

State Bank Of India

Rs 1,095
Buy

1st Nov 2006

SCRIP DETAILS

Market Cap (Rs crores)	57,630
P/E (x)-FY07 (E)	11.4
P/BV (x) FY07(E)	1.8
P/ Adj BV (x) FY07(E)	2.1
Dividend (Rs)/ Yield (%)	14/ 1.3

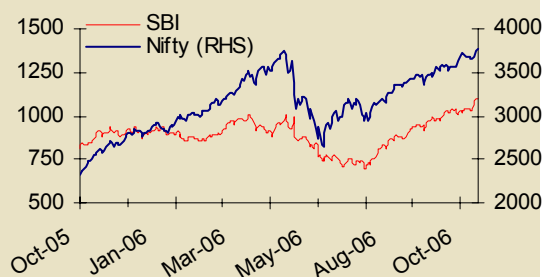
Equity Capital (Rs crores)	526.0
Face Value (Rs)	10.0
52 Week High/ Low (Rs)	1,256/ 685

 Website: www.sbi.co.in

NSE Code	SBIN
Sensex	12,962
Nifty	3,744

(As on 30th Sept, 2006)

Govt of India	59.7
Mutual Funds/ Banks/ FIs	12.3
FII's	19.8
Others	2.2
Public	6.0

COMPARATIVE PRICE


Analyst: Siddharth Purohit
Email: siddharthp@way2wealth.com
Telephone: 022 - 40192900

State Bank of India has reported improved results for the quarter. Strong loan growth, coupled with improving yield, helped a robust growth in interest income, while impressive growth in CASA resulted in a controlled growth in interest expense. Pick-up in fee income and expansions on the NIM front were the other key positive developments during the quarter. However, substantial rise in tax provisions during the period resulted in marginal decline in the YoY net profit at Rs 1,185 crores, as compared to Rs 1,215 crores in the same period last year.

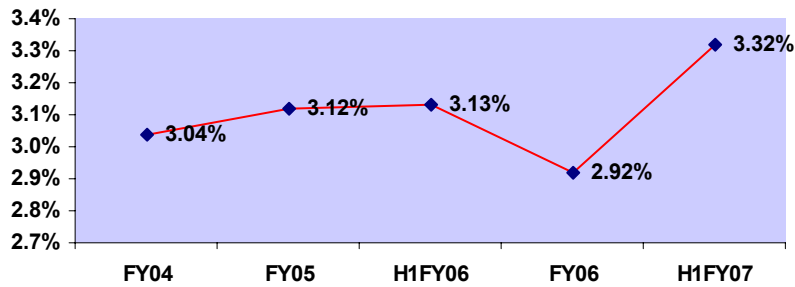
Decline in interest on investments led to subdued NII growth: The Bank reported 37% YoY growth in interest on advances, to Rs 5,902 crores, backed by a 21% loan growth and a 74 bps improvement in yield on advances, to 8.55% from 7.81% in Q2FY06. The interest on investments, however, continued to decline (down 20% YoY, to Rs 2,874 crores), which restricted the overall interest income growth at 9.5%, to Rs 9,376 crores compared to Rs 8,561 crores in the same period last year. Interest expenses grew by a modest 10.6% YoY, to Rs 5,479 crores, compared to Rs 4,954 crores, resulting in an NII growth of 8.1%, to Rs 3,899 crores. The Bank's interest on investments is likely see a negative trend due to decline in yield on advances, which would see further improvement, as the effect of the PLR hike would be fully seen in the quarters to come.

Impressive growth in fee income: The non-interest income of the Bank reported a modest growth of 10.7% YoY, to Rs 1,434 crores from Rs 1,295 crores. Treasury income reported a significant fall, to Rs 7.7 crores from Rs 247 crores in Q2FY06, while the non-interest other income grew by 36% YoY, to Rs 1,426 crores, chiefly driven by the 35% growth in commission exchange and brokerage. The contribution of fee income has been continuously rising and now stands at 26.7% in the total operating income, as compared to 21.4% in the same period last year. The Bank is likely to report higher treasury income in Q3FY07, while fee income would also pick up, with even more branches offering core banking solutions, which would result in accelerated growth in other income in the next couple of quarters.

Robust growth in operating profit: Decent NII growth, coupled with strong fee income, resulted in an 8.8% growth in total operating income, to Rs 5,332 crores. Further, operating expenses were under control during the quarter under consideration, down 2% YoY, at Rs 2,473 crores; as a result, the operating profit was up 24.7%, at Rs 2,473 crores. The growth in core operating profit (operating profit excluding treasury gains) is even higher, up by 42% YoY, at Rs 2,465 crores vs. Rs 1,736 crores. Provisions were lower, at Rs 681 crores vs. Rs 817 crores, mainly due to lower investments depreciation, at Rs 423 crores compared to Rs 1,089 crores in Q2FY06; as a result, PBT was up 54%. However, the Bank provided Rs 607 crores as tax provisions, which resulted in a marginal decline in net profit, at Rs 1,184 crores compared to Rs 1,215 crores in the corresponding quarter last year.

Improving yield on advances helped NIM expansion: SBI raised its PLR by 25 bps, to 11% during the quarter, which helped improve the yield on advances by 74 bps YoY and 6 bps QoQ, to 8.55%. The Bank also raised the deposit rates but strong growth in CASA, up 20% YoY, resulted in a 13 bps YoY decline in cost of deposits. However, the cost of deposits on a QoQ basis was higher by 6 bps, to 4.51%. Superior yield on advances, backed by a controlled rise in cost of deposits, aided the NIM up, by 19 bps, to 3.32%. One of the concerns for SBI was the pressure on margins; however, continuous improvement in NIM for the last couple of quarters has been possible due to the Management’s focus on mobilising the low cost deposits. We believe that the NIM would see added improvement in the quarters to come, as the full impact of the rate hike would come into effect.

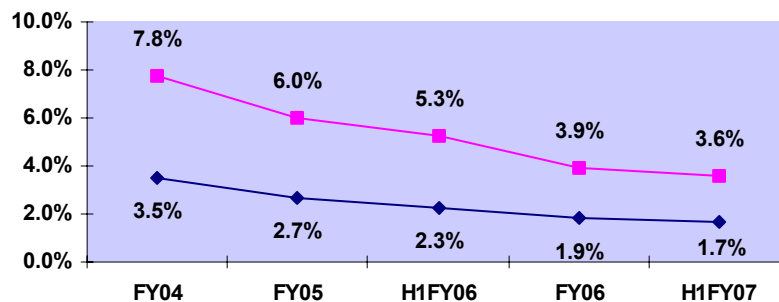
Net Interest Margin



Decent business growth: SBI reported a 21.2% growth in its loan book, to Rs 2,88,840 crores. Retail loans grew by 26.5% YoY and accounted for 25.8% of total loans. Despite rise in interest rates during the quarter, housing loans continued to grow strong, up by Rs 6,230 crores, and formed 52.5% of the retail portfolio. Deposit growth on the other hand, slowed down up by 10.8%, to Rs 3,92,615 crores. However, on the positive side, the growth in CASA was strong, up 19.6% YoY, and its share in total deposits went up to 42.6% from 39.5% in Q2FY06. For the full year, the Bank is targeting a 25% loan growth, while deposit growth is likely to be ~16-17%.

Asset quality continued to improve: Asset quality of the Bank continued to see improvement during the quarter. Gross NPAs were down by 17.8% YOY (Rs 2,225 crores in absolute terms), to Rs 10,307 crores, while net NPAs were down by 9.6% YoY (Rs 500 crores), to Rs 4,734 crores. On a QoQ basis, gross NPAs were down Rs 80 crores, while net NPAs were up by Rs 303 crores. However, overall asset quality continued to improve, with gross NPAs coming down to 3.57 % from 5.26, and net NPAs coming down to 1.67% from 2.27%, in the same period last year.

Gross NPAs & Net NPAs level:



Financials

(Rs crores)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY06
Interest income	9,377.5	8,561.4	9.5	18,213.6	17,015.8	7.0	35,794.9
Interest expense	5,478.8	4,953.5	10.6	10,430.9	9,866.6	5.7	20,159.3
Net Interest Income	3,898.7	3,607.9	8.1	7,782.7	7,149.3	8.9	15,635.6
Other Income	1,433.8	1,294.6	10.7	3,196.4	3,583.1	-10.8	7,388.7
Total Operating income	5,332.4	4,902.5	8.8	10,979	10,732.3	2.3	23,024.3
Total Operating expenses	2,859.8	2,919.7	-2.0	5,670.1	5,310	6.8	11,725.1
Cost/ income (%)	53.6	59.6		51.6	49.5		50.9
Operating Profit	2,472.6	1,982.9	24.7	5,309.0	5,422.4	-2.1	11,299.2
Core Operating Profit	2,464.9	1,736.2	42.0	5,090.0	4,333.1	17.5	10,712.1
Provisions	681.3	817.5	-16.7	1,963.3	2,584.1	-24.0	4,393.1
PBT	1,791.2	1,165.3	53.7	3,345.7	2,838.2	17.9	6,906.2
Taxes	606.7	-50.0	0.0	1,362.7	400.1	240.6	2,499.5
PAT	1,184.5	1,215.3	-2.5	1,983.1	2,438.2	-18.7	4,406.0
EPS (Rs)	22.5	23.1		37.7	46.3		83.7

(Rs crores)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY06
Advances	2,88,840.0	2,38,351.0	21.2	2,88,840.0	2,38,351.0	21.2	2,61,642.0
Deposits	3,92,615.0	3,54,442.0	10.8	3,92,615.0	354,442.0	10.8	3,80,046.0
Gross NPAs	10,306.49	12,531.8		10,306.5	12,531.8		10,375.8
Net NPAs	4,734.4	5,235.1		4,734.4	5,235.1		4,906.4
Gross NPAs (%)	3.6	5.3%		3.6	5.3		3.9
Net NPAs (%)	1.7	2.3%		1.7	2.3		1.9
ROA (%)	0.9	1.00%		0.78	1.03		0.89
ROE (%)	13.90	18.39%					15.47
NIM (%)	3.32	3.13%					2.92
CAR (%)	12.6	11.3%		12.6	11.3		11.9
C-D Ratio	73.6	67.2%		73.6	67.2		68.8

Valuation and Conclusion

SBI has reported encouraging results for the quarter. The subdued growth in interest income was largely due to the downward re-pricing of the Bank's investment portfolio, which led to a sharp fall in the interest on investments. However, the core interest income, i.e. the interest on advances, continued to grow very strongly, up by 37% for the quarter. Higher treasury income, coupled with accelerated fee income, would drive the operating profits of the Bank in the next couple of quarters, while lower provisioning requirement would result in a strong bottomline growth. During FY07, business growth would also be strong, with the Bank targeting an advances growth of 25% and a deposit growth of 16%. At the CMP of Rs 1,095, the stock is quoting at 11.4x its FY07(E) EPS of Rs 96 and 1.8x and 2.1x its FY07(E) BV and Adj BV of Rs 602 and Rs 515, respectively. However, looking at the consolidated FY07(E) EPS of Rs 125, the stock is attractively valued at 8.8x forward earnings and 1.4x and 1.5x its FY07(E) BV and Adj BV of Rs 800 and Rs 700, respectively. We maintain a buy on the stock, with one-year revised target price of Rs 1,400.

WAY2WEALTH Research

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