The South Indian Bank Limited

September 30, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Tier II Bonds (Basel III)- I #	300.00	CARE A; Negative (Single A; Outlook: Negative)	Reaffirmed
Tier II Bonds (Basel III)- II #	490.00	CARE A; Negative (Single A; Outlook: Negative)	Reaffirmed
Tier II Bonds (Basel III)- III #	500.00	CARE A; Negative (Single A; Outlook: Negative)	Reaffirmed
Total Long Term Instruments	**1,290.00 (Rs. 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 (Rs. 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's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier II instruments even under Basel II. CARE has rated the Tier II bonds under Basel III after factoring in the additional feature of PONV.

Detailed Rationale & Key Rating Drivers

The rating continues to factor in the bank's long track record of operations, diversified loan portfolio with relatively higher share of retail loans, satisfactory capitlisation level which has witnessed improvement in FY21 aided by fresh capital infusion and reduction in loan book/Risk Weighted Assets (RWA). The ratings are constrained by regional concentration of its business, moderate profitability and moderate asset quality which has weakened further in FY21 (refers to period from April 01 to March 31) & Q1FY21 (refers to period from April 01 to June 30). GNPA has increased from 4.98% as on March 31, 2020 to 6.97% as on March 31, 2021 and further to 8.02% as on June 30, 2021 broadly in trend with old private sector banks. Further, on account of impact of second wave of COVID-19, there has been increase in one time restructured (OTR) assets and loans extended under ECLGS in FY21 & Q1FY22. Aggregate amount of OTR and ECLGS outstanding stood at Rs.3,649 crore as on June 30, 2021, translating to 6.26% of gross advances.

Rating Sensitivities

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

- Improvement in profitability levels with ROTA of around 0.50% and improvement in asset quality

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

- Further moderation in asset quality parameters and profitability parameters
- Decline in capitalisation levels with Tier I CAR below 10.5%

Outlook: Negative

The negative outlook reflects the continuing asset quality pressure on account of covid-19 induced economic slowdown. During first wave of COVID-19, total portfolio under moratorium stood at 36.25% of advances as on June 30, 2020. While asset quality has remained stable in Q2 & Q3FY21, with lifting of moratorium GNPA increased to 6.97% as on March 31, 2021 (PY:4.98%) and restructured advances increased moderately and stood at Rs.1,277 crore. Though stressed assets witnessed significant increase in FY21, with mobilization of fresh equity capital of Rs.240 crore in the month of March 2021 and decline in advances book, total CAR has improved from 13.4% as on March 31, 2020 to 15.4% as on March 31, 2021 providing support to its credit

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

profile. However, with resumption of spread of COVID-19 pandemic from March 2021 and deeper impact of second wave of COVID-19 as compared to first wave, asset quality of SIB witnessed further moderation and gross stressed has witnessed sharp increase in quarter ended June 30, 2021 broadly in trend with some of its peers. As on June 30, 2021, Gross stressed assets (Gross NPA + Security receipts outstanding + standard restructured assets) increased to 13.19% from 8.54% as on June 30, 2020. Any sharp increase in fresh slippages/restructuring from this portfolio is likely to impact profitability significantly. The outlook may be revised to stable in case of sustained improvement in the asset quality & profitability levels and further improvement in capitalization levels especially CET 1.

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, 2021, SIBL had network of 924 branches and 1,291 ATMs. The Board consists of ten directors including six independent directors.

CASA witnessed good improvement in FY21 despite degrowth in total business
SIBL witnessed moderate degrowth in business in FY21. The net total business of the bank de-grew by 5% and stood at Rs. 140,767 crore as on March 31, 2021 as against Rs.147,473 crore as on March 31, 2020. Advances (net) of SIBL de-grew by 10% (PY: growth of 3%) and stood at Rs. 58,056 crore as on March 31, 2021 as against Rs.64,439 crore as on March 31, 2020. The bank has strategically shifted its focus towards the SME and Retails loans and reduced the corporate book with increased focus on housing loans and loan against property (LAP) and Gold Loan. As on June 30, 2021, advances stood at Rs.56,542 crore.
Aggregate deposits of the bank witnessed marginal decline and stood at Rs. 82,711 crore as on March 31, 2021 as against Rs.83,034 crore as on March 31, 2020, however, CASA proportion improved from 25% as on March 31, 2020 to 29.73% as on March 31, 2021. As on June 30, 2021, Bank's deposits grew and stood at Rs. 84,611 crore as on June 30, 2021 and CASA proportion stood at 30.40% as on June 30, 2021. Business from NRI customers contributed to 31% of the total deposits as on March 31, 2021.

Diversified advances portfolio
The bank has achieved significant progress in diversifying its loan portfolio with focus towards Retail, MSME, Agri and reducing corporate advances portfolio. The share of corporate advances which was around 30% as on March 31, 2020 has reduced to 25% as on March 31, 2021. The proportion of large corporate advances (Rs.100 crore and above) declined from 10% as on March 31, 2020 (Rs. 6,516 crore) to 5% as on March 31, 2021 (Rs.3,177 crore). As on June 30, 2021 advances portfolio had diversified mix with corporate advances of 24%, Personal Advances of 25%, Business loans of 33% and Agriculture advances of 18%. Bank has also expanded into gold loan segment and aims to focus on better credit quality advances growth going forward.

Improvement in capitalization levels with the fresh equity infusion in March 2021
The bank's capital adequacy ratio improved with total CAR of 15.42% as on March 31, 2021 as against 13.41% as on March 31, 2020. In FY21, bank raised capital amounting to Rs. 240 crore through preferential allotment on a private placement basis. Also, Tier I CAR and CET1 ratio improved and stood at 12.79% and 11.73% as on March 31, 2021 (PY: 10.79% and 9.84% as on March 31, 2020). The improvement can also be partly attributed to reduction in risk weighted assets from Rs.52,770 crore to Rs.47,167 crore during the same period due to decline in loan book and mix of loan book.
As on June 30, 2021, CAR and Tier I CAR stood at 15.47% and 12.73% as against the minimum total CAR and Tier I CAR requirement is. 10.875% and 8.875% as on June 30, 2021. Bank also has board approval to raise Tier 1 capital of Rs. 2,000 crore and Tier 2 capital of Rs. 500 crore.

Key Rating Weaknesses
Significant moderation in asset quality in FY21 and Q1FY22 primarily due to impact of COVID-19 pandemic
GNPA and NNPA moderated to 6.97% and 4.71% as on March 31, 2021 from 4.98% and 3.34% as on March 31, 2020. Net NPA to Net worth stood at 50.70% as on March 31, 2021. In addition, there was also a write-off of Rs.1,135 crore during FY21. Impacted by the second wave of covid-19, GNPA and NNPA further moderated and stood at stood at 8.02% and 5.05% respectively as on June 30, 2021.

Stressed Assets (Standard restructured asset + Security receipts outstanding + GNPA/NPA) moderated to 11.01% as a percentage of gross advances (PY: 8.28%) and 83.42% (PY: 73.79%) as a percentage of Net worth as on March 31, 2021. Stressed assets further moderated to 13.19% (as % of gross advances) as on June 30, 2021.Bank has disbursed ECLGS aggregating to Rs. 2,729 crore during FY21 and Q1FY22 which translates to 4.68% of gross advances. Ageing provisions on the existing NPAs and significant fresh slippages in FY22 is likely to have impact on the profitability levels of the bank.

Continuous decline in profitability in the past three years ended March 31, 2021
Though PPOP witnessed good increase from Rs.1,481 crore in FY18 to Rs.1,618 crore in FY21, PAT has witnessed a continuous declined from Rs.335 crore in FY18 to Rs.62 crore in FY21. ROTA declined from 0.43% in FY18 to 0.07% in FY1.
Supported by decrease in cost of funds and increase in share of low-cost deposits in the business profile, NIM (as a % of Avg. total assets) witnessed improvement from 2.46% in FY20 to 2.53% in FY21. Non-interest income (as a % of Avg. Total assets) witnessed improvement to 1.25% in FY21 from 1.11% in FY20. Within non-interest income, profit on sale of investments increased from Rs.390 crore in FY20 to Rs.420 crore in FY21. With increase in operating expenses partly due to payment of arrears in Q4FY21 on account of wage revision, PPOP declined to Rs. 1,618 crore in FY21 from Rs. 1,646 crore in FY20. ROTA declined from 0.11% in FY20 to 0.07% in FY21, due to increase in credit cost from 1.59% in FY20 to 1.61 % in FY21. The incremental provision on existing NPA accounts along with fresh slippages/restructuring is expected to have an impact on profitability in the medium term.
During Q1FY22, supported by increase in non-interest income, PPOP increased Rs. 512 crore (PY: Rs. 404crore). Profit on sale of investments was Rs.237 crore in Q1FY22 (PY: Rs.140 crore). Credit Cost increased to 2.12% in Q1FY22 from 0.80% in Q1FY21, thus resulting in decline in profitability levels with PAT at Rs. 10 crore in Q1FY22 from Rs. 82 crore in Q1FY21.

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, 2021, 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 45% of the total advances whereas South India accounted for 80% of the advances as on June 30, 2021.

Impact of Covid-19
Slippage ratio (Slippages as a % of Standard advances at the beginning of the period) of the bank has increased significantly to 3.76% aggregating to Rs. 2,340 crore in FY21 from 2.26% of advances aggregating to Rs. 1,369 crore in FY20 with majority of slippages coming from MSME portfolio. Thus, GNPA has increased to 6.97% as on March 31, 2021 as against 4.98% as on March 31, 2020. Further in Q1FY22, with higher slippages and lower recoveries, GNPA further moderated and stood at 8.02% as on June 30, 2021. Under Covid-19 Resolution Framework 1 bank has restructured Rs. 920 crore (1.58% of gross advances) as on June 30, 2021. Under ECLGS, Bank has disbursed around Rs. 2,729 crore as on June 30, 2021. Gross stressed assets increased to 13.19% as on June 30, 2021 (11.01% as on March 31, 2021 and 8.28% as on March 31, 2020). During FY21, Collection efficiency of the bank stood at 91% which reduced to 85% in Q1FY22.
During the past 18 months period ended Sep 10, 2021, growth of credit in banking industry stood in the range of 5.1% to 6.7% on y-o-y basis. Same can be attributed to COVID-19 pandemic induced economic slowdown. On account of such muted growth, many of the Public Sector Banks (PSBs) have started focusing on growing their retail portfolio as corporate segment witnessed muted growth during this period. This has resulted in increased competition in this retail segment in the past few years including FY21. Further, in the recent past, in order to enable better growth, large private sector banks have also increased their focus on MSME segments by offering relatively low interest rates which is increasing the competition for good quality MSME accounts which may lead to balance transfers mainly from small private sector peers. In view of the same, ability of the smaller banks to maintain asset quality & retain good quality borrowers in this segment will be a key challenge in the near term.

Liquidity position: Adequate
The liquidity profile of the bank stood comfortable with no negative cumulative mismatches across any of the time buckets as per ALM statement as on August 31, 2021. Also, SIBL had excess SLR of Rs. 7,457 crore as on August 27, 2021. The bank also had a rollover rate of deposits of 88.46% which provides comfort. SIBL's liquidity coverage ratio remained comfortable at 402% (quarterly average for April 2021-June 2021) 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's Policy on Default Recognition
Financial Ratios-Financial Sector
Criteria for Short Term Instruments
CARE's Rating Methodology for Banks
Rating framework for Basel III 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, 2021, SIBL had a network of 884 branches and 1,315 ATMs spread across the country. The total business of the bank stood at Rs.1,40,767 crore with deposits of Rs.82,711 crore and net advances of Rs.58,056 crore as on March 31, 2021. SIBL's Capital Adequacy Ratio (CAR) as per Basel III stood at 15.42% (Tier I CAR of 12.79%) and Gross NPA Ratio and Net NPA ratio stood at 6.97% and 4.71% respectively as on March 31, 2021.
For FY21, SIBL reported PAT of Rs.62 crore over total income of Rs.8,491 crore. During Q1FY21, SIBL reported PAT of Rs.10 crore on the total income of Rs.2,086 crore.

Brief Financials (Rs. crore)	FY20 (A)	FY21(A)
Total operating income	8,810	8,491
PAT	105	62
Total Assets	96,656	93,734
Net NPA (%)	3.34	4.71
ROTA (%)	0.11	0.07

A: Audited
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: Please refer Annexure-2

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

Complexity level of 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 (Rs. 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; Negative
Tier II Bonds (Basel III)-II	INE683A08036	November 28, 2017	9.50	May 28, 2028	490.00	CARE A; Negative
Tier II Bonds (Basel III)-III	INE683A08044	March 26, 2019	11.75	June 26, 2029	250.00	CARE A; Negative
Tier II Bonds (Basel III)-III (Proposed)					250.00	CARE A; Negative
Certificate of Deposit		-	-	7 days to 1 year	7500.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds-Lower Tier II	LT	-	-	-	1)Withdrawn (01-Oct-20)	1)CARE A+; Negative (10-Oct-19)	1)CARE A+; Stable (08-Oct-18)
2	Certificate Of Deposit	ST	7500.00	CARE A1+	-	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (10-Oct-19)	1)CARE A1+ (08-Oct-18)
3	Bonds-Tier II Bonds	LT	300.00	CARE A; Negative	-	1)CARE A; Negative (01-Oct-20)	1)CARE A+; Negative (10-Oct-19)	1)CARE A+; Stable (08-Oct-18)
4	Bonds-Tier II Bonds	LT	490.00	CARE A; Negative	-	1)CARE A; Negative (01-Oct-20)	1)CARE A+; Negative (10-Oct-19)	1)CARE A+; Stable (08-Oct-18)
5	Bonds-Tier II Bonds	LT	500.00	CARE A; Negative	-	1)CARE A; Negative (01-Oct-20)	1)CARE A+; Negative (10-Oct-19)	1)CARE A+; Stable (13-Dec-18)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 5 years and 3 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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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