

# Syndicate Bank

## Reducing Target Price

- We are setting our April FY08 target price for the stock at Rs64, which implies 14% downside from the current level. We retain our Underweight rating.
- SNDB's dizzy 52% growth in deposits resulted in just 4% net interest income growth, implying severe margin pressure. Also, what is increasingly worrying is that its deposit rate hikes over the past four months were an estimated 200bp vs PLR hikes of 125bp. We foresee increasing margin pressure, which may not be fully evident in upcoming 4Q results given front-ended repricing of the loan book and an exceptionally low base last year.
- We are lowering our sustainable margin estimate for SNDB to 3% given this high-growth tendency in a tight deposit market. Our normalized ROE forecast now stands revised to 15.3% and target multiple at 0.74x book vs. the current trading multiple of 0.98x.
- The stock has recently moved in line with the market, appreciating 10% in a month, but we expect it to underperform going forward.
- Our price target is based on the Gordon Growth Model. We believe the key risk is better pricing power.

Reuters: [SBNK.BO](#), Bloomberg: [SNDB IN](#)

Rs in millions, year-end March

	FY06	FY07E	FY08E	FY09E	Price	GDR	NA
Net profit	5,365	7,989	8,429	10,821	52-week range	Rs103-47	Reuters
Basic EPS (rep'd) (Rs)	10.3	15.3	16.1	20.7	Market cap	US\$ 0.9B	Bloomberg
Basic EPS growth (%)	20.6	48.9	5.5	28.4	Shares outstanding	521.9MM shares	52-wk range
P/E (basic) (x)	7.2	4.9	4.6	3.6	Free float	31%	Ratio
BVPS (Rs)	54.3	66.1	78.5	94.8	Avg daily value	US\$3.3MM	Avg daily volume
P/BV (basic) (x)	1.37	1.12	0.95	0.78	Avg daily volume	1.86MM shares	Current prem (%)
ROE (%)	21.3	25.4	22.3	23.9	BSE Sensex	13,620	13-wk avg prem (%)
Tier 1 ratio (%)	7.4	6.7	6.4	6.3	Exchange rate	Rs42.08/US\$1	52-wk avg prem (%)
DPS (Rs)	2.9	3.5	3.7	4.5	Performance	1 mth	3 mths
Dividend yield (%)	3.8	4.7	5.0	6.1	Absolute (%)	11.3	-1.5
					Relative (%)	1.8	0.5
							-28.4

Source: JPMorgan estimates, Company data, Bloomberg.

## Underweight

**Rs74.35**

19 April 2007

Price Target: Rs64.00

### India

#### Banks

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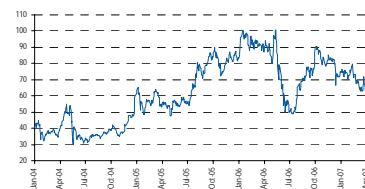
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Figure 1: Syndicate Bank: Share price performance



Source: Bloomberg

See page 3 for analyst certification and important disclosures, including investment banking relationships.

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Asia Pacific Equity Research  
20 April 2007



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#### Syndicate Bank (SBNK.BO) Price Chart



Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.  
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## Syndicate Bank: Summary of financials

Rs in millions, year-end March

Income statement					Balance sheet gearing				
	FY06	FY07E	FY08E	FY09E		FY06	FY07E	FY08E	FY09E
<b>Margins (% of Earning Assets)</b>	3.38%	3.46%	3.14%	3.15%	Loan/Deposit	68%	73%	74%	75%
Earning Assets/Assets	98%	99%	99%	100%	Investment/Assets	28%	26%	25%	25%
<b>NIM (as % of avg. Assets)</b>	3.32%	3.41%	3.12%	3.14%	Loan/Assets	60%	65%	65%	66%
					Customer deposits/Liab.	92%	92%	92%	92%
<b>Net Interest Income</b>	18,809	23,413	26,425	32,533	LT Debt/Liabilities	0%	0%	0%	0%
<b>Total Non-Interest Revenues</b>	4,581	5,791	7,035	8,327	<b>Asset quality/capital</b>				
Fee income	4,147	5,292	6,466	7,684	Loan loss reserves/Loans	FY06	FY07E	FY08E	FY09E
FX/Trading gains	434	499	569	643	NPLs/loans	3.2%	2.8%	2.8%	2.9%
Other operating income	0	0	0	0	Loan loss reserves/NPLs	4.0%	3.5%	3.6%	3.7%
<b>Total operating revenues</b>	23,390	29,204	33,460	40,860	Growth in NPLs	79.3%	79.4%	78.9%	79.5%
Operating costs	(13,345)	(15,305)	(17,310)	(19,527)	Tier 1 Ratio	5.1%	18.9%	25.5%	26.1%
<b>Operating profit</b>	10,045	13,899	16,150	21,333	Total CAR	7.4%	6.7%	6.4%	6.3%
Loan Loss Provisions	(3,606)	(4,285)	(5,514)	(6,806)	<b>Per share data</b>	11.7%	10.8%	10.5%	10.3%
Other provisions	(587)	(214)	(100)	(100)					
Exceptionals	0	0	0	0	EPS (Rs)	FY06	FY07E	FY08E	FY09E
Disposals/ Other income	0	0	0	0	Dividend (Rs)	10.28	15.31	16.15	20.73
<b>Pre-tax profit</b>	5,853	9,401	10,536	14,426	Payout ratio	2.85	3.50	3.70	4.50
Tax [rate]	(488)	(1,412)	(2,107)	(3,607)	NAV	28%	23%	23%	22%
Minorities/preference dividends	0	0	0	0	Avg. Shares issued (mn)	54.29	66.09	78.54	94.77
<b>Attributable net income</b>	5,365	7,989	8,429	10,820		521.97	521.97	521.97	521.97
					<b>DuPont analysis</b>				
<b>Key balance sheet</b>									
	FY06	FY07E	FY08E	FY09E	<b>NIR/Avg. Assets</b>	FY06	FY07E	FY08E	FY09E
Net Customer Loans	364,662	492,294	610,445	750,847	Non IR/Total Rev	3.32%	3.41%	3.12%	3.14%
Gross Loans	376,601	506,517	628,182	773,390	<b>Total Rev/Avg. Assets</b>	19.6%	19.8%	21.0%	20.4%
Investments	172,691	195,223	237,295	287,037	Cost/Income	4.13%	4.26%	3.95%	3.94%
Other Earning Assets	52,135	50,943	62,660	76,445	Cost/Assets	57.05%	52.41%	51.73%	47.79%
<b>Average Earning Assets = (A)</b>	556,595	677,055	840,410	1,032,505	<b>Operating ROAA</b>	2.36%	2.23%	2.04%	1.88%
Total assets	610,768	760,803	933,636	1,138,263	LLP/Loans	1.78%	2.03%	1.91%	2.06%
					Loan/Assets	-1.10%	-0.97%	-0.97%	-0.97%
Interbank funding	(0)	(0)	(0)	(0)	Other inc:provs	57.78%	64.39%	66.97%	67.65%
Customer deposits	536,244	670,305	824,475	1,005,860	Tax	-0.10%	-0.03%	-0.01%	-0.01%
Other Interest Bearing Liabilities	3,431	4,692	6,596	9,053	MI	8.33%	15.02%	20.00%	25.00%
<b>Average Interest Bearing Liab. = (B)</b>	502,920	607,336	753,034	922,992	ROAA	0.00%	0.00%	0.00%	0.00%
<b>Average Assets</b>	565,931	685,785	847,220	1,035,950	<b>ROAA</b>	0.95%	1.16%	0.99%	1.04%
Shareholders' equity	28,336	34,498	40,996	49,467	RoRWA	1.44%	1.78%	1.46%	1.51%
Risk Weighted Assets	382,921	516,944	641,010	788,442	Equity/Assets	4.45%	4.58%	4.46%	4.37%
<b>Average Risk Weighted Assets</b>	371,666	449,932	578,977	714,726	<b>ROE</b>	21.32%	25.43%	22.33%	23.92%

Source: Company data, JPMorgan estimates