The South Indian Bank Limited

October 10, 2019

Ratings

Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Lower Tier II Bonds	200	CARE A+; Negative (Single A Plus; Outlook: Negative)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Tier II Bonds (Basel III Compliant)-I#	300	CARE A+; Negative (Single A Plus; Outlook: Negative)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Tier II Bonds (Basel III Compliant)-II#	490	CARE A+; Negative (Single A Plus; Outlook: Negative)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Tier II Bonds (Basel III Compliant)-III#	500	CARE A+; Negative (Single A Plus; Outlook: Negative)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Certificate of Deposits	7,500*	CARE A1+ (A One Plus)	Reaffirmed
Total	**8,990 (Rupees Eight thousand nine hundred and ninety crore only)**		

*Details of instruments/facilities in Annexure-1; *outstanding amount of Rs.2,865 crore as on Sep 09, 2019*

#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 ratings assigned to the debt instruments of SIBL continue to factor in the bank's long track record of operations and consistent growth in business. The rating also takes note of the current capitalisation levels with CAR and Tier I CAR of 12.17% and 9.70% as on June 30, 2019 in the light of regulatory requirement (including CCB) of CAR and Tier I CAR of 11.50% and 9.50% as on March 31, 2020. The ratings are constrained by regional concentration of its business, moderate asset quality and moderate profitability. Notwithstanding relatively stable NIM in the past three years ended March 31, 2019, higher provisions continue to impact the bank's profitability as reflected in relatively low ROTA.

The ability of the bank to improve its profitability & asset quality and to improve its capital adequacy levels in view of change in minimum capital requirement as per RBI guidelines will be key rating sensitivities.

Outlook: Negative

The Negative outlook reflects the expectation that the incremental provisions and fresh slippages, if any is likely to have an impact on the profitability and capital adequacy levels of the bank. The outlook may be revised to Stable in case of sustained improvement in the asset quality and capitalization levels.

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, 2019, SIBL had network of 870 branches and 1,400 ATMs. The Board consists of ten Directors including six Independent directors.

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

Consistent growth in business for the past three years

SIBL witnessed continuous growth in business over the last three years. The total business of the bank grew by 16%, 13% and 13% respectively during FY17, FY18 and FY19.

The total business of the bank stood at Rs.1,43,114 crore as on March 31, 2019, registering a growth of 13% from the level of Rs.1,26,592 crore as on March 31, 2018.

Advances (net) of SIBL grew by 15% (PY: growth of 18%) to reach Rs.62,694 crore as on March 31, 2019 from Rs.54,563 crore as on March 31, 2018. Non-corporate advances (< Rs.25 crore) grew by 22% from Rs.34,671 crore as on March 31, 2018 to Rs.42,200 crore as on March 31, 2019. The bank has shifted its focus towards the SME and Retails loans with increased focus on housing loans and loan against property (LAP). As on June 30, 2019, advances stood at Rs.62,658 crore.

Aggregate deposits of the bank registered a growth of 12% to reach Rs.80,420 crore as on March 31, 2019 from Rs.72,030 crore as on March 31, 2018. Savings deposits grew by 15% from Rs.14,084 crore as on March 31, 2018 to Rs.16,135 crore as on March 31, 2019 and current deposits grew by 9% from Rs.3,058 crore as on March 31, 2018 to Rs.3,332 crore as on March 31, 2019 resulting in improvement in CASA proportion from 23.80% as on March 31, 2018 to 24.20% as on March 31, 2018. Business from NRI customers contributed to 27% of the total deposits. As on June 30, 2019, total deposits stood at Rs.81,723 crore and CASA proportion stood at 24.10%.

Adequate liquidity position

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 June 30, 2019. As on June 30, 2019, the bank had excess SLR investments of Rs.2,468 crore. The bank also had rollover rate of deposits of 88% during FY19 which provides comfort. SIBL's liquidity coverage ratio remained comfortable at 248.06% (quarterly average for Apr'19-Jun'19) against the minimum regulatory requirement of 100%. Further, the bank has access to systemic liquidity by way of RBI's LAF and MSF schemes.

Key Rating Weaknesses

Adequate capitalization levels; However, fresh equity infusion is required for further growth in advances and maintain CAR above regulatory levels

The capital adequacy ratio (CAR) remained adequate at 12.61% as on March 31, 2019 as compared to 12.70% as on March 31, 2018. In March 2019, the bank had raised Tier II bond issue amounting to Rs.250 crore. Tier I CAR and CET1 stood at 9.97% as on March 31, 2019. As on June 30, 2019, CAR and Tier I CAR stood at 12.17% and 9.70% respectively. Tier I CAR stood at 9.71% as on June 30, 2019. With the prescribed CAR of 11.50% and Tier I CAR of 9.50% (including CCB) as on March 31, 2020, the bank would require additional equity in order to enable growth in advances.

Significant moderation in asset quality during FY19

GNPA and NNPA moderated from 3.59% (Rs.1,980 crore) and 2.60% (Rs.1,416 crore) as on March 31, 2018 to 4.92% (Rs.3,132 crore) and 3.45% (Rs.2,164 crore) as on March 31, 2019. Net NPA to Networth increased from 28.91% as on March 31, 2018 to 42.78% as on March 31, 2019. During FY19, fresh NPA additions (gross) stood at Rs.1,848 crore as compared to Rs.1,810 crore in FY18. As on June 30, 2019, GNPA and NNPA remained at 4.96% and 3.41% respectively.

Stressed Assets (Standard restructured asset + Security receipts outstanding + GNPA/NNPA) stood at 7.28% (PY: 6.16%) to gross advances and 72.43% (PY: 57.76%) to Networth as on March 31, 2019.

The bank has strengthened the recovery department with improvement in the tracking mechanism for NPAs and as a result, recoveries and upgradations increased from Rs.350 crore in FY18 to Rs.410 crore in FY19. Ageing provisions on the existing NPAs and any significant fresh slippages in FY20 is likely to have impact on the profitability and capitalization levels of the bank.

Moderate profitability levels

Net Interest Margin (NIM) stood at 2.32% in FY19 as against 2.51% in FY18. Bank's operating profit declined to Rs.1,239 crore (FY18: Rs.1,481 crore) owing to increase in operational expenses by 14% majorly due to increase in employee expenses and opening of new branches during FY19. Owing to the same, bank's cost to income witnessed deterioration during FY19 and stood at 54.88% for FY19 as against 47.17% for FY18.

Lower profitability is also on account of higher provisioning requirement for NPA due to increased slippages during FY19. With provisions of Rs.858 crore during FY19, PAT declined from Rs.335 crore in FY18 to Rs.248 crore in FY19. The incremental provision on existing NPA accounts along with fresh slippages during the year is expected to have an impact on profitability in the medium term.

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, 2019, 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 40% of the total advances whereas South India accounted for 71% of the advances as on June 30, 2019.

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]
[Bank - CARE's Rating Methodology for Banks]
[Bank - Rating framework for Basel III instruments (Tier I & Tier II)]
[Criteria for Short term instruments]

About the Company
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, 2019, SIBL had a network of 870 branches and 1,406 ATMs spread across the country. The total business of the bank stood at Rs.1,43,114 crore with deposits at Rs.80,420 crore and advances at Rs.62,694 crore as on March 31, 2019. SIBL's Capital Adequacy Ratio (CAR) as per Basel III stood at 12.61% (Tier I CAR of 9.97%) and Gross NPA Ratio of 4.92% and Net NPA Ratio of 3.45% as on March 31, 2019.
For FY19, SIBL reported PAT of Rs.248 crore over total income of Rs.7,603 crore . During Q1FY20, SIBL reported PAT of Rs.73 crore on total income of Rs.2,077 crore.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	7,030	7,603
PAT	335	248
Total Assets	82,340	91,999
Net NPA (%)	2.60	3.45
ROTA (%)	0.43	0.28

A: Audited
Status of non-cooperation with previous CRA:
Not Applicable
Any other information:
Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN No.	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	August 20, 2009	INE683A09091	9.75	April 20, 2020	200.00	CARE A+; Negative
Bonds-Tier II Bonds-I	September 30, 2015	INE683A08028	10.25	October 31, 2025	300.00	CARE A+; Negative
Bonds-Tier II Bonds-II	November 28, 2017	INE683A08036	9.50	May 28, 2028	490.00	CARE A+; Negative
Bonds-Tier II Bonds-III	March 26, 2019	INE683A08044	11.75	June 26, 2029	250.00	CARE A+; Negative
Bonds-Tier II Bonds-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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Lower Tier II	LT	200.00	CARE A+; Negative	-	1)CARE A+; Stable (08-Oct-18)	1)CARE A+; Stable (06-Oct-17)	1)CARE A+ (18-Oct-16)
2.	Certificate Of Deposit	ST	7500.00	CARE A1+	-	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (14-Feb-18) 2)CARE A1+ (06-Oct-17)	1)CARE A1+ (18-Oct-16)
3.	Bonds-Tier II Bonds	LT	300.00	CARE A+; Negative	-	1)CARE A+; Stable (08-Oct-18)	1)CARE A+; Stable (06-Oct-17)	1)CARE A+ (18-Oct-16)
4.	Bonds-Tier II Bonds	LT	490.00	CARE A+; Negative	-	1)CARE A+; Stable (08-Oct-18)	1)CARE A+; Stable (06-Oct-17)	1)CARE A+ (28-Oct-16)
5.	Bonds-Tier II Bonds	LT	500.00	CARE A+; Negative	-	1)CARE A+; Stable (13-Dec-18)	-	-

***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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