

## Syndicate Bank (SYNBN)

₹ 91

### WHAT'S CHANGED...

PRICE TARGET .....	Changed from ₹ 124 to ₹ 111
EPS (FY12E) .....	Unchanged
EPS (FY13E) .....	Unchanged
RATING .....	Unchanged

### NIM surprises positively, loan growth moderates...

Net profit grew 32% YoY and 5% QoQ to ₹ 338 crore ahead of our estimated ₹ 299 crore boosted by 15.2% YoY NII growth, lower operating expenses and reduced tax provisions. NIM surprised by expanding 19 bps QoQ to 3.45% from 3.26%. The cost to income ratio declined to 41.8% from 44.8% in Q2FY12 and 47% in Q1FY12. The effective tax rate further dipped to 10.8% from 15.9% in Q2FY12 but was same as 10.1% in Q3FY11 mainly due to MAT liability provisions needed for full year. Asset quality remained relatively stable QoQ due to w/offes and recoveries.

#### ▪ Margins rise 19 bps QoQ...

Yield on funds rose to 9.40% from 9.21% while cost of funds rose to 6.24% from 6.1% leading to NIM expansion to 3.45% from 3.26% sequentially. Even NII growth of 15.2% YoY and 1% QoQ to ₹ 1325 crore was higher than the estimated ₹ 1300 crore. We believe loans pending for revised base rate repricing have happened in Q3FY12 resulting in yields surging despite lower 15% YoY credit growth.

We expect NIM to stay above 3% for FY12E supported by credit growth of 16.3% and deposit growth of 17% for FY12E. Non-interest income increased marginally by 5.6% YoY to ₹ 244 crore.

#### ▪ GNPA, NNPA decline QoQ, provision coverage at 78.5%...

GNPA declined QoQ to ₹ 2673 crore (2.29%) from ₹ 2721 crore (2.38%) mainly due to w/offes to the tune of ₹ 110 crore in the quarter. NNPA also dipped from ₹ 1051 crore (0.86%) to ₹ 992 crore (0.93%) sequentially. Provisions remained high at ₹ 543 crore vs. our estimate of ₹ 489 crore. PCR has remained at 78.5%. With risk to NPAs from power exposure being high, we estimate GNPA at ₹ 2971 crore (2.4%) and NNPA at ₹ 1191 crore (1%) for FY12E.

### Valuation

The operational performance has improved with NIM >3%, RoA at 0.85% and RoE at 17.73%. However, the C/D ratio at 81% and leverage (average assets/average equity) >20x levels still remain high. We maintain our PAT estimates of ₹ 1612 crore in FY13 with 24% CAGR over FY11-13. The stock is currently trading at 0.7x FY13E ABV. We are cautiously revising our target price to ₹ 111 valuing the bank at 0.9x FY13E ABV (1x ABV earlier) and recommend a **BUY** rating on it.

#### Exhibit 1: Financial Performance

₹ crore	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	YoY Gr. (%)	QoQ Gr. (%)
NII	1325	1302	1150	1313	15.2	0.9
Other Income	240	237	214	244	12.5	-1.6
PPP	923	856	712	891	29.6	3.6
PAT	338	300	256	323	32.0	4.7

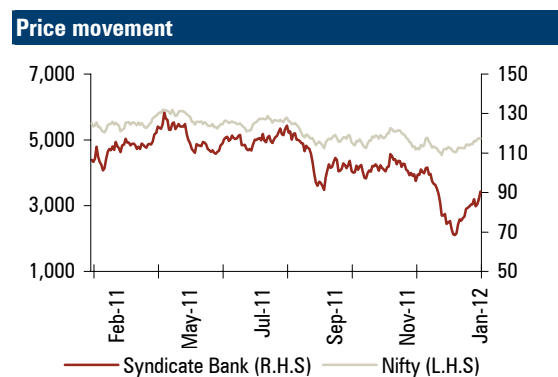
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 111
Target Period	: 12 months
Potential Upside	: 22 %

Key Financials				
₹ crore	FY10	FY11	FY12E	FY13E
NII	2740	4383	5242	6028
PPP	1874	2750	3321	3843
PAT	813	1048	1277	1612

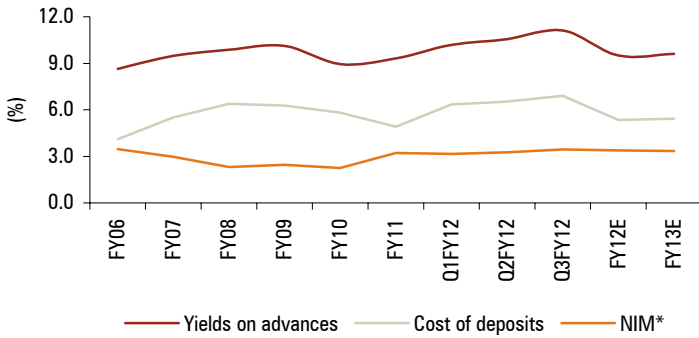
Valuation summary				
	FY10	FY11	FY12E	FY13E
Net Profit (₹ cr)	813.3	1047.9	1277.2	1612.3
EPS (Rs)	15.6	18.3	22.3	28.1
Growth (%)	-10.9	17.3	21.9	26.2
P/E (x)	5.8	5.0	4.1	3.2
ABV (₹)	81.6	98.1	111.6	123.6
Price / Book (x)	0.9	0.8	0.7	0.6
Price / Adj Book (x)	1.1	0.9	0.8	0.7
GNPA (%)	2.2	2.4	2.4	2.2
NNPA (%)	1.1	1.0	1.0	0.8
RoNA (%)	0.6	0.7	0.8	0.8
RoE (%)	15.3	16.5	17.0	19.3

Stock data	
Market Capitalisation	₹ 5188 crore
GNPA (Q3 FY12)	₹ 2674 crore
NNPA (Q3 FY12)	₹ 993 crore
NIM (Q3 FY12)	3.45
52 week H/L	132 / 68
Equity capital	₹ 573 crore
Face value	₹ 10
DII Holding (%)	12.2
FII Holding (%)	3.8



Analyst's name	
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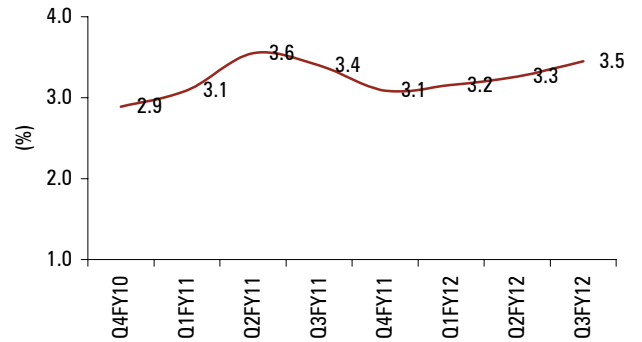
**Exhibit 2: Higher yields driving NIMs...**



Source: Company Press Release, ICICIdirect.com Research

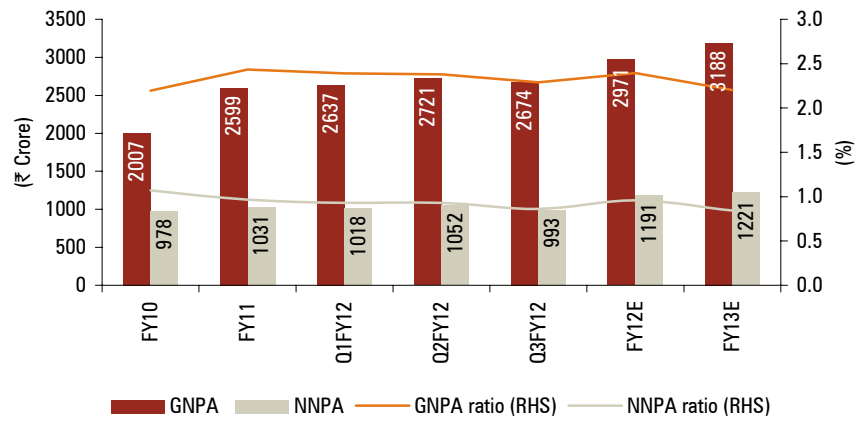
\*NIM is calculated for FY12E and FY13E

**Exhibit 3: ...expanding continuously, 3.45% in Q3FY12**



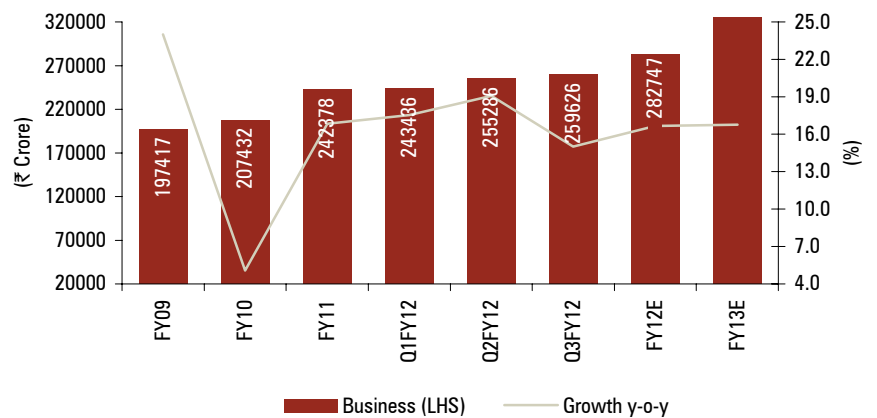
Source: Company Press Release, ICICIdirect.com Research

**Exhibit 4: NPAs under control till now.....**



Source: Company quarterly presentation, ICICIdirect.com Research

**Exhibit 5: Business to grow at 17% CAGR over FY11-13E...**

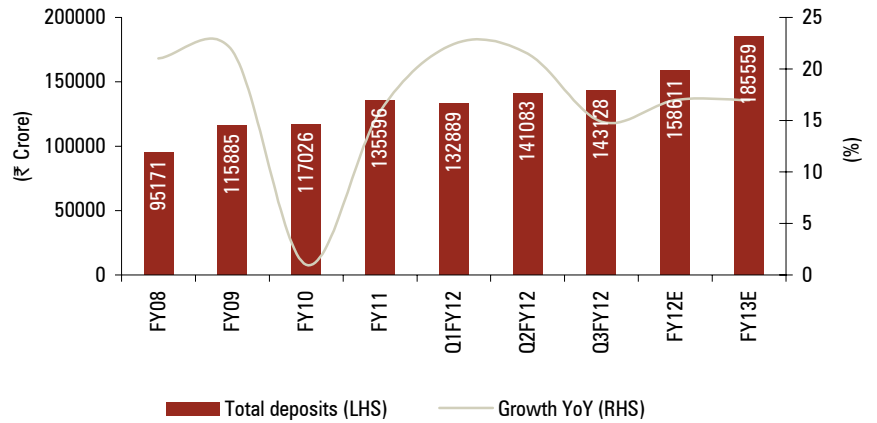


Source: Company annual report and presentation, ICICIdirect.com Research

Total business growth at 15% YoY with both deposits and credit increasing 15% each in Q3FY12

Cost of deposits increased to 6.90% from 6.53% on a QoQ basis

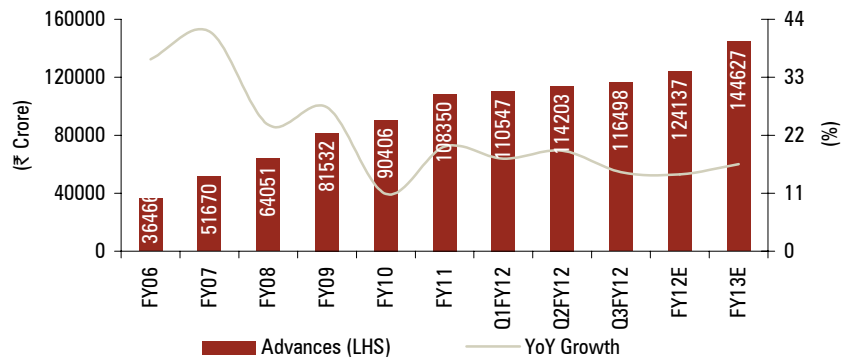
**Exhibit 6: Deposits growth moderates**



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

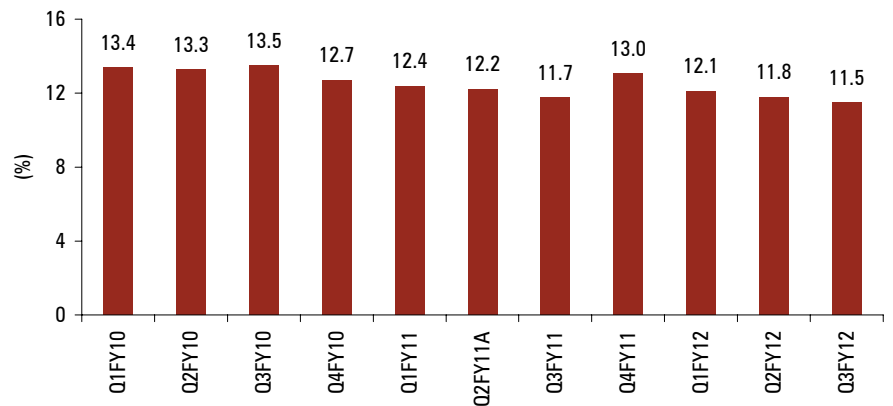
Yield on advances increased to 11.1% from 10.56% on a QoQ basis

**Exhibit 7: Loan book growth at 15% YoY**



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

**Exhibit 8: Adequately capitalised with Tier I at 8.35%**



Source: Company, ICICIdirect.com Research

## Financial summary

### Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Interest Earned	10047	11451	13800	16146
Interest Expended	7307	7068	8557	10118
<b>Net Interest Income</b>	<b>2740</b>	<b>4383</b>	<b>5242</b>	<b>6028</b>
growth (%)	8	60	20	15
Non Interest Income	1167	915	1008	1112
Fees and advisory	363	442	509	585
Treasury Income	389	35	33	32
Other income	416	438	466	495
Net Income	3907	5298	6250	7140
Staff cost	1338	1773	1986	2223
Other Operating expense	696	775	944	1074
Operating profit	1874	2750	3321	3843
Provisions	700	1464	1618	1693
PBT	1174	1285	1703	2150
Taxes	361	237	426	537
<b>Net Profit</b>	<b>813</b>	<b>1048</b>	<b>1277</b>	<b>1612</b>
growth (%)	-11	29	22	26
EPS (₹)	16	18	22	28

Source: Company, ICICIdirect.com, Research

### Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
<b>Sources of Funds</b>				
Capital	522	573	573	573
Reserves and Surplus	5105	6478	7409	8127
Networth	5627	7051	7982	8700
Deposits	117026	135596	158611	185559
Borrowings	12173	9528	10818	11777
Other Liabilities & Provisions	4225	4364	5061	5346
<b>Total</b>	<b>139051</b>	<b>156539</b>	<b>182472</b>	<b>211382</b>
<b>Applications of Funds</b>				
Fixed Assets	701	693	679	704
Investments	33011	35068	41475	47675
Advances	90406	106782	124137	144627
Other Assets	2198	2031	2653	3048
Cash with RBI & call money	12734	11966	13528	15328
<b>Total</b>	<b>139051</b>	<b>156539</b>	<b>182472</b>	<b>211382</b>

Source: Company, ICICIdirect.com, Research

### Key ratios

	FY10	FY11	FY12E	FY13E
<b>Valuation</b>				
No. of Equity Shares	52.2	57.3	57.3	57.3
EPS (Rs.)	15.6	18.3	22.3	28.1
BV (Rs.)	100.1	116.1	132.4	144.9
ABV (Rs.)	81.6	98.1	111.6	123.6
P/E	5.8	5.0	4.1	3.2
P/BV	0.9	0.8	0.7	0.6
P/ABV	1.1	0.9	0.8	0.7
<b>Yields &amp; Margins (%)</b>				
Net Interest Margins	2.3	3.2	3.4	3.3
Yield on assets	8.3	8.4	8.9	8.9
Avg. cost on funds	5.7	5.0	5.3	5.4
Yield on average advances	9.0	9.3	9.5	9.6
Avg. Cost of Deposits	5.8	4.9	5.3	5.4
<b>Quality and Efficiency (%)</b>				
Cost to income ratio	52.0	48.1	46.9	46.2
Credit/Deposit ratio	77.3	78.8	78.3	77.9
GNPA	2.2	2.4	2.4	2.2
NNPA	1.1	1.0	1.0	0.8
ROE	15.3	16.5	17.0	19.3
ROA	0.6	0.7	0.8	0.8

Source: Company, ICICIdirect.com, Research

### Growth ratios

	(% growth)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Total assets	6.8	12.6	16.6	15.8
Advances	10.9	18.1	16.3	16.5
Deposit	1.0	15.9	17.0	17.0
Total Income	7.4	10.3	19.7	16.5
Net interest income	7.5	60.0	19.6	15.0
Operating expenses	13.5	25.3	15.0	12.5
Operating profit	12.1	46.8	20.8	15.7
Net profit	-10.9	28.8	21.9	26.2
Net worth	13.7	27.5	14.0	9.5
EPS	-10.9	17.3	21.9	26.2

Source: Company, ICICIdirect.com, Research

## ICICIdirect.com coverage universe (BFSI)

### Public Sector Banks

Bank of India					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	316	FY11	2488.7	45.5	7.0	1.2	0.8	15.8
		Target	331	FY12E	2155.3	39.4	8.0	1.3	0.6	11.9
Mcap (₹ Cr)	16624	Upside (%)	4.7	FY13E	3140.3	57.4	5.5	1.1	0.7	16.0

### Bank of Baroda

Idirect Code	BANBAR	CMP	778	FY11	4241.7	108.0	7.2	1.7	1.3	23.5
		Target	954	FY12E	4952.8	126.1	6.2	1.4	1.3	21.4
Mcap (₹ Cr)	28436	Upside (%)	22.6	FY13E	5925.5	150.9	5.2	1.1	1.3	21.3

### Dena Bank

Idirect Code	DENBAN	CMP	62	FY11	611.6	21.3	2.9	0.7	1.0	21.2
		Target	84	FY12E	726.4	25.3	2.4	0.6	0.9	18.6
Mcap (₹ Cr)	2060	Upside (%)	35.9	FY13E	847.3	29.5	2.1	0.5	0.9	18.7

### Indian Overseas Bank

Idirect Code	INDOVE	CMP	88	FY11	1072.5	17.3	5.1	0.8	0.7	14.8
		Target	94	FY12E	1006.7	14.4	6.1	0.8	0.5	11.2
Mcap (₹ Cr)	4792	Upside (%)	6.9	FY13E	1595.0	22.8	3.9	0.7	0.7	15.4

### IDBI Bank

Idirect Code	IDBI	CMP	97	FY11	1650.3	18.4	5.3	1.0	0.7	15.8
		Target	UR	FY12E	1646.8	16.7	5.8	1.0	0.6	12.4
Mcap (₹ Cr)	9501	Upside (%)	-	FY13E	2021.4	20.5	4.7	0.9	0.7	13.7

### OBC

Idirect Code	ORIBAN	CMP	237	FY11	1502.9	45.3	5.2	0.7	0.9	14.5
		Target	322	FY12E	1361.9	51.5	4.6	0.7	1.0	17.9
Mcap (₹ Cr)	6912	Upside (%)	35.9	FY13E	1759.0	46.7	5.1	0.6	0.8	11.7

### Punjab National Bank

Idirect Code	PUNBAN	CMP	961	FY11	4433.5	124.9	7.7	1.7	1.3	22.6
		Target	1050	FY12E	4886.9	154.3	6.2	1.4	1.2	20.8
Mcap (₹ Cr)	30449	Upside (%)	9.2	FY13E	5991.5	189.1	5.1	1.1	1.2	21.3

### SBI

Idirect Code	STABAN	CMP	1941	FY11	82.7	130.2	14.9	2.3	0.7	12.6
		Target	2200	FY12E	96.2	144.6	13.4	2.1	0.7	13.5
Mcap (₹ Bn)	123222	Upside (%)	13.4	FY13E	129.4	187.6	10.3	1.7	0.8	15.1

### Syndicate Bank

Idirect Code	SYNBAN	CMP	91	FY11	1047.9	18.3	5.0	0.9	0.7	16.5
		Target	111	FY12E	1277.2	22.3	4.1	0.8	0.8	17.0
Mcap (₹ Cr)	5188	Upside (%)	22.7	FY13E	1612.3	28.1	3.2	0.7	0.8	19.3

### Union Bank of India

Idirect Code	UNIBAN	CMP	204	FY11	2081.9	39.7	5.1	1.2	1.0	20.9
		Target	220	FY12E	1914.9	36.5	5.6	1.1	0.8	16.2
Mcap (₹ Cr)	10699	Upside (%)	7.8	FY13E	2438.6	46.5	4.4	0.9	0.8	17.9

### Private Sector Banks

#### Axis Bank

Idirect Code	UTIBAN	CMP	997	FY11	3388.5	83.0	12.0	2.2	1.7	20.1
		Target	1274	FY12E	4042.4	98.5	10.1	1.9	1.5	19.5
Mcap (₹ Cr)	40929	Upside (%)	27.8	FY13E	5092.8	124.0	8.0	1.6	1.6	20.7

#### City Union Bank

Idirect Code	CITUNI	CMP	41	FY11	215.1	5.3	7.7	1.7	1.6	23.5
		Target	52	FY12E	285.7	6.7	6.1	1.3	1.7	24.2
Mcap (₹ Cr)	1642	Upside (%)	26.7	FY13E	361.3	8.5	4.8	1.1	1.8	23.8

#### Dhanlaxmi Bank

Idirect Code	DHABAN	CMP	59	FY11	26.0	3.3	17.8	0.6	0.2	4.1
		Target	-	FY12E	30.1	2.5	23.5	0.6	0.2	3.0
Mcap (₹ Cr)	500	Upside (%)	-	FY13E	48.9	4.1	14.4	0.6	0.2	4.1

#### DCB

Idirect Code	DCB	CMP	42	FY11	21.4	1.1	38.9	1.6	0.3	3.9
		Target	60	FY12E	39.9	1.8	23.5	1.3	0.5	6.1
Mcap (₹ Cr)	834	Upside (%)	44.1	FY13E	46.7	1.9	22.2	1.1	0.5	5.5

#### Federal Bank

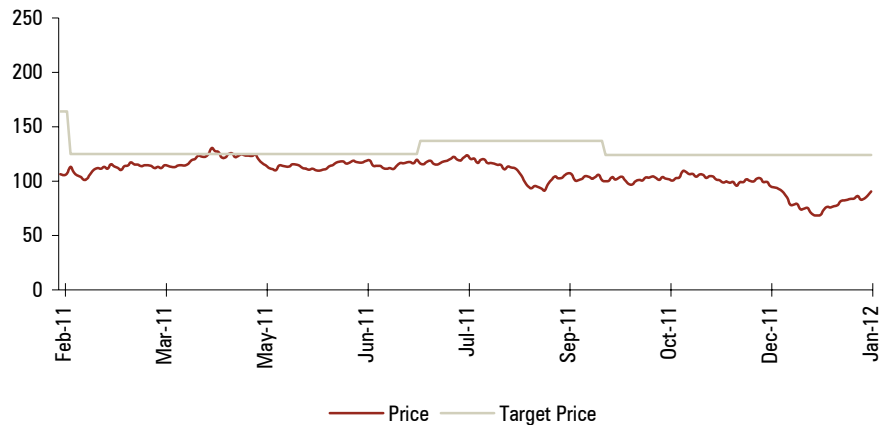
Idirect Code	FEDBAN	CMP	384	FY11	587.1	34.3	11.2	1.3	1.5	13.5
		Target	472	FY12E	689.0	40.3	9.5	1.3	1.2	13.2
Mcap (₹ Cr)	6557	Upside (%)	23.1	FY13E	865.9	50.6	7.6	1.2	1.3	15.8

Continued...

					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
<b>HDFC Bank</b>										
Idirect Code	HDFBAN	CMP	484	FY11	3926.4	16.9	28.7	4.5	1.6	16.7
		Target	532	FY12E	5074.3	21.8	22.2	4.0	1.7	18.7
Mcap (₹ Cr)	112478	Upside (%)	9.9	FY13E	6590.2	28.3	17.1	3.5	1.9	21.3
<b>Kotak Bank</b>										
Idirect Code	KOTMAH	CMP	477	FY11	818.3	11.1	41.9	5.2	1.9	14.5
		Target	436	FY12E	991.7	13.5	34.6	4.6	1.8	13.7
Mcap (₹ Cr)	35171	Upside (%)	-8.7	FY13E	1212.4	16.5	28.3	4.0	1.9	14.7
<b>South Indian Bank</b>										
Idirect Code	SOUINO	CMP	23	FY11	292.5	2.6	8.9	1.6	1.0	18.5
		Target	26	FY12E	352.3	2.4	9.7	1.2	1.0	15.3
Mcap (₹ Cr)	2599	Upside (%)	13.0	FY13E	430.2	2.9	7.9	1.1	1.0	14.0
<b>Yes Bank</b>										
Idirect Code	YESBAN	CMP	308	FY11	727.1	20.9	14.7	2.8	1.5	21.1
		Target	369	FY12E	958.4	26.3	11.7	2.2	1.4	21.3
Mcap (₹ Cr)	10677	Upside (%)	20.0	FY13E	1301.8	34.0	9.0	1.7	1.5	21.4

\*UR: Under Review

#### Exhibit 9: Recommendation History



Source: Company, ICICIdirect.com Research

#### Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
5-Jul-11	Q1FY12 Result Preview	120	137	Buy
3-Aug-11	Q1FY12 Result Preview	116	137	Buy
23-Sep-11	Banking Industry Vol-VI	100	124	Buy
5-Oct-11	Q2FY12 Result Preview	97	124	Buy
24-Oct-11	Q2FY12 Result Update	101	124	Buy
6-Jan-12	Q3FY12 Result Preview	76	124	Buy

Source: Company, ICICIdirect.com Research

## **RATING RATIONALE**

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**Strong Buy:** > 15%/20% for large caps / midcaps, respectively, with high conviction;

**Buy:** > 10%/ 15% for large caps / midcaps, respectively;

**Hold:** Up to +/-10%;

**Sell:** -10% or more;

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