

Company background

Snapshot

Latest Equity	Rs.113.01 cr
Price (Rs)	Rs.50
Lat. P/E	2.95
Mkt. Cap.	Rs.558.83 cr
Lat. EPS(Rs)	Rs.16
Exp BV(FY09)	Rs.120
Lat. BV(Rs)	Rs.101
Div. Yield (%)	6.07%
52 weeks High /low	RS.228.45/49

Price chart



Shareholding Pattern

<i>FII's</i>	47.33%
<i>MFs</i>	3.81%
<i>Insurance Co</i>	2.21%
<i>Indian Public</i>	35.6%
<i>Corporate Bodies</i>	7.95%
<i>Others</i>	3.1%

South Indian Bank is one of the earliest banks established in southern India by a group of enterprising men who joined together in Thissur. The bank has branches all over India and its clientele span across the world. It currently has 520 branches, 17 extension counters and 265 ATM counters. The bank has during its long sojourn been able to project itself as a vibrant, fast growing, service oriented and trend setting financial intermediary.

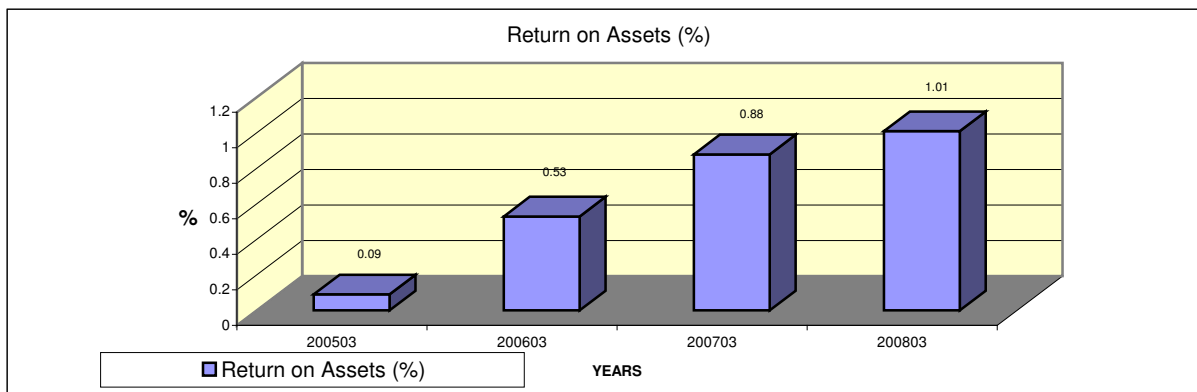
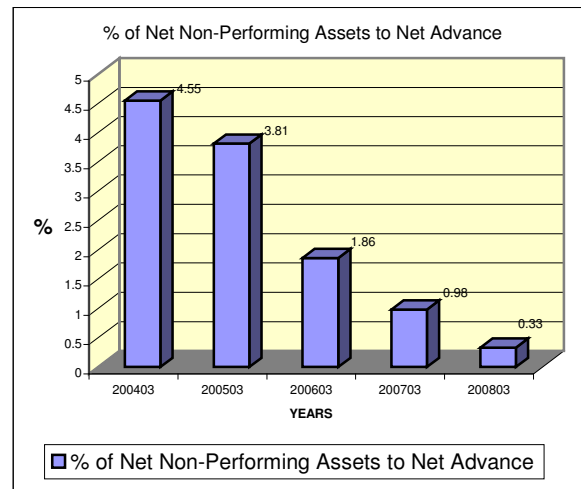
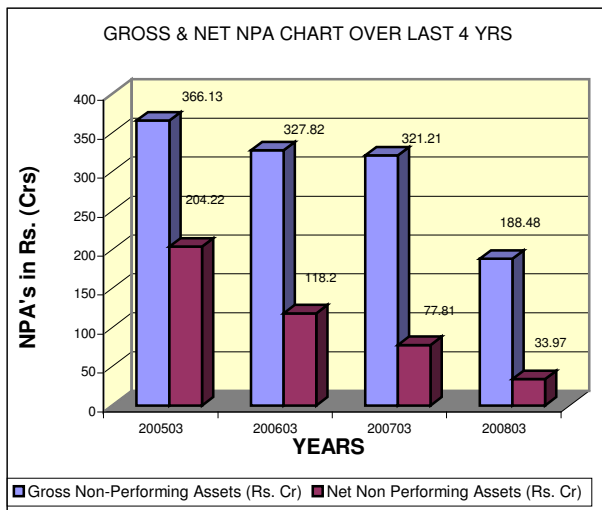
The bank is among the first in the private sector to open a NRI branch in 1992. In the Analyst 2008 Survey of Indian Banks conducted by the Institute of Chartered and Financial Analysts of India, South Indian Bank has emerged as the Best Performer in Asset Quality category among private sector banks, which include new generation and traditional banks in the country

Investment rationale

- Quarterly update:** For the latest quarter ended December 2008, the company posted phenomenal results. The income of the bank grew by double-digit q-o-q on account of improved yield on advances. Rise in PLR rated led to the increase in yield to 11.46%. This is turn led to expansions in net margins to 3% against 2.61% in the corresponding previous year quarter. The asset quality of the bank remained intact despite rising delinquencies. This is a contrast to most private sector banks, which have posted a rise in NPA level.
- Strong CASA ratio:** CASA or the low cost deposits of the bank stood at 24% for the year ended March 2008. Further the company also has NRI deposits amounting to 20.35 % of the total deposits at around 4% interest cost. This takes the total amount of low cost deposits with bank at 45% of the total deposits. This we, consider as a very positive thing for the bank owing to the current market situation. High amount of low cost deposits will keep the net margins of the company intact, despite a rise in deposit rates.
- Robust growth plans:** Kerala-based South Indian Bank has drawn up a five-year plan to drive total business to Rs 75,000 crore by March 2013. Under the five-year plan, banks deposit are likely to grow to Rs 44,000 crore and advances to Rs 31,000 crore by March 2013.this is double the amount of current advances and deposits level. Historically, the bank has

posted a 25% three year CAGR in advances and 21% in deposits, ended March 2008. Thus, we feel that the plan chalked out by the bank seems achievable.

- Adequately capitalized:** SIB is adequately capitalized with its capital adequacy ratio at 14.62%, as on December 2008. This is a subsequent rise from 13.8% level as on March 2008. The rise resulted on account of bonus issue in the ratio of 1:4 declared during October 2008. The high capital adequacy indicates high risk capacity of the bank
- Growth Strategy:** Given the current economic scenario, the bank feels growth in advances will be triggered more from the retail sector, than the wholesale sector. Besides, bank can also go in for a possible acquisition of smaller banks in order to grow its base. It currently has around 4.99% in Dhanlakshmi bank, which we feel can be a possible acquisition target for the company under a feasible scenario.
- Sound Asset quality:** The Gross NPA ratio came down from 2.53% to 1.85% and that of Net NPA ratio came down from 0.49% to 0.39%. NPA came down largely due to good recovery. The recovery made for the nine months period stands at Rs 84 crore. The bank targets to recover Rs 135 crore by end of this fiscal.



Financials

Profitability ratios	201003E	200903E	200803	200703
Yield on Advances	11.75%	11.3%	10.5%	9.7%
Yield on Investments	7%	7%	7.3%	7.1%
Cost of deposits	7.50%	7.3%	6.7%	5.6%
Net Interest Income	664.76	563.43	394.14	367.51
NIM	3.56%	3.46%	2.99%	3.59%
Cost/income ratio	77.0%	77.6%	81.1%	76.7%
CASA	27%	27%	24.1%	23.9%
Valuation ratios				
Book value per share	141.35	120.84	128.41	102.82
Earning per share	25.01	22.08	18.77	14.36
P/B ratio	0.35	0.41	0.44	0.96
P/E ratio	2.00	2.26	3.04	6.89
Efficiency ratio				
Gross Non-Performing Assets (Rs. Cr)	259.67115	225.801	188.48	321.21
Net Non Performing Assets (Rs. Cr)	57.7047	50.178	33.97	77.81
% Of Net Non-Performing Assets to Net Advance	0.40%	0.40%	0.33	0.98
CAR	14%	14%	13.8	11.08
Growth ratio				
Credit Deposit ratio	73.2%	72.0%	69.0%	64.7%
Advances	15%	20%	32.0%	24.3%
Deposits	13%	15%	23.8%	27.8%
Investment	7%	10%	33.3%	25.2%

Outlook

SIB is among the most efficiently performing private banks with a pan India presence. It has 40 branch license in hand and plans to open 7 more branches by end of Mar'09 while; the remaining 33 branches will be opened by end of Sep'09. This we believe will help the bank to achieve its growth target of doubling its business by March 2013.

The bank is expected to grow in line with the banking industry. Given the current economic slowdown and falling interest rate scenario, the banks margin is likely to remain intact. This is because of the high constituent of low cost deposits. The improving asset quality will further aid growth in margin. The bank expects to grow its advances by 20% and deposits by 15% for the year ended March 09. For FY10, we expect the advances and deposits growth to slow down to 15% and 13% respectively, on account declining credit cycle. Margins are likely to remain intact



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on account judicious asset management through provisioning and efficient recovery. At the cmp of Rs.50, the scrip is trading at a forward P/BV of 0.35x on FY10 book value of Rs 141.

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