

Syndicate Bank (SYNBN)

₹ 107

WHAT'S CHANGED...

PRICE TARGET Changed from ₹ 154 to ₹ 125
EPS (FY11E) Changed from ₹18.5 to ₹ 19.5
EPS (FY12E) Changed from ₹ 25.1 to ₹ 26.0
RATING..... Changed from Strong Buy to Buy

So far, so good...

Syndicate Bank (SBL) reported a healthy growth of 18% YoY in business mix as deposits grew 15% to ₹ 124603 crore and advances by 22% to ₹ 101307 crore. CD ratio is stretched at 81%. NII growth was healthy backed by better liability management. Non interest income growth was sluggish, down 4% QoQ, 8% YoY to ₹ 214 crore, lower than estimates. Provisions were high at ₹ 427 crore, resulting in PAT of ₹ 256 crore little ahead of our estimate of ₹ 234 crore. Going ahead, we expect 16% CAGR in balance sheet and 17% in business mix to support PAT CAGR of 29% over FY10-12E to ₹ 13544 crore.

NIM above 3% on the back of liability re-engineering

NII of ₹ 1150 crore was ahead of our expectations on account of lower interest outgo. The bank is reducing its dependence on bulk deposits while CASA proportion is on the rise (33% for Q3FY11 against 30% in Q3FY10). Cost of funds, which stood at 6.3% in Q3FY10 and 6.1% in FY10, is now down to 5.3% for Q3FY11, providing a push to NII and NIM. The bank has strategically stopped incremental business growth where spreads (difference of YoA and CoF) are negative. NIM spiked to 3.4% from 2.2% in Q3FY10 (though down 15 bps QoQ). We expect stable CASA at 34% and NIM of 3% for FY12E.

Asset quality stable, concerns seem to be overdone

GNPA @2.3% and NNPA @0.95% was flat QoQ. We expected the asset quality concerns to remain high in FY11E due to further slippages expected in the restructured assets (₹ 4,070 crore in Q3FY11 lower than ₹ 4500 crore in Q1FY11). Of the total restructured assets, the bank witnessed ₹470 crore of slippages and expects some more pressure in the coming quarter. Our earlier case of ~20% slippage from these accounts seems higher. Hence, we expect NNPA of 0.9% in FY12E against our earlier expectation of 1%. PCR is comfortable at 73%. We have lowered our provisioning cost for FY12E to our earlier estimate, resulting in EPS upgradation by 2%.

Valuation

We expect an improvement in RoA to 0.8% and RoE to 20% in FY12E from 0.7% and 17% currently. We have valued SBL at 1.2x FY12E ABV (slight discount to Dena Bank that we valued at 1.25x on account of lower RoA) and have arrived at fair value of ₹ 125. We recommend **BUY**.

Exhibit 1: Financial Performance

₹ crore	Q3FY11	Q3FY11E	Q3FY10	Q2FY11	YoY Gr. (%)	QoQ Gr. (%)
NII	1150	1099	718	1108	60.2	3.8
Other Income	214	233	221	231	-3.5	-7.7
PPP	712	863	488	778	46.0	-8.5
PAT	256	235	206	237	24.5	8.1

Source: Company quarterly presentation, ICICIdirect.com Research

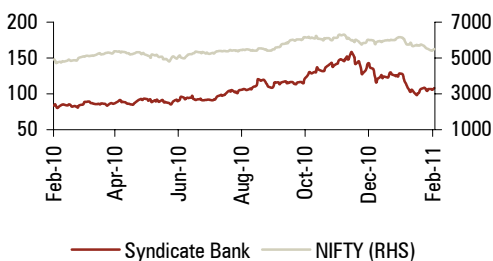
Rating matrix	
Rating	: Buy
Target	: ₹ 125
Target Period	: 12 months
Potential Upside	: 17%

Key Financials				
(₹ Crore)	FY09	FY10	FY11E	FY12E
NII	2548	2740	4434	5090
PPP	1671	1874	2870	3254
PAT	913	813	1015	1355

Valuation summary				
	FY09	FY10	FY11E	FY12E
Net Profit (₹ cr)	912.8	813.3	1015.5	1354.8
EPS (Rs)	17.5	15.6	19.5	26.0
Growth (%)	7.6	-10.9	24.9	33.4
P/E (x)	6.5	7.3	5.8	4.4
ABV (₹)	75.9	81.6	92.8	104.3
Price / Book (x)	1.3	1.1	1.0	0.9
Price / Adj Book (x)	1.5	1.4	1.2	1.1
GNPA (%)	2.0	2.2	2.4	2.3
NNPA (%)	0.8	1.1	1.0	0.9
RoNA (%)	0.8	0.6	0.7	0.8
RoE (%)	19.6	15.3	17.0	20.3

Stock data	
Market Capitalisation	₹ 5585 crore
GNPA (Q1FY11)	₹ 2348 crore
NNPA (Q1FY11)	₹ 949 crore
NIM (Q1FY11)	3.4 %
52 week H/L	₹ 164 / 80
Equity capital	₹ 522 crore
Face value	₹ 10
DII Holding (%)	12.6
FII Holding (%)	4.8

Price movement



Analyst's name

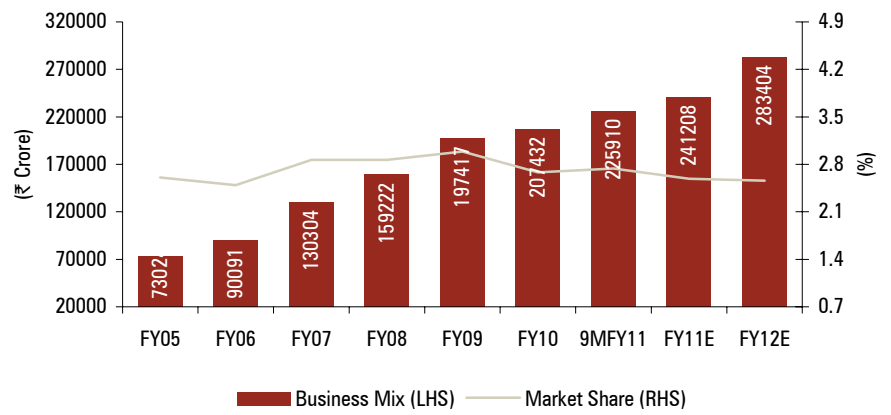
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Exhibit 2: Business mix consolidation expected in FY11E

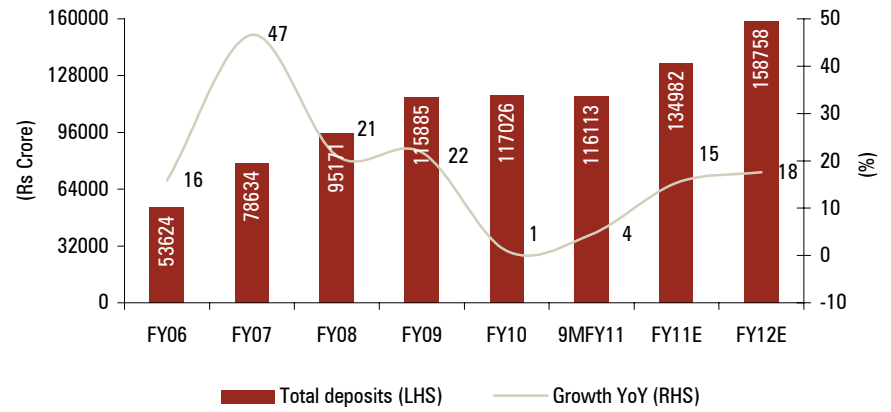
We expect 17% CAGR in the business mix over FY10-12E



Source: Company annual report and presentation, ICICIdirect.com Research

Exhibit 3: Deposits to grow at 16% CAGR in FY10-12E

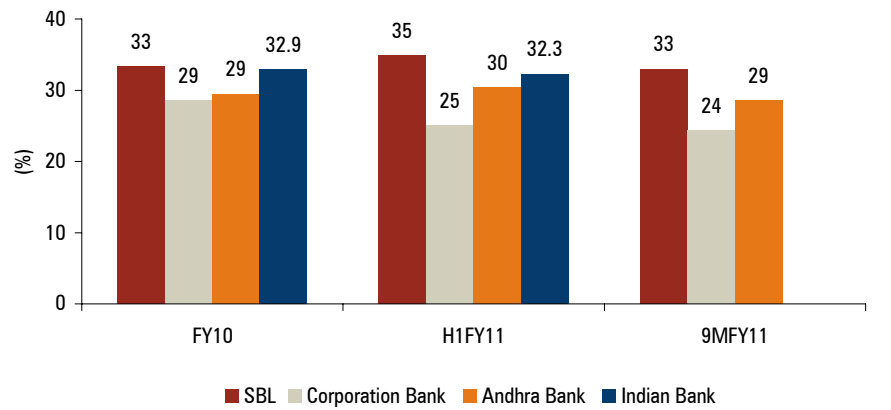
Improved liability management helped the bank to control the cost of funds and improve the NIM



Source: Company annual report and presentation, ICICIdirect.com Research

Exhibit 4: SBL continues to maintain high CASA ratio as compared to its peers

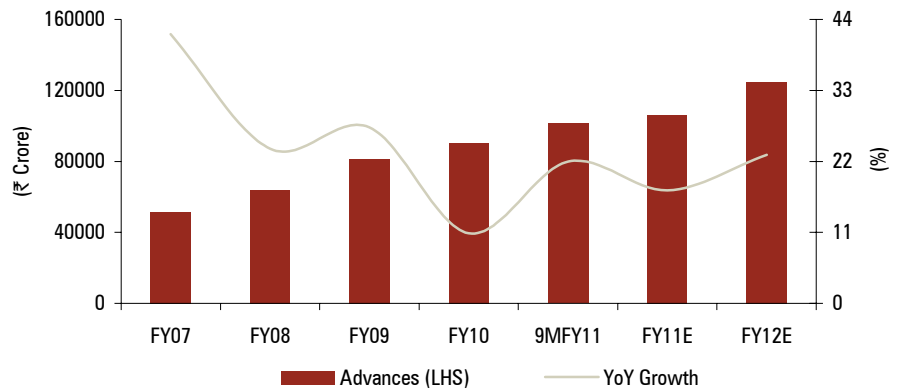
SBL commands a high CASA ratio in comparison to its peers pushing NIMs to above 3% levels in the last two quarters. We expect the CASA ratio to remain stable at 33% in FY11E-12E driven by ~150-200 new branch additions during the period



Source: Company annual report and presentation, ICICIdirect.com Research

Exhibit 5: Advances growth picking up with better loan appraisal systems in place

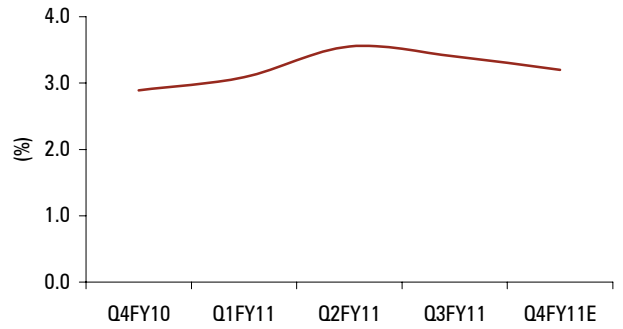
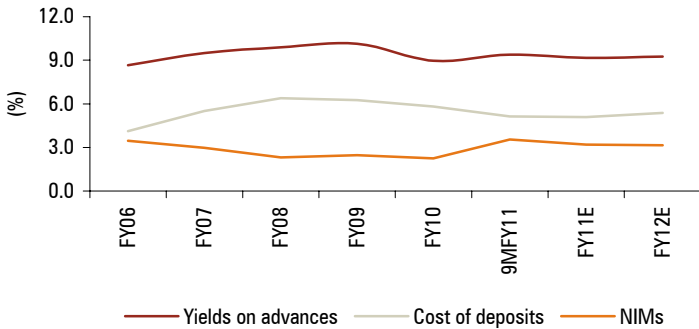
Advances grew at 22% YoY in 9MFY11 vs. 11% YoY in FY10 driven by strong management focus on quality loans. We expect advances to grow at 17% CAGR in FY10-12E



Source: Company annual report and presentation, ICICIdirect.com Research

Exhibit 6: Low cost of deposits provide buffer...

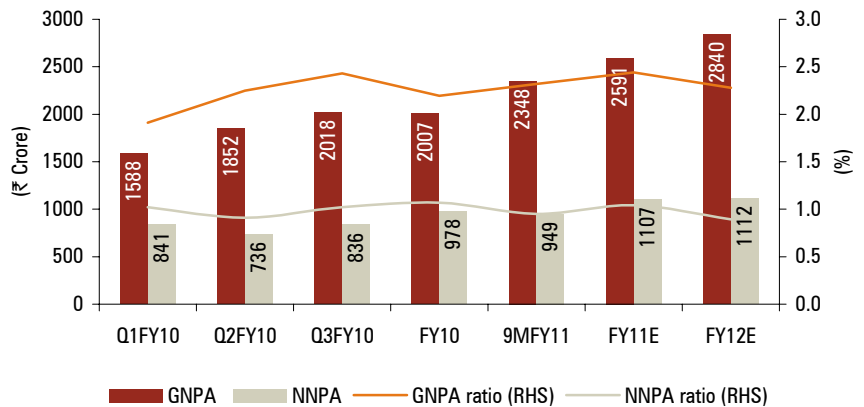
Exhibit 7: ...lead NIM to remain above 3% in Q3FY11



Source: Company, ICICIdirect.com Research

Source: Company, ICICIdirect.com Research

Exhibit 8: Asset quality concerns overdone, required moderation



Source: Company quarterly presentation, ICICIdirect.com Research

Financial scorecard

Exhibit 9: Profit and loss account

₹ Crore	FY08	FY09	FY10	FY11E	FY12E
Interest Earned	7906	9525	10047	11603	13859
Interest Expended	5834	6978	7307	7168	8769
Net Interest Income	2073	2548	2740	4435	5090
growth (%)	-4	23	8	62	15
Non Interest Income	890	915	1167	913	1011
Fees and advisory	250	268	284	298	358
Treasury Income and sale of Invt.	287	193	389	253	240
Other income	353	454	494	362	413
Net Income	2963	3462	3907	5348	6101
Employee cost	929	1120	1338	1525	1691
Other operating Exp.	566	671	696	953	1156
Operating Income	1468	1671	1874	2870	3254
Provisions	463	635	700	1551	1448
PBT	1006	1036	1174	1319	1806
Taxes	157	124	361	303	452
Net Profit	848	913	813	1016	1355
growth (%)	18	8	-11	25	33

Source: Company, ICICIdirect.com Research

Exhibit 10: Balance sheet

₹ Crore	FY08	FY09	FY10	FY11E	FY12E
Sources of Funds					
Capital	522	522	522	522	522
Reserves and Surplus	3769	4488	5105	5833	6440
Networth	4291	5010	5627	6355	6962
Deposits	95171	115885	117026	134982	158758
Borrowings	1306	5414	12173	13539	15155
Subordinated Debt	-	2645	2845	3345	3845
Other Liabilities & Provisions	6364	1302	1381	1380	1342
Total	107132	130256	139051	159600	186062
Uses of Funds					
Fixed Assets	770	742	701	794	818
Investments	28076	30537	33011	38832	46726
Advances	64051	81532	90406	106226	124646
Other Assets	2579	3040	2198	2071	1299
Cash with RBI & call money	11657	14404	12734	11676	12574
Total	107132	130256	139051	159600	186062

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

Bank of India					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	438	FY10	1741.1	33.1	13.2	2.2	0.7	12.6
		Target	490	FY11E	2687.4	51.1	8.6	1.9	0.9	17.6
Mcap (₹ Cr)	23035	Upside (%)	11.9	FY12E	3736.2	61.8	7.1	1.5	1.1	19.9
Bank of Baroda					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANBAR	CMP	855	FY10	3058.3	83.7	10.2	2.6	1.2	21.9
		Target	945	FY11E	3945.8	107.9	7.9	2.0	1.3	23.2
Mcap (₹ Cr)	31253	Upside (%)	10.5	FY12E	4691.9	128.4	6.7	1.6	1.3	22.2
Dena Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DENBAN	CMP	102	FY10	511.3	17.8	5.7	1.5	1.0	21.4
		Target	130	FY11E	636.4	18.6	5.5	1.2	1.0	20.1
Mcap (₹ Cr)	2926	Upside (%)	27.5	FY12E	778.7	22.8	4.5	1.0	1.0	19.3
Indian Overseas Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	INDOVE	CMP	127	FY10	707.0	13.0	9.8	1.6	0.6	11.5
		Target	154	FY11E	1031.0	18.9	6.7	1.2	0.7	15.1
Mcap (₹ Cr)	6919	Upside (%)	21.3	FY12E	1555.1	28.1	4.5	0.9	0.9	19.2
IDBI Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	IDBI	CMP	138	FY10	1031.1	8.8	15.8	2.0	0.5	13.2
		Target	*UR	FY11E	1552.1	15.8	8.7	1.5	0.6	14.8
Mcap (₹ Cr)	10003	Upside (%)		FY12E	1663.5	16.9	8.2	1.3	0.6	12.4
OBC					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	ORIBAN	CMP	332	FY10	1134.7	45.3	7.3	1.1	0.9	14.5
		Target	*UR	FY11E	1514.4	60.4	5.5	0.9	1.0	17.0
Mcap (₹ Cr)	8318	Upside (%)		FY12E	1889.3	75.4	4.4	0.8	1.1	18.0
Punjab National Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	PUNBAN	CMP	1101	FY10	3905.4	123.9	8.9	2.3	1.4	23.9
		Target	1088	FY11E	4866.2	154.3	7.1	1.8	1.5	24.8
Mcap (₹ Cr)	34715	Upside (%)	-1.2	FY12E	5678.1	171.5	6.4	1.6	1.5	24.2
SBI					NP (₹ Bn)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	STABAN	CMP	2594	FY10	91.7	144.4	18.0	3.0	0.9	14.8
		Target	3067	FY11E	109.2	155.0	16.7	2.3	1.0	14.0
Mcap (₹ Cr)	164689	Upside (%)	18.2	FY12E	133.5	189.4	13.7	2.1	1.0	13.9
Syndicate Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	SYNBN	CMP	107	FY10	813.3	15.6	6.9	1.3	0.6	15.3
		Target	125	FY11E	1015.5	19.5	5.5	1.2	0.7	17.0
Mcap (₹ Cr)	5585	Upside (%)	16.8	FY12E	1354.8	26.0	4.1	1.0	0.8	20.3
Union Bank of India					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UNIBAN	CMP	331	FY10	2074.9	41.1	7.9	2.1	1.2	26.2
		Target	362	FY11E	2150.8	39.4	8.2	1.7	1.0	20.8
Mcap (₹ Cr)	16416	Upside (%)	9.4	FY12E	2724.7	49.9	6.5	1.3	1.1	20.9
Axis Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UTIBAN	CMP	1243	FY10	2514.5	62.1	20.0	3.2	1.7	19.2
		Target	1520	FY11E	3259.6	77.8	16.0	2.8	1.4	18.7
Mcap (₹ Cr)	50363	Upside (%)	22.3	FY12E	4016.9	95.9	13.0	2.4	1.3	19.6
Dhanlaxmi Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DHABAN	CMP	97	FY10	23.3	3.6	26.7	1.6	0.3	5.4
		Target	*UR	FY11E	28.9	3.4	28.5	1.1	0.3	4.6
Mcap (₹ Cr)	622	Upside (%)	-	FY12E	72.1	8.5	11.5	1.0	0.5	8.4
DCB					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DCB	CMP	46	FY10	-78.5	-3.9	-	2.1	-1.3	-14.6
		Target	72	FY11E	18.9	0.8	54.8	1.6	0.3	3.0
Mcap (₹ Cr)	921	Upside (%)	56.5	FY12E	47.3	2.1	21.9	1.5	0.6	6.5
Federal Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	FEDBAN	CMP	361	FY10	464.5	27.2	13.3	1.4	1.1	10.3
		Target	501	FY11E	572.4	33.5	10.8	1.3	1.2	12.0
Mcap (₹ Cr)	6173	Upside (%)	38.8	FY12E	675.7	39.5	9.1	1.3	1.3	13.5
HDFC Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	HDFBAN	CMP	2040	FY10	2948.7	64.4	31.7	4.4	1.5	16.3
		Target	2420	FY11E	3811.6	83.3	24.5	3.9	1.5	16.7
Mcap (₹ Cr)	93373	Upside (%)	18.7	FY12E	5022.9	109.7	18.6	3.5	1.7	19.4

Continued...

Kotak Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	KOTMAH	CMP	377	FY10	561.1	8.1	46.2	6.1	1.7	13.5
		Target	425	FY11E	804.8	11.0	33.7	4.7	1.9	15.2
Mcap (₹ Cr)	13108	Upside (%)	12.7	FY12E	1132.9	15.5	23.9	4.1	2.2	17.5
South Indian Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	SOUINO	CMP	20	FY10	233.7	2.1	9.7	1.6	1.1	17.9
		Target	23	FY11E	279.6	2.5	8.1	1.4	1.0	17.8
Mcap (₹ Cr)	2255	Upside (%)	15.0	FY12E	355.1	3.1	6.4	1.2	1.1	19.5
Yes Bank					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	YESBAN	CMP	260	FY10	477.7	14.1	18.8	2.9	1.6	20.3
		Target	311	FY11E	713.3	20.5	12.9	2.3	1.6	20.2
Mcap (₹ Cr)	7957	Upside (%)	19.6	FY12E	935.8	26.9	9.9	1.9	1.4	21.3

*UR: Under Review

NBFC

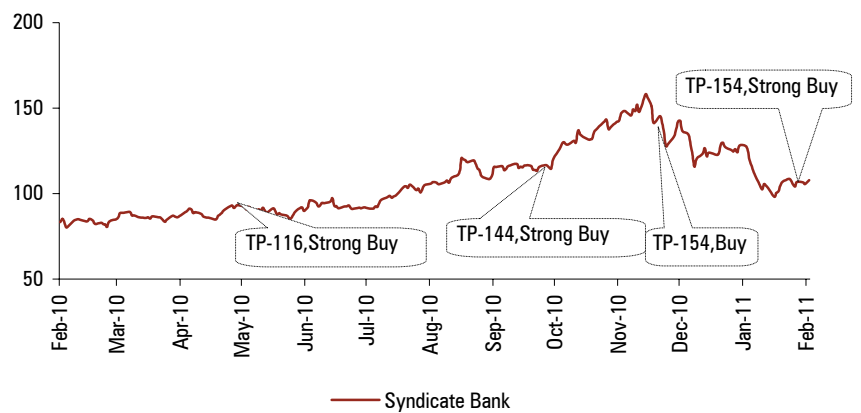
LICHF*					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	LICHF	CMP	176	FY10	662.1	13.9	12.6	2.4	1.9	22.7
		Target	200	FY11E	846.8	17.8	9.9	2.0	1.8	21.6
Mcap (₹ Cr)	8349	Upside (%)	13.6	FY12E	1060.4	22.3	7.9	1.7	1.8	22.7
Rel Cap					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	RELCAP	CMP	501	FY10	434.6	17.7	28.4	1.6	0.0	2.0
		Target	*UR	FY11E	599.1	24.3	20.6	1.5	0.0	2.6
Mcap (₹ Cr)	12306	Upside (%)	-	FY12E	706.3	28.7	17.5	1.4	0.0	2.7

*Adjusted for stock split

Brokerage firms

Edelweiss Capital					NP (₹ Cr)	EPS (₹)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	EDECAP	CMP	39	FY10	229.2	30.5	12.8	1.3	5.5	11.2
		Target	*UR	FY11E	257.3	3.4	11.4	1.2	4.0	11.4
Mcap (₹ Cr)	2927	Upside (%)	-	FY12E	247.6	3.3	11.8	1.1	3.0	10.2
India Infoline					NP (₹ Cr)	EPS (₹)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	INDINF	CMP	78	FY10	232.0	8.1	9.5	1.4	5.7	14.9
		Target	*UR	FY11E	215.6	7.6	10.2	1.2	3.5	13.0
Mcap (₹ Cr)	2223	Upside (%)	-	FY12E	202.4	7.1	10.8	1.1	3.4	11.2
MOFSL					NP (₹ Cr)	EPS (₹)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	MOTOSW	CMP	137	FY10	170.4	11.9	12.2	2.3	10.3	18.6
		Target	*UR	FY11E	159.3	10.8	13.4	1.9	8.4	15.0
Mcap (₹ Cr)	1959	Upside (%)	-	FY12E	180.9	12.4	11.7	1.7	8.5	14.7

Exhibit 11: Recommendation History



Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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