



South Indian Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,909	SIB IN
	REUTERS CODE
S&P CNX: 5,379	SIBK.BO

15 July 2010

Buy

Previous Recommendation: Under Review

Rs188

Equity Shares (m)	113.0
52-Week Range	193/93
1,6,12 Rel.Perf.(%)	10/27/66
M.Cap. (Rs b)	21.2
M.Cap. (US\$ b)	0.5

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/09A	6,872	1,948	17.2	4.6	10.9	1.6	14.8	15.8	1.0	1.7
3/10A	7,768	2,338	20.7	20.0	9.1	1.4	15.4	16.8	1.0	1.5
3/11E	9,118	2,612	23.1	11.7	8.1	1.3	13.2	16.5	0.9	1.3
3/12E	10,834	3,234	28.6	23.8	6.6	1.1	11.2	17.9	0.9	1.1

South Indian Bank (SIB) posted a net profit of Rs584m for 1QFY11 (v/s our estimate of Rs548m), down 3% YoY. Adjusted for accrued interest on deposits not accounted during 1QFY10, net profit grew 30% YoY. Earnings were better than expected, led by higher net interest income (NII). Key highlights are:

- NII grew 10% YoY; however, adjusting for the proportionate understatement of interest expenses in 9MFY10, NII growth would have been higher at 29% YoY.
- NIM improved to 2.83% v/s 2.76% (adjusted) in 1QFY10 and 2.77% for FY10.
- Loan growth was strong at 34% YoY, while deposits grew 25% YoY. C-D ratio improved to 72.4% v/s 67.8% in 1QFY10 and 70% for FY10.
- CASA growth of 28% YoY outpaced overall deposit growth and CASA ratio improved to 25.1% v/s 24.5% for 1QFY10.
- Gross NPAs increased 6% sequentially in absolute terms; however, on account of higher loan growth, in percentage terms it remained stable QoQ. Net NPAs increased 5% QoQ while provision coverage was at 71%.

Maintain Buy: We expect SIB to report EPS of Rs23.1 and BV of Rs149 in FY11, and EPS of Rs28.6 and BV of Rs171 in FY12. We expect RoA to sustain at ~1%; higher leverage would help drive RoE to ~18% by FY12. The stock trades at 1.1x FY12E BV. Improving performance and being a strategic target for large private banks looking for inorganic growth make SIB an attractive bet. **Buy** (target Rs205, 1.2x P/BV FY12E).

QUARTERLY PERFORMANCE

	(RS MILLION)								FY10	FY11E
	FY10				FY11					
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	4,653	4,689	4,878	5,138	5,401	5,873	6,505	7,320	19,357	25,099
Interest Expense	3,128	3,037	3,160	4,349	3,728	4,138	4,655	5,362	13,674	17,882
Net Interest Income	1,524	1,652	1,718	789	1,674	1,735	1,850	1,958	5,683	7,217
% Change (Y-o-Y)	48.3	28.5	17.5	-46.7	9.8	5.0	7.7	148.3	8.7	27.0
Other Income	560	655	431	439	417	464	490	530	2,085	1,901
Net Income	2,084	2,307	2,149	1,227	2,090	2,199	2,340	2,488	7,768	9,118
% Change (Y-o-Y)	52.1	39.9	11.6	-36.2	0.3	-4.7	8.9	102.8	13.0	17.4
Operating Expenses	1,015	968	967	711	1,046	1,070	1,103	1,020	3,662	4,239
Operating Profit	1,069	1,339	1,182	516	1,044	1,129	1,238	1,469	4,106	4,879
% Change (Y-o-Y)	54.1	44.0	18.0	-46.4	-2.3	-15.7	4.7	184.7	14.5	18.8
Other Provisions	104	165	195	-31	167	210	245	300	433	922
Profit Before Tax	965	1,174	987	547	877	919	993	1,169	3,673	3,957
Tax Provisions	364	448	363	161	293	312	337	403	1,336	1,345
Net Profit	601	726	625	386	584	606	655	766	2,338	2,612
% Change (Y-o-Y)	55.6	40.3	15.2	-23.2	-2.8	-16.5	4.9	98.3	20.0	11.7
Interest Expense/Interest Income (%)	67.2	64.8	64.8	84.6	69.0	70.5	71.6	73.2	70.6	71.2
Other Income/Net Income (%)	26.9	28.4	20.1	35.7	19.9	21.1	20.9	21.3	26.8	20.8
Cost to Income Ratio (%)	48.7	42.0	45.0	58.0	50.1	48.7	47.1	41.0	47.1	46.5
Provisions/Operating Profits (%)	9.8	12.3	16.5	-6.0	16.0	18.6	19.8	20.4	10.5	18.9
Tax Rate (%)	37.7	38.2	36.7	29.4	33.4	34.0	34.0	34.5	36.4	34.0

E: MOSL Estimates

RESULTS ANALYSIS (RS M)								
	1QFY11	1QFY10	YOY GR. %	4QFY10	QOQ GR. %	FY10	FY11E	FY12E
Interest Income	5,401	4,653	16	5,138	5	19,357	25,099	31,941
Interest Expense	3,728	3,128	19	4,349	-14	13,674	17,882	23,083
Net Interest Income (NII)	1,674	1,524	10	789	112	5,683	7,217	8,858
Other Income	417	560	-26	439	-5	2,085	1,901	1,976
- Commission and Fees	283	244	16	335	-16	1,100	1,266	1,456
- Forex Income	41	59	-30	43	-3	204	235	270
- Trading Profits	92	256	-64	61	52	780	400	250
Net Income	2,090	2,084	0	1,227	70	7,768	9,118	10,834
Total Operating Costs	1,046	1,015	3	711	47	3,662	4,239	4,918
- Staff Costs	675	683	-1	331	104	2,263	2,561	2,904
- Other Opex	372	332	12	380	-2	1,399	1,678	2,014
Operating Profit	1,044	1,069	-2	516	102	4,106	4,879	5,916
Provisions	167	104	60	-31	NA	433	922	1,015
PBT	877	965	-9	547	60	3,673	3,957	4,901
Tax	293	364	-20	161	82	1,336	1,345	1,666
Tax rate %	33	38		29		36	34	34
PAT	584	601	-3	386	51	2,338	2,612	3,234
Deposits	233,310	186,500	25	230,115	1	230,115	285,343	356,679
CASA Ratio %	25.1	24.5		23.1		23.1	22.7	21.6
Advances	168,860	126,420	34	161,150	5	158,229	197,786	247,233
Gross NPA	2,231	2,309	-3	2,110	6	2,110	2,242	2,828
Gross NPA %	1.3	1.9		1.3		1.3	1.1	1.1
Net NPA	648	833	-22	616	5	616	673	849
Net NPA %	0.4	0.7		0.4		0.4	0.3	0.3
Yields on Advances %*	10.8	11.8		11.1		11.0	11.2	11.5
Cost of Deposits %*	6.4	6.9		6.9		6.5	6.8	7.0
NIM %*	2.8	3.1		2.8		2.7	2.8	2.7
Tier I CAR %*	13.1	12.7		12.4		12.4	10.9	9.5
Tier II CAR %*	2.9	1.3		3.0		3.0	2.3	1.7
Branches	580	535		575		575	625	675

Highlights

Strong loan growth; impressive CASA ratio

Loans grew 5% QoQ and 34% YoY to Rs169b, while deposits grew 1% QoQ and 25% YoY to Rs233b. C-D ratio improved to 72.4% from 70% in 4QFY10. CASA growth of 28% YoY outpaced the overall deposit growth. Absolute increase in deposits during 1QFY11 was Rs3.2b, whereas CASA deposits increased Rs5.3b. CASA ratio improved to 25.1% v/s 23.3% for FY10 and 24.5% for 1QFY10.

The loan book growth has been driven by credit to SMEs and larger corporates, which exhibited a YoY growth of nearly 57% each.

Higher than expected NII growth

NII growth on a reported basis improved 10% YoY. However if we adjust for the system error on account of which the bank could not account the accrued interest on certain deposits on a quarterly basis (for the nine months from April 2009 to December 2009), NII growth would have been higher at 29% YoY.

NIM was 2.83% compared to 2.76% (adjusted) for 1QFY10 and 2.77% for FY10. Yields on advances moderated to 10.77% in 1QFY11 v/s 11.14% for FY10 but decline in cost of deposits was higher at 50bp to 6.43%, leading to slight improvement in margins.

Marginal deterioration in asset quality

While the coverage ratio has remained constant sequentially at 71%, provisions have been higher at Rs109m v/s write-back of Rs35m in 4QFY11. The net addition to gross NPA during the quarter were Rs247m. Gross NPAs increased 6% QoQ to Rs2.2b and net NPAs were up 5% QoQ to Rs673m. Outstanding restructured loan book at the end of 1QFY11 was Rs4.3b, 2.6% of the total loans.

Branch addition plans

SIB is planning to add 60 new branches to its existing network of 580 branches. Of these, 30 would be in South India (without RBI license requirement), strengthening SIB's presence in that region.

Other highlight

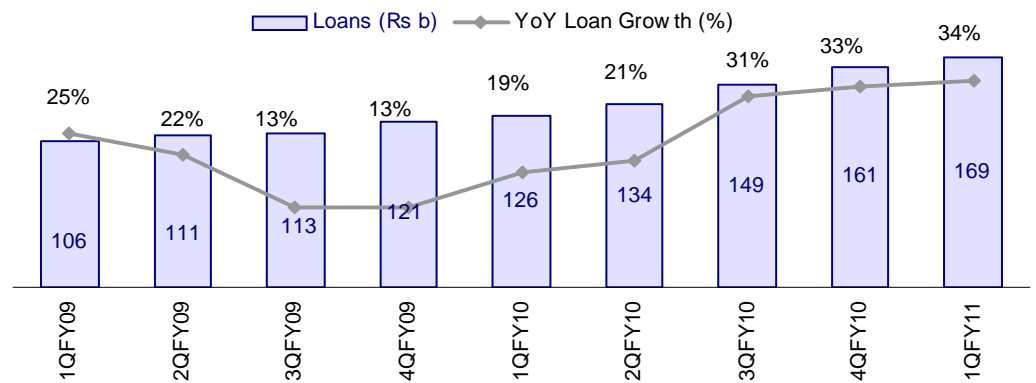
SIB is carrying contingent liability to the tune of ~Rs600m related to a dispute under FERA. Of this it has already provided Rs400m upto FY10. No charge was made during the quarter under review, however it expects to provide for balance amount during the remaining part of current fiscal.

Valuation and view

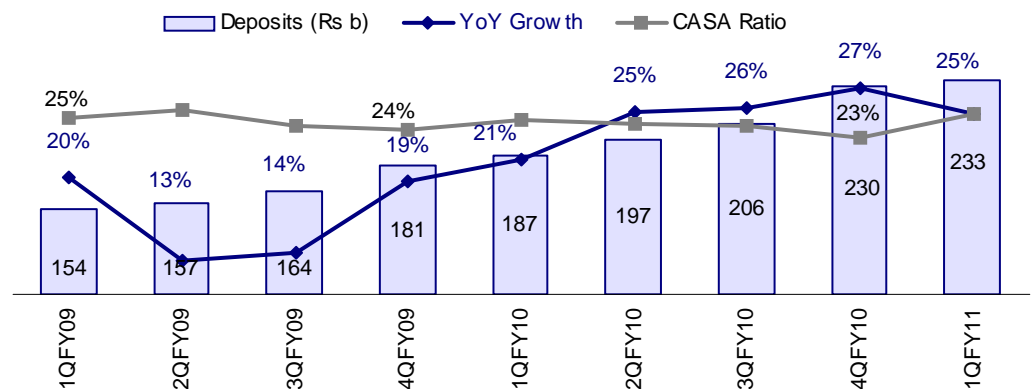
SIB continues to have excess capitalization, with CAR at 16% and tier-I capital of 13.1%. The bank has shown consistent improvement in its operating performance. We expect RoA to sustain at ~1%; higher leverage would help drive RoE to ~18% by FY12. We expect SIB to report EPS of Rs23.1 and BV of Rs149 in FY11, and EPS of Rs28.6 and BV of Rs171 in FY12. The stock trades at 1.1x FY12E BV. Improving performance and being a strategic target for large private banks looking for inorganic growth make SIB an attractive bet. **Buy** (target Rs205, 1.2x P/BV FY12E).

LOAN GROWTH CONTINUES TO BE STRONG

Lead by 57% YoY growth in SME and Large corporate segment

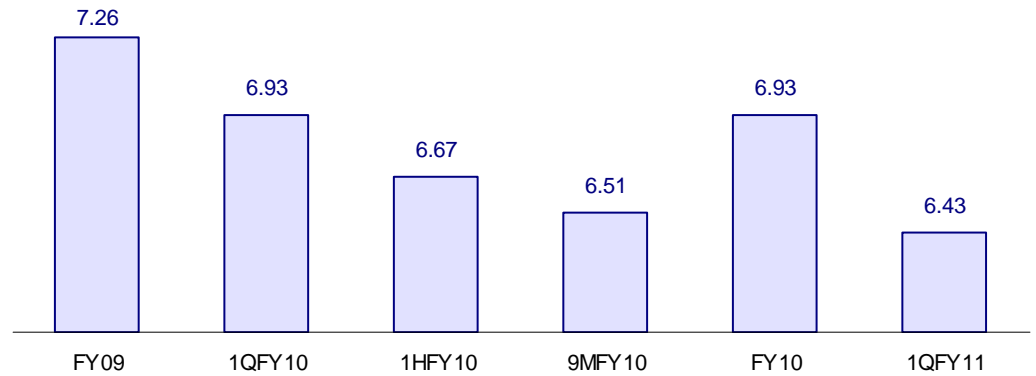


CASA DEPOSIT GROWTH OUTPACING GROWTH IN TOTAL DEPOSITS

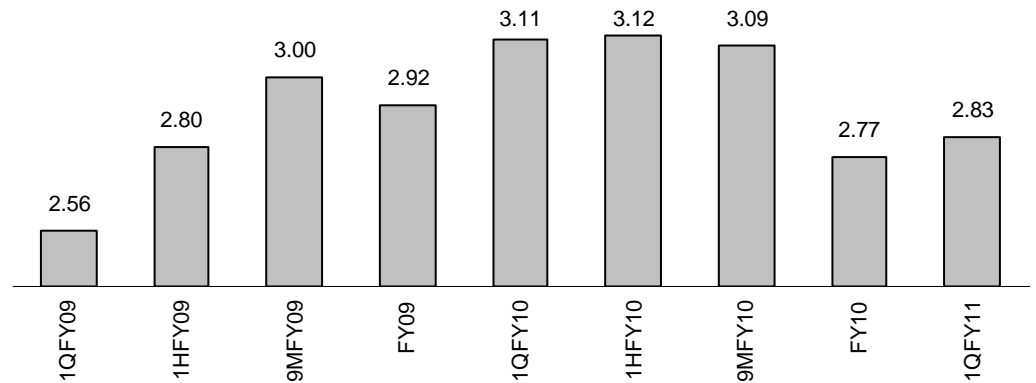


COST OF DEPOSITS (%) DECLINED 50BP OVER FY10 ...

CASA alongwith NRE deposits constitutes ~40% of total deposits

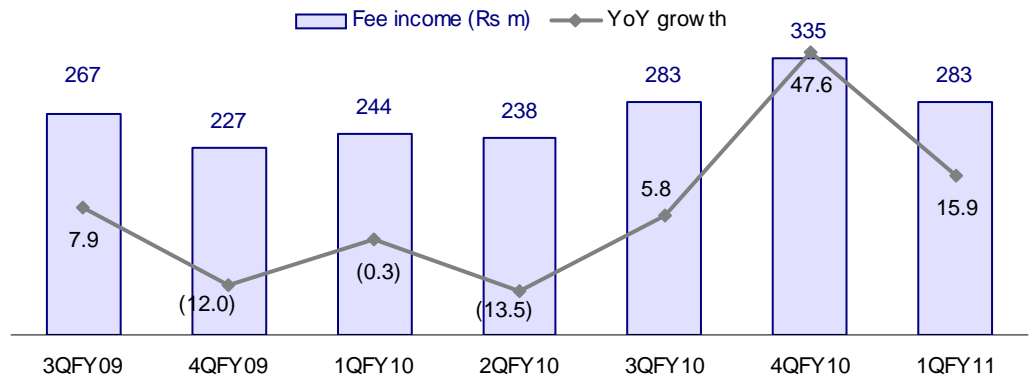


... WHICH LED TO 6BP INCREASE IN NIM IN 1QFY11 (%)



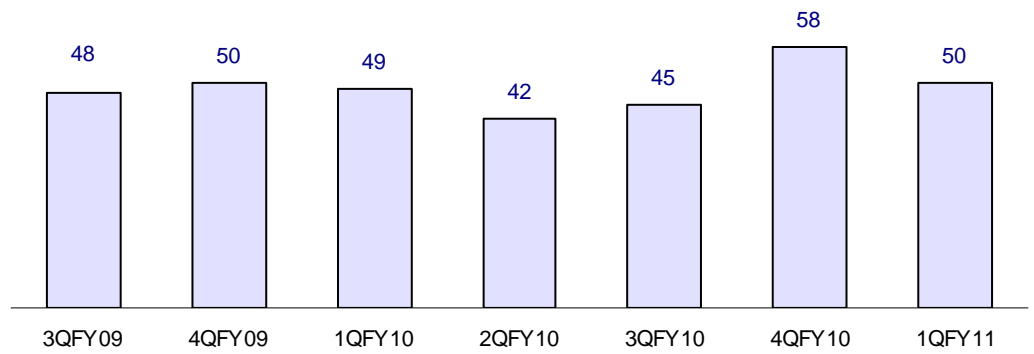
Source: Company/MOSL

FEE INCOME GROWTH REMAINS VOLATILE



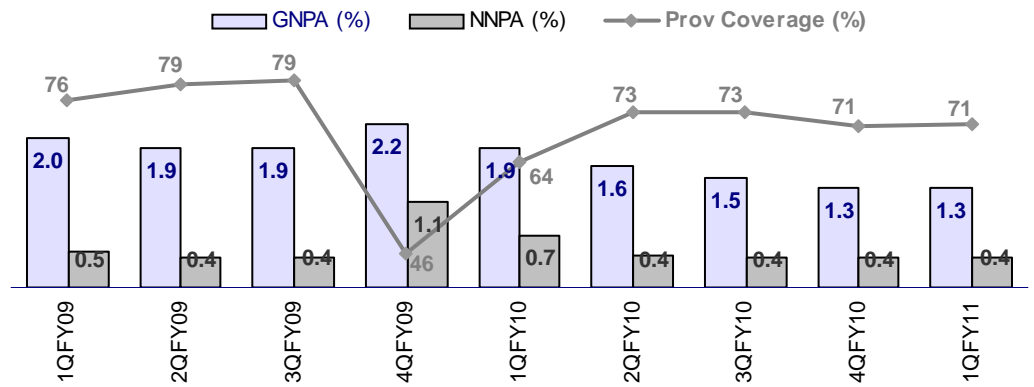
MOVEMENT IN CI RATIO (%)

Improvement in core income kept CI ratio under check



GROSS NPAs STABLE QOQ IN PERCENTAGE TERMS

Gross NPAs increased 6% QoQ in absolute terms



Source: Company/MOSL

South Indian Bank: an investment profile

Company description

South Indian bank is a private sector bank with the strong presence in South India particularly state of Kerala (55% of total branches). It was the first among the private sector banks in Kerala to become a scheduled bank in 1946 under the RBI Act. In 1964 the bank took over 12 banks, mostly in northern Kerala to increase its presence in the region. It has a network of 580 branches and 340+ ATMs and total business of Rs402b. The bank is headed by Mr V A Joseph with a team of professionals.

Key investment arguments

- Demonstrated consistent improvement in core operating performance over the last three years, with RoA expanding from 0.5% in FY06 to 1% in FY10.
- Stable asset quality (gross NPA of 1.3% and net NPA of 0.4%), with lowest restructuring (~2.6% of the loan book)
- High tier-1 ratio of 13% is among the best in the sector, which can effectively be used for further leverage for dilution-free growth in coming years.

Key investment risks

- High dependence on southern states, particularly Kerala, increases the geographical risk.

Recent developments

- SIB has approved sub-division of existing equity Shares of face value Rs. 10/- each into 10 Equity Shares of Re. 1/- each.

Valuation and view

- We expect SIB to report EPS of Rs23 and BV of Rs149 in FY11, and EPS of Rs29 and BV of Rs171 in FY12.
- The stock trades at 1.1x FY12E BV. Improving performance and being a strategic target for large private banks looking for inorganic growth make SIB an attractive bet. **Buy**.

Sector view

- In FY10, loans and deposits grew 17%. We expect loan growth of 20% in FY11, with an upward bias. Deposit growth will be calibrated with loan growth.
- We factor in 15-20bp improvement in blended margins, led by improving yield on assets and higher CASA ratio.
- Our concern on asset quality is reducing, with the improvement in economic activities.
- We prefer banks with a strong core deposit franchise, higher tier-I capital and high provision coverage ratio.

COMPARATIVE VALUATIONS

		SIB	FED.BANK	J&K BANK
P/E (x)	FY11E	8.1	5.9	4.9
	FY12E	6.6	4.9	4.2
P/BV (x)	FY11E	1.3	0.8	0.8
	FY12E	1.1	0.7	0.7
RoE (%)	FY11E	16.5	14.1	17.8
	FY12E	17.9	15.2	18.1
RoA (%)	FY11E	0.9	1.5	1.3
	FY12E	0.9	1.5	1.3

SHAREHOLDING PATTERN (%)

	MAR-10	DEC-09	MAR-09
Promoter	0.0	0.0	0.0
Domestic Inst	16.1	13.9	12.1
Foreign	36.8	37.4	35.9
Others	47.2	48.7	52.0

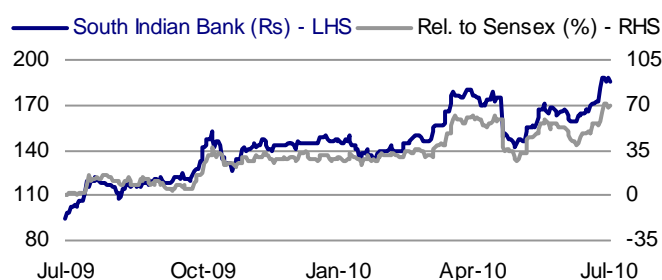
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY11	23.1	25.0	-7.7
FY12	28.6	30.5	-6.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
188	205	9.0	Buy

STOCK PERFORMANCE (1 YEAR)



Financials and Valuation

INCOME STATEMENT		(Rs Million)					
Y/E MARCH	2007	2008	2009	2010	2011E	2012E	
Interest Income	9,582	12,912	16,869	19,357	25,099	31,941	
Interest Expended	6,091	9,151	11,640	13,674	17,882	23,083	
Net Interest Income	3,491	3,761	5,229	5,683	7,217	8,858	
<i>Change (%)</i>	19.6	7.7	39.0	8.7	27.0	22.7	
Other Income	987	1,426	1,643	2,085	1,901	1,976	
Net Income	4,478	5,187	6,872	7,768	9,118	10,834	
<i>Change (%)</i>	17.1	15.8	32.5	13.0	17.4	18.8	
Operating Expenses	2,189	2,481	3,285	3,662	4,239	4,918	
Operating Income	2,290	2,707	3,587	4,106	4,879	5,916	
<i>Change (%)</i>	46.4	18.2	32.5	14.5	18.8	21.2	
Other Provisions	1,054	389	573	433	922	1,015	
PBT	1,236	2,318	3,014	3,673	3,957	4,901	
Tax	423	801	1,066	1,336	1,345	1,666	
PAT pre exceptional	813	1,516	1,948	2,338	2,612	3,234	
<i>Change (%)</i>	59.7	86.5	28.4	20.0	11.7	23.8	
Exceptional Income/(Exp.)	228	-27	0	0	0	0	
PAT post exceptional	1,041	1,489	1,948	2,338	2,612	3,234	
<i>Change (%)</i>	104.6	43.0	30.8	20.0	11.7	23.8	
Proposed Dividend	176	271	339	452	535	663	
PPP	2,202	2,391	3,233	3,326	4,479	5,666	
<i>Change (%)</i>	55.7	8.6	35.2	2.9	34.7	26.5	

BALANCE SHEET		(Rs Million)					
Y/E MARCH	2007	2008	2009	2010	2011E	2012E	
Capital	704	904	1,130	1,130	1,130	1,130	
Reserves & Surplus	6,536	10,706	11,910	13,723	15,708	18,167	
Net Worth	7,240	11,610	13,040	14,853	16,838	19,297	
Deposits	122,392	151,561	180,923	230,115	285,343	356,679	
<i>Change (%)</i>	27.8	23.8	19.4	27.2	24.0	25.0	
Borrowings	2,061	1,826	4,120	3,310	3,972	4,766	
Other Liab & Provisions	4,834	5,902	5,711	7,063	8,458	10,094	
Total Liabilities	136,526	170,899	203,794	255,340	314,611	390,836	
Current Assets	19,455	17,026	20,359	19,877	25,787	33,118	
Investments	34,301	45,722	60,752	71,556	84,794	103,449	
<i>Change (%)</i>	25.2	33.3	32.9	17.8	18.5	22.0	
Loans	79,189	104,537	118,479	158,229	197,786	247,233	
<i>Change (%)</i>	24.3	32.0	13.3	33.6	25.0	25.0	
Net Fixed Assets	896	1,128	1,363	1,525	1,674	1,783	
Other Assets	2,685	2,486	2,841	4,153	4,568	5,254	
Total Assets	136,526	170,899	203,794	255,340	314,611	390,836	

KEY ASSUMPTIONS		(%)					
Y/E MARCH	2007	2008	2009	2010	2011E	2012E	
Deposit Growth	27.8	23.8	19.4	27.2	24.0	25.0	
Loans Growth	24.3	32.0	13.3	33.6	25.0	25.0	
Investments Growth	25.2	33.3	32.9	17.8	18.5	22.0	
Provision Coverage	75.0	81.7	47.9	70.5	69.8	69.8	
Dividend per share	2.5	3.0	3.0	4.0	4.7	5.9	

E: MDSL Estimates

Financials and Valuation

RATIOS

Y/E MARCH	2007	2008	2009	2010	2011E	2012E
Spreads Analysis (%)						
Avg. Yield-Earning Assets	8.1	9.1	9.7	9.1	9.6	9.9
Avg. Cost - Int. Bear. Liab.	5.5	6.6	6.9	6.5	6.8	7.1
Interest Spread	2.6	2.5	2.8	2.6	2.7	2.8
Net Interest Margin	3.0	2.7	3.0	2.7	2.8	2.7

Profitability Ratios (%)

RoE	11.9	16.1	15.8	16.8	16.5	17.9
RoA	0.7	1.0	1.0	1.0	0.9	0.9
Int. Expended/Int. Earned	63.6	70.9	69.0	70.6	71.2	72.3
Other Income/Net Income	22.0	27.5	23.9	26.8	20.8	18.2

Efficiency Ratios (%)

Op Exp/Net Income*	49.8	50.9	50.4	52.4	48.6	46.5
Employee Cost/Op.Exps	60.9	59.0	65.2	61.8	60.4	59.0
Business per Empl. (Rs m)	46.7	54.2	61.4	70.8	83.0	95.9
Net Profit per Empl. (Rs lac)	2.7	3.5	4.3	4.8	5.0	5.7

* ex treasury

Asset Liability Profile (%)

Advances/Deposit Ratio	64.7	69.0	65.5	68.8	69.3	69.3
CASA Ratio	23.9	24.1	23.8	23.1	22.7	21.6
Invest./Deposit Ratio	28.0	30.2	33.6	31.1	29.7	29.0
G-Sec/Investment Ratio	86.6	79.1	67.0	78.8	84.1	86.2
Gross NPAs to Advances	3.9	1.8	2.2	1.3	1.1	1.1
Net NPAs to Advances	1.0	0.3	1.1	0.4	0.3	0.3
CAR	11.1	13.8	14.8	15.4	13.2	11.2
Tier 1	8.8	12.1	13.2	12.4	10.9	9.5

VALUATION

Book Value (Rs)	102.8	128.4	115.4	131.4	149.0	170.8
Price-BV (x)	1.8	1.5	1.6	1.4	1.3	1.1
Adjusted BV (Rs)	95.6	100.3	107.7	127.9	145.1	165.9
Price-ABV (x)	2.0	1.9	1.7	1.5	1.3	1.1
EPS (Rs)	14.8	16.5	17.2	20.7	23.1	28.6
EPS Growth	104.6	11.4	4.6	20.0	11.7	23.8
Price Earnings (x)	12.7	11.4	10.9	9.1	8.1	6.6
OPS (Rs)	32.5	29.9	31.7	36.3	43.2	52.3
OPS Growth	46.4	-8.0	6.0	14.5	18.8	21.2
Price-OP (x)	5.8	6.3	5.9	5.2	4.4	3.6

E: MOSL Estimates

N O T E S



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South Indian Bank

- | | |
|---|-----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | Yes |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.