

CMP: ₹ 27.4

Target: ₹ 35 (28%)

Target Period: 12 months

BUY

April 22, 2024

## Post transformation, focus on growth to drive valuation

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 948 branches & 1315 ATMs with strong presence in south India.
- Loan book at ₹ 77686 crore with ~36% book from Kerala. Diversified asset mix with corporate/ retail/ business/ agriculture segments contributing ~38%/ 23%/ 20%/ 19% in loan book.

### Investment Rationale

- Focus on five areas to pedal transformation journey: Post restructuring, now the focus is on five-pronged strategy to steer growth and profitability. 1.) Focus to accelerate growth in MSME & retail portfolio through empowerment of branches to meet customer needs; 2.) improve branch productivity through increased training and improving "Tooth to Tail" ratio from 75:25 to 85:15; 3.) Acknowledging relatively higher CI ratio (~62% in Q3FY24), the bank is set to review employee and operating expenses; 4.) Focus on non-branch sourcing of business through partnerships; 5.) Enhance control & compliance architecture to ensure smooth business processes.
- Focus on retail & MSME segment to aid margins: Accelerating MSME & retail loans will aid margins, however, shift towards non-corporate segment could keep growth volatile. Expect advance growth at ~13% in FY24-26E with gradual uptick in proportion of MSME & retail loans. Healthy liabilities franchise, recent capital raising & scope to increase CD ratio is seen to keep margins steady at ~3.2-3.3% in FY24-26E. Further, resilience of new book (~67% of total advances) and run down in old book is seen to keep slippages and thus credit cost benign.

### Rating and Target Price

- The bank has raised ₹1151 crore through right issue (1 equity share for every 4 existing shares at ₹22 per share) in March 2024. This capital raising will augment balance sheet strength (CaR at 15.6% as of Dec'23) to shore up business growth ahead.
- With business transformation imbibed & new competitive leadership, current trajectory of business restructuring is expected to continue. Increased focus on retail & MSME segment to aid granularization and margins which is expected to drive RoA at ~0.8-1% ahead. Valuing the stock at 0.8x FY26E BV, we assign a target of ₹ 35 and recommend a BUY.



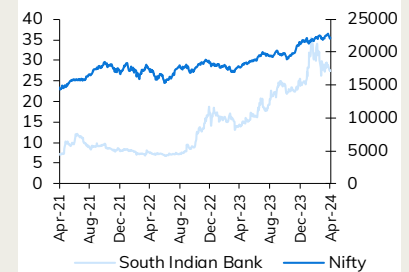
#### Particulars

Particulars	Amount
Market Capitalisation	₹ 7170 crore
52 week H/L	36.9/14
Net Worth	₹ 6674 crore
Face Value	1.00
DII Holding (%)	4.54
FII Holding (%)	14.99

#### Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	-	-	-	-
FII	13.6	15.0	14.7	15.0
DII	7.8	6.6	7.6	4.5
Others	78.6	78.4	77.7	80.5

#### Price Chart



#### Key risks

- Substantial delinquencies from old loan book
- Higher than expected margin pressure

#### Research Analyst

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 year CAGR (FY21-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
NII	2317.7	2406.9	2239.7	3012.1	84.0%	3279.6	3731.4	4242.8	12.1%
PPP	1645.9	1661.6	1247.5	1507.3	106.0%	1834.0	1938.2	2392.6	16.7%
PAT	104.9	61.9	44.9	775.1	26.4%	1023.7	1056.1	1345.2	20.2%
BV	28.5	26.2	26.5	30.4		33.83	37.86	43.00	
P/E	54.7	92.6	127.7	7.4		7.0	6.8	5.3	
P/ABV	1.0	1.0	1.0	0.9		0.8	0.7	0.6	
RoA	0.1	0.1	0.0	0.7		0.9	0.8	0.9	
RoE	2.1	1.2	0.8	13.0		11.6	10.7	12.0	

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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