

The South Indian Bank Limited

September 29, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Tier-II Bonds (Basel III)-I [#]	300.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Tier-II Bonds (Basel III)-II [#]	490.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Tier-II Bonds (Basel III)-III [#]	500.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total long-term instruments	1,290.00 (₹ One thousand two hundred ninety crore only)		
Certificate Of Deposit	7,500.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	7,500.00 (₹ Seven thousand five hundred crore only)		

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 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 feature of PONV.

Detailed rationale and key rating drivers

The ratings continue to factor in the long track record of operations of The South Indian Bank Limited (SIBL), its diversified loan portfolio, and satisfactory capitalisation level, which has witnessed improvement in FY22 (refers to the period April 01 to March 31) and Q1FY23 (refers to the period April 01 to June 30) aided by reduction in the risk weighted assets (RWA) despite growth in advances. The capital adequacy ratio (CAR) improved with total CAR of 15.86% as on March 31, 2022, as against 15.42% as on March 31, 2021. The capital adequacy further improved to 16.25% as on June 30, 2022.

The ratings are, however, constrained by regional concentration of its business, moderate profitability and moderate asset quality notwithstanding the improvement in FY22. Gross non-performing assets (GNPA) improved from 6.97% as on March 31, 2021 to 5.90% as on March 31, 2022, and further to 5.87% as on June 30, 2022. However, the gross stressed assets (GNPA+ standard restructured assets+ security receipts outstanding) as a percentage of gross advances has increased to 12.39% as on March 31, 2022, as against 11.01% as on March 31, 2021 on account of restructuring of loans post second wave of COVID-19. The bank has also provided Emergency Credit Line Guarantee Scheme (ECLGS) loan to its customers which stood at around ₹2,665 crore as on March 31, 2022, i.e., around 4% of gross advances. The ratings also take note of improvement in the profitability during Q1FY23.

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

Rating Sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in profitability levels with return on total assets (ROTA) of above 0.5% and improvement in asset quality on a sustained basis.

Negative factors: Factors that could lead to negative rating action/downgrade

- Deterioration of asset quality levels with increase in GNPA to above 7% on a sustained basis.
- Decline in capitalisation levels with Tier-I CAR below 10.5%.

Outlook: Stable

Earlier, CARE Ratings had a negative outlook on the debt instruments of SIBL due to asset quality pressure on account of COVID-19-induced economic slowdown. The bank started focusing on higher rated corporate entities and gold loan, thus resulting in satisfactory capital adequacy levels. Total CAR, Tier-I CAR and CET1 stood at 16.25%, 13.62% and 12.51%, respectively, as on June 30, 2022. All these ratios have improved as compared to June 30, 2021 when Total CAR and Tier 1 CAR stood at 15.47% and 12.73% respectively. With the impact of COVID-19-induced pandemic, asset quality had witnessed moderation in FY21; however, during FY22 and Q1FY23, with improvement in the recoveries and upgrades, GNPA has improved to 5.90% as on March 31, 2022, as against 6.97% as on March 31, 2021. GNPA stood at 5.87% as on June 30, 2022. It is to be noted that the bank has improved its deposit profile with improved current account saving account (CASA) proportion to 33.21% as on March 31, 2022, as against 29.73% as on March 31, 2021, along with significant reduction in bulk deposits. In terms of profitability, though the bank reported losses during Q2FY22 and Q3FY22, the bank reported profit in Q4FY22 with relatively lower credit cost as compared to the previous quarters. During Q1FY23, the bank reported a profit of ₹115 crore on a total income of ₹1,868 crore with credit cost continuing to be relatively lower. Thus, the bank has arrested losses and returned to profits since Q4FY22 quarter. With improvement in the capitalisation level, asset quality parameters witnessing improvement from Q1FY22 levels and profitability seeing improvement in Q1FY23, CARE Ratings has revised the outlook of SIBL from 'Negative' to 'Stable'.

Detailed description of the key rating drivers

Key rating strengths

Long operational track record: Established in 1929, SIBL was the first 'scheduled bank' amongst the private banks in Kerala. The bank has a proven track record of over 90 years. SIBL has strong presence in south India particularly in the state of Kerala. As on June 30, 2022, SIBL had network of 927 branches and 1,272 ATMs. The Board consists of 10 directors, including five independent directors.

Business witnessed growth along with improvement in CASA proportion: SIBL witnessed 6% growth in the overall business in FY22 as compared with the de-growth in FY21. The net total business of the bank stood at ₹149,135 crore as on March 31, 2022, as against ₹140,767 crore as on March 31, 2021. Advances (net) of SIBL grew by 3% (PY: de-growth of 10%) and stood at ₹59,993 crore as on March 31, 2022, as against ₹58,056 crore as on March 31, 2021. The bank's advances witnessed growth majorly supported by growth reported in the corporate and agriculture segments. As on June 30, 2022, advances stood at ₹62,760 crore representing a growth of 5% (Q-o-Q).

Aggregate deposits of the bank witnessed growth of 8% and stood at ₹89,142 crore as on March 31, 2022 as against ₹82,711 crore as on March 31, 2021, CASA proportion improved from 29.73% as on March 31, 2021 to 33.21% as on March 31, 2022.

As on June 30, 2022, the bank's deposits stood at ₹88,196 crore and CASA proportion stood at 34.39%. The business from NRI customers contributed to 31.29% of the total deposits as on March 31, 2022.

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. The bank has been focused on gold loan, and the same has witnessed significant growth in FY22. During FY21, the share of corporate advances reduced to 25% as on March 31, 2021, from 30% 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 stood at 27% as on March 31, 2022. The proportion of large corporate advances (₹100 crore and above) increased from 5% of advances as on March 31, 2021, to 11% of advances as on March 31, 2022.

As on June 30, 2022, advances portfolio had diversified mix with corporate advances of 29%, personal advances of 23%, business loans of 28%, and agriculture advances of 20%. The bank aims to focus on better credit quality advances growth going forward.

Improvement in capitalisation levels: The bank's CAR improved to total CAR of 15.86% as on March 31, 2022, as against 15.42% as on March 31, 2021. Also, Tier-I CAR and CET1 ratio improved and stood at 13.22% and 12.13%, as on March 31, 2022 (PY: 12.79% and 11.73% as on March 31, 2021). The improvement in CRAR can be attributed partially to reduced risk weighted assets. The risk weighted assets reduced to ₹45,744 crore as on March 31, 2022 from ₹47,167 crore as on March 31, 2021, due to change in advances mix, with increase in gold loan and higher rated corporate advances.

As on June 30, 2022, capital adequacy further improved with CAR and Tier-I CAR stood at 16.25% and 13.62% as on June 30, 2022.

Key rating weaknesses

Moderate asset quality notwithstanding the improvement seen in FY22: GNPA and net NPA (NNPA) improved to 5.90% and 2.97% as on March 31, 2022, as against 6.97% and 4.71% as on March 31, 2021. The NNPA to net worth stood at 33.51% as on March 31, 2022, as against 50.70% as on March 31, 2021. During FY22, the bank had focussed on recovery and collection, thus resulting better recoveries and upgrades as compared with the previous years. In addition, the bank has also written-off loans aggregating to ₹702 crore and sale to ARC was ₹607 crore during FY22. GNPA and NNPA remained at 5.87% and 2.87% as on June 30, 2022.

Stressed assets (standard restructured asset + security receipts outstanding + GNPA/NNPA) as a percentage of gross advances stood at 12.39% as on March 31, 2022 (PY: 11.01% as on March 31, 2021) and stressed assets as a percentage of net worth stood at 87.73% as on March 31, 2022 (PY: 82.07%) as on March 31, 2022. Stressed assets increased due to restructuring under OTR 2.0. The stressed assets marginally improved to 11.66% (as a percentage of gross advances) as on June 30, 2022. The bank has also provided ECLGS loan to its customers which stood at around ₹2,665 crore as on March 31, 2022, which translates to 4.31% of gross advances.

Going forward, any significant slippages and its impact on the profitability remains a key monitorable.

Moderation in profitability in FY22, however, improved in Q1FY23: The net interest margin (NIM; as a percentage of average total assets) declined to 2.31% in FY22 from 2.53% in FY21 with increase in the share of higher rated corporate advances. Non-interest income (as a percentage of total assets) declined to 1.07% from 1.25% in FY21 on account of higher depreciation on investments. The cost to income increased to 61.89% in FY22 from 54.96% in FY21. With operating expense remaining higher while there is a decline in the total income due to reduction in yields, PPOP declined to ₹1,248 crore in FY22

from ₹1,618 crore in FY21. The credit cost decreased to 1.39% in FY22 from 1.61% in FY21. Notwithstanding the reduction in the credit cost, the bank reported loss in terms of PBT, however, with reversal of tax provisions, the bank reported PAT of ₹45 crore in FY22 (₹62 crore in FY21). The ROTA moderated 0.07% in FY21 to 0.05% in FY22. In terms of quarter-wise performance, though the company reported losses in Q2FY22 and Q3FY22, the bank had turned profitable in Q4FY22 with lowering of credit costs.

During Q1FY23, supported by relatively lower cost of funds, NIM improved to 2.41% from 2.30% in Q1FY22. The bank reported PPOP of ₹317 crore in Q1FY23 as against ₹512 crore in Q1FY22 due to reduction in the non-interest income. Credit cost improved to 0.56% in Q1FY23 from 2.12% in Q1FY22. With improvement in NIM and decrease in the credit cost, PAT improved to ₹115 crore in Q1FY23 as against ₹10 crore in Q1FY22. SIBL reported ROTA of 0.46% in Q1FY23 as against 0.04% in Q1FY22.

Regional concentration: The bank's operations are mainly concentrated in the four states of south India, especially in the state of Kerala. As on June 30, 2022, Kerala accounted for 54% of the total branch network, whereas south India accounted for 84% of the branch network. In terms of advances, Kerala accounted for 41% of the total advances, whereas south India accounted for 74% of the advances as on June 30, 2022.

Liquidity: Adequate

The liquidity profile of the bank stood comfortable with no negative cumulative mismatches across any of the time buckets as per asset liability management (ALM) statement as on August 31, 2022. Also, SIBL had excess SLR of ₹5,930 crore as on August 26, 2022. The bank also had a rollover rate of deposits of 87.84%, which provides comfort. SIBL's liquidity coverage ratio remained comfortable at 325% (quarterly average for April 2022-June 2022) against the minimum regulatory requirement of 100%. Furthermore, the bank has access to systemic liquidity by way of RBI's LAF and MSF schemes.

Analytical approach: Standalone

Applicable criteria

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE Ratings' policy on Default Recognition](#)

[Financial ratios – Financial sector](#)

[CARE Ratings' rating methodology for banks](#)

[Rating Basel-III – Hybrid capital instruments issued by banks](#)

[Criteria for Short Term Instruments](#)

About the bank

Established in 1929, The South Indian Bank Limited (SIBL) was the first 'scheduled bank' amongst the private banks in Kerala. SIBL has no identifiable promoter, and the shareholding pattern is well diversified. SIBL has a strong presence in south India and particularly in Kerala. As on March 31, 2022, SIBL had a network of 929 branches and 1,270 ATMs spread across the country. The total net business of the bank stood at ₹149,135 crore with deposits of ₹89,142 crore and net advances of ₹59,993 crore as on March 31, 2022. SIBL's CAR as per Basel III stood at 15.86% (Tier-I CAR of 13.22%) and GNPA ratio and NNPA ratio stood at 5.90% and 2.97%, respectively, as on March 31, 2022.

For FY22, SIBL reported PAT of ₹45 crore over a total income of ₹7,621 crore. During Q1FY23, SIBL reported PAT of ₹115 crore on the total income of ₹1,868 crore.

Brief Financials (₹ crore)	FY21(A)	FY22(A)	Q1FY23(P)
Total operating income	8,491	7,621	1,868
PAT	62	45	115
Total assets	93,734	99,505	1,00,632
Net NPA (%)	4.71	2.97	2.87
ROTA (%)	0.07	0.05	0.46

A: Audited; P: Provisional

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 the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
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	250.00	CARE A; Stable
Tier-II Bonds (Basel III)-III (Proposed)	-	-	-	-	250.00	CARE A; Stable
Certificate of Deposit (Proposed)	-	-	-	7 days to 1 year	7500.00	CARE A1+

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds-Lower Tier-II	LT	-	-	-	-	1)Withdrawn (01-Oct-20)	1)CARE A+; Negative (10-Oct-19)
2	Certificate Of Deposit	ST	7500.00	CARE A1+	-	1)CARE A1+ (30-Sep-21)	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (10-Oct-19)
3	Bonds-Tier-II Bonds	LT	300.00	CARE A; Stable	-	1)CARE A; Negative (30-Sep-21)	1)CARE A; Negative (01-Oct-20)	1)CARE A+; Negative (10-Oct-19)
4	Bonds-Tier-II Bonds	LT	490.00	CARE A;	-	1)CARE A; Negative	1)CARE A; Negative	1)CARE A+; Negative

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
				Stable		(30-Sep-21)	(01-Oct-20)	(10-Oct-19)
5	Bonds-Tier-II Bonds	LT	500.00	CARE A; Stable	-	1)CARE A; Negative (30-Sep-21)	1)CARE A; Negative (01-Oct-20)	1)CARE A+; Negative (10-Oct-19)

*Long term/short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
Non-financial covenants	
Tier-II Bonds (Basel III)-II	Optional Call date: On the fifth anniversary from the Date of Allotment i.e. November 28, 2022
Tier-II Bonds (Basel III)-III	Optional call date: Only after a minimum period of five years and three months post allotment of the Bonds with the approval of RBI. i.e. June 26, 2024

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please [click here](#)

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

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About us:

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