CMP: ₹ 45 | Target: ₹ 52 (17%) | Target Period: 12 months | BUY

July 18, 2026

Steady execution continues; margins surprise positively...

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 remain key focus, enabling resilient performance amid change in asset mix.

- Advances mix: Corporates – 40%, Retail – 28%, Agri – 18%, MSME – 14%

Q1FY27 performance: South Indian Bank reported a healthy Q1FY27 performance, supported by strong loan growth, sharp margin expansion and continued improvement in asset quality. Gross advances grew 17% YoY (4.1% QoQ) to ₹1,04,368 crore, led by gold, mortgage and business loans, while deposits increased 11.4% YoY (2% QoQ) to ₹1,25,817 crore, with CASA ratio improving to ~33%. NIM expanded 28 bps QoQ to 3.23%, driving NII growth of 23% YoY (12% QoQ) to ₹1,025 crore. Despite a 39% YoY decline in other income, lower provisions at ₹84 crore (-65% YoY) aided PAT growth at 17.4% YoY to ₹378 crore. Asset quality strengthened further, with GNPA/NNPA improving to 1.38%/0.26% (vs 1.43%/0.29% in Q4FY26) and PCR rising to 94.5%.

Investment Rationale:

- **Improvement in margin sustainable; fee income to recover:** Sustaining the improving operating momentum, NIM expanded 28 bps QoQ to 3.23%, driven by sharp decline of ~24 bps QoQ in CoF, owing largely to deposit repricing. While most of the repricing benefit has been realised, management expects some residual benefit to flow in Q2FY27, with margins further supported by a) favourable asset-mix shift towards higher-yielding retail/MSME loans, b) T+1 transmission on repo-linked loans in an upward rate cycle, and c) better pricing in select corporate assets. As anticipated earlier, staff costs increased 30% QoQ due to increase in employee count and write-back of actuarial expenses, though overall opex growth is guided at 5–6% for FY27. Fee income is expected to recover with rollout of digital trade and forex platforms and solution of product-level issues.
- **Sustained asset quality with gradual balance sheet rebalancingto aid RoA**: Execution on granularization strategy is underway, with gold loans witnessing healthy traction (+42% YoY), thereby increasing its share to ~23.9% of advances (vs 19.6% in Q1FY26). While sequential growth in gold loans remained muted due to RBI guideline changes impacting certain co-lending and portfolio purchase arrangements, management indicated that core branch-led disbursements remained healthy. Corporate loan growth (7.8% QoQ) remained tactical, benefiting from better pricing amid higher T-bill-linked yields, while medium-term focus continues to be on expanding higher-yielding retail/MSME segments. On the liability side, management expects continued traction in FCNR(B) deposits under the RBI scheme, providing incremental support to deposit mobilisation. Asset quality remains a key strength, with GNPA/NNPA at 1.38%/0.26%, PCR at 94.5% and slippages contained at 12 bps. Management has guided for FY27 slippages of ₹500–800 crore and recoveries of ₹800–1,000 crore, providing confidence in earnings sustainability.

Rating and Target Price

- Given continued execution of strategy to improve growth and RoA, we broadly maintain our estimates. Await management transition and continue to value the stock at ~1x FY28E BV, maintaining target price of ₹52. We maintain BUY rating on the stock.

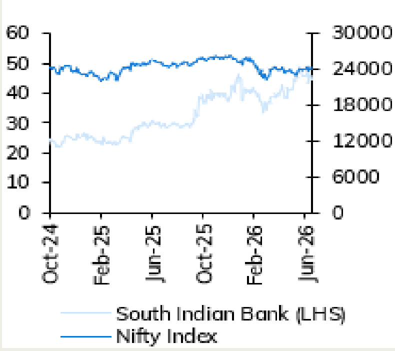
Particulars

Particulars	Amount
Market Capitalisation	₹ 11,677 crore
52 week H/L	₹ 49.9 / 28.1
Net Worth	₹ 11,801 crore
Face value	1.0

Shareholding pattern

	Sep-25	Dec-25	Mar-26	Jun-26
FII	17.9	20.9	24.2	25.4
DII	11.9	13.8	12.8	14.2
Others	70.2	65.3	63.0	60.4

Price Chart



Key risks

(i) Slower pace of change in asset mix could limit margin expansion

(ii) Higher than expect credit cost

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Result update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY23	FY24	FY25	FY26	3 Year CAGR (FY23-FY26)	FY27E	FY28E	2 Year CAGR (FY26-FY28E)
NII	3,012	3,332	3,486	3,437	5%	4,126	4,698	17%
PPP	1,508	1,868	2,270	2,373	16%	2,596	3,069	14%
PAT	775	1,070	1,303	1,455	23%	1,607	1,806	11%
ABV (₹)	24.0	28.1	34.3	41.2		47.1	53.6	
P/E	12.0	10.9	9.0	8.0		7.3	6.5	
P/ABV	1.8	1.6	1.2	1.1		0.9	0.8	
RoA	0.7	1.0	1.1	1.1		1.1	1.1	
RoE	12.4	13.8	13.8	13.5		13.2	13.0	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance and growth outlook

- Gross advances grew 17% YoY (4.1% QoQ) to ₹1,04,368 crore (18% growth excluding technical write-offs), led by gold (+42% YoY), mortgage (+79% YoY) and business loans (+14% YoY), while deposits increased 11.4% YoY (2% QoQ) to ₹1,25,817 crore, with CASA ratio improving to 32.98% (vs 32.12% in Q4FY26).
- Gold loans remained the key growth driver, with portfolio growing 42% YoY while maintaining average LTV of 65.25% and average ticket size of ₹2.94 lakh.
- Improvement in asset yields was supported by:
    - Gradual shift towards higher-yielding retail and MSME assets;
    - Better pricing in the corporate loan segment;
    - Increase in T-bill linked corporate yields during the quarter.
- Corporate loan growth was tactical rather than strategic, driven by attractive pricing amid tight liquidity and volatile macro conditions.
- Long-term strategy of gradually reducing corporate exposure and increasing retail/MSME mix remains unchanged.
- Excess capital will be utilised to grow advances above industry while gradually increasing the share of higher-yielding retail and MSME assets.
- Management reiterated its medium-term aspiration of improving RoA towards 1.2–1.25% through better asset mix and operating leverage.
- Management expects continued traction in FCNR(B) deposits during August–September under the RBI scheme.
- While overseas leverage facilities are currently unavailable due to the absence of foreign funding lines and a GIFT City presence, discussions with international banks are underway, which could significantly enhance the opportunity.

Fee Income & Other Income

- Management termed the weakness in fee income as temporary rather than structural.
- Lower fee income was partly due to:
    - Internal product process changes affecting fee recognition on certain products;
    - Lower recoveries during Q1 (seasonally weak quarter).
- Trade Finance and Forex platforms are expected to become fully digital by September 2026, which should improve:
    - FX income.
    - Trade finance fee income.
    - Customer transaction volumes.
- Management expects fee income trajectory to improve over the coming quarters.

Margins

- NIM expanded 28 bps QoQ to 3.23%, fully recovering the impact of RBI repo rate cuts.
- Margin improvement was driven by:
    - Repricing of a substantial portion of high-cost deposits;
    - Strong 19% growth in average CASA balances;
    - Sharp reduction in bulk deposits (~50% YoY), lowering excess liquidity carry cost.
- Management indicated that most deposit repricing benefit have already been realized, making a similar magnitude of CoF decline unlikely going forward.
- Management expects NIMs to remain healthy and believes any future repo rate hike would be favourable as repo-linked loans are repriced on a T+1 basis.

Asset Quality & Opex

- Increase in operating expenses primarily reflects:

- Resumption of employee hiring;
- Selective branch expansion after a prolonged freeze.
- Branch additions will remain calibrated, focusing only on high-potential locations.
- Management remains committed to maintaining positive operating leverage over FY27, despite modest increase in operating cost.
- Overall operating expense growth is expected to remain within 5–6% for FY27.
- Slippages remained benign with annualized slippage ratio at 48 bps.
- Management expects:
    - Annual slippages of around ₹500–800 crore;
    - Recoveries of around ₹800–1,000 crore during FY27.
- Credit cost remained exceptionally low during the quarter, though management indicated current levels are unlikely to sustain and should normalize modestly.
- SMA-1 and SMA-2 accounts witnessed seasonal increase during Q1 but management does not see any material deterioration in asset quality.

Other updates

- Capital position remained comfortable with CRAR at 19.62% and Tier-I at 18.93%, providing adequate headroom for future growth.
- Initial assessment suggests the proposed Expected Credit Loss (ECL) framework is unlikely to materially impact the bank's earnings profile.
- Revised DICGC premium structure is expected to reduce annual insurance cost, providing a modest benefit to operating expenses.

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	1,024.7	832.6	23.1	915.3	12.0	Healthy loan growth and deposit repricing aided NII
NIM (%)	3.23	3.03	20 bps	2.95	28 bps	CoF declined by ~24 bps QoQ, amid sharp decline in bulk deposits (50% YoY)
Other Income	379.0	621.7	-39.0	386.0	-1.8	Decline in non-interest income was largely due to muted treasury gains
Net Total Income	1,403.7	1,454.3	-3.5	1,301.3	7.9	
Staff cost	458.8	427.3	7.4	351.8	30.4	QoQ spike was largely on acturial cost write-back and higher employee count
Other Operating	353.7	354.5	-0.2	368.2	-3.9	Steady opex
PPP	591.3	672.5	-12.1	581.3	1.7	
Provision	84.3	239.3	-64.7	34.4	145.2	Benign slippages aided lower credit cost (~36 bps annualised)
PBT	506.9	433.2	17.0	547.0	-7.3	
Tax Outgo	129.3	111.1	16.4	139.4	-7.2	
PAT	377.6	322.2	17.2	407.6	-7.4	Supported by strong NII and benign provisions
Key Metrics						
GNPA	1.4	3.2	-177 bps	1.4	-5 bps	Slippages improved by 3 bps QoQ to 0.12%
NNPA	0.3	0.7	-42 bps	0.3	-3 bps	
Gross Advances	104,368	89,198	17.0	100,274	4.1	Driven by gold (42% YoY) and mortgage (79% YoY)
Deposit	125,817	112,922	11.4	123,346	2.0	CASA improved by 86 bps QoQ to 32.98%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	9,413	9,847	11,341	12,730
Interest Expended	5,928	6,409	7,215	8,032
Net Interest Income	3,486	3,437	4,126	4,698
Growth (%)	4.6%	-1.4%	20.0%	13.9%
Non Interest Income	1,813	2,009	1,819	2,028
Net Income	5,299	5,447	5,945	6,726
Employee cost	1,671	1,621	1,830	2,065
Other operating Exp.	1,357	1,453	1,519	1,592
Operating expenses	3,028	3,073	3,349	3,657
Operating Income	2,270	2,373	2,596	3,069
Provisions	513	417	438	645
PBT	1,757	1,956	2,158	2,424
Taxes	454	501	550	618
Net Profit	1,303	1,455	1,607	1,806
Growth (%)	21.8%	11.7%	10.5%	12.3%
EPS (₹)	5.0	5.6	6.1	6.9

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
No. of shares (crore)	262	262	262	262
EPS (₹)	5.0	5.6	6.1	6.9
BV (₹)	37.3	42.3	48.4	55.2
ABV (₹)	34.3	41.2	47.1	53.6
P/E	9.0	8.0	7.3	6.5
P/BV	1.2	1.1	0.9	0.8
P/ABV	1.3	1.1	0.9	0.8
Yields & Margins (%)				
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	8.4	8.4	8.3
Quality and Efficiency (%)				
Cost to income ratio	57.2	56.4	56.3	54.4
Credit/Deposit ratio	79.7	80.5	82.1	83.6
GNPA %	3.2	1.4	1.5	1.6
NNPA %	0.9	0.3	0.3	0.3
RoE	13.8	13.5	13.2	13.0
RoA	1.1	1.1	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	262	262	262	262
ESOP O/s	7.7	12.0	12.0	12.0
Reserves and Surplus	9,839	11,142	12,748	14,553
Networth	10,108	11,415	13,022	14,827
Deposits	107,522	123,346	137,751	154,311
Borrowings	4,300	3,927	5,658	6,450
Other Liabilities & Provisions	2,724	3,068	3,904	4,696
Total	124,655	141,756	160,335	180,283
Application of Funds				
Cash and balances with RBI	5,098	6,183	6,199	6,172
Balances with banks at call	7,162	3,958	4,420	4,951
Investments	21,777	27,328	30,994	33,948
Advances	85,682	99,260	113,156	128,998
Fixed Assets	1,018	1,043	1,116	1,227
Other Assets	3,918	3,985	4,451	4,986
Total	124,655	141,756	160,335	180,283

Source: Company, ICICI Direct Research

Exhibit 5: Growth (%)

(% growth)	FY25	FY26	FY27E	FY28E
Total assets	6.2	13.7	13.1	12.4
Advances	9.8	15.8	14.0	14.0
Deposit	5.5	14.7	11.7	12.0
Total Income	9.3	2.8	9.1	13.1
Net interest income	4.6	-1.4	20.0	13.9
Operating expenses	1.7	1.5	9.0	9.2
Operating profit	21.5	4.5	9.4	18.2
Net profit	21.8	11.7	10.5	12.3
Net worth	14.5	12.9	14.1	13.9
EPS	21.7	11.6	10.5	12.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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