The South Indian Bank Limited
October 01, 2020

Ratings

Instruments	Amount (Rs. crore)	Ratings[16]	Rating Action
Tier II Bonds (Basel III Compliant)-I #	300	CARE A; Negative (Single A; Outlook: Negative)	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)
Tier II Bonds (Basel III Compliant)-II #	490	CARE A; Negative (Single A; Outlook: Negative)	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)
Tier II Bonds (Basel III Compliant)-III #	500	CARE A; Negative (Single A; Outlook: Negative)	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)
Certificate of Deposits	7,500	CARE A1+ (A One Plus)	Reaffirmed
Lower Tier II Bonds	-	-	Withdrawn
Total	**8,790 (Rs. Eight thousand seven hundred ninety 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 revision in the long-term ratings assigned to the debt instruments of The South Indian Bank Limited (SIBL) factors in the continuous moderation in asset quality and profitability in the past three years ended March 31, 2020. GNPA has moderated from 2.45% as on March 31, 2017 to 4.98% as on March 31, 2020, with majority of the slippages coming from the corporate segment and ROTA has declined from 0.57% in FY17 to 0.11% in FY20 (refers to the period April 1 to March 31). The advances portfolio of the bank witnessed CAGR of 11% during the period from FY17-FY20 along with reduction in corporate loan portfolio from 38% as on March 31, 2017 to 28% as on March 31, 2020. Though same has resulted in significant improvement in pre-provisioning profit, PAT has declined from Rs.393 crore in FY17 to Rs.105 crore in FY20 due to increase in provisions. The ratings also take note of the decline in market capitalization of SIBL over the last two years ended March 31, 2020.

The rating continues to factor in the bank's long track record of operations, diversified loan portfolio with relatively higher share of retail loans, current capitalisation levels with CAR, Tier I CAR and CET 1 of 13.49%, 10.82% and 9.88%, respectively, as on June 30, 2020, which are above regulatory requirement. The ratings are constrained by regional concentration of its business, moderate asset quality and moderate profitability.

CARE has withdrawn the rating assigned to the Lower Tier II bonds issue of The South Indian Bank Limited with immediate effect, as the company has repaid the aforementioned bonds in full and there is no amount outstanding under the issue as on date.

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

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

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

- Further moderation in asset quality parameters and profitability parameters
- Decline in capitalisation levels

Outlook: Negative

The negative outlook reflects the likelihood of continuing asset quality pressure due to COVID-19 pandemic-induced economic slowdown. As on June 30, 2020, standard restructured advances stood at Rs.1,065 crore (mainly MSME accounts) and total portfolio is under moratorium stood at 36.25% of advances. 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 and profitability 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, 2020, SIBL had network of 875 branches and 1,426 ATMs. The Board consists of ten directors including six independent directors.

Moderate growth in business in FY20 after many years of consistent growth

SIBL witnessed a slow growth in business in FY20. The total business of the bank grew by 3% and stood at Rs.147,473 crore as on March 31, 2020 as against Rs.143,114 crore as on March 31, 2019. Advances (net) of SIBL grew by 3% (PY: growth of 15%) and stood at Rs.64,439 crore as on March 31, 2020, as against Rs.62,694 crore as on March 31, 2019. Non-corporate advances (< Rs.25 crore) grew by 11% (PY: 22%) from Rs.42,200 crore as on March 31, 2019 to Rs.46,865 crore as on March 31, 2020. 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, 2020, advances stood at Rs.64,593 crore.

Aggregate deposits of the bank registered a growth of 3% (PY: 12%) and stood at Rs.83,034 crore as on March 31, 2020 as against Rs.80,420 crore as on March 31, 2019. CASA proportion improved from 24.21% as on March 31, 2019 to 25% as on March 31, 2020. Business from NRI customers contributed to 29% of the total deposits as on March 31, 2020. As on June 30, 2020, total deposits stood at Rs.82,469 crore, and CASA proportion stood at 26.89%.

Diversified advances portfolio

In addition to consistent growth in the past five years (except FY20), the bank has achieved significant progress in diversifying its loan portfolio and reducing corporate advances portfolio. During FY16-FY20, share of retail portfolio increased from 24% as on March 31, 2016 to 32% as on March 31, 2020. During the same period, share of corporate advances which was around 39% as on March 31, 2016 has reduced to 28% as on March 31, 2020. Within this, proportion of large corporate advances (Rs.100 crore and above) declined from 19% as on March 31, 2016 (Rs.10,592 crore) to 8% as on March 31, 2020 (Rs.6,516 crore) and further to 7% (Rs.5,920 crore) as on June 30, 2020. As on June 30, 2020, advances portfolio had diversified mix with corporate advances of 28%, Retail advances of 32%, MSME advances of 25% and Agriculture advances of 15%.

Adequate capitalization levels with the bank raising AT1 bonds during FY20; however, fresh equity infusion is required for further growth in advances

The bank's capital adequacy ratio improved with total CAR of 13.41% as on March 31, 2020 as against 12.61% as on March 31, 2019. In FY20, the bank had raised Additional Tier I bonds amounting to Rs.500 crore. Also, Tier I CAR and CET1 stood at 10.79% and 9.84% as on March 31, 2020 (PY: 9.97% as on March 31, 2019). As on June 30, 2020, CAR, Tier I CAR and CET 1 stood at 13.49%, 10.82%, and 9.88%, respectively. The minimum total CAR and Tier I CAR requirement is 11.50% and 9.5% as on April 1, 2021. It is to be noted that the market capitalisation of SIBL has witnessed continuous fall in the past two years ended March 31, 2020, which limits the quantum of funds which can be mobilised through fresh equity capital.

Key Rating Weaknesses

Significant moderation in asset quality in the past three years ended March 31, 2020

There has been a continuous moderation in the asset quality with GNPA and NNPA moderated from 2.45% and 1.45% as on March 31, 2017 to 4.98% and 3.34%. Net NPA to Net worth stood at 42.18% as on March 31, 2020. In addition, there was also a write-off of Rs.868 crore during FY20. As on June 30, 2020, GNPA and NNPA stood at 4.93% and 3.09%, respectively.

Stressed Assets (Standard restructured asset + Security receipts outstanding + GNPA/NNPA) moderated to 8.25% (PY: 7.25%) to gross advances and 84.21% (PY: 72.10%) to Net worth as on March 31, 2020. Ageing provisions on the existing NPAs and any significant fresh slippages in FY21 is likely to have impact on the profitability levels of the bank.

Continuous decline in profitability in the past three years ended March 31, 2020

Though PPOP witnessed good increase from Rs.1,215 crore in FY17 to Rs.1,646 crore in FY20, PAT declined from Rs.393 crore in FY17 to Rs.105 crore in FY20. ROTA declined from 0.57% in FY17 to 0.11% in FY20.

Net interest margin (NIM) stood at 2.46% in FY20 as against 2.32% in FY19. Bank's PPOP improved to Rs.1,646 crore in FY20 from Rs.1,239 crore in FY19 supported by increase in lending rates and increase in non-interest income. Within non-interest income profit on sale of investments increased from Rs.120 crore in FY19 to Rs.390 crore in FY20. However, on account of higher provisions, PAT declined by 58% from Rs.248 crore in FY19 to Rs.105 crore in FY20. Provisions & write-off increased to Rs.1,496 crore in FY20 from Rs.858 crore in FY19 on account of higher provisions towards NPA and towards security receipts.

The incremental provision on existing NPA accounts along with fresh slippages/restructuring 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, 2020, Kerala accounted for 55% of the total branch network, whereas south India accounted for 84% of the branch network. In terms of advances, Kerala accounted for 42.81% of the total advances whereas South India accounted for 74.35% of the advances as on June 30, 2020.

Impact of Covid-19

As on June 30, 2020, 36.25% of the total portfolio was under moratorium and same has witnessed improvement subsequently to around 26% by end of August 2020. The bank has already made provisions of Rs.100.45 crore as on June 30, 2020 for the impact of Covid-19. Any slippages from the moratorium book is expected to impact asset quality and profitability going forward.

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 June 30, 2020. As on June 30, 2020, the bank had excess SLR investments of Rs.2,487 crore. The bank also had rollover rate of deposits of 86.45% during FY20 which provides comfort. SIBL's liquidity coverage ratio remained comfortable at 244.89% (quarterly average for April 2020-June 2020) 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
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 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, 2020, SIBL had a network of 875 branches and 1,424 ATMs spread across the country. The total business of the bank stood at Rs.1,47,473 crore with deposits of Rs.83,034 crore and advances of Rs.64,439 crore as on March 31, 2020. SIBL's Capital Adequacy Ratio (CAR) as per Basel III stood at 13.41% (Tier I CAR of 10.79%) and Gross NPA Ratio of 4.98% and Net NPA Ratio of 3.34% as on March 31, 2020.

For FY20, SIBL reported PAT of Rs.105 crore over total income of Rs.8,810 crore . During Q1FY20, SIBL reported PAT of Rs.82 crore on the total income of Rs.2,172 crore.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	7,603	8,810
PAT	248	105
Total Assets	91,999	96,656
Net NPA (%)	3.45	3.34
ROTA (%)	0.28	0.11

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	-	-	-	-	0.00	Withdrawn
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Lower Tier II	LT	-	-	-	1)CARE A+; Negative (10-Oct-19)	1)CARE A+; Stable (08-Oct-18)	1)CARE A+; Stable (06-Oct-17)
2.	Certificate Of Deposit	ST	7500.00	CARE A1+	-	1)CARE A1+ (10-Oct-19)	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (14-Feb-18) 2)CARE A1+ (06-Oct-17)
3.	Bonds-Tier II Bonds	LT	300.00	CARE A; Negative	-	1)CARE A+; Negative (10-Oct-19)	1)CARE A+; Stable (08-Oct-18)	1)CARE A+; Stable (06-Oct-17)
4.	Bonds-Tier II Bonds	LT	490.00	CARE A; Negative	-	1)CARE A+; Negative (10-Oct-19)	1)CARE A+; Stable (08-Oct-18)	1)CARE A+; Stable (06-Oct-17)
5.	Bonds-Tier II Bonds	LT	500.00	CARE A; Negative	-	1)CARE A+; Negative (10-Oct-19)	1)CARE A+; Stable (13-Dec-18)	-

Annexure-3: Complexity of instruments

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Lower Tier II	Simple
2.	Bonds-Tier II Bonds	Complex
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.

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Mr. P Sudhakar
Contact no. – 044-2850 100
Email ID- p.sudhakar@careratings.com

Relationship Contact
Name: Mr. Pradeep Kumar V
Contact no.: 044-2850 1001
Email ID: pradeep.kumar@careratings.com

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.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

CARE's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**