



## Syndicate Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 13,796	SNDB IN
S&P CNX: 4,077	REUTERS CODE
	SBNK.BO

11 May 2007

Buy

Previous Recommendation: Buy

Rs79

Equity Shares (m)	522.0
52-Week Range	103/47
1,6,12 Rel.Perf.(%)	20/-7/-33
M.Cap. (Rs b)	41.0
M.Cap. (US\$ b)	1.0

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/07A	27,685	7,161	13.7	33.5	5.7	1.3	11.7	21.9	1.0	1.4
3/08E	31,829	8,111	15.5	13.3	5.1	1.1	11.3	20.2	0.8	1.1
3/09E	36,548	9,246	17.7	14.0	4.4	0.9	10.8	19.7	0.8	1.0

Syndicate Bank's 4QFY07 results were better than our expectations. NII grew 53% YoY (v/s our estimate of 45% growth), as the bank has reduced the proportion of incremental bulk deposits. Deposits were up 46% YoY while advances grew 40% YoY. Balance sheet growth during FY07 was robust, aided by strong growth in bulk deposits in 1HFY07. The bank reported NIM of 2.72% for FY07, down from 3.18% in FY06. Tier-I capital adequacy ratio (CAR) was at 6.2%. We believe that the bank would require capital in FY08, given its strong balance sheet growth.

- ✍ Balance sheet growth remains strong
- ✍ Margins decline YoY but expand QoQ
- ✍ Treasury profits flat; other income up 10% in FY07
- ✍ Asset quality improves, with net NPAs down to 0.76%
- ✍ Tier-I CAR down to 6.2%; bank would need capital in FY08

We have kept our earnings estimate unchanged for FY08 but have raised it by 3% for FY09. The stock trades at 4.4x FY09E EPS and 0.9x FY09E BV. RoE is likely to remain at ~20% over next two years despite bank coming out of MAT. Since the bank believes in growing volumes and containing costs to maintain profitability, NIMs are likely to remain under pressure. We maintain **Buy**.

### QUARTERLY PERFORMANCE

(RS MILLION)

	FY 06				FY 07				FY 06	FY 07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	9,534	9,903	10,475	10,592	12,308	14,373	16,353	17,366	40,504	60,401
Interest Expense	4,810	5,103	5,127	6,655	7,249	9,527	10,794	11,330	21,695	38,900
<b>Net Interest Income</b>	<b>4,724</b>	<b>4,799</b>	<b>5,349</b>	<b>3,937</b>	<b>5,059</b>	<b>4,846</b>	<b>5,559</b>	<b>6,037</b>	<b>18,809</b>	<b>21,501</b>
% Change (Y-o-Y)	37.8	13.9	35.6	-26.4	7.1	1.0	3.9	53.3	11.0	14.3
Other Income	1,322	1,276	1,177	1,958	1,342	1,656	1,490	1,938	5,620	6,185
<b>Net Income</b>	<b>6,046</b>	<b>6,076</b>	<b>6,526</b>	<b>5,895</b>	<b>6,401</b>	<b>6,502</b>	<b>7,049</b>	<b>7,974</b>	<b>24,428</b>	<b>27,685</b>
% Change (Y-o-Y)	12.4	13.2	27.6	-12.3	5.9	7.0	8.0	35.3	8.2	13.3
Operating Expenses	3,242	3,911	3,618	3,577	3,382	3,471	3,768	3,239	14,348	13,860
<b>Operating Profit</b>	<b>2,803</b>	<b>2,165</b>	<b>2,908</b>	<b>2,318</b>	<b>3,019</b>	<b>3,031</b>	<b>3,281</b>	<b>4,736</b>	<b>10,080</b>	<b>13,826</b>
Other Provisions	729	243	879	2,828	963	730	1,478	3,617	4,565	6,547
Tax Provisions	444	170	150	-613	250	250	-458	76	150	118
<b>Net Profit</b>	<b>1,631</b>	<b>1,752</b>	<b>1,879</b>	<b>103</b>	<b>1,806</b>	<b>2,051</b>	<b>2,261</b>	<b>1,043</b>	<b>5,365</b>	<b>7,161</b>
% Change (Y-o-Y)	30.2	131.8	n.a.	-96.3	10.7	17.1	20.4	911.5	33.2	33.5
Cost to Income Ratio (%)	53.6	64.4	55.4	60.7	52.8	53.4	53.5	40.6	58.7	50.1
Interest Expense/Interest Income (%)	50.5	51.5	48.9	62.8	58.9	66.3	66.0	65.2	53.6	64.4
Other Income/Net Income (%)	21.9	21.0	18.0	33.2	21.0	25.5	21.1	24.3	23.0	22.3

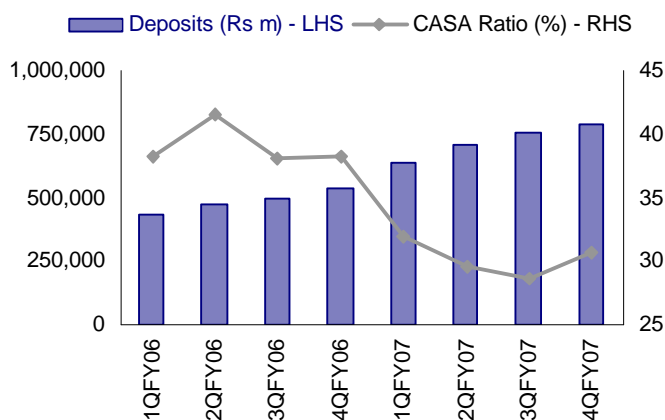
E: MOST Estimates

Syndicate Bank's 4QFY07 results were better than our expectations. NII grew 53% YoY (v/s our estimate of 45% growth), as the bank has reduced the proportion of incremental bulk deposits. Deposits were up 46% YoY while advances grew 40% YoY. Balance sheet growth during FY07 was robust, aided by strong growth in bulk deposits in 1HFY07. The bank reported NIM of 2.72% for FY07, down from 3.18% in FY06. Tier-I capital adequacy ratio (CAR) was at 6.2%. We believe that the bank would require capital in FY08, given its strong balance sheet growth.

**Balance sheet growth remains strong**

On the back of huge accumulation of bulk deposits, balance sheet growth continues to remain strong for Syndicate Bank. Deposits were up 46% YoY and advances grew 40% YoY. CASA ratio improved to 31% in 4QFY07 from 29% in 3QFY07 but declined from 38% in 4QFY06. In 4QFY07, incremental CASA ratio was 75%, as the bank abstained from taking bulk deposits.

DEPOSIT GROWTH AND CASA RATIO



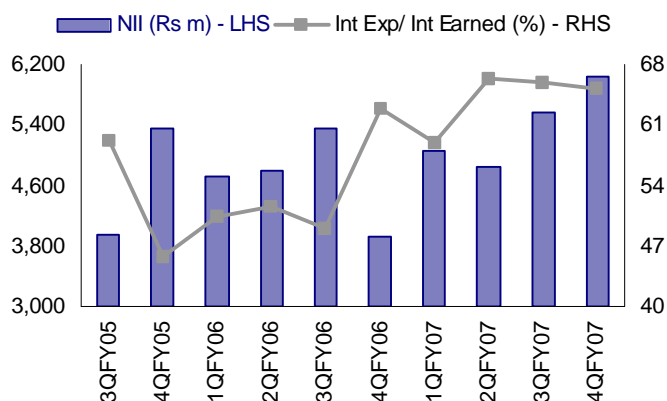
Source: Company/Motilal Oswal Securities

NII grew 53% YoY (v/s our estimate of 45% growth), as incrementally, the bank reduced the proportion of bulk deposits. As at end-FY07, 36% of the bank's total deposits were in the form of bulk deposits. We understand that one third of the total deposits would be due for repayment over the next six months. It would be worthwhile to watch whether the bank repeats its strategy of building bulk deposits again over the next two quarters. The cost of these deposits has risen by around 200bp from ~8.5% a year

ago, when the bank first contracted them aggressively. We believe that the bank would have to renew a chunk of these deposits to meet its credit targets during the year.

While the management is targeting a growth of 30% in advances and deposits for FY08, we have assumed lower growth of 26% in credit and 18% in deposits. The management also intends to focus more on low cost deposits and increase the share of low cost deposits by 300bp to 35% by end-FY08.

TRENDS IN NII



Source: Company/Motilal Oswal Securities

**Margins decline YoY but expand QoQ**

NIMs declined from 3.18% in FY06 to 2.72% in FY07, in line with the management's philosophy of growing volumes at lower margins. While the yield on advances increased by 56bp during FY07, cost of deposits surged by 96bp.

As the incremental term deposit growth has slowed down (2% QoQ in 4Q, 7% in 3Q, 15% in 2Q and 31% in 1Q), margins have improved QoQ for Syndicate Bank. The bank has been taking lending rate hikes and shifting its shorter-term loans towards long-dated loans, resulting in better yields.

NIMS BREAKDOWN- BY MANAGEMENT

	FY06	1HFY07	9MFY07	FY07
Avg. Yield on Advances	8.72	9.07	9.32	9.28
Avg. Yield on Investments	7.26	7.02	7.03	7.08
Avg. Cost of Deposits	4.48	5.18	5.34	5.44
NIM	3.18	2.55	2.69	2.72

Source: Company/Motilal Oswal Securities

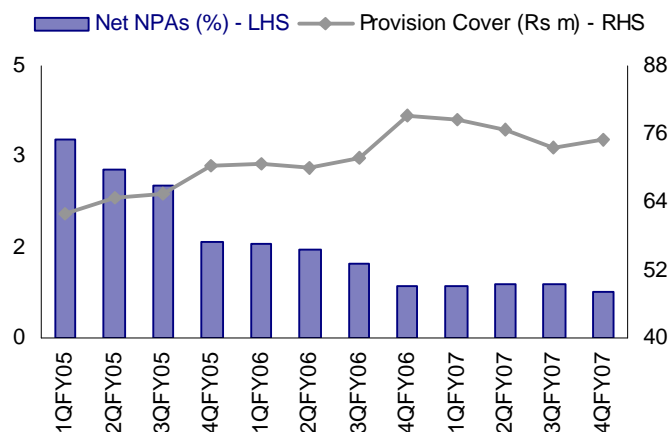
### Treasury profits flat; other income up 10% in FY07

For FY07, treasury profits were flat at Rs1.4b. CEB grew 18% to Rs2.1b, aiding 10% growth in total other income. During 4QFY07, other income remained flat at Rs1.9b, as treasury profits dropped 60% to Rs197m, while non-trading other income grew 19%.

### Asset quality improves, with net NPAs down to 0.76%

While gross NPAs increased from Rs15.1b in 4QFY06 to Rs15.6b in 4QFY07 (down from Rs16.5b in 3QFY07), the gross NPA ratio declined from 4% to 2.95%, as advances growth was very high. Net NPAs increased from Rs3.1b in 4QFY06 to Rs3.9b in 4QFY07 (down from Rs4.4b in 3QFY07). The net NPA ratio declined from 0.86% to 0.76%, as the bank made higher NPA provisions and write-offs.

NET NPAS



Source: Company/Motilal Oswal Securities

### Tier-I CAR down to 6.2%; bank would need capital in FY08

While total CAR remained comfortable at 11.7% (flat YoY, despite 40% advances growth) tier-I CAR reduced to 6.2% (from 7.4% a year ago). The bank would need tier-I capital to fund its asset growth and also comply with revised RBI guidelines of a minimum tier-I of 6% as well as Basel II

norms. While the bank has room to raise capital by innovative instruments, we believe equity dilution would take place in FY08 to increase core tier-I.

### Lower tax rate, lower opex boost PAT

As the bank has accumulated tax losses, it continues to pay MAT. Thus, its effective tax rate continues to be low at 2%. As the bank would no longer be MAT-paying in FY08, its tax provision would increase significantly, putting pressure on earnings growth. We maintain our estimate of 22% effective tax rate in FY08.

As the amortization of VRS expenses (Rs800m) was non-existent in FY07, staff cost reduced by 14% while total opex decreased by 3%. Despite lower NII growth of 14% and other income growth of 10%, Syndicate Bank increased its profit by containing costs and making lower tax provisions.

### Branch and network expansion continues

The number of CBS branches increased to over 1,500 as at March 2007 from ~550 as at March 2006, covering 90% of business. While the number of branches has risen to 2,126 from 2,089 branches a year ago, the number of ATMs increased to ~700 from 326. In order to increase its customer reach, the bank ran various customer acquisition campaigns. It was able to add 2.5m new accounts during the year as a result of this aggressive campaigning.

### We maintain Buy

We have kept our earnings estimate unchanged for FY08 but have raised it by 3% for FY09. The stock trades at 4.4x FY09E EPS and 0.9x FY09E BV. RoE is likely to remain at ~20% over next two years despite bank coming out of MAT. Since the bank believes in growing volumes and containing costs to maintain profitability, NIMs are likely to remain under pressure. We maintain **Buy**.

## Syndicate Bank: an investment profile

### Company description

Syndicate Bank, which has a balance sheet size of ~Rs900b, is among the ten largest state-owned banks in India in terms of asset size. The bank operates through a network of 2,126 domestic branches and one international branch. It has a dominant presence in the southern region, which houses 58% of its branches. The bank made its first public offer in 1999, when it offered 125m equity shares at par and raised Rs1.25b. It raised further capital of Rs2.5b in July 2005, by offering 50m shares at a premium of Rs40 per share. As a result, the government's stake has reduced to 66.5%.

### Key investment arguments

- ✍ Improving core income.
- ✍ Declining cost / income ratio.
- ✍ Improving asset quality.

### Key investment risks

- ✍ Pressure on margins on account of accumulation of bulk deposits.
- ✍ Slowdown in the economy could hurt asset quality.

### Recent developments

- ✍ Syndicate Bank has revised its benchmark prime-lending rate (PLR) from 12.25% to 13% in April 2007.

### Valuation and view

- ✍ The stock trades at 4.4x FY09E EPS and 0.9x FY09E BV. We maintain **Buy**.

### Sector view

- ✍ YTD loan growth of 28%.
- ✍ Volatility in interest rates would impact bond gains.
- ✍ Benefits of significant improvement in asset quality not yet factored in earnings, valuations.
- ✍ We maintain an overweight stance on the sector.

#### COMPARATIVE VALUATIONS

		SYNDICATE	IOB	ANDHRA BK
P/E (x)	FY08E	5.1	5.2	6.8
	FY09E	4.4	4.5	5.8
P/ABV (x)	FY08E	1.1	1.3	1.2
	FY09E	1.0	1.1	1.1
RoE (%)	FY08E	20.2	26.4	18.1
	FY09E	19.7	25.0	18.9
RoA (%)	FY08E	0.8	1.3	1.2
	FY09E	0.8	1.3	1.2

#### SHAREHOLDING PATTERN (%)

	MAR-07	DEC-06	MAR-06
Promoter	66.5	66.5	66.5
Domestic Inst	5.7	6.4	6.1
Foreign	12.2	11.5	12.5
Others	15.6	15.6	14.9

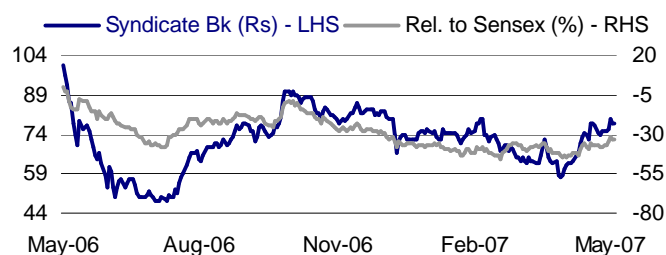
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	15.5	21.5	-27.8
FY09	17.7	25.2	-29.8

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
79	97	23.6	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT				
(Rs Million)				
Y/E MARCH	2006	2007E	2008E	2009E
Interest Income	40,504	60,401	79,781	95,894
Interest Expended	21,695	38,900	54,161	66,436
<b>Net Interest Income</b>	<b>18,809</b>	<b>21,501</b>	<b>25,620</b>	<b>29,458</b>
Change (%)	11.0	14.3	19.2	15.0
Other Income	5,620	6,185	6,209	7,091
<b>Net Income</b>	<b>24,428</b>	<b>27,685</b>	<b>31,829</b>	<b>36,548</b>
Change (%)	8.2	13.3	15.0	14.8
Operating Expenses	14,348	13,860	15,730	17,982
<b>Operating Income</b>	<b>10,080</b>	<b>13,826</b>	<b>16,099</b>	<b>18,566</b>
Change (%)	14	37.2	16.4	15.3
Other Provisions	4,565	6,547	5,700	5,900
<b>PBT</b>	<b>5,515</b>	<b>7,278</b>	<b>10,399</b>	<b>12,666</b>
Tax	150	18	2,288	3,420
Tax Rate (%)	2.7	16	22.0	27.0
<b>PAT</b>	<b>5,365</b>	<b>7,161</b>	<b>8,111</b>	<b>9,246</b>
Change (%)	33.2	33.5	13.3	14.0
Proposed Dividend	1,305	1,462	1,566	1,827

BALANCE SHEET				
(Rs Million)				
Y/E MARCH	2006	2007	2008E	2009E
Capital	5,220	5,220	5,220	5,220
Reserves & Surplus	23,116	31,805	38,084	45,193
<b>Net Worth</b>	<b>28,336</b>	<b>37,025</b>	<b>43,304</b>	<b>50,413</b>
<b>Deposits</b>	<b>536,244</b>	<b>786,336</b>	<b>927,876</b>	<b>1,076,336</b>
Change (%)	15.8	46.6	18.0	16.0
Borrowings	20,668	37,782	47,228	59,035
Other Liabilities & Prov.	25,519	31,631	37,957	45,549
<b>Total Liabilities</b>	<b>610,768</b>	<b>892,774</b>	<b>1,056,365</b>	<b>1,231,333</b>
Current Assets	52,135	94,989	91,646	104,356
Investments	172,691	252,340	282,621	325,014
Change (%)	-15.2	46.1	12.0	15.0
Advances	364,662	516,704	651,048	768,236
Change (%)	36.4	41.7	26.0	18.0
Net Fixed Assets	4,193	7,715	7,504	7,354
Other Assets	17,086	21,024	23,547	26,373
<b>Total Assets</b>	<b>610,768</b>	<b>892,774</b>	<b>1,056,366</b>	<b>1,231,333</b>

ASSUMPTIONS	(%)			
Deposit Growth	15.8	46.6	18.0	16.0
Advances Growth	36.4	41.7	26.0	18.0
Investments Growth	-15.2	46.1	12.0	15.0
Dividend	25.0	28.0	30.0	35.0

E: MOST Estimates

RATIOS				
Y/E MARCH	2006	2007	2008E	2009E
<b>Spreads Analysis (%)</b>				
Avg. Yield - Earning Assets	7.5	8.3	8.5	8.6
Avg. Cost-Int. Bear. Liab.	4.2	5.6	6.0	6.3
Interest Spread	3.2	2.7	2.5	2.3
Net Interest Margin	3.5	3.0	2.7	2.7

Profitability Ratios (%)				
RoE	21.3	21.9	20.2	19.7
RoA	0.9	1.0	0.8	0.8
Int. Expended/Int. Earned	53.6	64.4	67.9	69.3
Other Inc./Net Income	23.0	22.3	19.5	19.4

Efficiency Ratios (%)				
Op. Exps./Net Income	58.7	50.1	49.4	49.2
Empl. Cost/Op. Exps.	72.3	64.5	63.7	62.5
Busi. per Empl. (Rs m)	33.1	45.7	60.9	76.2
NP per Empl. (Rs lac)	2.2	3.0	3.4	4.1

Asset-Liability Profile (%)				
Adv./Deposit Ratio	68.0	65.7	70.2	71.4
Invest./Deposit Ratio	32.2	32.1	30.5	30.2
G-Sec/Invest. Ratio	90.1	90.0	90.0	90.0
Gross NPAs to Adv.	4.0	3.0	2.8	2.9
Net NPAs to Adv.	0.9	0.8	0.7	0.8
CAR	11.7	11.7	11.3	10.8
Tier 1	7.4	6.2	5.8	5.5

VALUATION				
Book Value (Rs)	50.5	62.5	74.6	88.2
Price-BV (x)	16	13	11	0.9
Adjusted BV (Rs)	46.6	57.7	69.1	80.9
Price-ABV (x)	1.7	1.4	1.1	1.0
EPS (Rs)	10.3	13.7	15.5	17.7
EPS Growth (%)	20.4	33.5	13.3	14.0
Price-Earnings (x)	7.6	5.7	5.1	4.4
OPS (Rs)	19.3	26.5	30.8	35.6
OPS Growth (%)	-8.3	37.2	16.4	15.3
Price-OP (x)	4.1	3.0	2.5	2.2

E: MOST Estimates



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**Syndicate Bank**

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|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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