

21 August 2023

India | Equity Research | Company Update

## South Indian Bank

### Banking

#### RBI approves candidature of Mr P R Seshadri as MD & CEO

The RBI has approved the candidature of Mr P R Seshadri (ex MD & CEO of Karur Vysya Bank) as MD & CEO of South Indian Bank (SIB) for three years with effect from 1<sup>st</sup> Oct'23. In our view, Mr Seshadri was instrumental in putting new-age lending practices, overhauling risk architecture and transforming HR practices at Karur Vysya Bank (KVB) during his term (Sep'17-Mar'20), a time when the banking system was undergoing severe profitability pressure due to corporate asset quality cycle. We believe the ongoing transformation journey at SIB, initiated by incumbent MD & CEO, Mr. Murali Ramakrishnan, should get accelerated. SIB trades at an inexpensive ~0.65x FY25E ABV. We raise our target multiple from ~0.7x to ~0.8x and our target price to INR 28 (vs INR 25). Maintain **BUY**.

#### RBI approves Mr P.R. Seshadri as MD & CEO of the bank

As per exchange filing ([Link](#)), the RBI has approved the appointment of Mr P.R. Seshadri (ex MD & CEO, Karur Vysya Bank) as MD & CEO of South Indian Bank (SIB) for a period of three years with effect from 1<sup>st</sup> Oct'23.

#### Incumbent MD & CEO instrumental in SIB's transformation though his voluntarily step-down has been key overhang

Since his appointment in Oct'20, Mr Murali Ramakrishnan (incumbent MD & CEO) has overhauled the key functions at the bank and delivered an impressive performance despite sectoral headwinds, suggesting strong execution. The bank segregated risks and business functions, created new divisions, set up strong checks and balances, beefed-up collection & recovery infrastructure and monitoring functions, and strengthened the overall risk architecture. Within asset businesses, sales teams were verticalised with a business head to carry the P&L responsibility. With the introduction of select products and advanced analytics, SIB has managed to plug the gaps vs peers, to a large extent, in our view. The bank has churned 61% of overall loan book since 1<sup>st</sup> Oct'20 and the performance of the new book has been very impressive with miniscule GNPA's / SMA-2, improved granularity and profitability metrics.

However, due to personal reasons / family circumstances, Mr Murali in Mar'23 had decided not to offer himself for re-appointment on completion of his term up to Sep'23. He has been instrumental in the overall transformation of the bank and thus his voluntarily exit has been a key overhang on the stock.

Y/E March 2023 (INR bn)	FY22A	FY23A	FY24E	FY25E
NII	22.4	30.1	32.0	34.6
Op. profit	12.5	15.1	18.3	19.8
Net Profit	0.4	7.8	7.4	9.0
EPS (INR)	0.2	3.7	3.5	4.3
EPS % change YoY	(38.8)	1,663.7	(4.9)	22.4
ABV (INR)	20.9	26.3	29.7	33.9
P/BV (x)	0.8	0.7	0.7	0.6
P/ABV (x)	1.1	0.9	0.8	0.7
Return on Assets (%)	0.0	0.7	0.6	0.7
Return on Equity (%)	0.8	13.0	11.0	12.1

#### Jai Prakash Mundhra

jai.mundhra@icicisecurities.com

+91 22 6807 7572

#### Chintan Shah

chintan.shah@icicisecurities.com

#### Renish Bhuvu

renish.bhuvu@icicisecurities.com

#### Vaibhav Arora

vaibhav.arora@icicisecurities.com

#### Market Data

Market Cap (INR)	47bn
Market Cap (USD)	564mn
Bloomberg Code	SIB IN
Reuters Code	SIBK.BO
52-week Range (INR)	24 / 8
Free Float (%)	99.0
ADTV-3M (mn) (USD)	11.7

Price Performance (%)	3m	6m	12m
Absolute	33.6	27.3	182.2
Relative to Sensex	6.4	7.5	9.1

ESG Disclosure	2021	2022	Change
ESG score	33.7	34.4	0.7
Environment	1.8	1.8	-
Social	28.3	30.4	2.1
Governance	71.1	71.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
PAT	-	-

#### Previous Reports

23-07-2023: [Q1FY24 results review](#)

14-05-2023: [Q4FY23 results review](#)

## Appointment of Mr Seshadri should accelerate the ongoing transformation journey

Mr Seshadri has been a credible banker with proven track record as ex MD & CEO of Karur Vysya Bank (KVB) from Sep'17 to Mar'20. He was instrumental in putting new-age lending practices, overhauling risk architecture and transforming HR practices at KVB during his term (Aug'17-Mar'20), a time when the banking system was undergoing severe profitability pressure due to corporate asset quality cycle. Due to personal reasons, he had tendered his resignation before the completion of his scheduled 3-year term. We believe Mr Seshadri's earlier experience at KVB makes him much suited for the current role. The ongoing transformational journey at SIB, initiated by the incumbent MD & CEO, should get accelerated under Mr Seshadri, in our view.

## Maintain BUY with target price raised to INR 28

We are not changing our earnings estimate as of now. We had earlier highlighted that the fitment and candidature of the new MD & CEO would be critical for rerating of the stock. We see the RBI approval for appointment of Mr Seshadri as MD & CEO as a key positive for SIB. Stock trades at an inexpensive ~0.65x FY25E ABV. We raise our target multiple from ~0.7x to ~0.8x and our target price to INR 28 (vs INR 25). Maintain **BUY**. Key risk: a possible lack of seamless MD & CEO transition and higher-than-expected stress formation at the bank.

**Exhibit 1: Shareholding pattern**

%	Sep'22	Dec'22	Mar'23
Promoters	0.0	0.0	0.0
Institutional investors	19.4	21.8	22.3
MFs and other	0.0	0.0	2.7
Banks/ FIs	0.1	0.1	0.1
Insurance Cos.	11.5	6.7	4.5
FIs	7.8	15.0	15.0
Others	80.6	78.2	77.7

Source: Bloomberg, I-Sec research

**Exhibit 2: Price chart**



Source: Bloomberg, I-Sec research

## Financial summary

### Exhibit 3: Profit and loss

(INR mn, year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
Interest income	65,865	72,332	84,615	98,160
Interest expense	43,468	42,211	52,578	63,570
<b>Net interest income</b>	<b>22,398</b>	<b>30,121</b>	<b>32,036</b>	<b>34,591</b>
Non-interest income	10,341	8,126	13,059	15,717
<b>Operating income</b>	<b>32,739</b>	<b>38,247</b>	<b>45,096</b>	<b>50,308</b>
Operating expense	20,263	23,174	26,804	30,467
Staff expense	11,979	13,004	15,444	17,580
<b>Operating profit</b>	<b>12,476</b>	<b>15,073</b>	<b>18,292</b>	<b>19,841</b>
<b>Core operating profit</b>	<b>11,814</b>	<b>18,703</b>	<b>16,092</b>	<b>16,341</b>
Provisions & Contingencies	13,396	3,991	7,759	6,954
<b>Pre-tax profit</b>	<b>(920)</b>	<b>11,082</b>	<b>10,533</b>	<b>12,887</b>
Tax (current + deferred)	(1,370)	3,331	3,160	3,866
<b>Net Profit</b>	<b>450</b>	<b>7,751</b>	<b>7,373</b>	<b>9,021</b>
<b>Adjusted net profit</b>	<b>450</b>	<b>7,751</b>	<b>7,373</b>	<b>9,021</b>

Source Company data, I-Sec research

### Exhibit 4: Balance sheet

(INR mn, year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
Cash and balance with RBI/Banks	1,12,034	70,805	99,829	1,15,696
Investments	2,14,450	2,46,418	2,59,170	2,79,199
Advances	5,99,934	6,98,044	7,75,396	8,83,544
Fixed assets	8,111	8,779	9,971	11,168
Other assets	65,995	52,935	64,345	78,677
<b>Total assets</b>	<b>10,00,524</b>	<b>10,76,982</b>	<b>12,08,711</b>	<b>13,68,285</b>
Deposits	8,91,421	9,16,514	10,41,997	11,95,537
Borrowings	32,945	69,939	67,212	62,030
Other liabilities and provisions	17,627	23,784	26,121	29,217
Share capital	2,093	2,093	2,093	2,093
Reserve & surplus	56,439	64,653	71,289	79,407
<b>Total equity &amp; liabilities</b>	<b>10,00,524</b>	<b>10,76,982</b>	<b>12,08,711</b>	<b>13,68,285</b>
% Growth	6.3	7.6	12.2	13.2

Source Company data, I-Sec research

### Exhibit 5: Growth ratio

(INR mn, year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
Net Interest Income	(6.9)	34.5	6.4	8.0
Operating profit	(24.9)	20.8	21.4	8.5
Core operating profit	(1.4)	58.3	(14.0)	1.6
Profit after tax	NM	NM	(4.9)	22.4
EPS	NM	NM	(4.9)	22.4
Advances	3.3	16.4	11.1	13.9
Deposits	7.8	2.8	13.7	14.7
Book value per share	0.9	14.8	10.4	11.6
Adj Book value per share	18.5	26.1	12.8	14.2

Source Company data, I-Sec research

### Exhibit 6: Key ratios

(Year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
<b>No. of shares and per share data</b>				
No. of shares (mn)	2,093	2,093	2,093	2,093
Adjusted EPS	0.2	3.7	3.5	4.3
Book Value per share	26	30	34	37
Adjusted BVPS	21	26	30	34
<b>Valuation ratio</b>				
PER (x)	106.7	6.0	6.4	5.2
Price/ Book (x)	0.8	0.7	0.7	0.6
Price/ Adjusted book (x)	1.1	0.9	0.8	0.7
Dividend Yield (%)	-	1.3	1.6	1.9
<b>Profitability ratios (%)</b>				
Yield on advances	8.6	8.8	9.2	9.6
Yields on Assets	6.8	7.0	7.4	7.6
Cost of deposits	4.7	4.3	5.0	5.4
Cost of funds	4.5	4.1	4.6	4.9
NIMs	2.6	3.2	3.0	2.9
Cost/Income	61.9	60.6	59.4	60.6
<b>DuPont Analysis (as % of Avg Assets)</b>				
Interest Income	6.8	7.0	7.4	7.6
Interest expended	4.5	4.1	4.6	4.9
<b>Net Interest Income</b>	<b>2.3</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>
Non-interest income	1.1	0.8	1.1	1.2
Trading gains	0.1	(0.3)	0.2	0.3
Fee income	1.0	1.1	1.0	0.9
<b>Total Income</b>	<b>3.4</b>	<b>3.7</b>	<b>3.9</b>	<b>3.9</b>
<b>Total Cost</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>
Staff costs	1.2	1.3	1.4	1.4
Non-staff costs	0.9	1.0	1.0	1.0
<b>Operating Profit</b>	<b>1.3</b>	<b>1.5</b>	<b>1.6</b>	<b>1.5</b>
Core Operating Profit	1.2	1.8	1.4	1.3
Non-tax Provisions	1.4	0.4	0.7	0.5
<b>PBT</b>	<b>(0.1)</b>	<b>1.1</b>	<b>0.9</b>	<b>1.0</b>
Tax Provisions	(0.1)	0.3	0.3	0.3
<b>Return on Assets (%)</b>	<b>0.0</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>
Leverage (x)	17.6	17.5	17.1	17.3
<b>Return on Equity (%)</b>	<b>0.8</b>	<b>13.0</b>	<b>11.0</b>	<b>12.1</b>
<b>Asset quality ratios (%)</b>				
Gross NPA	5.9	5.1	4.8	4.1
Net NPA	3.0	1.9	1.6	1.3
PCR	51.3	65.1	68.0	70.0
Gross Slippages	3.7	2.5	2.2	1.9
LLP / Avg loans	2.5	2.0	1.2	0.9
Total provisions / Avg loans	2.3	0.6	1.1	0.8
Net NPA / Networth	30.4	19.4	16.8	13.8
<b>Capitalisation ratios (%)</b>				
Core Equity Tier 1	12.1	13.7	13.1	12.4
Tier 1 cap. adequacy	13.2	14.7	14.1	13.2
Total cap. adequacy	15.9	17.3	16.2	15.0

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)  
**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

## ANALYST CERTIFICATION

I/We, Jai Prakash Mundhra, MBA; Chintan Shah, CA; Renish Bhuva, CFA (ICFAI); Vaibhav Arora, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

---

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

---