

October 20, 2026

Growth and margins align; Asset quality holds firm

About the stock: Established in 1929, South Indian Bank is old south based private sector bank headquartered in Thrissur, Kerala.

- Advances mix: Corporates – 39%, Retail – 27%, Agri – 20%, MSME – 14%

Q2FY27 performance: South Indian Bank reported a healthy Q2FY27 performance, supported by robust loan growth, margin expansion and improving asset quality. Advances grew 18.7% YoY (4.9% QoQ) to ₹1,09,517 crore, led by gold, business and corporate loans, while deposits increased 18.7% YoY (9.1% QoQ) to ₹1,37,279 crore, with CASA at ~31.6%. NIM improved 10 bps QoQ to 3.33%, driving NII growth of 38% YoY (9% QoQ). Other income rose 23% QoQ to ₹468 crore, while operating profit grew 37% YoY to ₹732 crore. Despite higher provisions at ₹159 crore (vs ₹84 crore QoQ), PAT grew 21% YoY (13% QoQ) to ₹426 crore. Asset quality strengthened, with GNPA/NNPA improving to 1.24%/0.09% and PCR rising to 97.8%.

Investment Rationale:

Margin trajectory northwards; operating leverage to support RoA expansion:

Sustaining the improving profitability momentum, NIM expanded further by 10 bps QoQ to 3.33%, aided by a 7 bps improvement in yield on advances and an 11 bps decline in cost of funds to 4.42%. Management expects margins to strengthen further towards 3.45–3.50% over the next 12 months, supported by a) faster transmission of higher benchmark rates, with ~43% of advances EBLR-linked, b) favourable asset-mix transition towards higher-yielding retail/MSME and gold loans, and c) improved pricing on incremental corporate disbursement. As anticipated, operating expenses increased with branch expansion and employee additions; however, healthy revenue growth drove cost-to-income ratio lower to 53.7% (vs. 57.9% QoQ), with management targeting ~50% over the medium term. Further, recovery in fee income and sustained operating leverage should aid gradual RoA expansion towards management's medium-term aspiration of 1.25–1.3%.

Granularisation and healthy asset quality to support sustainable growth:

Portfolio rebalancing remains underway, with RAM share improving to ~61% of advances against management's medium-term target of 65%, while corporate exposure moderated to ~39%. Gold loans maintained healthy traction (+41% YoY), with management targeting an increase in portfolio share from ~25% to 30–32% in the near term. On the liability side, bulk deposits increased opportunistically, benefiting from competitive wholesale funding rates amid FCNR(B)-led liquidity. Management reiterated its 15–16% growth guidance for FY27, with an inclination towards the upper end; we build in ~14% advances CAGR over FY27–28E. Asset quality strengthened further, with GNPA/NNPA improving to 1.24%/0.09% and PCR rising to 97.8%. While provisions increased to ₹159 crore (vs. ₹84 crore QoQ), management attributed the increase to conservative account-level provisioning rather than incremental stress, providing comfort on earnings sustainability.

Rating and Target Price

We remain constructive on South Indian Bank, supported by sustained margin expansion, healthy credit growth and improving operating leverage. With asset quality nearing optimal levels, incremental improvement appears limited, making sustainability at these levels key alongside balanced credit growth critical for RoA expansion. Given continued execution of business strategy and smooth management transition, we revise our target upwards to ₹65 (earlier ₹52), valuing the bank at ~1.2x FY28E BV. Maintain Buy rating.



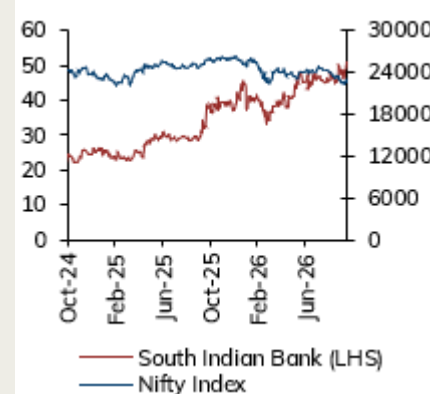
Particulars

Particulars	Amount
Market Capitalisation	₹ 14,213 crore
52 week H/L	₹ 54.9 / 33.4
Net Worth	₹ 12,076 crore
Face value	1.0

Shareholding pattern

	Dec-25	Mar-26	Jun-26	Sep-26
FII	20.9	24.2	25.4	25.6
DII	13.8	12.8	14.2	16.8
Others	65.3	63.0	60.4	57.6

Price Chart



Key risks

- Deterioration in asset quality
- Margin compression due to adverse asset mix or slower growth

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Key Financial Summary

₹ crore	FY24	FY25	FY26	3 Year CAGR (FY23-FY26)	FY27E	FY28E	2 Year CAGR (FY26-FY28E)
NII	3,332	3,486	3,437	5%	4,331	4,952	20%
PPP	1,868	2,270	2,373	16%	2,663	3,186	16%
PAT	1,070	1,303	1,455	23%	1,653	1,943	16%
ABV (₹)	28.1	34.3	41.2		47.8	54.8	
P/ABV	1.9	1.4	1.3		1.1	1.0	
RoA	1.0	1.1	1.1		1.1	1.1	

Source: Company, ICICI Direct Research

Q2FY27 Earnings Conference Call Highlights

Performance and growth outlook

- Gross advances grew 18.7% YoY (4.9% QoQ) to ₹1,09,517 crore, with underlying growth at ~20% YoY adjusting for technical write-offs. Deposits increased 18.7% YoY (9.1% QoQ) to ₹1,37,279 crore.
- Management maintained its 15–16% advances and deposit growth guidance for FY27, with growth expected towards the higher end of the range and an aspiration to outperform industry growth.
- Retail, agriculture and MSME (RAM) segments currently constitute 61% of advances, while corporate exposure stands at 39%. Management reiterated its medium-term objective of improving the mix towards 65:35, respectively.
- Retail/MSME disbursements are witnessing stronger traction than wholesale, with management expecting the existing MSME and mid-corporate verticals to support incremental growth.
- Gold loans remain a key growth driver, with the portfolio growing ~41% YoY and accounting for ~25% of advances. Management aims to increase the share towards 30–32% in the near term, with a longer-term aspiration of ~35%.
- Gold loan portfolio comprises ~60% retail and ~40% agriculture, with blended yields at ~10%. Retail gold loans command a marginal yield premium of up to 25 bps over agricultural gold loans.
- Management expects gradual improvement in RoA from 1.08% towards 1.20–1.25% over the next year, with a medium-term aspiration of 1.25–1.30% and a longer-term target of ~1.5%.
- The new MD reiterated continuity in the existing business strategy, with emphasis on improving portfolio mix, accelerating granular loan growth and strengthening risk-adjusted returns.

Margins

- NIM expanded 10 bps QoQ (53 bps YoY) to 3.33%, exceeding the earlier guidance of ~3.25%.
- Management expects NIM to improve towards 3.36–3.38% in the near term and 3.45–3.50% over the next 12 months, supported by:
 - Faster transmission of higher benchmark rates to floating-rate advances.
 - Gradual shift towards higher-yielding retail/MSME and gold loans.
 - Improved pricing on incremental corporate disbursements.
- ~43% of advances are EBLR-linked, comprising ~20% T-bill-linked and ~23% repo-linked loans, while MCLR and fixed-rate advances constitute ~5% and ~47%, respectively.
- Corporate lending yields have improved by ~25–30 bps following the increase in repo/T-bill benchmarks. Repo-linked advances are repriced on a T+1 basis, supporting faster transmission in an upward rate cycle.
- Gold loan pricing has been revised for new disbursement following the repo rate increase, while spreads remain unchanged. Management indicated scope for further pricing adjustments if required.
- Reduction in cost of deposits was primarily driven by repricing of high-cost deposits contracted earlier. Management expects funding cost to remain broadly stable, with limited incremental repricing benefits over the next two quarters.

Deposit franchise

- CASA balances grew ~18% YoY to ₹43,310 crore, although the sequential increase in current account balances was partly attributable to temporary IPO-related inflows during September.
- Management indicated that some moderation in current account balances is possible as these one-off flows unwind, while underlying deposit mobilisation remains healthy.
- Bulk deposit mobilisation increased opportunistically as surplus liquidity following FCNR(B) inflows resulted in bulk deposit rates becoming relatively more competitive than retail deposit rates.
- The bank mobilised ~US\$239 million under FCNR(B), with ~95–96% sourced through direct deposits rather than leveraged swap arrangement.

Fee income and other income

- Management expects the recovery in fee income witnessed during Q2FY27 to sustain, with improvement largely driven by recurring business rather than one-off income.
- Miscellaneous income of ~₹190 crore primarily comprised:
 - Recoveries from technically written-off accounts of ₹73 crore.
 - Bancassurance income of ~₹30–35 crore.
- Management expects recovery-related income to remain at ~₹50–55 crore per quarter in the near term, although the contribution could moderate over the next four to six quarters as the outstanding recovery pool declines.
- Bancassurance income is expected to remain sustainable, with continued focus on increasing third-party distribution and other fee-generating businesses.
- Third-party distribution contributes only ~5–7% of total fee income, limiting the potential impact of proposed bancassurance regulatory changes.

Asset Quality & Opex

- Asset quality remained healthy, with GNPA/NNPA improving to 1.24%/0.09% and PCR strengthening to 97.84%.
- Management clarified that the sequential increase in provisions to ₹159 crore, was primarily attributable to conservative account-level provisioning rather than emerging stress.
- No additional floating, contingent or general provisions were created during the quarter, with management indicating that SMA and NPA levels remain benign.
- Management acknowledged limited scope for further material reduction in already-low NPA ratios, with focus shifting towards sustaining asset quality while accelerating growth.
- Operating expenses are expected to increase with branch expansion, employee additions and technology investments, although opex growth is expected to remain below advances growth.
- The bank added ~11 branches during H1FY27, with further expansion expected to remain calibrated.
- Management expects the cost-to-income ratio to gradually moderate towards ~50%, driven by income growth outpacing incremental operating expenses.

Other updates

- Capital position remained comfortable, with CRAR at 19.40% and Tier I ratio at 18.71%, providing adequate headroom for growth. The board has approved raising up to ₹500 crore, through Tier II bonds, although no immediate capital requirement is envisaged.

- Management expects limited incremental provisioning requirement under the proposed ECL framework, supported by low SMA balances and strong existing provision coverage. A decision on the regulatory glide path is yet to be taken.
- Rising bond yields resulted in an adverse AFS reserve movement of ~₹52–53 crore during Q2FY27, with the reserve carrying a debit balance of ₹43 crore as of September 2026.
- Treasury MTM sensitivity stands at approximately ₹1–1.1 crore for every 1 bps movement in bond yields, with management indicating that the impact has remained relatively contained.
- The bank will continue participating in IBPC and direct assignment transactions based on pricing attractiveness and commercial viability.
- Management indicated that a more detailed medium-term strategic roadmap would be communicated subsequently.

Exhibit 1: Variance Analysis

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
NII	1,115.9	808.8	38.0	1,024.7	8.9	Driven by healthy advances growth and sustained margin expansion
NIM (%)	3.33	2.80	53 bps	3.23	10 bps	Aided by a 7 bps increase in yield on advances and an 11 bps decline in cost of funds
Other Income	468.0	515.7	-9.3	379.0	23.5	Higher treasury/forex income, fee recovery and recoveries from technically written-off accounts
Net Total Income	1,583.9	1,324.5	19.6	1,403.7	12.8	
Staff cost	456.1	419.8	8.6	458.8	-0.6	Resumption of employee hiring and normalisation of actuarial expenses
Other Operating Expenses	395.5	369.2	7.1	353.7	11.8	Increased due to selective branch expansion and continued investment in distribution and technology infrastructure
PPP	732.3	535.6	36.7	591.3	23.9	
Provision	159.1	63.3	151.5	84.3	88.7	Primarily reflecting conservative account-level provisioning rather than incremental asset-quality stress
PBT	573.2	472.3	21.4	506.9	13.1	
Tax Outgo	147.2	120.9	21.8	129.3	13.8	
PAT	426.0	351.4	21.2	377.6	12.8	Supported by robust NII growth and higher other income, partly offset by increased provisions
Key Metrics						
GNPA	1.2	2.9	-169 bps	1.4	-14 bps	Improved 14 bps QoQ to 1.24%, supported by benign slippages and continued recoveries
NNPA	0.1	0.6	-47 bps	0.3	-17 bps	
Gross Advances	109,517	92,286	18.7	104,368	4.9	Supported by gold loans and improving retail/MSME disbursement momentum
Deposit	137,279	115,635	18.7	125,817	9.1	Aided by higher bulk deposits, FCNR(B) mobilisation and temporary current account inflows

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	11,410	12,998
Interest Expended	5,928	6,409	7,079	8,046
Net Interest Income	3,486	3,437	4,331	4,952
Growth (%)	4.6%	-1.4%	26.0%	14.3%
Non Interest Income	1,813	2,009	1,705	1,919
Net Income	5,299	5,447	6,036	6,871
Employee cost	1,671	1,621	1,854	2,093
Other operating Exp.	1,357	1,453	1,519	1,592
Operating expenses	3,028	3,073	3,374	3,685
Operating Income	2,270	2,373	2,663	3,186
Provisions	513	417	444	579
PBT	1,757	1,956	2,219	2,608
Taxes	454	501	566	665
Net Profit	1,303	1,455	1,653	1,943
Growth (%)	21.8%	11.7%	13.6%	17.5%
EPS (₹)	5.0	5.6	6.3	7.4

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	6.3	7.4
BV (₹)	37.3	42.3	48.6	55.9
ABV (₹)	34.3	41.2	47.8	54.8
P/E	10.8	9.7	8.5	7.3
P/BV	1.4	1.3	1.1	1.0
P/ABV	1.6	1.3	1.1	1.0
Yields & Margins (%)				
Net Interest Margins	3.3	2.9	3.2	3.2
Avg. cost on funds	5.4	5.4	5.2	5.1
Yield on average advances	9.0	8.4	8.4	8.3
Quality and Efficiency (%)				
Cost to income ratio	57.2	56.4	55.9	53.6
Credit/Deposit ratio	79.7	80.5	81.1	82.2
GNPA %	3.2	1.4	1.2	1.3
NNPA %	0.9	0.3	0.2	0.2
RoE	13.8	13.5	13.5	13.8
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	11,143	12,795	14,737
Networth	10,108	11,416	13,069	15,010
Deposits	107,522	123,341	141,309	161,154
Borrowings	4,300	3,927	5,732	6,621
Other Liabilities & Provisions	2,724	3,072	2,199	3,136
Total	124,655	141,756	162,309	185,922

Application of Funds

Cash and balances with RBI	5,098	6,183	6,359	6,446
Balances with banks at call	7,162	3,958	4,534	5,171
Investments	21,777	27,327	31,088	35,454
Advances	85,682	99,260	114,645	132,415
Fixed Assets	1,018	1,043	1,116	1,227
Other Assets	3,918	3,986	4,567	5,208
Total	124,655	141,756	162,309	185,922

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(% growth)	FY25	FY26	FY27E	FY28E
Total assets	6.2	13.7	14.5	14.5
Advances	9.8	15.8	15.5	15.5
Deposit	5.5	14.7	14.6	14.0
Total Income	9.3	2.8	10.8	13.8
Net interest income	4.6	-1.4	26.0	14.3
Operating expenses	1.7	1.5	9.8	9.2
Operating profit	21.5	4.5	12.2	19.7
Net profit	21.8	11.7	13.6	17.5
Net worth	14.5	12.9	14.5	14.9
EPS	21.7	11.6	13.6	17.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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