

January 27, 2009

BUY

Price	Target Price
Rs1,042	Rs1,500

Sensex	8,674
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(19)	(21)	(28)	(53)
Rel. to Sensex	(11)	(11)	18	(7)

Source: Capitaline

Stock Details

Sector	Banks
Reuters	SBI.BO
Bloomberg	SBIN@IN
Equity Capital (Rs mn)	6,349
Face Value	10
No of shares o/s (mn)	635
52 Week H/L	2,350/991
Market Cap	Rs661bn/US\$13.4bn
Daily Avg Volume (No of shares)	4.7mn
Daily Avg Turnover (US\$)	115mn

Shareholding Pattern (%)

	D'08	S'08	J'08
Promoters	59.4	59.4	59.4
FII/NRI	14.8	18.2	19.2
Institutions	14.7	12.5	11.5
Private Corp	4.5	3.3	3.2
Public	6.6	6.6	6.7

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Results inline with expectations

State Bank of India's (SBI) Q3FY09 net profit at Rs24.8bn was inline with our expectations. However, operationally the results were slightly weaker as the faster deposit growth has put pressure on the NIM's, which do not seem to have expanded despite the cut in policy rates. The bank has invested the excess deposits in G-Secs which should help it to report strong treasury gains in coming quarters. The fee income remained strong with 52.7% yoy growth helping the bank to offset the impact of additional AS-15 provisions. The asset quality has witnessed some more slippages with GNPA at Rs133.1bn (Rs106.4bn in Q3FY08, Rs125.5bn in Q2FY09) and Net NPA at Rs68.6bn (Rs56.1bn in Q3FY09, Rs66.2bn in Q2FY09).

The stock is currently valued at 6.6x FY10E EPS and 1.2x FY10E ABV. We maintain our BUY rating with price target of Rs1,500.

Strong growth in NII

SBI has reported 35.3% yoy growth in NII to Rs57.6bn driven by 29.1% yoy growth in balance sheet. However NIM's have remained stable at 2.8% sequentially, whereas expanded by 14bps yoy.

Yield analysis

%	Q3FY09	Q3FY08	Q2FY09	Change in bps	
				yoy	qoq
Yield on advances	10.30	9.90	9.80	40	49
Yield on investments	7.07	7.54	8.01	-47	-94
Yield on assets	8.83	7.96	7.92	86	91
Cost of deposits	6.22	5.72	5.81	50	41
Cost of funds	6.01	5.29	5.15	72	86
NIM	2.82	2.68	2.78	14	4
NIM (Reported)	3.15	3.01	3.16	14	-1

Source: Company, Emkay Research Note: 1. calculated on basis of average quarterly balances,

NIM's remain flat as deposit growth remains high

We believe there are two reasons for the NIM's remaining flat sequentially

- The higher deposit growth has resulted in 350 bps decline in CASA mix and hence, the cost of deposit has not come down.
- The bank has significantly expanded its investment portfolio. With the yields coming down, the investment portfolio has also seen 90bps contraction in yields.

Moderate advance growth- a positive

The advance growth moderated during the quarter to 29.1% yoy to Rs5.0tn. On sequential basis the advances growth was at 2.1%. The growth was mainly driven by retail, agriculture and corporate.

Advances break up

Rs bn	Q3FY09	Q3FY08	Q2FY09	% of portfolio	% yoy chg	% qoq chg
Retail	1,038	817	997	21	27.0	4.1
Housing	519	425	506	10	22.0	2.6
SME	885	691	932	18	28.0	-5.0
Agriculture	521	414	489	10	26.0	6.6
Top corporates	617	420	567	12	47.0	8.9
ME	1,164	946	1,211	23	23.0	-3.9
International	737	554	754	15	33.0	-2.2
Total	5,038	3,903	4,934	100	29.1	2.1

Source: Company, Emkay Research

CASA float under pressure in line with industry trend

The CASA mix has declined by 360bps yoy to 37.5% during the quarter mainly driven by the decline in the current account float.

CASA Mix

Rs bn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Deposits	6,929	5,101	6,197	35.8	11.8
Current account	515	452	520	13.9	-0.9
Savings account	1,858	1,468	1,765	26.6	5.3
CASA (%)	37.5	41.1	39.7	-359.9	-225.9
Term deposits	5,071	3,634	4,432	39.6	14.4
Cost of deposits	5.95	5.55	5.94	40	1

Source: Company, Emkay Research

Other income continues to remain healthy

The other income has grown by 20.0%yoy to Rs32.3bn driven mainly by fee income which grew by 57.2%yoy and 20.9%qoq. Treasury income grew by 4.7%yoy to Rs6.7bn during the quarter.

Other income

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Treasury	6,740	6,436	1,616	4.7	317.1
Fee income	16,090	10,237	13,310	57.2	20.9
Forex	3,340	4,314	2,933	-22.6	13.9
Dividend	96	230	71	-58.2	36.3
Income From Leasing	77	139	80	-44.7	-3.5
Others	5,913	5,616	5,422	5.3	9.1
Total	32,256	26,972	23,431	19.6	37.7

Source: Company, Emkay Research

Wage and AS-15 provision drives expenses higher

The operating expenses has increased by 36.7%yoy to Rs45.0bn primarily driven by 38.8% increase in employee expenses as the bank provisions on wage revision (Rs2.5bn) and AS-15 shortfall (Rs7.5bn). As a result the operating profit has grown by 22.5% yoy to Rs44.8bn.

Core operating profit growth at 51%

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Reported operating profit	44,826	36,597	41,932	22.5	6.9
Less: Treasury gains	6,740	6,436	1,616	4.7	317.1
Add: AS-15 provisions	7,500	-	-	-	-
Core operating profit	45,586	30,161	40,316	51.1	13.1

Source: Company, Emkay Research

Provisions decline led by write back of investment depreciation

The provisioning for the quarter has declined by 75.5% yoy to Rs1.9bn as the bank made a write back of Rs3.4bn on investment depreciation.

Provisions break up

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
NPA	5,151	4,441	9,111	16.0	-43.5
As % of advances	0.10	0.11	0.18		
Investment depreciation	-3,416	575	-4,803	-694.2	-28.9
Others	234	3,028	1,798	-92.3	-87.0
Total	1,968	8,044	6,106	-75.5	-67.8

Source: Company, Emkay Research

Asset quality witness more slippages

The asset quality has witnessed some more slippages with GNPA at Rs133.1bn (Rs106.4bn in Q3FY08, Rs125.5bn in Q2FY09), Net NPA at Rs68.6bn (Rs56.1bn in Q3FY09, Rs66.2bn in Q2FY09). The provision cover has remained stable at 48.4%. The bank has not classified RGPPL- Dabhol as NPA.

NPA analysis

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Gross NPAs (Rs)	133.1	106.4	125.5	25.1	6.1
Gross NPA (%)	2.6	2.7	2.5		
Net NPAs (Rs)	68.6	56.1	66.2	22.4	3.7
Net NPA (%)	1.4	1.4	1.3		
Provision cover (%)	48.4	47.3	47.3		

Source: Company, Emkay Research

Valuation

The stock is currently valued at 6.6x FY10E EPS and 1.2x FY10E ABV. We maintain our BUY rating with price target of Rs1,500.

Quarterly results

Rs mn	M9FY09	M9FY08	% yoy chg	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Net interest income	160,312	122,206	31.2	57,582	42,564	54,554	35.3	5.6
Other Income	79,726	55,684	43.2	32,256	26,972	23,431	19.6	37.7
<i>Fee income</i>	42,250	28,540	48.0	16,090	10,237	13,310	57.2	20.9
Others	37,476	27,143	38.1	16,166	16,735	10,121	-3.4	59.7
Net income	240,038	180,983	32.6	89,838	69,535	77,985	29.2	15.2
Operating expenses	113,656	93,640	21.4	45,011	32,938	36,053	36.7	24.8
Pre-provision profit	126,382	87,343	44.7	44,826	36,597	41,932	22.5	6.9
Provisions & Contingencies	23,569	10,495	124.6	1,968	8,044	6,106	-75.5	-67.8
<i>NPA</i>	11,787	9,340	26.2	5,151	4,441	9,111	16.0	-43.5
Profit before tax	102,813	76,848	33.8	42,858	28,553	35,826	50.1	19.6
Taxes	39,023	28,390	37.5	18,074	10,467	13,229	72.7	36.6
Net Profit	63,790	48,458	31.6	24,784	18,086	22,597	37.0	9.7

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2007	218,526	45,413	86.3	494.8	0.9	15.4	14.5	2.1
FY2008	257,162	67,221	106.4	672.3	1.0	16.8	9.8	1.5
FY2009E	306,038	88,288	139.8	769.9	1.1	16.8	7.5	1.4
FY2010E	360,460	99,938	158.2	902.2	1.0	16.5	6.6	1.2

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