

Shubh Nivesh



Transformation led impressive execution at relatively inexpensive valuations...

About the stock: South Indian Bank (SOUBAN) is old private sector bank based out of Kerala. The bank has undergone business transformation which has led to gradual improvement in business performance over past years.

- Distribution network with 940 branches & 1289 ATMs with strong presence in south India
- Loan book at ₹ 72092 crore with ~40% book from Kerala. Diversified asset mix with corporate/ retail/ business/ agriculture segments contributing ~33%/ 22%/ 25%/ 20% in loan book

Investment Rationale:

- **Business transformation drives improvement; timely succession critical to drive continued growth:** SOUBAN has undertaken impressive business transformation from Oct'20 under leadership of incumbent MD & CEO – Mr Murali Ramakrishnan. Overhauling key functions through creation of new divisions, introduction of high yielding new products, verticalization of asset business & focussing on digital strategies, enabled the bank to deliver impressive performance depicting strong execution. In last 2.5 years, bank churned ~58% of book with strong quality, improvement of ~500 bps in CASA to ~33% & decline in GNPA from 5.9% to 5.1% while PCR rising from ~58.7% to ~76.8%. Mr Murali has not opted for re-appointment as MD & CEO due to personal reasons. Thus, board has appointed search committee for succession of leadership and remains confident of seamless transition to drive continued growth coupled with further improvement in profitability.
- **Healthy growth with focus on high yielding products and prudent asset quality to drive RoA:** Expect credit growth in-line with industry at 12-13% in FY24-25E. Steady liabilities mix, repricing of ~65% of deposits, launch of new retail products & focus on high yielding segment (currently at ~3.6%) is seen to drive ~10-20 bps improvement in margins. Gradual improvement in efficiency (~80-100 bps improvement in CI ratio) and moderation in net slippages (expected below 1% & NNPA below 1.5%) is seen to drive RoA to ~0.8% on a conservative basis in FY24-25E.

Rating and Target Price

- With business transformation imbibed in the business process, transition in leadership is expected to remain smooth with continued traction in growth and profitability. We assign **BUY** rating to SOUBAN amid anticipation of continued gradual improvement in RoA & healthy business growth.
- We also derive comfort from its inexpensive valuations (~0.5x FY25E ABV, 4x FY25E EPS)
- We value SOUBAN at ₹ 23 i.e. 0.7x FY25E ABV factoring expected RoA at 0.7-0.8% in FY24-25E

Key Financial Summary

₹crore	FY19	FY20	FY21	FY22	FY23	4 year CAGR (FY20-23)	FY24E	FY25E	2 year CAGR (FY23-25)
NII	2019.7	2317.7	2406.9	2239.7	3012.1	74.1%	3425.1	3895.2	13.7%
PPP	1236.9	1645.9	1661.6	1247.5	1507.3	86.2%	1842.3	2213.7	21.2%
PAT	245.4	104.9	61.9	44.9	775.1	42.2%	795.4	997.7	13.5%
BV	29.5	28.5	26.2	26.5	30.4		35.69	40.46	
P/E	14.2	38.5	65.3	90.0	5.2		5.1	4.0	
P/ABV	0.7	0.7	0.7	0.7	0.6		0.5	0.5	
RoA	0.3	0.1	0.1	0.0	0.7		0.7	0.8	
RoE	4.9	2.1	1.2	0.8	13.0		10.6	11.8	

Source: Company, ICICI Direct Research



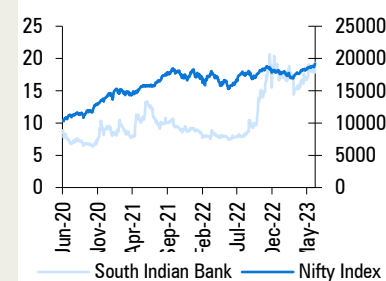
Particulars

Particulars	Amount
Market Capitalisation	4,039
52 week H/L	21.8/7.55
Net Worth	6,674
Face Value	1.00
DII Holding (%)	7.64
FII Holding (%)	14.58

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	0.0	0.0	0.0	0.0
FII	7.5	7.8	14.9	14.6
DII	16.1	11.6	6.9	7.6
Others	76.4	80.5	78.3	77.8

Price Chart



Recent Event & Key risks

- Impressive transformation in business seen in last 2.5 years under the new leadership
- **Key Risk:** (i) Timely succession of competent leadership, (ii) deterioration in quality of advances disbursed, if any

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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