

**RESEARCH****[INITIATION] SOUTH INDIAN BANK | TARGET: Rs 46 | +24% | BUY**

AQ improvement drives RoA recovery, supports re-rating

**SUMMARY****[INITIATION] SOUTH INDIAN BANK**

- Portfolio recalibration towards granular retail and MSME segments; AQ improves as legacy stress eases and share of new book increases
- Improving earning profile largely driven by lower credit costs and operating leverage; RoA up to 1.0% in 9MFY26 vs low of 0.06% in FY21
- Initiate coverage on SIB with a BUY and TP of Rs 46 (0.9x FY28E ABV) vs 1YF P/ABV of 0.8x and 3Y avg P/ABV of 0.7x

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**BUY**

TP: Rs 46 | ▲ 24%

**SOUTH INDIAN BANK**

| Banking

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**Loan mix recalibration towards retail and MSME strengthens quality growth:**

South Indian Bank (SIB) continues to pivot towards high-yielding retail and MSME segments. Retail growth has remained robust at 22%+ YoY over the past few quarters, mainly led by gold loans, ramping up the share to 28.1% in Q3FY26 (vs 24.9% in FY21). MSME share declined sharply to 14.2% in Q1FY26 (vs 32.7% in FY21), due to asset quality (AQ) stress during Covid and Kerala floods. However, the share has stabilised since, with growth resuming from Q2FY26 and share inching up to 14.5% in Q3FY26. SIB aims reducing corporate share to ~33% over the medium term (vs 39.6% currently). Gold loans have scaled up to ~22% (vs ~15% in FY21), supporting secured growth. We expect overall loan growth to be driven by retail and MSME book, aiding portfolio granularity and yield improvement.

**Legacy stress eases as robust new book drives AQ:** AQ has improved significantly with total stressed assets falling to Rs 11.1bn or 1.2% of net loans as of Q3FY26 vs Rs 57.9bn or 9.7% in FY22. A focused clean-up, tighter & selective underwriting standard of new book from Sep'20 and accelerated write-offs have improved risk profile. New book accounts for 85% of gross loans as of Q3FY26 with a low GNPA ratio of 0.5% in the last few quarters vs. 15.1% in the old book. In addition, SIB improved its PCR excluding w/off to 83.5% in Q3FY26 from a low of 34% in FY21, indicating adequate cover to absorb any potential loan defaults.

**Improving earnings profile mainly on lower credit costs:** Improving AQ led to a sharp decline in credit costs to 0.6% in 9MFY26 from 2.6% in FY21. This normalisation, along with falling C/I ratio to 57.2% (Q3FY26) vs ~61-62% during FY22-24, led to an improvement in RoA to 1.0% (9MFY26) vs. low of 0.06% (FY21).

**Valuation and key risks:** SIB's strategic shift in the loan mix and improving AQ is expected to sustain earnings recovery. We expect SIB to deliver healthy return ratios with RoA/ RoE of 1.1%/ 13.2% by FY28E. We remain watchful of the management uncertainty (MD & CEO's term set to expire in Sep'26) and high share of NRI deposits (28.7% of total - Dec'25) amid West Asia war. Initiate coverage with BUY and TP of Rs 46 (0.9x FY28E ABV) vs 1YF P/ABV of 0.8x.

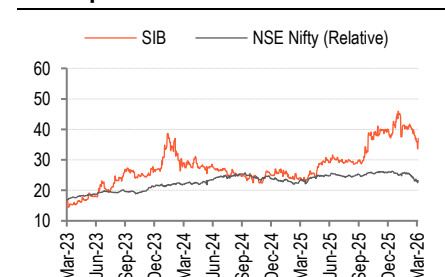
Ticker/Price	SIB IN/Rs 37
Market cap	US\$ 1.0bn
Free float	100%
3M ADV	US\$ 10.9mn
52wk high/low	Rs 47/Rs 22
Promoter/FPI/DII	0%/21%/14%

Source: NSE | Price as of 25 Mar 2026

**Key financials**

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	34,856	33,982	39,990
NII growth (%)	4.6	(2.5)	17.7
Adj. net profit (Rs mn)	13,029	13,879	15,904
EPS (Rs)	5.0	5.3	6.1
Consensus EPS (Rs)	5.0	5.4	6.0
P/E (x)	7.4	7.0	6.1
P/BV (x)	1.0	0.9	0.8
ROA (%)	1.1	1.0	1.1
ROE (%)	13.8	12.9	13.1

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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