India Ratings & Research
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India Ratings Upgrades The South Indian Bank's Basel III Tier 2 Debt to 'IND AA-'/Stable; Withdraw Basel III Additional Tier 1 Bond Rating

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India Ratings and Research (Ind-Ra) has upgraded The South Indian Bank Limited's (SIB) Basel III tier 2 debt to 'IND AA-' from 'IND A+'. The Outlook is Stable. The detailed rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned along with Outlook/Watch	Rating Action
Basel III tier 2 debt*	-	-	-	INR12.5	IND AA-/Stable	Upgraded
Basel III additional tier 1 (AT1) perpetual bonds*#	-	-	-	INR5	WD	Withdrawn

*Detail in annexure
The debt was redeemed

Analytical Approach

Ind-Ra continues to take a standalone view of SIB while arriving at the ratings.

Detailed Rationale of the Rating Action

The upgrade reflects SIB's improving profitability in FY25, supported by enhanced internal accruals and efficient capital utilisation, leading to an improvement in its capital base. The bank demonstrated prudent provisioning for stressed assets over FY25-1QFY26, leading to an improvement in its provision coverage ratio, and the maintenance of adequate capitalisation. The upgrade also factors in SIB's ongoing asset quality improvement, evidenced by a steady decline in gross non-performing assets (NPAs) and stressed assets, manageable special mention account (SMA) II levels, and a calibrated approach towards corporate lending. Additionally, the bank's granular retail deposit franchise and moderate loan-deposit ratio (LDR) provide a headroom for credit expansion. The ratings also factor in relatively low margins and elevated, though improving, operating expenses.

List of Key Rating Drivers

Strengths

- Sizable franchise; streamlining of product lines and processes
- Stable and granular funding franchise
- Stabilising asset quality; adequate provision coverage
- Capital buffers adjusted for stressed assets remain modest

Weaknesses

- Lower margins, higher opex weighing on profitability

Detailed Description of Key Rating Drivers

Sizable Franchise; Streamlining of Product Lines and Processes: SIB has a sizeable presence in the southern region of India, with Kerala accounting for 30% of its advances and around 62% of its deposits in 1QFYE26. The bank has diversified business profile with retail loans accounting for 27.2% of of the overall book, followed by corporates (41.6%), agriculture (17.0%) and small and medium enterprises (SME; 14.2%) at 1QFYE26. Since 3QFY21, the growth in advances has mainly been led by agriculture gold loan and corporate loan exposure, which together accounted for 55.7% as of 1QFY26 (3QFY21: 33.8%). On the other hand, the share of micro, small and medium enterprises (MSME) declined to 14.2% as of 1QFY26 (3QFY21: 32.7%).

SIB has revamped its reporting lines and adopted verticalisation in credit and sales teams, while moving authority away from branches. The bank has adopted the scorecard approach for underwriting with set rules for collateral valuation and developing inhouse teams. SIB plans to grow across each vertical with growth being calibrated in tandem with the onboarding low-risk assets across each segment. Furthermore, the bank continues to increase its focus on small exposures rather than large consortium accounts to reduce concentration risk. In the corporate segment, the bank focuses on short-tenor exposure to high-rated corporates to manage credit risk and improve capital efficiency, although this strategy has a moderating impact on its margins.

The new loan book, originated since October 2020, constitutes 81% of the overall portfolio and has shown lower delinquencies, with gross NPA remaining at just 0.48% in 1QFY26 compared to 14.8% in the legacy book. As of Q1FY26, 98% of the large corporate portfolio comprised 'A'-rated and above exposures. Nonetheless, this strategy has impacted margins. To address this, the bank is increasingly focusing on enhancing the share of MSME and retail segments in its portfolio. Within retail, the focus areas include housing loans, loans against property, auto loans, and affordable housing.

Stable and Granular Funding Franchise: SIB has a well-diversified granular deposit profile with a low reliance on bulk deposits. Its retail deposits constituted over 96.8% of total deposits as of 1QFY26 with the overall current accounts and savings accounts (CASA) constituting 32.06% (FYE25: 31.37%; FYE24: 32.08%; FYE23: 33.0%). It also has a high share of non -resident deposits which accounted for around 28.6% in 1QFY26 (FYE25: 29.4%; FYE24: 29.1%). SIB's share in Kerala's overall remittance market was around 10% in FY25. The bank's exposure to the top 20 depositors stood at 2.7% in FY25 (FY24: 4.5%; FY23: 2.8%). That said, the deposits franchise continues to face regional concentration, with Kerala contributing over 62% to the total deposits (excluding certificate of deposits) in FY24 (FY23: 63%). This large granular funding is helping SIB to maintain lower funding costs than its large peers. The bank has shown stability in maintaining and gaining the share of NRI remittances in Kerala. However, rising competition and the impact of inflation across capital flows and any pressure emanating from economic uncertainty in the Middle East could impact remittances over the medium-to-long term, which remains a rating monitorable.

Stabilising Asset Quality; Adequate Provision Coverage: SIB had a slippage ratio (gross slippages/gross advances) of 2.2%–4.3% over FY16–FY23, owing to a delay in the normalisation of slippages on account of the COVID-19 pandemic; however, slippages normalised to 0.9% in 1QFY26. Incrementally, the new loan book witnessed a moderation in the SMA numbers, along with delinquencies, and the majority of gross NPA accretion is through the old book, which contributed nearly 88% to the outstanding gross NPA. The coverage on gross NPA improved in 1QFY26, with the provision coverage ratio increasing to 78.9% (1QFY25: 69%), and coverage on the overall net stressed assets (restructured + net security receipts + net non-performing assets) rising to 70.7% (60.0%). Furthermore, the bank's net stressed assets (net NPAs + standard restructured assets + net security receipts) to net worth moderated to 9.2% in 1QFY26 (1QFY24: 19.6%). The current total net stressed book (net NPAs + net security receipts + net standard restructured assets) stood at 1.1% of total advances (including security receipts) in 1QFY26 (1QFY25: 2.2%). Ind-Ra expects slippages to remain steady, with no significant increase in credit cost requirements as adequate provisioning was made during 1QFY26. Consequently, the profitability would remain healthy, driven by improvement in the cost-to-income ratio.

SIB experienced a moderation in SMA-1 and SMA-2 across segments, with the combined ratio declining to 1.1% in FY25 (FY24: 1.6%; FY23: 2.7%; FY22: 3.3%). This improvement reflects the bank's focused efforts on resolving stressed accounts and exiting weaker exposures, particularly in the MSME segment, through active enforcement of collateral and

settlements. The bank has proactively addressed its asset quality challenges by intensifying recognition of stress and strengthening provision coverage. These measures, while effective, came at the cost of subdued internal accruals during FY21–FY22.

Capital Buffers Adjusted for Stressed Assets Remain Modest: SIB's capitalisation (Basel III Common Equity Tier 1) improved to 18.3% in 1QFY26 (1QFY25: 15.8%) following a capital raise of INR11.5 billion in 4QFY24, healthy internal accruals, and a calibrated reduction in risk weighted assets (RWA) through growth in the gold loan book and a reduction in lower-rated accounts in the corporate and MSME books. This improvement in capital levels provides a buffer to absorb incremental slippages, which could arise from the monitored portfolio comprising the restructured book, the newly originated book (yet to be seasoned), and the legacy book. Additionally, the bank has made adequate provisions against stressed assets; hence, provisioning requirements are likely to remain low, although any negative surprises will be a key monitorable. The bank expects to maintain its capital to risk (weighted) assets ratio (CRAR) at around 18% in the near term and does not foresee the need for capital infusion in the short term.

Lower Margins, Higher Opex Weighing on Profitability: SIB has a high exposure to high-rated corporates, with 'A' and above-rated corporates accounting for around 98% of the total corporate exposure. High exposure to this segment weighs on yields, as margins are thin in this category. SIB's net interest margin stood at 3.0% in 1QFY26 (FY25: 3.2%; FY24: 3.3%). The bank plans to focus on increasing the share of the retail portfolio, particularly home loans, gold and commercial vehicle /commercial equipment financing, which should lead to better NIM accretion. That said, the agency believes it will take a few years before the new portfolio starts making a meaningful contribution to margins.

SIB's cost-to-income ratio improved but remained elevated at 53.8% in 1QFY26 (FY25: 57.2%; FY24: 61.5%), mainly due to a reduction in operating expenses from lower headcount and branch count, along with improved unit economics driven by a focus on efficiency. The bank has guided for a marginal uptick in the cost-to-income ratio due to an increase in customer-facing headcount, but expects the medium-term trend to be downward, supported by credit growth, a higher share of better-yielding assets, and rationalized operating expenses.

In the past, the bank was impacted by higher credit costs (FY22: 2.2%, FY21: 2.5%), which suppressed ROA (FY22: 0.04%, FY21: 0.06%). However, with adequate provisioning and normalizing slippages, credit costs have reduced to 75 bp in 1QFY26 (FY25: 0.6%; FY24: 0.46%; FY23: 0.61%). SIB's profitability remains adequate on a risk-adjusted basis; where profit after tax to risk weighted assets (annualised) stood at 2.5% for 1QFY26 (FY25: 2.5%; FY24: 2.1%; FY23: 1.7%), largely due to the lower credit cost and improved loan book growth. The ROA improved to 1.01% in 1QFY26 (FY25: 1.05%; FY24: 0.91%; FY23: 0.72%; FY22: 0.04%).

Liquidity

Adequate: SIB maintained a cumulative funding surplus of 28.9% in the cumulative one-year bucket as a percentage of the total assets at end-1QFY26. Also, the bank had an excess statutory liquidity ratio of INR20.0 billion (around 1.84% of the net demand and time liabilities) in FY25. The liquidity coverage ratio was 139% at end- June 2025, well above the regulatory requirement of 100%.

Rating Sensitivities

Positive: SIB's improved visibility in diversifying its asset and liability profile beyond core geographies, sustained market share gains across both assets and liabilities, stable through-the-cycle asset quality, and continued progress in product leadership and operating performance—leading to higher profitability—could collectively result in a positive rating action.

Negative: Events that could, individually or collectively, lead to a negative rating action

- a material reduction in the capital buffers with the CET 1 capital buffer reducing below the floor of 12% on a sustained basis,
- continued higher slippages on sustained basis, along with under-provided stressed assets,
- any significant weakness in the bank's funding or liquidity profile,

- a change in the strategy, leading to a rise in the concentration in its loan book, thereby impacting the bank's margin profile or profitability buffers.

Any Other Information

Not applicable

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on SIB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

SIB is a major private sector bank, headquartered in Thrissur, Kerala India. As on 30 June 2025, it had 948 branches and 9,253 employees.

Key Financial Indicators

Particulars	FY25	FY24
Total assets (INR billion)	1246.6	1174.1
Total net worth (INR billion)	101.1	88.2
Net profit (INR billion)	13.0	10.7
Return on assets (%)	1.08	0.95
CET1 ratio (%)	18.0	16.66
Capital adequacy ratio (%)	19.3	19.91
Net stressed asset to net worth (%)	11.8	21.8
Source: SIB, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	31 July 2024	18 October 2023	1 August 2023	3 August 2022
Issuer rating	Long-term	-	-	-	WD	IND A+/Stable	IND A/Stable
Basel III Tier 2 debt	Long-term	INR12.5	IND AA-/Stable	IND A+/Stable	-	IND A+/Stable	IND A/Stable
Basel III AT1 perpetual bonds	Long-term	INR5	WD	IND A/Stable	-	IND A/Stable	IND A-/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Basel III AT1 perpetual bonds	High
Basel III Tier 2 debt	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Annexure

Instrument Type	ISIN	Date of Allotment	Maturity Date	Coupon rate (%)	Size of Issue (billion)	Rating/Outlook
Basel III Tier 2 debt	INE683A08028	30 September 2015	31 October 2025	10.25	INR3	IND AA-/Stable
Basel III Tier 2 debt	INE683A08036	28 November 2017	28 May 2028	9.50	INR4.9	IND AA-/Stable
Unutilised limit					INR4.6	IND AA-/Stable
Total Basel III tier 2 debt					INR12.5	
Sources: SIB; NSDL						

Instrument Type	ISIN	Date of Allotment	Maturity Date	Coupon rate (%)	Size of Issue (billion)	Rating/Outlook
Basel III additional tier 1 perpetual bonds	INE683A08051	24 January 2020	Perpetual	13.75	INR5	WD (Paid In Full)

Sources: SIB; NSDL

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Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

Rating Bank Subordinated and Hybrid Securities

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