

Stock Update South Indian Bank

January 6, 2026



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI – Pvt. Bank	Rs 39.7	Buy in Rs 39-40 band and add on dips in Rs 34-35 band	Rs 43	Rs 48	2-3 quarters

HDFC Scrip Code	SOUBAN
BSE Code	532218
NSE Code	SOUTHBANK
Bloomberg	SIB IN
CMP Jan 5, 2026	39.7
Equity Capital (Rs Cr)	261.7
Face Value (Rs)	1
Equity Share O/S (Cr)	261.7
Market Cap (Rs Cr)	10393
Adj. Book Value (Rs)	38.7
Avg. 52 Wk Volumes	2,09,85,000
52 Week High	41.7
52 Week Low	22.3

Share holding Pattern % (Sep, 2025)	
Promoters	0
Institutions	29.8
Non Institutions	70.2
Total	100.0



* Refer at the end for explanation on Risk Ratings

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Our Take:

South Indian Bank is a regional private bank in India. It has carved out a niche for itself in South India, especially in Kerala, as a well-managed bank. Headquartered in Trissur, Kerala, the bank has a presence in over 900 locations. The management has been steadily expanding the bank's presence outside Kerala.

Since Covid, the Bank has focused on deepening the granularity and quality of its loan book across retail, MSME, and high-rated corporate segments. This approach aimed to reduce exposure to legacy risk, grow secured retail lending, and promote better credit behaviour across the board. It has been successful in sharply improving its asset quality with NNPA falling below pre-COVID levels. The pivot towards retail and MSME loans is likely to drive NIM expansion.

Management remains optimistic on NIM recovery and balance sheet mix shift towards higher-yield segments.

Q2FY26 Result Update and Concall Highlights

SIB reported robust Q2FY26 results with net profit up 8% YoY to Rs 351cr, driven by deposit growth and asset-quality improvements. NII declined 8% YoY to Rs 809cr as yields compressed while cost of funds remained largely stable leading to a 44bps decline in NIM to 2.8%. Non-interest income grew 26% to Rs 516cr supported by treasury gains and others. NPA provisioning declined 43% YoY to Rs 63cr driving higher profits.

Gross NPA improved to 2.93% (down 147 bps YoY), net NPA to 0.56% (down 75 bps), with PCR at 90.25% including write-offs. Recoveries strengthened at ₹352 crore in Q2 (vs ₹254 crore prior quarter), with slippage at 21 bps and SMA-2 at 30 bps.

Total deposits rose 10% YoY to Rs 1.15 lakh crore, with retail term deposits up 11%, CASA up 10% to Rs 36,841c, and advances up 9% YoY to Rs 90,196cr. Digital/co-lending assets at Rs 1,500cr (target Rs 3,000cr FY26-end), including partnerships with Amazon, MoneyView, and Rupeek.

Management Guidance

- NIM expected to recover towards 3%+ (Q2FY26: 2.8%) provided there are no further rate cuts, aided by retail/MSME mix shift (target corporate to ~33% in 18 months) and faster deposit repricing (short tenor focus).

- Other income is primarily transaction-based and sustainable.
- Credit cost to remain contained (~current low levels), slippage FY26. ECL norms impact minimally (Stage-2 provisions up 460 bps on <1% assets).
- MSME growth target 17-18% FY26 (branch-originated at 9% yields, larger tickets >9%), retail/MSME organic growth aspiration 20%+ annually

Recalibrating loan mix towards MSME and Retail

SIB is transitioning from a corporate-focused bank to growing a granular book by lending to the MSME and retail segments. Share of MSME and Retail loans in total advances have been gradually increasing and stood at ~43% in Q2FY26 as compared to ~41% in the previous quarter. The management intends to bring down the share of the corporate loan book to 33% from ~40% currently over the next 18 months.

Digital transformation to enhance customer engagement

South Indian Bank has partnered with MoEngage to drive digital innovation and enhance customer engagement across all channels. This collaboration signals a major shift in the bank's approach to personalising customer interactions through automation and advanced data analytics. Before the partnership, South Indian Bank relied on multiple marketing technology tools and in-house workflows that required significant manual effort from its data science teams. The integration of MoEngage's unified platform will streamline the bank's technology stack, enabling secure customer data management, faster campaign rollout, and a scalable digital strategy.

Increasing institutional holding

SIB is among the few stocks that have witnessed strong buying by both foreign and domestic institutional investors. Over the last 4 quarters, FIIS have increased their holding from 11.47% to 17.91% while DII shareholding has gone up from 5.25% to 11.92%.

Key Risks

- Further RBI cuts could pressure NIM given short-duration corporate book (40% advances, EBLR-linked); liquidity tightening may raise deposit costs despite a benign outlook.
- Operations are largely concentrated in the state of Kerala. Any adverse policy by the government could have a sharp impact on asset quality and profitability.
- Corporate loan book remains a drag on return ratios. Although management intends to bring down its share, execution would be a key concern.

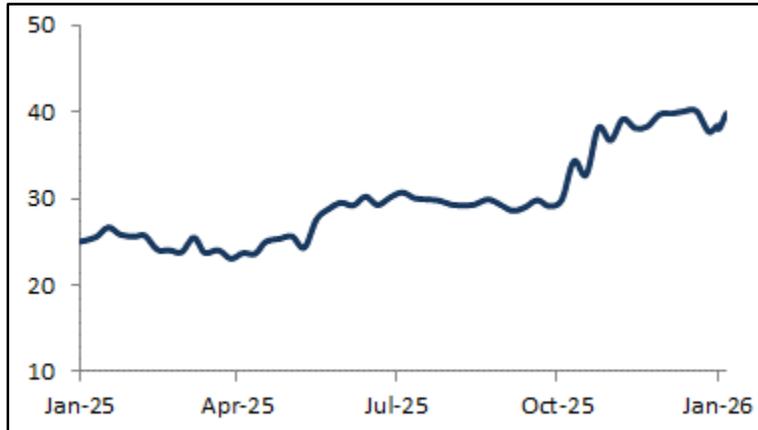
Valuation & Recommendation:

We expect SIB's advances to grow at CAGR of 11% over FY25-FY28E. Increasing share of retail and MSME loans is likely to drive RoA/RoE expansion to 1.2%/13.9% by FY28. We believe investors can buy the stock in the band of Rs 39-40 add on dips in Rs 34-35 band (0.35x FY28E ABV) for the base case fair value of Rs 43 (0.8x FY28E ABV) and the bull case fair value of Rs 48 (0.9x FY28E ABV) over the next 2-3 quarters.

Financial Summary:

Particulars (Rs cr)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	FY25	FY26E	FY27E	FY28E
NII	809	882	-8.3	833	-2.9	3486	3501	3840	4351
PPoP	536	550	-2.7	672	-20.3	2272	2416	2676	3122
APAT	351	325	8.2	322	9.1	1303	1321	1552	1891
Diluted EPS (Rs)	1.3	1.2	8.1	1.2	9.1	5.0	5.0	5.9	7.2
ABVPS (Rs)						35.6	40.7	46.7	53.4
P/E (x)						8.0	7.9	6.7	5.5
P/ABV (x)						1.1	1.0	0.9	0.7
RoAE (%)						13.8	12.3	12.9	13.9
RoAA (%)						1.1	1.0	1.1	1.2

One Year Price chart



HDFC Sec Prime Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Rating Criteria

Buy - > 15%+ return potential

Add - +5% to +15% return potential

Reduce - -10% to +5% return potential

Sell - >10% downside return potential

Disclosure:

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