

# Shubh Nivesh



CMP: ₹ 29.8

Target: ₹ 38 (28%)

Target Period: 12 months

BUY

October 6, 2025

## Asset mix recalibration as structural value driver

**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 – 42%, Retail – 27%, Agri – 17%, MSME – 14%.
- As of June 30, 2025, the bank operates 948 branches across 26 states and 4 union territories, complemented by 1,274 ATMs and CRMs for enhanced accessibility.

### Investment Rationale

- De-risking legacy book and building healthy portfolio:** South Indian Bank's pre-2020 defaults in corporate exposures and Covid related delays spiked NPAs to 5.9% in FY22, forcing large provisions that hammered profitability. The bank has since de-risked sharply—legacy stressed book down from ₹65,349 crore (63% of advances in FY22) to ₹16,973 crore (19% in FY25) via recoveries/exits—driving GNPA to 3.2%, NNPA to 0.9%, and PCR to 85%, with ~98% of corporate book now being AAA/A+ rated. Newly originated granular retail/MSME and selective corporate lending shines pristine (GNPA 0.46%), backed by tighter underwriting, digital platforms, and robust collections, with fresh slippages easing to 1.5% for sustained turnaround.
- Recalibrating advances mix remains core strategy:** Management is driving a structural rebalancing of the loan mix, targeting a reduction in the corporate share from 42% to ~35% by FY27E, while scaling up MSME & retail (~41% in FY25) to improve yields from current ~8.9% levels. On the liabilities side, focus on granularity is evident — bulk deposits have fallen to 2.6% (vs. 5.2% in FY21) and top 20 depositors now account for just 2.9% of total deposits. Coupled with a CASA base of 32% and sticky NRI franchise (28.7%), this has lowered the cost of funds to 4.8%, one of the best among peers, providing a strong cushion for margin expansion.
- Non-branch distribution to drive scale and quality:** South Indian Bank has embraced a digital-first model, with ~98% of transactions now digital, supported by STP platforms, Video KYC, and fintech tie-ups that enable faster turnaround and strengthen asset quality (new book GNPA <0.5%). Non-branch distribution and partnerships have been key growth drivers, powering 26% retail loan growth in FY25. At the same time, strong employee productivity of ~₹20.6 crore per head — ahead of most peers — underscores scalability without heavy branch expansion. With opex-to-assets steady at ~2.4% in FY25, we expect operating efficiency to remain intact even as the bank accelerates growth.

### Rating and Target Price

- South Indian Bank offers a compelling re-rating opportunity, trading at just 0.8x P/B, a steep discount to regional private peers. Management's strategic pivot towards higher-yielding retail & MSME lending alongside gradual rundown in legacy book is set to reshape the asset mix and aid yield profile. We expect advances to grow at ~11.5–12% CAGR over FY26–27E, broadly in-line with industry, while asset quality improvement, margin stability, and digitisation-led efficiencies support a sustainable RoA of ~1% in the long run. Thus, we value the bank at ~0.9x FY27E ABV, assigning target of ₹38 per share. Recommend a **BUY** rating.

### Key Financial Summary

₹ crore	FY23	FY24	FY25	2 Year CAGR (FY23-FY25)	FY26E	FY27E	3 Year CAGR (FY25-FY27E)
NII	3012	3332	3486	8%	3532	4134	9%
PPP	1508	1868	2270	23%	2232	2624	8%
PAT	775	1070	1303	30%	1196	1393	3%
ABV (₹)	24.0	28.1	34.3		39.1	44.7	
P/E	8.0	7.3	6.0		6.5	5.6	
P/ABV	1.2	1.1	0.9		0.8	0.7	
RoA	0.7	1.0	1.1		0.9	0.9	
RoE	12.4	13.8	13.8		11.2	11.6	

Source: Company, ICICI Direct Research



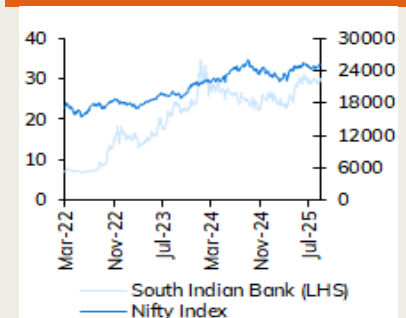
#### Particulars

Particulars	Amount
Market Capitalisation	₹ 7793 crore
52 week H/L	32.3/22.1
Net Worth	₹ 10108 Crore
Face value	1.0

#### Shareholding pattern

	Sep-24	Dec-24	Mar-25	Jun-25
FII	11.5	11.5	12.0	17.6
DII	5.3	7.3	10.4	11.1
Others	83.3	81.3	77.6	71.3

#### Price Chart



#### Key risks

- Continued elevated proportion of corporate loans to keep margin
- Business growth trailing industry growth

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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