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## Balance sheet alteration on course...

**About the stock:** Established in 1929, South Indian Bank is old south based private sector bank headquartered in Thrissur, Kerala. Digitization, product & process innovation and granular sustainable growth remains key focus, enabling resilient performance amid change in asset mix.

- Advances mix: Corporates – 40%, Retail – 28%, Agri – 17%, MSME – 15%

**Q3FY26 performance:** South Indian Bank reported healthy Q3FY26 performance, with improvement in margins supported by healthy loan growth and sustained asset quality. Gross advances grew 11.3% YoY (4.9% QoQ) to ₹96,764 crore, driven by broad-based momentum in the RAM segment, while deposits increased 12.2% YoY (2.2% QoQ) to ₹1,18,211 crore. NIM improved by 6 bps QoQ to 2.86%, while NII rose 8.9% QoQ to ₹881 crore. Other income moderated 5.8% QoQ to ₹486 crore, due to lower treasury gains. Provisions increased to ₹80 crore (up 27% QoQ), PCR improved 132 bps sequentially to 91.57%. Asset quality continued to strengthen, with GNPA/NNPA improving to 2.7%/0.5%, down 26/11 bps QoQ. PAT grew 9.5% YoY (6.5% QoQ) to ₹374 crore, with RoA improving 5 bps sequentially to 1.07%.

### Investment Rationale:

- Structural rebalancing driven by granular growth:** The bank continues to progress toward a more granular loan book, with advances up 11.3% YoY, led by strong retail growth of ~23% YoY and healthy MSME traction. Gold loans grew ~26% YoY, taking their share to ~22% of advances (vs 20% in Q2FY26), supporting yield stability. Management reiterated its medium-term intent to reduce corporate exposure towards ~1/3rd of total advances (from ~40% currently), with bias towards expanding RAM segment. Calibrated shift toward retail and MSME is expected to improve portfolio granularity and support sustainable return ratios over the medium term.
- Margin normalisation underway:** After multiple quarters of pressure from rate transmission, management indicated that NIMs are close to a trough, with Q3 showing early signs of stabilisation (up 6 bps QoQ to 2.86%). While near-term margins may remain range-bound amid repo-linked repricing, mitigation levers—including controlled corporate growth, TD repricing, and a gradual tilt towards higher-yielding retail/MSME assets—are expected to support recovery over the medium term. Asset quality remains a key positive, with slippages contained at 0.16% (vs 0.21% in Q2FY26), GNPA/NNPA down 26/11 bps sequentially to 2.67%/0.45% respectively and PCR maintained above 90%. Management guided for benign credit cost (sub-1%), providing downside protection to earnings and supporting a steady improvement in RoA as growth momentum sustains along with increasing granularity.

### Rating and Target Price

- Margin pressures are easing, asset quality remains resilient and execution on gradual loan-mix realignment continues, supporting sustained earnings and return ratio at ~1% in FY26-28E.
- Rolling estimates to FY28E and factoring improving fundamentals and sustained return ratio, we value the bank at ~1x FY28E ABV, thereby revising our target price to ₹ 52 (earlier ₹38). Maintain Buy rating on the stock.

### Key Financial Summary

₹ crore	FY23	FY24	FY25	3 Year CAGR (FY22-FY25)	FY26E	FY27E	FY28E	3 Year CAGR (FY25-FY28E)
NII	3,012	3,332	3,486	16%	3,418	3,993	4,541	9%
PPP	1,508	1,868	2,270	22%	2,312	2,450	2,862	8%
PAT	775	1,070	1,303	208%	1,365	1,425	1,639	8%
ABV (₹)	24.0	28.1	34.3		40.8	46.0	52.1	
P/E	11.9	10.8	8.8		8.4	8.1	7.0	
P/ABV	1.8	1.6	1.3		1.1	1.0	0.8	
RoA	0.7	1.0	1.1		1.0	1.0	1.0	
RoE	12.4	13.8	13.8		12.7	11.7	11.9	

Source: Company, ICICI Direct Research



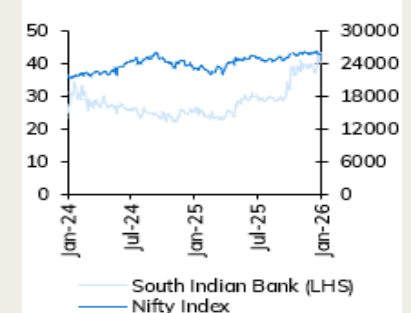
### Particulars

Particulars	Amount
Market Capitalisation	₹ 11,660 crore
52 week H/L	45.3/22.1
Net Worth	₹ 11,011 crore
Face value	1.0

### Shareholding pattern

	Dec-24	Mar-25	Jun-25	Sep-25
FII	11.5	12.0	17.6	17.6
DII	7.3	10.4	11.1	11.1
Others	81.3	77.6	71.3	71.3

### Price Chart



### Key risks

- Business growth trailing industry growth
- Higher traction in corporate loans to keep margin benign

### Research Analyst

Vishal Narnolia  
vishal.narnolia@icicisecurities.com

CA Parth Chintkindi  
parth.chintkindi@icicisecurities.com

## Concall highlights and outlook

### Performance and growth outlook

- Advances increased 11.3% YoY (4.9% QoQ) to ₹96,764 crore, led by strong traction in retail (up 20% YoY), gold loans (up 25.6%), while there was no run-down in corporate book this quarter (~40% of total advances). Management noted that growth would have been ~12.4% YoY had the bank not technically written off ₹900 crore in March 2025.
- Deposits increased 12% YoY to ₹1,18,211 crore, CASA balances increased 15% YoY to ₹37,640 crore, indicating healthy granular deposit mobilisation. CASA ratio stands at 31.8%
- Management reiterated loan growth guidance of 12% and above, with Jan-Mar seasonality expected to remain supportive
- Corporate share remains ~40%, but management clarified that QoQ growth in corporate is largely "transaction banking balances", while the core corporate book has not grown materially.
- Mix shift is expected to be gradual quarter-by-quarter, given reliance on branch-led origination. Medium-term aspiration is to move toward ~33% corporate with the balance in Retail/MSME/Agri
- MSME strategy is centred on branch-originated, smaller-ticket loans with 400–500 bps NIM, supported by digital underwriting using GST, tax, and bank data; management expects this segment to be a key profitability driver.

### Margins

- NIM improved 6 bps QoQ to 2.86%, marking early stabilisation after prior margin pressure.
- Management expects NIM to stabilise, assuming no further repo cuts. There may be marginal downward bias near-term due to the 25 bps rate cut, but this should be largely offset by ~20% of the deposit book repricing within the quarter.
- Management expects NII to broadly track loan growth over the next few quarters, assuming no sharp additional rate cuts.

### Asset Quality & Opex

- Asset quality trends remained benign, with the slippage ratio improving to 16 bps (vs 21 bps in Q2FY26), reflecting strong collection efficiency and conservative underwriting.
- GNPA declined sharply to 2.67% (down 26 bps QoQ), while NNPA improved to 0.45% (down 11 bps QoQ), aided by recoveries exceeding fresh slippages; part of the YoY improvement also reflects the ₹900 crore technical write-off.
- Provision coverage strengthened further, with PCR (incl. write-offs) at 91.57% and PCR (ex write-offs) at 83.5%, providing strong balance sheet protection.

### Other updates

- Co-origination/partnership book stands at ~₹1,900 crore (largely gold-backed ~1,500 crore), with management continuing to leverage RBI co-lending guidelines.
- Branch expansion remains measured, with ~10–12 new branches primarily in core markets (TN, AP, Telangana, Karnataka).
- Capital position remains comfortable with CRAR at 17.84% and Tier-1 at 16.88%, providing sufficient headroom for growth.
- CD ratio stood at ~82%; management sees room to move toward 85–86% while maintaining funding discipline and cost control.
- Capital and Liquidity: CRAR at 17.7% and Tier-1 at 16.8%; IFR stood at ₹10 crore (debit). Slight dip in Tier-1 due to Tier-2 bond repayment and investment book expansion.

**Exhibit 1: Variance Analysis**

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
NII	880.7	869.3	1.3	808.8	8.9	Growth in advance and margins aid sequential uptick
NIM (%)	2.86	3.19	-33 bps	2.80	6 bps	Transmission of rate cut offset by increase in CD ratio
Other Income	485.9	409.1	18.8	515.7	-5.8	Aided by healthy treasury gains and recoveries
Net Total Income	1,366.6	1,278.4	6.9	1,324.5	3.2	
Staff cost	428.7	419.4	2.2	419.8	2.1	Largely stable owing to no increase in headcount
Other Operating	353.6	329.9	7.2	369.2	-4.2	
PPP	584.3	529.0	10.5	535.6	9.1	
Provision	80.4	66.0	21.8	63.3	27.1	Continued moderation in slippages at 16 bps
PBT	503.9	463.0	8.8	472.3	6.7	
Tax Outgo	129.6	121.0	7.1	120.9	7.2	
PAT	374.3	342.0	9.5	351.4	6.5	Aided by business traction and steady other income
<b>Key Metrics</b>						
GNPA	2.7	4.3	-163 bps	2.9	-26 bps	Contained slippages and steady recoveries
NNPA	0.5	1.3	-80 bps	0.6	-11 bps	
Gross Advances	96,764	86,966	11.3	92,286	4.9	Driven by retail (23% YoY) and pick up in corporate segment (9.7% YoY)
Deposit	118,211	105,386	12.2	115,635	2.2	Continued traction in TD; CASA growth modest

Source: Company, ICICI Direct Research

## Financial Summary

**Exhibit 2: Profit and loss statement** ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Interest Earned	9,413	9,849	11,094	12,305
Interest Expended	5,928	6,430	7,100	7,763
Net Interest Income	3,486	3,418	3,993	4,541
Growth (%)	4.6%	-1.9%	16.8%	13.7%
Non Interest Income	1,813	2,068	1,974	2,122
Net Income	5,299	5,487	5,967	6,664
Employee cost	1,671	1,719	1,852	2,012
Other operating Exp.	1,357	1,455	1,666	1,790
Operating expenses	3,028	3,175	3,518	3,802
Operating Income	2,270	2,312	2,450	2,862
Provisions	513	480	537	662
PBT	1,757	1,832	1,912	2,200
Taxes	454	467	488	561
Net Profit	1,303	1,365	1,425	1,639
Growth (%)	21.8%	4.8%	4.4%	15.0%
EPS (₹)	4.98	5.22	5.45	6.26

Source: Company, ICICI Direct Research

**Exhibit 3: Key ratios** ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
No. of shares (crore)	262	262	262	262
EPS (₹)	5.0	5.2	5.4	6.3
BV (₹)	37.3	42.5	48.0	54.2
ABV (₹)	34.3	40.8	46.0	52.1
P/E	8.8	8.4	8.1	7.0
P/BV	1.3	1.1	1.0	0.8
P/ABV	1.3	1.1	1.0	0.8
<u>Yields &amp; Margins (%)</u>				
Net Interest Margins	3.3	2.9	3.0	3.1
Avg. cost on funds	5.4	5.4	5.3	5.3
Yield on average advances	9.0	8.5	8.4	8.5
<u>Quality and Efficiency (%)</u>				
Cost to income ratio	57.2	57.9	58.9	57.1
Credit/Deposit ratio	79.7	79.8	80.7	81.3
GNPA %	3.2	2.6	2.4	2.2
NNPA %	0.9	0.5	0.5	0.5
RoE	13.8	12.7	11.7	11.9
RoA	1.1	1.0	1.0	1.0

Source: Company, ICICI Direct Research

**Exhibit 4: Balance sheet** ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
<u>Sources of Funds</u>				
Capital	262	262	262	262
ESOP O/s	7.7	7.7	7.7	7.7
Reserves and Surplus	9,839	11,203	12,627	14,265
Networth	10,108	11,472	12,896	14,534
Deposits	107,522	120,241	133,189	148,004
Borrowings	4,300	6,238	5,911	6,019
Other Liabilities & Provisions	2,724	3,474	4,734	5,057
Total	124,655	141,424	156,730	173,614

Application of Funds

Cash and balances with RBI	5,098	3,968	4,662	5,180
Balances with banks at call	7,162	7,214	7,991	8,880
Investments	21,777	28,858	30,633	32,561
Advances	85,682	95,964	107,480	120,377
Fixed Assets	1,018	1,039	1,111	1,223
Other Assets	3,918	4,381	4,853	5,393
Total	124,655	141,424	156,730	173,614

Source: Company, ICICI Direct Research

**Exhibit 5: Growth** (%)

(% growth)	FY25	FY26E	FY27E	FY28E
Total assets	6.2	13.5	10.8	10.8
Advances	9.8	12.0	12.0	12.0
Deposit	5.5	11.8	10.8	11.1
Total Income	9.3	3.5	8.8	11.7
Net interest income	4.6	-1.9	16.8	13.7
Operating expenses	1.7	4.8	10.8	8.1
Operating profit	21.5	1.8	6.0	16.8
Net profit	21.8	4.8	4.4	15.0
Net worth	14.5	13.5	12.4	12.7
EPS	21.7	4.8	4.4	15.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Jeetu Jawrani Email address: [headsquality@icicidirect.com](mailto:headsquality@icicidirect.com) Contact Number: 18601231122

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