State Bank of India

Earnings Review **BUY**

Equity | India | Banks-Multinational/Universal
30 October 2006

A Strong Quarter

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Operating Profit Up 42% led by NIM Expansion, Rising Fees

SBI 2QFY07 net income declined 3% yoy; however, core operating profit was up 42% yoy, led by a sharp improvement in business operations. Despite <5% growth in balance sheet (loan growth was 23% yoy), top line grew 8% yoy. Margin expansion of 15bps to 3.32% was led by a) improving loan yields due to lending rate hikes and change in loan mix and b) lower deposit costs due to improving CASA and SBI's strategy of shying away from bulk deposits. Furthermore, the most encouraging aspect is the 35% jump in fees, driven by income from distribution of third-party products. Earnings quality has improved considerably.

Business Improvement Driven by Technology Initiatives

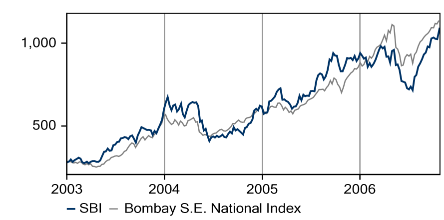
We believe the key highlight from results was the bank's ability to leverage its technology initiatives to drive a) fee income growth (up 35% yoy) and b) to improve its CASA ratio (up to 43% from 40%). Given the vast client base of SBI, leveraging the technology platform would, in our view, be a key growth driver. Asset quality remained on track, gross NPLs declined to 3.6% in 2QFY07 v/s 5.3% in 2QFY06, and net NPLs fell to 1.7% v/s 2.3%

Earnings to grow at 20% CAGR; Maintain Buy: PO Rs1,300

SBI is currently trading at 1.3x FY08 adj. book (on a consolidated basis). We contend that the stock, based on the a) expected rebound in earnings growth at 28% in FY08 (after 10% in FY07), b) ROE of 18% in FY08E, c) dominant deposit and customer franchise and d) the sharply improving quality of earnings could arguably trade up to 1.6x FY08E consolidated Adj book. This underpins our PO of Rs1,300 and we reiterate our Buy recommendation. The risk to our PO is a sharp increase in bond yields.

Stock Data

Price (Common / GDR)	Rs1,029 / US$55.00
Price Objective	Rs1,300 / US$68.00
Date Established	16-Oct-2006 / 16-Oct-2006
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs684.15-Rs1,095
Market Value (mn)	US$11,989
Shares Outstanding (mn)	526.3 / 263.2
Average Daily Volume	424,557
ML Symbol / Exchange	SBINF / BSE
ML Symbol / Exchange	SBKFF / LIN
Bloomberg / Reuters	SBIN IN / SBI.BO
ROE (2007E)	16.6%
Total Dbt to Cap (-A)	NA
Est. 5-Yr EPS / DPS Growth	15.0% / 10.0%
Free Float	20.0%



Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	43,045	44,067	49,031	63,020	74,952
EPS	81.79	83.73	93.16	119.74	142.41
EPS Change (YoY)	16.9%	2.4%	11.3%	28.5%	18.9%
Dividend / Share	12.50	14.00	16.00	18.00	18.00
GDR EPS (US$)	3.75	3.76	4.08	5.25	6.24
GDR Dividend / Share (US$)	0.573	0.628	0.701	0.789	0.789

Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	12.6x	12.3x	11.0x	8.6x	7.2x
Dividend Yield	1.21%	1.36%	1.55%	1.75%	1.75%
Pre-exceptional PE	12.59x	12.29x	11.05x	8.60x	7.23x
Price / Book	2.25x	1.96x	1.71x	1.47x	1.26x
RoE / PB	8.63x	8.70x	9.65x	12.52x	14.93x
Price / Pre-Provision Profit	4.93x	4.79x	4.64x	3.82x	3.82x

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Refer to important disclosures on page 12 to 14. Analyst Certification on page 10. Price Objective Basis/Risk on page 10.

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iQprofile℠ State Bank of India

Key Income Statement Data (Mar)	2005A	2006A	2007E	2008E	2009E
(Rs Millions)					
Net Interest Income	139,446	156,356	167,215	195,657	222,910
Net Fee Income	35,447	39,962	47,155	54,228	62,905
Securities Gains / (Losses)	17,753	5,872	5,000	2,500	1,750
Other Income	17,999	28,053	23,179	25,257	27,478
Total Non-Interest Income	71,199	73,887	75,334	81,985	92,133
Total Operating Income	210,645	230,243	242,549	277,642	315,043
Operating Expenses	(100,742)	(117,251)	(125,897)	(135,982)	(147,826)
Pre-Provision Profit	109,904	112,992	116,652	141,660	167,217
Provisions Expense	(13,190)	(5,530)	(11,326)	(18,557)	(23,943)
Operating Profit	128,211	145,863	135,220	149,252	171,238
Non-Operating Income	(31,498)	(38,401)	(29,894)	(26,149)	(27,964)
Pre-Tax Income	65,216	69,062	75,432	96,953	115,311
Net Income to Comm S/Hold.	43,045	44,067	49,031	63,020	74,952
Adjusted Net Income (Operating)	43,045	44,067	49,031	63,020	74,952

Key Balance Sheet Data					
Total Assets	4,598,829	4,938,696	5,608,905	6,540,301	7,403,022
Average Interest Earning Assets	4,338,491	4,768,762	5,273,800	6,074,603	6,971,662
Weighted Risk Assets	2,306,191	2,950,318	3,583,717	4,298,652	4,994,655
Total Gross Customer Loans	2,023,745	2,616,415	3,322,847	4,087,102	4,822,781
Total Customer Deposits	3,670,475	3,800,461	4,371,281	5,180,636	5,905,925
Tier 1 Capital	175,982	276,441	307,245	348,187	397,623
Tangible Equity	175,982	276,441	307,245	348,187	397,623
Common Shareholders' Equity	240,721	276,441	316,040	368,450	431,613

Key Metrics					
Net Interest Margin	3.21%	3.28%	3.17%	3.22%	3.20%
Tier 1 Ratio	7.6%	9.4%	8.6%	8.1%	8.0%
Effective Tax Rate	34.0%	36.2%	35.0%	35.0%	35.0%
Loan / Assets Ratio	44.0%	53.0%	59.2%	62.5%	65.1%
Loan / Deposit Ratio	55.1%	68.8%	76.0%	78.9%	81.7%
Oper Leverage (Inc Growth - Cost Growth)	3.1%	-7.1%	-2.0%	6.5%	4.8%
Gearing (Assets / Equity)	19.1x	17.9x	17.7x	17.8x	17.2x
Tangible Common Equity / Assets	3.8%	5.6%	5.5%	5.3%	5.4%
Tangible Common Equity / WRAs	7.6%	9.4%	8.6%	8.1%	8.0%
Revenue Growth	12.1%	9.3%	5.3%	14.5%	13.5%
Operating Expense Growth	9.0%	16.4%	7.4%	8.0%	8.7%
Provisions Expense Growth	-64.4%	-58.1%	104.8%	63.8%	29.0%
Operating Revenue / Average Assets	4.9%	4.8%	4.6%	4.6%	4.5%
Operating Expenses / Average Assets	2.3%	2.5%	2.4%	2.2%	2.1%
Pre-Provision ROA	2.5%	2.4%	2.2%	2.3%	2.4%
ROA	1.0%	0.9%	0.9%	1.0%	1.1%
Pre-Provision ROE	49.6%	43.7%	39.4%	41.4%	41.8%
ROE	19.4%	17.0%	16.6%	18.4%	18.7%
RoTE	24.5%	15.9%	16.0%	18.1%	18.9%
RoWRAs	1.9%	1.5%	1.4%	1.5%	1.5%
Dividend Payout Ratio	17.5%	19.1%	19.2%	16.8%	15.7%
Efficiency Ratio (Cost / Income Ratio)	52.2%	52.3%	53.0%	49.4%	47.2%
Total Non-Interest Inc / Operating Inc	34%	32%	31%	30%	29%
Market-Related Revenue / Total Revenues	10.9%	4.4%	4.1%	2.9%	2.5%
Provisioning Burden as % of PPP	12.0%	4.9%	9.7%	13.1%	14.3%
NPLs plus Foreclosed Real Estate / Loans	6.2%	4.0%	3.1%	2.7%	2.4%
Loan Loss Reserves / NPLs	57.0%	52.7%	58.4%	68.7%	80.7%
Loan Loss Reserves / Total Loans	3.6%	2.1%	1.9%	1.9%	2.0%
Provisions Expense / Average Loans	0.7%	0.2%	0.4%	0.5%	0.5%

Other Metrics					
Income / Employee	1.02	1.16	1.25	1.47	1.71
(Operating Expenses) / Employee	0.490	0.590	0.650	0.720	0.804
Pre-Provision Profit / Employee	0.535	0.568	0.602	0.750	0.910
Net Profit / Employee	0.209	0.222	0.253	0.334	0.408

Company Description

State Bank of India (SBI), established in 1882, is the largest state-owned bank, having a pan-India presence with a network of over 9,000 branches and balance sheet size of Rs4.6trn. SBI, along with its seven associate banks (promoted by SBI), enjoys a market share of about 25% of the total banking sector. Key beneficairy of the pick-up in overall demand for credit and structural improvement in asset quality. Rising bond yields are a concern.

Stock Data

Shares / GDR	2.00
Price to Book Value	1.7x

2QFY07 Key Highlights

SBI's 2QFY07 results were largely in line with estimates, with net income declining 3% yoy to Rs11.8bn (v/s our estimates of Rs12.3bn) mainly due to the absence of any taxes last year (2QFY06). More importantly, pre-tax profits were up by 54% yoy, with operating profits (pre-provision profits less treasury profits) up a whopping 42% yoy. The pre-provision profit growth was lower at 25% principally owing to lower treasury gains. On balance, we believe the results were reasonably strong, and in particular, the quality of the earnings has shown a consistent improvement.

The key highlights are the following:

A) Margin expansion of 15bps yoy to 3.32% led by improving loan yields (due to changing loan profile) and lower deposit costs (due to the bank's strategy of de-focusing on bulk deposits).

B) Top line growth was lower at 8% owing to a 20% contraction in investment income (could be the last stage). But loan growth remained buoyant (as discussed below).

C) Fee income growth of 35% yoy and improvement in CASA to 43% (v/s 40%), which highlights how the bank is effectively leveraging its technology initiatives to drive fee income growth and also to gain market share in the much-chased savings and current account segment

D) Improvement in operating efficiency, with the absence of one-time items and benefits of technology implementation coming through

Top line growth of 8% led by strong loan growth and margin expansion of 15bps yoy

Despite <5% growth in the balance sheet size (though the loan growth was 23% yoy, investments contracted 15-20% yoy to meet repayment of IMD deposits of US$7bn in Dec-05), the top line grew 8% yoy owing to margin expansion of 15bps to 3.32% for the 1HFY07. The margin expansion was driven by

a) the bank starting to realize the benefits of repayment of the high cost IMD deposits

b) Positive impact of the rise in lending rates which resulted in the loan yields improving 75bps yoy to 8.55%. A changing loan mix in favour of higher yielding SME lending also impacted the yields positively.

c) The cost of deposits also came down by 10bps yoy to 4.51% owing to the increasing proportion of low cost demand deposits (43% in 2QFY07 v/s <40% in 2QFY06). The bank has successfully leveraged its vast ATM network (0ver 5600 ATMS which is the largest in the country) to gain market share in the Savings and current account segment.

The strong positive impact of the rise in lending rates and lower deposit costs was however partly negated by a) contraction in investment yields (due to re-pricing of the high cost investment and sell down of the high yielding G-Sec portfolio in 1QFY07) and b) contraction in the and the investment book (to meet with the IMD redemptions in Dec-05). We could be at the last stage of the downward re-pricing of G-secs.

Fee income Growth of 35% yoy the Key Highlight

A key positive from results was the 35% yoy growth in the fee income, which highlighted how the bank is successfully leveraging its technology initiatives to drive its fee income growth. While part of the fee income growth was also due to a low base effect (as in 2QFY06 the government had reduced the commission rates on government business, which were subsequently hiked in the 4QFY06 albeit still were 10% lower than the initial rates), even adjusting for the base effect the fee income is estimated to have grown 15-20%yoy and was mainly driven by higher income from distribution of third party products and income from new initiatives like ATM sharing revenues.

Treasury gains were negligible (Rs77mn in 2QFY07 v/s Rs2.5bn in 2QFY06), significantly lower than estimates, and even surprising given the strong rebound in the equity and bond markets in 2QFY07. However, SBI, with its surplus SLR position (has excess SLR of 7%) is the only state owned bank who can capitalize on the rally in bond prices by selling down their bond portfolio.

The other income also grew 61% yoy and included recovery from written-off accounts of Rs2bn (v/s Rs1.3bn of 2QFY06).

Operating Expenses Flat YoY; C/I Ratio improved to <54%

In line with estimates, we finally saw the benefit of the base effect kicking in, as the absence of wage hike pressures (and normalized wage levels) resulted in employee expenses declining 4%yoy. The other operating expenses also grew only 3%yoy mainly due to a slow down in technology roll out by the bank.

With over 64% of its business on the common banking platform, the bank had consciously decided to slow down fresh roll out of CBS branches, as it has already covered most of its large and medium sized branches and was looking at consolidating its existing technology roll outs. We however expect the other operating expenses to pick up in the coming quarter as the bank has begun the next round of roll out of CBS.

NPL Provisions Up; Asset quality on track

As expected SBI increased its provisions for NPLs over 25fold (largely due to low base effect) as the investment hits declined. However over 50% of the NPL provisions were made on standard assets (to comply with RBI's new guidelines under which banks have to increase provisioning on certain standard assets to 1.0% from 0.4% currently) as a result of which, despite the higher provisions, Net NPLs increased 10%qoq in absolute terms.

Overall asset quality was on track with gross NPLs being flat qoq in absolute terms and as a % of loan declining from 5.3% in 2QFY06 to 3.6% in 2QFY07. Net NPLs declined from 2.3% in 2QFY06 to 1.7% in 2QFY07.

Invt. Provisions Decline 60%; No Reversal of MTM Hits Provides Cushion

The investment provisions declined 60%yoy due to the absence of any MTM hit on the AFS portfolio as the bond yields had declined around 50bps in 2QFY07 to 7.6% v/s 8.12% in June 2006 when the banks had marked to market their portfolios. The entire investment provision of Rs4.2bn was in the nature of amortization cost on the HTM portfolio, which was largely in line with estimates.

A key positive is that SBI, unlike many other government banks, did not reverse the MTM hits on its AFS portfolio despite the decline in bond yields. The bank thus has floating provisions on its AFS book and will not be required to make fresh MTM provisions until the bond yields rise higher than 8.12% (our year-end estimates are 8.1%).

Tax rates remain a wild card

The primary reason behind the net profit decline of 3% yoy v/s a 54% yoy growth in pre tax profits is the increase in tax rates from Nil in 2QFY06 to 34% in 2QFY07 (49% in 1QFY07). SBI, in the past, also has made tax provisions with significantly discrepancies; even in the 1QFY07 the average tax rate was around 49% v/s an estimated tax rate of 35% for the full year (v/s 36% in FY06). We believe the tax rates will continue to be volatile and hence it is difficult to forecast on a quarterly basis, although on average, we look for them to be in line with our estimates.

Table 1: 2QFY07 Income Statement

Rs mn	2Q FY06	2QFY07	yoy growth
Interest income	85,614	93,775	10%
Interest expenses	*49,535*	*54,788*	11%
Net Interest Income	*36,080*	*38,987*	8%
Non-interest income	*12,946*	*14,338*	11%
Commission, Exc. Brokerage	6,260	8,445	35%
Profit on sale of Investments	2,467	77	-97%
Forex Income	1,116	1,066	-4%
Dividend	*43*	*136*	216%
Income From Leasing	*426*	*360*	-15%
Others Other Income	*2,634*	*4,254*	61%
Total income	*49,026*	*53,324*	9%
Operating expenses	*29,197*	*28,599*	-2%
Pre-Provision Profits	*19,829*	24,726	25%
Provisions	8,175	6,813	-17%
- NPL Provisions	107	2,561	2285%
- Invst Provisions	*10,887*	*4,234*	-61%
- Other (wage)	*(2,819)*	*18*	-101%
Pre-tax Profits	11,654	17,912	54%
Tax	(500)	6,067	-1314%
Net Income	*12,154*	*11,845*	-3%
Core Operating Profit	17,362	24,649	42%

Source: Company Reports

Outlook

Balance sheet to consolidate; loans to grow24%

We expect SBI's overall balance sheet to see a very modest growth of around 15% as the bank continues with its policy of not chasing high yielding deposits (SBI recently cuts its bulk deposit rates by 25bps and currently has amongst the lowest rate in the system to discourage bulk deposits). SBI is focusing on expanding credit through allocating all incremental deposits into loans v/s G-secs, allowing the overall G-sec book to contract as G-secs redeem.

We believe this has 2 key implications for SBI's earnings:

1. Margin expansion through rising CASA and changing asset mix in favour of loans (v/s investments), on which we saw visibility in 2Q as CASA improved to 43% and LDR ratio improved to 72% (v/s 61% in 2QFY06)

2. Improving ROA as it optimizes its existing assets to generate higher returns; the ROA improved from 0.64% in 1HFY06 to 0.78% in 1HFY07.

Loan Growth to Pick up; Be In Line with Sector

We expect SBI's loan growth to pick up in the coming quarters, as the bank, thanks to its strong corporate relationships, benefits from the higher demand for capex credit and rising infrastructure spend. We expect the FY07 loan growth to be around 27% yoy (v/s 23% in the 1HFY07), largely in line with our sector growth estimates.

Margins to expand by 25bps through FY06-09

SBI's reported margins are expected to contract 5-6bps through FY06-09 to 3.22% mainly due to the reduction in the 'interest on income tax refunds' which have inflated the margins in the past and are non recurring in nature.

Adjusting for the interest on income tax refund SBI margins are estimated to expand 25bps i.e. from 2.9% in FY06 to 3.15% in FY09 led by the positive impact of rising lending rates, as the bank benefits from the endowment effect i.e. earn higher spread on its expanding proportion of low cost demand deposits (CASA)

Furthermore, the rise in the funding costs which is likely to be substantially lower than the rise in asset yields as the bank is actually increasing its proportion of low cost deposits by de-focusing on high cost corporate deposits.

Gross NPLs to Decline to <2.5%, Net NPLs <0.5% by '09

Asset quality continues to be on track and we expect it to remain very manageable. Gross NPL's continue to be flat qoq with the incremental NPL's being offset by the NPL recoveries. The "net" NPL accretion was however a tad disappointing, but was, in our view, a one off phenomena with bank utilizing its NPL provisioning for standard assets v/s for the NPLs. In the coming quarters with the NPL provisioning estimated to remain high and the full of it being utilized for NPL's, we expect Net NPLs to decline to <0.5% by FY09 v/s 1.7% currently.

We are, however, building in higher NPL's in our forecasts based on our view that the NPl cycle could begin to show an uptick over the next 12 months as rates continue to rise. We have factored in 10-20% increase in fresh delinquencies over FY06-09 and have also factored a 15x rise in NPL provisions (estimated at 0.4% of loans in FY09 v/s 0.1% in FY06).

Earnings to Grow at 20% CAGR over FY06-09E

We maintain our earnings forecast and expect earnings to grow 10% in FY07 and 28% in FY08 led by

a) Top line growth of 10-15% on loan growth of 23-27%, largely in line with the sector, and stable margins. While reported margins are likely to contract 5-6bps, after adjusting for extraordinary items like interest on income tax refunds, margins are estimated to expand 25bps over FY06-09 (as highlighted earlier) due to rising lending rates.

b) Fee income is estimated to grow at a 15-20% CAGR as the bank continues to leverage its technology initiatives to increase the cross-sale of retail products across its +90mn client base.

Strategy of focusing on domestic operations positive for growth

SBI's proposed strategy of consolidating international operations and leveraging its distribution to capitalize on domestic growth opportunities is, in our view, likely to help it accelerate its growth trajectory. The strategy of not making 'small' overseas acquisitions should also help it to optimize management bandwidth available with the bank. Furthermore, SBI, owing to its high SLR and low LDR, is amongst the most comfortably placed players to expand credit at a time when most banks are constrained due to having no excess SLRs. SBI is also a key beneficiary of the pick up in demand for infrastructure, corporate and rural credit given its strong relationships and extensive branch network.

New Pension Norms could impact Book Value by 8-10%

We have however, not factored for the impact of new pension norms, as they are yet to be finalized by the RBI. However, on a rough estimate, the impact of the same could be around 8-10% of the existing book value of SBI (the provision would not be routed through P&L but would be passed through the shareholders funds).

Unlikely to Raise Capital in Next 12-18 Months

Post its recent hybrid capital issue SBI's total CAR has improved to 12.6%, with its tier I capital at 8.6%. The bank has also mentioned that it has room to raise hybrid Tier I capital which could positively impact tier I capital by 70-80bps. Even post implementation of Basle II norms (impact of which is estimated to be around 100bps) SBI, in our view, has sufficient capital to fund its growth for next 2 years. Hence, we believe it is unlikely to raise fresh equity capital over next 12-18months.

Valuations: Attractive Risk Return

We reiterate our Buy rating on SBI stock, and it remains one of our preferred picks in the sector. We believe the stock (trading at 1.3x FY08E consolidated adj book) could trade up to 1.6x FY08E adj book based on its

a) visible earnings growth trajectory with earnings estimated to grow at a CAGR of around 20% p.a

b) ROE rising to 18.4% in FY08E (v/s 17% in FY06)

c) dominant deposit franchise

We thus arrive at a fair value of Rs1,330, underpinning our new PO of Rs1,300. A sharp rise in bond yield is the risk to our PO. SBI remains one of our top picks in the sector, and we strongly reiterate our Buy recommendation on the stock.

Financials

Table 2: Income Statement

Year to March (Rs bn)	FY04	FY05A	FY06A	FY07E	FY08E	FY09E
Interest income	304.60	324.28	357.95	394.50	471.25	544.28
Interest expense	192.74	184.83	201.59	227.29	275.59	321.37
Net interest income	111.86	139.45	156.36	167.21	195.66	222.91
Other income	76.12	71.20	73.89	75.33	81.99	92.13
- Treasury profits	*30.73*	*17.75*	*5.87*	*5.00*	*2.50*	*1.75*
Total income	187.99	210.65	230.24	242.55	277.64	315.04
Operating expenses	92.45	100.74	117.25	125.90	135.98	147.83
Pre-provision Profit	95.53	109.90	112.99	116.65	141.66	167.22
Total Provisions	46.28	44.69	43.93	41.22	44.71	51.91
Provision - NPL	*36.55*	*12.04*	*1.48*	*8.50*	*15.50*	*21.00*
Provision - Investments	*4.85*	*23.27*	*38.99*	*29.89*	*26.15*	*27.96*
Generic Provisions	*0.49*	*1.15*	*4.05*	*2.83*	*3.06*	*2.94*
Provision - Wage	*4.00*	*7.50*	*0.00*	*0.00*	*0.00*	*0.00*
Others / SBIMF	*0.38*	*0.73*	*(0.58)*	*0.00*	*0.00*	*0.00*
PBT	49.25	65.22	69.06	75.43	96.95	115.31
Tax	12.44	22.17	24.99	26.40	33.93	40.36
Net Income	36.81	43.05	44.07	49.03	63.02	74.95

Source: Company Reports, ML Research Estimates

Table 3: Balance Sheet

As at March (Rs bn)	FY04	FY05A	FY06A	FY07E	FY08E	FY09E
Cash balances	435.7	393.2	445.6	402.4	431.9	405.8
Advances	1,579.3	2,023.7	2,616.4	3,322.8	4,087.1	4,822.8
Investments	1,856.8	1,971.0	1,625.3	1,618.4	1,741.2	1,878.7
Fixed assets	26.5	27.0	27.5	30.3	33.3	36.6
Current assets	179.9	183.9	223.8	235.0	246.7	259.1
Total assets	4,078.2	4,598.8	4,938.7	5,608.9	6,540.3	7,403.0
Equity Capital	*5.3*	*5.3*	*5.3*	*5.3*	*5.3*	*5.3*
Reserves and Surplus	*197.0*	*235.5*	*271.2*	*310.8*	*363.2*	*426.3*
Shareholders funds	202.3	240.7	276.4	316.0	368.4	431.6
Deposits	3,186.2	3,670.5	3,800.5	4,371.3	5,180.6	5,905.9
- Demand deposits	*1,298.9*	*1,515.2*	*1,807.2*	*2,118.9*	*2,500.3*	*2,850.3*
- Term deposits	*1,887.3*	*2,155.3*	*1,993.3*	*2,252.4*	*2,680.3*	*3,055.6*
Borrowings	134.3	191.8	306.4	330.9	364.0	400.4
Subordinated debt	34.6	34.6	49.9	59.9	69.9	79.9
Current liabilities	520.7	461.1	505.5	530.8	557.3	585.2
Total liabilities	4,078.2	4,598.8	4,938.7	5,608.9	6,540.3	7,403.0

Source: Company Reports, ML Research Estimates

Table 4: Key Ratios

Year to March	FY04	FY05A	FY06A	FY07E	FY08E	FY09E
EPS	69.9	81.8	83.7	93.2	119.7	142.4
Earnings growth	*18.5%*	*16.9%*	*2.4%*	*11.3%*	*28.5%*	*18.9%*
CEPS	83.2	96.1	97.6	108.4	136.5	160.9
PPP / Share	181.5	208.8	214.7	221.6	269.2	317.7
BV/share	384	457	525	600	700	820
Adjusted BV / Share	281	356	432.0	518	635	778
ROAA	0.9%	1.0%	0.9%	0.9%	1.0%	1.1%
ROAE	19.7%	19.4%	17.0%	16.6%	18.4%	18.7%
NIM	2.8%	3.19%	3.28%	3.19%	3.24%	3.22%
Gross NPLs	7.7%	5.9%	3.9%	3.1%	2.6%	2.4%
Net NPLs	3.4%	2.6%	1.9%	1.3%	0.8%	0.5%
Coverage Ratio	57.0%	57.0%	52.7%	58.4%	68.7%	80.7%
Total Capital Adequacy Ratio (CAR)	13.5%	12.5%	11.9%	10.8%	10.1%	9.8%
- Tier I CAR	*8.3%*	*8.0%*	*9.4%*	*8.6%*	*8.1%*	*8.0%*
C/D ratio	50%	55%	69%	76%	79%	82%
Cost-Income ratio (Excl Treasury)	59%	52%	52%	53%	49%	47%
Other Inc (Excl treasury) / Total Inc (Excl Treasury)	13.0%	14.1%	16.0%	15.1%	14.4%	14.2%
Cost Asset Ratio	2.4%	2.3%	2.5%	2.4%	2.2%	2.1%
Loan Growth	15%	28%	29%	27%	23%	18%
Equity / Assets	5.0%	5.2%	5.6%	5.6%	5.6%	5.8%
Equity / Loans	11.6%	11.2%	10.2%	9.2%	8.8%	8.8%
Provision/ Loans	2.3%	0.6%	0.1%	0.3%	0.4%	0.4%
CASA	41%	41%	48%	48%	48%	48%
Tax Rates	25%	34%	36%	35%	35%	35%
Yield on Advances	7.6%	7.2%	7.6%	8.1%	8.5%	8.5%
Yield on Investments	8.5%	8.4%	7.8%	7.8%	7.8%	7.8%
Cost of funds	6.0%	5.1%	5.1%	5.2%	5.4%	5.4%
Dividend Per share	11	12.5	14	16	18	20
Dividend Pay out ratio	17.7%	17.5%	19.1%	19.2%	16.8%	15.7%
Dividend Yield	1.0%	1.2%	1.3%	1.5%	1.7%	1.9%
P/E	15.4	13.2	12.9	11.6	9.0	7.6
P/CEPS	13.0	5.2	5.0	4.9	7.9	6.7
P/ABV	3.8	3.0	2.5	2.1	1.7	1.4

Source: Company Reports, ML Research Estimates

Price Objective Basis & Risk

We believe the stock (trading at 1.3x FY08E consolidated adj book) could trade up to 1.6x FY08E adj book based on its

d) visible earnings growth trajectory with earnings estimated to grow at a CAGR of around 20% p.a

e) ROE rising to 18.4% in FY08E (v/s 17% in FY06)

f) dominant deposit franchise

We thus arrive at a fair value of Rs1,330, underpinning our PO of Rs1,300.

A sharp rise in bond yield is the risk to our PO.

Analyst Certification

I, Rajeev Varma, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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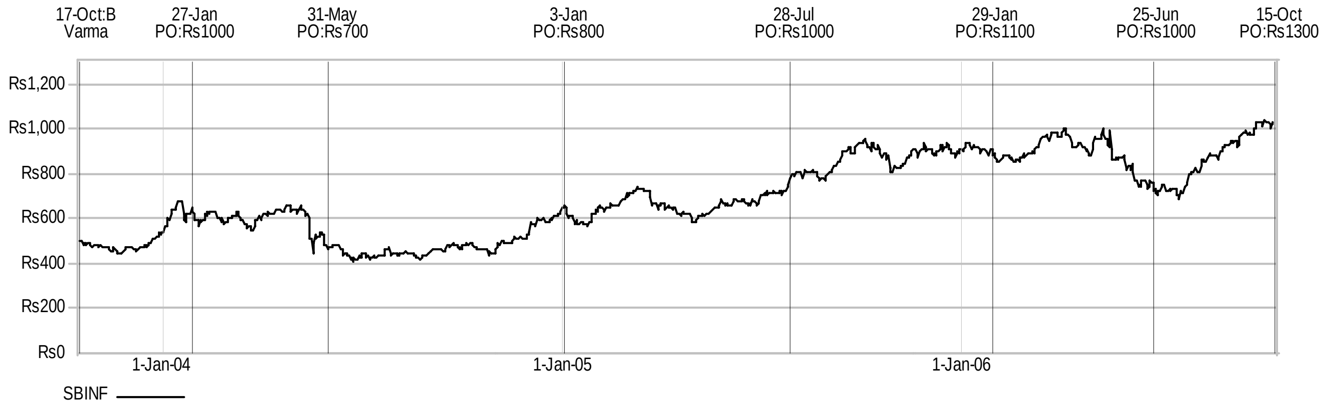
Important Disclosures

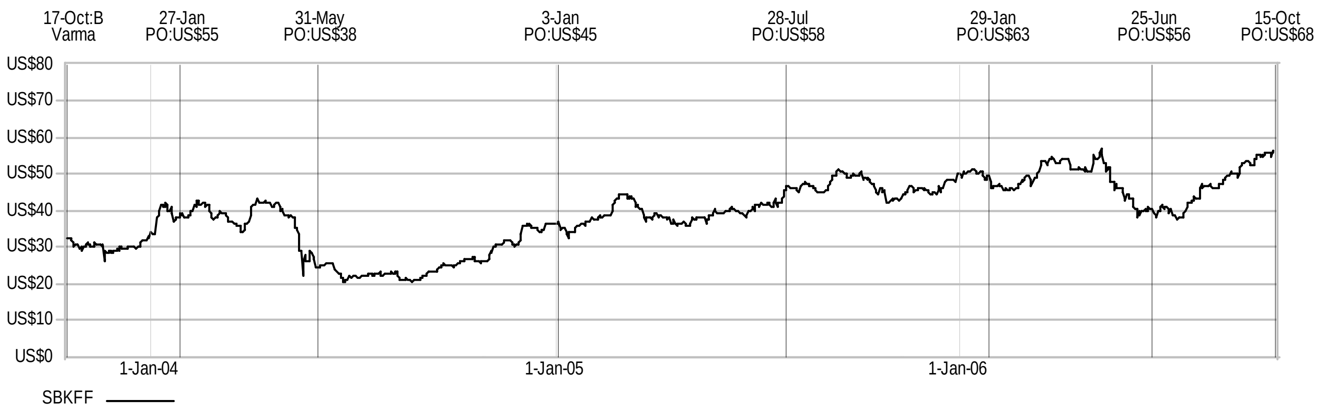
SBINF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of September 30, 2006 or such later date as indicated.

SBKFF Price Chart



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Investment Rating Distribution: Banks Group (as of 30 Sep 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	91	39.39%	Buy	50	54.95%
Neutral	118	51.08%	Neutral	68	57.63%
Sell	22	9.52%	Sell	12	54.55%

Investment Rating Distribution: Global Group (as of 30 Sep 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1325	44.76%	Buy	434	32.75%
Neutral	1420	47.97%	Neutral	412	29.01%
Sell	215	7.26%	Sell	48	22.33%

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