

# Results tad weak; Reiterate Buy as worse behind

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### Operating earnings in line; asset quality disappoints

SBI's 2QFY10 earnings at Rs24.9bn, up 10.2% yoy, were about 3-4% below estimates owing to slightly weak (2% yoy) topline. The bigger disappointment was the 3-fold jump qoq in NPL formation (~Rs50bn). Operationally, margins were up 25bps qoq, CASA rose to 41% and loan growth was at 16.4% yoy. Further, SBI has made the necessary wage provisions. Hence, it appears well positioned to show strong operational growth in ensuing quarters; NPL is the key challenge. Maintain Buy and PO of Rs2575 given core RoE of 19% and our SOTP at Rs693.

### NPL formation up 3x qoq; but likely to have peaked

SBI's 2QFY10 topline was weak owing to the sustained flow of deposits (up 25% yoy) despite rate cuts. LDR has begun to rise now due to infra and mortgage loans. Fee growth strong at +50%, driven partly due to surge in forex. NPL accretion due to overseas (15% of new NPLs) due to FDIC norms, rural (drought) and SME. SBI, however, confident that NPL formation has peaked and gross NPL's to be <3% of loans by year end (3% as of Sep'09).

### Earnings cut by 4-5%; to still grow +14-15%; RoE at 16-17%

We have cut our earnings by 4-5% to capture weaker topline and higher credit costs. Still foresee earnings growth of 14% in FY10 and +22% in FY11. RoEs est. at 18% in FY11. We are building in NPL formation at Rs135bn (Rs67bn in H1) and gross NPL's at 3.2% of loans; net at 1.7%. Maintain value of SOTP (assoc. banks, life insurance and asset mgmt) at Rs693/shr. Upside to SOTP, as assoc. banks have done better than est. and life ins. also showing better profitability.

### Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	67,291	91,212	104,248	127,569	163,612
EPS	106.56	143.67	164.20	200.93	257.71
EPS Change (YoY)	23.5%	34.8%	14.3%	22.4%	28.3%
Dividend / Share	21.50	29.00	33.00	36.00	36.00
GDR EPS (US\$)	5.29	6.24	6.99	8.56	10.97
GDR Dividend / Share (US\$)	1.07	1.26	1.41	1.53	1.53

### Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	20.6x	15.3x	13.3x	10.9x	8.5x
Dividend Yield	0.981%	1.32%	1.51%	1.64%	1.64%
Pre-exceptional PE	20.56x	15.25x	13.34x	10.90x	8.50x
Price / Book	2.84x	2.40x	2.11x	1.82x	1.55x
RoE / PB	5.91x	7.10x	7.98x	9.83x	12.74x
Price / Pre-Provision Profit	10.56x	7.76x	7.13x	5.59x	4.58x

### Stock Data

Price (Common / GDR)	Rs2,191 / US\$91.50
Price Objective	Rs2,575 / US\$107.00
Date Established	11-Oct-2009 / 11-Oct-2009
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs891.50-Rs2,500
Market Value (mn)	US\$29,619
Shares Outstanding (mn)	634.9 / 317.4
Average Daily Volume	3,543,680
BofAML Ticker / Exchange	SBINF / BSE
BofAML Ticker / Exchange	SBKFF / LIN
Bloomberg / Reuters	SBIN IN / SBI.BO
ROE (2010E)	16.8%
Total Dbt to Cap (Mar-2009A)	NA
Est. 5-Yr EPS / DPS Growth	20.0% / 18.0%
Free Float	20.0%

### Key Changes

(Rs)	Previous	Current
2010E EPS	172.24	164.20
2011E EPS	210.83	200.93
2012E EPS	270.90	257.71

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## iQprofile<sup>SM</sup> State Bank of India

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
<b>(Rs Millions)</b>					
Net Interest Income	170,212	208,731	236,033	288,122	340,264
Net Fee Income	59,143	76,172	92,930	113,375	136,050
Securities Gains / (Losses)	9,463	25,667	16,687	11,681	7,009
Other Income	18,343	25,068	32,212	39,454	46,688
<b>Total Non-Interest Income</b>	<b>86,949</b>	<b>126,908</b>	<b>141,830</b>	<b>164,510</b>	<b>189,746</b>
Total Operating Income	257,162	335,639	377,863	452,632	530,010
Operating Expenses	(126,086)	(156,487)	(182,652)	(203,949)	(226,437)
<b>Pre-Provision Profit</b>	<b>131,076</b>	<b>179,152</b>	<b>195,212</b>	<b>248,682</b>	<b>303,574</b>
Provisions Expense	(25,679)	(27,098)	(41,970)	(46,677)	(43,036)
<b>Operating Profit</b>	<b>100,256</b>	<b>155,225</b>	<b>155,142</b>	<b>203,605</b>	<b>263,037</b>
Non-Operating Income	(1,008)	(10,248)	7,139	(5,745)	(8,826)
<b>Pre-Tax Income</b>	<b>104,389</b>	<b>141,806</b>	<b>160,381</b>	<b>196,260</b>	<b>251,711</b>
Net Income to Comm S/Hold.	67,291	91,212	104,248	127,569	163,612
<b>Adjusted Net Income (Operating)</b>	<b>67,291</b>	<b>91,212</b>	<b>104,248</b>	<b>127,569</b>	<b>163,612</b>

### Key Balance Sheet Data

Total Assets	7,215,268	9,644,321	10,995,125	12,663,815	14,839,134
Average Interest Earning Assets	6,440,460	8,429,795	10,319,723	11,829,470	13,751,474
<b>Weighted Risk Assets</b>	<b>5,398,309</b>	<b>6,191,296</b>	<b>7,359,534</b>	<b>9,071,147</b>	<b>11,351,419</b>
Total Gross Customer Loans	4,167,680	5,425,032	6,455,788	7,940,619	9,687,556
Total Customer Deposits	5,374,040	7,420,731	8,707,505	10,108,199	11,957,231
<b>Tier 1 Capital</b>	<b>490,327</b>	<b>579,477</b>	<b>660,260</b>	<b>762,230</b>	<b>900,244</b>
Tangible Equity	490,327	579,477	660,260	762,230	900,244
<b>Common Shareholders' Equity</b>	<b>490,327</b>	<b>579,477</b>	<b>660,260</b>	<b>762,230</b>	<b>900,244</b>

### Key Metrics

Net Interest Margin	2.64%	2.48%	2.29%	2.44%	2.47%
<b>Tier 1 Ratio</b>	<b>9.1%</b>	<b>9.4%</b>	<b>9.0%</b>	<b>8.4%</b>	<b>7.9%</b>
Effective Tax Rate	35.5%	35.7%	35.0%	35.0%	35.0%
Loan / Assets Ratio	57.8%	56.3%	58.7%	62.7%	65.3%
<b>Loan / Deposit Ratio</b>	<b>77.6%</b>	<b>73.1%</b>	<b>74.1%</b>	<b>78.6%</b>	<b>81.0%</b>
Oper Leverage (Inc Growth - Cost Growth)	11.2%	6.4%	-4.1%	8.1%	6.1%
Gearing (Assets / Equity)	14.7x	16.6x	16.7x	16.6x	16.5x
Tangible Common Equity / Assets	6.8%	6.0%	6.0%	6.0%	6.1%
Tangible Common Equity / WRAs	9.1%	9.4%	9.0%	8.4%	7.9%
Revenue Growth	17.8%	30.5%	12.6%	19.8%	17.1%
Operating Expense Growth	6.6%	24.1%	16.7%	11.7%	11.0%
Provisions Expense Growth	27.2%	5.5%	54.9%	11.2%	-7.8%
Operating Revenue / Average Assets	4.0%	4.0%	3.7%	3.8%	3.9%
Operating Expenses / Average Assets	2.0%	1.9%	1.8%	1.7%	1.6%
<b>Pre-Provision ROA</b>	<b>2.0%</b>	<b>2.1%</b>	<b>1.9%</b>	<b>2.1%</b>	<b>2.2%</b>
ROA	1.0%	1.1%	1.0%	1.1%	1.2%
<b>Pre-Provision ROE</b>	<b>32.6%</b>	<b>33.5%</b>	<b>31.5%</b>	<b>35.0%</b>	<b>36.5%</b>
ROE	16.8%	17.1%	16.8%	17.9%	19.7%
RoTE	13.7%	15.7%	15.8%	16.7%	18.2%
RoWRAs	1.2%	1.5%	1.4%	1.4%	1.4%
Dividend Payout Ratio	22.6%	22.9%	22.5%	20.1%	15.6%
<b>Efficiency Ratio (Cost / Income Ratio)</b>	<b>50.9%</b>	<b>50.5%</b>	<b>50.6%</b>	<b>46.3%</b>	<b>43.3%</b>
<b>Total Non-Interest Inc / Operating Inc</b>	<b>34%</b>	<b>38%</b>	<b>38%</b>	<b>36%</b>	<b>36%</b>
Market-Related Revenue / Total Revenues	6.4%	11.2%	9.1%	7.5%	6.3%
Provisioning Burden as % of PPP	19.6%	15.1%	21.5%	18.8%	14.2%
NPLs plus Foreclosed Real Estate / Loans	3.1%	2.9%	3.3%	3.0%	2.6%
<b>Loan Loss Reserves / NPLs</b>	<b>46.6%</b>	<b>40.2%</b>	<b>49.7%</b>	<b>63.4%</b>	<b>76.6%</b>
Loan Loss Reserves / Total Loans	1.5%	1.2%	1.7%	2.0%	2.1%
Provisions Expense / Average Loans	0.7%	0.6%	0.7%	0.6%	0.5%

### Other Metrics

Income / Employee	1.44	1.93	2.23	2.76	3.33
(Operating Expenses) / Employee	0.704	0.898	1.08	1.24	1.42
Pre-Provision Profit / Employee	0.731	1.03	1.15	1.51	1.91
Net Profit / Employee	0.375	0.524	0.616	0.777	1.03

### 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 10,000 branches and balance sheet size of Rs7.2trn. SBI, along with its seven associate banks (promoted by SBI), enjoys a market share of about 24-25% of the total banking sector. Key beneficiary of the pick-up in overall demand for credit and structural improvement in asset quality. Rising bond yields are a concern.

### Investment Thesis

FY10-11 earnings to be driven by better topline as 1) re-deployment of assets and re-pricing of liabilities and 2) higher fees as benefits of technology accrue. We forecast 15% yoy earnings growth in FY10 followed by +18% in FY11. More importantly, we believe SBI is adequately liquid, which will allow its margins to move-up as we move in to ensuing quarters.

### Stock Data

Shares / GDR	2.00
Price to Book Value	2.1x

### Key Changes (GDR)

(US\$)	Previous	Current
2010E EPS	7.33	6.99
2011E EPS	8.98	8.56
2012E EPS	11.54	10.97

## 2QFY10 results overview

### 2QFY10 earnings- Operating earnings in line

SBI's 2QFY10 earnings at Rs24.9bn, up 10.2% yoy, were about 3-4% below estimates owing to slightly weak (2% yoy) topline. The bigger disappointment was the 3-fold jump qoq in NPL formation (~Rs50bn). Operationally, margins were up 25bps qoq to 2.55%, CASA rose to 41% (from <40% in Sep'08) driven by +30% growth in savings deposits and loan growth was at 16.4% yoy. Further, SBI has made the necessary wage provisions and pension provisions to Rs11.4bn. SBI's fee income was up by 52% yoy driven by growth in Govt. Business, underwriting & other fee and various technology initiatives.

### Asset quality- disappoints

NPL accretion in 2QFY10 was ~Rs50bn (Rs67bn in H1FY10). Gross NPLs rose by 13% qoq to Rs173bn. NPL accretion was due to overseas, rural (drought), SME. Overseas NPL accretion (15% of new NPLs) due to FDIC norms, but per SBI all these loans are performing.

Of the total applications of Rs218bn received for restructuring, Rs108bn standard assets were restructured up to Mar'09. Of the balance Rs110bn, Rs60bn standard assets were restructured during Jun'09 quarter under RBI scheme. Total assets restructured now stand at Rs250bn or 4.3% of loans. Only Rs3bn standard assets restructured have slipped in to NPLs.

Table 1: 2QFY10 Result Summary

(Rs mn)	2QFY09	2QFY10	YoY
Interest income	155,665	177,759	14%
Interest expenses	101,112	121,671	20%
<b>Reported Net Interest Income</b>	<b>54,554</b>	<b>56,088</b>	<b>3%</b>
Non-interest income	23,431	35,252	50%
<i>Commission, Exc. Brokerage</i>	13,314	21,030	58%
<i>Profit on sale of Investments</i>	1,616	5,454	238%
<i>Forex Income</i>	2,933	5,237	79%
<i>Dividend</i>	71	1,682	2283%
<i>Income From Leasing</i>	80	64	-19%
<i>Others Other Income</i>	5,418	1,784	-67%
<b>Total income</b>	<b>77,985</b>	<b>91,340</b>	<b>17%</b>
Operating expenses	36,053	42,990	19%
<i>Employee Exp</i>	22,212	26,341	19%
<i>Other Opg exp</i>	13,841	16,648	20%
<b>Pre-Provision Profits</b>	<b>41,932</b>	<b>48,350</b>	<b>15%</b>
Provisions	6,106	10,161	66%
- <i>NPL Provisions</i>	9,111	9,887	9%
- <i>Invst Provisions</i>	(4,803)	(494)	NA
- <i>Other (wage)</i>	1,798	767	-57%
Pre-tax Profits	35,826	38,190	7%
Tax	13,229	13,289	0%
<b>Net Income</b>	<b>22,597</b>	<b>24,900</b>	<b>10%</b>
<b>PPP (ex treasury)</b>	<b>40,316</b>	<b>42,897</b>	<b>6%</b>

Source: BofA Merrill Lynch Global Research Estimates

### Performance of SBI associate banks and key subsidiaries

We highlight below key subsidiaries and associate banks performance during H1FY10:

- Associate Banks' net profit increased to Rs14.3bn, a yoy growth of 46% in 2QFY10 (Rs9.8bn in 2QFY09).

- SBI Life has recorded a profit of Rs1.1bn as against a loss of Rs0.5bn as on 2QFY09. AUM of the company as on Sep'09 stood at Rs219bn, a yoy growth of 68%.
- SBI MF avg. assets under management (AUM) have increased from Rs264bn as on Mar'09 to Rs349bn as on Sep'09, a YTD growth of 32%.
- SBI Caps has posted a PAT of Rs0.9bn as on Sep'09 as against Rs0.6bn (excluding extraordinary income of Rs0.7bn), a yoy growth of 50%. YoY growth in fee Based income is 82%.
- SBI Factors: Net profit has grown by 75% to Rs0.3bn compared to Rs0.15bn as on Sep'08.

### Earnings outlook- 14% growth in FY10, +20% in FY11-12

We have cut our earnings by 4-5% to capture weaker topline and higher credit costs. Still foresee earnings growth of 14% in FY10 and 23% in FY11. RoEs est. at 18% in FY11. We are building in NPL formation at Rs130bn (Rs67bn in 1H) and gross NPL's at 3.2% of loans; net at 1.7%.

1. Margin expansion from re-deployment of assets and re-pricing of liabilities. Management has categorically stated that they are likely to see margin expansion of 10-12bps ever quarter for next one year.
2. Loan growth around +19% in FY10; +22% in FY11-12 supported by infra and mortgages.
3. Higher fee growth of +20-22% as benefits of technology accrue. Its 2Q fee growth at +50% was on top of +60% in 1Q (yoy).

### Re-deployment of cash, G-secs to raise LDR - Key enabler for FY10

Core earnings growth (excluding trading profits) is forecast to rise +16-17% yoy in FY10. The key enabler, in our view, would be SBI's ability to benefit from recent deposit rate cuts and re-pricing of high cost deposits over the course of the year and optimize re-deployment of its excess cash and G-Secs towards higher yielding loans. Hence, it is a position to improve profitability by increasing LDR through re-deploying its assets and cutting deposit rates (which appears difficult).

### NPL accretion at Rs135bn estimated in FY10

While SBI disappointed on the asset quality front, we estimate accretion levels in FY10 at Rs135bn (2.4% -1-yr lag). Hence, we still forecast a 40% rise in gross NPL's in FY10 after factoring in recoveries (absolute levels). Accordingly, we estimate gross and net NPLs at 3.2-3.3% and 1.7%, resp. We are, in our est., modeling in credit costs rising to 65bps of loans (from 50bps in FY09) resulting in lower levels of net NPLs (%) and provision cover rising to 48% in FY10 (from 39%) in FY09.

### Quality of earnings also improving

We forecast 14% yoy earnings growth in FY10 followed by 20% in FY11-12. Importantly, we are still factoring a net increase in provisions for FY11 and FY12, while assuming a contraction in trading profits. Hence, pre-provision profits (excluding trading profits) are est. to grow by +25-30% in FY11-12 v/s +16-17% in FY10.

### Valuing 'total banking' biz.

To have a more comparable risk return trade off, the RoE on its "core" book is ~19% v/s <18%% (reported). Or, if we were to look at its entire banking business (incl. 6 assoc. bks), then it delivers a RoE of ~20% on its banking biz. and trades at ~1.9x FY10 adj. BV. This, in our view, may increasingly gain more relevance as SBI begins to merge banks and we get more earnings visibility and disclosures from the associate banks. It can arguably be valued at >1.9-2.0 x FY11 adj. BV, largely in sync with the current multiples (1.9x FY10 adj. BV) as shown below.

Table 2: Valuation Matrix

	FY09	FY10E	FY11E	FY12E
ROE (SBI stand alone) ...	17.1%	16.8%	17.9%	19.7%
ROE (SBI BV - Invst Non Banks -Assoc. Bks Invst -NPLs) ...	18.3%	17.9%	19.1%	21.0%
ROE of Banking Biz. (SBI+ Assoc. Bk - Invst in Non-Bks-NPLs) ..	19.0%	19.0%	20.2%	21.8%
Adj. BV / Shr (SBI stand alone - NPLs) ... (1)	762	783	994	1,267
Adj. BV / Shr (SBI BV - Invst in ALL subs - NPLs) ... (2)	705	721	919	1,181
Adj. BV / Shr Banking Biz. (SBI+ Assoc. Bk BV - Invst in Non-Bks-NPLs) .. (3)	914	945	1,198	1,530
<b>Mkt Price</b> ..... (4)	<b>2191</b>	<b>2191</b>	<b>2191</b>	<b>2191</b>
Less : Non-Banks Subs value / Shr	221	254	291	341
Mkt Price Less Non Banks Subs ... (5)	1970	1937	1900	1850
Less : Associate Banks Value	337	343	402	471
Mkt Price Less SOTP (Non-Banks + Assoc. Bks).... (6)	1633	1594	1498	1379
P / Adj. BV / Shr (SBI stand alone - NPLs) ... (7 = 4 / 1)	2.9	2.8	2.2	1.7
P / Adj. BV / Shr (SBI BV - Invst in ALL subs - NPLs) ... (8 = 6 / 2)	2.3	2.2	1.6	1.2
P / Adj. BV / Shr Banking Biz. (SBI+ Assoc. Bk BV - Invst in Non-Bks-NPLs) .. (9 = 5 / 2)	2.2	2.0	1.6	1.2
Valuing the Banking Biz. (9) @ 1.9x FY11 adj. BV			2276	
Adding the value of Non Banks subs (Rs291)			2568	
Valuing SBI Stand alone @ 2.0-2.1x Book			1884	
Adding Value of Non-Banks Subs + Assoc. Banks (Rs291 + 402)			2577	

Source: BofA Merrill Lynch Global Research Estimates

### SOTP -Maintained; upside from associate banks

SBI also derives value from many of its non-banking subsidiaries, principally the life insurance venture followed by its asset management amongst others. In addition, it has 6 associate banks in which the bank holds a majority stake.

We show below our SOTP. As shown, the majority of the value comes from the life insurance venture, valued at 16x FY11 NBAP (new business achieved profit). While the life ins. premia growth both at the industry and private sector level has been below expectations, SBI Life has performed better, owing to a high share of group policies (less profitable). We are factoring this in the lower margins (15.7%) that we are assigning to SBI Life's biz. Amongst the other parts, we believe, as visible in 2Q also, associate banks could have higher value given their earnings performance. We currently value associate banks at 1.5-1.6x with RoEs in excess of +20%.

**Table 3: SOTP**

Per Share of SBI; US\$ mn	FY09	FY10	FY11
SBI Life Insurance	2,889	3,355	3,877
SBI Funds (100%)	275	411	473
Others (75-100%)	207	240	288
Mkt value of key investments	650	650	650
<b>Non-Banks Subs</b>	<b>4,022</b>	<b>4,656</b>	<b>5,289</b>
Value of associate banks	5,014	5,100	5,908
<b>Total Value</b>	<b>9,035</b>	<b>9,757</b>	<b>11,196</b>
<b>SBI' share (Rs/Shr)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>
SBI Life Insurance	162	188	217
SBI Funds (100%)	17	26	36
Others (75-100%)	13	15	22
Mkt Value of invst	49	49	49
<b>Non-Banks Subs</b>	<b>241</b>	<b>278</b>	<b>324</b>
Associate Banks	379	386	447
<b>Sum of Parts Value</b>	<b>620</b>	<b>664</b>	<b>770</b>
<b>Value in US\$ mn- SBI</b>	<b>9,795</b>	<b>8,776</b>	<b>10,188</b>
<b>SOTP Post Holdco Disc.</b>	<b>558</b>	<b>597</b>	<b>693</b>

Source: BofA Merrill Lynch Global Research Estimates

## Financials

Table 4: Profit and Loss Account

Year to March (Rs bn)	FY09	FY10E	FY11E	FY12E
Interest income	637.88	709.91	837.65	1,010.45
Interest expense	429.15	473.88	549.53	670.19
<b>Net interest income</b>	<b>208.73</b>	<b>236.03</b>	<b>288.12</b>	<b>340.26</b>
Other income	126.91	141.83	164.51	189.75
- <i>Treasury profits</i>	<i>25.67</i>	<i>16.69</i>	<i>11.68</i>	<i>7.01</i>
Total income	335.64	377.86	452.63	530.01
Operating expenses	156.49	182.65	203.95	226.44
<b>Pre-provision Profit</b>	<b>179.15</b>	<b>195.21</b>	<b>248.68</b>	<b>303.57</b>
Total Provisions	37.35	34.83	52.42	51.86
<b>PBT</b>	<b>141.81</b>	<b>160.38</b>	<b>196.26</b>	<b>251.71</b>
Tax	50.59	56.13	68.69	88.10
<b>Net Income</b>	<b>91.21</b>	<b>104.25</b>	<b>127.57</b>	<b>163.61</b>

Source: BofA Merrill Lynch Global Research Estimates

Table 5: Balance Sheet

As at March (Rs bn)	FY09	FY10E	FY11E	FY12E
Cash balances	1,044.0	909.4	829.5	899.9
Advances	5,425.0	6,455.8	7,940.6	9,687.6
Investments	2,759.5	3,191.5	3,431.2	3,763.8
Fixed assets	38.4	42.2	46.4	51.1
Current assets	377.3	396.2	416.0	436.8
<b>Total assets</b>	<b>9,644</b>	<b>10,995</b>	<b>12,664</b>	<b>14,839</b>
<i>Equity Capital</i>	<i>6.3</i>	<i>6.3</i>	<i>6.3</i>	<i>6.3</i>
<i>Reserves and Surplus</i>	<i>573.1</i>	<i>653.9</i>	<i>755.9</i>	<i>893.9</i>
<b>Shareholders funds</b>	<b>579.5</b>	<b>660.3</b>	<b>762.2</b>	<b>900.2</b>
Deposits	7,420.7	8,707.5	10,108.2	11,957.2
- <i>Demand deposits</i>	<i>3,089.8</i>	<i>3,597.0</i>	<i>4,231.1</i>	<i>5,022.2</i>
- <i>Term deposits</i>	<i>4,331.0</i>	<i>5,110.5</i>	<i>5,877.1</i>	<i>6,935.0</i>
Borrowings	537.1	429.7	494.2	568.3
Subordinated debt	271.7	320.7	378.4	446.5
Current liabilities	835.2	877.0	920.8	966.9
<b>Total liabilities</b>	<b>9,644</b>	<b>10,995</b>	<b>12,664</b>	<b>14,839</b>

Source: BofA Merrill Lynch Global Research Estimates

Table 6: Key Ratios

Year to March	FY09	FY10E	FY11E	FY12E
EPS	144.1	164.2	200.9	257.7
<i>Earnings growth</i>	<i>23.9%</i>	<i>14.0%</i>	<i>22.4%</i>	<i>28.3%</i>
CEPS	155.7	177.4	215.2	273.1
PPP / Share	282.2	307.5	391.7	478.2
BV/share	913	1,040	1,201	1,418
Adjusted BV / Share	762	783	994	1,267
ROAA	1.08%	1.01%	1.08%	1.19%
ROAE	17.1%	16.8%	17.9%	19.7%
NIM	2.61%	2.39%	2.53%	2.56%
Gross NPLs	2.8%	3.2%	3.0%	2.6%
Net NPLs	1.8%	1.7%	1.2%	0.7%
Coverage Ratio	38.7%	48.0%	61.8%	74.9%
Total Capital Adequacy Ratio (CAR)	14.3%	13.6%	12.8%	12.0%
- Tier I CAR	9.4%	9.0%	8.4%	7.9%
C/D ratio	73%	74%	79%	81%
Cost-Income ratio (Ex.Trey)	50%	51%	46%	43%
Other Inc (Ex. trey) / Total Inc (Ex.Trey)	13.7%	15.0%	15.4%	15.3%
Cost Asset Ratio	1.9%	1.8%	1.7%	1.6%
Loan Growth	30%	19%	23%	22%
Equity / Assets	6.0%	6.0%	6.0%	6.1%
Equity / Loans	10.4%	10.0%	9.5%	9.2%
Provision/ Loans	0.50%	0.65%	0.59%	0.44%
CASA	42%	41%	42%	42%
Tax Rates	36%	35%	35%	35%
Yield on Advances	9.7%	8.4%	8.4%	8.5%
Yield on Investments	6.7%	6.3%	6.5%	6.6%
Cost of funds	6.2%	5.5%	5.6%	5.8%
Dividend Per share	29	33	36	36
Dividend Pay out ratio	22.9%	22.5%	20.1%	15.6%
Dividend Yield	1.3%	1.5%	1.6%	1.6%
PE (non-adj)	15.21	13.34	10.90	8.50
P/BV (non-adj)	2.87	2.80	2.20	1.7
P/E (stand alone)	11.3	9.7	7.5	5.4
P/CEPS	14.1	12.3	10.2	8.0
P/ABV (incl. subs)	2.1	2.0	1.5	1.1

Source: BofA Merrill Lynch Global Research Estimates



## Price objective basis & risk

### SBI (SBINF / SBKFF)

Our PO on SBI is Rs2575. SBI, trading at 2.0x FY10 adj. BV (ex. subs), can sustain at these multiples, one year out, given visibility of earnings. Moreover, the banking biz, generating RoEs of almost +20% trades at <1.6x book and offers an even more attractive trade off as SBI leverages the group b/s. It is also less impacted from rising yields as +70% of G-secs in HTM resulting in 1.0% PBT hit for every 10bps rise in bond yields. We believe the improving macro could be a bigger factor v/s rising yields. Our PO captures impact of a) the improved earnings visibility in FY10-11 deposit re-pricing b) re-rating from a macro recovery as SBI, owing to its dominant franchise (over 100 mn customers) is the most leveraged to the macro, c) Upside to asset quality as NPL accretion est. to be lower, and d) increasing SOTP as associate banks earnings very strong and +20% RoEs. Sharp rise in NPLs is the key risk to our PO.

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India - Financials Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Bank of India	XDIIF	BOI IN	Rajeev Varma
	Corporation Bank	XCRRF	CRPBK IN	Veekesh Gandhi
	HDFC	HGDFE	HDFC IN	Rajeev Varma
	HDFC Bank	HDB	HDB US	Rajeev Varma
	HDFC Bank	XHDFE	HDFCB IN	Rajeev Varma
	ICICI Bank	ICIJF	ICICIB IN	Rajeev Varma
	ICICI Bank - A	IBN	IBN US	Rajeev Varma
	IndiaBulls Financial Services	IBLFF	IBULL IN	Veekesh Gandhi
	Indian Bank	INDIF	INBK IN	Rajeev Varma
	Max India	XXMIF	MAX IN	Rajeev Varma
	ORBC	ORBCF	OBC IN	Rajeev Varma
	Punjab	PUJBF	PNB IN	Rajeev Varma
	Reliance Capital	RLCCF	RCFT IN	Rajeev Varma
	SBI	SBINF	SBIN IN	Rajeev Varma
	SBI -G	SBKFF	SBID LI	Rajeev Varma
	Union Bank India	UBOIF	UNBK IN	Rajeev Varma
<b>NEUTRAL</b>				
	Axis Bank	XAXSF	AXSB IN	Rajeev Varma
	Axis Bank - GDR	XBKSF	AXB LI	Rajeev Varma
	Bank of Baroda	BKBAF	BOB IN	Rajeev Varma
	Federal Bank	XFDRF	FB IN	Veekesh Gandhi
	Yes Bank Ltd	YESBF	YES IN	Veekesh Gandhi
<b>UNDERPERFORM</b>				
	Canara Bank	CNRKF	CBK IN	Rajeev Varma
	IDBI	XDBIF	IDBI IN	Veekesh Gandhi
	Infrastruct Dev	IFDFF	IDFC IN	Rajeev Varma
	Vijaya Bank	VJYAF	VJYBK IN	Rajeev Varma

iQmethod<sup>SM</sup> Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
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
<b>Quality of Earnings</b>		
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
<b>Valuation Toolkit</b>		
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	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

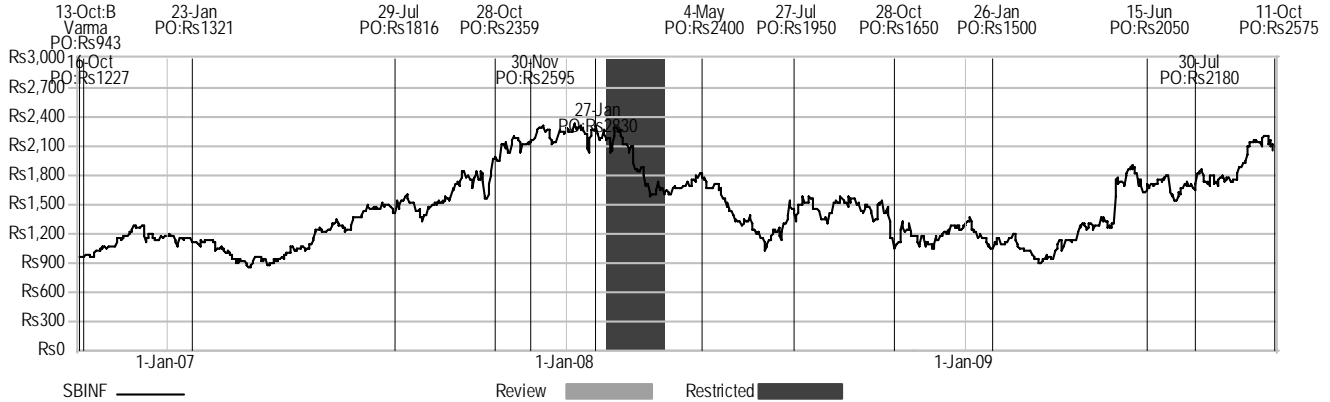
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### SBINF Price Chart

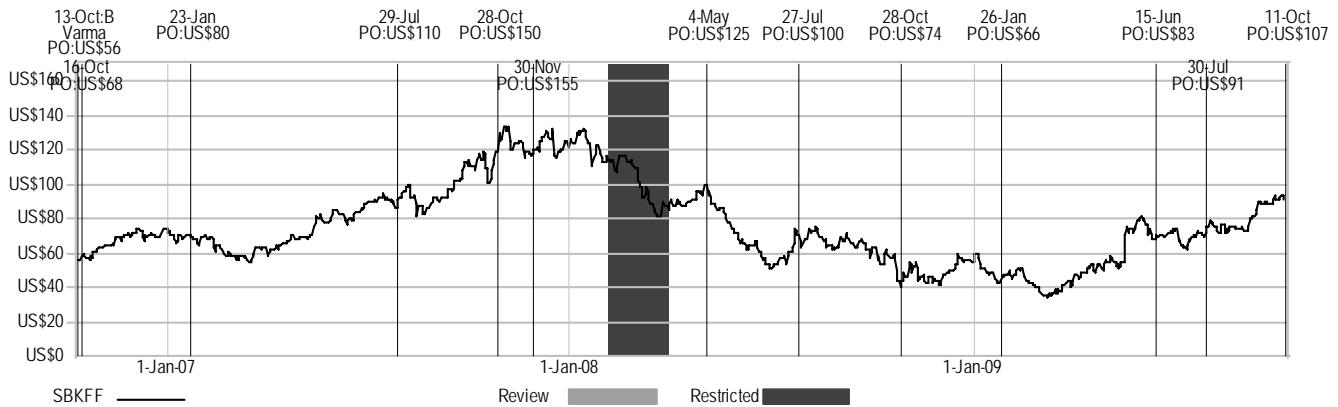


B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

\*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2009 or such later date as indicated.

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	97	41.45%	Buy	45	56.25%
Neutral	65	27.78%	Neutral	40	71.43%
Sell	72	30.77%	Sell	44	65.67%

### Investment Rating Distribution: Global Group (as of 01 Sep 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
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Neutral	815	25.17%	Neutral	436	60.39%
Sell	895	27.64%	Sell	378	45.99%

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