The South Indian Bank Limited

September 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II Bonds (Basel III)-I#	300.00	CARE A+; Stable	Revised from CARE A; Stable
Tier-II Bonds (Basel III)-II#	490.00	CARE A+; Stable	Revised from CARE A; Stable
Tier-II Bonds (Basel III)-III#	500.00	CARE A+; Stable	Revised from CARE A; Stable
Certificate of deposit	7,500.00	CARE A1+	Reaffirmed

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 the 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 Ratings Limited's (CARE Ratings') opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess the rating of Tier-II instruments even under Basel II. CARE Ratings has rated the Tier-II bonds under Basel III after factoring in the additional feature of PONV.

Rationale and key rating drivers

The revision in the ratings assigned to the debt instruments of The South Indian Bank Limited (SIBL) factors in the improvement in profitability during FY23 (refers to the period April 01 to March 31) and improvement in capitalisation levels supported by reduced risk weighted assets and internal accruals. The bank reported a profit of ₹775 crore in FY23 as against ₹45 crore in FY22. Majorly with reduction in credit costs, the return on total assets (ROTA) improved from 0.05% in FY22 to 0.75% in FY23. The bank has churned the book with increased focus on higher rated corporates and gold loan segment. This has enabled in reducing the risk weighted assets of the bank, thus resulting in improved capitalisation levels. The capital adequacy ratio (CAR) improved with total CAR of 17.25% as on March 31, 2023, as against 15.86% as on March 31, 2022. CAR stood at 16.49% as on June 30, 2023.

The ratings continue to factor in the long track record of operations of SIBL and its diversified advances portfolio. The ratings are, however, constrained by regional concentration of its business, and moderate asset quality albeit improvement supported by improved quality of the new book, lower slippages and better recoveries. Gross non-performing assets (GNPA) and net NPA (NNPA) stood at 5.14% and 1.86% as on March 31, 2023, as against 5.90% and 2.97% as on March 31, 2022; however, the asset quality continues to remain moderate. Slippage ratio improved to 2.60% in FY23 from 3.90% in FY22. The gross stressed assets (GNPA+ standard restructured assets+ security receipts outstanding) as a percentage of gross advances has improved to 9.21% as on March 31, 2023 as against 12.39% as on March 31, 2022. However, CARE Ratings will continue to monitor the slippages from the restructured book resulting in asset quality deterioration remains key monitorable.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating sensitivities : Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively, lead to positive rating action/upgrade:

- Improvement in profitability levels with ROTA of above 1% on sustained basis along with improvement in size of operations and asset quality.

Negative factors: Factors that could individually or collectively, lead to negative rating action/downgrade:

- Deterioration of asset quality levels with increase in GNPA to above 7% on a sustained basis.
- Decline in the capitalisation levels with Tier-I CAR below 11.5%.

Analytical approach: Standalone

Outlook: Stable

The stable outlook factors in the CARE Ratings' expectation that SIBL will be able to sustain profitability while maintaining adequate capitalisation levels.

Detailed description of the key rating drivers

Key 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, 2023, SIBL had network of 941 branches and 1,296 ATMs. The Board consists of nine directors, including six independent directors.

Business witnessed growth in FY23; CASA proportion remained stable

SIBL witnessed 8% growth in the overall business in FY23. The net total business of the bank stood at ₹161,456 crore as on March 31, 2023, as against ₹149,135 crore as on March 31, 2022. Advances (net) of SIBL grew by 16% and stood at ₹69,804 crore as on March 31, 2023 as against ₹59,993 crore as on March 31, 2022. The bank's advances witnessed growth majorly supported by growth reported in the corporate (39% growth) and agriculture segments (18% growth). As on June 30, 2023, advances stood at ₹71,742 crore representing a growth of 3% (Q-o-Q). However, aggregate deposits of the bank witnessed marginal growth of 3% and stood at ₹91,651 crore as on March 31, 2023 as against ₹89,142 crore as on March 31, 2022. CASA proportion remained at 32.98% as on March 31, 2023 as against 33.21% as on March 31, 2022.

As on June 30, 2023, the bank's deposits stood at ₹95,499 crore and CASA proportion stood at 32.64%. The business from NRI customers contributed to 31% of the total deposits as on March 31, 2023.

Diversified advances portfolio

The bank has achieved significant progress in diversifying its loan portfolio with focus towards gold, large corporate advances, personal loans and business loans. During FY21, the bank had formulated the strategy and has gradually harnessed the same through FY22 and FY23. The bank has churned the portfolio and further divided its book into New Book and Old Book (New book is the book generated from October 2020 onwards with new credit underwriting mechanisms).

During FY21, the share of corporate advances had reduced to 25% as on March 31, 2021, as against 30% as on March 31, 2020, on account of the portfolio churning, and partially due to the impact of COVID-19-induced pandemic. However, with the bank's focus on growing higher rated corporate book, the share of corporate advances increased to 27% as on March 31, 2022 and further to 33% as on March 31, 2023. The proportion of large corporate advances (₹100 crore and above) increased from 5% of advances as on March 31, 2021, to 19% of advances as on March 31, 2023.

Also, the bank has been focused on gold loan, and the same witnessed good growth in FY22 and FY23. Gold loan has increased from ₹8,999 crore as on March 31, 2021 to ₹13,808 crore as on March 31, 2023.

As on June 30, 2023, advances portfolio had diversified mix with corporate advances of 37%, personal advances of 23%, agriculture advances of 19% and business advances of 21%. CARE Ratings expects the momentum in growth with better quality advance to continue.

Improvement in capitalisation levels supported by internal accruals and lower risk weighted assets

The bank's CAR improved to total CAR of 17.25% as on March 31, 2023 as against 15.86% as on March 31, 2022. Also, Tier-I CAR and CET1 ratio improved and stood at 14.74% and 13.66%, respectively, as on March 31, 2023 (PY: 13.22% and 12.13% as on March 31, 2022).

The improvement in CRAR can be attributed to reduced risk weighted assets and internal accruals aggregating to ₹775 crore in FY23. The risk weighted assets (as a percentage of total assets) stood at 43% as on March 31, 2023 as against 46% as on March 31, 2022, due to change in advances mix, with increase in gold loan and higher rated corporate advances. As on June 30, 2023, CAR and Tier-I CAR stood at 16.49% and 14.04% as on June 30, 2023. CARE Ratings expects the CAR levels to remain comfortable and is expected to support growth over the medium term.

Improvement in profitability in FY23 and Q1FY24

The net interest margin (NIM; as a percentage of average total assets) improved to 2.9% in FY23 from 2.3% in FY22. Non-interest income (as a percentage of total assets) declined to 0.8% in FY23 from 1.1% on account of higher depreciation on investments. The cost to income remained stable at 60.6% in FY23 as against 61.9% in FY22. With improvement in NIMs, PPOP improved to ₹1,507 crore in FY23 from ₹1,248 crore in FY22. With improved asset quality, the credit cost improved to 0.4% in FY23 from 1.4% in FY22. Thus, the bank reported profit after tax (PAT) of ₹775 crore in FY23 from ₹45 crore in FY22. ROTA improved to 0.75% in FY23 from 0.05% in FY22.

During Q1FY24, with improved yield on advances, NIM improved to 2.97% from 2.41% in Q1FY23. Non-interest income (as a percentage of total assets) improved to 1.33% in Q1FY24 from 0.98% in Q1FY23. The bank reported PPOP of ₹490 crore in Q1FY24 as against ₹317 crore in Q1FY23. The credit cost stood at 0.73% in Q1FY24 as against 0.56% in Q1FY23. With improvement in NIM and other income, PAT improved to ₹202 crore in Q1FY24 as against ₹115 crore in Q1FY23 crore. SIBL reported ROTA of 0.74% in Q1FY24 as against 0.46% in Q1FY23. CARE Ratings expects the profitability to remain stable in the near term.

Key weaknesses

Moderate asset quality with improvement seen in stressed assets during FY23

GNPA and NNPA improved to 5.14% and 1.86% as on March 31, 2023 as against 5.90% and 2.97% as on March 31, 2022. NNPA to net worth stood at 20.53% as on March 31, 2023 as against 33.51% as on March 31, 2022. The slippage ratio decreased from 3.91% in FY22 to 2.60% in FY23. The improved recovery has enabled a better asset quality position of the bank. GNPA and NNPA stood at 5.13% and 1.85% as on June 30, 2023

Stressed assets (Standard restructured asset + Security receipts outstanding + GNPA/NPA) as a percentage of gross advances improved to 9.21% as on March 31, 2023, as against 12.39% as on March 31, 2022, and stressed assets as a percentage of net worth stood at 44.8% as on March 31, 2023, as against 87.7% as on March 31, 2022. Stressed assets improved with reduction in the restructured book. Stressed assets improved and stood at 8.74% (as percentage of gross advances) as on June 30, 2023.

Going forward, CARE Ratings will continue to monitor any significant slippages and its impact on the profitability remains.

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, 2023, Kerala accounted for 53% of the total branch network, whereas south India accounted for 83% of the branch network. In terms of advances, Kerala accounted for 37% of the total advances, whereas south India accounted for 72% of the advances as on June 30, 2023.

Liquidity: Adequate

The liquidity profile of the bank stood comfortable with no negative cumulative mismatches in any of the time buckets as per asset liability maturity (ALM) statement as on June 30, 2023. Also, SIBL had excess SLR investments of ₹4,601 crore as on June 30, 2023. The bank also had a rollover rate of deposits of 87.44%, which provides comfort. SIBL's liquidity coverage ratio remained comfortable at 185.11% as on June 30, 2023, against the minimum regulatory requirement of 100%. Furthermore, the bank has access to systemic liquidity by way of RBI's LAF and MSF schemes.

Environment, social, and governance (ESG) risks

Given that SIBL is engaged in the lending business, it may be exposed to environmental risks indirectly through its portfolio of assets. The banking sector, with financial inclusion being the prime agenda, has a social impact on the economy. Being in the financial sector, the bank has focused on promotion of sustainable and environmentally friendly assets by identifying and recognising ESG risks vis-à-vis opportunities. The bank is engaged in providing finance for various farming activities that has helped to uplift the socioeconomic status of farming community.

As part of its green initiatives, the bank proposes to increase the usage of energy-efficient forms of electricity with green energy and solar power.

As part of developing a sustainable financing policy and for implementing ESG benchmarks in lending and also for addressing issues in Environmental risk management and governance, the bank has formulated ESMS policy (for governing Lending standards) and ESG Policy (for addressing other ESG issues). A sustainable ESG-complied lending policy is a base for the bank to ensure for a future-oriented and sustainable lending resulting in more focus on lending toward projects which are more environmental friendly.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Rating Basel III - Hybrid Capital Instruments issued by Banks
Bank
Policy on Withdrawal of Ratings

About the company and industry

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Private Sector Bank

Established in 1929, SIBL was the first 'scheduled bank' amongst the private banks in Kerala. SIBL has no identifiable promoter, and the shareholding pattern is well diversified. It has strong presence in south India and particularly in Kerala. As on March 31, 2023, SIBL had a network of 940 branches and 1,289 ATMs spread across the country (941 branches and 1,296 ATMs as on June 30, 2023). The total business of the bank stood at ₹161,456 crore with deposits of ₹91,651 crore and advances of ₹69,804 crore as on March 31, 2023. SIBL's CAR as per Basel III stood at 17.25% (Tier-I CAR of 14.74%) as on March 31, 2023. GNPA ratio and NNPA ratio stood at 5.14% and 1.86%, respectively, as on March 31, 2023 as against 5.90% and 2.97%, respectively, as on March 31, 2022.

For FY23, SIBL reported PAT of ₹775 crore over a total income of ₹8,046 crore. During Q1FY24, SIBL reported PAT of ₹202 crore on the total income of ₹2,386 crore.

Brief Financials (₹ crore)	FY22(A)	FY23(A)	Q1FY24(UA)
Total operating income	7,621	8,046	2,386
PAT	45	775	202
Total assets	99,505	107,324	110,541
Net NPA (%)	2.9	1.8	1.8
ROTA (%)	0.05	0.7	0.7

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available; Total assets and net worth exclude deferred tax asset and revaluation reserve.

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ 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+; Stable
Tier-II Bonds (Basel III)-II	INE683A08036	November 28, 2017	9.50	May 28, 2028	490.00	CARE A+; Stable
Tier-II Bonds (Basel III)-III	INE683A08044	March 26, 2019	11.75	June 26, 2029	250.00	CARE A+; Stable
Tier-II Bonds (Basel III)-III (Proposed)	-	-	-	-	250.00	CARE A+; Stable
Certificate of deposit (Proposed)	-	-	-	7 days to 1 year	7500.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds-Lower Tier-II	LT	-	-	-	-	-	1)Withdrawn (01-Oct-20)
2	Certificate of deposit	ST	7500.00	CARE A1+	-	1)CARE A1+ (29-Sep-22)	1)CARE A1+ (30-Sep-21)	1)CARE A1+ (01-Oct-20)
3	Bonds-Tier-II bonds	LT	300.00	CARE A+; Stable	-	1)CARE A; Stable (29-Sep-22)	1)CARE A; Negative (30-Sep-21)	1)CARE A; Negative (01-Oct-20)
4	Bonds-Tier-II bonds	LT	490.00	CARE A+; Stable	-	1)CARE A; Stable (29-Sep-22)	1)CARE A; Negative (30-Sep-21)	1)CARE A; Negative (01-Oct-20)
5	Bonds-Tier-II bonds	LT	500.00	CARE A+; Stable	-	1)CARE A; Stable (29-Sep-22)	1)CARE A; Negative (30-Sep-21)	1)CARE A; Negative (01-Oct-20)

*Long term/short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not Applicable

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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