2011

COMPANY RESEARCH REPORT

INITIATING COVERAGE

SYNDICATE BANK LIMITED

RECOMMENDATION: BUY

CMP: Rs. 97

BUY PRICE: < Rs.88

TARGET: Rs. 128 **(SEE ANALYST NOTES)**

HOLDING PERIOD: 1-1.5 Years

RISK PROFILE: AGGRESSIVE

Hedge Equities

invest with an edge

Business Summary

Syndicate Bank Limited (SBL) is a Karnataka based public sector bank that has a strong presence in the rural and semi urban locations of the country. SBL seeks to position itself as "A Small Man's Big Bank".

Investment Rationale

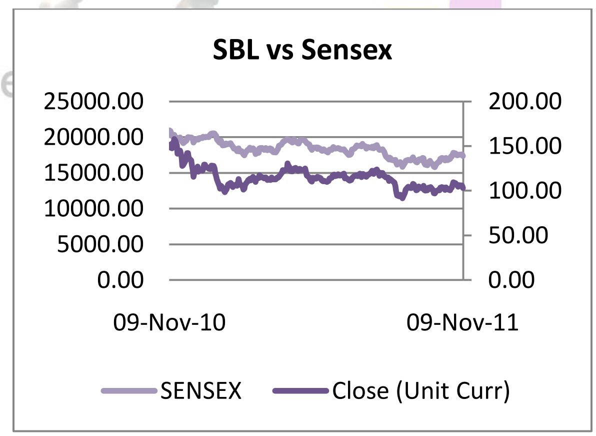
- SBL has quite a strong branch network of 2494 branches but what needs to be emphasized is that a majority of these branches are in the Semi-urban and rural territories of the country-territories where new generation banks lack a presence and where competition is less prevalent. SBL is well positioned to develop a loyal customer base. At the end of FY11, SBL's branch network included 80 rural branches and 2494 semi-urban branches.
- The SBL stock is quite remunerative from a dividend perspective with a dividend yield of around 3.5%.
- We have employed a weighted average valuation approach of determining our share target price of Rs.128. We have assigned 40% weights to our DCF and PBV targets with a 20% weight for the PE target. Our buying level of <Rs.88 is computed taking a 45% margin of safety on our weighted average target price.

Risks

- There is a lack of clarity with regard to some of SBL's numbers particularly the borrowings profile and cost of borrowings (not including cost of deposits). In addition to that there is also a lack of clarity on its future outlook and strategy. Our repeated attempts to get in touch with the SBL management and clarify these issues proved futile and hence we are according a greater margin of safety of 45% (usual standard of 30-40%) to our weighted average target price.
- SBL's 3 year trailing P/BV (Price to Book Value) multiple has averaged 0.9. This could be due to a lack of clarity on the balance sheet and dependence on the government for funds.
- Being a PSU bank, SBL often has to put nation development and social objectives ahead of profit making. In fact 30% of its loan book comes from PSL loans given to the agriculture and small industry sector. These loans are given at fixed and lower rates and passing on rising credit costs through these loans are ruled out. This tends to impact SBL's profitability.
- SBL'S other income component relative to total income is rather low at 17% and this puts it in a rather difficult spot during high interest rate environments were NII growth is quite muted.

NSE Code:	SYNDIBANK
BSE Code:	532276
ISIN Code:	INE667A01018
Reuters Code:	SBNBK.BO
Bloomberg Code:	SNDB. IN
Website:	www.syndicatebank.in

Sector:	Banks (Public)
EPS (TTM):	Rs. 21.13
PE (TTM):	4.87
Industry PE:	7.56
Mkt. Cap (In crores):	5996 cr.
52 Wk high:	Rs. 164
52 Wk low:	Rs.90.8
Latest Book Value:	Rs. 127.68
P/BV:	0.90
Beta:	1.30
Yield (%):	3.59
Face Value:	10
Institutional Holding:	16.73%



Shareholding Pattern (%)

Total of Promoter and Promoter Group	**69.47%**
Public Shareholding:	
Institutions	*16.73%*
Non-Institutions	*13.79%*
Total Public Shareholding	**30.53%**

Source: Multiple sources

Contents

TOP MANAGEMENT

Chairman & MD: Basant Seth

Director: A S Rao

Director: Ramesh Adige

Director: Pradeep Rao

Director: A R Nagappan

Director: Bhupinder Singh Suri

Director: Narendra Dave

Director: Dinkar Punja

Exec. Director: V K Nagar

Exec. Director: Ravi Chatterjee

Exec. Director: Anjaneya Prasad

BRIEF PROFILE

Syndicate Bank Limited (SBL) is a Karnataka based public sector bank that was initially founded in 1925 under the name " Canara Industrial and Banking Syndicate". It was initially set up by three individuals for the purpose of catering to the financial needs of weavers in Udupi. It was only in 1963 that it's name was changed to 'Syndicate Bank'. The bank is noted for pioneering the concept of the 'Pigmy Deposit Scheme' which it still runs today. This scheme is considered to be the Brand Equity of Syndicate Bank and involves a process where bank agents go and collect small sums of money (as low as Rs.5 daily) as recurring deposits from the account holders' doorsteps. The bank has been able to generate a total pigmy deposit corpus of more than Rs.1800 crore. Currently SBL is involved in the conventional services of banking that mainly includes Personal Banking, Agricultural Banking, Corporate Banking and NRI Banking. SBL has a total branch network of 2494 branches with 80 branches in rural India, 589 branches in Semi-urban India, 551 branches in urban India and 550 branches in metros and port-towns. The bank also has an overseas branch in London. At the end of H1 FY12, SBL had a total business (advances plus deposits) corpus of more than Rs. 2,53,000 crores.

INDICES IN WHICH THE ABL STOCK IS LISTED

-BSE 200

- BSE500

-BSEPSU

-MIDCAP

-CNXMIDCAP

- CNX200

-CNX500

-MIDCAP50

-ESG Index

ADDRESS

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Udupi Dist.,

Manipail-576104,

Karnataka

BUSINESS

- *SBL's business can be broadly classified into retail banking, commercial banking and PSL with agriculture and small scale industries representing the two key areas under PSL.*

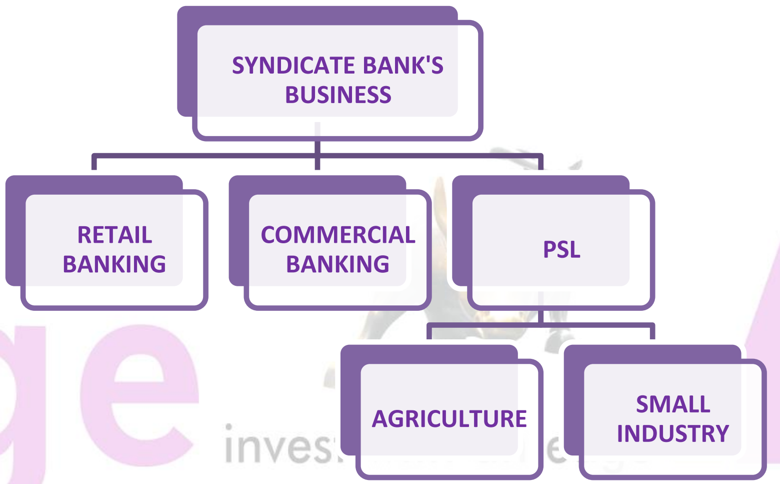
- *Under retail banking SBL provides the conventional loans and deposits. In addition to that it also runs a rather innovative pigmey deposit service as well as providing supply chain financing, distribution of global debit and credit cards, distribution of third party services such as life and non-life insurance and e-banking.*

- *Under commercial banking SBL provides loans term loans, cash credit, overdraft, bill discounting, cash credit, export credit, working capital financing, credit substitutes such as letter of credits and guarantees, cash management services and direct tax collections.*

- *PSL banking is done to with a social objective with the key focus areas of agriculture and small scale units. Under agriculture SBL provides agri-financial schemes for crop production, land development, minor irrigation, allied activities, hi-tech agriculture, etc. While small scale industry loans are provided for the establishment, expansion and modernization of business including loans for working capital needs.*

BUSINESS

Syndicate Bank Limited's (SBL) business activities encompass the conventional areas of banking such as retail banking and commercial banking. Being a PSU bank, SBL is also quite active on the PSL (Priority Sector Lending) front. Within the PSL umbrella special emphasis is given to the agricultural sector and small scale units. While this classification is not entirely accurate , broadly one can perhaps say that most of the profit making of SBL comes from its retail and commercial banking initiatives while the PSL business division enables it to meet its social objectives.



Retail Banking

Under Retail Banking, SBl provides traditional financial products and services to its retail customers including housing loans, retail trade, consumer loans, education loans, automobile loans and other personal loans. In addition to that the bank is also active on the deposit front providing demand, savings and fixed depsosits. The Pigmy deposit scheme is an interesting product that SBL pioneered when it set up operations and it continues to be quite popular even today. This scheme is considered to be the Brand Equity of Syndicate Bank and involves a process where bank agents go and collect small sums of money (as low as Rs.5 daily) as recurring deposits from the account holders' doorsteps. The bank has been able to generate a total pigmy deposit corpus of more than Rs.1800 crore. In addition to the loans and deposits other services under retail banking include

supply chain financing (for retail trade customers), distribution of global debit and credit cards, distribution of third party products such as life and non-life insurance policies, and bill paying facilities through e-banking initiatives.

SBL's RETAIL LOAN BOOK		
Loans	Outstanding amount (crores)	% of total loans
Housing Loans	8120	8.33%
PSL	*7012*	7.19%
Non-PSL	*1108*	1.14%
Personal Loans	5326	5.46%
Mortgage Loans	1473	1.51%
Trade Loans	3242	3.32%
Educational Loans	1903	1.95%
Gold loans	1935	1.98%
Others	664	0.68%
Total	22663	23.24%

Source: SBL

Commercial Banking

Under its commercial banking business the bank provides products and services to its corporate and commercial customers such as mid-sized units, small units and government entities. Loan products include term loans for the acquisition, construction or improvement of assets as well as short-term loans including cash credit, export credit , working capital financing, bill discounting, non fund activities such as providing credit substitutes (letters of credit and guarantees) and fee oriented services such as cash management services (fee is levied based on the volume of transaction, speed of delivery and the location of the cheque collection centre) and direct tax collections. Interestingly if one were to look at the loan break up on SBL one would discover that a slightly greater proportion of their loans come from working capital, cash credit and overdrafts (51% of the total loan book) rather than term loans.

PSL (Priority Sector Lending)

Considering the fact that SBL is a PSU bank, it has to resort to wide-scale PSL initiatives for national development. Its PSL initiatives are broadly targeted at the agriculture sector (which is a thrust sector for the banks) and the small industry sector where the bank offers specialized products and services. Priority Sector Loans accounted for 30% of the total loan book of SBL at the end of FY11.

Agriculture

SBL offers a whole host of service to its agriculture oriented client base ranging from direct financing to farmers for production and investment to indirect financing for infrastructure development and credit to suppliers of inputs. SBL also meets agricultural investments needs through their various agri-financial schemes for the purposes of crop production, land development, minor irrigation, allied

SBL'S BRANCH NETWORK

- SBL has a strong and well-spread out branch network of more than 2550 units.
- Most of these branches are located in the semi-urban and rural territories of the country, pre-dominantly in the agricultural belt of states like Karnataka, Tamil Nadu, Kerala and Andhra Pradesh.
- 80 of SBL's branches are located in rural India, 589 branches in semi urban India, 551 branches in Urban India and 550 branches in metro and port towns.
- All its domestic branches function under CBS (Computerized Banking System) that enable the bank to develop 'bank loyalty' over 'branch loyalty'.

activities, animal husbandry, plantation, hi-tech agriculture, watershed development and horticulture.

Small scale industry

With regards to the small scale industry, loans are provided for the purpose of establishment, expansion and modernization of business including acquiring fixed assets, plant and machinery and meeting the working capital (which is based on the land holding of the respective farmers). SBL makes the borrowing mechanism convenient and accessible for this class of borrowers by providing flexible security requirements.

Branch network

One of SBL's greatest virtues is that it has a branch network that is spread across the country including some of the most far-flung areas. SBL is located in regions where banking is a rather under-penetrated service, providing SBL with an opportunity to develop a strong and loyal base. At the end of FY11 the branch network of SBL stood at a rather impressive 2494 units (it is estimated that at the end of H1 FY12 the branch network exceeded 2550 units). Out of this total, 80 branches are located in Rural India, 589 branches in Semi urban India, 551 branches in Urban India and 550 branches in metro and port towns. While the rural and semi-urban areas are considered to be areas full of opportunities, they may not quite be as propitious as the urban zones and one might be tempted to question SBL's large-scale impetus to resort to widespread expansion in these territories. But this is more to do with the fact that being a PSU bank, national interests take precedence over profit making and the bank will have to comply with various financial inclusion and PSL (Priority Sector Lending) initiatives. To re-emphasize SBL's profile of branch network it must be noted that 708 of its total branches are located in under-banked districts and 670 branches are located in minority concentration districts. In the last fiscal, SBL opened 188 General branches out of which 154 branches are located in tier-6 centres ,76 branches in under-banked districts and 6 branches in Minority Concentration camps.

OUTLOOK AND SCOPE

- SBL said at the start of the current fiscal that they were looking to grow their CASA by 15% yoy (Historically they have grown at 14% yoy).
- However since the deregulation of savings rate taken last month it puts SBL in a quandary of sorts as 84% of their CASA is Savings Deposits and it is estimated that a 1% hike in savings rate could result in a PBT (Profit Before Tax) drop of 24%.
- SBL will thus have to focus on sourcing CA over SA and that would represent a change in strategy.
- SBL outstanding restructured amounts to the tune of Rs.4500 crores. In addition to that it is estimated to have sizeable exposure to the troublesome aviation sector with Air India and Deccan 360 being the chief culprits. Both companies are currently dithering over a CDR mechanism which does not seem to be going through due to regulatory issues.
- In H1FY12 SBL had got into various tie-ups with various institutions such as Hyundai Motors, Tata Motors, Tata AIG and Asit C Mehta.

OUTLOOK AND SCOPE

Change in CASA strategy

The CASA ratio of SBL at the end of FY11 stood at 30.9% and the year before that it stood at 30.9%. For the last two years, the CASA deposits have grown at a rate of 14% yoy. At the end of last fiscal, the management highlighted that they would be targeting an improvement in the CASA ratio and would be looking to grow the CASA deposits by a greater margin of 15% yoy. They intended to boost CASA by offering a rainbow benefits/packages (various subsidiary products) to prospective savings depositors. This was obviously stated before the de-regulation of savings rate but since that development has taken place it puts SBL in a rather difficult spot and one wonders if they will still be eager to grow their CASA deposits at 15% yoy (particularly their savings accounts). This is particularly pertinent as Savings Deposits account for 84% of the total CASA deposits of the bank. To re-emphasize, SBL's savings deposits stood at Rs.31206 crores at the end of FY11 and if the bank were to increase its savings rate by 1%, it's PBT (Profit Before Tax) declines by 24% while if the bank were to take on a more aggressive stance of 2 % to keep up with some of the other new age private sector banks (Yes Bank, Kotak Mahindra Bank) then the PBT drops by a whopping 49% (Figures are based on FY11 numbers). So it seems evident that SBL will not be able to continue its strategy of growing Savings Deposits and CASA growth if any will most likely come from the CA component. This is not easy as it sounds and it will be interesting to see what sort of strategy the management adopts to boost its Current Account Franchise which at the end of FY11 stood at Rs.10738 crores.

Asset quality issues could continue

As SBL is a PSU bank that is quite prominent in PSL initiatives it may be a little unfair to expect a pristine asset quality. Historically for the last two years the total Gross NPA % has averaged around 2.4% and Net NPA % has averaged around 1% (For a PSU bank these numbers are quite good). However SBL has exposure to certain troublesome

sectors like aviation that suggest that asset quality could worsen and provision costs could move north. While the exact figures are notavailable (Hedge Equities sought to contact the management of SBL but was unable to source any information regarding this matter), it is estimated that SBL has provided sizeable working capital loans to both Air India and Deccan 360. Both companies have been dabbling with the issue of CDR (Corporate Debt Restructuring) and Air India's is the one which seems to be dragging on for a while. The CDR scheme has already been devised by SBI Caps and seconded by Deloitte but it has not yet been passed by RBI. Currently without taking both these issues into play, SBL (inclusive of CDR, SME restructuring and other restructuring) faces outstanding restructured amount of around Rs.4500 crores.

SBL's RESTRUCTURED ACCOUNTS DATA				
	CDR	SME Restructuring	Others	Total
Number of borrowers	11	5429	79379	**84819**
Amount outstanding (in crores)	329.19	518.48	3680.8	**4528.5**
Diminution in fair value (sacrifice)	21.67	27.97	72.74	**122.38**

Source: SBL

New initiatives

In H1FY12, SBL has got into some new deals with various parties that could also give a fillip to its fee based income. SBL signed a deal with Asit C Mehta- a broking firm to provide online trading services to its clients. In addition to that it got into two deals with auto behemoths Tata Motors and Hyundai Motors for financing auto loans. Another deal which it signed was with Tata AIG Life Insurance Company to provide group insurance solutions for its existing and potential customers. As per the agreement, Syndicate Bank will offer Tata AIG's 'Total Suraksha' plan to all its housing loan borrowers across its branches so long as they pay a one-time premium.

BANKS AND THE INDIAN GROWTH STORY

- *GDP for the current year is expected to be anything between 7.4% to 7,8% but the long term median is 8-9% plus and puts India in one the highest echelons of the growth table.*
- *The country is poised to become the 2nd biggest economy in the world by 2050 with GDP in PPP terms expected to be $43180 billion,2nd only to China.*
- *The growth is expected to be more balanced and inclusive with all of the three-agriculture, industry and services expected to play key roles.*
- *Based on how effectively banks can tap the country's growth potential, Indian banks could account for as much as 7.7% of the country's GDP or 2.3% of the country's GDP going forward. Currently it stands at 2.5%.*
- *From 2000-2010 while the Indian GDP growth was 7.2%, the banking industry grew from $250 billion to $1.3 trillion at an 18% CAGR.*
- *Even from a stock market perspective, the banks have outperformed the markets. From 2001-2010 while the Indian equity markets grew at a CAGR of 27%, the banking index for the same time period grew at a far superior 51%.*

SECTOR

The Indian growth story- Are banks good proxies to capture this growth?

'The Indian growth story' a popular phrase in investor circles may appear to be increasingly trite for the skeptics off late, but if one were to actually look at the larger picture and assuage the near term fears there is genuine merit in those four words. GDP which serves as the moniker for growth may have taken some sort of beating over the last few quarters and the year end FY12 expected figure leaves much to be desired. But if one were to widen the time period there is no doubt that the country is extremely well set to figure in the upper echelons of the growth table. Experts expect GDP to be anything between 7.4% to 7.8% for the current year but the long term median is expected to be 8-9%+. According to a report by PWC, India is poised to become the 2nd biggest economy in the world by 2050, with GDP in PPP terms expected to be $43180 billion, second only to China. Growth is expected to be more balanced and inclusive (though that is not the case currently) with services, industry and agriculture all expected to play crucial roles. Banks are fitting proxies in this attractive growth story for a whole host of reasons, none more important than the fact that they serve as intermediaries between savings and investment. According to McKinsey, based on how effectively banks capitalize on India's growth potential, the banks could account for as much as 7.7% of the country's GDP or 2.3% of the country's GDP. Currently the figure stands at 2.5%. In a separate report PWC shows that from 2000-2010 while the Indian banking industry grew from $250 billion to more than $1.3 trillion at a CAGR of 18% compared to the average GDP growth of 7.2% for the same time period. Even from a stock market perspective there is good evidence of the importance of banks. From 2001-2010 while

THE MAJOR DRIVERS OF BANKING SERVICES

- ***Rural India****-70% of India's population lies in rural India and currently this is a segment that is severely shorn of banking services.*
- *Income levels in rural India have been growing at a rapid pace.*
- *The government and RBI are undertaking solid top down push to facilitate greater financial inclusion.*
- *Over the next 2 years over 350000 villages are expected to have access to financial services.*
- ***Consumer Finance****- The country also possesses a resplendent and young middle class whose propensity to consume better quality and more expensive goods and services are increasing. This will drive the demand for consumer finance.*
- ***Wealth Management and banking for Sports personnel****- The country's elite class (HNIs) will require more specialized and dedicated wealth management services. This is a service that has taken on greater prominence only in the last 5 years or so and there is plenty of scope going forward. Sports folks who have a limited time period for earnings capacity also require dedicated and specialized services. This is a relatively untapped area in India.*
- ***Infrastructure****- The country's infrastructure needs cannot be overstated enough and bank credit will be key*
- ***Institutional credit****- Corporate India will look to expand their balance sheets, strengthen their presence globally (trade finance)*

the Indian markets grew at a CAGR of 27%, the banking index for the same time period has grown at a much superior 51%. So going forward, how are banks going to leverage on India's growth story?

Rural India will be the key stimulant

With 70% of India's population coming from rural India there is a strong elementary statistical argument about the role this segment will play in our growth. There is plenty of scope for banks to tap into this rather untapped segment. Blackstone believes that increasing income levels and shifting consumption patterns could see the rural consumption market triple by 2020 from $190 billion to $600 billion. Data from NCAER shows that income profile and levels of rural India have been changing drastically (See below).

RISING RURAL INCOME

Income Group	1994-95	2000-01	2006-07
Above Rs.100000	1.6%	3.8%	5.6%
Rs.77000-100000	2.7%	4.7%	5.8%
Rs.50000-77000	8.3%	13%	22.4%
Rs.25000-50000	26%	41%	44.6%
Rs.25000& below	61.4%	37.4%	20.2%

Source: NCAER

If the country is to ride the high growth curve, financial services for the masses is fundamental. Currently there is an unfulfilled demand for financial products in rural India. Banking penetration in the country is questionable both from an income perspective as well as a geographical perspective. It is reported that while banking penetration for the middle income group in India stands at 45% while that of the low income group only stands at a paltry 5% (CELENT). Even from a geographical perspective, rural India and the eastern regions of the country remain severely untapped.

Inclusive growth initiatives by the authorities

However off late one has been witnessing a strong top-down push by the higher authorities- The Reserve Bank of India, Government of India, etc. These parties are making sure that banks (particularly PSUs) open atleast a fourth of their branches in rural India. The RBI has directed banks to ensure that 223473 villages have access to basic financial services by March 2012. It is now estimated that in the next 2 years around 350000 villages spanning the entire country will have access to financial services. In addition to that the advent of the UID (Unique Identification Number) will only contribute and enhance financial inclusion in the country.

THERE IS A NEED FOR BANKING BEYOND RURAL INDIA AS WELL

Consumer Finance

It's not just rural India that requires a greater degree of banking. There is plenty of scope for the banks' comfort ground- urban India. There exists a resplendent and young middle class who are also experiencing massive changes in their income levels and their propensity and desire to consume better and more expensive good and services. This will open up plenty of opportunities for consumer finance needs by the salaried and middle class.

Wealth Management, Private Banking and banking for sports individuals

Even the HNIs and the wealthy class will require more sophisticated and exclusive service leading to greater depth in Wealth management and private banking. These are concepts that have only taken on greater prominence in the last 5 years or so and going forward more banks are expected to come out with exclusive private banking franchisees. There is also an opportunity to provide dedicated financial services to our large sports base. Sportsmen as one knows, are a specialized client class as their income generating capacity exists for a much smaller time period than the average professional. While this service is followed

intensely abroad, in India it hasn't caught on in a big way despite the huge pool of sports professionals that we posses. Currently this service is mainly provided by the foreign banks.

Infrastructure needs

It is well documented that the country suffers from a massive infrastructure deficit. Banks will have to play a key role in servicing the infrastructure needs of the country. Ports, roads, railways, airports, commercial complexes, residential complexes, hospitals, educational institutions, power plants will all require massive dosages of funding and the importance of credit in all of this cannot be overstated enough.

Expansion of corporate balance sheets

Corporate India needs to grow and it is impossible to envisage a scenario when a majority of our companies grow without the aid of debt. One will also witness a great deal of cross border transactions, which only re-emphasize the need for better banking services. As our India corporate strengthen their footprint abroad this will lead to greater demand for trade finance services (financing EXIM trade, forex markets and derivatives, investment banking, M&A services, letter of credit, guarantees, etc.).

TRENDS IN THE INDIAN BANKING SECTOR

Intensified competition

Currently the rural market is mainly dominated by NBFCs and other unorganized sources of funding. Also PSU banks are better positioned than the private sector banks in rural Indian. Going forward one will see things changing as greater thrust from the authorities will see the share of the NBFCs and unsecured institutions diminish. Currently some of the major NBFC players enjoy strong entry barriers in niche segments such as 2ND hand CV financing, equipment finance, gold loans, etc. This is mainly so as it takes years of experience to understand this client segment and their characteristics. Banks while initially reluctant to dabble with this segment have had time to develop their expertise and will

LIKELY TRENDS IN THE INDIAN BANKING SECTOR

- *Competition is likely to be ramped up with the RBI's intention to give more out licenses.*
- *Banks will encroach into NBFC dominated territories such as equipment finance, 2nd hand CV loans, gold loans, etc.*
- *Fee based income to become more pivotal during this era of structurally high interest rates as banks seek to boost margins.*
- *In this era of intensified competition and the limited scope to transform bank business models, key differentiators between good and bad banks will be service and technology.*
- *It's questionable if banks will witness massive treasury gains in the midst of rising yields on account of structurally high inflation.*
- *Banks with strong capital, wide spreads, efficient risk management and ability to position themselves in a niche, differentiated manner will flourish.*

soon start foraying into NBFC dominated areas. Within the banking segment itself there will be intensified competition. The RBI is likely to dole out fresh bank licenses very soon and one could see an influx of new banks as they seek to ensure greater financial participation and inclusion.

Greater emphasis on service and technology

In this era of intense competition banks will have to position themselves differently. While there is only so much one can alter in the banking business model, the key differentiators will be service quality and technology. PSU banks which were previously believed to shirk service have stepped up their game in recent years. The importance of technology while quite obvious in any industry could prove to be a huge differentiator. Mobile banking is expected to be a huge opportunity in the years to come. According to the Boston Consulting Group, payment and banking transactions through mobile phones could reach $350 billion by 2015. While the prospect of this happening is quite far away there could also come a day where one could have a branch-less banking system.

Fee based income

At the start of the previous decade Indian banks had a very limited fee based income component. While this has changed over the years, it is still far from the global average. Now in this long term structural era of rising interest rates where banks struggle to boost their NIMs one will see the banks focusing a lot more on their fee based activities. New generation banks are well stocked to provide these services (card services, guarantees, Investment banking, escrow, letter of credit, advisory services, etc.) but PSUs haven't resorted to this in a big way. Going forward one is likely to see more impetus on the fee based income services.

Questionable if sizeable treasury gains can be made

Treasury yields have been low for the last decade or so, infact globally it has been low for over three decades. Now with the rapid rise in commodities, inflation has remained stubbornly high, thereby

NEAR TERM OUTLOOK FOR BANKS

- *Inflation is expected to ease due to the high base of the previous year. Besides non food inflation has come off.*
- *At the same time credit growth has slowed down and asset quality issues could crop up if further tightening is seen.*
- *Weighing both sides of the coin, a 25bps hike until Dec 2010 remains the best though a 50 bps is far from ruled out.*
- *Non food credit outlook for Indian banks in FY12 is expected to be 18%.*
- *Deposit growth for FY12 is expected to be 17%.*
- *Credit quality issues are likely to surface and one is expecting to see greater provisioning. Restructured accounts as well are expected to trend up and all this is likely to result in a decline on the PAT front.*

resulting in bond holders demanding a greater yield to hold onto bonds. This consequently makes bond investments less than appealing (inverse relationships of bond prices and yields) and it is questionable if treasury income will therefore be as high as it was in the previous decade, particularly for those banks who stick to HTM (Held to Maturity) as opposed to MTM (Mark to market).

To sum up..

Banks who manage and allocate capital well, have robust capital and liquidity buffers, possesses exceptional risk management, alternative fee based services have wide spreads, emphasize on service quality and seek to position themselves in a niche, differentiated manner in the eyes of the customer will prosper.

Near term outlook for banks

While inflation is expected to stay above the RBI's comfort level there has been a decline or easing off of non food inflation. Besides the high base effect of the previous year will see the inflation number trend down in the months ahead. Commodity prices are a wild card and much could depend on liquidity driven initiatives taken by the West. On the other hand, the RBI has already tightened rates considerably and credit demand has certainly fallen off. Corporates are now resorting to borrowing from the overseas markets where rates are much lower. Thus weighing both sides of the coin it is fair to say that perhaps the rate cycle may be coming to an end.

Non food Credit outlook for the year as portended by the RBI is 18% while deposit outlook is pegged at 17%. Credit quality issues could crop up in this high interest rate regime so one is expecting to see a provisioning boost up. In the previous quarter results, one could see a clear deterioration in asset quality for most banks. Restructured assets as well are expected to rise.

HISTORICAL BALANCE SHEET HIGHLIGHTS

- *From FY07-FY11 the balance sheet of SBL has grown at a CAGR of 15% while the equity book value has grown at 20%.*
- *From FY07-FY11 the advances have grown at a CAGR of 20%.*
- *The component of working capital loans, cash credit and overdrafts has been increasing relative to term loans in SBL’s total loan book. The first 3 items accounted for 51% of the total loan book while term loans accounted for 47% and bill discounting and purchasing accounted for the remaining 2%.*
- *PSL loans accounted for 30% of the total loan book.*
- *SBL’s asset quality is average with Gross NPAs (%) of 2.4% and Net NPAs (%) of 0.97%.*
- *PCR stood at 77% in FY11 an improvement over the 73% figure in FY10.*
- *The deposits of SBL have grown at a CAGR of 15% from FY07-FY11.*
- *CASA % accounts for around 31% while CA as a % of CASA is only around 16%.*
- *SBL’s CAR at the end of Q2FY12 stood at 11.80% compared to the Q2FY11 CAR of 12.21%.*

FINANCIALS

HISTORICAL FINANCIALS

Balance sheet and book value

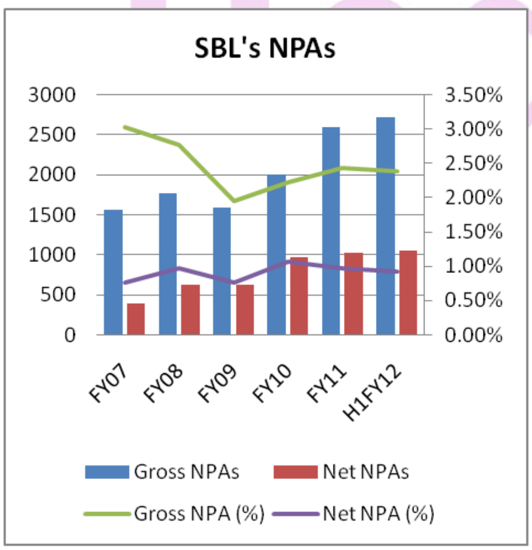
Looking at the historical growth rates, it seems evident that there has been a slowdown in SBL’s balance sheet growth with time. The crisis of 2008 obviously would have played its part but relative to some other banks that have responded quickly enough to get to levels seen prior to the crisis, SBL’s case has been quite different. During FY07-FY09 the balance sheet of SBL grew at the +20% levels, but in FY10 it fell drastically to only 7% and in the last year the balance sheet growth stood at close to 13%. From FY07-FY11 the balance sheet of the bank has grown at a CAGR of 15%. The equity book value of the SBL has grown at a healthy rate of CAGR of 20% from FY07-FY11 but what is particularly relevant is the seemingly undervalued nature of the SBL stock. In the last 3 years, the SBL Price to Book value has averaged 0.9. It is not entirely clear why the market has allocated a rating of lower than 1 and potential issues could include fund dependency on the government, heavy PSL lending and borrowing profile of the borrowers, average NPAs, etc.

Loans and quality of loans

From FY07-FY11 loans from SBL grew from Rs. 51670 crores to Rs. 106782 crores at a CAGR of 20%. The total advances book at the end of H1 FY12 stood at Rs. 112532 crores. Dissecting SBL’s loan book it is evident that the bank has been allocating greater impetus to working capital loans, cash credit and overdrafts over term loans. At the end of FY11, the first three items accounted for 51% of the total loan book while term loans accounted for 47% of the total loan book. Bills discounting and purchasing accounted for the remaining 2% of the total advance book. What must also be noted is that as SBL is a PSU bank it has to fulfill large-scale PSL (Priority Sector Lending) requirements. Thus, at the end of FY11 PSL loans

SYNDICATE BANK'S CORPORATE EXPOSURE		
Sector	Fund Exposure %	Non Fund Exposure %
Infrastructure	53%	17%
Petroleum	7%	6%
All Engineering	6%	38%
Iron & Steel	14%	5%
Chemicals / Dyes / Paints etc.	4%	10%
Construction	4%	21%
Textile	8%	1%
Gems & Jewellery	2%	2%
Cement	3%	0%

Source: Ace Equity, Hedge Research



Source: SBL, Hedge Research

accounted for Rs.73215 crores or 30% of the total loan book. With regard to its corporate loan book Infrastructure and related activities account for the largest chunk of the loan book at 53% followed by the Iron and Steel and Textile industry at 14% and 8% respectively. The quality of loans are quite average with Gross NPAs appearing to be on an upward trajectory since FY09. Gross NPAs % which stood at 1.97% in FY09 rose to 2.2% in FY10 and 2.4% in the previous year. Net NPAs % has been somewhat inconsistent but it is in fact relatively good for a PSU bank. Net NPA % stood at 0.97% at the end of FY11 but in the previous year it stood at 1.07% and a year before that it was lower at 0.77%. Provision Coverage Ratio for FY10 and FY11 have stood at 73% and 77% respectively.

Deposits

The liability side seems well balance between Current Account Deposits, Savings Account Deposits and Term Account Deposits. In the last two years, the bank has been able to maintain a decent CASA ratio of around 30-31% but what seems particularly relevant post the savings rate deregulation, is that 84% of the CASA deposits comprise of savings account deposits. From FY07-FY11 the deposits of the bank have grown at 15% CAGR. Total deposits at the end of H1 FY12 stood at Rs. 141083 crores.

CAR %

SBL's CAR % is average but one wouldn't really expect a PSU bank to have high levels of capital relative to its risk weighted assets as it is dependent on its promoter- the government for funds. At the end of Q2 FY12 the CAR % of SBL stood at 11.80% compared to 12.20% a year ago.

HISTORICAL INCOME STATEMENT HIGHLIGHTS

- *SBL's average yield on its loans are 9-9.3% while its average cost of deposits are 5-5.8 %.*
- *SBL's average yield on investments are 6.5-7.1% while its average cost of borrowings have been quite inconsistent widely fluctuating between 6-8%.*
- *From FY07-FY11 the NII has grown from Rs. 2150 crores to Rs. 4382 crores at a CAGR of 19 %.*
- *SBL's NIMs saw a wide expansion from 2.3% in FY10 to 3.3% in FY11.*
- *Other income as a % of total income has averaged around 24% for the last two years. Other income from FY07-FY11 has grown at a CAGR of 10%.*
- *From FY07-FY11 operating costs have grown at a CAGR of 17% while the Cost to Income ratio is RATHER hefty at 48-52%.*
- *SBL's PAT has grown at a CAGR of 10% in the last 5 years while PAT margins for the last 2 years have been around 8-9 %.*
- *SBL's ROAs for the last 2 years have been 0.6-0.7% while the ROEs have been between 16-17%. In F08-FY09 the ROEs were far higher at 21-24%.*
- *SBL's dividend payout ratio for the last eight years until FY11 averaged an attractive 20%.*

Income Statement Highlights

Yields, Interest costs and NII (Net Interest Income) and NIM

SBL's average yield on loans for the last two years has averaged between 9-9.3%. Whilst this is not amongst the highest yields in the banking industry one can expect that as SBL has a resplendent PSL portfolio where loans will have to be given at lower rates. On the other hand its cost of deposits average between 5-5.8% (supported by a decent CASA profile of 31%). SBL's yield on investments has been around 6.5% to 7.1% while its cost of borrowings (along with the total borrowings figure) has fluctuated quite heavily. In FY10 it stood at 6% and rose to 8.1% the following year. Mainly driven by an improvement in the yield on loans from 9-9.3% and a drop in the cost of deposits from 5.8% to 4.9% the NIM of the bank rose from 2.3% in FY10 to 3.3% in FY11. Meanwhile the Net Interest Income (NII) grew by 19% from Rs.2150 crores to Rs.4382 crores.

Other income

Other income as a % of total income for SBL is on the lower side and puts it at the mercy of a high interest rate environment. Other income as a % of total income which was 30% in FY10 dropped to 17% in FY11. This is mainly due to the fact that SBL does not have a strong fee based income profile and much of its other income arises from trading activities. In fact SBL saw quite a mediocre performance on its trading book in FY11 relative to FY10. While in FY11 they made profit on investments to the tune of Rs.389 crores in FY10 they could only make Rs.35 crores on that front. This saw the other income component decline on a yoy basis by 21% yoy.

Opex

From FY07-FY11 operating expenditures have grown from Rs. 1302 crores to Rs. 2477 crores at a CAGR of 17%. Despite the rather lowly growth in operating costs, the cost to income ratio- an indicator of how productive a bank is relative to the costs it incurs is quite poor

SYNDICATE BANK	FY11	FY10
Yield on loans	9.36%	9.00%
Yield on investments	6.50%	7.10%
Cost of deposits	4.90%	5.80%
Cost of borrowings	6%	8.10%
NIM	3.30%	2.30%
Other income/total income	17%	30%
Loan to deposit ratio	79%	77%
CASA ratio	31%	31%
Cost to income ratio	52%	48%
Gross NPA	2.40%	2.20%
Net NPA	0.97%	1.07%
Provision Coverage Ratio (PCR)	77%	73%
ROA	0.70%	0.60%
ROE	17.60%	16.50%
CAR	13.04%	12.70%
Profit per employee	3.6lakhs	2.9 lakhs
Profit per branch	35 lakhs	42 lakhs

Source: SBL, Hedge Research

at 48- 50% and is on the lower side of the banking averages.

Provisions and PAT

SBL makes provisions for a whole host of reasons from NPA, and standard assets to investments. But in the last fiscal, provisions shot up and were best captured as a % of total advances. Provisions and contingencies which averaged 0.7%-0.8% as a total advances rose to 1.4% in FY11. This was mainly driven by a 75% yoy increase in provisions for NPA. SBL's PAT growth for the last 5 years has been very mediocre growing at a CAGR of 10% from Rs. 716 crores to Rs. 1048 crores. Profit margins for the last two years have averaged 8-9%.

ROE, ROA

SBL's ROEs whilst having improved in FY11 relative to FY10 are still well short of the numbers seen 3-4 years back. The ROEs improved from 16.5% in FY10 to 17.6% in FY11 but still some way of the 21-24% ROE s seen in FY08 or FY09. The ROAs have been a little more consistent at 0.6-0.7% but are still at the lower end of the banking averages.

Dividends

One of the most attractive features of the SBL stock is the dividend yield that one can get. While from a dividend payout perspective it is not stellar (nevertheless it is still quite good) at an average of around 20%, the real measure of its worth is captured on a dividend yield of around 3.5%.

FINANCIAL OUTLOOK

- SBL's loans are expected to grow at 18% for the next two years. Even though in H1FY12 they have grown by 19% yoy.
- SBL's total deposits are expected to grow by 16% yoy while CASA deposits are expected to grow by 15% yoy more than the median of 14%.
- Average yield on loans likely to increase to drop from 9.3% to 9% average cost of deposits is likely to increase from 4.9% to 5%.
- NII growth for the next two years is expected to be 7.5% and 60% respectively.
- NIMs are expected to drop by 10 bps in FY12 to 3.2% from 3.3%.
- Other income is expected to grow by 18% and 15% yoy over the next two years.
- The cost to income ratio of SBL is expected to increase from 48% in FY11 to 49.7% in FY12.
- PAT is expected to grow by 9.3% and 17% for the next 2 years while the PAT margins are expected to be maintained at 9%

FINANCIAL OUTLOOK

Advances

The RBI has continued to maintain non food credit growth for the banking industry to be FY12 to be 18% and that is the rate we have assumed for SBL as there is a lack of clarity with regard to its future outlook (despite repeated attempts to source data from the management). What makes things particularly difficult to portend is that historically there does not seem to be a clear trend with advances growth for the last 3 years coming in at 27%, 11% and 18% respectively. In H1FY12 the bank has managed to grow at a little better rate of 19% yoy and even though Q3 could see credit pickup due to the festive season and Q4 as well is likely to be strong (a Q4 is generally seen as the quarter where banks strive to reach their PSL targets) we are not revising upward our advances growth target as there is every chance that advances growth could come off as demand may not quite pick up due to difficult macro economic conditions. Regarding asset quality Gross NPA % which stood at 2.4% at the end of FY11 is expected to rise to 2.5% for FY12.

Deposits

In the last fiscal, deposits grew by 16% yoy and we are assuming the same rate going forward. At the start of the fiscal the bank had mentioned that boosting their CASA ratio would be part of their key goals in the current year and were targeting a CASA deposits yoy growth rate of 15% compare to the historical norm of 14%. Also what's important to remember is that 84% of SBL's CASA comprises of Savings Account deposits and now with the deregulation of the savings account rate it remains to be seen if SBL will be as gung-ho on procurement of savings deposits, as they were at the start of the year.

Yield on loans, cost of deposits and NIM (Net Interest Margin)

With inflation expected to ease off due to the high base effect we are expecting the RBI to pause on its rate hike mechanism and this is

SENSITIVITY ANALYSIS

Interest cost on avg.deposits	*Advances growth*			
	14%	**16%**	**18%**	**20%**
4.5%	103	124	146	169
5.0%	95	117	**141**	166
5.5%	87	110	135	162
6.0%	78	103	130	159

Deposits growth	*Advances growth*			
	14%	**16%**	**18%**	**20%**
14%	116	138	161	186
16%	95	117	**141**	166
18%	73	95	119	144
20%	50	72	95	120

likely to result in interest rates coming off. We also understand that potential to undertake further rate hikes are limited and thus are expecting the yield on loans to decline from 9.3% to 9%. At the same time cost of deposits are expected to be almost flat, or rising by 10 bps from 4.9% to 5%. We have not factored in a rise in savings deposit rates as yet and we believe the management of SBL will play a wait and watch game before taking any action on this front. Based on FY11 figures it is estimated that a 1% hike in savings deposits rates could bring down the PBT of SBL by 24%. We are expecting the NII of SBL to grow by 12% and 16% over the next two years with NIMs to compress by 10 bps from 3.3% to 3.2%.

Other income

SBL does not have a very strong fee based franchise and other income as a % of total income stood at 17%. We are not expecting an improvement on this front and expect that number to hover around the 17% threshold.

Opex

SBL's operating expenditure is forecasted to grow at 17% yoy over the next two years and the cost to income ratio is expected to go up to 49.7% from 48% in the previous year.

Provisions

We are expecting asset quality to decline by 10 bps from 2.4% to 2.5% and concomitantly provisions are expected to rise. Due to the high base effect, provisions are expected to grow by 9% in FY12 and 18% in the next.

PAT

PAT growth is expected to come off in FY12 to 9% but is expected to grow by a greater margin of 17% in FY13. PAT growth in H1FY12 was quite healthy but we are expecting muted other income growth and rising provisions in H2 to bring down PAT growth for the fiscal. PAT margins are expected to be flat at 9%.

P/BV AND PE VALUATION

	FY12E	FY13E
Book value	139	158
Multiple	0.9	0.85
PBV Target Price	125	134
EPS	20	23.45
Multiple	5.5	5
PE Target Price	110	117

FINANCIAL TABLE AND VALUATIONS

ABL's FINANCIAL TABLE				
(In crores)	FY10	FY11	FY12E	FY13E
NII	2740	4383	4903	5783
PAT	913	813	1077	1146
Book value	80	91	116	139
PBV	1.18	1.04	0.81	0.68

DCF VALUATION

Target price	Rs.141
Margin of safety*	45%
Purchase price	<Rs.97

* We have assigned a greater margin of safety of 45% than our usual standard of 30-40% as there is a lack of clarity with regard to SBL's future outlook.

To sum up-

- **ABL's Target price (weighted valuation of DCF, PBV and PE with DCF and PBV price targets receiving weights of 40% each with PE price target accounting for 20%) = Rs.128.**
- **ABL Buying price= < Rs.88 (45% Margin of safety on Rs.128)**

RISKS

- There is a lack of clarity with regard to some of SBL's financials particularly its fluctuating borrowing profile, depreciation and future outlook and strategy. Considering these issues we have accordingly allocated a greater Margin of Safety of 45% (normal average of 30-40%) to our DCF fair value.
- SBL has historically traded at a low P/BV multiple of less than 1 possibly due to a lack of clarity on the balance sheet and the dependence on the government for funds.
- SBL is very active on the PSL front (30% of the loan book) but while this is socially commendable, profitability tends to get affected.
- SBL has provided working capital loans to the troubled Air India and Deccan 360 and both those companies are on the verge of resorting to a CDR package.
- SBL's low other income profie of 17% to total income puts it in a difficult spot during high interest rate environments as the NII growth will not be quite as robust.
- 84% of SBL's CASA ratio consists of savings deposits and based on FY11 figures it is estimated that a 1% hike in savings deposits rates could bring down PBT by 24% while a 2% hike in the same could bring down PBT by 49%.

RISKS

Lack of clarity with regard to future outlook and certain other areas

Prior to the compilation of the report, we felt there was a lack of clarity with regard to SBL's future initiatives as well as certain areas with regard to their past. For example- their yoy borrowing profile, cost of borrowings (not including cost of deposits) has widely fluctuated and so as their depreciation component. With regard to the future there is a lack of distinct clarity on SBL's strategy going forward and despite repeated attempts to reach out to the management of SBL we were unable to source any information on these fronts. We still believe SBL can be a meritorious investment for aggressive investors and hence will recommend the stock but only after employing a greater margin of safety (MOS) of 45% to our DCF price compared to our usual standard of 30-40%.

Low P/BV multiple

The SBL stock has historically traded at a trailing P/BV figure of 0.9 (three year average) and the message that one could perhaps take from this is that the market does not believe the balance sheet is pristine enough to warrant a P/BV multiple of over 1. Another contributing factor to the low P/BV multiple could be the bank's dependence on the government for funds to grow its business.

PSL lending- Socially desirable but diminishes profitability

SBL being a PSU bank will find itself in situations where it has to put social objectives and nation development ahead of profit making initiatives. This is perhaps most profound when banks have a strong agriculture oriented client base where banks are required to provide subsidized farm loans as mandated by the government. Interest rates on these loans are fixed and banks find it difficult to pass it difficult to pass on credit costs to the borrower. SBL is quite active on this frontwith agriculture being one of its thrust areas. PSL lending accounted for 30% of the total FY11 advances of SBL.

Exposure to aviation sector

Through various secondary sources of data we have been able to understand that SBL has provided working capital loans to the troublesome aviation sector, namely companies like Air India and Deccan 360. The exact figures of fund and non fund exposure to both companies is unknown but it is estimated that both companies are on the verge of a CDR (Corporate Debt Restructuring) mechanism that could hit SBL's profitability.

Low other income profile

SBL's fee based income and broader other income profile is quite weak. In FY10 and FY09 other income as a % of total income averaged around 16-29% but in FY11 it dropped drastically to 17%. With a figure as low as 17%, SBL could find it difficult during high interest rate environments where NII growth will be tepid thereby affecting the bottomline.

CASA strategy may have to be altered post savings rate deregulation

At the end of last fiscal, the management highlighted that they would be targeting an improvement in the CASA ratio and would be looking to grow the CASA deposits by a greater margin of 15% yoy (historical growth rate of 14% yoy). They intended to boost CASA by offering a rainbow benefits/packages (various subsidiary products) to prospective savings depositors. With savings deposit rates having been deregulated SBL might have to change its strategy. This is particularly pertinent as Savings Deposits account for 84% of the total CASA deposits of the bank. To re-emphasize, SBL's savings deposits stood at Rs.31206 crores at the end of FY11 and if the bank were to increase its savings rate by 1%, it's PBT (Profit Before Tax) declines by 24% while if the bank were to take on a more aggressive stance of 2 % to keep up with some of the other new age private sector banks (Yes Bank, Kotak Mahindra Bank) then the PBT drops by a whopping 49% (Figures are based on FY11 numbers). So it seems evident that SBL will not be able to continue its strategy of growing Savings Deposits and CASA growth if any will most likely come from the CA component.

INVESTMENT RATIONALE

INVESTMENT RATIONALE

- SBL's branch network is quite admirable (2494 units) as it is well spread out and based in semi urban (589) and rural territories (80) thereby giving SBL strong barriers to entry from private sector banks that lack a presence in these areas.

- SBL also has a loyal customer base due to its heritage and the fact that it caters to the unbanked territories of the country. This also enables SBL with opportunities to grow its business and base its business growth using low cost retail deposits over wholesale or bulk deposits.

- With the government being the largest promoter there is a degree of re-assurance if the bank were to struggle to raise funds or face other difficulties.

- The dividend yield of more than 3.5% on the SBL stock is very attractive and makes SBL a good investment candidate.

- Valuations of the stock suggest that the stock is undervalued and has now reached an appropriate buying range. Based on risk appetite aggressive investors can consider entering the stock either at the Rs.97 levels (45% margin of safety on DCF price of Rs.141) or at the Rs.88 levels (35% margin of safety on weighted average price of Rs.128)

Branch Network

One of the most admirable features of SBL is its well spread out and rural and semi urban based branch network. At the end of FY11 the branch network of SBL stood at a rather impressive 2494 units (it is estimated that at the end of H1 FY12 the branch network exceeded 2550 units). Out of this total, 80 branches are located in Rural India, 589 branches in Semi urban India, 551 branches in Urban India and 550 branches in metro and port towns. Most private sector banks lack a network of this size and even if they do have a strong network, they are not present in a big way in the rural and under-banked territories where SBL is present. Since this is a market which SBL understands very well, it can continue to grow and strengthen its presence across the country even as the private banks struggle to keep up.

Loyal customer base and greater opportunities for business

SBL is a bank with tremendous heritage and experience having started operations in 1925. The bank has then go on to build a solid branch network across the country. To re-emphasize SBL's profile of branch network it must be noted that 708 of its total branches are located in under-banked districts and 670 branches are located in minority concentration districts. In the last fiscal, SBL opened 188 General branches out of which 154 branches are located in tier-6 centres ,76 branches in under-banked districts and 6 branches in Minority Concentration camps. What this has done is resulted in strong customer loyalty within the semi urban or rural areas where SBL's clients will be reluctant to shift to other banks. Also the fact that SBL has understood these markets well gives it a solid platform to build its business and source more low cost deposits rather than wholesale deposits to fund its growth.

Government backing

The government's stake in SBL could be viewed from a 'glass half full' angle. Unlike the private sector banks that have to depend solely on outside sources of borrowings lest deposit growth is not ample enough to fund credit growth, PSU banks such as SBL always have the government support and in the worst of times the PSU banks know that they can fall back on the government. Besides there is something quite re-assuring about knowing that the Government of India is your single biggest promoter.

Attractive dividend yield

Investment in the SBL stock can prove to be quite meritorious as it comes backed with a very attractive dividend yield of more than 3.5% (Currently at 3.7%). Historically the bank has paid 20% of its profits out as dividends and whilst it may not have rewarded shareholders by way of sizeable capital appreciation, the dividend yield which is one of the most attractive amongst banking stocks makes it a good investment candidate.

Conducive valuations

In this liquidity driven free-fall the SBL stock has corrected quite a bit and is now trading at below its 3 year Price to Book value mean of 0.9. Besides it has reached our 45% DCF margin of safety level of below Rs.97 levels. At a CMP of Rs.95 the stock is currently trading at 0.7 times its trailing book value. Our book value analysis, DCF analysis and PE analysis all suggest that the stock is undervalued and the market has not accorded it a suitable PE or PBv multiple due to a lack of clarity on the balance sheet or future operations. If the bank could improve on these fronts we believe we could see an expansion in the multiples. We believe now would be a good time to accumulate this stock but based on the degree of risk capacity, aggressive investors can consider entering the stock at lower levels (Rs.88 levels as this is a 45% margin of safety on our weighted average price of Rs.128) as the liquidity driven pressures could continue as Euro zone worries persist.

Financial Highlights-Standalone

DESCRIPTION	Mar-11	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06	Mar-05
Inc / Exp Performance (In crores)							
Interest Earned	11450.86	10047.18	9525.35	7906.31	6040.07	4050.42	3757.62
Total Income	12365.98	11214.64	10440.01	8796.37	6658.55	4641.99	4322.18
Total Expenditure	11080.56	10040.61	9403.67	7790.83	5930.73	4090.46	3926.86
PBT	1285.42	1174.03	1036.34	1005.54	727.82	551.53	395.32
PAT	1047.95	813.32	912.82	848.07	716.06	536.49	402.90
Sources of Funds (In crores)							
Equity Paid Up	573.29	521.97	521.97	521.97	521.97	521.97	471.97
Reserves and Surplus	6477.55	5105.08	4488.05	3769.48	3104.71	2311.65	1726.54
Net Worth	6656.94	5222.86	4595.07	3865.17	3188.54	2637.55	1999.85
Deposits	135596.08	117025.79	115885.14	95170.80	78633.57	53624.39	46294.56
Borrowings	9527.64	12172.69	5414.18	1306.16	1373.53	343.06	322.01
Capital Employed	156144.89	138646.76	129840.72	106706.00	88839.22	60880.69	51910.77
Application of Funds (In crores)							
Gross Block	1347.77	1279.20	1225.00	1153.30	1042.00	678.98	601.85
Investments	35067.62	33010.93	30537.23	28075.93	25234.01	17269.11	20370.73
Cash and Bank balance	11965.65	12733.85	14404.41	11657.15	9498.92	5213.51	3069.58
Advances	106781.92	90406.36	81532.27	64051.01	51670.44	36466.23	26729.20
Total Assets	156538.79	139050.95	130255.67	107132.28	89277.36	61076.76	52109.42
Cash Flow (In crores)							
Cash Flow from Operations	-931.12	-1711.54	2521.46	2372.17	4119.19	1159.77	-3373.50
Cash Flow from Investing activities	-72.55	-58.34	-96.85	-112.89	-193.59	-83.69	-55.16
Cash Flow from Finance activities	235.47	99.32	322.65	-101.05	359.80	1067.86	-79.26
Free Cash flow	3396.84	3745.02	343.69	-395.62	-2282.00	-191.00	4118.68
Key Ratios							
ROCE(%)	5.67	6.32	6.78	6.99	6.17	4.82	4.97
RONW(%)	17.64	16.57	21.58	24.05	24.58	23.14	21.76
PATM(%)	9.15	8.09	9.58	10.73	11.86	13.25	10.72
Market Cues							
Close Price (Unit Curr.)	121.95	86.05	48.00	75.05	63.95	89.35	53.75
Market Capitalization	6991.22	4491.54	2505.45	3917.37	3337.99	4663.79	2536.83
Adjusted EPS	18.28	15.58	17.49	16.25	13.72	10.28	8.54
Price / Book Value(x)	1.05	0.86	0.55	1.01	1.05	1.77	1.27
Equity Dividend %	37.00	30.00	30.00	28.00	28.00	25.00	20.00
Enterprise Value	6075.75	9475.10	-4623.61	-5151.37	-1862.71	1861.71	168.84
Dividend Yield %	3.03	3.49	6.25	3.73	4.38	2.80	3.72

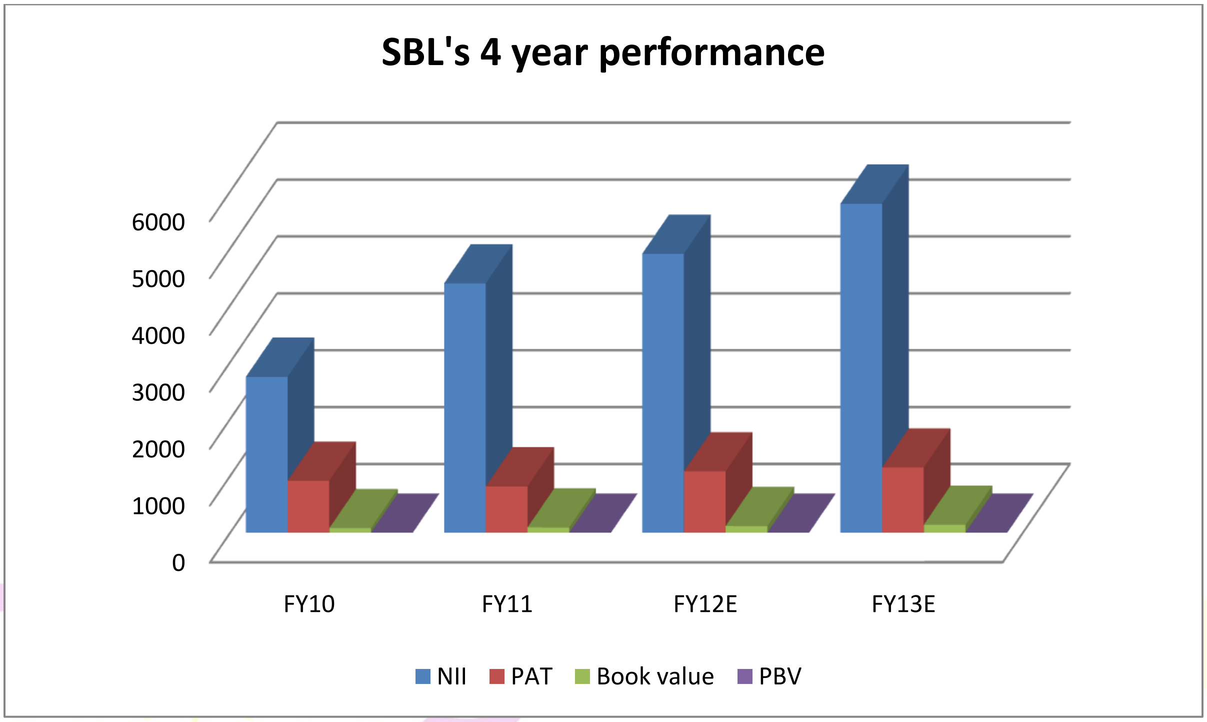
Source: Ace Equity

Financial Ratios

DESCRIPTION	Mar-11	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06	Mar-05
Operational & Financial Ratios							
Earnings Per Share (Rs)	18.28	15.58	17.49	16.25	13.72	10.28	8.54
Adjusted EPS (Rs.)	18.28	15.58	17.49	16.25	13.72	10.28	8.54
Adj DPS(Rs)	3.70	3.00	3.00	2.80	2.80	2.50	2.00
Book NAV/Share(Rs)	116.12	100.06	88.03	74.05	61.09	50.53	42.37
Adjusted Book Value (Rs.)	116.12	100.06	88.03	74.05	61.09	50.53	42.37
Dividend payout(%)	20.24	19.25	17.15	17.23	20.41	24.32	23.43
Margin Ratios							
Yield on Advances	10.72	11.11	11.68	12.34	11.69	11.11	14.06
Yield on Investments	6.50	7.10	6.90	7.80	7.32	7.78	8.91
NIM(%)	3.30	2.30	2.50	2.50	2.49	3.19	3.38
Performance Ratios							
ROA(%)	0.71	0.60	0.77	0.86	0.95	0.95	0.81
ROE(%)	17.64	16.57	21.58	24.05	24.58	23.14	21.76
Efficiency Ratios							
Cost Income Ratio	48.10	52.05	51.73	50.44	50.06	58.03	55.98
Core Cost Income Ratio	48.42	57.80	54.78	55.85	52.10	61.34	62.02
Operating Costs to Assets	1.63	1.46	1.37	1.40	1.55	2.35	2.43
Capitalisation Ratios							
Total CAR (Basel II)	13.04	12.70	12.68	11.82			
Tier-1 ratio (Basel II)	9.31	8.24	7.85	6.97			
Tier-2 ratio (Basel II)	3.73	4.46	4.83	4.85			
Growth Ratio							
Core Operating Income Growth	59.97	7.54	22.92	-3.60	14.31	11.04	18.51
Net Profit Growth	28.85	-10.90	7.64	18.44	33.47	33.16	-7.19
BVPS Growth	16.05	13.66	18.88	21.22	20.89	19.25	17.38
Advances Growth	18.11	10.88	27.29	23.96	41.69	36.43	29.46
EPS Growth(%)	17.31	-10.90	7.64	18.44	33.47	20.40	-7.20
Liquidity Ratios							
Cash/Deposits(x)	0.08	0.06	0.11	0.11	0.08	0.06	0.06
Investment/Deposits(x)	0.26	0.28	0.26	0.30	0.32	0.32	0.44
Loan/Deposits(%)	78.75	77.25	70.36	67.30	65.71	68.00	57.74
Interest Expended / Interest earned(%)	61.73	72.73	73.25	73.78	64.40	53.56	54.92
Interest Expended / Total funds (%)	4.52	5.26	5.36	5.45	4.36	3.55	3.96
CASA (%)	30.93	31.23	27.60	30.95	30.63	38.18	37.05
Assets Quality							
Net NPAs (funded) to Net Advances (%)	0.97	1.07	0.77	0.97	0.76	0.86	1.59

Source: Ace Equity

FINANCIALS GRAPH AND PEER GROUP COMPARISON



Source: SBL, Hedge Research

Peer Group Comparison (Standalone) (In crore)							
Company Name	Year	Interest earned	PAT	Adj.EPS	PAT %	ROCE %	ROE %
Syndicate Bank	FY11	11451	1048	18.28	9.15	5.67	17.64
SBI	FY11	81394	8265	130.15	10.15	5.61	12.62
PNB	FY11	26986	4434	140	16.43	6.47	24.45
Canara Bank	FY11	23064	4026	90.88	17.46	6.79	26.42
Bank of Baroda	FY11	21885	4242	108.33	19.38	5.88	23.5

Source: Ace Equity

ANALYST NOTES AND COMPANY NEWS

15-9-11

SBL should be bought by aggressive investors at >Rs.88 levels as that represents a 45% margin of safety on our weighted average target price of Rs. 128.

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