

Rating: BUY | CMP: Rs13 | TP: Rs18

July 26, 2019

Q1FY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	18		18	
NII (Rs. m)	22,313	25,338	22,313	25,338
% Chng.	-	-	-	-
Op. Profit (Rs. m)	13,225	14,858	13,225	14,858
% Chng.	-	-	-	-
EPS (Rs.)	1.6	2.3	1.6	2.3
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
NII (Rs m)	19,655	20,197	22,313	25,338
Op. Profit (Rs m)	14,808	12,390	13,225	14,858
PAT (Rs m)	3,349	2,475	2,862	4,103
EPS (Rs.)	1.9	1.4	1.6	2.3
Gr. (%)	(25.5)	(26.2)	15.6	43.4
DPS (Rs.)	0.5	0.3	0.4	0.4
Yield (%)	3.7	2.3	2.8	3.2
NIM (%)	2.7	2.5	2.4	2.5
RoAE (%)	6.6	4.7	5.2	7.0
RoAA (%)	0.4	0.3	0.3	0.4
P/BV (x)	0.5	0.5	0.4	0.4
P/ABV (x)	0.7	0.8	0.7	0.6
PE (x)	7.0	9.5	8.2	5.7
CAR (%)	12.7	12.6	11.9	11.1

Key Data

SIBK.BO | SIB IN

52-W High / Low	Rs.19 / Rs.12
Sensex / Nifty	37,883 / 11,284
Market Cap	Rs.24bn/ \$ 341m
Shares Outstanding	1,810m
3M Avg. Daily Value	Rs.329.52m

Shareholding Pattern (%)

Promoter's	-
Foreign	24.13
Domestic Institution	13.53
Public & Others	62.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.5)	(3.3)	(27.0)
Relative	2.9	(8.1)	(28.7)

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Better quarter but way to go

Quick Pointers

- Overall slippages were lower at Rs2.41bn with corporate/agri lower but SME slippages remain steady, while retail see small uptick

- Bank's operating metrics like NIMs & CASA profile remained stable

SIB's earnings were marginally below expectations with PAT at Rs733mn (PLe: Rs890mn) as operating performance is improving only gradually. Provisions came in lower as slippages of Rs2.41bn was lower sequentially which helped stable asset quality but marginally lift PCR to 32.3% (45.1% incl. technical w.off). Bank is closely monitoring some of the dispensation related loans restructured during Kerala floods but does not see large risks from same. Structurally PCR remains lowest in peer group which has to be stepped up, which should be helped by improving operations. We maintain BUY with TP of Rs18 (unchanged) based on 0.8x Mar-21 ABV.

- Slowly & gradually improving on operational front:** NII growth of 8.4% YoY, other income of 24.7% YoY (helped by treasury) and controlled opex growth of 7.9% YoY has helped improve PPOP by 18% YoY (6% YoY core PPOP) from quite muted trends. NIMs was up 7bps QoQ to 2.5% but given slower loan growth at 13%, NII traction was lower. Cost of funds still remain high for the bank, keeping NIMs sub optimally lower, but management is expecting NIMs to improve to 2.7-2.75% by FY20 end on back of mix change towards retail & shedding of some high cost deposits.

- Loan growth slows but retail continues to grow well:** Loans grew by 13% YoY which was slower due to corporate loans slowing to 4% YoY, while retail continued to be strong growing at 25% YoY. Retail loan growth was driven by most segments like gold, LAP, Housing etc. **On liabilities front,** CASA mix was steady at 24% with growth of 10% YoY with TDs growth of 11.6% YoY, although Bulk deposits growth was higher at 20% YoY but was down sequentially by 2% QoQ. Overall, liabilities franchise remained stable with NRI deposit base also remaining stable at 26% of deposits.

- Asset quality remains steady but PCR needs to be enhanced:** Overall Bank's asset quality remained steady with GNPA's/NNPA's at 4.96%/3.41% with lower slippages of Rs2.41bn which has been coming down from much higher trends. With continued provisioning (in-line with guidance), bank saw improvement in PCR to 32.3% up 140bps QoQ (45.1% incl. technical w.off up 260bps QoQ). Overall slippages were lower from corporate/Agri but marginally were up in retail, while SME continued with trends at slightly higher levels. Bank guided and remained confident to bring down FY20 slippages to Rs10.0bn from Rs18.0bn seen in FY19.

- Capital levels are steady and not alarming:** Bank's Tier-I of 9.7% (CET-I at 9.7%) is at steady levels while it is also not alarming but given stance of improving PCR (which remains one of lowest) earnings will remain under pressure not accruing to capital and keep business growth slower.

Exhibit 1: Operating performance still remain weak but better than earlier

NII growth of 8.4% YoY was slightly slower as cost of funds still remain higher although mix change towards retail helped overall

Other income was supported from treasury gains during quarter

Overall opex remains under good control

Provisions came in lower on back of slippages coming off sequentially

Loan growth continued at decent 13% YoY given the constraint in capital

Margins rose sequentially by 7bps to 2.53%

Asset quality remained steady largely with run rate of slippages coming down, while PCR also improved for the bank

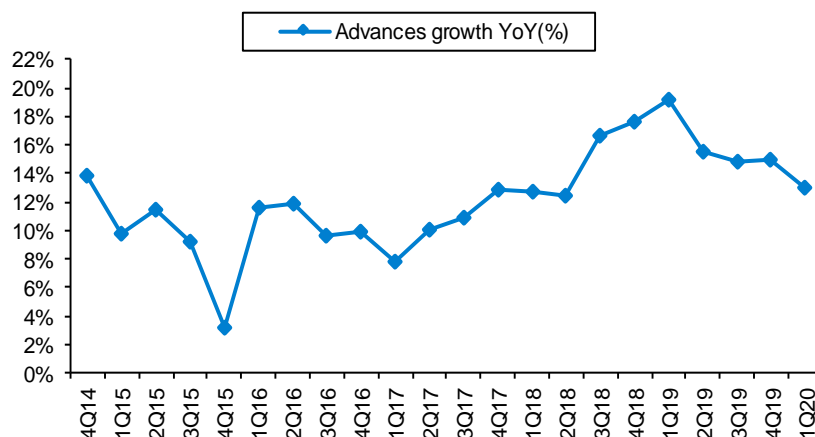
CASA mix remained steady with overall growth of 10% YoY

Tier-I came down by 30bps at 9.7% but no imminent need to raise capital

(Rs m)	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)
Interest Income	18,949	16,539	14.6	17,909	5.8
Interest Expended	13,592	11,597	17.2	12,916	5.2
Net interest income (NII)	5,357	4,943	8.4	4,994	7.3
-Treasury income	490	160	206.3	650	(24.6)
Other income	1,819	1,459	24.7	2,357	(22.8)
Total income	7,176	6,402	12.1	7,350	(2.4)
Operating expenses	3,999	3,705	7.9	4,075	(1.8)
-Staff expenses	2,236	2,111	5.9	2,119	5.5
-Other expenses	1,763	1,594	10.6	1,956	(9.8)
Operating profit	3,176	2,696	17.8	3,276	(3.0)
Core operating profit	2,686	2,536	5.9	2,626	2.3
Total provisions	2,050	2,315	(11.5)	2,192	(6.5)
Profit before tax	1,126	381	195.5	1,084	3.9
Tax	394	151	161.2	379	3.9
Profit after tax	733	230	218.0	705	3.9
Balance sheet (Rs m)					
Deposits	817,230	724,880	12.7	804,201	1.6
Advances	626,580	554,440	13.0	626,937	(0.1)
Ratios (%)					
Profitability ratios					
Yield on Advances	9.69%	9.50%	19	9.51%	18
Cost of Funds	5.82%	5.58%	24	5.72%	10
NIM	2.53%	2.60%	(7)	2.46%	7
RoAA	0.31%	0.11%	20	0.31%	-
Asset Quality					
Gross NPL (Rs m)	31,542	25,522	23.6	31,317	0.7
Net NPL (Rs m)	21,347	18,139	17.7	21,636	(1.3)
Gross NPL ratio (%)	4.96	4.54	42	4.92	4
Net NPL ratio (%)	3.41	3.27	14	3.45	(4)
Coverage ratio (Rep) (%)	45.10	39.10	600	42.46	264
Business & Other Ratios					
CASA mix	24.10	24.67	(57)	24.21	(11)
Cost-income ratio	55.74	57.88	(214)	55.44	30
Non int. inc / total income	25.35	22.79	256	32.06	(671)
Credit deposit ratio	76.67	76.49	18	77.96	(129)
CAR	12.20	12.20	-	12.60	(40)
Tier-I	9.70	10.10	(40)	10.00	(30)

Source: Company, PL

Exhibit 2: Loan growth in mid-teens supported by retail growth



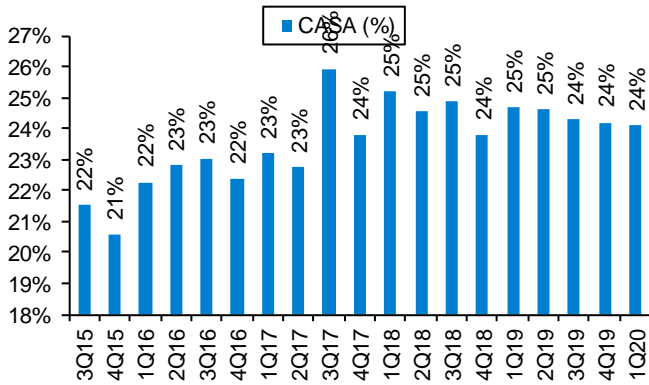
Source: Company, PL

Exhibit 3: Retail strong growth, while corporate has been slowing

Break-up of Advances	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)
Agri	89,870	78,510	14.5	86,730	3.6
MSME	150,000	131,370	14.2	150,690	(0.5)
Retail	190,700	152,000	25.5	184,580	3.3
Corporate	205,950	199,760	3.1	214,360	(3.9)
Total Advances	636,520	561,640	13.3	636,360	0.0
Loan Mix					
Agri	14.1%	14.0%	0.1	13.6%	49.0
MSME	23.6%	23.4%	0.2	23.7%	(11.4)
Retail	30.0%	27.1%	2.9	29.0%	95.4
Corporate	32.4%	35.6%	(3.2)	33.7%	(133.0)

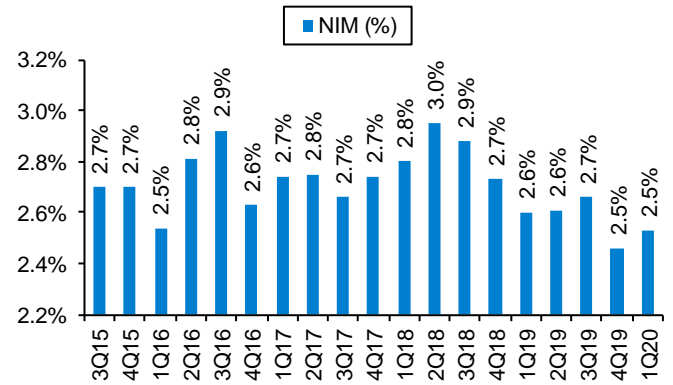
Source: Company, PL

Exhibit 4: CASA growth & mix have been stable for Bank



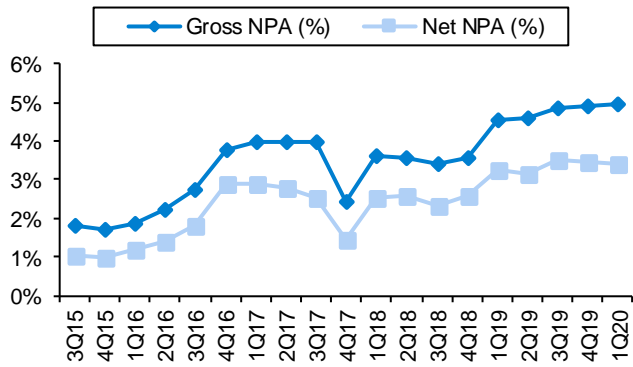
Source: Company, PL

Exhibit 5: NIMs improve as high yields segments helping



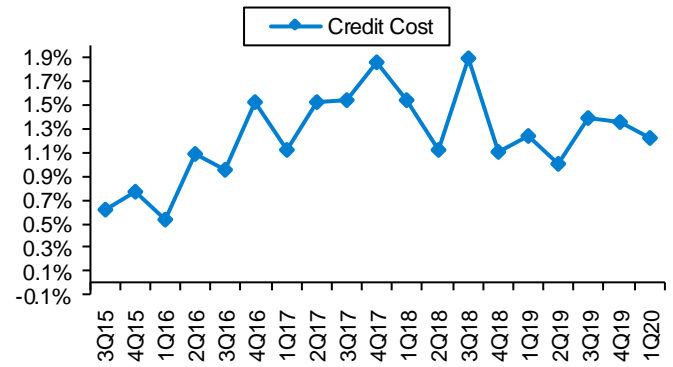
Source: Company, PL

Exhibit 6: Asset quality largely remains steady



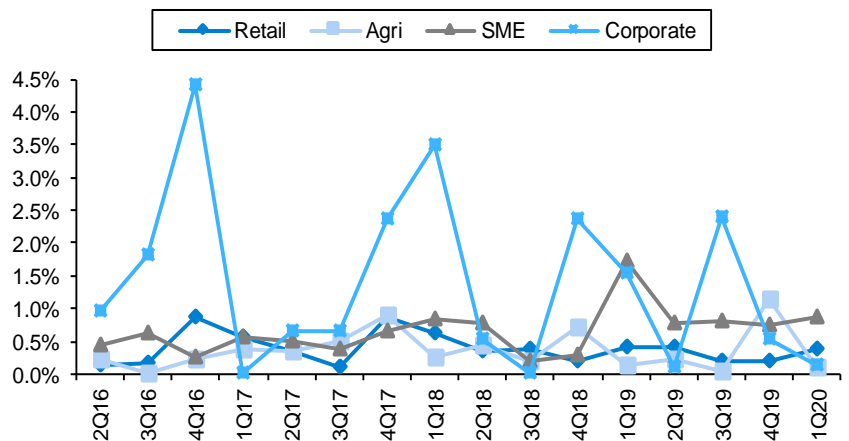
Source: Company, PL

Exhibit 7: Credit cost dips marginally on lower slippages



Source: Company, PL

Exhibit 8: Slippages from Agri/Corporate decline but SME has been steady



Source: Company, PL

Exhibit 9: We keep our estimates unchanged

(Rs mn)	Old		Revised		%Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net interest income	22,313	25,338	22,313	25,338	-	-
Operating profit	13,225	14,858	13,225	14,858	-	-
Net profit	2,862	4,103	2,862	4,103	-	-
EPS (Rs)	1.6	2.3	1.6	2.3	-	-
ABVPS (Rs)	18.0	21.6	18.0	21.6	-	-
Price target (Rs)	18		18		-	
Recommendation	BUY		BUY			

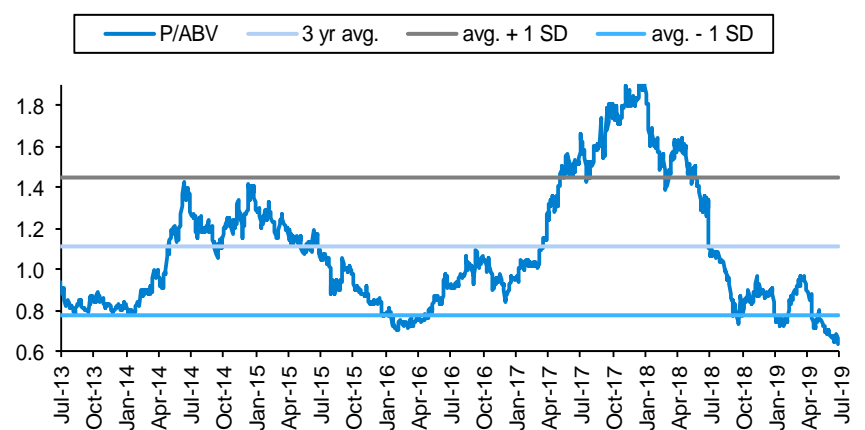
Source: Company, PL

Exhibit 10: We retain our TP of Rs18.0 (unchanged) based on 0.8x Mar-21 ABV

PT calculation and upside	
Terminal growth	5.0%
Market risk premium	6.0%
Risk-free rate	7.5%
Adjusted beta	1.10
Cost of equity	14.1%
Fair price - P/ABV	18
Target P/ABV	0.8
Target P/E	8.0
Current price, Rs	13
Upside (%)	40%
Dividend yield (%)	3%
Total return (%)	43%

Source: Company, PL

Exhibit 11: One year Forward P/ABV chart



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Int. Earned from Adv.	47,692	53,964	63,000	74,391
Int. Earned from invt.	12,695	12,861	13,258	12,369
Others	1,351	1,584	1,569	1,801
Total Interest Income	61,928	68,765	78,160	88,942
Interest Expenses	42,273	48,568	55,847	63,605
Net Interest Income	19,655	20,197	22,313	25,338
<i>Growth(%)</i>	17.2	(2.0)	10.3	13.4
Non Interest Income	8,372	7,262	7,988	9,027
Net Total Income	28,028	27,459	30,301	34,365
<i>Growth(%)</i>	7.1	8.1	13.3	13.7
Employee Expenses	7,132	8,214	9,323	10,535
Other Expenses	5,450	6,185	7,113	8,180
Operating Expenses	13,220	15,069	17,076	19,506
Operating Profit	14,808	12,390	13,225	14,858
<i>Growth(%)</i>	21.9	(16.3)	6.7	12.3
NPA Provision	6,863	6,877	8,125	7,927
Total Provisions	9,809	8,585	8,826	8,551
PBT	4,999	3,805	4,399	6,308
Tax Provision	1,650	1,330	1,537	2,204
<i>Effective tax rate (%)</i>	33.0	34.9	34.9	34.9
PAT	3,349	2,475	2,862	4,103
<i>Growth(%)</i>	(14.7)	(26.1)	15.6	43.4

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Face value	1	1	1	1
No. of equity shares	1,809	1,810	1,810	1,810
Equity	1,809	1,810	1,810	1,810
Networth	52,412	53,353	56,801	60,141
<i>Growth(%)</i>	8.2	1.8	6.5	5.9
Adj. Networth to NNPA's	14,392	21,636	21,902	18,712
Deposits	720,296	804,201	900,705	1,004,286
<i>Growth(%)</i>	8.9	11.6	12.0	11.5
CASA Deposits	171,417	194,670	220,673	248,059
<i>% of total deposits</i>	23.8	24.2	24.5	24.7
Total Liabilities	826,839	922,775	1,032,389	1,150,185
Net Advances	545,629	626,937	727,247	858,152
<i>Growth(%)</i>	17.6	14.9	16.0	18.0
Investments	183,631	190,814	189,707	164,303
Total Assets	826,859	922,792	1,032,389	1,150,185
<i>Growth (%)</i>	11.3	11.6	11.9	11.4

Asset Quality

Y/e Mar	FY18	FY19	FY20E	FY21E
Gross NPAs (Rs m)	19,803	31,323	33,902	31,439
Net NPAs (Rs m)	14,392	21,636	21,902	18,712
<i>Gr. NPAs to Gross Adv.(%)</i>	3.6	4.9	4.6	3.6
<i>Net NPAs to Net Adv. (%)</i>	2.6	3.5	3.0	2.2
<i>NPA Coverage %</i>	27.3	30.9	35.4	40.5

Profitability (%)

Y/e Mar	FY18	FY19	FY20E	FY21E
NIM	2.7	2.5	2.4	2.5
RoAA	0.4	0.3	0.3	0.4
RoAE	6.6	4.7	5.2	7.0
Tier I	10.4	10.0	9.2	8.4
CRAR	12.7	12.6	11.9	11.1

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Interest Income	16,539	16,965	17,352	17,909
Interest Expenses	11,597	11,900	12,155	12,916
Net Interest Income	4,943	5,065	5,196	4,994
<i>YoY growth (%)</i>	12.6	15.2	13.9	17.8
CEB	910	950	1,080	1,200
Treasury	-	-	-	-
Non Interest Income	1,459	1,579	1,868	2,357
Total Income	17,998	18,544	19,219	20,266
Employee Expenses	2,111	1,963	2,022	2,119
Other expenses	1,594	1,583	1,722	1,956
Operating Expenses	3,705	3,546	3,744	4,075
Operating Profit	2,696	3,098	3,320	3,276
<i>YoY growth (%)</i>	(28.9)	(32.7)	0.6	5.4
Core Operating Profits	-	-	-	-
NPA Provision	1,741	1,332	1,894	1,910
Others Provisions	2,315	2,047	2,031	2,192
Total Provisions	2,315	2,047	2,031	2,192
Profit Before Tax	381	1,051	1,289	1,084
Tax	151	350	450	379
PAT	230	701	838	705
<i>YoY growth (%)</i>	(77.3)	1,523.4	(27.1)	(38.2)
Deposits	724,880	749,112	776,650	804,201
<i>YoY growth (%)</i>	10.2	11.6	14.0	11.6
Advances	554,440	565,725	592,560	626,937
<i>YoY growth (%)</i>	19.2	15.6	14.8	14.9

Key Ratios

Y/e Mar	FY18	FY19	FY20E	FY21E
CMP (Rs)	13	13	13	13
EPS (Rs)	1.9	1.4	1.6	2.3
Book Value (Rs)	28	28	30	32
Adj. BV (70%)(Rs)	20	16	18	22
P/E (x)	7.0	9.5	8.2	5.7
P/BV (x)	0.5	0.5	0.4	0.4
P/ABV (x)	0.7	0.8	0.7	0.6
DPS (Rs)	0.5	0.3	0.4	0.4
<i>Dividend Payout Ratio (%)</i>	25.7	22.0	22.9	18.6
<i>Dividend Yield (%)</i>	3.7	2.3	2.8	3.2

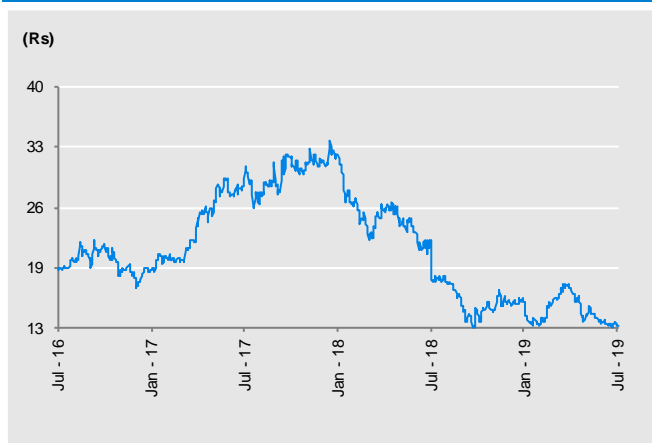
Efficiency

Y/e Mar	FY18	FY19	FY20E	FY21E
<i>Cost-Income Ratio (%)</i>	47.2	54.9	56.4	56.8
<i>C-D Ratio (%)</i>	75.8	78.0	80.7	85.4
Business per Emp. (Rs m)	174	183	198	216
Profit per Emp. (Rs lacs)	5	3	3	5
Business per Branch (Rs m)	1,482	1,645	1,835	2,058
Profit per Branch (Rs m)	4	3	3	5

Du-Pont

Y/e Mar	FY18	FY19	FY20E	FY21E
NII	2.68	2.47	2.43	2.47
Total Income	3.82	3.35	3.30	3.35
Operating Expenses	1.80	1.84	1.86	1.90
PPoP	2.02	1.51	1.44	1.45
Total provisions	1.34	1.05	0.96	0.83
RoAA	0.46	0.30	0.31	0.40
RoAE	6.98	4.90	5.43	7.32

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	18	13
2	10-May-19	BUY	18	14
3	5-Apr-19	BUY	22	18
4	21-Jan-19	BUY	22	16
5	7-Jan-19	BUY	22	15
6	16-Oct-18	BUY	22	15
7	5-Oct-18	BUY	26	14

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	837	809
2	Bank of Baroda	BUY	146	110
3	Bank of India	Reduce	90	95
4	Federal Bank	BUY	121	105
5	HDFC	BUY	2,700	2,376
6	HDFC Bank	BUY	2,700	2,484
7	HDFC Standard Life Insurance Company	BUY	585	509
8	ICICI Bank	BUY	475	436
9	ICICI Prudential Life Insurance Company	BUY	511	383
10	IDFC First Bank	BUY	55	45
11	IndusInd Bank	BUY	1,800	1,510
12	Jammu & Kashmir Bank	BUY	80	41
13	Kotak Mahindra Bank	Hold	1,385	1,454
14	Max Financial Services	BUY	629	414
15	Punjab National Bank	Reduce	75	82
16	SBI Life Insurance Company	BUY	906	776
17	South Indian Bank	BUY	18	13
18	State Bank of India	BUY	427	367
19	Union Bank of India	Reduce	71	85
20	YES Bank	Hold	101	98

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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