The South Indian Bank Limited

September 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II bonds (Basel III)-I#	300.00	CARE A+; Stable	Reaffirmed
Tier-II bonds (Basel III)-II#	490.00	CARE A+; Stable	Reaffirmed
Tier-II bonds (Basel III)-III#	250.00 (Reduced from 500.00)	CARE A+; Stable	Reaffirmed
Certificate of deposit	7,500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

#Tier-II Bonds under Basel III are characterised by a 'Point of Non-Viability' (PONV) trigger, due to which, the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which, the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in the financial losses and raising the Common Equity Tier-I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

In CARE Ratings Limited's (CARE Ratings') opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess the rating of Tier-II instruments even under Basel II. CARE Ratings has rated the Tier-II bonds under Basel III after factoring in the additional PONV feature.

Rationale and key rating drivers

Ratings assigned to debt instruments of The South Indian Bank Limited (SIBL) continue to factor in long track record of its operations, diversified advances portfolio and improvement in the profitability in FY24. Return on total assets (ROTA) improved from 0.75% in FY23 to 0.95% in FY24. Ratings also takes note of the improvement in the capitalisation levels majorly due to capital raise of ₹1,151 crore in FY24 through rights issue. The capital adequacy ratio (CAR) improved with total CAR of 19.91% as on March 31, 2024, against 17.25% as on March 31, 2023. However, ratings are constrained by regional concentration of its business, and moderate asset quality albeit improvement supported by improved quality of the new book, lower slippages and better recoveries. Gross non-performing assets (GNPA) and net NPA (NNPA) stood at 4.50% and 1.46% as on March 31, 2024, against 5.14% and 1.86% as on March 31, 2023; however, asset quality continues to remain moderate.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively, lead to positive rating action/upgrade:

- Improvement in profitability levels with ROTA of above 1% on sustained basis along with improvement in size of operations and asset quality.

Negative factors: Factors that could individually or collectively, lead to negative rating action/downgrade:

- Deterioration of asset quality levels with increase in GNPA to above 7% on a sustained basis.
- Decline in the capitalisation levels with Tier-I CAR below 11.5%.

Analytical approach: Standalone

Outlook: Stable

The stable outlook factors in the CARE Ratings' expectation that SIBL will be able to sustain profitability, while maintaining comfortable capitalisation levels.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:

Key strengths

Long operational track record

Established in 1929, SIBL was the first 'scheduled bank' among private banks in Kerala. The bank has a proven track record of over 90 years. SIBL has strong presence in south India, particularly in Kerala. As on June 30, 2024, SIBL had network of 955 branches and 1,298 ATMs. The Board consists of nine directors, including five independent directors.

Business witnessed growth in FY24; current account savings account (CASA) proportion remained stable

SIBL witnessed 11% growth in the overall business in FY24. The bank's net total business stood at ₹1,79,981 crore as on March 31, 2024, against ₹1,61,456 crore as on March 31, 2023. Advances (net) of SIBL grew by 12% and stood at ₹78,061 crore as on March 31, 2024, against ₹69,804 crore as on March 31, 2023. The bank's advances grew majorly supported by growth reported in the corporate segment (36%). As on June 30, 2024, advances stood at ₹80,129 crore representing 3% growth (Q-o-Q). The bank's aggregate deposits witnessed growth of 11% and stood at ₹1,01,920 crore as on March 31, 2024, against ₹91,651 crore as on March 31, 2023. CASA proportion remained at 32.08% as on March 31, 2024, against 32.98% as on March 31, 2023. As on June 30, 2024, the bank's deposits stood at ₹1,03,532 crore and CASA proportion stood at 32.06%. The business from NRI customers contributed to 29% of total deposits as on March 31, 2024.

Diversified advances portfolio

The bank has achieved significant progress in diversifying its loan portfolio with focus towards gold, large corporate advances, personal loans and business loans. In FY21, the bank formulated the strategy and has gradually harnessed it through FY22 and FY23. The bank churned the portfolio and further divided its book into New Book and Old Book (New book is the book generated from October 2020 onwards with new credit underwriting mechanisms).

In FY21, the share of corporate advances had reduced to 25% as on March 31, 2021, against 29% as on March 31, 2020, on account of the portfolio churning, and partially due to the impact of COVID-19-induced pandemic. However, with the bank's focus on growing higher rated corporate book, the share of corporate advances increased to 33% as on March 31, 2023, and further to 40% as on March 31, 2024. Proportion of large corporate advances (₹100 crore and above) increased from 5% of advances as on March 31, 2021, to 23% of advances as on March 31, 2024.

Also, the bank has been focused on gold loan, which witnessed good growth in FY22 and FY23. Gold loan increased from ₹8,999 crore as on March 31, 2021, to ₹15,513 crore as on March 31, 2024. As on June 30, 2024, advances portfolio had diversified mix with corporate advances of 41%, personal advances of 23%, agriculture advances of 20% and business advances of 16%. CARE Ratings expects momentum in growth with better quality advance to continue.

Improvement in capitalisation levels supported by capital raise in FY24

The bank's CAR improved to total CAR of 19.91% as on March 31, 2024, against 17.25% as on March 31, 2023. Tier-I CAR and CET1 ratio improved and stood at 17.65% and 16.66%, respectively, as on March 31, 2024 (PY: 14.74% and 13.66% as on March 31, 2023). Improved capital to risk (weighted) assets ratio (CRAR) can be attributed majorly to capital raise through rights issue amounting to ₹1,151 crore and internal accruals aggregating to ₹1,070 crore in FY24. The risk weighted assets (as a percentage of total assets) stood at 43% as on March 31, 2024 (PY:43%). As on June 30, 2024, CAR and Tier-I CAR stood at 18.11% and 16.71% respectively. CARE Ratings expects the CAR levels to remain comfortable and is expected to support growth in the medium term.

Improvement in profitability in FY24 and Q1FY25

The net interest margin (NIM as a percentage of average total assets) improved to 2.97% in FY24 from 2.91% in FY23. Non-interest income (as a percentage of total assets) improved to 1.33% in FY24 from 0.79% in FY23. The cost to income remained stable at 61.47% in FY24 against 60.59% in FY23. PPOP improved to ₹1,868 crore in FY24 from ₹1,507 crore in FY23. With improved asset quality, credit cost improved to 0.30% in FY24 from 0.39% in FY23. Thus, the bank reported profit after tax (PAT) of ₹1,070 crore in FY24 from ₹775 crore in FY23. ROTA improved to 0.95% in FY24 from 0.75% in FY23. In Q1FY25, NIM stood at ~2.95%. Non-interest income (as a percentage of total assets) improved to 1.44% in Q1FY25 from 1.33% in Q1FY24. The bank reported pre-provision operating profit (PPOP) of ₹508 crore in Q1FY25 against ₹490 crore in Q1FY24. The credit cost stood at 0.38% in Q1FY25 against 0.73% in Q1FY24. With improvement in non-interest income and reduction in credit cost, PAT improved to ₹294 crore in Q1FY25 against ₹202 crore in Q1FY24 crore. SIBL reported ROTA of 1.00% in Q1FY25 against 0.74% in Q1FY24. CARE Ratings expects profitability to remain stable in the near term.

Key weaknesses

Moderate asset quality with improvement seen in stressed assets in FY24

GNPA and NNPA improved to 4.50% and 1.46% as on March 31, 2024, against 5.14% and 1.86% as on March 31, 2023. NNPA to net worth stood at 13.38% as on March 31, 2024, against 20.54% as on March 31, 2023. The slippage ratio decreased from 2.60% in FY23 to 1.99% in FY24. The improved recovery has enabled a better asset quality position of the bank. GNPA and NNPA stood at 4.50% and 1.44% as on June 30, 2024.

Stressed assets (Standard restructured asset + Security receipts outstanding + GNPA/NPA) as a percentage of gross advances improved to 7.06% as on March 31, 2024, against 9.21% as on March 31, 2023, and stressed assets as a percentage of net worth stood at 22.64% as on March 31, 2024, against 44.82% as on March 31, 2023. Stressed assets improved with reduction in the restructured book. Going forward, CARE Ratings will continue to monitor significant slippages and its impact on the profitability remains.

Regional concentration

The bank's operations are mainly concentrated in south India, especially Kerala. As on June 30, 2024, Kerala accounted for 52% of the total branch network, whereas south India accounted for 82% of the branch network. In terms of advances, Kerala accounted for 34% of the total advances, whereas south India accounted for 67% of the advances as on June 30, 2024.

Liquidity: Adequate

The liquidity profile of the bank stood comfortable with no negative cumulative mismatches in any of the time buckets as per asset liability maturity (ALM) statement as on June 30, 2024. Also, SIBL had excess SLR investments of ₹2,979 crore as on June 30, 2024. Furthermore, the bank has access to systemic liquidity by way of RBI's LAF and MSF schemes. The bank's liquidity coverage ratio (LCR) stood at 142% as on June 30, 2024.

Environment, social, and governance (ESG) risks

Given that SIBL is engaged in the lending business, it may be exposed to environmental risks indirectly through its portfolio of assets. With financial inclusion being the prime agenda, the banking sector has a social impact on the economy. Being in the financial sector, the bank has focused on promotion of sustainable and environmentally friendly assets by identifying and recognising ESG risks against opportunities. The bank is engaged in providing finance for farming activities that has helped uplift socioeconomic status of the farming community.

As part of its green initiatives, the bank proposes to increase usage of energy-efficient forms of electricity with green energy and solar power. The bank also promotes usage of electric vehicles for its employees.

As part of developing a sustainable financing policy for implementing ESG benchmarks in lending and addressing issues in Environmental risk management and governance, the bank has formulated ESMS policy (for governing Lending standards) and

ESG Policy (for addressing other ESG issues). A sustainable ESG-complied lending policy is a base for the bank to ensure for a future-oriented and sustainable lending resulting in more focus on lending toward projects that are environmentally friendlier. Through its green deposit policy and green financing framework, bank demonstrates its commitment to sustainable finance.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Bank
Financial Ratios - Financial Sector
Withdrawal Policy
Rating Basel III - Hybrid Capital Instruments issued by Banks
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Private sector bank

Established in 1929, SIBL was the first 'scheduled bank' among private banks in Kerala. SIBL has no identifiable promoter, and the shareholding pattern is well-diversified. It has strong presence in south India and particularly in Kerala. As on March 31, 2024, SIBL had a network of 955 branches and 1,321 ATMs spread across the country (955 branches and 1,298 ATMs as on June 30, 2024). The total business of the bank stood at ₹1,79,981 crore with deposits of ₹1,01,920 crore and advances of ₹78,061 crore as on March 31, 2024. SIBL's CAR per Basel III stood at 19.91% (Tier I CAR of 17.65%) as on March 31, 2024. GNPA ratio and NNPA ratio stood at 4.50% and 1.46% respectively as on March 31, 2024, against 5.14% and 1.86%, respectively, as on March 31, 2023.

For FY24, SIBL reported PAT of ₹1070 crore over a total income of ₹10,128 crore. In Q1FY25, SIBL reported PAT of ₹294 crore on the total income of ₹2,736 crore.

Brief Financials (₹ crore)	FY23(A)	FY24(A)	Q1FY25(UA)
Total operating income	8,046	10,128	2,736
PAT	775	1,070	294
Total assets	1,07,324	1,17,066	1,17,642
Net NPA (%)	1.86	1.46	1.44
ROTA (%)	0.75	0.95	1.00

A: Audited; UA: Unaudited. Note: These are latest available financial results; Total assets and net worth exclude deferred tax asset and revaluation reserve.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Certificate Of Deposit (Proposed)	-	-	-	7 days to 1 year	7500.00	CARE A1+
Tier-II Bonds (Basel III)-I	INE683A08028	September 30, 2015	10.25	October 31, 2025	300.00	CARE A+; Stable
Tier-II Bonds (Basel III)-II	INE683A08036	November 28, 2017	9.50	May 28, 2028	490.00	CARE A+; Stable
Tier-II Bonds (Basel III)-III	INE683A08044*	March 26, 2019	11.75	June 26, 2029	0.00	Withdrawn
Tier-II Bonds (Basel III)-III	Proposed	-	-	-	250.00	CARE A+; Stable

**Call option exercised by the bank*

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Certificate Of Deposit	ST	7500.00	CARE A1+	-	1)CARE A1+ (28-Sep-23)	1)CARE A1+ (29-Sep-22)	1)CARE A1+ (30-Sep-21)
2	Bonds-Tier II Bonds	LT	300.00	CARE A+; Stable	-	1)CARE A+; Stable (28-Sep-23)	1)CARE A; Stable (29-Sep-22)	1)CARE A; Negative (30-Sep-21)
3	Bonds-Tier II Bonds	LT	490.00	CARE A+; Stable	-	1)CARE A+; Stable (28-Sep-23)	1)CARE A; Stable (29-Sep-22)	1)CARE A; Negative (30-Sep-21)
4	Bonds-Tier II Bonds	LT	250.00	CARE A+; Stable	-	1)CARE A+; Stable (28-Sep-23)	1)CARE A; Stable (29-Sep-22)	1)CARE A; Negative (30-Sep-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier II Bonds	Complex
2	Bonds-Tier II Bonds	Simple
3	Certificate Of Deposit	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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