

Remain Neutral

Notwithstanding the largely in line bottom-line, SBI's Q2FY13 core operating performance and asset quality matrix disappointed us. Cautious management commentary, overhang of high GNPA (5.2%), incremental restructuring and potential adverse impact of monsoon failure should lead to underperformance in the near term. We maintain Neutral stance on the stock with a revised price target of Rs2,200.

- **Asset quality: pain persists:** Asset quality matrices continued to worsen further with: 1) slippages at Rs71bn (revised down from Rs 85bn) indicating 3% annualised slippage rate 2) GNPA going up 4% QoQ to 5.2% - highest in industry 3) PCR eroding by ~290bps to 54%. Meanwhile, the cumulative restructured portfolio increased by ~10% QoQ to 4.4% of loans while cumulative slippages from the pool stood at ~20%. While the restructured portfolio remained lower than that of PSB peers (8-9% of loans), the stress asset creation (slippages + incremental restructured) was high at Rs118bn compared with ~Rs100bn run rate in recent quarters.
- **NIM contracts QoQ:** NII grew by a weak 5% YoY to Rs110bn (vs our estimate of Rs113bn). Sequentially, NIM witnessed contraction of 23 bps QoQ, led by excess liquidity of ~Rs600bn and continued focus on large corporates and home/car loans for growth. From a geographical perspective, domestic NIMs moderated by 18bps to 3.68% while International NIMs saw a sharper decline (by 35bps) to 1.42% as the bank witnessed weaker spreads in the case of Trade Finance, its main lending activity in international business and due to rupee depreciation. On a blended basis, the management now guides for 3.5% NIM for FY13 (from 3.75% earlier), which seems achievable.

Y/E March (Rsmn)	Q2FY13	Q2FY12	YoY (%)	QoQ (%)	Q2FY13E	Var (%)
Net Interest Income	109,738	104,219	5.3	(1.3)	112,560	(2.5)
Non-Interest Income	33,466	34,272	(2.4)	(4.3)	36,090	(7.3)
Net Total Income	143,205	138,492	3.4	(2.0)	148,650	(3.7)
Operating Expenses	69,668	63,749	9.3	8.2	65,030	7.1
Pre-Provisioning	73,537	74,743	(1.6)	(10.1)	83,620	(12.1)
Provisions	18,256	33,855	(46.1)	(25.7)	30,000	(39.1)
Profit Before Tax	55,281	40,888	35.2	(3.4)	53,620	3.1
Tax	18,699	12,784	46.3	(5.0)	18,231	2.6
Profit After Tax	36,581	28,104	30.2	(2.5)	35,389	3.4

Source: Company, Centrum Research Estimates

- **Loan growth at 18%:** While still healthy at 18%, loan growth has moderated from ~20% level seen in recent quarters. Domestic loan book growth (16.2% YoY) continued to lag the international loan book growth (27.4% YoY). From segmental perspective, agri (28% YoY) and corporate book (27%) were the key drivers. Meanwhile, mid-corporate and SME segments lagged materially led by the cautious stance adopted by the management. The slower loan growth has transpired into a weaker fee income stream. The management continues to focus aggressively on the retail segment.
- **Remain Neutral:** We have tweaked our earnings estimates to factor in additional information. With Q2FY13 performance reflecting continued asset quality pain and strain on core performance, our Neutral stance on the stock remains. Moreover, the weaker monsoon so far only adds to asset quality risks for the bank as agri book continues to grow at a fast clip. Given these aspects, we expect the stock to underperform in the near term. At the current market price, the stock trades at 1.7x FY14 ABVPS, 8.7x FY14E EPS that matches our revised fair value estimate of Rs2,200. We maintain our Neutral stance on the stock. We await concrete signals of the much anticipated revival in economic activity before revisiting our asset quality assumptions and overall view on the stock.

Y/E Mar (Rsmn)	NII	NonInt. Inc.	Adj PAT	YoY (%)	EPS (Rs)	P/E (x)	Adj BV (Rs)	P/Adj BV (x)	ROE (%)	ROA (%)
FY11	325,264	158,246	82,645	(9.8)	143	15.4	912	2.4	12.6	0.7
FY12	432,911	143,513	117,072	41.7	174	12.6	1,015	2.2	15.7	0.9
FY13E	478,512	171,603	148,798	27.1	222	9.9	1,113	2.0	16.6	1.0
FY14E	548,858	196,959	168,825	13.5	252	8.7	1,303	1.7	16.5	1.0
FY15E	632,685	222,043	218,569	29.5	326	6.8	1,564	1.4	18.6	1.1

Source: Company, Centrum Research Estimates

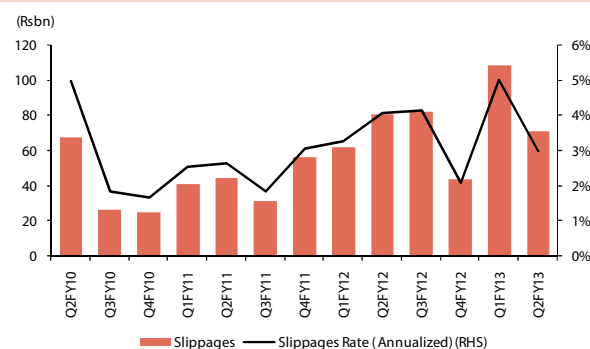
Key Data

Target Price	Rs2,200	Bloomberg Code	SBIN IN
CMP	Rs2,190*	Reuters Code	SBI.BO
Upside	0.5%	Current Shares O/S (mn)	671.0
Stock to Sector	Neutral	Diluted Shares O/S(mn)	671.0
Sector to Market	Underperform	Mkt Cap (Rsbn/USDbn)	1,469.8/26.8
Price Performance (%)*		52 Wk H / L (Rs)	2,475/1,571
	1M 6M 1Yr	Daily Vol. (3M NSE Avg.)	2,623,032
SBI	(2.7) 18.2 21.8	Face Value (Rs)	10
NIFTY	0.1 15.3 10.0	1 USD = Rs54.9	

Source: Bloomberg, Centrum Research

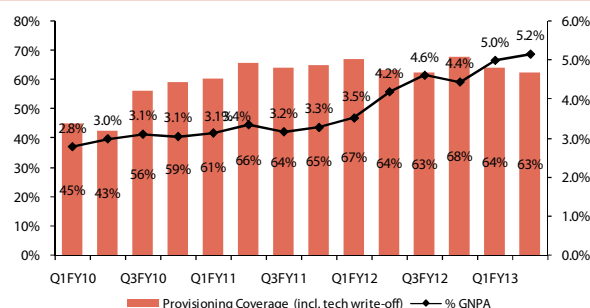
*as on 12 November 2012

Slippage rate remains high



Source: Company, Centrum Research

GNPA @ 5.2% - highest among peers



Source: Company, Centrum Research

Earning Revision

Particulars	FY13E			FY14E		
	Current	Earlier	Chg (%)	Current	Earlier	Chg (%)
NII	478,512	478,517	0.0	548,858	548,874	0.0
PPOP	352,663	348,153	1.3	407,457	402,378	1.3
PAT	148,798	143,655	3.6	168,825	162,669	3.8

Source: Company, Centrum Research Estimates

Bhavesh Kanani

bhavesh.kanani@centrum.co.in
+91 22 4215 9636

Please refer to important disclosures/disclaimers inside

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Financials

Exhibit 1: Income Statement

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Interest Income	813,944	1,065,215	1,164,463	1,342,347	1,553,853
Interest Expense	488,680	632,304	685,951	793,489	921,168
Net Interest Income	325,264	432,911	478,512	548,858	632,685
YoY Growth (%)	37.4	33.1	10.5	14.7	15.3
Non Interest Income	158,246	143,513	171,603	196,959	222,043
YoY Growth (%)	5.7	(9.3)	19.6	14.8	12.7
Fee & Other Income	148,989	152,711	164,603	189,959	215,043
Treasury gain	9,257	(9,197)	7,000	7,000	7,000
Total Net Income	483,510	576,424	650,115	745,817	854,728
Total Operating Expenses	230,154	260,690	297,452	338,360	383,586
YoY Growth (%)	13.3	13.3	14.1	13.8	13.4
Employee Expenses	144,802	169,740	195,200	221,556	250,695
Other Operating Expenses	85,353	90,950	102,252	116,803	132,891
PPP (Pre-excep)	253,356	315,734	352,663	407,457	471,142
Pre-provision Profit	253,356	315,734	352,663	407,457	471,142
Provisions & Contingencies	103,813	130,902	127,211	151,661	139,977
NPA Provisions	84,154	115,459	129,668	146,763	134,228
Other Provisions	19,659	15,444	(2,457)	4,898	5,749
Profit Before Tax	149,542	184,832	225,452	255,795	331,165
Taxes	66,897	67,760	76,654	86,970	112,596
Net Profit	82,645	117,072	148,798	168,825	218,569
Adj Net Profit	82,645	117,072	148,798	168,825	218,569

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Cash & bal with RBI	943,955	540,759	1,199,594	811,121	1,521,308
Inter-bank borrowings	284,786	430,872	381,143	557,018	531,248
Loans & Advances	7,567,195	8,675,789	10,075,324	11,718,035	13,511,399
Investments	2,956,006	3,121,976	4,507,086	4,307,142	5,917,363
Int Earning Assets	11,751,942	12,769,397	16,163,147	17,393,316	21,481,318
Fixed Assets	47,642	54,666	90,499	111,075	132,205
Other Assets	447,355	531,130	490,612	535,543	616,050
Total Assets	12,246,938	13,355,192	15,913,330	17,952,997	21,368,157
Deposits	9,339,328	10,436,474	12,001,945	13,922,256	16,149,817
Other Int Bearing Liab	1,195,690	1,270,056	1,623,311	1,793,969	2,225,174
Interest Bearing Liab	10,535,018	11,706,529	13,625,256	15,716,225	18,374,990
Other non int Liab	1,062,060	809,151	1,330,030	1,145,196	1,728,712
Total Liabilities	11,597,078	12,515,680	14,955,285	16,861,421	20,103,703
Equity	649,860	839,512	958,045	1,091,577	1,264,454
Total Liabilities	12,246,938	13,355,192	15,913,330	17,952,997	21,368,157

Source: Company, Centrum Research Estimates

Exhibit 3: Key Ratios

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
BS Structure Ratios (%)					
Loans/Deposits	81.0	83.1	83.9	84.2	83.7
Investments / Deposits	31.7	29.9	37.6	30.9	36.6
CASA Ratio	49.4	44.5	45.0	45.0	45.0
Loan Growth	19.8	14.7	16.1	16.3	15.3
Deposit Growth	16.1	11.7	15.0	16.0	16.0
Operating Ratios (%)					
NIM	3.2	3.8	3.5	3.5	3.5
Non-int income/Net income	32.7	24.9	26.4	26.4	26.0
Emp Costs (% of Opex)	62.9	65.1	65.6	65.5	65.4
Cost/Income	47.6	45.2	45.8	45.4	44.9
Operating cost growth	13.3	13.3	14.1	13.8	13.4
Total prov as % of avg. loans	1.5	1.6	1.4	1.4	1.1
Tax Rate (%)	44.7	36.7	34.0	34.0	34.0
Credit Quality Ratios (%)					
Gross NPA	3.28	4.44	4.88	4.67	4.16
Net NPA	1.63	1.82	2.09	1.85	1.59
Slippage	2.9	3.3	3.0	2.5	2.0
NPA coverage ratio	65.0	69.0	65.3	67.7	62.9
Profitability Ratios (%)					
RoAE	12.6	15.7	16.6	16.5	18.6
RoAA	0.7	0.9	1.0	1.0	1.1
Valuations Ratios					
BVPS (Rs)	1,126	1,251	1,428	1,627	1,884
Price/BV (x)	2.0	1.8	1.5	1.4	1.2
Adjusted BVPS (Rs)	911.9	1,015.3	1,113.4	1,303.4	1,563.9
Price/Adj. BV (x)	2.4	2.2	2.0	1.7	1.4
EPS (Rs)	143.2	174.5	221.7	251.6	325.7
P/E (x)	15.4	12.6	9.9	8.7	6.8
Dividend Yield	1.5	1.6	1.8	2.1	2.7

Source: Company, Centrum Research Estimates

Appendix A

Disclaimer

Centrum Broking Limited ("Centrum") is a full-service, Stock Broking Company and a member of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE). Our holding company, Centrum Capital Ltd, is an investment banker and an underwriter of securities. As a group Centrum has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into the Group's Investment Banking and other business selection processes.

Recipients of this report should assume that our Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/report. Our Company and Group companies and their officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependants, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Centrum or its affiliates do not own 1% or more in the equity of this company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We and our Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of Centrum. Centrum or its affiliates do not make a market in the security of the company for which this report or any report was written. Further, Centrum or its affiliates did not make a market in the subject company's securities at the time that the research report was published.

This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of Centrum. Though disseminated to clients simultaneously, not all clients may receive this report at the same time. Centrum will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. Any such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document.

The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accented accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Company, Centrum, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts.

The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Centrum does not provide tax advice to its clients, and all investors are strongly advised to consult regarding any potential investment. Centrum and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment-grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/document has been prepared by Centrum, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. Centrum has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change.

This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of Centrum. This report or any portion hereof may not be printed, sold or distributed without the written consent of Centrum.

This report has not been prepared by Centrum Securities LLC. However, Centrum Securities LLC has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither Centrum nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. By accepting this report, you agree to be bound by the foregoing limitations. No representation is made that this report is accurate or complete.

The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of Centrum Broking and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection.

This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith.

Centrum and its affiliates have not managed or co-managed a public offering for the subject company in the preceding twelve months. Centrum and affiliates have not received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for service in respect of public offerings, corporate finance, debt restructuring, investment banking or other advisory services in a merger/acquisition or some other sort of specific transaction.

As per the declarations given by him, Mr. Bhavesh Kanani, research analyst and and/or any of his family members do not serve as an officer, director or any way connected to the company/companies mentioned in this report. Further, as declared by him, he has not received any compensation from the above companies in the preceding twelve months. Our entire research professionals are our employees and are paid a salary. They do not have any other material conflict of interest of the research analyst or member of which the research analyst knows of has reason to know at the time of publication of the research report or at the time of the public appearance.

While we would endeavour to update the information herein on a reasonable basis, Centrum, its associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Centrum from doing so.

Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Centrum policies, in circumstances where Centrum is acting in an advisory capacity to this company, or any certain other circumstances

Key to Centrum Investment Rankings:

Stock to Sector	Sector to Market	Stock to Market
Outperform	Outperform	Buy
	Neutral	Buy
	Underperform	Accumulate
Neutral	Outperform	Neutral
	Neutral	Neutral
	Underperform	Neutral
Underperform	Outperform	Reduce
	Neutral	Sell
	Underperform	Sell

Accumulate: Add on decline; Reduce: Sell on rise

- **Stock to Sector** – This is the relative rating of the stock to the sector and reflects its relative attractiveness vis-à-vis other coverage stocks in the sector.
- **Sector to Market** – This is the relative rating of the sector vis-à-vis the other sectors in the coverage space. This is derived based on the conviction of the analyst on a sector and macro view outlined in market strategy.
- **Stock to Market** – The final rating on the stock is obtained as a combination of the “stock to sector” and “sector to market” view as outlined in the table above.

Member (NSE, BSE, MCX-SX), Depository Participant (CDSL) and SEBI registered Portfolio Manager

Registration Nos.

CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239, **NSE:** INB231454233

DERIVATIVES SEBI REGN. NO.: **NSE:** INF231454233 (TRADING & SELF CLEARING MEMBER)

CDSL DP ID: 12200. **SEBI REGISTRATION NO.:** IN-DP-CDSL-661-2012

PMS REGISTRATION NO.: INP000004383

MCX – SX (Currency Derivative segment) REGN. NO.: INE261454236

Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Mr. Praveen Malik; Tel: (022) 4215 9703; Email ID: compliance@centrum.co.in

Centrum Broking Limited

Registered Office Address

Bombay Mutual Building ,
2nd Floor,
Dr. D. N. Road,
Fort, Mumbai - 400 001

Correspondence Address

Centrum House
6th Floor, CST Road, Near Vidya Nagari Marg, Kalina,
Santacruz (E), Mumbai 400 098.
Tel: (022) 4215 9000