

State Bank of India

4Q07: Healthy Set of Numbers - ALERT

- SBI announced 4Q07 numbers that were about 8% above our estimates led by higher than expected non-interest income growth (up 42% yoy adjusted for extra-ordinaries).
- Loans and Deposits were up 29% and 15% yoy respectively. NII was up 22% yoy in 4Q07 with NIM for the full year at 3.31% (up 39 bps yoy). However given that the impact of increase in deposits rates will kick in going ahead, margins would be under some pressure.
- Non-interest income was up 42% yoy led by strong 21% yoy growth in CEB in 4Q07. Other miscellaneous income was down significantly (Rs -2.0 bn vs. Rs +5.7 bn in 4Q06), details of which are awaited. However it was compensated by profit from revaluation of investments on HTM portfolio of Rs 4.5 bn (vs. loss of Rs 3.2 bn in 4Q06) and substantially higher dividend income (Rs. 2.2 bn vs. negligible in 4Q06), as due to change in tax provisions subsidiaries declared interim dividend in 4Q07 itself. If we strip-off dividend income and profit from revaluation of investments, then growth in non-interest income would be 8.4%.
- Operating expenses were up 10% yoy with staff expenses up 5%. The cost-income ratio declined by 780 bps yoy in 4Q07 to 45% and helped in 50% yoy growth in operating profits (24.4% yoy if dividend income and profit from revaluation of investments are stripped-off).
- Despite higher loan loss charge at 138 bps (up by 60 bps qoq), there has been increase in gross and net NPLs sequentially, which is a concern to us. Net NPL ratio was up sequentially by 11 bps at 1.56%. The coverage ratio declined to 47% and appears low.
- Management has indicated for additional capital requirements of Rs 150 bn (BASEL II and to support asset growth). However this would be a combination of debt and equity.
- Though the potential equity issuance could provide a positive technical catalyst, we would watch out for margin pressure and uptick in credit costs which could dampen profit growth. The stock (on consolidated basis) trades at 1.31x FY08E Book. We maintain our overweight rating on the stock.

Overweight

Rs1,149.20

11 May 2007

Banks

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Table 1: SBI: 4Q07 and FY07 Summary

INCOME STATEMENT(Rs mn)	4Q07	YoY	QoQ	FY07	YoY
Net Interest Income	43,201	21.5%	9.3%	160,542	17.8%
CEB	23,373	20.8%	171.5%	48,045	20.2%
FX	487	-43.5%	-57.3%	3,734	-20.5%
Cap Gains	382	-52.2%	-87.7%	5,678	-3.3%
Others *	4,701	nm	-10.5%	236	nm
<i>Non treasury, non-interest income</i>	<i>28,567</i>	<i>45.3%</i>	<i>90.4%</i>	<i>52,075</i>	<i>76.3%</i>
Other Income	28,943	41.5%	59.8%	57,693	63.1%
Total Income	72,144	28.8%	25.2%	218,235	27.2%
Core Revenues	71,762	30.0%	31.6%	212,557	28.3%
Staff expenses	20,239	5.2%	-0.3%	79,326	1.6%
Other operating expenses	12,221	18.6%	39.2%	38,909	8.0%
Total Operating Expenses	32,460	9.9%	11.6%	118,235	3.6%
Operating Profits	39,684	50.0%	39.0%	100,000	74.0%
Core Operating Profits	39,302	53.2%	54.5%	94,322	82.8%
Loan Loss Provisions	10,304	393.5%	90.6%	20,187	265.1%
Other Provisions	3,822	-53.1%	-38.9%	1,909	nm
Pre Tax Profits	25,558	57.6%	51.3%	77,903	43.1%
Tax	10,626	8.6%	70.4%	31,162	38.7%
Net Profit(pre extraordinary)	14,932	132.1%	40.2%	46,741	46.2%
Extra ordinaries(net of tax) #	-	nm	nm	1,328	nm
Reported Net Profit	14,932	75.0%	40.2%	45,413	3.1%
Deposits (Bn)	4,355	14.6%	7.7%		
Loans (Bn)	3,373	28.9%	9.0%		
Ratios					
Core Cost Income Ratio	45.2%	-8.3%	-8.1%	55.6%	-13.2%
Effective tax rate	41.6%	-18.8%	4.6%	40.0%	-1.3%
Gross NPL's	99,982	3.8%	1.0%		
Net NPL's	52,577	7.1%	17.2%		
Gross NPL Ratio	2.9%	-0.7%	-0.4%		
Net NPL ratio	1.6%	-0.3%	0.1%		
Coverage Ratio	47.4%	-1.6%	-7.3%		
LLP/Average Loans	1.38%	1.0%	0.6%		
ROE(12 month)	14.2%	-1.2%			
ROA(12 month)	0.84%	-0.1%			
NIM (Full Year)	3.31%	0.39%			
Tier 1 Ratio	8.0%	-1.4%	0.0%		

Source: JPMorgan estimates, Company data

* Includes profit / loss from revaluation of investments.

Extra-ordinaries (net of taxes) in FY06 and FY07 were Rs. 12.1 bn and Rs. 1.33 bn respectively.

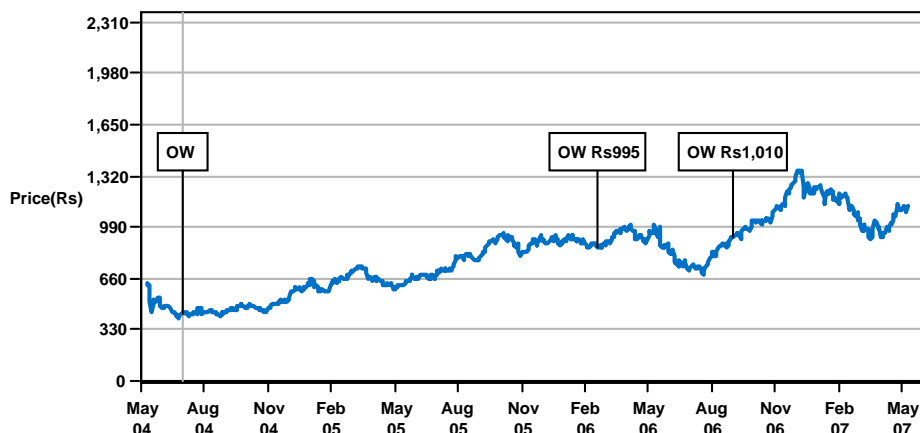
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State Bank of India (SBI.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
01-Jul-04	OW	430.65	--
18-Feb-06	OW	857.70	995.00
31-Aug-06	OW	931.65	1010.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
 Break in coverage Feb 27, 2004 - Jul 01, 2004. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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