

State Bank of India

4 November 2011

Higher provisioning to take its toll

We expect State Bank of India (SBI) to report a fall in bottom-line by 16% YoY in 2QFY12 because of higher provisioning. Our 2QFY12 bottom-line estimate is 18% below Bloomberg consensus estimate. We reiterate our Sell rating on the stock with a target price of Rs1,520, down 21% from the current market price.

Operational performance: We expect State Bank of India (SBI) to report net interest income (NII) growth of 30% YoY and 9% QoQ at Rs.105,400mn, aided by interest income growth of 29% YoY and 6% QoQ. We expect interest expenses to register a growth of 28% YoY and 4% QoQ amid monetary tightening by the Reserve Bank of India (RBI). We expect non-interest income of SBI to remain sluggish because of lower growth in advances, subdued syndication activity and leaner treasury income. We expect SBI to report profits before provisioning (PPP) of Rs.79,600mn, registering a growth of 25% YoY and 10% QoQ. SBI is likely to report net profit growth of 33% QoQ and de-growth of 16% YoY at Rs.21,034mn, which translates into an EPS of Rs.33.1 for the quarter against Rs.39.4 in 2QFY11 and Rs.25 in 1QFY12. Our bottom-line estimate for 2QFY12 is 18% below Bloomberg consensus estimate.

Bottom-line to take a hit: High interest rates coupled with slowdown in the economy and growing concerns over asset quality is expected to result in higher provisioning by India's largest bank. We expect SBI to report total provisioning growth of 52% YoY and 4% QoQ at Rs.58,566mn. For the quarter, we believe higher provisioning is warranted as there is a high probability of restructured small and medium enterprises loans (SME) turning into non-performing assets (NPA). Also, with bond yields moving up, we expect SBI to have a mark-to-market provisioning on its investment book.

Valuation and outlook: We feel that as demand in the economy is tapering down with the RBI's tight monetary policy, asset quality would emerge as a major area of concern for the entire banking sector. At the current market price, SBI is trading at 2x FY12E BV. We maintain our sell rating on the stock with a target price of Rs.1,520.

SELL

Sector: Banking

CMP: Rs1,935

Target Price: Rs1,520

Downside: 21%

Hemindra Hazari

hemindra.hazari@nirmalbang.com

+91-22-3926 8017

Manuj Oberoi

manuj.oberoi@nirmalbang.com

+91-22-3926 8114

(Rsmn)		(Rs)	(Rs)	Net Interest Income			PPP			RPAT		
Company	Rating	CMP	TP	2QFY12E	YoY (%)	QoQ (%)	2QFY12E	YoY (%)	QoQ (%)	2QFY12E	YoY (%)	QoQ (%)
SBI	Sell	1,935	1,520	105,400	29.9	8.7	79,600	25.2	9.9	21,034	(15.9)	32.8

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	+91 22 3926 8098 / 99
Hemindra Hazari	Head of Research	hemindra.hazari@nirmalbang.com	+91 22 3926 8017 / 18

Sales and Dealing:

Neha Grover	AVP Sales	neha.grover@nirmalbang.com	+91 22 3926 8093
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Sudhindar Rao	Dealing Desk	sudhindar.rao@nirmalbang.com	+91 22 3926 8229, +91 22 6636 8832
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 3926 8000/1
 Fax. : 022 3926 8010