

October 17, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs23	Rs27
EPS change FY12E/13E (%)	-7.1/-8.1
Target Price change (%)	10
Nifty	5,118
Sensex	17,025

Price Performance (%)	1M	3M	6M	12M
Absolute	(0)	(4)	1	(13)
Rel. to Nifty	(1)	5	13	3

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

	Banks
Bloomberg	SIB@IN
Equity Capital (Rs mn)	1130
Face Value(Rs)	1
No of shares o/s (mn)	1130
52 Week H/L	30/17
Market Cap (Rs bn/USD mn)	26/531
Daily Avg Volume (No of sh)	3738159
Daily Avg Turnover (US\$m)	1.7

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	-	-	-
FII/NRI	38.8	36.2	38.6
Institutions	9.6	10.5	10.2
Private Corp	8.9	9.7	9.8
Public	42.7	43.7	41.4

Source: Capitaline

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- **SIB's Q2FY12 earnings at Rs950mn ahead of expectation led by higher than expected NII growth**
- **The NII grew by 31.1% to Rs2.6bn led by strong ~19%qoq growth in gold loan portfolio, and 20bps qoq expansion in NIM's to 3%**
- **High concentration of gold loan at 26% of the book, a concern. In case of any slowdown in gold loan book growth, rest of the book need to grow at more than 25%**
- **Lowering earnings by 7.1/8.1% each for FY12/13 for higher opex and prov cost. Maintain ACCUMULATE with revised TP of Rs27**

NII growth above expectation

The NII grew by 31.1%yoy to Rs2.6bn significantly ahead of our as well as street expectation. The growth in NII was driven by 30%yoy growth in advances (3.9%qoq) and 20bps qoq expansion in NIM's to 3.0%. Moreover the bank did a large part of its advances in the fag end of the last quarter, which also would have contributed around 240mn to the NII during the quarter.

Yield Analysis

%	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY bps	QoQ bps
Yield on advances	10.5	10.9	11.3	11.4	12.4	190	99
Yield on Investments	7.1	6.5	6.2	6.6	6.9	-18	27
Yield on funds	8.8	8.7	9.0	9.1	9.8	107	76
Cost of Funds	5.8	5.8	6.2	6.7	6.9	115	28
NIM	3.0	2.9	2.8	2.4	2.9	-8	48
NIMs #	3.0	3.0	3.1	2.8	3.0	-3	20

Source: Company, Emkay Research Calculated based on average quarterly balances # reported and cumulative

Q2FY12 performance driven by Gold Loan

The strong growth in NII during the quarter was primarily led by 19%qoq growth in gold loan portfolio, while rest of the book remains stable at Rs170mn. As yield on gold loan is higher at 13-14%, the yield on advances on the overall book increased by 99bps qoq to 12.4%, thereby resulting in higher NIM's.

Advance break up

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Gold Loan	34	38	46	51	60	77.5	19.0
Ex-Gold Loans	143	151	159	171	170	18.6	-0.6
Gold Loan/ Tot loans	19	20	23	23	26		

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	7,768	2,338	2.1	12.4	1.0	16.8	11.3	1.9
FY2011	9,878	2,925	2.6	14.5	1.0	17.6	9.0	1.6
FY2012E	11,934	3,659	2.4	19.3	1.0	14.6	9.6	1.2
FY2013E	14,009	4,593	3.0	21.2	1.0	13.7	7.7	1.1

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Net Interest Income	1,973	2,048	2,216	2,050	2,588	31.1	26.2	4,637	3,647	27.2
Other Income	449	497	605	516	531	18.3	2.9	1,047	865	21.0
Fee Income	85	87	100	94	66	-23.2	-30.2	159	167	-4.3
Net Income	2,422	2,545	2,821	2,566	3,119	28.8	21.6	5,684	4,512	26.0
Total Operating Expenses	1,174	1,116	1,289	1,135	1,455	24.0	28.2	2,590	2,220	16.7
As % Of Net Income	48.5	43.9	45.7	44.2	46.7	-3.7	5.5	45.6	49.2	
Employee Expenses	774	691	759	690	877	13.3	27.0	1,568	1,449	8.2
As % Of Net Income	32.0	27.1	26.9	26.9	28.1	-12.0	4.5	27.6	32.1	
Other Expenses	400	426	530	444	578	44.5	30.1	1,022	771	32.5
As % Of Net Income	16.5	16.7	18.8	17.3	18.5	12.2	7.0	18.0	17.1	
Operating Profit	1,248	1,429	1,532	1,431	1,664	33.3	16.2	3,095	2,292	35.0
As % Of Net Income	51.5	56.1	54.3	55.8	53.3	3.5	-4.4	54.4	50.8	
Provisions	68	299	265	209	238	251.0	14.0	447	234	90.7
Prov for NPA	15	194	150	28	55	273.6	99.6	83	124	-32.9
PBT	1,180	1,129	1,268	1,222	1,425	20.7	16.6	2,648	2,058	28.7
Total Tax	410	377	450	398	476	16.0	19.5	874	703	24.4
Adjusted PAT	770	753	817	824	950	23.3	15.2	1,774	1,355	30.9
Reported PAT	770	753	817	824	950	23.3	15.2	1,774	1,355	30.9
Reported EPS	0.7	0.7	0.7	0.7	0.8	21.0	14.4	2	1	28.9

Source: Company, Emkay Research

Skewness towards Gold loan a concern

With 19%qoq growth in gold loan book, gold loan composition in the overall book has now increased to 26% from 23% in preceding quarter. In case growth in the gold loan portfolio slows down, the rest of the portfolio has to grow at more than 25% to make up for the growth. As the bank is running a higher riskier portfolio, we continue to remain worried.

CASA mix maintained at 21.3%

The cost of funds during the quarter increased marginally from 6.9% in Q1FY12 to 7% in Q2FY12 as the bank broadly maintained its CASA mix at 21.3%. Moreover robust growth of 28.4%qoq in NRI deposit further helped in keeping a check on the overall cost of funds.

Deposit mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
CASA	59.8	60.5	64.0	67.9	70.4	17.7	3.7
CASA (%)	23.9	22.4	21.5	21.5	21.3	-256	-15
NRI deposit	36.9	37.0	39.0	30.8	39.5	7.3	28.4
NRI (%)	14.7	13.7	13.1	9.7	12.0	-274	224
Other Deposit	154.0	172.5	194.2	217.8	220.5	43.2	1.2
Total deposits	250.6	270.0	297.2	316.5	330.4	31.8	4.4

Source: Company, Emkay Research

Core operating profit grows by 35% yoy

Though reported operating profit grew by healthy 16.2% yoy to Rs1.7bn, core operating profit adjusted for trading gains grew by even higher 35.6%yoy to Rs1.8bn.

Core operating profit growth slower than reported

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Reported operating profit	1,248	1,429	1,532	1,431	1,664	33.3	16.2	3,095	2,292	35.0
Less: Trading gains	62	97	143	149	113	82.0	-24.1	262	154	
Core operating profit	1,310	1,526	1,675	1,580	1,777	35.6	12.4	3,357	2,446	
Add: Gratuity/ Pension provisions	170	123	102	78	78	-53.9	0.0	6,189	4,584	35.0
Adjusted operating profit	1,480	1,649	1,776	1,659	1,855	25.3	11.8	3,095	2,292	35.0

Source: Company, Emkay Research

Fee income continue to disappoints

Though overall other income grew by healthy 18.3%yoy to Rs531mn, fee income continue to disappoint. Fee income during the quarter, decline by 23.2%yoy to Rs66mn.

Other Income

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Fee/Commission income	85	87	100	94	66	-23.2	-30.2	159	167	-4.3
Trading gains/(losses)	62	97	143	149	113	82.0	-24.1	262	154	70.1
Forex gains/(losses)	47	48	55	49	68	45.2	37.2	117	88	33.0
Other non int income	254	265	317	223	284	11.8	27.3	508	456	11.3
Total	449	497	614	516	531	18.3	2.9	1,047	865	21.0
Fee/Forex/others	386	400	472	367	418	8.1	13.9	784	711	10.4

Source: Company, Emkay Research

Asset quality shows slight improvement

The bank reported slippages of Rs274mn during the quarter down from Rs400mn in the preceding quarter. Moreover with recovery of Rs334mn during the quarter, the GNPA declined by 2.5%qoq to Rs2.3bn.

Asset quality

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Gross NPLs	2,277	2,536	2,303	2,364	2,305	1.2	-2.5
Net NPLs	671	743	600	646	583	-13.1	-9.7
Gross NPLs (%)	1.3	1.3	1.1	1.1	1.0		
Net NPLs (%)	0.4	0.4	0.3	0.3	0.3		
Provision cover (%)	70.5	70.7	73.9	72.7	74.7		
Net NPLs/Net worth (%)	4.1	4.4	3.2	3.3	2.9		

Source: Company, Emkay Research

CAR remains comfortable

SIB is comfortably placed in terms of capital adequacy with CAR of 13.5% with tier I CAR of 10.8%. SIB was looking to raise Rs10bn through a QIP in Q2FY12 which would have raised the tier I CAR to 16-17%. However due to adverse market conditions, the bank postponed the QIP, however wishes to complete it before end of FY12.

Valuations and view

We have downgraded earnings by 7.1%/8.1% for FY12E/FY13E for higher provisions and opex. Higher concentration of gold loans (26%) in loan portfolio is key risk to the bank. At CMP, the stock is trading at 1.1x FY13E ABV. The stock historically has traded at an average discount of 60% to sensex, which has now come down to 45%. As a result of the above factors, we revise our price target to Rs27, though maintain ACCUMULATE rating on the stock.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	5,683	7,911	9,686	11,258
Other income	2,085	1,967	2,248	2,751
Net income	7,768	9,878	11,934	14,009
Operating expenses	3,662	4,625	5,342	6,405
Pre provision profit	4,106	5,253	6,592	7,603
PPP excl treasury	3,266	4,859	6,192	7,203
Provisions	433	799	1,019	608
Profit before tax	3,673	4,454	5,573	6,996
Tax	1,335	1,529	1,913	2,402
Tax rate	36%	34%	34%	34%
Profit after tax	2,338	2,925	3,659	4,593

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	1,130	1,130	1,515	1,515
Reserves	13,723	17,322	30,302	33,655
Net worth	14,853	18,473	31,817	35,170
Deposits	230,115	297,211	359,625	435,958
Borrowings	10,372	12,519	16,515	19,702
Total liabilities	255,340	328,202	407,956	490,829
Assets				
Cash and bank	19,877	24,661	33,180	46,124
Investments	70,262	88,577	106,987	125,307
Customer assets	159,523	205,548	256,770	307,992
Others	5,678	9,416	10,877	11,340
Total assets	255,340	328,202	407,956	490,829

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.7	3.0	2.9	2.8
Non-Il/avg assets	0.9	0.7	0.6	0.6
Fee income/avg assets	0.1	0.1	0.1	0.1
Opex/avg assets	1.4	1.4	1.3	1.3
Provisions/avg assets	0.3	0.2	0.1	0.1
PBT/avg assets	1.4	1.4	1.4	1.4
Tax/avg assets	0.5	0.5	0.5	0.5
RoA	1.0	1.0	1.0	1.0
RoAE	16.8	17.6	14.6	13.7
GNPA (%)	1.3	1.1	1.0	1.0
NNPA (%)	0.4	0.3	0.4	0.5

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	2,338	2,925	3,659	4,593
Shares in issue (mn)	1,130	1,130	1,515	1,515
EPS (Rs)	2.1	2.6	2.4	3.0
PER (x)	11.3	9.0	9.6	7.7
FDEPS(Rs)	2.1	2.6	2.4	3.0
FDPER (x)	11.3	9.0	9.6	7.7
Book value (Rs)	13.0	15.0	20.0	22.2
P/BV (x)	1.8	1.6	1.2	1.0
Adj book value (Rs)	12.4	14.5	19.3	21.2
P/ABV (x)	1.9	1.6	1.2	1.1
P/PPP (x)	6.4	5.0	5.4	4.6
Dividend yield (%)	1.7	2.1	2.6	3.0

Recommendation History: South Indian Bank – SIB IN

Date	Reports	Reco	CMP	Target
14/07/2011	South Indian Bank Q1FY12 Result Update	Accumulate	25	30
02/05/2011	South Indian Bank Q4FY11 Result Update	Buy	22	30
20/01/2011	South Indian Bank Q3FY11 Result Update	Buy	22	30
21/10/2010	South Indian Bank Q2FY11 Result Update	Accumulate	28	30

Recent Research Reports

Date	Reports	Reco	CMP	Target
16/09/2011	Banking Sector Update			
08/09/2011	ICICI Bank Management Meet Update	Accumulate	897	1,200
30/08/2011	Banking Sector Update			
18/08/2011	ICRA Q1FY12 Result Update	Reduce	1,008	900

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