



### South Indian Bank – Results above expectations, Retain Buy

South Indian Bank announced its un-audited results for Q3FY12. The top-line and bottom line came slightly above our expectations.

#### Key Highlights

- Net Profit after tax** for the current quarter increased 35.7% YoY (7.7% QoQ) to ₹ 1022.4 mn from ₹ 753.6 mn for Q3 FY11. The growth in PAT on YoY basis was mainly driven by 33.5% increase in the NII at ₹ 2734.4 mn (on the back of robust business growth coupled with slight improvement in margins). Added to this lower provisioning during the quarter (-25.6% YoY & -6.9% QoQ) on the back of improved asset quality, also aided in profit growth.
- Net Interest Margins** (reported) improved by 5 bps each both sequentially and on a YoY basis from 3.0% to 3.05% driven by higher increase in yield on advances (19 bps) as compared to cost of deposits (11 bps) during the quarter. The higher increase in yield on advances is mainly driven by increasing share of high yielding gold loan portfolio which currently stands at 26.0% of total advances (~₹ 65 bn as at Q3FY12). Added to this, higher yield on investments during the quarter further helped in improving margins. The management expects the NIM in the current fiscal to be at around current levels.
- Total business** of the bank registered a robust growth of ~27.5% YoY (4.4% QoQ) as at Q3 FY12. Deposits grew by 25.3% YoY (2.4% QoQ) from ₹ 270.0 bn in Q3FY11 to ₹ 338.3 bn in the current quarter, whereas Net Advances grew by 30.6% YoY (7.3% QoQ) from ₹191.9 bn to ₹ 250.5 bn over the same period. The growth in advances was mainly driven by increase in gold loan portfolio which grew by ~₹ 4.7 bn (7.7% QoQ). Besides this corporate loan book also registered good growth during the quarter. Low cost deposits constitute 25.0% of total deposits as at Q3FY12. The management has guided for 25% growth in total business in the current fiscal and also indicated that going forward the key focus area would be to increase CASA.
- Gross NPA** on an absolute basis registered an increase of only 1.7% sequentially while on the YoY basis it declined by 7.9%. Net NPA on the other hand remained flat on QoQ basis (decline of 21.6% YoY). Sharp increase in provision coverage by 449 bps YoY has led to the sharp decline in NNPA. Provision coverage ratio stood at 75.2% as against 70.7% for Q3FY11. The restructured accounts as at end of the quarter stood at ₹ 5.84 bn.
- The **Capital Adequacy Ratio (CAR)** stood at 12.03% with Tier 1 Capital ratio of 9.61% as on December 30, 2011. The bank is planning to mobilize ₹ 10.0 bn through qualified institutional placement in Q1FY13 when the market turns favourable.

#### Outlook and Valuations

We estimate SIB to report an EPS CAGR of 25.2% over FY11-FY13E. ABV is estimated to grow at 17.1% CAGR during the same period. The stock currently trades at 1.1x FY13E ABV and 5.7x FY13E EPS. Going forward, we expect the company to deliver healthy net interest income growth (CAGR 25.0% over FY11-13E) and earnings growth (CAGR 25.2% over FY11-13E) driven by strong traction in business growth and stable asset quality. **We have raised our earning target by 4.8% & 2.6% for FY12E and FY13E respectively on the back of lower than estimated provisioning expenses. Consequently we have raised our target price to 30.6 (1.45x FY13E ABV), thus giving an upside potential of 32.0% from current levels.**

#### Financial Snapshot (₹ mn)

In ₹ mn	NII	YoY (%)	Operating Profit	YoY (%)	Net Profit	YoY (%)	NIM (%)	EPS (₹)	YoY (%)	ABV (₹)	RoAE (%)	RoAA (%)	P/E (x)	P/ABV (x)
FY11	7911.0	39.2	5252.6	27.9	2925.6	25.2	2.95	2.6	25.2	15.8	17.6	1.0	8.9	1.5
FY12E	9928.4	25.5	6666.3	26.9	3728.9	27.5	2.93	3.3	27.5	18.4	18.7	1.0	7.0	1.3
FY13E	12367.4	24.6	8473.0	27.1	4584.3	22.9	2.95	4.1	22.9	21.6	19.5	1.0	5.7	1.1

Source: Company, ABML Research

Rating	Closing Price (₹)	Target Price (₹)	Upside / Downside%
Buy	23.2	30.6	32.0

Source: ABML Research

Company Data	
BSE Code	532218
NSE Code	SOUTHBANK
Equity Capital (₹ mn)	1130.1
Face Value (₹)	1.0
Market Cap (₹ bn)	26.2
Avg Daily Volume (Qty)	1867283
52 week H/L (₹)	26.1 / 17.5

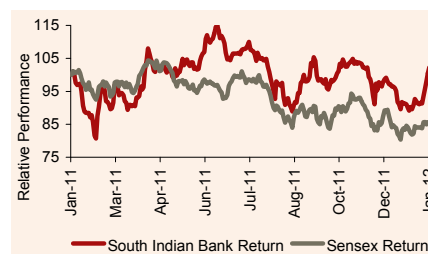
Source: NSE, BSE

#### Shareholding (%)

Holders	Dec 11	Sep 11	Jun 11
Promoters	0.00	0.00	0.00
FII's	42.25	39.99	38.79
MFs/Banks & FI's	8.41	8.70	9.58
Public & Others	49.34	51.31	51.63

Source: BSE

#### Chart: SIB vs. Sensex



Source: Capitaline

#### Analyst Details

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## Standalone Financial Results (Q3 FY12) - SIB

Quarterly Results Table (₹ mn)	Q3 FY12	Q3 FY11	YoY (%)	Q2 FY12	QoQ (%)
<b>Income</b>					
Interest Earned	9436.1	6226.6	51.5	8772.5	7.6
Other Income	598.6	497	20.4	530.8	12.8
<b>Total Income</b>	<b>10034.7</b>	<b>6723.6</b>	<b>49.2</b>	<b>9303.3</b>	<b>7.9</b>
<b>Expenditure</b>					
Interest Expended	6701.7	4178.7	60.4	6184.8	8.4
Operating Expenses	1543	1116.3	38.2	1455.1	6.0
<b>Total Expenditure</b>	<b>8244.7</b>	<b>5295</b>	<b>55.7</b>	<b>7639.9</b>	<b>7.9</b>
<b>Operating Profit (Profit before provisions and contingencies)</b>	<b>1790</b>	<b>1428.6</b>	<b>25.3</b>	<b>1663.4</b>	<b>7.6</b>
Other Prov. & Contingencies	221.9	298.3	-25.6	238.3	(6.9)
Prov for tax	545.7	376.7	44.9	475.6	14.7
<b>Net profit for the year</b>	<b>1022.4</b>	<b>753.6</b>	<b>35.7</b>	<b>949.5</b>	<b>7.7</b>
<b>Earning per share</b>					
Basic & Diluted EPS (₹)	0.90	0.69	31.1	0.84	7.7

Key Ratios (%)	Q3 FY12	Q3 FY11	YoY (%)	Q2 FY12	QoQ (%)
Deposits (₹ bn)	338.3	270.0	25.3	330.4	2.4
Advances (₹ bn)	250.5	191.9	30.6	233.5	7.3
NIM(%)	3.1	3.0	5 bps	3.0	5 bps
ROAA (%)	1.1	1.0	2 bps	1.1	1 bps
CD Ratio (%)	74.0	71.1	297 bps	70.7	337 bps
Gross NPA (%)	0.94	1.33	(39) bps	0.99	(5) bps
Net NPA (%)	0.24	0.39	(15) bps	0.25	(1) bps
Provision Coverage (%)	75.2	70.7	449 bps	74.7	48 bps
Cost to Income (%)	46.3	43.9	243 bps	46.7	(37) bps
CAR (%)	12.0	14.9	(286) bps	13.5	(145) bps
Tier 1 (%)	9.61	12.3	(270) bps	10.80	(119) bps

Source: Company data, ABML Research

## Recommendation summary

Date	Reports	Rating	Closing Price (₹)	Target Price (₹)	Upside / (Downside) %
16-Aug-10	Initiating Coverage (adj for stock split)	Accumulate	20.5	24.4	19.0
26-Oct-10	Result Update (Q2FY11)	Neutral	28.7	29.4	2.4
24-Jan-11	Result Update (Q3FY11)	Buy	21.9	29.4	34.7
09-May-11	Result Update (Q4FY11)	Buy	22.8	29.0	27.5
18-July-11	Result Update (Q1FY12)	Buy	24.2	29.8	23.5
01-Nov-11	Result Update (Q2FY12)	Buy	23.6	29.8	26.3
17-Jan-12	Result Update (Q3FY12)	Buy	23.2	30.6	32.0

Source: ABML Research



## Standalone Financials – South Indian Bank

## Income Statement

Financial Year (₹ mn)	FY09	FY10	FY11	FY12E	FY13E
<b>Net Interest Income</b>	<b>5229</b>	<b>5683</b>	<b>7911</b>	<b>9928</b>	<b>12367</b>
Growth (%)	39	9	39	26	25
Other Income	1643	2085	1967	2358	3253
<b>Net Income</b>	<b>6872</b>	<b>7768</b>	<b>9878</b>	<b>12287</b>	<b>15620</b>
Operating Expenses	3285	3662	4625	5620	7147
<b>Operating Profit (pre-prov)</b>	<b>3587</b>	<b>4106</b>	<b>5253</b>	<b>6666</b>	<b>8473</b>
Other Prov. & Contingencies	573	433	798	1016	1527
<b>Profit Before Taxes</b>	<b>3014</b>	<b>3673</b>	<b>4455</b>	<b>5650</b>	<b>6946</b>
Prov for tax	1066	1336	1529	1921	2362
<b>Net profit for the year</b>	<b>1947</b>	<b>2338</b>	<b>2926</b>	<b>3729</b>	<b>4584</b>
Growth (%)	28	20	25	27	23

## Balance Sheet

Financial Year (₹mn)	FY09	FY10	FY11	FY12E	FY13E
<b>Sources of Funds</b>					
Capital	1130	1130	1130	1130	1130
Reserve and Surplus	11910	13723	17343	20413	24338
<b>Net Worth</b>	<b>13040</b>	<b>14853</b>	<b>18473</b>	<b>21543</b>	<b>25468</b>
<b>Deposits</b>	<b>180923</b>	<b>230115</b>	<b>297211</b>	<b>371513</b>	<b>456962</b>
Growth (%)	19	27	29	25	23
Borrowings	4120	3310	2904	3631	4443
Other Liabilities and Prov.	5711	7063	9615	10632	12159
<b>Total Liabilities</b>	<b>203794</b>	<b>255340</b>	<b>328202</b>	<b>407319</b>	<b>499032</b>
<b>Application of Funds</b>					
Cash and balances with RBI	9977	13909	18282	18742	23037
Bal. with banks & call money	10381	5967	6379	8989	11056
Investments	60752	71556	89238	107739	130234
<b>Advances</b>	<b>118479</b>	<b>158229</b>	<b>204887</b>	<b>260059</b>	<b>319873</b>
Growth (%)	13	34	29	27	23
Fixed assets	1363	1525	3569	3896	4174
Other assets	2841	4153	5848	7894	10657
<b>Total Assets</b>	<b>203794</b>	<b>255340</b>	<b>328202</b>	<b>407319</b>	<b>499032</b>

Source: ABML Research, company data

## Key Ratios

Financial Year (₹ mn)	FY09	FY10	FY11	FY12E	FY13E
<b>Return Ratios</b>					
Average Yield on Advances	11.4%	11.0%	10.6%	11.7%	11.5%
Average Cost of Deposits	6.8%	6.5%	6.1%	7.2%	6.9%
NIM	3.0%	2.67%	2.95%	2.93%	2.95%
Non Int Income / Net Income	23.9%	26.8%	19.9%	19.2%	20.8%
Return on Avg Equity	15.8%	16.8%	17.6%	18.7%	19.5%
Return on Avg Assets	1.0%	1.0%	1.0%	1.0%	1.0%
<b>Asset Quality</b>					
Gross NPA to Advances	2.20%	1.33%	1.12%	1.00%	1.10%
Net NPA to Advances	1.13%	0.39%	0.29%	0.26%	0.31%
Provision Coverage	48.5%	70.8%	73.6%	74.0%	72.0%
Slippage Ratio	1.7%	1.5%	0.7%	0.6%	0.8%
<b>Efficiency Ratios</b>					
Business Per Emp. (in mn)	66.2	79.9	89.4	102.5	113.6
Net Profit Per Emp. (in lakh)	4.3	4.8	5.2	6.1	6.7
Business Per Branch (in mn)	564.9	669.6	783.3	902.2	1022.2
Cost / Income Ratio	47.8%	47.1%	46.8%	45.7%	45.8%
<b>Business Ratios</b>					
Credit Deposit Ratio	65.5%	68.8%	68.9%	70.0%	70.0%
Investment Deposit Ratio	33.6%	31.1%	30.0%	29.0%	28.5%
CASA Ratio	23.8%	23.1%	21.5%	22.0%	23.7%
<b>Valuations Ratio</b>					
EPS	1.7	2.1	2.6	3.3	4.1
P/E (x)	13.43	11.19	8.94	7.02	5.71
BVPS	11.5	13.1	16.3	19.0	22.5
P/BV (x)	2.01	1.76	1.42	1.22	1.03
Adj. BVPS	10.4	12.6	15.8	18.4	21.6
P/ABV (x)	2.24	1.84	1.47	1.26	1.07



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ABML research is also accessible in Bloomberg at ABMR



## Our Rating Methodology

Stock Ratings	Absolute Returns (R)
Buy	$R > 15\%$
Accumulate	$5\% < R \leq 15\%$
Neutral	$-5\% < R \leq 5\%$
Reduce	$-10\% < R \leq 5\%$
Sell	$R \leq -10\%$

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