

# State Bank of India (STABAN)

**Rs 2275**

## Rating matrix

Rating	: Buy
Target	: RS 2556
Target Period	: 12-15 months
Potential Upside	: 12 %

## Trailing 4 quarters growth (Rs Crore)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10
NII	5025.3	5608.9	6317.0	6721.5
PPP	3674.6	4835.4	4643.8	5193.9
PAT	2330.9	2491.3	2506.9	1866.6

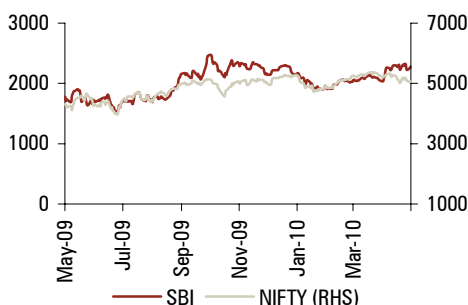
## Valuation summary

	FY09	FY10	FY11E	FY12E
Net Profit (Rs Crore)	9121.2	9142.9	10683.4	14056.6
EPS (Rs)	143.7	144.0	151.6	199.4
Growth (%)	34.8	0.2	5.2	31.6
P/E (x)	15.7	15.6	14.8	11.3
ABV (Rs)	762.3	826.7	1098.7	1281.7
Price / Book (x)	3.0	2.3	1.8	1.6
Price / Adj Book (x)	2.7	2.7	2.0	1.7
GNPA (%)	2.9	3.1	3.1	3.0
NNPA (%)	1.8	1.7	1.3	1.0
RoNA (%)	1.1	0.9	0.9	1.0
RoE (%)	17.1	15.1	14.2	15.1

## Stock data

Market Capitalisation	Rs 144436 crore
GNPA (FY10)	Rs 19535 crore
NNPA (FY10)	Rs 10870 crore
NIM (Q4FY10)	2.9 %
52 week H/L	2500 /1512
Equity capital	Rs 635.9 crore
Face value	Rs. 10
DII Holding (%)	10.1
FII Holding (%)	17.5

## Price movement



## Analyst's name

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## WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 2251 to Rs 2556
EPS (FY11E) .....	Changed from Rs 176.7 to Rs 151.6
EPS (FY12E) .....	Rs 199.4
RATING.....	Unchanged

## Core banking sound, provisions hit profits...

SBI reported a marginal improvement of 29 bps YoY in its loan book market share for FY10. The loan book grew 17% YoY to Rs 6414 billion while deposit growth was subdued at 8% YoY at Rs 8041 billion. The bank carried excess liquidity on the balance sheet of ~Rs 44,000 crore in Q4FY10 and ~Rs 75,000 crore in FY10. Net profit was dragged down due to higher operating expense in Q4FY10, scaling up of provision coverage to 59% and lower treasury gains. Going forward, we expect 16% CAGR in PAT and 17% CAGR in the business mix over FY09-FY12E.

### NIM improves on lower CoD...

The CoD declined to 5.8%, an improvement of 50 bps YoY and 12 bps QoQ, on two counts. The first was due to shedding of bulk deposits, which reduced to 1.8% of total domestic deposits. Also, CASA grew from 39% in FY09 to 47% in FY10. This led to 39% YoY growth in NII to Rs 6,721 crore (our estimate was Rs 6,716 crore) while the NIM improved by 57 bps YoY and 14 bps QoQ to 2.96% in Q4Y10.

### Operating expenses drag down profits

Operating costs rose as staff expenses and overheads increased leading to a worsening cost to income ratio of 54% and Rs 923-crore dent in Q4FY10 profits. The bank provided close to Rs 109 crore for wage revision and Rs 277 crore towards pension contribution for its employees. This led to a 21% YoY decline in PAT to Rs 2,620 crore in Q4FY10. On a standalone basis, PAT declined by 32% to Rs 1,867 crore, lower than our estimate of Rs 2,841 crore.

### Provision coverage a major cause for concern

The bank increased its loan loss provision from Rs 1,807 crore in Q3FY10 to Rs 2,797 crore in Q4FY10. Provision coverage excluding technical write-offs was at 44.4% and including write-offs stood at 59.2%.

## Valuation

With expected capital dilution of 10-15% in FY11E and hit on profitability due to increased provisions, we expect the bank to deliver RoA and RoE at around ~1% and ~15% by FY12E respectively. With huge B/S size of Rs.10 lakh crore, we expect core bank to trade at 1.7X FY12E ABV and on SOTP basis recommend a BUY on the stock with a target price of Rs 2556.

## Exhibit 1: Financial Performance

Rs Crore	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	YoY Gr. (%)	QoQ Gr. (%)
NII	6721.5	6716.3	4841.4	6317.0	38.8	6.4
Other Income	4508.5	3496.9	4718.2	3389.3	-4.4	33.0
PPP	5193.9	5607.9	5276.5	4643.8	-1.6	11.8
PAT	1866.6	2842.1	2741.8	2506.9	-31.9	-25.5

Source: Company, ICICIdirect.com Research

The bank reported a high C/D ratio of 78.6% in FY10 on account of high disburseals.  
Excess liquidity declined by 35% QoQ to Rs 44,103 crore availing more funds for lending.

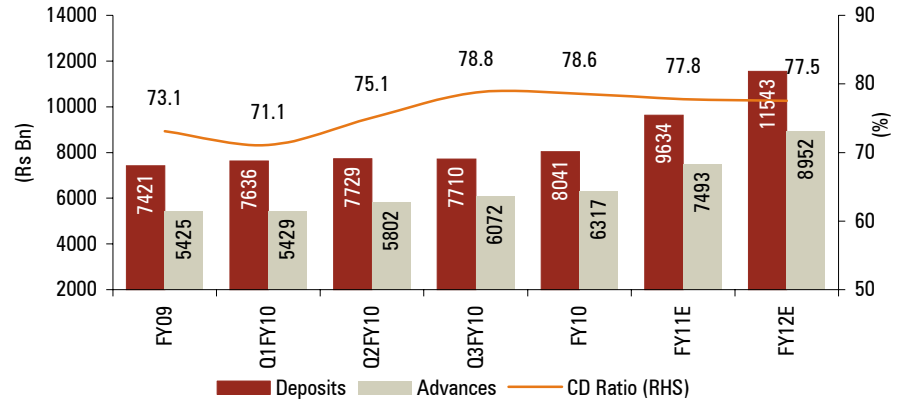
The market share of advances increased by 15.99% in December 2009 to 16.28% in December 2010

Deposit growth was at 8.4% YoY as compared to advances growth of 16.9% YoY in Q4FY10. We believe growth will pick up in the future and business will grow at 17% CAGR over FY09-FY12E

SBI's loan book is well diversified with retail and mid-corporates constituting a major share. The bank witnessed all-round growth with retail and large corporates taking the lead at 24% and 28% YoY, respectively

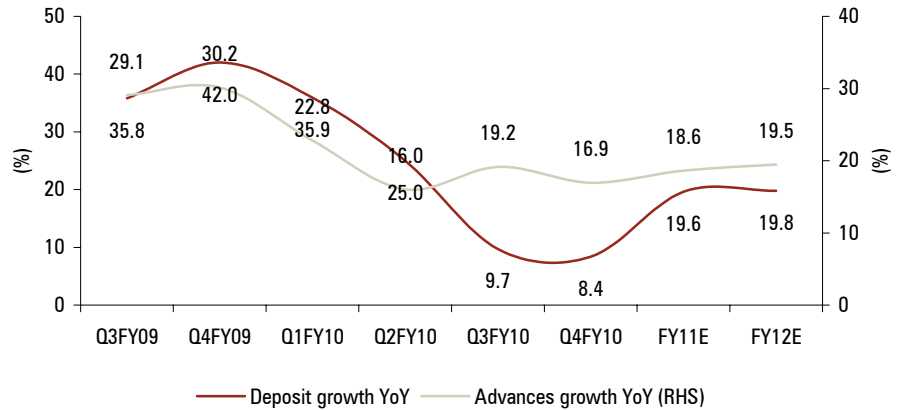
**Business highlights**

**Exhibit 2: Credit-deposit ratio consistently high**



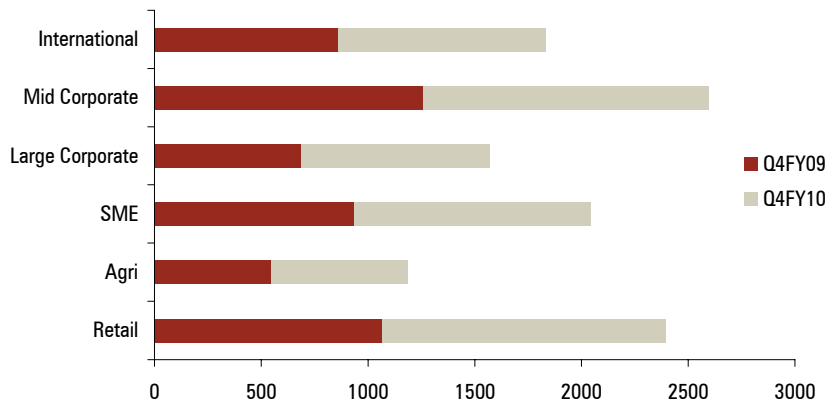
Source: Company, ICICIdirect.com Research

**Exhibit 3: Business growth to pick up pace from here**



Source: Company, ICICIdirect.com Research

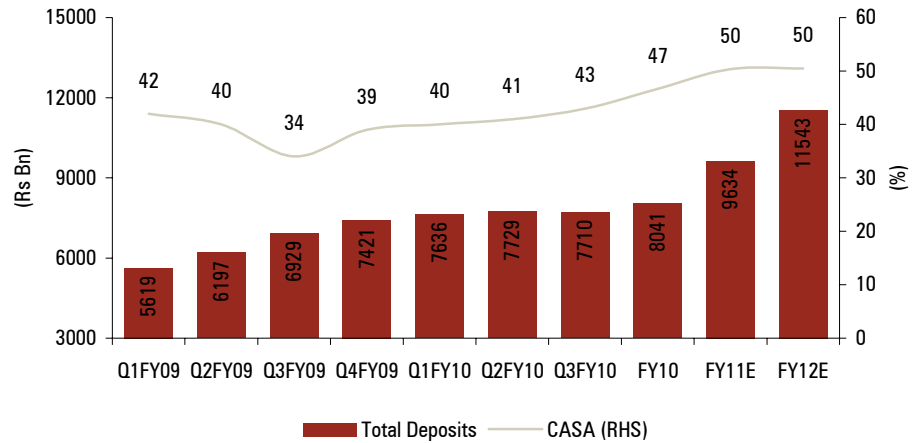
**Exhibit 4: Retail and corporates dominate loan book growth**



Source: Company, ICICIdirect.com Research

**Exhibit 5: One of the highest CASA in the industry**

CASA improved sequentially to 47% from 43% in Q3FY10. Going forward, we expect CASA to improve to ~50% by FY12E

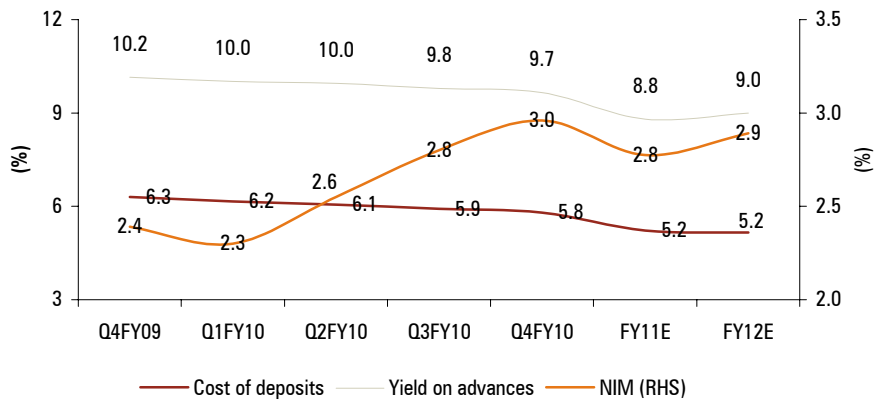


Source: Company, ICICIdirect.com Research

**Exhibit 6: NIM expands as cost of deposit declines**

Cost of deposits declined consistently over FY10. This was due to repricing benefits of shedding high cost bulk deposits. The share of bulk deposits in total deposits declined from 10.7% in March 2009 to 1.8% in March 2010

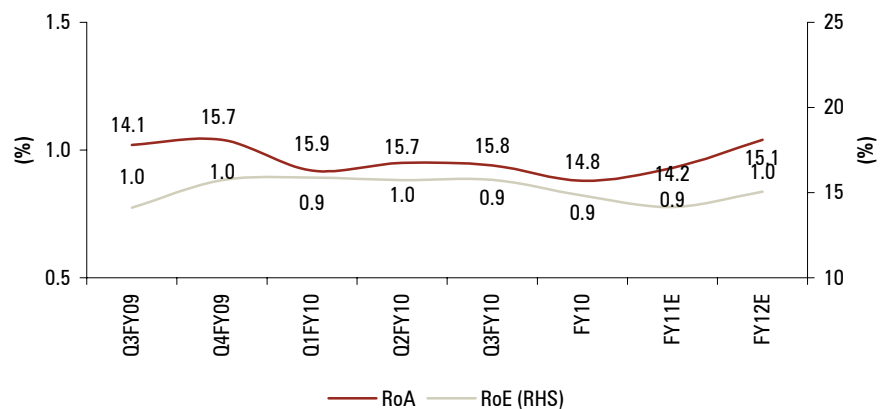
We expect NIM to stabilise around 2.9% by FY12E on the back of NII improvement by 21% CAGR over FY09-12E



Source: Company, ICICIdirect.com Research

**Exhibit 7: Returns to come under pressure on account of higher provisioning and equity dilution**

Pressure of higher provisioning and equity dilution in FY11 may cap RoE and RoA at ~15% and ~1%, respectively, by FY12E

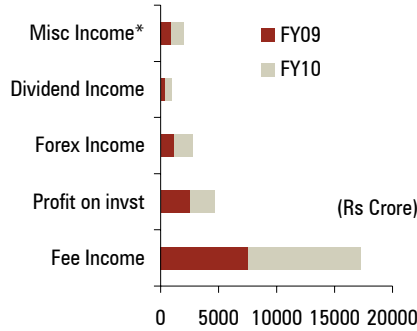


Source: Company, ICICIdirect.com Research

**Non interest income declines as treasury profits dip**

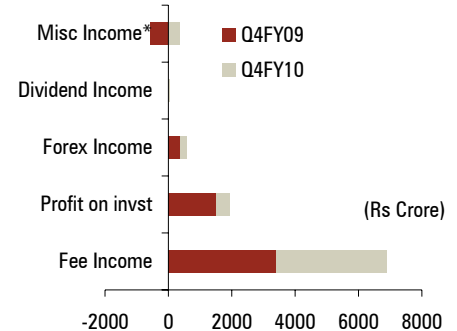
Non interest income declined by 4% to Rs 4,509 crore on account of a decline in treasury profits to Rs 426 crore in Q4FY10 against Rs 1,509 crore in Q4FY09. Profit on G-secs reduced profits by Rs 1,389 crore as a result of increasing bond yields. However, fee income gained by 35% YoY to Rs 3,486 crore due to steady improvement in the CASA, cross selling, loan processing and other services.

**Exhibit 8: Non interest income FY09 vs. FY10**



Source: Company, ICICIdirect.com Research

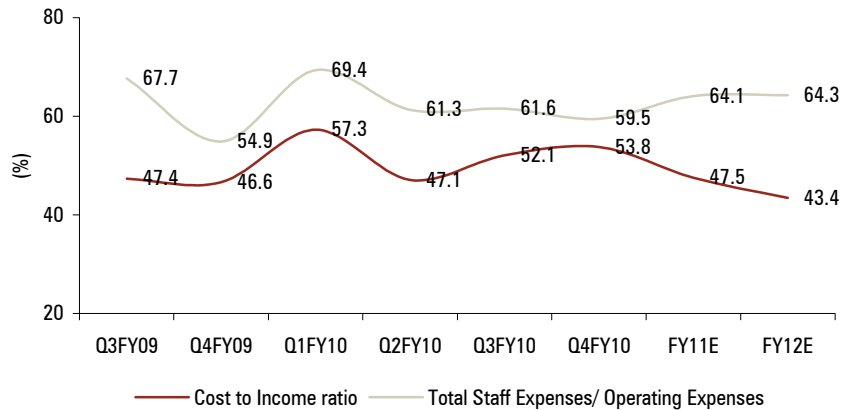
**Exhibit 9: Profit on investment dips in Q4FY10**



Source: Company, ICICIdirect.com Research

The loan book growth of 19% YoY is attributable to sustained growth across all three segments. The SME and retail share improved to 25% in Q4FY10 from 23% last quarter

**Exhibit 10: High operating costs pressurise profits**



Source: Company, ICICIdirect.com Research

We expect the cost to income ratio to reduce gradually to ~43% by FY12E from the current high of 54%.

**Exhibit 11: YoY growth in operating costs**

Operating Costs (Rs Crore)	Q4FY09	Q4FY10	% Change
Overheads	1934	2444	26
Salaries including wage revision	1862	2827	52
Contribution to employees	488	765	57
Operating Expenses	4283	6036	41
Operating Income	9560	11230	17
C/I Ratio (%)	44.8	53.7	

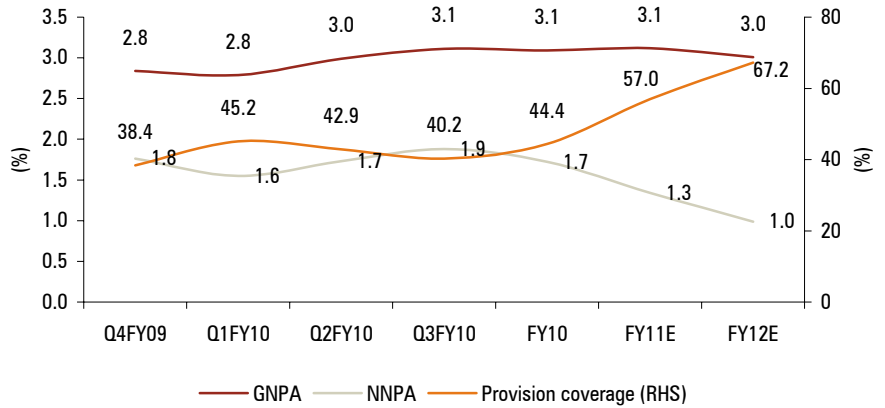
Source: Company, ICICIdirect.com Research

Over 10000 ATMs and 1000 branches added during FY10 have led to opex rise and even higher wage and pension provisioning has led to staff cost surging over 50% in one quarter 315 in full year. Bank has guide for a cost to income ratio of less than 45% for coming year.

**NPA status quo maintained...**

Growth in NPA slowed down in Q4FY10 as both the NNPA and GNPA ratio improved QoQ to 3.05% and 1.72%, respectively. The NNPA decreased 3.6% QoQ to Rs 10,870 crore but GNPA rose by 3.6% QoQ to Rs 19,535 crore. Restructured assets stand at Rs 16,796 crore out of which Rs 1,616 crore slipped into NPA. We expect NPA levels to stabilise with the GNPA ratio at ~3% and NNPA ratio at ~1% by FY12E.

**Exhibit 12: Asset quality to remain same, provision a cause for concern**



Source: Company, ICICIdirect.com Research

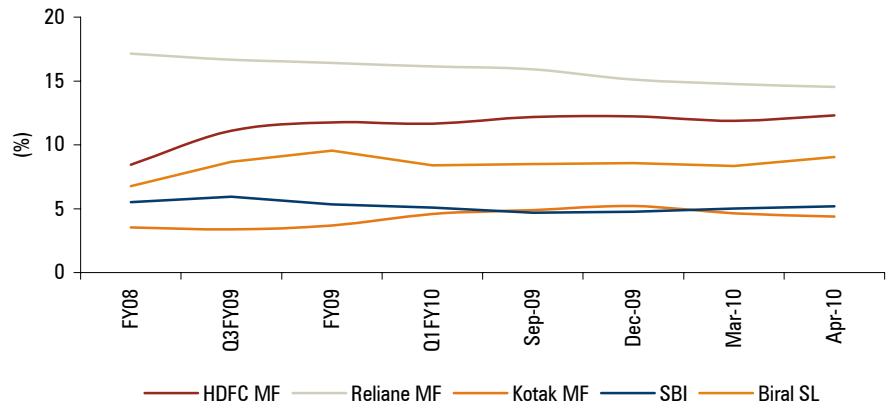
We have built in a provision coverage ratio of ~67% by FY12E. This would impact profits, going ahead. We expect PAT growth to be around 16% CAGR over FY10-12E.

**Major Subsidiaries doing well too....**

**SBI AMC growing faster**

SBI mutual has shown extremely sharp rise of 42% in AUM to Rs.37147 crore. As can be seen, market share has risen sequentially to 5.2%. If we see Birla Sunlife and Reliance Mutual Fund, they have lost market share over the past one year whereas SBI has maintained it at 4% of FY12E AUM the AMC is valued at Rs.22 per share.

**Exhibit 13: SBI has maintained market share**



Source: Company, ICICIdirect.com Research

Fresh slippages have reduced to Rs 2,504 crore with corporates adding NPAs worth Rs 1,062 crore. Within corporates, textiles and IT account for more than 50% of fresh slippages

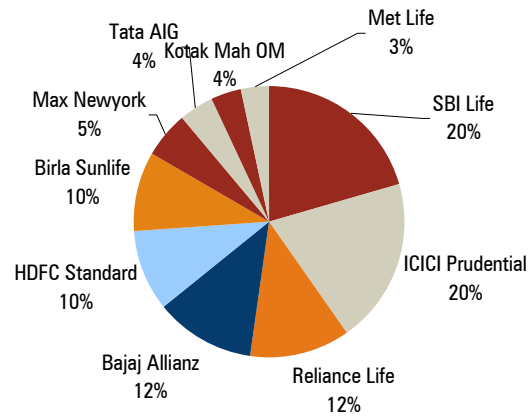
Low provision at 44.4% is a cause for concern as the bank would have to provide around Rs 5,000 crore, or Rs 1,250 crore each quarter, to raise the provision, according to the RBI mandate, to 70%

### SBI Life leading the private life insurer space...

Gross written premium grew to Rs.10104 crore in FY10 from Rs.1075 crore in FY06 which is a 10 fold growth. New business premium grew to Rs.7033 crore from Rs.5386 crore. APE growth was also strong at 38% for FY10. We expect 20-25% rise in GWP even though we see the regulatory environment is changing landscape from capping charges to lowering commission and higher disclosures.

If we see the industry has seen a 25% growth in first year premium with single premium growing faster at 33% y-o-y and non single growing at 20%. SBI Life's market share has jumped from 14% in FY08 to 18% in FY10. The company made a profit of Rs.276 crore for FY10 against Rs.26 crore loss last year. We value SBI's share in SBI Life at Rs.176 per share on FY11 basis and Rs.190 on FY12 basis.

**Exhibit 14: Market share among private players based on APE (FY10)**



Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (BFSI)

Bank of India				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	BANIND	<b>CMP</b>	328	FY10	1741.1	33.1	9.9	1.6	0.7	12.4
		<b>Target</b>	330	FY11E	2156.0	41.0	8.0	1.5	0.7	14.2
<b>Mcaps (Rs Cr)</b>	17250	<b>Upside (%)</b>	0.6	FY12E	2961.3	49.0	6.7	1.2	0.8	16.5
Bank of Baroda				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	BANBAR	<b>CMP</b>	690	FY10	3058.3	83.7	8.2	1.8	1.0	21.5
		<b>Target</b>	722	FY11E	3710.5	101.5	6.8	1.5	1.1	21.4
<b>Mcaps (Rs Cr)</b>	25222	<b>Upside (%)</b>	4.6	FY12E	4580.7	125.3	5.5	1.2	1.2	21.5
Dena Bank				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	DENBAN	<b>CMP</b>	90	FY10	511.3	17.8	5.0	1.2	1.3	21.4
		<b>Target</b>	91	FY11E	619.2	16.0	5.6	1.1	1.1	20.0
<b>Mcaps (Rs Cr)</b>	2581	<b>Upside (%)</b>	1.1	FY12E	768.2	15.8	5.7	1.0	1.0	18.2
Indian Overseas Bank				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	INDOVE	<b>CMP</b>	93	FY10	1292.7	13.0	7.2	1.0	0.6	9.9
		<b>Target</b>	90	FY11E	891.5	16.4	5.7	1.0	0.6	12.0
<b>Mcaps (Rs Cr)</b>	5067	<b>Upside (%)</b>	-3.2	FY12E	1248.1	22.9	4.1	0.9	0.8	14.9
IDBI Bank				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	IDBI	<b>CMP</b>	111	FY10	1031.1	14.2	7.8	1.1	0.5	13.2
		<b>Target</b>	141	FY11E	1210.1	15.2	7.3	1.0	0.5	13.1
<b>Mcaps (Rs Cr)</b>	8046	<b>Upside (%)</b>	27.0	FY12E	1513.0	19.0	5.8	0.9	0.5	13.9
OBC				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	ORIBAN	<b>CMP</b>	325	FY10	1134.7	45.3	7.2	1.1	0.9	14.6
		<b>Target</b>	423	FY11E	1465.0	58.5	5.6	1.0	0.9	16.6
<b>Mcaps (Rs Cr)</b>	8143	<b>Upside (%)</b>	30.2	FY12E	1767.9	70.6	4.6	0.8	1.0	17.2
Punjab National Bank				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	PUNBAN	<b>CMP</b>	1002	FY10	3905.4	123.9	8.1	1.9	1.4	24.0
		<b>Target</b>	1014	FY11E	4607.8	146.1	6.9	1.7	1.4	24.7
<b>Mcaps (Rs Cr)</b>	31593	<b>Upside (%)</b>	1.2	FY12E	5336.4	169.2	5.9	1.6	1.4	26.2
SBI				NP (Rs Bn)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	STABAN	<b>CMP</b>	2275	FY10	91.4	144.0	15.8	2.8	0.9	15.1
		<b>Target</b>	2556	FY11E	106.8	151.6	15.0	2.1	0.9	14.2
<b>Mcaps (Rs Cr)</b>	144436	<b>Upside (%)</b>	12.4	FY12E	140.6	199.4	11.4	1.8	1.0	15.1
Union Bank of India				NP (Rs Bn)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	UNIBAN	<b>CMP</b>	300	FY10	2074.9	41.1	7.3	1.5	1.2	21.6
		<b>Target</b>	343	FY11E	2547.3	50.4	5.9	1.3	1.2	22.0
<b>Mcaps (Rs Cr)</b>	15128	<b>Upside (%)</b>	14.5	FY12E	3027.7	59.9	5.0	1.0	1.2	21.4
Axis Bank				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	UTIBAN	<b>CMP</b>	1208	FY10	2514.5	62.1	19.5	3.2	1.7	19.2
		<b>Target</b>	1302	FY11E	3129.7	76.5	15.8	2.6	1.6	17.5
<b>Mcaps (Rs Cr)</b>	48945	<b>Upside (%)</b>	7.8	FY12E	4133.3	101.1	12.0	2.2	1.7	19.2
Dhanlaxmi Bank				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	DHABAN	<b>CMP</b>	148	FY10	23.4	3.6	40.6	2.4	0.3	5.4
		<b>Target</b>	170	FY11E	66.7	7.8	18.9	1.6	0.7	10.3
<b>Mcaps (Rs Cr)</b>	949	<b>Upside (%)</b>	14.9	FY12E	104.3	12.3	12.1	1.4	0.7	11.5
HDFC Bank				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	HDFBAN	<b>CMP</b>	1855	FY10	2948.7	64.4	28.8	4.0	0.3	20.3
		<b>Target</b>	2151	FY11E	3972.3	87.6	21.2	3.6	0.3	17.6
<b>Mcaps (Rs Cr)</b>	84922	<b>Upside (%)</b>	16.0	FY12E	5051.4	111.4	16.7	3.2	0.3	20.0
Kotak Bank				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	KOTMAH	<b>CMP</b>	751	FY10	464.2	13.4	54.1	6.3	1.5	11.5
		<b>Target</b>	831	FY11E	548.4	15.9	45.8	6.2	1.4	12.9
<b>Mcaps (Rs Cr)</b>	26112	<b>Upside (%)</b>	10.7	FY12E	743.4	21.5	33.8	5.5	1.7	16.2
South Indian bank				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	SOUINO	<b>CMP</b>	156	FY10	233.7	20.7	7.5	1.3	1.1	18.0
		<b>Target</b>	150	FY11E	277.9	24.6	6.3	1.2	1.0	17.8
<b>Mcaps (Rs Cr)</b>	1763	<b>Upside (%)</b>	-3.8	FY12E	346.6	30.7	5.1	1.0	1.0	19.1
Yes Bank				NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)	
<b>Idirect Code</b>	YESBAN	<b>CMP</b>	276	FY10	477.7	14.1	19.6	3.1	1.6	20.3
		<b>Target</b>	316	FY11E	666.4	19.6	14.1	2.7	1.5	20.2
<b>Mcaps (Rs Cr)</b>	8280	<b>Upside (%)</b>	14.6	FY12E	890.6	26.2	10.5	2.2	1.4	22.7



## Continued...

<b>NBFC</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>IDFC</b>										
<b>Idirect Code</b>	IDFC	<b>CMP</b>	154	FY 09	848.0	6.5	23.5	3.2	2.8	14.3
		<b>Target</b>	200	FY10	1062.1	8.2	18.7	2.8	3.2	15.9
<b>Mcap (Rs Cr)</b>	19900	<b>Upside (%)</b>	30.1	FY11E	1326.8	9.1	16.9	2.0	3.4	14.6
<b>LICHF</b>										
<b>Idirect Code</b>	LICHF	<b>CMP</b>	965	FY 09	532.4	62.6	15.4	3.5	2.0	25.3
		<b>Target</b>	1013	FY10	662.5	69.0	14.0	3.0	2.0	23.8
<b>Mcap (Rs Cr)</b>	9163	<b>Upside (%)</b>	5.0	FY11E	849.1	88.5	10.9	2.4	2.1	24.0
<b>Rel Cap</b>										
<b>Idirect Code</b>	RELCAP	<b>CMP</b>	631	FY 09	1069.2	43.4	14.5	2.1	6.2	15.1
		<b>Target</b>	800	FY10	578.6	23.5	26.8	2.0	3.0	7.5
<b>Mcap (Rs Cr)</b>	15499	<b>Upside (%)</b>	26.8	FY11E	905.9	36.8	17.1	1.8	4.3	11.0
<b>Brokerage firms</b>										
<b>Edelweiss Capital</b>										
<b>Idirect Code</b>	EDECAP	<b>CMP</b>	406	FY10	255.3	32.0	12.7	1.3	6.7	11.5
		<b>Target</b>	494	FY11E	323.7	40.6	10.0	1.2	6.4	13.2
<b>Mcap (Rs Cr)</b>	3047	<b>Upside (%)</b>	21.7	FY12E	351.5	44.1	9.2	1.1	5.6	12.9
<b>India Infoline</b>										
<b>Idirect Code</b>	INDINF	<b>CMP</b>	102	FY10	234.3	8.3	12.3	1.7	9.0	14.6
		<b>Target</b>	111	FY11E	239.6	8.5	12.1	1.5	7.4	14.2
<b>Mcap (Rs Cr)</b>	2906	<b>Upside (%)</b>	8.9	FY12E	242.8	8.6	11.9	1.4	7.1	13.1
<b>MOFSL</b>										
<b>Idirect Code</b>	MOTOSW	<b>CMP</b>	169	FY 09	93.4	6.3	26.8	3.0	6.6	11.8
		<b>Target</b>	203	FY10	174.3	11.9	14.2	2.6	10.5	19.0
<b>Mcap (Rs Cr)</b>	2417	<b>Upside (%)</b>	20.1	FY11E	203.4	13.9	12.1	2.2	10.6	18.3



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 Reduce: Up to -10%  
 Sell: -10% or more;

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