South Indian Bank

29 June 2020

4QFY20 Result Update

Reuters: SIBK.BO; Bloomberg: SIB IN

Covid-19 impact only adds to the existing set of challenges

South Indian Bank (SIB) reported NII in line with our estimate at Rs5,958mn, up 19.3% YoY and down 1% QoQ. Overall advances grew by 2.8% YoY and 0.2% QoQ. Reported NIM at 2.67% was weak compared to 3QFY20 and 2QFY20 as yields on advances declined 23bps QoQ to 9.59%. Adjusting for the Rs150mn interest on IT refund in 3QFY20, calculated NIM was stable QoQ. Non-interest revenue was up 67.3% YoY and 78.8% QoQ, led by Rs2.3bn worth of treasury income. Excluding treasury income, non-interest revenue was down 1% YoY and 11% QoQ. Total opex grew by 12% YoY and 4% QoQ. Operational profitability was enhanced (up 62.9% YoY, 39.2% QoQ) due to exceptionally high treasury income. We reckon that excluding the treasury income, operational profitability deteriorated sequentially by 3.3%. Provisions were up 230% YoY and 177% QoQ. NPA provisions increased by 77% QoQ while standard asset provisions increased by 456% QoQ. The bank made covid-related provisions worth Rs770mn during the quarter. Net loss for the quarter was Rs1.44bn. Though PCR increased 225bps QoQ, it still remains quite weak at 34%. GNPAs inched up 2bps QoQ to 4.98%. Including technically written-off accounts, the bank is aiming at a PCR of 60% over the next 6-12 months against current levels of 54.2%. We expect credit cost to remain high due to (1) PCR catch-up (2) new slippages given the book under morat is 36% (Rs238.6bn). Though the management has guided for last of the corporate slippages to be over, we would exercise caution given that the moratorium on the corporate portfolio is 36% which seems on the higher side. We therefore build in higher NPA ratios for FY21/22E. Some of the foremost concerns that the management should look to address are low PCR (34%), high NPAs (4.98%) and low CET1 (9.84%), which collectively make for a weak balance sheet, especially for a bank operating at >17x leverage. We think the current (inexpensive) valuation is a result of these concerns and the stock is unlikely to find any favor unless the aforementioned issues are addressed. We have revised our estimates for FY21/FY22 and have retained Accumulate rating on SIB, revising our target price to Rs8.6 (from Rs6 earlier) and valuing the stock at 0.4x FY22E P/BV.

Growth impacted due to pull back in corporate lending, liability side relatively weak: Overall advances grew by 2.8% YoY and 0.2% QoQ. Corporate loans, which formed 34% of the total loan portfolio a year ago, declined by 13% YoY and 5.3% QoQ. Large corporate loan book (=/>Rs1bn) is down 31% YoY. On the other hand, share of retail loans now stands at 32.9% compared to 29.4% in 4QFY19. Retail portfolio has grown 15% YoY and 7% QoQ. Housing loan book is up by 16% YoY and 2% QoQ, gold loan portfolio is up 24% YoY and 8% QoQ and LAP has grown 18% YoY and 1% QoQ. Business loans have declined by 3% YoY but up 18% QoQ. In line with industry trends, growth in vehicle loan book has been weak at 7% YoY and -1% QoQ. The management aspires to grow at 10-15% in FY21 but we think growth would be much lower given the unfavorable macros as well as capital constraints. On the liability side, term deposits were flat sequentially while bulk and CD combined declined by 17% YoY and 7% QoQ. There were withdrawals in some high value government deposits.

Asset quality weak: GNPAs/NNPAs were reported at 4.98%/3.34%, up 2bps QoQ/down 10bps YoY. PCR including TWO/excl TWO stood at 54.2%/34.1%, up 380bps/225bps YoY. To strengthen the balance sheet position, the management intends to increase PCR (incl. TWO) to 60% over the next 6-12 months. Under the opt-out approach, moratorium was extended to all the customers. 36% of the portfolio was under moratorium as on 31 March 2020 and has since slightly come down. 34% of the customers availing the moratorium have liability relationship with the bank and many of them have sufficient account balance to repay 1 to 3 EMIs. FY21 slippage guidance stands at 1.5-2.0% (Rs13-15bn) and credit cost is expected at Rs2.5bn per quarter.

Valuation and outlook: We have revised our NII estimates by -6.8%-8.2%, PPOP estimates by 13.9%/16.3% and PAT estimates by -32.3%/23.3% for FY21/FY22, respectively. We have retained Accumulate rating on SIB, revising our target price to Rs8.6 (from Rs6 earlier) and valuing the stock at 0.4x FY22E P/BV.

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ACCUMULATE

Sector: Banking

CMP: Rs8.9

Target Price: Rs8.6

Downside: 3%

Raghav Garg, CFA
Research Analyst
raghav.garg@nirmalbang.com
+91-22-6273 8192

Arjun Bagga
Research Associate
arjun.bagga@nirmalbang.com
+91-22-6273 8111

Key Data

Current Shares O/S (mn)	1,809.7
Mkt Cap (Rsbn/US$mn)	16.0/211.7
52 Wk H / L (Rs)	14/5
Daily Vol. (3M NSE Avg.)	21,062,260

Price Performance (%)

	1 M	6 M	1 Yr
South Indian Bank	80.6	(14.1)	(33.0)
Nifty Index	15.0	(14.4)	(12.4)

Source: Bloomberg

Y/E March (Rsmn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)
Interest income	19,477	17,909	19,673	8.8	(1.0)
Interest expenses	13,519	12,916	13,655	4.7	(1.0)
Net interest income	**5,958**	**4,994**	**6,018**	19.3	(1.0)
NIM (%)	***2.67***	***2.46***	***2.72***	21 bps	-5 bps
Non-interest income	3,942	2,357	2,204	67.3	78.8
Total income	**9,900**	**7,350**	**8,222**	34.7	20.4
Staff costs	2,450	2,119	2,396	15.6	2.3
Other operating expenses	2,115	1,956	1,995	8.2	6.0
Total operating expenses	4,566	4,075	4,391	12.0	4.0
Cost-to-income (%)	46.1	55.4	53.4	*-932 bps*	*-728 bps*
Pre-provisioning operating profit	**5,334**	**3,276**	**3,831**	62.9	39.2
Provisions	7,238	2,192	2,609	230.3	177.4
PBT	**-1,904**	**1,084**	**1,222**	(275.6)	(255.8)
Tax	-467	379	317	(223.2)	(247.5)
-Effective tax rate	*24.5*	*35.0*	*25.9*	*-1043 bps*	*-138 bps*
PAT	**-1,437**	**705**	**905**	(303.8)	(258.7)
EPS (Rs)	-0.79	0.39	0.50	(303.8)	(258.7)
Deposits	30.3	29.5	31.2	2.6	(3.0)
Advances	830,339	804,201	848,740	3.3	(2.2)

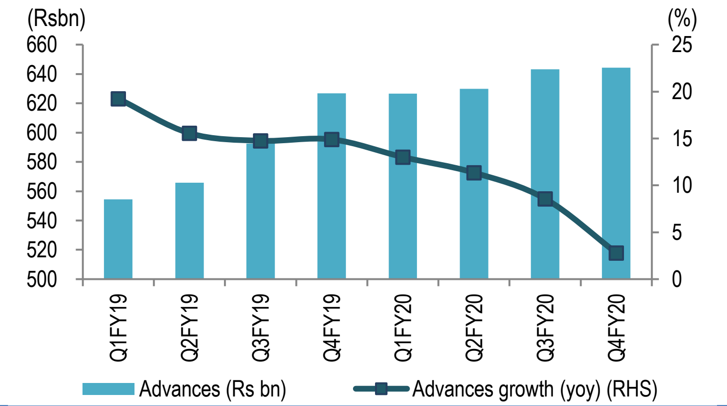
Source: Company, Nirmal Bang Institutional Equities Research

Comprehensive Conference Call Takeaways

- Low rate environment helped book treasury profit during the quarter. Annual run rate of treasury income stands at Rs1.5-2.5bn. Fee income traction is expected to be better due to the recent multiple insurance distribution tie-ups.
- Moratorium was offered to all eligible customers on an opt-out basis. 36% of the portfolio was under moratorium as on 31 March 2020 and has since slightly come down. 34% of the customers availing the moratorium have a liability relationship with the bank and many of them have sufficient account balance to repay 1 to 3 EMIs.
- Exposure to stressed sectors is as follows:
    - Small NBFCs (<Rs0.25bn): o/s Rs1.15bn; SMA/Standstill: Nil
    - Travel and tourism: o/s Rs10.52bn; under morat: Rs6.21bn; SMA Rs0.05bn; standstill: Rs0.04bn.
    - Professional services: o/s Rs.45.45bn; under morat: Rs21.87bn; SMA: Rs0.07bn; standstill: Rs0.03bn
    - Construction: o/s Rs31.06bn; under morat: Rs11.60bn; SMA: Rs0.51bn; standstill: Rs0.04bn
    - Transport: Rs1.19bn; under morat: Rs0.24bn; SMA: Rs0.02bn; standstill: Rs0.02bn
    - Gems & jewellery: o/s: Rs5.85bn; under morat: Rs0.87bn; SMA/standstill: Nil
    - CRE: o/s: Rs10.86bn; under morat: Rs3.45bn; SMA/standstill: Nil
    - Textile: o/s Rs30.95bn, under morat: Rs7.25bn; SMA: Rs0.07bn; standstill: Rs0.04bn.
- FY21 slippage guidance stands at 1.5-2.0% (Rs13-15bn). Credit cost is expected at Rs2.5bn per quarter.
- Gold loans form 12% of the book and stand at Rs78.16bn. Proportion of unsecured portfolio is small and bank holds significant collateral in secured loans. FY21 credit growth guidance stands at 10-15%. Bank sees growth opportunities in gold and agri loans. MSME opportunities would also emerge with improvement in environment. Retail growth would be ~10-15%.
- Credit limits were not re-instated in corporate accounts. >20% growth target is expected to be sustained over the long term.
- During the quarter, Rs5bn worth AT-1 bonds were raised at 13.75%. CET-1 ratio stands at 9.84%. Capital position is comfortable (as per the bank) and current capital would be sufficient for 10-15% growth expected during the year. There are no plans to raise Tier-2 capital.
- The current MD/CEO's tenure ends on 30th Sep'20. Recommendations for appointing next MD have been sent to RBI and approval is expected in time. An outsider may be appointed for the position.
- Weak accounts have been classified as NPAs. This includes Rs4.22bn worth Kolkata based cement and tyre account (BB rated), which has been downgraded to NPA and 10% provisions have been made. Other BBB and below rated accounts include:
    - Hotel project of Kerala based gold NBFC: Rs1.09bn
    - Exporter account (25 year-old relationship): Rs0.78bn
- PCR on Rs17.8bn worth SR book sold in March '17 stands at 63% (including 33% haircut). Recovery in EPC accounts has been negligible and situation may not improve going forward. A stressed steel account has been sold to ARC and resolution is awaiting approval from judiciary.
- Bank ventured into corporate loans over 2010-2014 and there has been a course correction afterwards. Bank holds 50% PCR on EPC contracting group account worth Rs2.26bn under IBC. Total accounts under IBC stand at Rs7.2bn. Irrigation account exposure stands at Rs0.38bn.
    - PCR on Mumbai based infra development conglomerate worth Rs2bn stands at 100%. Recovery is expected at ~50%.
- Breakup of Rs3.32n worth slippages is as follow:
    - Corporate (>Rs0.25bn): Rs1.1bn
        - NBFC account: Rs0.55bn
        - Food processing: Rs0.28bn
        - Engineering: Rs0.27bn
    - Retail (<Rs0.25bn): Rs2.21bn

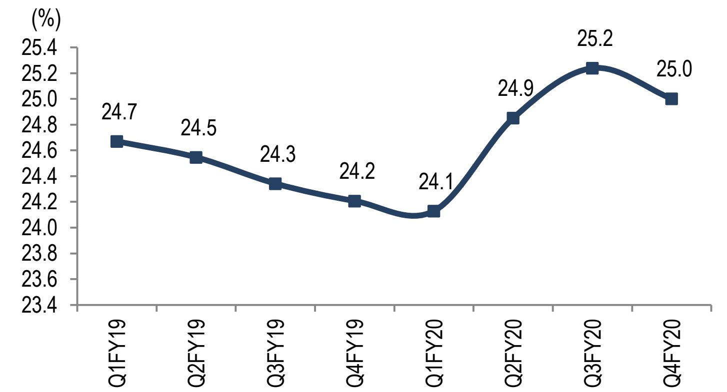
  - Agri: Rs0.10bn
  - MSME: Rs1.24bn
    - Trading firms:Rs0.47bn
    - Basic Metals: Rs 0.18bn
    - Food processing: Rs0.10bn
    - Professional services: Rs0.07bn
    - Wood and wood products: Rs 0.06bn
    - Tourism, travel and hospitality: Rs0.04bn
    - Textile: Rs 0.09bn
    - Other services: Rs0.18bn
    - Other industries: Rs0.05bn
  - Personal: Rs0.87bn
    - Housing Rs0.14bn
    - Education: Rs0.02bn
    - Vehicle: Rs0.03bn
    - Other personal: Rs0.04bn
- There were withdrawals in some high value government deposits.

Exhibit 1: Advances, advances growth



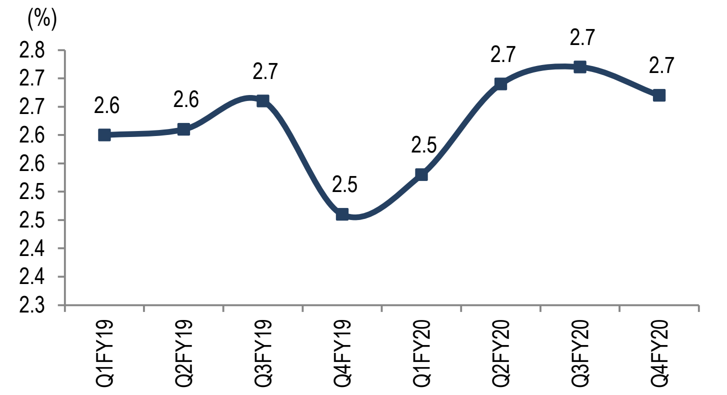
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: CASA ratio (%)



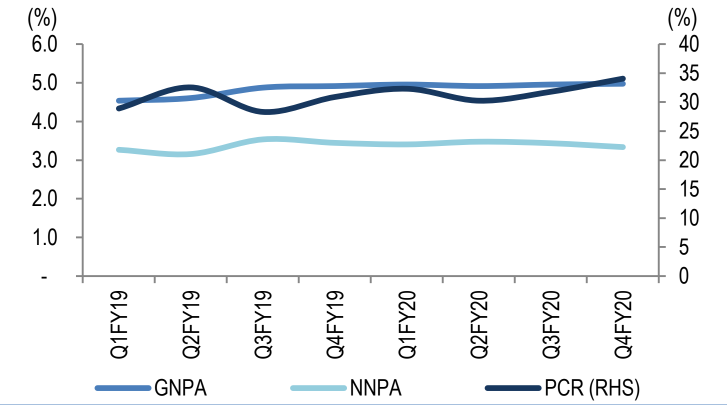
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: NIM (Reported, %)



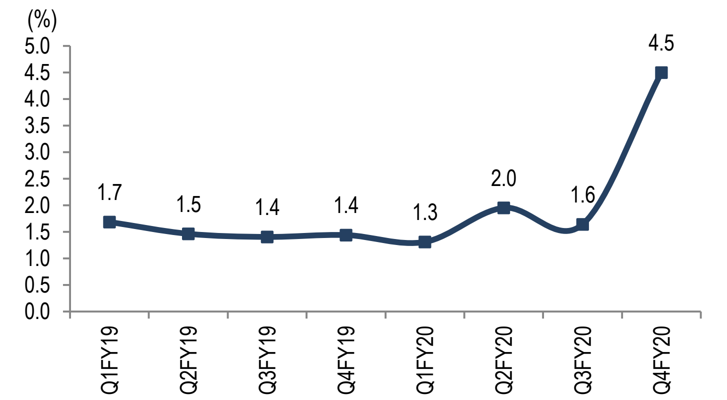
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Asset Quality (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Credit Cost (Calculated, Annualized, %)



Source: Company, Nirmal Bang Institutional Equities Research

Advances Mix (%)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Corporate	36	36	36	34	33	31	31	29
SME	24	24	24	24	24	25	25	25
Agriculture	14	14	14	14	14	15	15	15
Retail	27	28	28	29	30	31	31	33
Housing	25	25	26	25	26	26	26	25
Gold	9	9	11	12	12	12	13	13
LAP	20	21	23	24	25	26	26	25
Business Loan	24	25	20	19	18	16	14	16
Vehicle Loan	5	5	6	5	6	6	6	5
Others	9	7	8	8	8	8	7	8
Loan against deposit	7	7	7	7	7	7	8	8

Segment wise Advance Growth (YoY, %)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Corporate	14	13	14	5	3	-2	-7	-13
SME	21	7	6	16	14	16	14	5
Agriculture	14	10	7	10	14	20	21	14
Retail	27	31	29	34	25	20	18	15
Housing	27	30	29	30	28	25	22	16
Gold	6	13	39	63	53	49	38	24
LAP	NA	NA	NA	NA	58	49	35	18
Business Loan	NA	NA	NA	NA	-7	-22	-18	-3
Vehicle Loan	NA	NA	NA	NA	29	24	17	7
Others	NA	NA	NA	NA	6	24	9	26
Loan against deposit	11	11	19	23	23	19	27	26

Exhibit 6: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net interest income	19,655	20,197	23,175	23,082	23,588
Pre-provisioning operating profit	14,808	12,390	16,456	16,281	16,282
PAT	3,349	2,475	1,046	2,489	4,286
EPS (Rs)	1.9	1.4	0.6	1.4	2.4
BV (Rs)	29.0	29.5	30.3	31.4	33.8
P/E (x)	6.0	8.1	19.1	8.0	4.7
P/BV (x)	0.4	0.4	0.4	0.4	0.3
GNPAs (%)	3.6	4.9	5.0	6.0	5.9
NNPAs (%)	2.6	3.5	3.3	3.2	2.4
RoA (%)	0.4	0.3	0.1	0.3	0.4
RoE (%)	6.6	4.7	1.9	4.5	7.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Actual performance versus our estimates

(Rsmn)	Q4FY20	Q4FY19	Q3FY20	*YoY (%)*	*QoQ (%)*	Q4FY20E	*Devi. (%)*
Net interest income	5,958	4,994	6,018	*19.3*	*(1.0)*	5,964	*(0.1)*
Pre-provisioning operating profit	5,334	3,276	3,831	*62.9*	*39.2*	3,660	*45.8*
PAT	-1,437	705	905	*(303.8)*	*(258.7)*	926	*(255.1)*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Change in our estimates

	Revised Estimate		Earlier Estimate		*% Revision*	
	FY21E	FY22E	FY21E	FY22E	*FY21E*	*FY22E*
Net Interest Income (Rsmn)	23,082	23,588	24,767	25,699	*(6.8)*	*(8.2)*
NIMs	*2.7*	*2.6*	*2.7*	*2.6*	***-4 bps***	***-1 bps***
Pre-provisioning Operating Profit (Rsmn)	16,281	16,282	14,297	13,996	*13.9*	*16.3*
Profit after tax (Rsmn)	2,489	4,286	3,673	3,476	*(32.3)*	*23.3*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: One-year forward P/BV

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 10: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Interest Income	61,928	68,765	77,638	77,426	79,668
Interest expense	42,273	48,568	54,463	54,344	56,081
Net interest income	**19,655**	**20,197**	**23,175**	**23,082**	**23,588**
Non-interest income	8,372	7,262	10,458	10,667	10,880
Net Revenue	28,028	27,459	33,633	33,748	34,468
Operating Expense	13,220	15,069	17,176	17,467	18,186
-Employee Exp	7,132	8,214	9,414	9,696	10,181
-Other Exp	6,088	6,855	7,763	7,771	8,005
Operating profit	**14,808**	**12,390**	**16,456**	**16,281**	**16,282**
Provisions	9,809	8,585	14,961	12,955	10,554
PBT	4,999	3,805	1,496	3,326	5,727
Taxes	1,650	1,330	450	837	1,442
PAT	**3,349**	**2,475**	**1,046**	**2,489**	**4,286**

Source: Company,Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Growth (%)					
NII growth	17.3	2.8	14.7	-0.4	2.2
Pre-provision profit growth	21.9	-16.3	32.8	-1.1	0.0
PAT growth	-14.7	-26.1	-57.7	137.9	72.2
Business (%)					
Deposit growth	8.9	11.6	3.3	1.8	4.5
Advance growth	17.6	14.9	2.8	1.0	5.0
CD	75.8	78.0	77.6	77.0	77.4
CASA	23.8	24.2	25.0	25.5	25.6
Operating efficiency (%)					
Cost-to-income	47.2	54.9	51.1	51.8	52.8
Cost-to-assets	1.7	1.7	1.8	1.8	1.8
Spreads (%)					
Yield on advances	9.4	9.2	9.7	9.5	9.5
Yield on investments	6.7	6.9	6.9	6.5	6.5
Cost of deposits	5.8	6.0	6.2	5.9	5.9
Cost of funds	5.9	6.0	6.2	6.0	6.0
NIMs	2.8	2.6	2.7	2.7	2.6
Capital adequacy (%)					
Tier I	10.4	10.0	10.8	10.6	10.3
Tier II	2.3	2.6	2.6	2.6	2.7
Total CAR	12.7	12.6	13.4	13.2	13.0
Asset Quality (%)					
Gross NPA	3.6	4.9	5.0	6.0	5.9
Net NPA	2.6	3.5	3.3	3.2	2.4
Provision coverage	27.3	29.9	34.1	48.9	60.4
Slippage	3.6	3.2	2.2	2.1	1.4
Credit-cost	1.4	1.2	1.6	1.6	1.2
Return (%)					
ROE	6.6	4.7	1.9	4.5	7.3
ROA	0.4	0.3	0.1	0.3	0.4
RORWA	0.7	0.5	0.2	0.5	0.8
Per share					
EPS	1.9	1.4	0.6	1.4	2.4
BV	29.0	29.5	30.3	31.4	33.8
ABV	21.0	17.4	18.4	20.1	24.6
Valuation					
P/E	4.8	6.5	15.4	6.5	3.8
P/BV	0.3	0.3	0.3	0.3	0.3
P/ABV	0.4	0.5	0.5	0.4	0.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

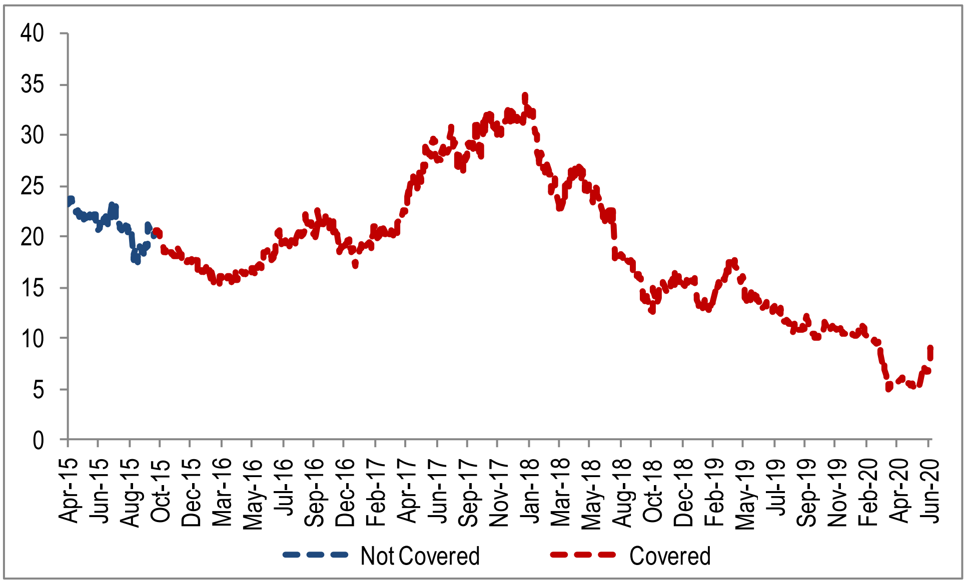
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	1,809	1,810	1,810	1,810	1,810
Reserves & Surplus	50,623	51,561	52,964	55,096	59,382
Shareholder's Funds	**52,432**	**53,371**	**54,774**	**56,906**	**61,191**
Deposits	**720,296**	**804,201**	**830,339**	**845,285**	**883,323**
Borrowings	40,434	49,032	68,932	73,068	77,452
Other liabilities	13,697	16,188	16,284	19,454	21,824
Total liabilities	**826,859**	**922,792**	**970,329**	**994,713**	**1,043,790**
Cash/Equivalent	42,210	48,228	41,898	50,480	52,962
Advances	545,629	626,937	644,395	650,839	683,381
Investments	183,631	190,814	206,253	211,321	220,831
Fixed Assets	6,808	7,087	8,000	8,800	9,680
Other assets	48,581	49,727	69,784	73,273	76,936
Total assets	**826,859**	**922,792**	**970,329**	**994,713**	**1,043,790**

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	23	28
15 May 2018	Buy	26	30
23 July 2018	Buy	18	26
9 October 2018	Buy	13	18
16 October 2018	Buy	15	21
21 January 2019	Buy	14	20
8 April 2019	Buy	18	21
10 May 2019	Buy	15	20
8 July 2019	Buy	13	15
26 July 2019	Buy	13	15
7 October 2019	Buy	11	13
18 October 2019	Buy	10	13
8 January 2020	Buy	10	13
17 January 2020	Buy	11	14
27 March 2020	Accumulate	6	6
9 April 2020	Accumulate	6	6
29 June 2020	Accumulate	8.9	8.6

Rating track graph



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BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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Team Details:			
Name		**Email Id**	**Direct Line**
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010