

SYNDICATE BANK



Margin expansion continues

Syndicate Bank (SNDB) reported a PAT of INR 1,682 mn against our estimate of INR 2,226 mn on account of higher provisioning and tax rate. However, NII grew ahead of our estimate at 53% Y-o-Y and 20% Q-o-Q to INR 8,597 mn. While gross NPAs remained flat Q-o-Q, provision coverage dropped with slippages running high. Business growth picked up with advances growing 10% Q-o-Q to INR 914 bn. NIMs (cal) improved during the quarter by 33bps to 2.62%, in line with most PSU banks.

Business growth picks up; NIMs expand

After a muted growth over 9mFY10, growth eventually picked up for SNDB as its advances grew 10% Q-o-Q and 11% Y-o-Y to INR 914 bn; CD ratio improved 160bps sequentially to 78%. We expect the bank to grow its loan book at 20% over FY11-12E. Margin expansion continued for second consecutive quarter as the bank recorded 33bps improvement in NIM (cal) (against 37bps in Q3FY10) primarily benefiting from decline in cost of deposits (53bps), offsetting the decline in yield on advances (21bps). We expect margins to expand further over FY11 benefitting from improvement in yield on advances as credit growth picks up. We build in 2.3% NIMs over FY11-12E.

Asset quality deteriorates marginally; provision coverage drops (ex tech write offs) to 51%

SNDB's gross NPA remained flat Q-o-Q at INR 20 bn (2.2% of loans). However, net NPAs grew 17% to INR 9.7 bn (1.1% of loans) resulting in 730bps decline in provision coverage (ex tech write offs) to 51%. The bank restructured its loan book further, with restructured assets growing 7.7% sequentially to INR 45 bn (4.92% of loans). Slippages in restructured books touched 13.3% in Q4FY10 against 6% in Q3FY10.

Outlook and valuations: Core performance improves; maintain 'BUY'

Margin expansion playing well in line with declining cost of funds is a trend witnessed across all PSU peers. Reliance on treasury income has receded and core earnings are supporting earnings. However, asset quality woes continue. We have broadly maintained our numbers for FY10-11, factoring in credit growth performance and higher non-loan related provisions. On revised numbers, the stock is trading at **0.8x** FY11E adjusted book and **4.6x** FY11E earnings, delivering RoEs of around 18%. The risk-reward continues to remain favorable at current valuations. We maintain **'BUY'** on the stock and rate it **'Sector Performer'** on relative return basis.

May 7, 2010

Reuters: SBNK.BO Bloomberg: SNDB IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 88
52-week range (INR)	:	113 / 56
Share in issue (mn)	:	522.0
M cap (INR bn/USD mn)	:	46 / 1,016
Avg. Daily Vol. BSE/NSE ('000):	:	1,035.2

SHARE HOLDING PATTERN (%)

Promoters*	:	66.5
MFs, FIs & Banks	:	11.3
FIIIs	:	4.3
Others	:	17.9
* Promoters pledged shares (% of share in issue)	:	NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	0.3	(5.1)	(0.1)
3 months	12.9	7.0	16.6
12 months	69.5	40.4	74.8

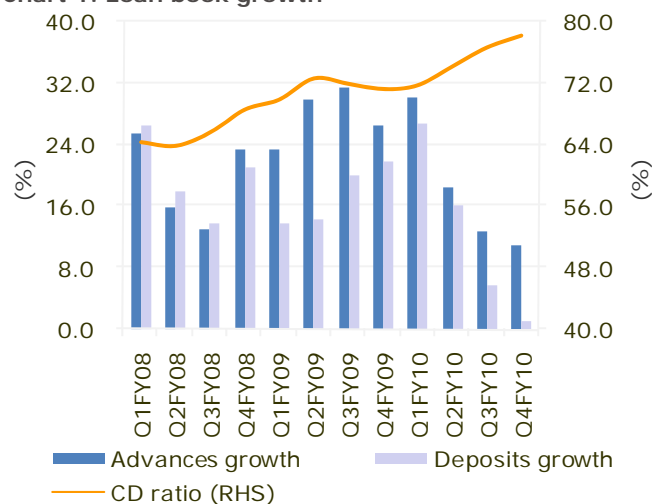
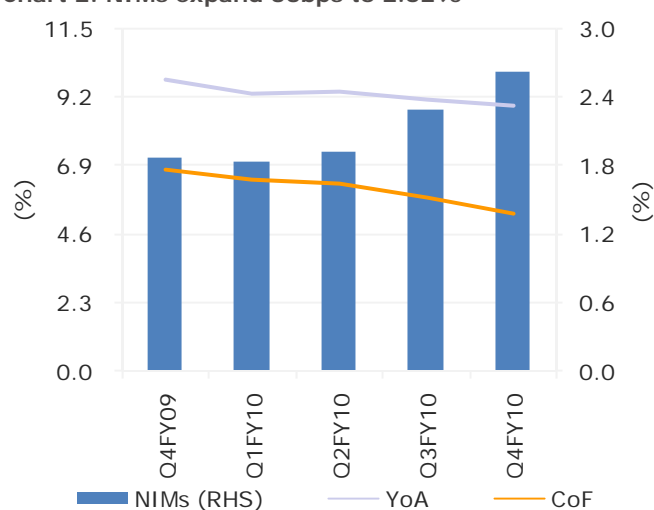
Financials

Year to March	Q410	Q409	Growth %	Q310	Growth %	FY10	FY11E
Net int. inc. (INR mn)	8,597	5,618	53.0	7,180	19.7	27,398	33,404
Net profit (INR mn)	1,682	2,067	(18.6)	2,057	(18.2)	8,133	10,099
B/V per share (INR)						100.1	115.9
EPS (INR)	0.0	4.0	(100.0)	3.9	(100.0)	15.6	19.3
Price/ Adj Book (x)						1.0	0.8
Price/ PPOP (x)						3.1	2.1
Price/ Earnings (x)						5.7	4.6

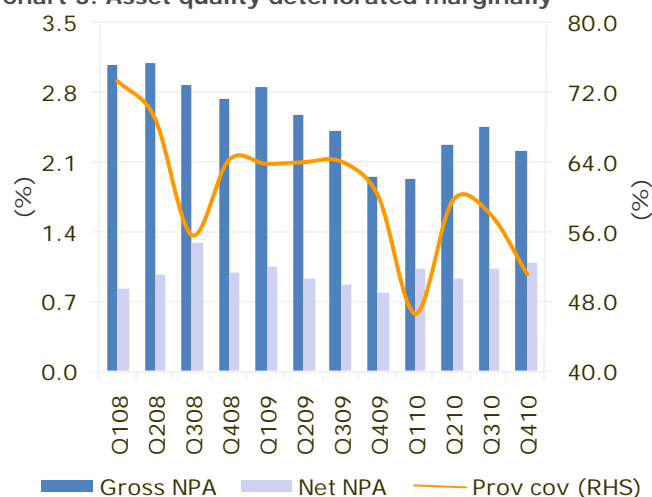
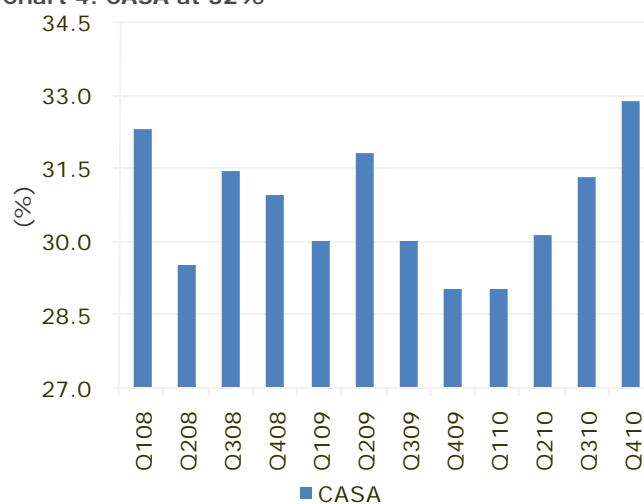
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Chart 1: Loan book growth

Chart 2: NIMs expand 33bps to 2.62%


Source: Company, Edelweiss research

Chart 3: Asset quality deteriorated marginally

Chart 4: CASA at 32%


Source: Company, Edelweiss research

Table 1: Fees income break up

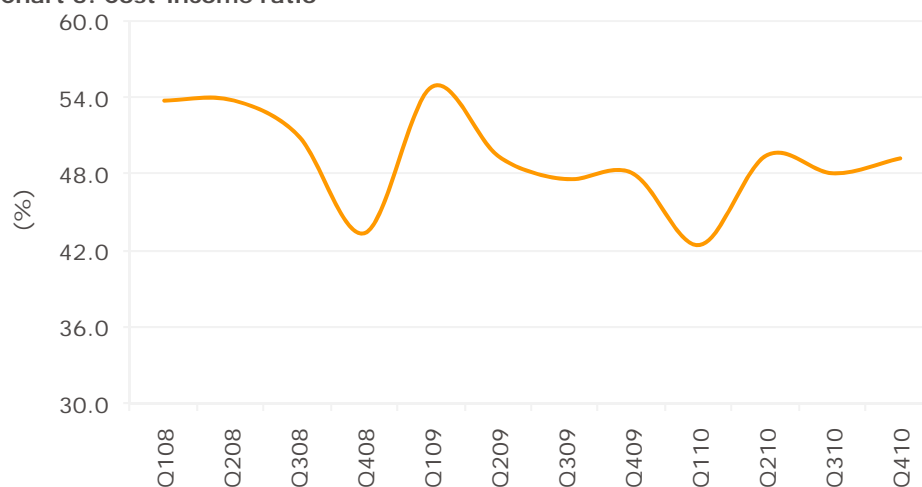
	(INR mn)				
	Q410	Q409	Growth %	Q310	Growth %
Commission exch and brokerage	801	741	8.1	751	6.6
Profit on sale of investments	16	1,200	(98.7)	153	(89.5)
Exchange	148	176	(16.0)	164	(9.7)
Others	1,324	1,519	(12.8)	1,147	15.5
Total	2,289	3,636	(37.0)	2,214	3.4

Source: Company, Edelweiss research

Other highlights

- Commission, exchange and brokerage grew 8% Y-o-Y and 6.6% Q-o-Q to INR 801 mn. Profits on sale of investments were lower at INR 16 mn compared with INR 153 mn in Q3FY10.
- Cost-income ratio for the quarter was at 49%.
- Tier 1 capital stands moderate at 8.24%, with overall capital adequacy ratio at 12.7%.
- The bank's investment book stood at INR 331 bn. AFS book formed 22% of investment book (duration 3.0 years).

Chart 5: Cost-income ratio



Source: Company, Edelweiss research

Financials snapshot

(INR mn)

Year to March	Q410	Q409	Growth (%)	Q310	Growth (%)	FY10	FY11E	FY12E
Interest on advances	19,435	19,010	2.2	18,854	3.1	76,972	89,436	112,211
Interest on investments	5,159	5,545	(7.0)	5,625	(8.3)	22,680	25,835	33,222
Interest on other resources	248	198	25.4	76	227.8	819	544	640
Interest income	25,133	25,121	0.0	24,555	2.4	100,472	115,815	146,072
Interest expenses	16,536	19,503	(15.2)	17,376	(4.8)	73,074	82,411	106,768
Net interest income	8,597	5,618	53.0	7,180	19.7	27,398	33,404	39,305
Other income	2,289	3,636	(37.0)	2,214	3.4	11,675	10,041	11,141
Fee income	2,273	2,436	(6.7)	2,061	10.3	7,836	8,041	9,141
Operating expenses	5,361	4,450	20.5	4,516	18.7	20,336	19,174	21,843
Staff expense	3,604	2,595	38.9	2,803	28.6	13,378	11,498	13,081
Other opex	1,757	1,855	(5.3)	1,713	2.6	6,958	7,676	8,762
Pre prov Op profit (PPP)	5,509	3,604	52.9	4,725	16.6	14,898	22,270	26,603
Investment gains	16	1,200	(98.7)	153	(89.5)	3,839	2,000	2,000
Provisions	2,632	2,471	6.5	2,069	27.2	6,997	9,637	10,416
Loan loss provisions	1,811	1,983	(8.7)	746	142.7	5,362	7,137	8,516
Others	821	488	68.3	1,323	(37.9)	1,635	2,500	1,900
Profit before tax	2,893	2,333	24.0	2,808	3.0	11,740	14,633	18,187
Provision for tax	1,211	267	353.8	751	61.3	3,607	4,535	6,000
Profit after tax	1,682	2,067	(18.6)	2,057	(18.2)	8,133	10,099	12,187
Ratios								
NII / GII	34.2	22.4		29.2		27.3	28.8	26.9
Cost - income	49.2	48.1		48.1		52.0	44.1	43.3
Provisions / PPOP	47.8	68.6		43.8		47.0	43.3	39.2
Tax rate	41.9	11.4		26.7		30.7	31.0	33.0
Balance sheet data								
Advances (INR bn)	915	825	10.9	831	10.0	915	1,079	1,295
Deposits (INR bn)	1,170	1,159	1.0	1,085	7.8	1,170	1,422	1,730
Asset quality								
Gross NPA	20,068	15,945		20,177		21,096	23,407	24,498
Gross NPA(%)	2.2	1.9		2.4		2.3	2.1	1.9
Net NPA	9,777	6,318		8,358		9,128	7,652	7,046
Net NPA(%)	1.1	0.8		1.0		1.0	0.7	0.5
Provision coverage	51.3	60.4		58.6		56.7	67.3	71.2
Capital adequacy (%)	12.7	12.7		13.5		12.7	12.7	12.6

- **Company Description**

Syndicate Bank is a mid-sized PSU bank, with the eight-largest branch network and tenth-largest asset book among Indian banks. The bank has evolved from being a strong regional player to a formidable national player with improving fundamentals. The bank has a balance sheet size of more than INR 1.35 tn and a deposit base of INR 1.1 bn. It has 2,182 branches across India and 96% of its business is covered under CBS. The government holding in the bank is 66.5% and FIIs own 3.6% as of December 2010.

- **Investment Theme**

We expect Syndicate Bank to generate ~18% average RoE, supported by strong asset growth and low operating expense. Syndicate Bank is a well-managed bank with a strong regional presence. Considering the expected growth in EPS as well as the bank's high RoE over FY09-11E, we believe the stock is attractively priced at 0.8x FY11E book. However, our primary concern remains on asset quality which has slipped in the past few quarters.

- **Key Risks**

- Continued aggressive growth at the cost of margins could hamper our estimates.
- Aggressive loan growth can lead to higher (than system) NPL accretion, in case of an economic slow-down.

Financial Statements

Income statement

(INR mn)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Interest income	79,063	95,796	100,472	115,815	146,072
Interest expended	58,336	69,776	73,074	82,412	106,769
Net interest income	20,728	26,020	27,398	33,403	39,304
Non interest income	8,901	8,604	11,675	10,041	11,141
- Fee & forex income	3,174	3,543	3,573	4,122	4,755
- Misc. income	2,365	3,127	4,263	3,919	4,386
- Investment profits	3,362	1,934	3,839	2,000	2,000
Net revenue	29,628	34,624	39,073	43,443	50,445
Operating expense	15,423	17,160	20,336	19,173	21,842
- Employee exp	9,289	10,452	13,378	11,498	13,081
- Other opex	6,133	6,708	6,958	7,675	8,761
Preprovision profit	14,205	17,464	18,737	24,270	28,603
Provisions	4,645	7,101	6,997	9,637	10,416
Loan loss provisions	4,208	4,673	5,362	7,137	8,516
Investment depreciation	97	1,059	(446)	1,000	400
Other provisions	340	1,369	2,082	1,500	1,500
Profit before tax	9,561	10,363	11,740	14,633	18,187
Provision for tax	1,080	1,235	3,607	4,535	6,000
Profit After Tax	8,481	9,128	8,133	10,099	12,187
Reported PAT	8,481	9,128	8,133	10,099	12,187
Diluted EPS (INR)	16.2	17.5	15.6	19.3	23.3
Dividend per share (INR)	2.8	3.0	3.0	3.0	4.0
Dividend payout (%)	19.0	18.9	22.5	18.1	20.0

Growth ratios (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
NII growth	(3.6)	25.5	5.3	21.9	17.7
Fees growth	22.8	11.6	0.8	15.4	15.4
Opex growth	11.3	11.3	18.5	(5.7)	13.9
PPOP growth	(15.0)	43.2	(4.1)	49.5	19.5
PPP growth	2.7	22.9	7.3	29.5	17.9
Provisions growth	(29.5)	52.9	(1.5)	37.7	8.1
Net profit	18.4	7.6	(10.9)	24.2	20.7

Operating ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
Yield on advances	9.9	10.1	8.9	9.0	9.5
Yield on investments	7.9	7.2	7.2	7.2	7.7
Yield on assets	8.3	8.3	7.8	8.0	8.4
Net interest margins	2.2	2.3	2.1	2.3	2.3
Cost of funds	6.2	6.1	5.7	5.8	6.3
Cost of deposits	6.4	6.3	5.9	6.0	6.5
Cost of borrowings	7.5	7.9	7.2	7.1	7.3
Spread	2.1	2.2	2.1	2.2	2.2
Cost-income	52.1	49.6	52.0	44.1	43.3
Tax rate	11.3	11.9	30.7	31.0	33.0

Balance sheet**(INR mn)**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Equity capital	5,220	5,220	5,220	5,220	5,220
Reserves & surplus	33,432	40,731	47,009	55,275	65,020
Net worth	38,652	45,951	52,229	60,495	70,239
Sub bonds/pref cap	25,847	32,237	34,000	35,000	36,000
Deposits	951,708	1,158,851	1,170,260	1,421,583	1,730,460
Borrowings	13,062	21,905	34,927	37,458	39,989
Other liabilities	37,792	39,462	55,829	45,212	55,036
Total liabilities	1,067,060	1,298,406	1,347,245	1,599,748	1,931,724
Loans	640,510	815,323	914,500	1,079,110	1,294,932
Gilts	253,004	274,444	293,797	356,628	433,847
Others	27,755	30,929	35,171	38,196	41,910
Cash and equivalents	116,571	144,044	68,104	94,957	124,242
Fixed assets	3,432	3,271	3,650	3,883	3,958
Other Assets	25,787	30,397	32,023	26,974	32,835
Total assets	1,067,060	1,298,407	1,347,245	1,599,748	1,931,724
Credit growth	23.4	26.6	12.3	18.0	20.0
Deposit growth	21.0	21.8	1.0	21.5	21.7
EA growth	20.1	21.9	3.7	19.6	20.8
SLR ratio	26.2	23.2	25.0	25.0	25.0
C-D ratio	69.1	71.8	79.9	77.6	76.5
Low-cost deposits	30.9	27.6	34.5	32.5	32.5
Gross NPA ratio	2.7	1.9	2.3	2.1	1.9
Net NPA ratio	1.0	0.8	1.0	0.7	0.5
Provision coverage	64.8	60.4	56.7	67.3	71.2
Incremental slippage	2.4	1.5	1.5	1.7	1.4
Net NPA / Equity	16.1	13.7	17.5	12.6	10.0
Capital adequacy	11.2	12.7	12.7	12.6	12.3
- Tier 1	6.6	7.8	8.2	8.2	8.0
Book value per share (INR)	74.0	88.0	100.1	115.9	134.6

RoE decomposition (%)

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Net interest income/assets	2.2	2.3	2.1	2.3	2.3
Fees/Assets	0.6	0.6	0.6	0.6	0.5
Investment profits/Assets	0.4	0.2	0.3	0.1	0.1
Net revenues/assets	3.1	3.0	3.0	3.0	2.9
Operating expense/assets	(1.6)	(1.5)	(1.6)	(1.3)	(1.3)
Provisions/assets	(0.5)	(0.6)	(0.5)	(0.7)	(0.6)
Taxes/assets	(0.1)	(0.1)	(0.3)	(0.3)	(0.3)
Total costs/assets	(2.2)	(2.2)	(2.4)	(2.3)	(2.2)
ROA	0.9	0.8	0.6	0.7	0.7
Equity/assets	3.7	3.7	3.8	3.9	3.8
ROAE %	24.1	21.6	16.6	17.9	18.6

Valuation parameters

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Diluted EPS (INR)	16.2	17.5	15.6	19.3	23.3
<i>Y-o-Y growth (%)</i>	<i>18.4</i>	<i>7.6</i>	<i>(10.9)</i>	<i>24.2</i>	<i>20.7</i>
Book value per share (INR)	74.0	88.0	100.1	115.9	134.6
Adjusted book value per share (INR)	65.7	79.6	87.8	105.6	125.1
Diluted PE (x)	5.5	5.1	5.7	4.6	3.8
Price/BV (x)	1.2	1.0	0.9	0.8	0.7
Price/ Adj. BV (x)	1.3	1.1	1	0.8	0.7
Dividend yield (%)	3.2	3.4	3.4	3.4	4.5
Price to income (x)	4.0	3.5	3.1	2.9	2.6
Price to PPOP (x)	4.3	3.0	3.1	2.1	1.7

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SO	H	Axis Bank	BUY	SO	M
Bank of Baroda	BUY	SO	L	Federal Bank	BUY	SO	M
HDFC	HOLD	SU	L	HDFC Bank	HOLD	SP	L
ICICI Bank	BUY	SO	L	Indian Overseas Bank	HOLD	SU	H
Infrastructure Development Finance Co Ltd	HOLD	SO	M	ING Vysya	BUY	SO	H
Kotak Mahindra Bank	BUY	SP	L	LIC Housing Finance	BUY	SO	M
Manappuram General Finance	BUY	SO	M	Oriental Bank Of Commerce	BUY	SO	H
Power Finance Corp	BUY	SP	L	Punjab National Bank	BUY	SO	L
Reliance Capital	HOLD	SP	M	Rural Electrification Corporation	BUY	SO	L
Shriram City Union Finance	BUY	SP	H	South Indian Bank	BUY	SO	H
State Bank of India	BUY	SP	L	Syndicate Bank	BUY	SP	H
Union Bank Of India	BUY	SO	L	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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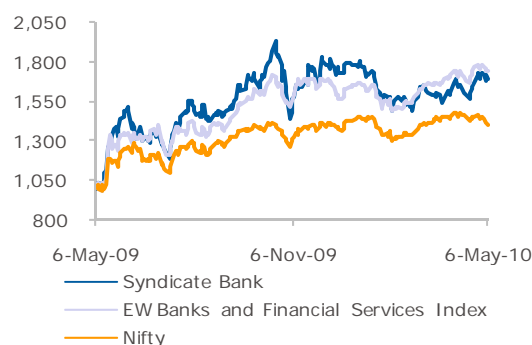
Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bank of Baroda, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, Indian Overseas Bank, Kotak Mahindra Bank, LIC Housing Finance, Manappuram General Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, State Bank of India, Shriram City Union Finance, South Indian Bank, Syndicate Bank, Union Bank Of India, ING Vysya, Yes Bank

Syndicate Bank



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	101	56	9	169
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	103	53	13	

Recent Research

Date	Company	Title	Price (INR)	Recos
06-May-10	Punjab National Bank	Strong core; asset quality hiccups; <i>Result Update</i>	1,043	Buy
06-May-10	IDFC	Strong growth traction; <i>Result Update</i>	160	Hold
06-May-10	Union Bank	Margin beat by a distance, asset quality risk- a constant; <i>Result Update</i>	296	Buy

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