

South Indian Bank

| | |
|-----------------------|--------------------|
| BSE SENSEX | S&P CNX |
| 34,433 | 10,632 |
| Bloomberg | SIB IN |
| Equity Shares (m) | 1343.9 |
| M.Cap. (INR b)/(USD) | 50.1/0.6 |
| 52-Week Range (INR) | 35 / 19 |
| 1, 6, 12 Rel. Per (%) | -3/7/43 |
| 12M Avg. Val (INR M) | 468 |
| Free float (%) | 100.0 |

Financials & Valuation (INR Billion)

| Y/E Mar | 2018E | 2019E | 2020E |
|----------------|-------|-------|-------|
| NII | 20.1 | 23.6 | 27.4 |
| OP | 16.0 | 18.8 | 22.2 |
| NP | 3.5 | 6.8 | 8.9 |
| NIM (%) | 2.8 | 2.9 | 2.9 |
| EPS (INR) | 1.9 | 3.8 | 4.9 |
| EPS Gr. (%) | -22.6 | 97.1 | 30.4 |
| BV/Sh (INR) | 27.1 | 30.1 | 34.2 |
| ABV (INR) | 22.1 | 25.9 | 30.3 |
| RoE (%) | 6.9 | 12.7 | 14.8 |
| RoA (%) | 0.4 | 0.8 | 0.9 |
| P/E (x) | 16.8 | 8.5 | 6.5 |
| P/BV (x) | 1.2 | 1.1 | 0.9 |
| Div. Yield (%) | 2.2 | 2.6 | 2.6 |

CMP: INR32
TP: INR38 (+17%)
Buy

PAT beat led by lower-than-expected provisions; asset quality improves

- SIB's reported PAT increased 3% YoY to INR1.15b, beating our estimate by 11%, as provisions of INR1.5b were 25% below our estimate. PPop declined 28%/12% QoQ/YoY, led by a sharp fall in other income (treasury gains declined 91% YoY due to an increase in bond yields, while the base quarter had low yields due to the impact of demonetization).
- NII grew 1%/22% QoQ/YoY, driven by 5%/17% QoQ/YoY advances growth and 22bp YoY NIM expansion. However, on a sequential basis, NIM contracted 7bp to 2.88% with a fall in MSME yields, as the bank is increasingly looking at greater collateral cover. Opex growth was controlled at 5%/13% QoQ/YoY (employee expenses were up 6% YoY). CI ratio increased to 50.6% (v/s 41.3% in 2QFY18).
- Loan growth of 5%/17% QoQ/YoY was driven by robust growth in retail (+25% YoY) and SME (+25% YoY), while the corporate book grew 3% YoY, in line with the bank's retail-focused strategy. Share of corporate book has reduced to 35.5% of advances compared to 40% in the year-ago period.
- Slippages came in at INR2.5b (same as 2QFY18). Slippages declined in agriculture (0.18% v/s 0.44% in 2QFY18) and SME (0.18% v/s 0.78% in 2QFY18), but increased marginally to 0.38% in retail (0.34% in 2QFY18). Absolute GNPA increased 0.5% QoQ to INR17.7b, while NNPA declined 3.6% QoQ. GNPA/NNPA in percentage terms came in at 3.4%/2.35%.
- Other highlights:** a) SIB is aiming to raise capital via a QIP with issuance of 200m shares. b) CASA ratio stood at 24.9% (+30bp QoQ). c) The bank issued INR4.9b of Tier II bonds during the quarter.

Valuation and view: Management is focused on building a low-ticket loan book, with steady balance sheet clean-up, which has helped improve asset quality substantially. We roll forward our TP date, and maintain our **Buy** rating with a TP of INR38 (1.1x Dec'19E BV v/s our earlier TP of INR36.1, based on 1.1x Sep'19E BV).

Quarterly Performance

| | FY17 | | | | FY18E | | | | (INR Million) | |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|---------------|--------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | FY17 | FY18E |
| Net Interest Income | 3,736 | 4,452 | 4,175 | 4,391 | 4,607 | 5,032 | 5,094 | 5,350 | 16,754 | 20,083 |
| % Change (YoY) | 9.8 | 14.6 | 2.7 | 17.3 | 23.3 | 13.0 | 22.0 | 21.8 | 11.0 | 19.9 |
| Other Income | 1,734 | 1,459 | 2,585 | 1,377 | 2,193 | 2,805 | 1,588 | 2,073 | 7,156 | 8,658 |
| Total Income | 5,471 | 5,911 | 6,760 | 5,768 | 6,800 | 7,837 | 6,682 | 7,422 | 23,910 | 28,741 |
| % Change (YoY) | 23.2 | 16.0 | 20.7 | 12.4 | 24.3 | 32.6 | -1.2 | 28.7 | 18.0 | 20.2 |
| Operating Expenses | 2,876 | 2,937 | 2,991 | 2,960 | 3,005 | 3,234 | 3,381 | 3,120 | 11,764 | 12,740 |
| Operating Profit | 2,595 | 2,973 | 3,770 | 2,808 | 3,795 | 4,603 | 3,302 | 4,303 | 12,146 | 16,002 |
| % Change (YoY) | 43.4 | 39.6 | 43.3 | 26.3 | 46.2 | 54.8 | -12.4 | 53.2 | 38.1 | 31.7 |
| Other Provisions | 1,141 | 1,283 | 2,066 | 1,653 | 2,243 | 4,537 | 1,543 | 2,378 | 6,144 | 10,701 |
| Profit Before Tax | 1,454 | 1,690 | 1,703 | 1,155 | 1,552 | 66 | 1,759 | 1,925 | 6,002 | 5,301 |
| Tax Provisions | 503 | 585 | 590 | 400 | 537 | 23 | 609 | 660 | 2,077 | 1,829 |
| Net Profit | 951 | 1,105 | 1,114 | 755 | 1,015 | 43 | 1,150 | 1,264 | 3,925 | 3,472 |
| % Change (YoY) | 45.6 | 18.4 | 9.6 | 3.5 | 6.7 | -96.1 | 3.3 | 67.4 | 17.8 | -11.5 |
| Operating Parameters | | | | | | | | | | |
| NIM (Cal, %) | 2.6 | 3.0 | 2.7 | 2.7 | 2.8 | 3.0 | 2.9 | 2.9 | 2.8 | 2.8 |
| Deposit Growth (%) | 10.6 | 13.5 | 19.0 | 18.7 | 13.7 | 11.5 | 7.1 | 13.0 | 18.7 | 13.0 |
| Loan Growth (%) | 7.8 | 10.1 | 10.9 | 12.9 | 12.8 | 12.4 | 16.7 | 17.0 | 12.9 | 17.0 |
| CD Ratio (%) | 71.2 | 72.3 | 69.6 | 70.2 | 70.7 | 72.9 | 75.8 | 72.6 | 70.2 | 72.6 |
| Asset Quality | | | | | | | | | | |
| Gross NPA (INR b) | 16.5 | 17.5 | 17.9 | 11.5 | 17.0 | 17.7 | 17.7 | 18.8 | 11.5 | 18.8 |
| Gross NPA (%) | 4.0 | 4.0 | 4.0 | 2.5 | 3.6 | 3.6 | 3.4 | 3.5 | 2.5 | 3.5 |
| Net NPA (INR b) | 11.9 | 12.1 | 11.2 | 6.7 | 11.8 | 12.6 | 12.1 | 12.8 | 6.7 | 12.8 |
| Net NPA (%) | 2.9 | 2.8 | 2.5 | 1.5 | 2.5 | 2.6 | 2.3 | 2.4 | 1.9 | 2.4 |
| Slippage ratio (%) | 1.3 | 2.3 | 2.0 | 11.2 | 5.9 | 2.3 | 2.3 | 1.0 | 3.9 | 2.6 |

E: MOSL Estimates

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Other highlights

- Retail/SME/corporate loan books grew 7%/7%/4% QoQ and 25%/25%/3% YoY. Retail book grew to 24.8% (23% in 3QFY17) of the total book, while the corporate book declined to 35% (40% in 3QFY17) of the total book.
- CASA accretion moderated to 3% YoY growth, due to 2%/6% YoY SA/CA growth. CASA ratio improved slightly by 30bpQoQ to 24.9%, but decreased 100bp YoY, along with a 50bp YoY fall in cost of deposits.
- GNPA/NNPA decreased 17bp/20bp QoQ to 3.40%/2.35%. Recoveries and upgrades of INR~1b and write-offs of INR1.5b led to NNPA of INR12.1b (-4%/+8.5% QoQ/YoY). Total net stressed loans (NNPA, net OSRL) stood at 2.83%, -25bp QoQ.
- Slippages in agriculture/SME came in at 0.18%/0.18% (vs 0.44%/0.78% in 2QFY18) of the advances. Slippages in retail increased by 4bp to 0.38% of advances

**3QFY18 conference call highlights****Asset quality**

- Slippages of INR2.58b included INR0.98b of fresh slippages. Of the remaining INR1.5b, INR1.41b was a debit to an existing NFB exposure to a pharma company. They had already provided INR900m against this account prior to 3Q, and provided the rest during the quarter. The facility was extended in 2014 with maturity in 2018.
- Breakup of reduction in GNPA: cash recoveries – INR200m, upgrades – INR770m, write-offs – INR1.5b.
- Expected slippage run rate of INR1-1.2b per quarter and provisioning run rate of INR1.25b per quarter (1% credit cost) from FY19.
- The bank is targeting a PCR of 70% (incl. TWO).
- The bank has no other risky non-fund based (NFB) exposures.
- NCLT exposure – the bank has INR6.6b towards four accounts on which it has 41% PCR as of 3QFY18. A provision of INR100m was made in 3Q and the remaining will be done in 4Q. One EPC account of INR2b among NCLT accounts towards which they need to provide 100% by 4QFY18.
- On IND-AS the bank has already prepared ECL computations, but the model is being refined and awaiting RBI guidelines.
- Recoveries run rate should be ~50% of slippages.

Balance-sheet related

- Advances growth to be 18% for FY18, targeting 20% by FY19. Deposits will grow in-line with advances.
- The bank is targeting 25% CASA growth.
- Average ticket size in home loan is INR250m.
- NIM to be stable at 2.85% – 2.9% from here.
- Focusing on NRI for growth of CASA.
- With the retail portfolio growing, loan growth is growing in line with branch distribution. 56% incremental loans from within Kerala, 44% outside, in-line with branch distribution.
- Kerala portfolio to continue strong growth.
- Total SR book stands at INR12.74b with 49.05% PCR.

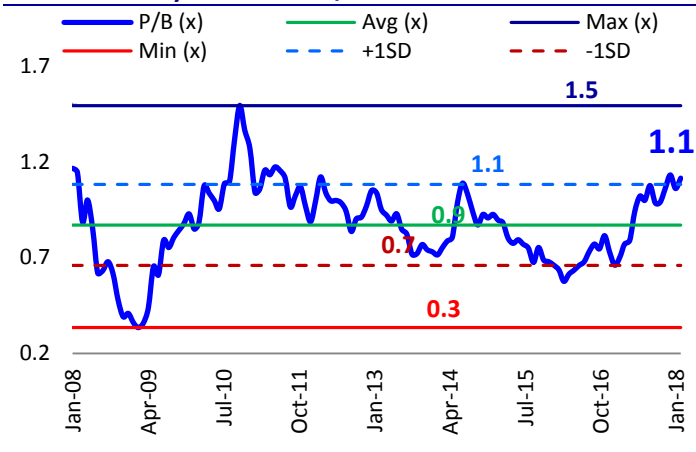
P&L related

- Expect 25% fee income (non-treasury and forex) growth for 4Q.
- Yield on advances declined QoQ because of MSME yields as the bank is incrementally looking into more collateralized assets in Kerala.
- Treasury and forex income was INR170m during the quarter.
- Provided for 12% growth in employee salaries as negotiation with IBA has started for wage revision.
- Expect 47% CI ratio for FY19 and well below 45% in FY20.

Valuation and view

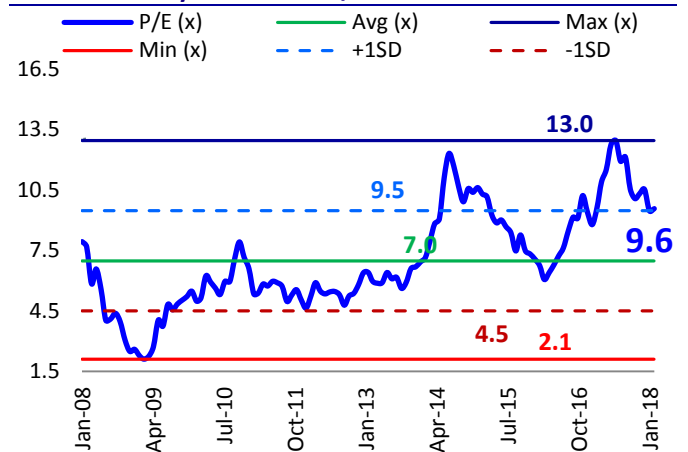
- Advances growth is picking up, led by low-risk retail loans as the bank steadily shifts its loan mix to retail; corporate now forms 36% of the book compared to 40% in 3QFY17. We like management’s focus on granular low-ticket retail/SME loans, improving C/I ratio and a steady approach to balance sheet clean-up, which will help improve asset quality substantially.
- The bank has been remarkably proactive in asset quality stress recognition and providing for the same. Based on the small remaining quantum of stress on the books and the amount of provisioning already done, we believe that slippages/credit costs should be controlled from here. We thus arrive at FY18E/FY19E/FY20E RoA of 0.44%/0.76%/0.87% and RoE of 6.9%/12.7%/14.8%.
- In view of continued reduction in net stressed assets, comfortable capital position and improved profitability, we roll forward our TP date and value the bank at INR38 (1.1x Dec 19E BV, vs our earlier TP of INR36 at 1.1x Sept 19 BV) and maintain our **BUY** rating on the stock.

Exhibit 1: One-year forward P/BV



Source: MOSL, Company

Exhibit 2: One-year forward P/E



Source: MOSL, Company

Exhibit 3: We largely maintain our estimates for FY18E/FY19E

| INR B | Old Est | | | Revised Est | | | Variation (%) | | |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|-------------|-------------|
| | FY18 | FY19 | FY20 | FY18 | FY19 | FY20 | FY18 | FY19 | FY20 |
| Net Interest Income | 20.0 | 23.3 | 27.5 | 20.1 | 23.6 | 27.4 | 0.3 | 1.3 | -0.1 |
| Other Income | 8.7 | 10.0 | 11.0 | 8.7 | 10.0 | 11.0 | 0.0 | 0.0 | 0.0 |
| Total Income | 28.7 | 33.3 | 38.4 | 28.7 | 33.5 | 38.4 | 0.2 | 0.9 | -0.1 |
| Operating Expenses | 12.7 | 14.1 | 15.8 | 12.7 | 14.7 | 16.1 | 0.0 | 4.6 | 2.0 |
| Operating Profits | 15.9 | 19.2 | 22.6 | 16.0 | 18.8 | 22.2 | 0.4 | -1.9 | -1.5 |
| Provisions | 10.8 | 8.9 | 9.0 | 10.7 | 8.4 | 8.6 | -1.1 | -5.4 | -4.2 |
| PBT | 5.1 | 10.3 | 13.6 | 5.3 | 10.4 | 13.6 | 3.7 | 1.1 | 0.2 |
| Tax | 1.8 | 3.6 | 4.7 | 1.8 | 3.6 | 4.7 | 3.7 | 1.1 | 0.2 |
| PAT | 3.3 | 6.8 | 8.9 | 3.5 | 6.8 | 8.9 | 3.7 | 1.1 | 0.2 |
| Loans | 528 | 607 | 708 | 543 | 624 | 718 | 2.9 | 2.8 | 1.3 |
| Deposits | 747 | 859 | 1,005 | 747 | 859 | 988 | 0.0 | 0.0 | -1.7 |
| RoA | 0.4 | 0.8 | 0.9 | 0.4 | 0.8 | 0.9 | | | |
| RoE | 6.7 | 12.6 | 14.8 | 6.9 | 12.7 | 14.8 | | | |

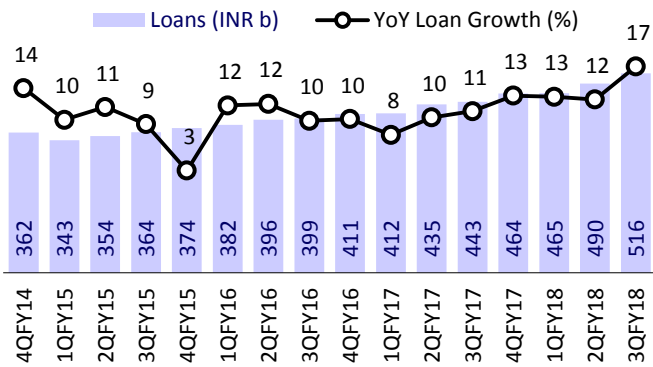
Exhibit 4: DuPont Analysis: Controlled opex and provisioning to enhance RoA/RoE (%)

| | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18E | FY19E | FY20E |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Interest income | 9.79 | 9.84 | 9.57 | 9.27 | 9.07 | 8.49 | 8.42 | 8.47 | 8.47 |
| Interest expense | 7.00 | 6.99 | 6.90 | 6.87 | 6.60 | 6.06 | 5.88 | 5.84 | 5.80 |
| Net interest income | 2.79 | 2.84 | 2.67 | 2.39 | 2.46 | 2.43 | 2.54 | 2.63 | 2.67 |
| Fee income | 0.56 | 0.61 | 0.57 | 0.58 | 0.62 | 0.67 | 0.91 | 0.94 | 0.89 |
| Core income | 3.36 | 3.46 | 3.24 | 2.98 | 3.08 | 3.10 | 3.45 | 3.57 | 3.56 |
| Operating costs | 1.69 | 1.70 | 1.69 | 1.72 | 1.87 | 1.71 | 1.61 | 1.64 | 1.57 |
| Cost to core income ratio | 50.3 | 49.2 | 52.0 | 57.7 | 60.7 | 55.0 | 46.8 | 45.9 | 44.1 |
| Employee Costs | 1.02 | 1.05 | 1.01 | 1.11 | 1.13 | 0.98 | 0.93 | 0.95 | 0.91 |
| Other Expenses | 0.66 | 0.65 | 0.68 | 0.61 | 0.74 | 0.73 | 0.69 | 0.69 | 0.65 |
| Core Operating Profit | 1.67 | 1.75 | 1.55 | 1.26 | 1.21 | 1.40 | 1.84 | 1.93 | 1.99 |
| Treasury Income | 0.11 | 0.13 | 0.13 | 0.29 | 0.22 | 0.37 | 0.19 | 0.17 | 0.18 |
| Operating Profit | 1.78 | 1.88 | 1.69 | 1.55 | 1.43 | 1.76 | 2.03 | 2.10 | 2.16 |
| Provisions | 0.22 | 0.43 | 0.30 | 0.73 | 0.60 | 0.89 | 1.36 | 0.93 | 0.84 |
| NPA Provisions | 0.06 | 0.33 | 0.28 | 0.60 | 0.66 | 0.96 | 1.08 | 0.94 | 0.85 |
| Other provisions | 0.16 | 0.09 | 0.02 | 0.12 | -0.06 | -0.06 | 0.27 | -0.01 | -0.01 |
| PBT | 1.56 | 1.45 | 1.39 | 0.82 | 0.83 | 0.87 | 0.67 | 1.17 | 1.32 |
| Tax | 0.47 | 0.34 | 0.42 | 0.28 | 0.29 | 0.30 | 0.23 | 0.40 | 0.46 |
| Tax Rate | 29.8 | 23.4 | 30.4 | 34.3 | 34.6 | 34.6 | 34.5 | 34.5 | 34.5 |
| ROA | 1.10 | 1.11 | 0.97 | 0.54 | 0.54 | 0.57 | 0.44 | 0.76 | 0.87 |
| Leverage (x) | 18.2 | 17.4 | 16.4 | 16.4 | 16.5 | 15.7 | 15.7 | 16.6 | 17.0 |
| ROE | 20.0 | 19.4 | 15.9 | 8.8 | 9.0 | 9.0 | 6.9 | 12.7 | 14.8 |

Source: MOSL, Company

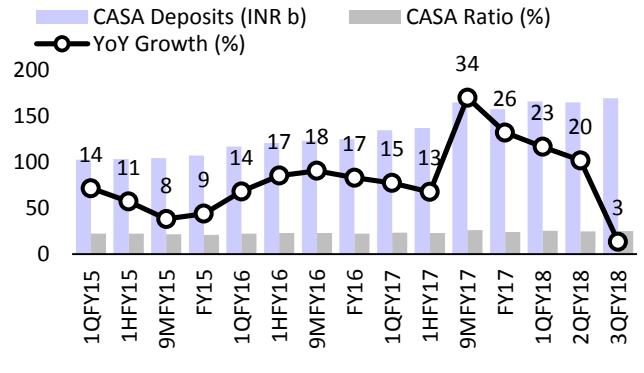
Story in charts

Exhibit 5: Loan book grew 16.7% on YoY basis with CD ratio picking up to 75.8% vs 69.6% a year ago



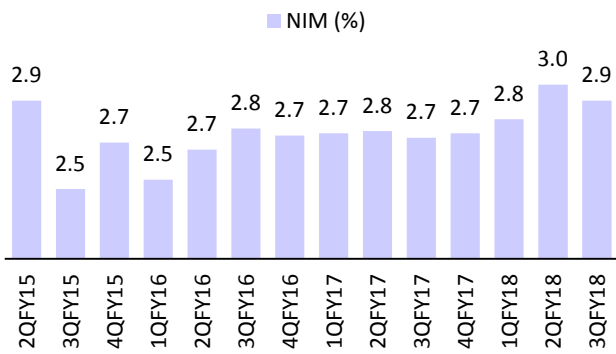
Source: Company, MOSL

Exhibit 6: CASA ratio improved ~30bp QoQ to 24.9%



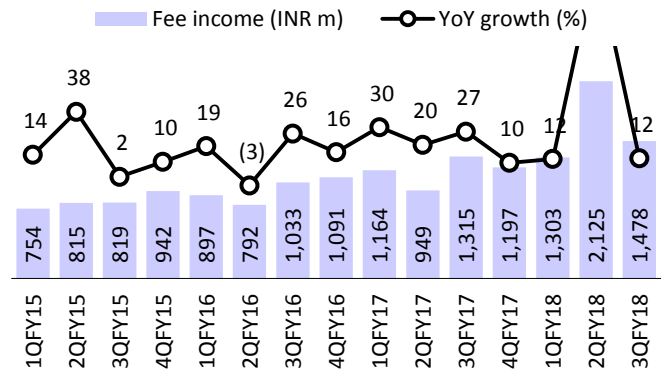
Source: Company, MOSL

Exhibit 7: Reported margins improved 22bp on YoY basis



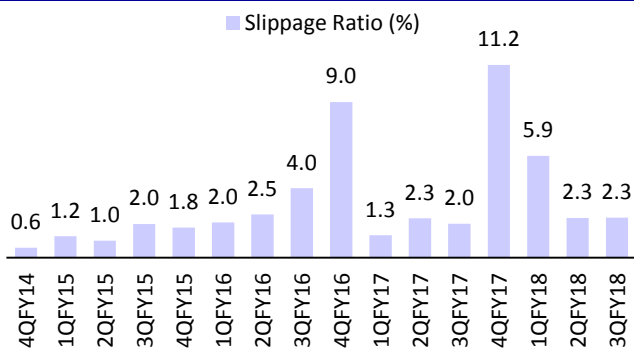
Source: Company, MOSL

Exhibit 8: Fee income growth moderated to 12% YoY



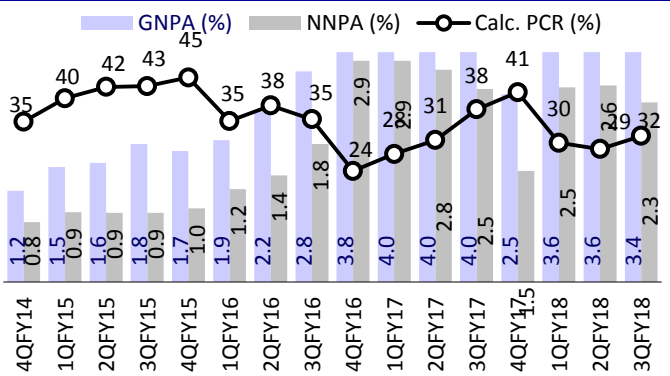
Source: Company, MOSL

Exhibit 9: Annualized slippages(%) were flat QoQ



Source: Company, MOSL

Exhibit 10: PCR increased ~290bp sequentially



Source: Company, MOSL

Exhibit 11: Quarterly Snapshot (INRm)

| | FY16 | | | | FY17 | | | | FY18E | | | Variation (%) | |
|---------------------------------------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | QoQ | YoY |
| Profit and Loss (INR m) | | | | | | | | | | | | | |
| Net Interest Income | 3,404 | 3,884 | 4,067 | 3,743 | 3,736 | 4,452 | 4,175 | 4,391 | 4,607 | 5,032 | 5,094 | 1 | 22 |
| Other Income | 1,038 | 1,212 | 1,533 | 1,391 | 1,734 | 1,459 | 2,585 | 1,377 | 2,193 | 2,805 | 1,588 | -43 | -39 |
| Total Income | 4,442 | 5,096 | 5,600 | 5,134 | 5,471 | 5,911 | 6,760 | 5,768 | 6,800 | 7,837 | 6,682 | -15 | -1 |
| Operating Expenses | 2,633 | 2,965 | 2,970 | 2,911 | 2,876 | 2,937 | 2,991 | 2,960 | 3,005 | 3,234 | 3,381 | 5 | 13 |
| Employee | 1,574 | 1,787 | 1,846 | 1,716 | 1,676 | 1,676 | 1,752 | 1,662 | 1,670 | 1,681 | 1,849 | 10 | 6 |
| Others | 1,059 | 1,178 | 1,124 | 1,195 | 1,200 | 1,262 | 1,239 | 1,298 | 1,336 | 1,554 | 1,532 | -1 | 24 |
| Operating Profits | 1,809 | 2,130 | 2,631 | 2,223 | 2,595 | 2,973 | 3,770 | 2,808 | 3,795 | 4,603 | 3,302 | -28 | -12 |
| Provisions | 795 | 675 | 1,064 | 1,163 | 1,141 | 1,283 | 2,066 | 1,653 | 2,243 | 4,537 | 1,543 | -66 | -25 |
| PBT | 1,014 | 1,456 | 1,567 | 1,060 | 1,454 | 1,690 | 1,703 | 1,155 | 1,552 | 66 | 1,759 | 2,569 | 3 |
| Taxes | 361 | 522 | 551 | 331 | 503 | 585 | 590 | 400 | 537 | 23 | 609 | 2,581 | 3 |
| PAT | 653 | 934 | 1,016 | 730 | 951 | 1,105 | 1,114 | 755 | 1,015 | 43 | 1,150 | 2,562 | 3 |
| Asset Quality | | | | | | | | | | | | | |
| GNPA | 7,138 | 8,923 | 11,080 | 15,624 | 16,516 | 17,453 | 17,870 | 11,490 | 16,957 | 17,663 | 17,746 | 0 | -1 |
| NNPA | 4,640 | 5,496 | 7,160 | 11,853 | 11,918 | 12,064 | 11,157 | 6,746 | 11,825 | 12,558 | 12,108 | -4 | 9 |
| GNPA (%) | 1.9 | 2.2 | 2.8 | 3.8 | 4.0 | 4.0 | 4.0 | 2.5 | 3.6 | 3.6 | 3.4 | -17 | -58 |
| NNPA (%) | 1.2 | 1.4 | 1.8 | 2.9 | 2.9 | 2.8 | 2.5 | 1.5 | 2.5 | 2.6 | 2.4 | -22 | -17 |
| PCR (Calculated, %) | 35 | 38 | 35 | 24 | 28 | 31 | 38 | 41 | 30 | 29 | 32 | 287 | -580 |
| Credit Cost (bp) | 44 | 92 | 84 | 189 | 89 | 154 | 159 | 211 | 159 | 101 | 356 | | |
| Ratios (%) | | | | | | | | | | | | | |
| Non Int. to Total Income | 23.4 | 23.8 | 27.4 | 27.1 | 31.7 | 24.7 | 38.2 | 23.9 | 32.3 | 35.8 | 23.8 | | |
| Cost to Core Income | 62.5 | 64.0 | 60.8 | 61.5 | 61.7 | 54.9 | 55.3 | 53.8 | 51.5 | 45.8 | 52.0 | | |
| Tax Rate | 35.6 | 35.8 | 35.1 | 31.2 | 34.6 | 34.6 | 34.6 | 34.6 | 34.6 | 34.4 | 34.6 | | |
| Loan/Deposit | 73.6 | 75.2 | 75.4 | 74.4 | 72.0 | 73.2 | 70.6 | 70.9 | 71.5 | 72.9 | 75.8 | | |
| CASA Reported | 22.3 | 22.8 | 23.0 | 22.2 | 23.2 | 22.8 | 25.9 | 23.8 | 25.2 | 24.6 | 24.9 | | |
| CAR | 11.4 | 11.9 | 11.7 | 11.8 | 11.7 | 11.1 | 11.1 | 12.4 | 12.1 | 11.7 | 12.5 | | |
| Tier I | 10.0 | 9.6 | 9.4 | 9.8 | 9.9 | 9.5 | 9.4 | 10.9 | 10.8 | 10.4 | 10.1 | | |
| Reported NIMs (%) - Cumulative | | | | | | | | | | | | | |
| Yield on loans | 11.5 | 11.4 | 11.4 | 11.2 | 10.9 | 10.7 | 10.6 | 10.0 | 10.1 | 10.0 | 9.9 | -15 | -71 |
| Cost of Deposits | 7.9 | 7.7 | 7.6 | 7.5 | 7.0 | 6.9 | 6.8 | 6.3 | 6.2 | 6.1 | 6.0 | -4 | -74 |
| Margins | 2.5 | 2.7 | 2.8 | 2.7 | 2.7 | 2.8 | 2.7 | 2.7 | 2.8 | 3.0 | 2.9 | -7 | 16 |
| Balance Sheet (INR B) | | | | | | | | | | | | | |
| Gross Advances | 385 | 399 | 403 | 415 | 417 | 441 | 449 | 469 | 470 | 490 | 516 | 5 | 15 |
| Deposits | 523 | 530 | 534 | 557 | 579 | 602 | 636 | 661 | 658 | 671 | 681 | 1 | 7 |

Source: MOSL, Company

Financials and valuations

Income Statement

(INR Million)

| Y/E March | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Interest Income | 44,343 | 50,151 | 52,862 | 55,572 | 58,471 | 66,473 | 75,906 | 87,068 |
| Interest Expense | 31,535 | 36,163 | 39,200 | 40,475 | 41,716 | 46,390 | 52,316 | 59,644 |
| Net Interest Income | 12,808 | 13,988 | 13,662 | 15,097 | 16,754 | 20,083 | 23,590 | 27,424 |
| Change (%) | 25.4 | 9.2 | -2.3 | 10.5 | 11.0 | 19.9 | 17.5 | 16.3 |
| Non Interest Income | 3,349 | 3,685 | 4,971 | 5,174 | 7,156 | 8,658 | 9,957 | 10,953 |
| Net Income | 16,158 | 17,672 | 18,633 | 20,271 | 23,910 | 28,741 | 33,547 | 38,377 |
| Change (%) | 27.3 | 9.4 | 5.4 | 8.8 | 18.0 | 20.2 | 16.7 | 14.4 |
| Operating Expenses | 7,672 | 8,829 | 9,813 | 11,478 | 11,764 | 12,740 | 14,723 | 16,130 |
| Pre Provision Profits | 8,486 | 8,843 | 8,820 | 8,793 | 12,146 | 16,002 | 18,825 | 22,247 |
| Change (%) | 30.2 | 4.2 | -0.3 | -0.3 | 38.1 | 31.7 | 17.6 | 18.2 |
| Provisions (excl tax) | 1,927 | 1,554 | 4,570 | 3,696 | 6,144 | 10,701 | 8,379 | 8,629 |
| PBT | 6,559 | 7,289 | 4,250 | 5,097 | 6,002 | 5,301 | 10,446 | 13,618 |
| Tax | 1,536 | 2,214 | 1,608 | 1,764 | 2,077 | 1,829 | 3,604 | 4,698 |
| Tax Rate (%) | 23.4 | 30.4 | 37.8 | 34.6 | 34.6 | 34.5 | 34.5 | 34.5 |
| PAT | 5,023 | 5,075 | 2,642 | 3,333 | 3,925 | 3,472 | 6,842 | 8,920 |
| Change (%) | 25.1 | 1.0 | -47.9 | 26.1 | 17.8 | -11.5 | 97.1 | 30.4 |
| Extra Ordinary Item | 0 | 0 | -430 | 0 | 0 | 0 | 0 | 0 |
| Profits Post EO | 5,023 | 5,075 | 3,072 | 3,333 | 3,925 | 3,472 | 6,842 | 8,920 |
| Change (%) | 25.1 | 1.0 | -39.5 | 8.5 | 17.8 | -11.5 | 97.1 | 30.4 |
| Equity Dividend (Incl tax) | 1,094 | 1,258 | 980 | 813 | 868 | 1,302 | 1,519 | 1,519 |
| Core PPP* | 7,909 | 8,145 | 7,180 | 7,427 | 9,621 | 14,502 | 17,325 | 20,447 |
| Change (%) | 29.5 | 3.0 | -11.8 | 3.4 | 29.5 | 50.7 | 19.5 | 18.0 |

*Core PPP is (NII+Fee income-Opex)

Balance Sheet

| Y/E March | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Share Capital | 1,339 | 1,344 | 1,350 | 1,350 | 1,803 | 1,803 | 1,803 | 1,803 |
| Equity Share Capital | 1,339 | 1,344 | 1,350 | 1,350 | 1,803 | 1,803 | 1,803 | 1,803 |
| Preference Share Capital | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reserves & Surplus | 28,724 | 32,360 | 34,544 | 37,106 | 46,574 | 49,583 | 54,906 | 62,307 |
| Net Worth | 30,062 | 33,704 | 35,894 | 38,456 | 48,377 | 51,385 | 56,708 | 64,109 |
| Deposits | 4,42,623 | 4,74,911 | 5,19,125 | 5,57,207 | 6,61,175 | 7,47,128 | 8,59,197 | 9,88,076 |
| Change (%) | 21.3 | 7.3 | 9.3 | 7.3 | 18.7 | 13.0 | 15.0 | 15.0 |
| of which CASA Dep | 82,328 | 98,249 | 1,06,863 | 1,24,590 | 1,57,470 | 1,75,575 | 2,02,770 | 2,33,186 |
| Change (%) | 14.7 | 19.3 | 8.8 | 16.6 | 26.4 | 11.5 | 15.5 | 15.0 |
| Borrowings | 12,846 | 27,308 | 22,325 | 23,150 | 19,578 | 22,489 | 25,834 | 29,677 |
| Other Liabilities & Prov. | 12,420 | 13,937 | 13,819 | 12,936 | 13,990 | 14,436 | 15,880 | 17,468 |
| Total Liabilities | 4,97,950 | 5,49,860 | 5,91,163 | 6,31,749 | 7,43,120 | 8,35,438 | 9,57,619 | 10,99,331 |
| Current Assets | 43,359 | 32,179 | 35,951 | 30,995 | 38,877 | 38,721 | 44,528 | 51,206 |
| Investments | 1,25,235 | 1,43,518 | 1,40,861 | 1,46,189 | 1,94,297 | 2,03,435 | 2,33,450 | 2,69,389 |
| Change (%) | 33.2 | 14.6 | -1.9 | 3.8 | 32.9 | 4.7 | 14.8 | 15.4 |
| Loans | 3,18,155 | 3,62,299 | 3,73,916 | 4,10,857 | 4,63,895 | 5,42,757 | 6,24,170 | 7,17,796 |
| Change (%) | 16.6 | 13.9 | 3.2 | 9.9 | 12.9 | 17.0 | 15.0 | 15.0 |
| Fixed Assets | 3,961 | 4,122 | 4,790 | 4,870 | 6,561 | 7,084 | 7,685 | 8,377 |
| Other Assets | 7,240 | 7,742 | 35,644 | 38,837 | 39,490 | 43,441 | 47,785 | 52,564 |
| Total Assets | 4,97,950 | 5,49,860 | 5,91,163 | 6,31,749 | 7,43,120 | 8,35,438 | 9,57,619 | 10,99,331 |

Asset Quality

(%)

| | | | | | | | | |
|----------------------------|-------|-------|-------|--------|--------|--------|--------|--------|
| GNPA (INR m) | 4,339 | 4,326 | 6,435 | 15,624 | 11,490 | 18,832 | 16,377 | 15,057 |
| NNPA (INR m) | 2,495 | 2,817 | 3,571 | 11,853 | 6,746 | 12,845 | 10,776 | 10,106 |
| GNPA Ratio | 1.36 | 1.19 | 1.72 | 3.77 | 2.06 | 3.47 | 2.62 | 2.10 |
| NNPA Ratio | 0.78 | 0.78 | 0.95 | 2.89 | 1.93 | 2.37 | 1.73 | 1.41 |
| Slippage Ratio | 1.79 | 1.85 | 1.36 | 4.10 | 3.88 | 2.60 | 2.00 | 2.00 |
| Credit Cost | 0.45 | 0.40 | 1.12 | 0.94 | 1.40 | 1.70 | 1.45 | 1.30 |
| PCR (Excl Tech. write off) | 42.5 | 34.9 | 44.5 | 24.1 | 41.3 | 31.8 | 34.2 | 32.9 |

E: MOSL Estimates

Financials and valuations

Ratios

| Y/E March | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|-----------------------------------|-------------|------------|------------|------------|------------|------------|------------|------------|
| Spreads Analysis (%) | | | | | | | | |
| Avg. Yield-Earning Assets | 10.1 | 9.8 | 9.7 | 9.7 | 9.1 | 9.0 | 9.0 | 9.0 |
| Avg. Yield on loans | 12.1 | 11.6 | 11.3 | 11.1 | 10.2 | 9.9 | 9.9 | 9.8 |
| Avg. Yield on Investments | 6.9 | 7.2 | 6.7 | 7.1 | 7.3 | 7.6 | 7.7 | 7.8 |
| Avg. Cost-Int. Bear. Liab. | 7.7 | 7.6 | 7.5 | 7.2 | 6.6 | 6.4 | 6.3 | 6.3 |
| Avg. Cost of Deposits | 7.6 | 7.5 | 7.4 | 7.1 | 6.5 | 6.0 | 6.0 | 6.0 |
| Interest Spread | 2.4 | 2.2 | 2.2 | 2.5 | 2.5 | 2.6 | 2.7 | 2.7 |
| Net Interest Margin | 3.0 | 2.8 | 2.6 | 2.8 | 2.7 | 2.8 | 2.9 | 2.9 |

Profitability Ratios (%)

| | | | | | | | | |
|--------------------------|------|------|------|------|------|------|------|------|
| RoE | 19.4 | 15.9 | 8.8 | 9.0 | 9.0 | 6.9 | 12.7 | 14.8 |
| RoA | 1.1 | 1.0 | 0.5 | 0.5 | 0.6 | 0.4 | 0.8 | 0.9 |
| Int. Expense/Int.Income | 71.1 | 72.1 | 74.2 | 72.8 | 71.3 | 69.8 | 68.9 | 68.5 |
| Fee Income/Net Income | 17.2 | 16.9 | 17.9 | 18.8 | 19.4 | 24.9 | 25.2 | 23.8 |
| Non Int. Inc./Net Income | 20.7 | 20.8 | 26.7 | 25.5 | 29.9 | 30.1 | 29.7 | 28.5 |

Efficiency Ratios (%)

| | | | | | | | | |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Cost/Income* | 49.2 | 52.0 | 57.7 | 60.7 | 55.0 | 46.8 | 45.9 | 44.1 |
| Empl. Cost/Op. Exps. | 61.6 | 59.9 | 64.6 | 60.3 | 57.5 | 57.4 | 58.1 | 58.3 |
| Busi. per Empl. (INR m) | 108.3 | 117.7 | 114.1 | 138.8 | 146.6 | 170.6 | 185.9 | 203.1 |
| NP per Empl. (INR lac) | 0.7 | 0.7 | 0.4 | 0.5 | 0.5 | 0.5 | 0.9 | 1.1 |

* ex treasury and recoveries

Asset-Liability Profile (%)

| | | | | | | | | |
|--------------------------|------|------|------|------|------|------|------|------|
| Loans/Deposit Ratio | 71.9 | 76.3 | 72.0 | 73.7 | 70.2 | 72.6 | 72.6 | 72.6 |
| CASA Ratio | 18.6 | 20.7 | 20.6 | 22.4 | 23.8 | 23.5 | 23.6 | 23.6 |
| Investment/Deposit Ratio | 28.3 | 30.2 | 27.1 | 26.2 | 29.4 | 27.2 | 27.2 | 27.3 |
| G-Sec/Investment Ratio | 79.7 | 80.2 | 87.7 | 94.7 | 87.7 | 87.7 | 87.7 | 87.7 |
| CAR | 13.9 | 12.4 | 12.0 | 11.8 | 12.4 | 11.2 | 10.7 | 10.5 |
| Tier 1 | 12.1 | 10.8 | 10.4 | 9.8 | 10.9 | 9.9 | 9.6 | 9.5 |

Valuation

| | | | | | | | | |
|---------------------------|--|--|--|--|-------------|-------------|------------|------------|
| Book Value (INR) | | | | | 25.9 | 27.1 | 30.1 | 34.2 |
| Change (%) | | | | | -8.9 | 4.6 | 10.9 | 13.6 |
| Price-BV (x) | | | | | 1.2 | 1.2 | 1.1 | 0.9 |
| Adjusted BV (INR) | | | | | 23.3 | 22.1 | 25.9 | 30.3 |
| Price-ABV (x) | | | | | 1.4 | 1.5 | 1.3 | 1.1 |
| EPS (INR) | | | | | 2.5 | 1.9 | 3.8 | 4.9 |
| Change (%) | | | | | 0.9 | -22.6 | 97.1 | 30.4 |
| Price-Earnings (x) | | | | | 13.0 | 16.8 | 8.5 | 6.5 |
| Dividend Per Share (INR) | | | | | 0.4 | 0.7 | 0.8 | 0.8 |
| Dividend Yield (%) | | | | | 1.2 | 2.2 | 2.6 | 2.6 |

E: MOSL Estimates

Corporate profile: South India Bank

Company description

One of the earliest banks in Southern part of India, South Indian Bank (SIB) was incorporated in 1928 at Thrissur in Kerala. Under the RBI Act, SIB was the first private sector bank in Kerala to become a Scheduled Commercial Bank in 1946. Currently, the bank is led by Mr. V. G. Mathew, MD & CEO. The bank has a strong presence in south India (80%+ branches). As on June 2016, the bank had a network of 838 branches and 1,291 ATMs.

Exhibit 1: Sensex rebased

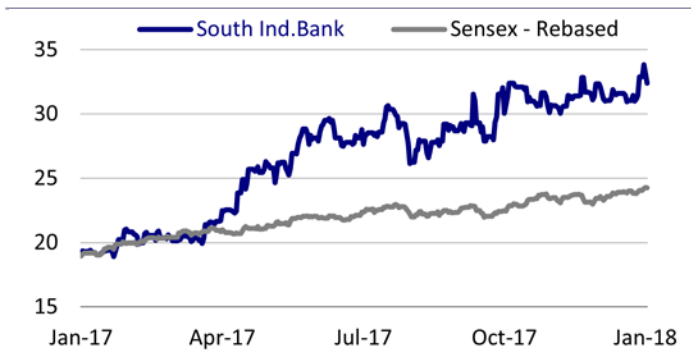


Exhibit 12: Shareholding pattern (%)

| | Dec-17 | Sep-17 | Dec-16 |
|----------|--------|--------|--------|
| Promoter | 0.0 | 0.0 | 0.0 |
| DII | 15.2 | 12.3 | 15.5 |
| FII | 34.6 | 37.9 | 34.8 |
| Others | 50.3 | 49.8 | 49.6 |

Note: FII Includes depository receipts

Exhibit 14: Top management

| Name | Designation |
|-------------------|-------------------------|
| Salim Gangadharan | Part Time Chairman |
| V G Mathew | Managing Director & CEO |

Exhibit 13: Top holders

| Holder Name | % Holding |
|---------------------------------------|-----------|
| YUSUFFALI MUSALIAM VEETIL ABDUL KADER | 4.9 |
| FIRST CARLYLE VENTURES MAURITIUS | 4.9 |
| LAVENDER INVESTMENTS LIMITE | 4.9 |
| LIFE INSURANCE CORPORATION OF INDIA | 3.2 |
| IVA INTERNATIONAL FUND | 2.6 |

Exhibit 15: Directors

| Name | Name |
|---------------------|------------------------------|
| Cheryan Varkey | K Thomas Jacob |
| Francis Alapatt | Mohan Alapatt |
| John Joseph Alapatt | Parayil George John Tharakan |
| | Ranjana Salgaocar |

*Independent

Exhibit 16: Auditors

| Name | Type |
|--------------------------|-----------|
| Deloitte Haskins & Sells | Statutory |

Exhibit 17: MOSL forecast v/s consensus

| EPS (INR) | MOSL forecast | Consensus forecast | Variation (%) |
|-----------|---------------|--------------------|---------------|
| FY18 | 1.9 | 2.0 | -5.5 |
| FY19 | 3.8 | 3.6 | 4.7 |
| FY20 | 4.9 | 4.7 | 4.7 |

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