, but on renewed interest in gold and change in product offering, bank is guiding 20% growth in gold loan. Kerala advances growth has been good compared to Rest of India. **Outlook** – Overall should see 15-16% growth with +20% YoY growth in MSME, housing loans, retail and gold loans. Corporate book should be slower at 10% YoY.
- **Liabilities** – NRI deposits growth at ~26% YoY has been strong from CASA as well as term deposits and not facing any headwinds in remittances. Bank is targeting CASA improvement by 200bps in FY17 from 22.4% currently.

### Margins:

- Margins have come off to 2.63% (30bps QoQ decline with 13bps impact from interest reversals) in the quarter on higher interest reversals. **Outlook** – Have substantial bulk deposits to be re-priced which will benefit margins by 15bps to reach improved range of 2.8-2.9%.

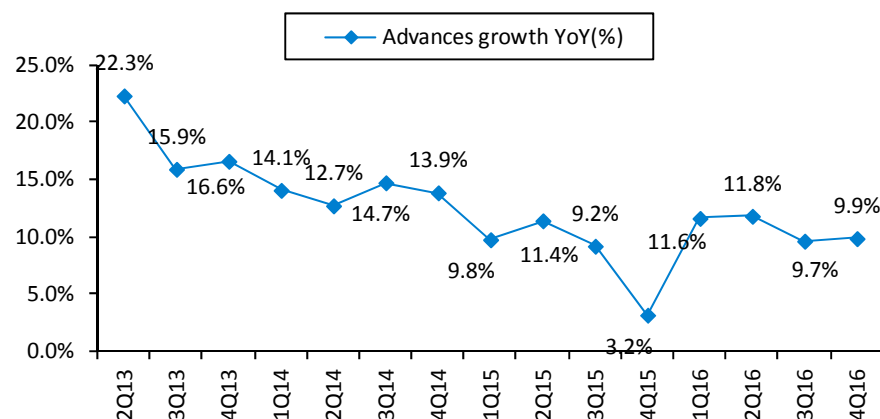
### Fees/Opex:

- Fees growth will continue to be from technology (inter ATM charges, interbank transfer fees) and cross selling opportunities.
- Would be adding more hubs pan India for retail & SME. Opex growth could be in range of 10-12% in FY17.

### Asset Quality:

- Slippages stood at Rs8.45bn; with-in retail from some textile and trading a/c, while slippages in corporate book have been from EPC and steel with partly from restructured and partly from standard.
- **ARC sale** - Sold Rs2.3bn of loans in Q4FY16 and realized value of Rs1.28bn (15% in cash), while wrote-off Rs1.02 bn where bank held substantial provisions.
- **Restructured book** – Standard portfolio has come off from Rs19.3bn in Q3FY16 to 9.49bn currently as Rs6.70bn SEB loans were transferred to investment book on UDAY bond conversion and only Rs2.14bn is in restructured book related to TN. Also saw slippages in EPC segment of Rs2.49bn in FY16 and now in standard restructured portfolio only Rs4.0bn remain in EPC, Rs1.18bn in roads.
- **SDR & 5/25 refinancing** – Have Rs2.9bn in SDR with 1 from EPC and 1 from shipbuilding both being from restructured book. Under 5/25 refinancing has Rs910 mn o/s for 1 a/c in cement sector.

- **Outlook** – Predominantly cleansed the balance sheet mainly from corporate side and slippages from restructured could be 20% in FY17.

**Exhibit 2: Loan growth remains modest mainly supported by SME, Agri**


Source: Company Data, PL Research

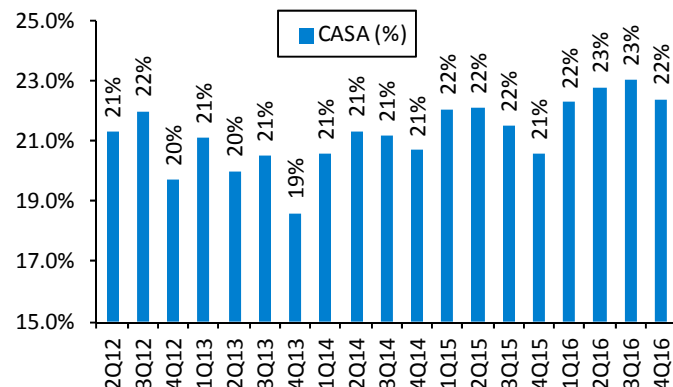
**Exhibit 3: Retail growth continues to be under pressure as gold loans portfolio declines**

Break-up of Advances	Q4FY16	Q4FY15	YoY gr. (%)	Q3FY16	QoQ gr. (%)
Agri	57,700	40,770	41.5	55,490	4.0
SME & MSME	98,230	88,110	11.5	90,860	8.1
Retail	100,920	96,570	4.5	93,820	7.6
Corporate	160,990	154,330	4.3	165,840	(2.9)
<b>Total Advances</b>	<b>410,858</b>	<b>373,916</b>	<b>9.9</b>	<b>399,090</b>	<b>2.9</b>
Agri	13.8%	10.7%	3 bps	13.7%	14 bps
SME & MSME	23.5%	23.2%	0 bps	22.4%	113 bps
Retail	24.2%	25.4%	(1) bps	23.1%	104 bps
Corporate	38.5%	40.6%	(2) bps	40.8%	(232) bps

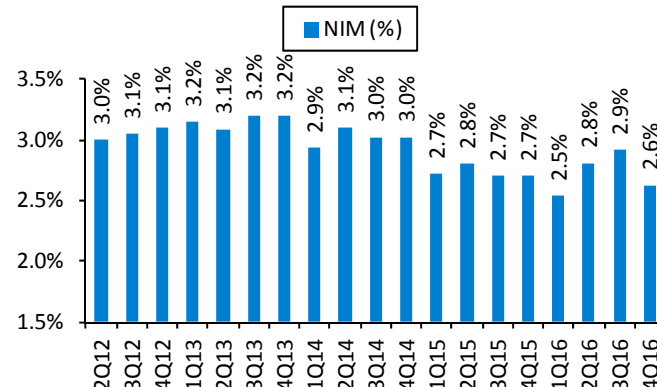
Source: Company Data, PL Research

Advances growth remains sluggish at ~10% as retail continues to struggle mainly from declining gold loan book. Ex-gold retail was strong at 22% YoY growth, while Agri portfolio also witnessed strong growth of ~41% YoY as well.

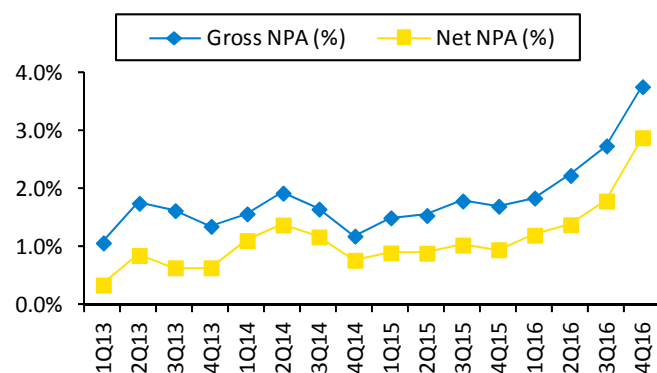
Agri, SME & Retail (Ex-gold) has been contributing to growth, but management has been de-focusing on corporate

**Exhibit 4: CASA profile remains steady led by good growth in SA**


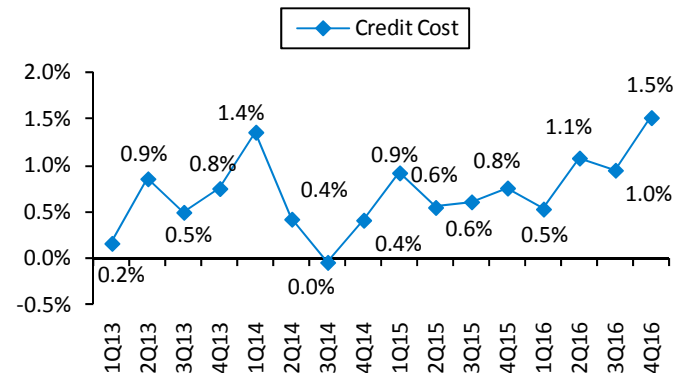
Source: Company Data, PL Research

**Exhibit 5: Margins were impacted on high interest reversals**


Source: Company Data, PL Research

**Exhibit 6: Asset quality continues to deteriorate mainly led by corporate book from both restructured and standard book**


Source: Company Data, PL Research

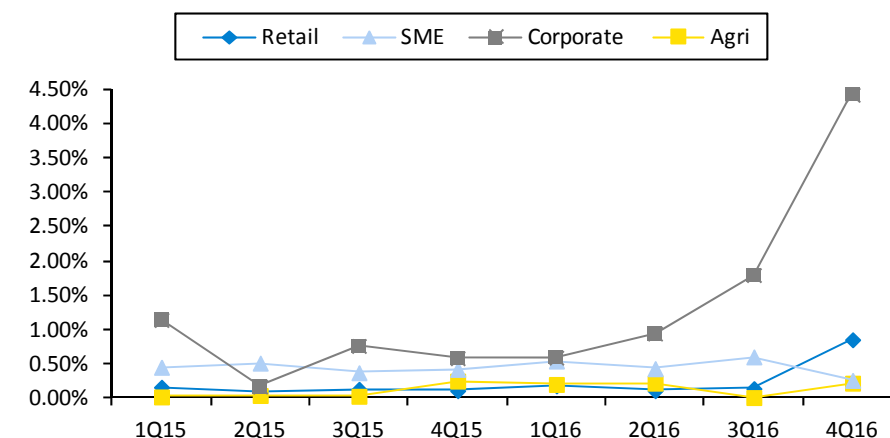
**Exhibit 7: Credit cost remains elevated on ARC sale provisions amortization and high slippages**


Source: Company Data, PL Research

**Exhibit 8: Segmental break-up of slippages**

Corporate slippages rate was highest with contributions from both restructured (EPC a/c failing) and some standard loans as well.

Retail witnessed slight deterioration in portfolio mainly on some traders & textile a/c, while SME slippage rate declined & Agri portfolio remained stable



Source: Company Data, PL Research

**Exhibit 9: Change in estimates table – We tweak our earnings to factor higher slippages, interest reversals from restructured book & higher credit cost**

(Rs m)	Old		Revised		% Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Net interest income	17,524	19,823	17,182	19,845	(2.0)	0.1
Operating profit	9,110	10,541	9,360	10,989	2.7	4.3
Net profit	4,459	5,193	4,264	5,272	(4.4)	1.5
EPS (Rs)	3.3	3.8	3.2	3.9	(4.4)	1.5
ABVPS (Rs)	23.5	27.7	19.9	22.4	(15.3)	(18.9)
<b>Price target (Rs)</b>	<b>24</b>		<b>22</b>		<b>(8.7)</b>	
<b>Recommendation</b>	<b>BUY</b>		<b>BUY</b>			

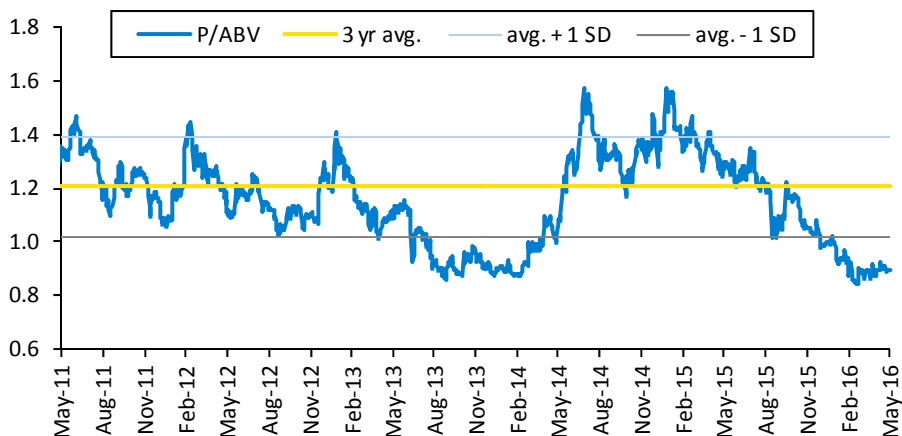
Source: Company Data, PL Research

**Exhibit 10: We cut our PT to Rs22 (from Rs24) with target multiple of 1.0x based on Sep-17 ABV.**

<b>PT calculation and upside</b>	
Fair price – EVA	21
Fair price - P/ABV	23
<b>Average of the two</b>	<b>22</b>
<b>Target P/ABV</b>	<b>1.0</b>
<b>Target P/E</b>	<b>6.2</b>
Current price, Rs	18
<b>Upside (%)</b>	<b>20%</b>
Dividend yield (%)	3%
<b>Total return (%)</b>	<b>23%</b>

Source: Company Data, PL Research

**Exhibit 11: Historical trends in P/ABV - SIB trades at below historical averages on dismal performance**



Source: Company Data, PL Research

### Income Statement (Rs m)

Y/e March	2015	2016E	2017E	2018E
Int. Earned from Adv.	41,530	43,636	47,785	53,753
Int. Earned from Inv.	9,459	10,078	10,203	10,632
Others	1,874	1,858	1,951	2,139
Total Interest Income	52,862	55,572	59,939	66,524
Interest expense	39,200	40,475	42,757	46,678
<b>NII</b>	<b>13,662</b>	<b>15,097</b>	<b>17,182</b>	<b>19,845</b>
Growth (%)	(2.3)	10.5	13.8	15.5
Treasury Income	1,640	1,361	1,200	1,500
NTNII	3,331	3,813	4,336	4,701
Non Interest Income	4,971	5,174	5,536	6,201
Total Income	57,833	60,746	65,476	72,725
Growth (%)	7.4	5.0	7.8	11.1
Operating Expense	9,813	11,478	13,359	15,057
<b>Operating Profit</b>	<b>8,820</b>	<b>8,793</b>	<b>9,360</b>	<b>10,989</b>
Growth (%)	(0.3)	(0.3)	6.4	17.4
NPA Provisions	3,430	4,053	2,625	2,732
Investment Provisions	137	127	—	—
Total Provisions	4,141	3,696	2,839	2,927
<b>PBT</b>	<b>4,680</b>	<b>5,097</b>	<b>6,521</b>	<b>8,062</b>
Tax Provisions	1,607	1,764	2,257	2,790
Effective Tax Rate (%)	34.3	34.6	34.6	34.6
<b>PAT</b>	<b>3,073</b>	<b>3,333</b>	<b>4,264</b>	<b>5,272</b>
Growth (%)	(39.4)	8.5	27.9	23.6

### Balance Sheet (Rs m)

Y/e March	2015	2016E	2017E	2018E
Par Value	1	1	1	2
No. of equity shares	1,350	1,350	1,350	675
Equity	1,350	1,350	1,350	1,350
Networth	35,894	38,419	41,695	45,824
Adj. Networth	24,041	26,567	28,205	31,693
Deposits	519,125	557,207	618,500	698,905
Growth (%)	9.3	7.3	11.0	13.0
Low Cost deposits	106,863	124,590	142,874	164,243
% of total deposits	20.6	22.4	23.1	23.5
<b>Total Liabilities</b>	<b>591,139</b>	<b>631,713</b>	<b>699,890</b>	<b>789,350</b>
Net Advances	373,916	410,858	464,269	529,267
Growth (%)	3.2	9.9	13.0	14.0
Investments	140,861	146,189	148,413	163,023
<b>Total Assets</b>	<b>591,163</b>	<b>631,749</b>	<b>699,890</b>	<b>789,350</b>

Source: Company Data, PL Research.

### Quarterly Financials (Rs m)

Y/e March	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Interest Income	13,767	14,050	14,077	13,679
Interest Expense	10,363	10,166	10,009	9,936
<b>Net Interest Income</b>	<b>3,403</b>	<b>3,884</b>	<b>4,067</b>	<b>3,743</b>
Non Interest Income	1,038	1,212	1,533	1,391
CEB	606	430	660	620
Treasury	141	420	500	300
<b>Net Total Income</b>	<b>4,442</b>	<b>5,096</b>	<b>5,600</b>	<b>5,134</b>
Operating Expenses	2,633	2,965	2,970	2,911
Employee Expenses	1,574	1,787	1,846	1,716
Other Expenses	1,059	1,178	1,124	1,195
<b>Operating Profit</b>	<b>1,809</b>	<b>2,130</b>	<b>2,631</b>	<b>2,223</b>
Core Operating Profit	1,668	1,710	2,131	1,923
Provisions	795	675	1,064	1,163
Loan loss provisions	507	1,054	947	1,537
Investment Depreciation	203	(32)	122	5
<b>Profit before tax</b>	<b>1,014</b>	<b>1,456</b>	<b>1,567</b>	<b>1,060</b>
Tax	361	522	551	331
<b>PAT before EO</b>	<b>653</b>	<b>934</b>	<b>1,016</b>	<b>730</b>
Extraordinary item	—	—	—	—
<b>PAT</b>	<b>653</b>	<b>934</b>	<b>1,016</b>	<b>730</b>

### Key Ratios

Y/e March	2015	2016E	2017E	2018E
CMP (Rs)	18	18	18	18
Equity Shrs. Os. (m)	1,350	1,350	1,350	675
Market Cap (Rs m)	24,303	24,305	24,305	12,153
M/Cap to AUM (%)	4.1	3.8	3.5	1.5
EPS (Rs)	2.3	2.5	3.2	3.9
Book Value (Rs)	26	27	30	33
Adj. BV (100%) (Rs)	23	19	20	22
P/E (x)	7.9	7.3	5.7	4.6
P/BV (x)	0.7	0.7	0.6	0.5
P/ABV (x)	0.8	1.0	0.9	0.8
DPS (Rs)	0.6	0.5	0.6	0.7
Dividend Yield (%)	3.3	2.8	3.3	3.9

### Profitability (%)

Y/e March	2015	2016E	2017E	2018E
NIM	2.4	2.5	2.6	2.7
RoAA	0.5	0.5	0.6	0.7
RoAE	8.8	9.0	10.6	12.0

### Efficiency

Y/e March	2015	2016E	2017E	2018E
Cost-Income Ratio (%)	52.7	56.6	58.8	57.8
C-D Ratio (%)	72.0	73.7	75.1	75.7
Business per Emp. (Rs m)	114	108	105	103
Profit per Emp. (Rs lacs)	3.9	3.7	4.1	4.4
Business per Branch (Rs m)	1,086	942	843	765
Profit per Branch (Rs m)	4	3	3	3

### Asset Quality

Y/e March	2015	2016E	2017E	2018E
Gross NPAs (Rs m)	15,624	15,624	18,407	20,059
Net NPAs (Rs m)	11,853	11,853	13,490	14,131
Gr. NPAs to Gross Adv. (%)	3.8	3.8	4.0	3.8
Net NPAs to Net Adv. (%)	2.9	2.9	2.9	2.7
NPA Coverage (%)	24.1	24.1	26.7	29.6

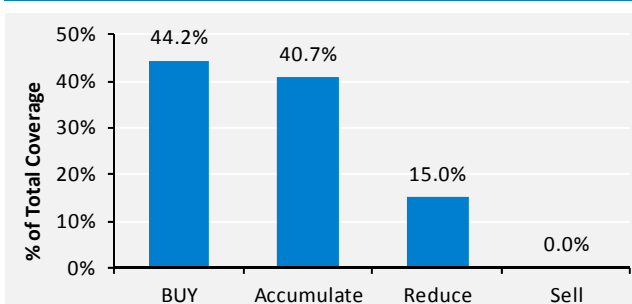
Source: Company Data, PL Research.



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**Rating Distribution of Research Coverage****PL's Recommendation Nomenclature**

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months
<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months
<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month
<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

**DISCLAIMER/DISCLOSURES****ANALYST CERTIFICATION**

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