

Oct 18, 2025

**Steep NIM pressure; change in asset mix on track...**

**About the stock:** Established in 1929, South Indian Bank is old south based private sector bank headquartered in Thrissur, Kerala. Digitization, product & process innovation and granular sustainable growth remains key focus, enabling resilient performance amid change in asset mix.

- Advances mix: Corporates – 40%, Retail – 28%, Agri – 17%, MSME – 15%

**Q2FY26 performance:** South Indian Bank posted a mixed Q2FY26 performance, as margin compression and slower MSME growth were offset by strong asset quality gains, healthy retail traction, and treasury income. Advances rose 9% YoY to ₹92,286 crore, led by robust growth in personal & gold segment, while deposits increased 10% YoY to ₹1,15,635 crore, with a stable CASA ratio. NIM contracted 23 bps QoQ to 2.8% due to faster loan repricing, but lower provisions at ₹63 crore cushioned profitability, driving PAT up 8% YoY to ₹351 crore. Asset quality improved with GNPA/NNPA at 2.93%/0.56% and strong PCR of ~81.3%.

**Investment Rationale:**

- Granular growth driving structural rebalancing:** Gradual but clear shift in loan mix was visible during Q2FY26, as focus moved towards better yield retail & MSME segments. Retail advances grew nearly 22% YoY, supported by robust traction in gold and home loans, while MSME disbursement surged 127% YoY, reflecting broad-based momentum. Consequently, the share of corporate loans declined to ~40% of total advances (vs 42% Q1FY26), indicating execution of moving towards RAM being on-track. The expanding retail and MSME base, aided by co-lending partnership and digital sourcing channel, is expected to enhance yield stability and sustain earnings visibility over the medium term.
- NIMs under pressure but set to recover:** NIM compression during the quarter was primarily driven by full rate transmission of 100 bps repo cut and high proportion of short-duration corporate assets, which repriced faster as compared to liabilities. The sequential decline in yields (23 bps) weighed on NII despite healthy growth in granular segments. However, management indicated that the 2.8% NIM level likely represents the trough, as repricing benefits from bulk and retail deposits, along with improving mix toward higher-yield retail and MSME assets, are expected to support recovery ahead. With deposit cost stabilization and better loan mix dynamics, margins are projected to gradually inch back toward the 3.0–3.1% range over the coming quarters.

**Rating and Target Price**

- With management steadily executing its plan to realign the loan mix toward retail & MSME segment and maintaining resilient asset quality, the bank is well positioned for a gradual recovery in margins and profitability. We expect advances to grow at ~11–12% CAGR over FY26–27E, broadly in-line with industry and factoring RoA of ~0.9% FY27E, we maintain target price at ₹38, keeping multiple at ~0.9x FY27ABV. Maintain Buy.

**Key Financial Summary**

| ₹ crore | FY23  | FY24  | FY25  | 2 Year CAGR<br>(FY23-FY25) | FY26E | FY27E | 3 Year CAGR<br>(FY25-FY27E) |
|---------|-------|-------|-------|----------------------------|-------|-------|-----------------------------|
| NII     | 3,012 | 3,332 | 3,486 | 8%                         | 3,476 | 4,052 | 8%                          |
| PPP     | 1,508 | 1,868 | 2,270 | 23%                        | 2,176 | 2,446 | 4%                          |
| PAT     | 775   | 1,070 | 1,303 | 30%                        | 1,191 | 1,341 | 1%                          |
| ABV (₹) | 24.0  | 28.1  | 34.3  |                            | 39.7  | 45.1  |                             |
| P/E     | 8.8   | 8.0   | 6.5   |                            | 7.2   | 6.4   |                             |
| P/ABV   | 1.3   | 1.2   | 1.0   |                            | 0.8   | 0.7   |                             |
| RoA     | 0.7   | 1.0   | 1.1   |                            | 0.9   | 0.9   |                             |
| RoE     | 12.4  | 13.8  | 13.8  |                            | 11.1  | 11.2  |                             |

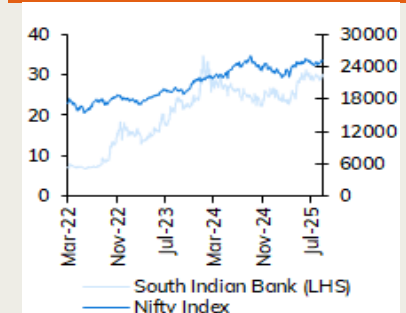
Source: Company, ICICI Direct Research

**Particulars**

| Particulars           | Amount         |
|-----------------------|----------------|
| Market Capitalisation | ₹ 8,544 crore  |
| 52 week H/L           | 34.4/22.1      |
| Net Worth             | ₹ 10,636 crore |
| Face value            | 1.0            |

**Shareholding pattern**

|        | Dec-24 | Mar-25 | Jun-25 |
|--------|--------|--------|--------|
| FII    | 11.5   | 12.0   | 17.6   |
| DII    | 7.3    | 10.4   | 11.1   |
| Others | 81.3   | 77.6   | 71.3   |

**Price Chart****Key risks**

- Higher proportion of corporate loans to keep margin benign
- Business growth trailing industry growth

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## Concall highlights and outlook

### Performance and growth outlook

- Advances increased 9% YoY to ₹92,286 crore, led by strong traction in retail (up 22%), gold loans (up 13%), while corporate book declined to 40% of total (from 42% QoQ).
- Deposits rose 10% YoY to ₹1,15,635 crore, with retail term deposits up 11% YoY and CASA up 10% YoY, though CASA ratio moderated to ~32%.
- The bank continues to strengthen its RAM (Retail, Agri, MSME) focus, targeting >20% annual growth in these segments and reducing corporate exposure to one-third of total advances over next 18 months.
- Disbursements in MSME and retail segments grew 127% and 51% YoY, respectively, supported by digital sourcing, co-lending partnerships, and targeted branch expansion.
- The gold loan book reached ₹18,845 crore (~20% of advances) with an average ticket size of ₹2.7 lakh; management expects growth to continue selectively with yield optimization.
- Home loans and auto loans grew 25% YoY each, taking the home loan book to ₹8,849 crore and auto loans to ₹2,288 crore.
- A new mid-corporate vertical is being developed to stabilize the corporate portfolio while maintaining yield improvement.
- Other income (₹516 crore) remained steady, with only ~₹50 crore one-off; the rest is recurring and sustainable.

### Margins

- Management clarified that the current 2.8% NIM marks the likely trough, primarily impacted by full transmission of the RBI's 100 bps rate cut.
- The fall (~23 bps QoQ) was sharper due to the bank's large short-duration corporate loan book, where yields corrected faster than in longer-tenor assets.
- Management acknowledged that further rate cuts could temporarily compress NIMs, though mitigation levers—repricing of deposits and higher-yield lending—are in place.

### Asset Quality & Opex

- The bank continues to guide for credit cost of 50–70 bps (vs earlier <1%) and GNPA below 3% with a target of ~2.5% by FY26-end.
- Recoveries and upgrades remain strong, with ₹451 crore recovered from NCLT in H1FY26; full-year guidance of ₹800 crore maintained.
- Management sees no visible stress in any portfolio and expects continued improvement in asset quality given enhanced collection efficiency and conservative underwriting.
- Headcount reduction phase is complete; targeted hiring to begin in sales, wealth management, and risk.
- Overall opex to rise modestly but efficiently, tied to growth-linked initiatives.

### Other updates

- Stage-2 provisioning is expected to rise from 40 bps to 500 bps, applicable to a small asset pool (~0.8–1% of book).
- With PCR above 90% and well-controlled SMA-1/2 pool (<1%), the incremental provision requirement will be minimal.
- Management reiterated confidence that the transition to ECL will not materially affect capital adequacy or profitability.
- Co-lending & Partnerships: Co-lending AUM stands at ₹1,500 crore; management targets ₹3,000 crore by FY26. Key partnerships include Amazon Checkout Finance, Godrej Housing Finance, Fedfina, IIFL, Moneyview, and Muthoot Fincorp.
- Capital and Liquidity: CRAR at 17.7% and Tier-1 at 16.8%; IFR stood at ₹10 crore (debit). Slight dip in Tier-1 due to Tier-2 bond repayment and investment book expansion.

**Exhibit 1: Variance Analysis**

|                          | Q2FY26    | Q2FY25    | YoY (%)  | Q1FY26    | QoQ (%) | Comments   |
|--------------------------|-----------|-----------|----------|-----------|---------|--|
| NII                      | 808.8     | 882.3     | -8.3     | 832.6     | -2.9    | Lag in repricing of deposits   |
| NIM (%)                  | 2.80      | 3.24      | -44 bps  | 3.03      | -23 bps | Lower yields on short-term corporate loans and full transmission of rate cut |
| Other Income             | 515.7     | 449.4     | 14.8     | 621.7     | -17.0   | Aided by healthy treasury gains  |
| Net Total Income         | 1,324.5   | 1,331.6   | -0.5     | 1,454.3   | -8.9    |  |
| Staff cost               | 419.8     | 425.1     | -1.2     | 427.3     | -1.8    | Largely stable owing to no increase in headcount                             |
| Other Operating Expenses | 369.2     | 356.2     | 3.6      | 354.5     | 4.2     | Slight increase on tech spend  |
| PPP                      | 535.6     | 550.4     | -2.7     | 672.5     | -20.4   |  |
| Provision                | 63.3      | 110.0     | -42.5    | 239.3     | -73.6   | Sharp decline was on account of Q1FY26 provision utilisation to improve PCR  |
| PBT                      | 472.3     | 440.3     | 7.3      | 433.2     | 9.0     |  |
| Tax Outgo                | 120.9     | 115.6     | 4.6      | 111.1     | 8.9     |  |
| PAT                      | 351.4     | 324.8     | 8.2      | 322.2     | 9.1     | Aided by lower provision and steady other income                             |
| <b>Key Metrics</b>       |           |           |          |           |         |  |
| GNPA                     | 2.9       | 4.4       | -147 bps | 3.2       | -22 bps | Contained slippages and steady recoveries                                    |
| NNPA                     | 0.6       | 1.3       | -75 bps  | 0.7       | -12 bps |  |
| Gross Advances           | 92,286.0  | 84,714.0  | 8.9      | 89,198.0  | 3.5     | Driven by retail (22% YoY) and gold (13% YoY) uplift, corporate muted        |
| Deposit                  | 115,635.0 | 105,451.0 | 9.7      | 112,922.0 | 2.4     | Continued traction in TD; CASA growth modest                                 |

Source: Company, ICICI Direct Research

## Financial Summary

**Exhibit 2: Profit and loss statement** ₹ crore

| (Year-end March)     | FY24  | FY25  | FY26E | FY27E  |
|----------------------|-------|-------|-------|--------|
| Interest Earned      | 8,613 | 9,413 | 9,750 | 10,921 |
| Interest Expended    | 5,281 | 5,928 | 6,275 | 6,869  |
| Net Interest Income  | 3,332 | 3,486 | 3,476 | 4,052  |
| Growth (%)           | 10.6% | 4.6%  | -0.3% | 16.6%  |
| Non Interest Income  | 1,515 | 1,813 | 1,916 | 2,041  |
| Net Income           | 4,847 | 5,299 | 5,392 | 6,093  |
| Employee cost        | 1,705 | 1,671 | 1,757 | 1,971  |
| Other operating Exp. | 1,274 | 1,357 | 1,460 | 1,676  |
| Operating expenses   | 2,979 | 3,028 | 3,216 | 3,647  |
| Operating Income     | 1,868 | 2,270 | 2,176 | 2,446  |
| Provisions           | 339   | 513   | 572   | 639    |
| PBT                  | 1,529 | 1,757 | 1,604 | 1,806  |
| Taxes                | 459   | 454   | 413   | 465    |
| Net Profit           | 1,070 | 1,303 | 1,191 | 1,341  |
| Growth (%)           | 38.0% | 21.8% | -8.6% | 12.6%  |
| EPS (₹)              | 4.09  | 4.98  | 4.55  | 5.13   |

Source: Company, ICICI Direct Research

**Exhibit 3: Key ratios** ₹ crore

| (Year-end March)                  | FY24 | FY25 | FY26E | FY27E |
|-----------------------------------|------|------|-------|-------|
| No. of shares (crore)             | 262  | 262  | 262   | 262   |
| EPS (₹)                           | 4.1  | 5.0  | 4.6   | 5.1   |
| BV (₹)                            | 32.4 | 37.3 | 41.9  | 47.0  |
| ABV (₹)                           | 28.1 | 34.3 | 39.7  | 45.1  |
| P/E                               | 8.0  | 6.5  | 7.2   | 6.4   |
| P/BV                              | 1.2  | 1.0  | 0.8   | 0.7   |
| P/ABV                             | 1.2  | 1.0  | 0.8   | 0.7   |
| <b>Yields &amp; Margins (%)</b>   |      |      |       |       |
| Net Interest Margins              | 3.4  | 3.3  | 3.0   | 3.2   |
| Avg. cost on funds                | 5.2  | 5.4  | 5.3   | 5.3   |
| Yield on average advances         | 8.8  | 9.0  | 8.5   | 8.5   |
| <b>Quality and Efficiency (%)</b> |      |      |       |       |
| Cost to income ratio              | 61.5 | 57.2 | 59.6  | 59.9  |
| Credit/Deposit ratio              | 76.6 | 79.7 | 80.5  | 81.0  |
| GNPA %                            | 4.5  | 3.2  | 2.4   | 2.1   |
| NNPA %                            | 1.5  | 0.9  | 0.6   | 0.5   |
| RoE                               | 13.8 | 13.8 | 11.1  | 11.2  |
| RoA                               | 1.0  | 1.1  | 0.9   | 0.9   |

Source: Company, ICICI Direct Research

**Exhibit 4: Balance sheet** ₹ crore

| (Year-end March)               | FY24    | FY25    | FY26E   | FY27E   |
|--------------------------------|---------|---------|---------|---------|
| <b>Sources of Funds</b>        |         |         |         |         |
| Capital                        | 262     | 262     | 262     | 262     |
| ESOP O/s                       | 2.6     | 7.7     | 7.7     | 7.7     |
| Reserves and Surplus           | 8,562   | 9,839   | 11,029  | 12,370  |
| Networth                       | 8,826   | 10,108  | 11,298  | 12,639  |
| Deposits                       | 101,919 | 107,522 | 118,306 | 131,478 |
| Borrowings                     | 3,912   | 4,300   | 4,573   | 5,007   |
| Other Liabilities & Provisions | 2,755   | 2,724   | 4,971   | 6,129   |
| Total                          | 117,412 | 124,655 | 139,149 | 155,252 |

**Application of Funds**

|                             |         |         |         |         |
|-----------------------------|---------|---------|---------|---------|
| Cash and balances with RBI  | 6,660   | 5,098   | 5,915   | 6,574   |
| Balances with banks at call | 3,362   | 7,162   | 6,507   | 7,231   |
| Investments                 | 23,977  | 21,777  | 26,027  | 28,925  |
| Advances                    | 78,061  | 85,682  | 95,278  | 106,521 |
| Fixed Assets                | 966     | 1,018   | 1,110   | 1,210   |
| Other Assets                | 4,387   | 3,918   | 4,311   | 4,791   |
| Total                       | 117,412 | 124,655 | 139,149 | 155,252 |

Source: Company, ICICI Direct Research

**Exhibit 5: Growth** (%)

| (% growth)          | FY24 | FY25 | FY26E | FY27E |
|---------------------|------|------|-------|-------|
| Total assets        | 9.0  | 6.2  | 11.6  | 11.6  |
| Advances            | 11.8 | 9.8  | 11.2  | 11.8  |
| Deposit             | 11.2 | 5.5  | 10.0  | 11.1  |
| Total Income        | 26.8 | 9.3  | 1.8   | 13.0  |
| Net interest income | 10.6 | 4.6  | -0.3  | 16.6  |
| Operating expenses  | 28.6 | 1.7  | 6.2   | 13.4  |
| Operating profit    | 23.9 | 21.5 | -4.2  | 12.4  |
| Net profit          | 38.0 | 21.8 | -8.6  | 12.6  |
| Net worth           | 32.2 | 14.5 | 11.8  | 11.9  |
| EPS                 | 10.4 | 21.7 | -8.6  | 12.6  |

Source: Company, ICICI Direct Research

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Sell: <-15%



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