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Banking

Q1FY21 result review

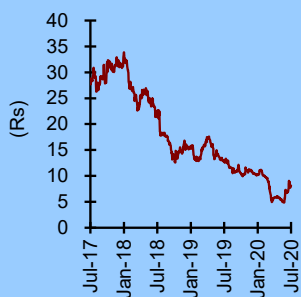
Target price: Rs7

Shareholding pattern

| | Sep '19 | Dec '19 | Mar '20 |
|-------------------------|---------|---------|---------|
| Promoters | 0.0 | 0.0 | 0.0 |
| Institutional investors | 31.6 | 30.4 | 26.4 |
| MFs and others | 5.0 | 4.4 | 3.5 |
| Insurance Cos. | 3.2 | 3.2 | 3.2 |
| FIs and Banks | 0.5 | 0.4 | 0.5 |
| FII | 22.9 | 22.4 | 19.2 |
| Others | 68.4 | 69.6 | 73.6 |

Source: BSE

Price chart



INDIA

South Indian Bank

REDUCE

Maintained

Core performance muted; lingering elevated credit cost to delay profitability improvement

Rs8

South Indian Bank (SIB) has reported muted core operating performance in Q1FY21 with pre-provisioning profit falling 24% QoQ largely due to muted NII growth (down 1.5% QoQ) coupled with lower other income. However, lower provisions at Rs2.9bn vs Rs7.2bn in Q4FY20 enabled its reporting PAT at Rs0.8bn vs net loss of Rs1.4bn in Q4FY20. Surprisingly, portfolio under Morat 2.0 remained static at 36% across segments. Management's successful execution of 'Retailisation Strategy' (its share increased to 72% in June'20 from 64% in June'18) is likely to stabilise earnings and increase profitability in the longer run. However, higher share of <BBB rated corporate book (>Rs1bn) at 9%, relatively lower Covid-related contingency buffer (~15bps of loans) and extremely low PCR at 39% – credit cost will likely remain elevated and RoA restricted to 0.3% even in FY22E. Further, tier-1 capital at 10.8% hampers SIB's capacity to absorb shocks during severe crises and constrains its return to growth when the economy revives. Maintain REDUCE.

- ▶ **Advances remained flat sequentially, while strong traction in gold loan continued.** Retail loan growth continued to be higher at 11% YoY driven by agri (up 15% YoY), gold loan (up 33% YoY), housing (up 12% YoY) and loan against deposit (up 16% YoY). Due to on-going consolidation in corporate segment, SIB continued to exit or run down, higher ticket-sized loans, corporate portfolio fell 10% YoY in Q1FY21. Overall loan growth therefore, remained subdued at 3% YoY/0.5% QoQ. Geographically, SIB continued to maintain its leadership in South India as reflected in 8% YoY growth in South-based portfolio, while the rest-of-India portfolio shrunk 8% YoY.
- ▶ **NII fell 2% QoQ; higher treasury profit at Rs1.4bn supported earnings in Q1FY21.** NII fell 2% QoQ due to subdued credit growth and 5bps QoQ margin contraction due to 24bps QoQ asset yield compression with only 22bps QoQ decline in cost of deposit. Other income is up 57% YoY driven mainly by significantly higher treasury income at Rs1.4bn vs Rs0.5bn in Q1FY20.
- ▶ **Asset quality improved marginally, portfolio under Morat 2.0 remained static across segments.** Considering the on-going moratorium, fresh slippages at Rs1.6bn (lower sequentially) appear higher but also reflect management's conservatism in recognizing already stressed accounts which they feel are less likely to survive even in post Covid-19 era. Portfolio under moratorium 2.0 remained static at 36% across segment, especially in retail at 46%.
- ▶ **High credit cost to restrict RoA at 0.3% even in FY22E.** While we believe SIB is moving in the right direction by focusing on retail business, the significantly lower PCR at 38%, higher share of <BBB rated corporate book, lower Covid-19 contingency buffer (~15bps of loans) and standard restructured book at 1.7% of loans poses risk of higher credit cost spilling over to FY21E/22E. Maintain REDUCE with an unchanged target price of Rs7.

| Market Cap | Rs15.1bn/US\$202mn |
|-------------------------|--------------------|
| Reuters/Bloomberg | SIBK.BO/SIB IN |
| Shares Outstanding (mn) | 1,809.7 |
| 52-week Range (Rs) | 13/5 |
| Free Float (%) | 100.0 |
| FII (%) | 19.2 |
| Daily Volume (US\$'000) | 1,550 |
| Absolute Return 3m (%) | 41.9 |
| Absolute Return 12m (%) | (34.6) |
| Sensex Return 3m (%) | 18.5 |
| Sensex Return 12m (%) | (3.9) |

| Year to Mar | FY19 | FY20 | FY21E | FY22E |
|--------------------|--------|--------|-------|-------|
| NII (Rs bn) | 20.2 | 23.2 | 23.6 | 26.9 |
| Net Profit (Rs bn) | 2.5 | 1.0 | 1.8 | 3.7 |
| EPS (Rs) | 1.4 | 0.6 | 1.0 | 2.1 |
| % Chg YoY | (26.2) | (57.7) | 70.6 | 110.4 |
| P/E (x) | 6.5 | 15.3 | 9.0 | 4.3 |
| P/BV (x) | 0.3 | 0.3 | 0.3 | 0.3 |
| Net NPA (%) | 3.5 | 3.4 | 4.2 | 3.7 |
| Dividend Yield (%) | 1.4 | 0.0 | 2.5 | 2.5 |
| RoA (%) | 0.3 | 0.1 | 0.2 | 0.3 |
| RoE (%) | 4.9 | 2.0 | 3.4 | 6.9 |

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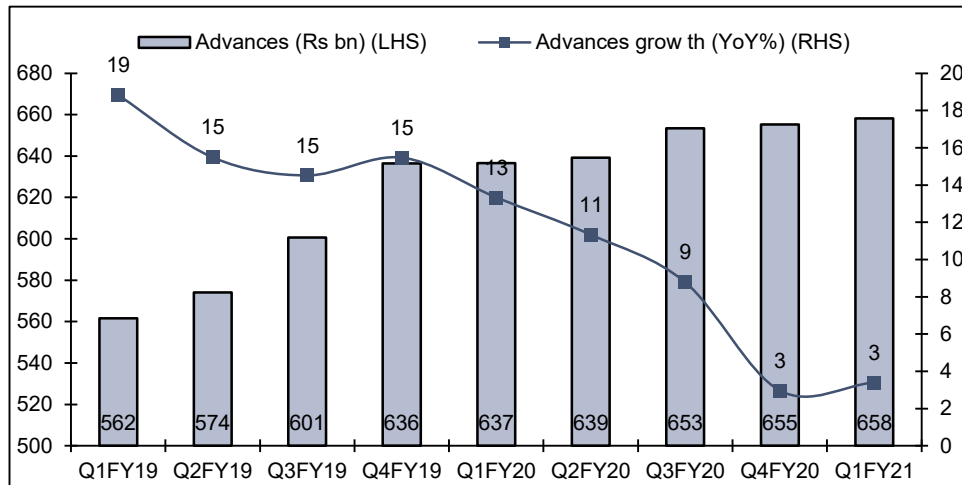
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Table 1: Q1FY21 result review*(Rs mn)*

| | Q1FY21 | Q1FY20 | % change YoY | Q4FY20 | % change QoQ |
|------------------------------------|--------------|--------------|-----------------|----------------|-----------------|
| Interest Income | 18,869 | 18,949 | (0.4) | 19,477 | (3.1) |
| Interest Expended | 13,000 | 13,591 | (4.3) | 13,519 | (3.8) |
| Net interest income (NII) | 5,869 | 5,357 | 9.5 | 5,958 | (1.5) |
| Other income | 2,850 | 1,819 | 56.7 | 3,942 | (27.7) |
| Total income | 8,719 | 7,177 | 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 | 3,177 | 27.1 | 5,334 | (24.3) |
| Total provisions | 2,931 | 2,050 | 43.0 | 7,238 | (59.5) |
| Profit before tax | 1,106 | 1,127 | (1.9) | (1,904) | (158.1) |
| Tax | 290 | 394 | (26.4) | (467) | (162.0) |
| Profit after tax | 817 | 733 | 11.3 | (1,437) | (156.8) |
| Balance sheet (Rs mn) | | | | | |
| 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 |
| CD ratio | 78% | 77% | 165.3 | 78% | 71.8 |
| Gross NPL (Rs mn) | 32,454 | 31,542 | 2.9 | 32,618 | (0.5) |
| Net NPL (Rs mn) | 19,929 | 21,347 | (6.6) | 21,508 | (7.3) |
| Ratios (%) | | | bps chg | | bps chg |
| 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 | 0.00% | 0.30% | (30) | 0.00% | - |
| Asset Quality | | | | | |
| Gross NPL ratio | 4.93% | 4.96% | (3) | 4.98% | (5) |
| Net NPL ratio | 3.09% | 3.41% | (32) | 3.34% | (25) |
| Coverage ratio | 38.60% | 32.32% | 627 | 34.06% | 453 |
| Business & Other Ratios | | | | | |
| Low-cost deposit mix | 26.90% | 24.10% | 280 | 25.00% | 190 |
| Cost-income ratio | 53.70% | 55.73% | (203) | 46.12% | 758 |
| Non int. inc / total income | 32.69% | 25.35% | 734 | 39.82% | (713) |
| Credit deposit ratio | 78.32% | 76.67% | 2 | 77.61% | 72 |
| CAR | 13.50% | 12.20% | 130 | 13.40% | 10 |

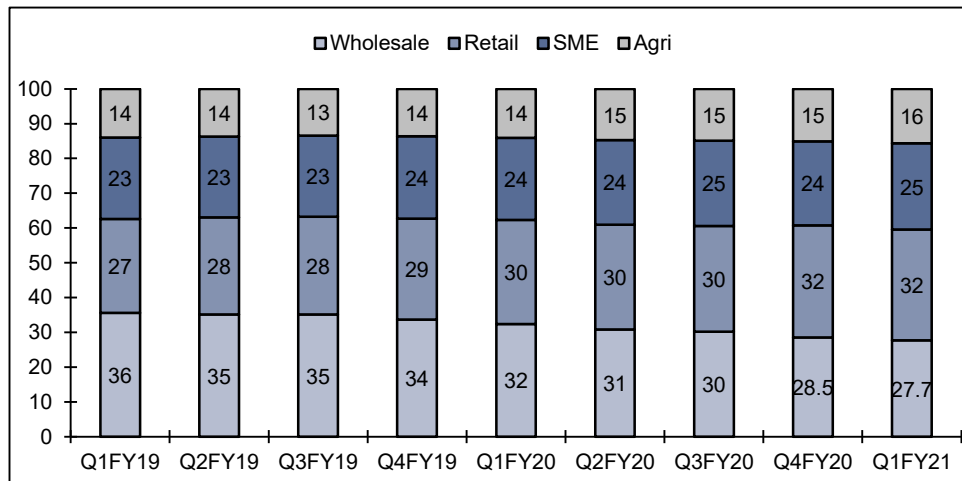
Source: Company, I-Sec research

Chart 1: Credit growth moderated to 3% YoY but strong traction in retail (ex-corporate) continued



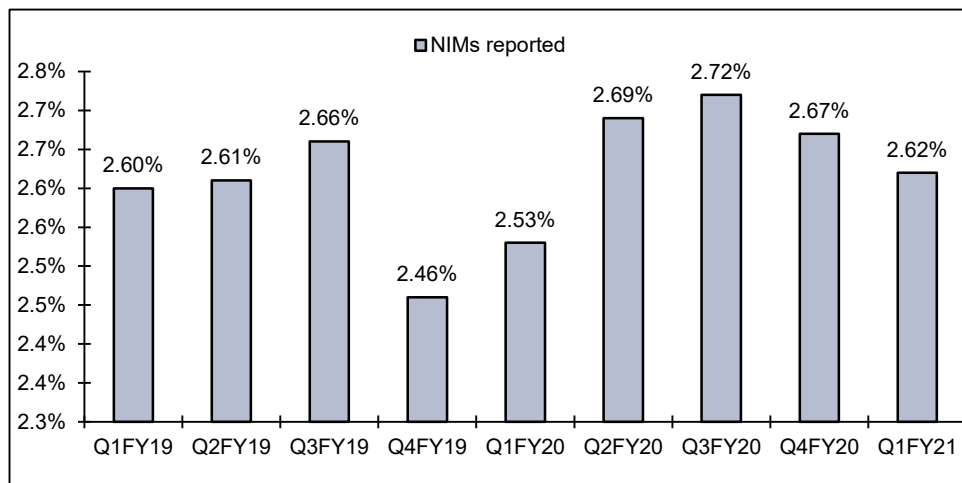
Source: Company, I-Sec research

Chart 2: Share of corporate segment further fell to 27.7% vs 28.5% in Q4FY20



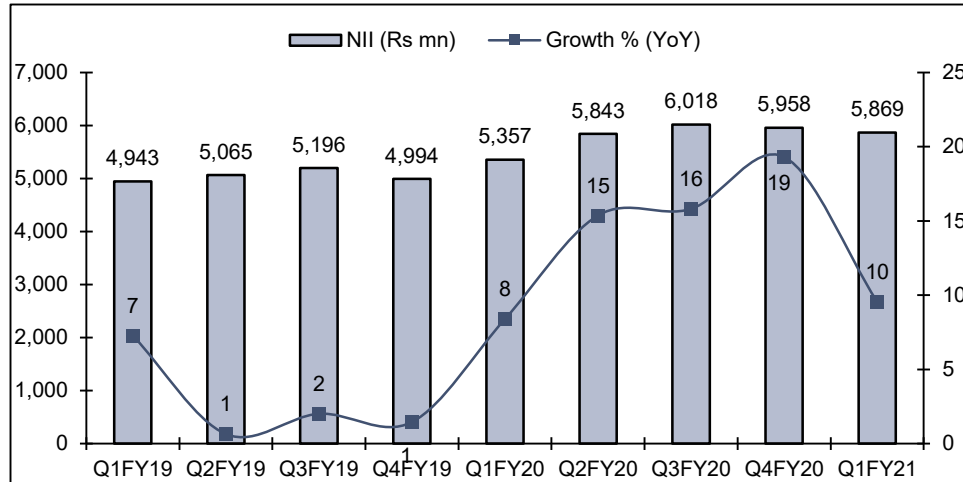
Source: Company, I-Sec research

Chart 3: Margins moderated marginally by 5bps QoQ



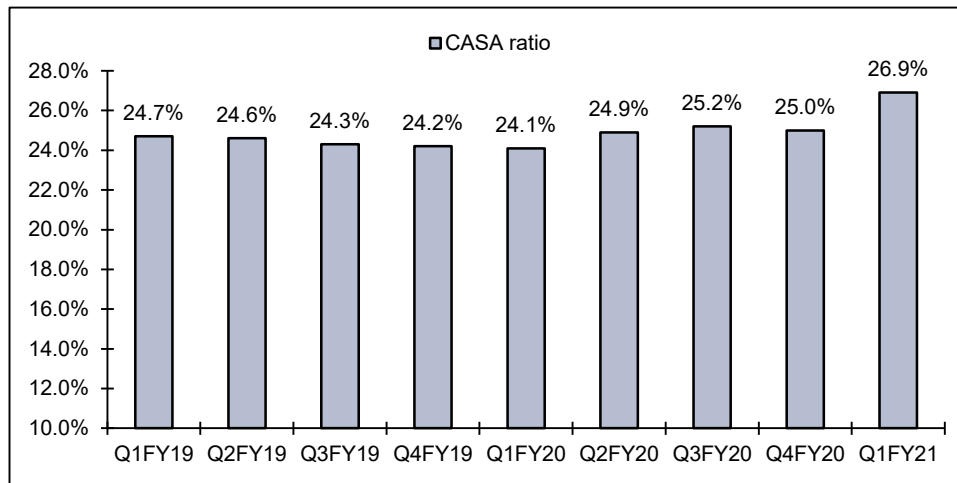
Source: Company, I-Sec research

Chart 4: NII growth moderated sharply to 10% YoY due to sluggish loan growth



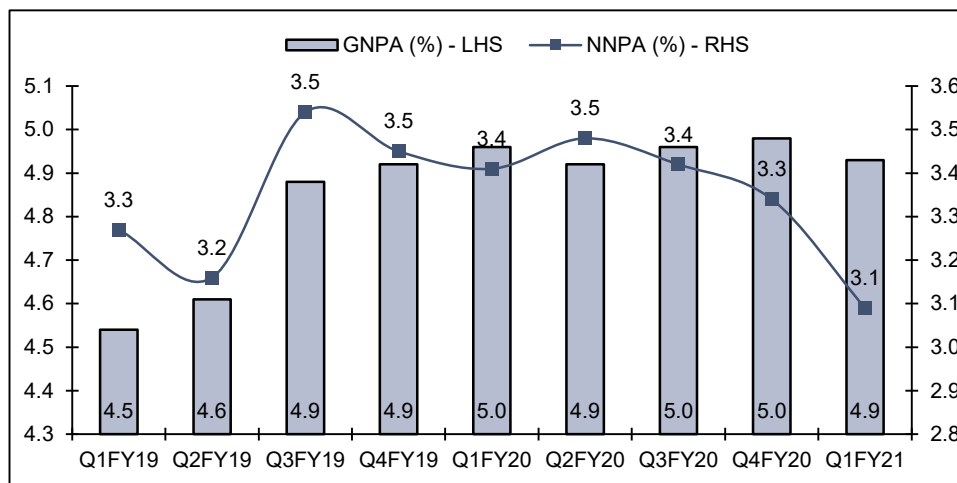
Source: Company, I-Sec research

Chart 5: CASA ratio improved to 26.9% mainly driven by strong SA traction (up 4% QoQ)



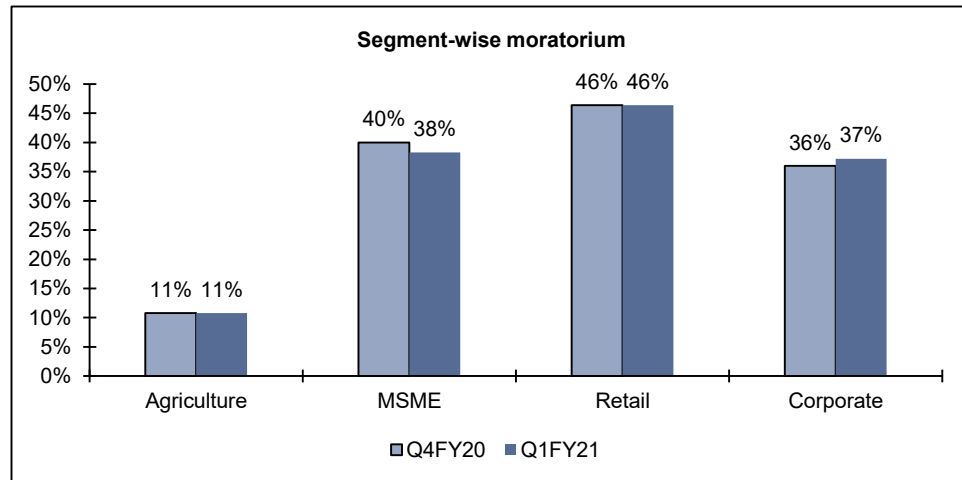
Source: Company, I-Sec research

Chart 6: Asset quality improved sequentially



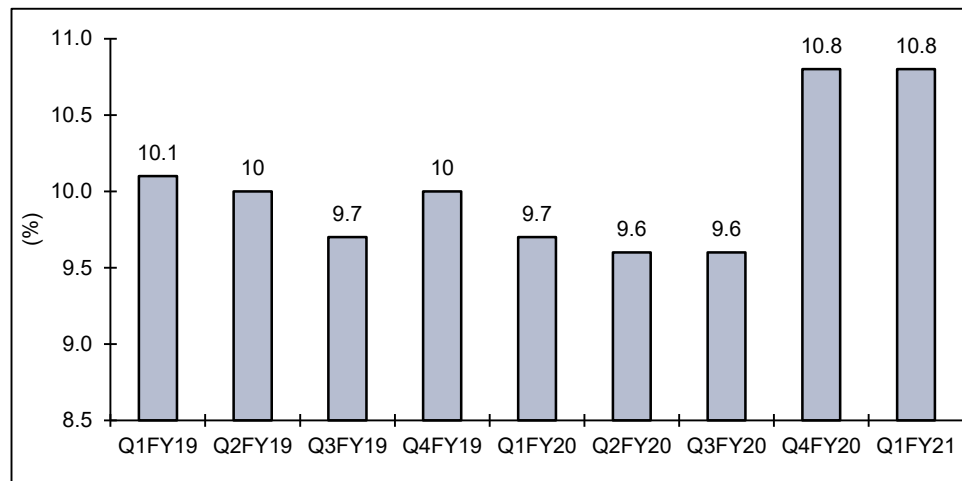
Source: Company, I-Sec research

Chart 7: Portfolio under Morat 2.0 remained static across segments



Source: Company, I-Sec research

Chart 8: Tier-1 ratio remained at 10.8%; it's highest in past six years and reflects conservative capital consumption during past two years



Source: Company, I-Sec research

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

| | FY19 | FY20 | FY21E | FY22E |
|----------------------------|---------------|---------------|---------------|---------------|
| Interest Income | 68,765 | 77,638 | 80,330 | 88,599 |
| Interest Expense | 48,568 | 54,463 | 56,757 | 61,614 |
| Net Interest Income | 20,197 | 23,175 | 23,573 | 26,985 |
| % Nil Growth | 2.8 | 14.7 | 1.7 | 14.5 |
| Treasury Income | | | | |
| Non-interest income | 7,262 | 10,458 | 11,712 | 13,118 |
| Net Revenue | 27,459 | 33,633 | 35,286 | 40,103 |
| Employees Expenses | 8,214 | 9,414 | 10,072 | 11,382 |
| Other Op. Expenses | 6,855 | 7,763 | 8,119 | 9,017 |
| Operating Profit | 12,390 | 16,456 | 17,094 | 19,704 |
| % OP Growth | -16.3 | 32.8 | 3.9 | 15.3 |
| Tax | 1,330 | 450 | 600 | 1,262 |
| Total Provisions | 8,585 | 14,961 | 14,710 | 14,688 |
| Net Profit | 2,475 | 1,046 | 1,784 | 3,754 |
| % PAT Growth | (26.1) | (57.7) | 70.6 | 110.4 |

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

| | FY19 | FY20 | FY21E | FY22E |
|--------------------------------|-----------------|-----------------|------------------|------------------|
| Capital | 1,810 | 1,810 | 1,810 | 1,810 |
| Reserves and Surplus | 51,544 | 52,938 | 53,169 | 56,522 |
| Deposits | 8,04,201 | 8,30,339 | 8,71,856 | 9,93,916 |
| Borrowings | 49,032 | 68,932 | 59,745 | 78,190 |
| Other Liabilities & Provisions | 16,188 | 16,284 | 16,773 | 17,276 |
| Total liabilities | 9,22,775 | 9,70,304 | 10,03,352 | 11,47,713 |
| Cash & Balances with RBI | 36,618 | 28,060 | 27,492 | 31,638 |
| Bal. with banks/ call money | 11,609 | 13,838 | 11,791 | 13,569 |
| Investment | 1,90,814 | 2,06,253 | 2,09,610 | 2,41,224 |
| Loans and advances | 6,26,937 | 6,44,395 | 6,71,260 | 7,71,735 |
| Fixed Assets | 7,087 | 8,000 | 7,833 | 8,152 |
| Other Assets | 49,727 | 69,784 | 75,366 | 81,395 |
| Total assets | 9,22,792 | 9,70,329 | 10,03,352 | 11,47,713 |

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

| | FY19 | FY20 | FY21E | FY22E |
|---|--------------|--------------|--------------|--------------|
| Per Share Data | | | | |
| Book value per share (Rs) | 28.1 | 28.9 | 29.0 | 30.9 |
| Adj. BVPS (Rs) | 19.0 | 20.0 | 17.4 | 19.2 |
| Price/Book value | 0.3 | 0.3 | 0.3 | 0.3 |
| Price/ Adj. Book value | 0.4 | 0.4 | 0.5 | 0.4 |
| EPS(Rs) | 1.4 | 0.6 | 1.0 | 2.1 |
| P/E Ratio | 6.1 | 14.4 | 8.4 | 4.0 |
| DPS | 0.3 | - | 0.2 | 0.2 |
| Asset Quality | | | | |
| Gross NPA (Rs mn) | 31,317 | 32,607 | 48,306 | 47,938 |
| Gross NPA (%) | 4.92 | 4.98 | 7.20 | 6.21 |
| Net NPA (Rs mn) | 22,079 | 21,508 | 28,063 | 28,153 |
| Net NPA (%) | 3.45 | 3.34 | 4.18 | 3.65 |
| Capital Adequacy Ratios | | | | |
| RWA (Rs mn) | 5,14,021 | 5,27,710 | 5,48,611 | 6,26,622 |
| Tier I (%) | 10.0 | 10.8 | 10.6 | 9.8 |
| Tier II (%) | 2.6 | 2.6 | 2.5 | 2.2 |
| Total CAR (%) | 12.6 | 13.4 | 13.1 | 12.0 |
| Business Ratios | | | | |
| Credit / Deposit(%) | 78.0 | 77.6 | 77.0 | 77.6 |
| Investment / Deposit (%) | 23.7 | 24.8 | 24.0 | 24.3 |
| CASA (%) | 23.6 | 25.0 | 23.6 | 23.6 |
| RoA (%) | 0.3 | 0.1 | 0.2 | 0.3 |
| Core RoE (%) | 4.9 | 2.0 | 3.4 | 6.9 |
| Dividend Yield (%) | 3.1 | - | 2.5 | 2.5 |
| Earnings Ratios | | | | |
| Interest Inc. / Avg. assets (%) | 7.9 | 8.2 | 8.1 | 8.2 |
| Interest Exp./ Avg. assets (%) | 5.6 | 5.8 | 5.8 | 5.7 |
| NIM (%) | 2.3 | 2.4 | 2.4 | 2.5 |
| Int. exp/ Int earned (%) | 70.6 | 70.1 | 70.7 | 69.5 |
| Oth. Inc./ Tot. Inc. (%) | 26.4 | 31.1 | 33.2 | 32.7 |
| Staff exp/Total opt. exp (%) | 54.5 | 54.8 | 55.4 | 55.8 |
| Cost/ Income Ratio (%) | 54.9 | 51.1 | 51.6 | 50.9 |
| Prov./ Operating Profit (%) | 69.3 | 90.9 | 86.1 | 74.5 |
| Loan loss prov./Avg. loans (bps) | 146.4 | 235.4 | 223.6 | 203.6 |

Source: Company data, I-Sec research

Table 5: RoA tree

(% , year ending March 31)

| | FY19 | FY20 | FY21E | FY22E |
|-----------------------------------|------------|------------|------------|------------|
| Interest income/Assets | 7.9 | 8.2 | 8.1 | 8.2 |
| Interest expenses/Assets | 5.6 | 5.8 | 5.8 | 5.7 |
| Net interest income/Assets | 2.3 | 2.4 | 2.4 | 2.5 |
| Other Inc. from operations/Assets | 0.8 | 1.1 | 1.2 | 1.2 |
| Total income/Assets | 3.1 | 3.6 | 3.6 | 3.7 |
| Employee expenses/Assets | 0.9 | 1.0 | 1.0 | 1.1 |
| Other operating expenses/Assets | 0.8 | 0.8 | 0.8 | 0.8 |
| Operating profit/Assets | 1.4 | 1.7 | 1.7 | 1.8 |
| Tax/Assets | 0.2 | 0.0 | 0.1 | 0.1 |
| Loan loss provisions/Assets | 1.0 | 1.6 | 1.5 | 1.4 |
| Net profit/Assets | 0.3 | 0.1 | 0.2 | 0.3 |

Source: Company data, I-Sec research

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