

State Bank of India

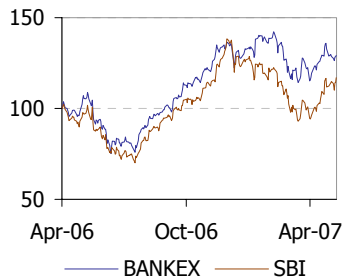
 Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 526mn
Market cap	: Rs 605bn
52 week high/low	: Rs 1,379/ Rs 684
Avg. daily vol. (6mth)	: 1.7mn shares
Bloomberg code	: SBIN IN
Reuters code	: SBI.BO

Shareholding (%) Mar-07 QoQ chg

RBI	: 59.7	0.0
FIIs	: 19.8	0.0
MFs / UTI	: 6.2	(0.4)
Banks / FIs	: 4.6	(0.8)
Others	: 9.7	1.2

MANAGING IT WELL

SBI's Q4FY07 net profit grew 75% YoY to ~Rs.14.9bn, much higher than our expectations - driven by strong NII growth (21.5% YoY), and a write-back of provisioning in bond portfolio. The bank showed a net write-back of Rs.4.5bn under provisioning for bond amortization against Rs.3.15bn of net provisions in Q4FY06. This helped the bank improve its net profit substantially. The provisions for bond amortization are now taken under other income, as per the new RBI guidelines.

NIMs stable, cost of deposits under control

Core NIM at 3.31% was stable sequentially, though rose 39bps on YoY basis. Core NIM stood at 2.92% in Q4FY06. NII growth for Q4FY07 stood at a healthy 21.5% on a reported basis. Interest on balances with RBI witnessed a jump of 478% YoY to Rs 16.3 bn, which to an extent aided the growth in NII. Cost of deposits rose only 22bps sequentially to 4.79%, which helped in protecting NIMs.

Credit growth remained strong, deposits still lagging

Credit grew almost 29% YoY, even as deposits grew only 14.6%. However, with LDR of almost 79%, the bank will have to step up its deposit growth to achieve 22-25% credit growth in FY08. CASA ratio at 43.5% remained stable, which also helped in sustaining NIM.

Re-pricing of asset yield to help in sustaining NIMs

The yield on credit rose only 6bps sequentially, despite frequent PLR hikes by SBI in last 4-5 months. We believe that the full effect of PLR hike will play out in FY08, which should help in sustaining NIMs despite higher cost of deposits, going ahead. Combined net profit of Subsidiaries and Associate Banks grew 65% in FY07, which further helped the SBI group to post better profits. The stock quotes at 1.3x FY08E consolidated BV and 8.1x FY08E consolidated earnings. We are raising our price target by 8% to account for higher than expected earnings growth in subsidiaries and also due to our expectations of improving macro-economic environment going ahead. Maintain our sector **Outperformer** rating on the stock

Financial summary (Consolidated)

Y/E Mar	PAT (Rs mn)	EPS (Rs.)	Change YoY (%)	P/E (x)	BV (Rs.)	P/BV (x)	NPAs (%)	P/Adj.BV (%)	RoE (%)	RoA (%)
2006	55,299	105	1.2	10.9	707	1.6	1.5	1.8	15.9	0.8
2007	63,643	121	15.1	9.5	802	1.4	1.5	1.6	16.0	0.9
2008E	74,707	142	17.4	8.1	916	1.3	1.6	1.4	16.5	0.9
2009E	86,647	165	16.0	7.0	1047	1.1	1.6	1.3	16.8	0.9

Source: Company, ENAM Research

SBI: Results update (Standalone)

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-07	Mar-06	% Chg
Interest income	115,415	85,091	35.6	97,359	18.5	394,910	359,796	9.8
Interest expended	72,213	49,545	45.8	57,846	24.8	234,368	203,904	14.9
Net interest income	43,201	35,546	21.5	39,513	9.3	160,542	155,891	3.0
Non-interest income	28,943	23,616	22.6	18,110	59.8	57,693	43,850	31.6
- Money Market Income	382	799	(52.2)	3,106	(87.7)	5,678	5,872	(3.3)
- Forex Income	487	861	(43.5)	1,141	(57.3)	3,734	4,697	(20.5)
- Commission, Exchange & Brokerage	23,373	19,354	20.8	8,609	171.5	48,045	39,962	20.2
- Others	4,701	2,602	80.7	5,254	(10.5)	236	(6,682)	-
Net income	72,144	59,162	21.9	57,624	25.2	218,235	199,741	9.3
Operating expenses	32,460	29,544	9.9	29,074	11.6	118,235	117,251	0.8
% of net income	45	50	-	50		54	59	-
- Staff Costs	20,239	19,242	5.2	20,297	(0.3)	79,326	81,230	(2.3)
Operating income	39,684	29,618	34.0	28,550	39.0	99,999	82,490	21.2
Provision & contingencies	14,126	10,237	38.0	11,662	21.1	24,096	13,428	79.4
PBT	25,558	19,380	31.9	16,888	51.3	75,903	69,062	9.9
Tax	10,626	10,847		6,237	70.4	30,490	24,995	22.0
Net profit	14,932	8,533	75.0	10,651	40.2	45,413	44,067	3.1
EPS (Rs.)	28	16	75.0	20	40.2	86	84	3.1
Reported NIM (%)	3.31	3.40	-	3.29	-	3.31	3.40	-
Core NIM (%)	3.31	2.92	-	3.29	-	3.31	2.92	-
Cost of deposits (%)	4.79	4.49	-	4.57	-	4.79	4.49	-
Yield on Advances (%)	8.67	7.78	-	8.61	-	8.67	7.78	-
Yield on Investments (%)	6.88	7.10	-	7.71	-	6.88	7.10	-
Credit (Rs.bn)	3,373	2,616	29.0	3,094	9.0	3,373	2,616	29.0
Deposits (Rs.bn)	4,355	3,800	14.6	4,044	7.7	4,355	3,800	14.6
Gross NPAs (Rs.bn)	99.98	103.76	-	104.29	-	99.982	103.76	-
Gross NPAs (%)	2.92	3.88	-	3.3	-	2.92	3.88	-
Net NPAs (Rs.bn)	52.577	49.06	-	44.87	-	52.577	49.06	-
Net NPAs (%)	1.56	1.87	-	1.45	-	1.56	1.87	-
Tier I (%)	8.01	9.36	-	8	-	8.01	9.36	-
CAR (%)	12.34	11.88	-	11.86	-	12.34	11.88	-

Source: Company, ENAM Research Note: Q4FY06 and FY06 numbers on a re-stated basis. Dec-06 numbers are not re-stated. Others under other income include a net write back of Rs.4.54bn for bond amortization in Q4FY07 against a provision of Rs.3.15bn in Q4FY06

Other income rises due to writeback of provisions

On account of New RBI amortisation on investments has to be included in the other income line as against provisions earlier. As a result, there has been a writeback to the tune of Rs 10 bn; Rs 9.5 bn on account of writeback in amortisation provisions and Rs 0.5 bn on account of revaluation of AFS securities. The bank showed a net write-back of Rs.4.5bn under provisioning for bond amortization against Rs.3.15bn of net provisions in Q4FY06. As a result, overall other income for Q407 rose by 22.6% despite a sharp fall in trading profits (down 52% YoY) and forex income (down 43% YoY). Core fee income (commission, exchange and brokerage) grew 21% YoY in Q4FY07.

Impressive credit growth

SBI's credit growth for FY07 stood at 29% YoY to Rs 3,373 bn, though retail credit growth at 20.5% continues to be slower than overall credit growth. On a sequential basis, yield on advances rose only 6 bps to 8.67% and we expect yield on advances to grow at a much higher pace, going ahead as the full effect of PLR hike plays out in the coming quarters. Management has guided on gaining market share in advances going forward.

Gross NPAs have fallen even as net NPAs went up

We notice that gross NPAs have fallen sequentially to 2.92% from 3.3% in the previous quarter. However, net NPAs have risen to 1.56% in Q4 against 1.45% in Q3. The trend has also been same on outstanding amount basis as well. The bank has probably written off large amounts of NPAs, which resulted in lower Gross NPAs as the charges for loan losses have been quite high during the quarter. As a result, the provisioning coverage ratio has fallen from 56.9% in Q3FY07 to 47.41% in Q4FY07. The bank provided higher amount in Q4 for general provisioning, in line with new provisioning norms in the sector. Going ahead, such provisioning requirement will come down.

Operating cost growth relatively muted

Operating costs grew only 9.9% for the quarter aided by low growth of 5.2% in staff costs. Under the exit policy scheme offered in FY07 ~7000 people left the bank. Going forward, while the bank expects natural attrition to average ~6000/yr over the next 3-4 years, additions are also likely to be higher, which could lead to relatively higher growth rate in employee cost.

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