

July 9, 2020

Q1FY21 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	11		11	
NII (Rs. m)	26,619	29,148	25,873	28,837
% Chng.	2.9	1.1		
Op. Profit (Rs. m)	15,035	15,594	14,946	15,971
% Chng.	0.6	(2.4)		
EPS (Rs.)	2.0	2.3	2.1	2.0
% Chng.	(0.3)	14.4		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII (Rs m)	23,175	24,899	26,619	29,148
Op. Profit (Rs m)	16,457	15,188	15,035	15,594
PAT (Rs m)	1,046	2,789	3,710	4,199
EPS (Rs.)	0.6	1.5	2.0	2.3
Gr. (%)	(57.8)	166.6	33.0	13.2
DPS (Rs.)	0.4	-	0.4	0.4
Yield (%)	4.4	-	4.2	4.8
NIM (%)	2.6	2.7	2.7	2.8
RoAE (%)	1.9	5.0	6.3	6.7
RoAA (%)	0.1	0.3	0.4	0.4
P/BV (x)	0.3	0.3	0.3	0.2
P/ABV (x)	0.5	0.4	0.4	0.4
PE (x)	14.4	5.4	4.0	3.6
CAR (%)	13.4	13.6	13.5	13.2

Key Data

SIBK.BO | SIB IN

52-W High / Low	Rs.13 / Rs.5
Sensex / Nifty	36,738 / 10,813
Market Cap	Rs.15bn/ \$ 202m
Shares Outstanding	1,810m
3M Avg. Daily Value	Rs.307.28m

Shareholding Pattern (%)

Promoter's	-
Foreign	19.10
Domestic Institution	7.30
Public & Others	73.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	21.3	(18.3)	(34.6)
Relative	12.1	(7.9)	(31.1)

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Relatively steady quarter

Quick Pointers:

- Moratorium book remains unchanged at 36% which was as of June end, while SMA share in moratorium book also remains unchanged at 1.1% of loans
- Low slippages helped asset quality, while continued provisions helped improve PCR levels to 38% (non-technical), although long way to go as yet

Earnings of Rs817mn (PLe: Rs488mn) was better than expected on lower provisions and better treasury income. NII growth was muted at 10% YoY but was largely in-line with expectations, while other income was helped by better treasury income but fees were down 9% YoY/20% QoQ. Provisioning levels came off to trends levels but continued to help improvement in PCR with asset quality being marginally better. Bank moratorium remain high at 36% but SMA loan within that is quite low which displays comfort but real picture will be visible post the moratorium ends. We retain BUY maintaining TP of Rs11 based on 0.5x Mar-22 ABV as valuations remain undemanding.

- **Operational slowdown:** NII grew by 9.6% YoY on weak loan growth and NIMs saw marginal decline of 4bps QoQ to 2.62%, while other income ex-treasury was quite sluggish as fee income declined 10% QoQ. Opex showed mixed trends with staff opex moving mainly on AS15 related provisions, while non-staff opex was down helping offset the topline slowdown.
- **Overall loan growth remains tepid:** Loans growth remained weak at 3.1% YoY on back of weak macros and continued corporate de-growth, while Retail grew at a mediocre 9.7% YoY and Agri grew at 14.8% YoY. MSME book regained some traction sequentially but still portrays slower growth as Bank adopts a cautious approach in light of COVID-19. Retail loan growth was driven by most segments like Gold, Mortgage, LAP etc. **On liabilities front,** CASA mix grew to 27% up 279bps YoY/189bps QoQ while Retail TDs grew strong at 9% YoY and Bulk deposits de-grew at 39% YoY. NRI deposit base also remained more or less stable at 30% of deposits.
- **Asset quality steady on higher provisioning, lower slippages:** Largely asset quality remained steady with GNPA's/NNPA's standing at 4.93%/3.09% while a standstill benefit of Rs7.14bn was taken on loans under moratorium wherein Rs0.8bn for COVID-19 was already provided. 36% of its overall loan book was under moratorium much higher in Retail at 46%. Sequentially, slippages almost halved though recoveries too have reduced thus keeping GNPA levels steady. Major segment to contribute to slippages remains the MSME book. Slippages for FY21 are expected to be maintained at Rs 10-13bn i.e. capped at 2% and credit costs of ~Rs10bn which will help enhance PCR above 60% v/s 56% currently (incl. technical w.off)
- **Capital levels remain comfortable currently:** Bank's Tier-I stood at 10.8% which was steady and seems to be at comfortable level, but given the PCR is quite low and will need to raise capital if acceleration is needed, while comfort on asset quality is visible, moratorium book slippages could pose issues.

Exhibit 1: Weak macros and elevated provisions impact Profitability

NII growth has slowed down to 9.6% YoY on lower yields and adverse business environment

Growth in other income was supported by capital gains

Rs 0.8bn COVID provisioning

Loan growth remains weak at 3.1% YoY with Deposits also showing flattish growth of 0.9% YoY

Margins improve on better cost management though fall sequentially

Asset quality remained more or less stable with increased provisioning pushing PCR to 58.8%

CASA mix improves gradually but steadily to 27%

(Rs m)	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)
Interest Income	18,869	18,949	(0.4)	19,477	(3.1)
Interest Expended	13,000	13,592	(4.4)	13,519	(3.8)
Net interest income (NII)	5,869	5,357	9.6	5,958	(1.5)
-Treasury income	1,400	490	185.7	2,260	(38.1)
Other income	2,850	1,819	56.7	3,942	(27.7)
Total income	8,719	7,176	21.5	9,900	(11.9)
Operating expenses	4,682	3,999	17.1	4,566	2.5
-Staff expenses	2,803	2,236	25.3	2,450	14.4
-Other expenses	1,879	1,763	6.6	2,115	(11.2)
Operating profit	4,037	3,176	27.1	5,334	(24.3)
Core operating profit	2,637	2,686	(1.8)	3,074	(14.2)
Total provisions	2,931	2,050	43.0	7,238	(59.5)
Profit before tax	1,106	1,126	(1.8)	(1,904)	N/A
Tax	290	394	(26.4)	(467)	N/A
Profit after tax	817	733	11.5	(1,437)	N/A
Balance sheet (Rs m)					
Deposits	8,24,690	8,17,230	0.9	8,30,339	(0.7)
Advances	6,45,930	6,26,580	3.1	6,44,395	0.2
Ratios (%)					
Profitability ratios					
Yield on Advances	9.35%	9.69%	(34)	9.59%	(24)
Cost of Funds	5.33%	5.82%	(49)	5.53%	(20)
NIM	2.62%	2.53%	9	2.67%	(5)
RoAA	0.33%	0.31%	2	-0.59%	92
Asset Quality					
Gross NPL (Rs m)	32,454	31,542	2.9	32,618	(0.5)
Net NPL (Rs m)	19,929	21,347	(6.6)	21,508	(7.3)
Gross NPL ratio (%)	4.93	4.96	(3)	4.98	(5)
Net NPL ratio (%)	3.09	3.41	(32)	3.34	(25)
Coverage ratio (Rep) (%)	58.80	45.10	1,370	54.20	460
Business & Other Ratios					
CASA mix	26.89	24.10	279	25.00	189
Cost-income ratio	53.70	55.74	(204)	46.12	758
Non int. inc / total income	32.69	25.35	734	39.82	(713)
Credit deposit ratio	78.32	76.67	165	77.61	72
CAR	13.49	12.17	132	13.40	9
Tier-I	10.80	9.70	110	10.80	-

Source: Company, PL

Q1FY21 Conference Call Highlights

Business Outlook

- Liabilities:** Overall deposits growth remained flattish though CASA ratio continues to gain strong station.
- Advances:** Focus remains on non-corporate portfolio with Agri, Retail and Gold loans driving growth. The bank has adopted “opt-out” strategy and **36%** of Loan book falls under moratorium (**details provided in Exhibit 2 below**). Under the Retail book, for the **Home Loan** portfolio (of which 65% is salaried class), 75% is under moratorium and standstill benefit has been extended to 1.3% of the book, for the **Mortgage** portfolio (of which 67% is salaried class), 52% is under moratorium and standstill benefit has been extended to 1.3% of the book, for the **Vehicle Loan** portfolio, 76% is under moratorium and standstill benefit has been extended to 1.4% of the book, for the **Gold Loan** portfolio, standstill benefit has been extended to Rs 0.4mn of the book, for the **Personal Segment** portfolio, standstill benefit has been extended to Rs 100mn of the book, for the **Business Loans** portfolio, standstill benefit has been extended to Rs 50mn of the book and for the MSME book, 38.31% is under moratorium and SMA is 0.3%

Fee/Margin/Opex

- Major volatility in other income is not expected though fee incomes are expected to be affected by slowing business
- NIMs have been affected by lowering yields and weak loan growth in spite of simultaneous lowering of cost of funds

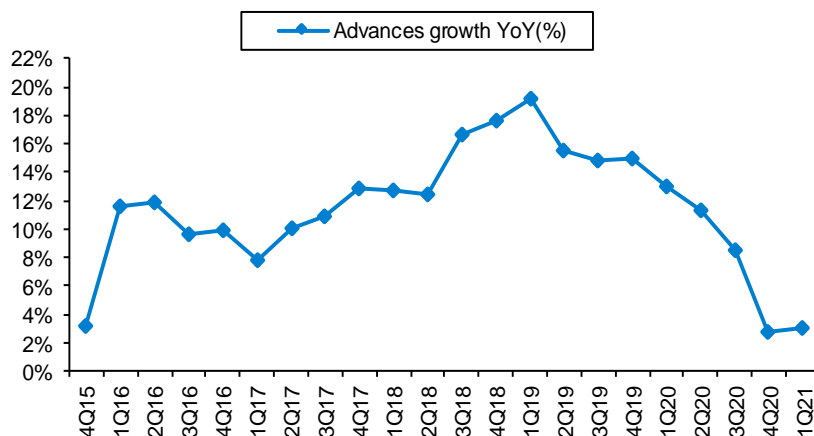
Asset Quality

- COVID Provisions contained 10% minimum requirement of Rs 0.5bn and additionally Rs 0.3bn as Bank has taken a standstill benefit of Rs 7.14bn in the book. Management expects to push **PCR to 60% by H1FY21**. For **FY21**, management expects credit costs at ~Rs10bn
- Slippages halved sequentially to Rs 1.61bn mainly contributed by **MSME segment** from Gems & Jewellery (Rs 0.35bn) and Trade (Rs 0.31bn). Slippages from Metal and Construction segment were Rs 0.1bn each. For **FY21**, management expects slippages to remain in the range of Rs10bn-Rs13bn viz. capped at 2%

Exhibit 2: Breakup of Advances under Moratorium

Segment	Book under Morat.	as a % of Segment	SMA under Morat	as a % of Segment
Agri	11,120	10.8%	220	0.2%
MSME	62,510	38.3%	480	0.3%
Retail	97,050	46.4%	1,750	0.8%
Corporate	67,940	37.2%	4,690	2.6%
Total	2,38,620	36.3%	7,140	1.1%

Source: Company, PL

Exhibit 3: Advances growth remains weak mainly due to Corporate de-growth and fewer lending avenues


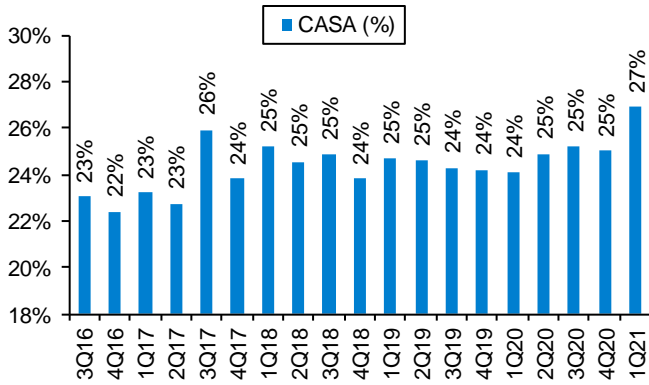
Source: Company, PL

Exhibit 4: Corporate downtrend continues while Agri & MSME push growth

Break-up of Advances	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)
Agri	1,03,170	89,870	14.8	98,730	4.5
MSME	1,63,190	1,50,000	8.8	1,58,190	3.2
Retail	2,09,270	1,90,700	9.7	2,11,730	(1.2)
Corporate	1,82,560	2,05,950	(11.4)	1,86,590	(2.2)
Total Advances	6,58,190	6,36,520	3.4	6,55,240	0.5
Loan Mix					
Agri	15.7%	14.1%	156	15.1%	61
MSME	24.8%	23.6%	123	24.1%	65
Retail	31.8%	30.0%	183	32.3%	(52)
Corporate	27.7%	32.4%	(462)	28.5%	(74)

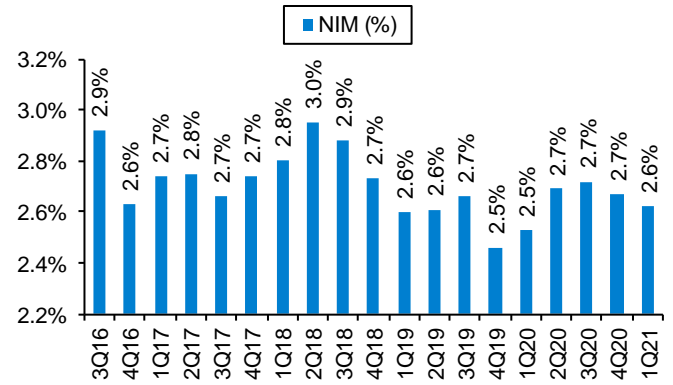
Source: Company, PL

Exhibit 5: CASA inches up supported by sturdy SA deposits



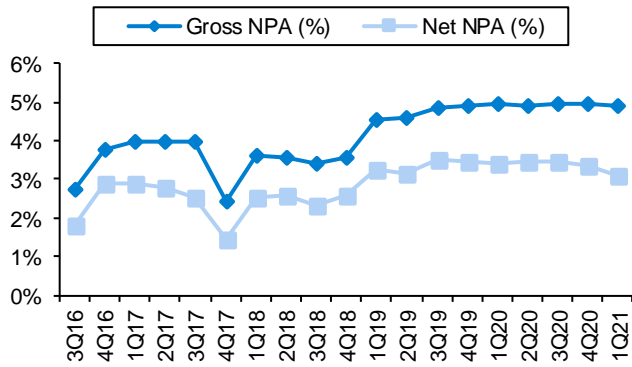
Source: Company, PL

Exhibit 6: Lower yields adversely impact NIMs sequentially



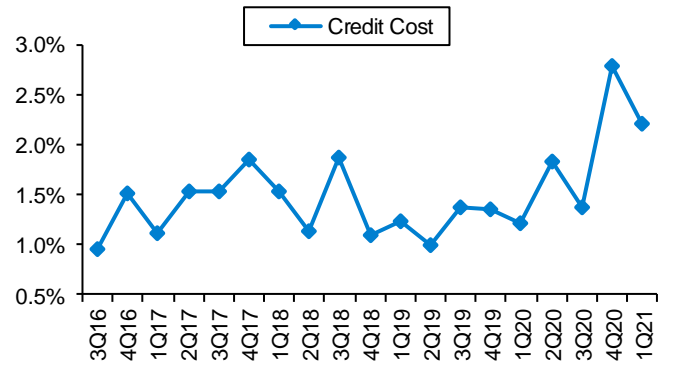
Source: Company, PL

Exhibit 7: Asset Quality remains steady



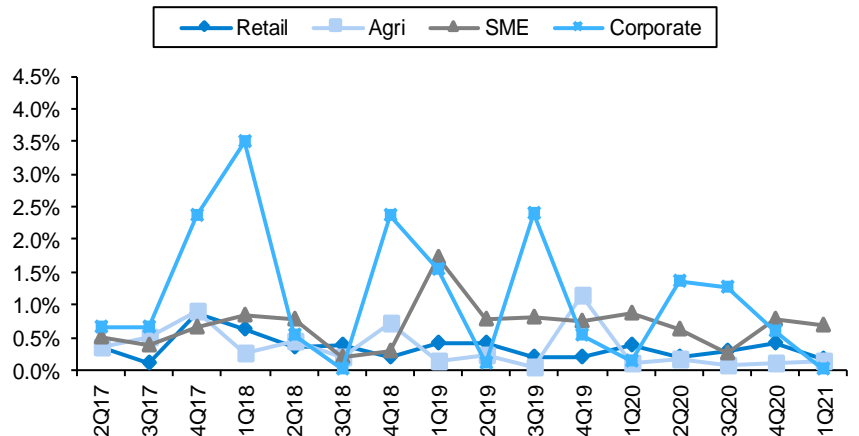
Source: Company, PL

Exhibit 8: Credit Costs remain elevated



Source: Company, PL

Exhibit 10: Slippages improve across all cohorts especially for retail and corp



Source: Company, PL

Exhibit 11: Change in earnings estimates – We slightly lower loan growth while also increasing our credit costs

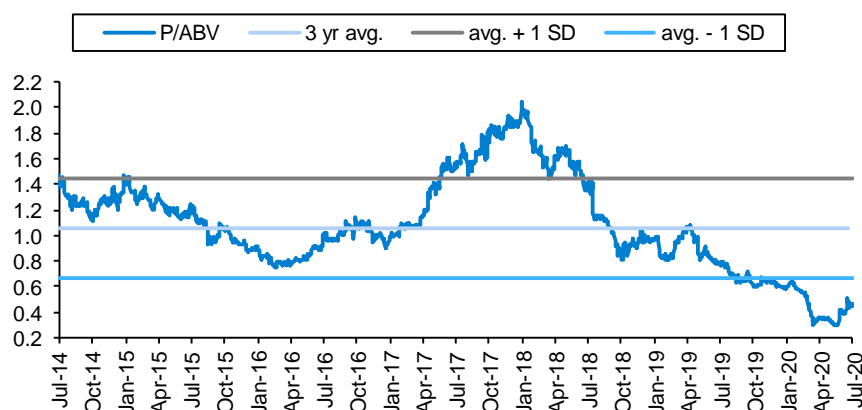
Rs (mn)	Old		Revised		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income	25,056	25,873	24,899	26,619	(0.6)	2.9
Operating profit	15,210	14,946	15,188	15,035	(0.1)	0.6
Net profit	2,121	3,721	2,789	3,710	31.5	(0.3)
Loan Growth (%)	8.5	10.1	4.9	8.0	(3.6)	(2.1)
Credit Cost (bps)	175.0	130.0	182.0	138.0	7.0	8.0
EPS, Rs.	1.2	2.1	1.5	2.0	31.5	(0.3)
ABVPS, Rs.	19.2	20.9	19.5	21.1	1.7	1.3
Price target, Rs.	11		11		1	
Recommendation	BUY		BUY			

Source: Company, PL

Exhibit 12: We maintain our TP at Rs11 based on 0.5x Mar-22 ABV
PT calculation and upside

Terminal growth	5.0%
Market risk premium	7.3%
Risk-free rate	6.8%
Adjusted beta	1.05
Cost of equity	14.4%
Fair price - P/ABV	11
Target P/ABV	0.5
Target P/E	5.5
Current price, Rs	8
Upside (%)	35%
Dividend yield (%)	4%
Total return (%)	39%

Source: Company, PL

Exhibit 13: One year Forward P/ABV chart


Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Earned from Adv.	61,592	63,008	66,985	72,886
Int. Earned from invt.	13,911	13,780	13,864	15,016
Others	1,613	2,013	2,361	2,575
Total Interest Income	77,638	79,306	83,752	90,983
Interest Expenses	54,463	54,408	57,133	61,835
Net Interest Income	23,175	24,899	26,619	29,148
Growth(%)	22.5	(1.1)	7.7	10.1
Non Interest Income	10,458	8,366	9,203	10,307
Net Total Income	33,633	33,265	35,821	39,455
Growth(%)	15.9	(0.5)	6.0	9.0
Employee Expenses	9,414	10,731	12,126	13,824
Other Expenses	6,660	7,193	8,056	9,103
Operating Expenses	17,176	18,077	20,787	23,861
Operating Profit	16,457	15,188	15,035	15,594
Growth(%)	32.8	(7.7)	(1.0)	3.7
NPA Provision	10,320	12,021	9,711	9,591
Total Provisions	14,961	11,460	10,077	9,983
PBT	1,496	3,728	4,957	5,611
Tax Provision	450	938	1,248	1,412
Effective tax rate (%)	30.1	25.2	25.2	25.2
PAT	1,046	2,789	3,710	4,199
Growth(%)	(57.7)	166.7	33.0	13.2

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Face value	1	1	1	1
No. of equity shares	1,810	1,810	1,810	1,810
Equity	1,810	1,810	1,810	1,810
Networth	54,774	57,563	60,639	64,114
Growth(%)	2.7	5.1	5.3	5.7
Adj. Networth to NNPA's	21,503	19,928	19,996	18,807
Deposits	8,07,000	8,63,552	9,24,001	10,16,401
Growth(%)	0.3	7.0	7.0	10.0
CASA Deposits	2,07,600	2,13,297	2,29,152	2,52,068
% of total deposits	25.7	24.7	24.8	24.8
Total Liabilities	9,46,990	10,17,930	10,94,991	12,05,221
Net Advances	6,44,395	6,76,614	7,30,744	8,03,818
Growth(%)	2.8	5.0	8.0	10.0
Investments	2,06,253	2,01,510	2,14,828	2,38,836
Total Assets	9,70,329	10,17,930	10,94,991	12,05,221
Growth (%)	5.2	4.9	7.6	10.1

Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs (Rs m)	32,613	34,726	34,887	32,651
Net NPAs (Rs m)	21,503	19,928	19,996	18,807
Gr. NPAs to Gross Adv.(%)	5.0	5.0	4.7	4.0
Net NPAs to Net Adv. (%)	3.3	2.9	2.7	2.3
NPA Coverage %	34.1	42.6	42.7	42.4

Profitability (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	2.6	2.7	2.7	2.8
RoAA	0.1	0.3	0.4	0.4
RoAE	1.9	5.0	6.3	6.7
Tier I	10.8	10.9	10.7	10.4
CRAR	13.4	13.6	13.5	13.2

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Interest Income	18,949	19,540	19,673	19,477
Interest Expenses	13,592	13,697	13,655	13,519
Net Interest Income	5,357	5,843	6,018	5,958
YoY growth (%)	17.2	15.1	12.3	4.7
CEB	860	930	990	980
Treasury	-	-	-	-
Non Interest Income	1,819	2,492	2,204	3,942
Total Income	20,768	22,032	21,877	23,419
Employee Expenses	2,236	2,332	2,396	2,450
Other expenses	1,763	1,889	1,995	2,115
Operating Expenses	3,999	4,221	4,391	4,566
Operating Profit	3,176	4,115	3,832	5,334
YoY growth (%)	17.8	32.8	15.4	62.9
Core Operating Profits	-	-	-	-
NPA Provision	1,840	2,850	2,030	3,600
Others Provisions	2,050	3,063	2,609	7,238
Total Provisions	2,050	3,063	2,609	7,238
Profit Before Tax	1,126	1,051	1,222	(1,904)
Tax	394	206	317	(467)
PAT	733	845	906	(1,437)
YoY growth (%)	218.0	20.5	8.0	(303.8)
Deposits	8,17,230	8,29,470	8,48,740	8,30,339
YoY growth (%)	12.7	10.7	9.3	3.3
Advances	6,26,580	6,29,934	6,43,290	6,44,395
YoY growth (%)	13.0	11.3	8.6	2.8

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	8	8	8	8
EPS (Rs)	0.6	1.5	2.0	2.3
Book Value (Rs)	29	30	32	34
Adj. BV (70%)(Rs)	17	19	21	24
P/E (x)	14.4	5.4	4.0	3.6
P/BV (x)	0.3	0.3	0.3	0.2
P/ABV (x)	0.5	0.4	0.4	0.4
DPS (Rs)	0.4	-	0.4	0.4
Dividend Payout Ratio (%)	62.6	-	17.1	17.2
Dividend Yield (%)	4.4	-	4.2	4.8

Efficiency

Y/e Mar	FY20	FY21E	FY22E	FY23E
Cost-Income Ratio (%)	51.1	54.3	58.0	60.5
C-D Ratio (%)	79.9	78.4	79.1	79.1
Business per Emp. (Rs m)	181	183	188	197
Profit per Emp. (Rs lacs)	1	3	4	5
Business per Branch (Rs m)	1,562	1,625	1,712	1,846
Profit per Branch (Rs m)	1	3	4	4

Du-Pont

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	2.64	2.73	2.75	2.76
Total Income	3.83	3.64	3.70	3.74
Operating Expenses	1.95	1.98	2.15	2.26
PPoP	1.87	1.66	1.55	1.48
Total provisions	1.70	1.26	1.04	0.95
RoAA	0.12	0.31	0.38	0.40
RoAE	2.02	5.19	6.54	7.00

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	BUY	11	8
2	28-Jun-20	BUY	11	9
3	14-Apr-20	BUY	11	6
4	17-Jan-20	BUY	18	11
5	03-Jan-20	BUY	18	10
6	18-Oct-19	BUY	18	10
7	03-Oct-19	BUY	20	11
8	26-Jul-19	BUY	18	13

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Hold	475	444
2	Bandhan Bank	Subscribe	-	-
3	Bank of Baroda	BUY	83	53
4	Federal Bank	BUY	67	54
5	HDFC	BUY	1,406	1,278
6	HDFC Bank	BUY	1,105	1,110
7	HDFC Life Insurance Company	Reduce	454	581
8	ICICI Bank	BUY	436	369
9	ICICI Prudential Life Insurance Company	Reduce	385	428
10	IDFC First Bank	Sell	21	28
11	IndusInd Bank	BUY	720	553
12	Kotak Mahindra Bank	Accumulate	1,343	1,353
13	Max Financial Services	Hold	518	546
14	Punjab National Bank	BUY	40	37
15	SBI Life Insurance Company	Hold	880	851
16	South Indian Bank	BUY	11	8
17	State Bank of India	BUY	254	192

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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