

January 24, 2011

Reco	Previous Reco
Accumulate	Reduce
CMP	Target Price
Rs2,598	Rs3,000
EPS change FY11E/12E (%)	-5.5 / NA
Target Price change (%)	NA
Nifty	5,697
Sensex	19,008

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	(19)	4	22
Rel. to Nifty	(1)	(13)	(0)	9

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	SBIN@IN
Equity Capital (Rs mn)	6350
Face Value(Rs)	10
No of shares o/s (mn)	635
52 Week H/L	3,515/1,863
Market Cap (Rs bn/USD mn)	1,650/36,137
Daily Avg Volume (No of sh)	3133416
Daily Avg Turnover (US\$m)	197.1

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	59.4	59.4	59.4
FII/NRI	17.2	14.9	13.8
Institutions	15.5	17.2	17.5
Private Corp	2.4	2.7	3.1
Public	5.4	5.8	6.3

Source: Capitaline

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- **SBI's NII at Rs90.5bn and net profit at Rs28.3bn were better than consensus estimates although the slippages continued to remain high at Rs39bn (Rs32bn in Q2FY11 excl SBIndore)**
- **Key positive of operating performance (1) CASA continued to expand to 48% (2) NIMs maintained at 3.0% and (3) continued lower repricing of legacy deposits**
- **SBI's PCR at 64%. Guided no need for teaser rate loan provisions. Also guided reduction in slippages driven by lower NPAs from restructured asset and agri**
- **Operating performance likely to remain strong. Slippages may come down in coming quarters. Valuations now reasonable at 1.6x FY12E conso banking ABV. Upgrade to ACCUMULATE**

NII growth ahead of expectations driven by NIMs

SBI reported 11.5% qoq growth in NII to Rs90.5bn, far ahead of consensus estimates. The better than expected growth was driven by 5bps qoq expansion in NIMs and a higher domestic CDR of 77.2% up 250bps qoq.

Yield Analysis

%	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (bps)	QoQ (bps)
Yield on advances*	8.6	8.4	8.4	8.7	8.9	30	19
Yield on investments*	5.9	6.2	6.1	6.5	7.5	155	95
Yield on assets*	7.2	7.0	6.9	7.2	7.1	-4	-11
Cost of funds*	4.6	4.4	4.2	4.3	4.1	-50	-15
NIM*	2.5	2.6	2.7	3.0	3.0	47	5
NIM (Reported)	2.8	3.0	3.2	3.4	3.6	79	18

Source: Company, Emkay Research

Calculated based on average quarterly balances

NIMs may remain stable as old deposits come for repricing

During Dec-2008, SBI had accumulated large quantum of long term deposits at high rates. These deposits are due for repricing over CY11 (largely in Dec-11). This repricing of deposits would help SBI to maintain NIMs at current levels.

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	Conso ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/CABV (x)
FY2009	335,639	91,229	143.7	861.5	1.1	17.1	18.1	3.0
FY2010	386,391	91,725	144.5	992.7	0.9	14.8	18.0	2.6
FY2011E	495,615	114,974	181.1	1,236.6	1.0	16.3	14.3	2.1
FY2012E	582,678	153,169	241.3	1,580.6	1.1	18.7	10.8	1.6

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	63,163	67,215	73,037	81,149	90,498	43.3	11.5	244,684	169,495	44.4
Other Income	33,657	45,085	36,900	40,052	33,139	-1.5	-17.3	110,090	104,596	5.3
Fee Income	21,900	34,858	24,096	29,450	24,774	13.1	-15.9	78,321	61,551	27.2
Net Income	96,820	112,300	109,937	121,201	123,636	27.7	2.0	354,774	274,091	29.4
Total Operating Expenses	50,639	60,361	48,593	57,631	55,992	10.6	-2.8	162,216	142,826	13.6
<i>As % Of Net Income</i>	<i>52.3</i>	<i>53.7</i>	<i>44.2</i>	<i>47.5</i>	<i>45.3</i>					
Employee Expenses	31,175	35,918	30,739	36,758	35,117	12.6	-4.5	102,614	91,629	12.0
<i>As % Of Net Income</i>	<i>32.2</i>	<i>32.0</i>	<i>28.0</i>	<i>30.3</i>	<i>28.4</i>					
Other Expenses	19,464	24,443	17,854	20,873	20,876	7.3	0.0	59,603	51,197	16.4
<i>As % Of Net Income</i>	<i>20.1</i>	<i>21.8</i>	<i>16.2</i>	<i>17.2</i>	<i>16.9</i>					
Operating Profit	46,182	51,939	61,344	63,570	67,644	46.5	6.4	192,558	131,265	46.7
<i>As % Of Net Income</i>	<i>47.7</i>	<i>46.3</i>	<i>55.8</i>	<i>52.5</i>	<i>54.7</i>					
Provisions	8,566	23,494	15,514	26,215	20,515	139.5	-21.7	62,244	20,454	204.3
Prov for NPA	4,437	21,868	17,334	21,625	16,323	267.9	-24.5	55,282	26,753	106.6
PBT	37,615	28,445	45,830	37,356	47,129	25.3	26.2	130,314	110,811	17.6
Total Tax	12,825	9,779	16,688	12,342	18,849	47.0	52.7	47,879	37,822	26.6
Adjusted PAT	24,791	18,666	29,142	25,014	28,280	14.1	13.1	82,436	72,989	12.9
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	24,791	18,666	29,142	25,014	28,280	14.1	13.1	82,436	72,989	12.9
Reported EPS	39.1	29.4	45.9	39.4	44.5	14.0	13.1	129.8	115.0	12.9

Source: Company, Emkay Research

Retail, mid and large corporate drive advances growth

The advance grew by 6.7% qoq to Rs7.3tn. The growth was driven by retail, mid and large corporate book.

Advances growth @ 19.0% yoy

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	% of total
Foreign	937	971	1,052	1,055	1,090	16.3	3.3	15.0
SME	1,029	1,101	1,106	1,122	1,163	12.9	3.6	16.0
Agriculture	612	637	639	695	727	18.8	4.6	10.0
Retail	1,265	1,327	1,372	1,430	1,526	20.7	6.7	21.0
Housing	673	712	747	793	824	22.5	3.9	11.3
Others	2,147	2,283	2,363	2,506	2,761	28.6	10.2	38.0
Total	5,989	6,319	6,532	6,807	7,266	21.3	6.7	100.0

Source: Company, Emkay Research

Fee income keeps momentum

The traction in fee income continued to remain strong as it grew by 27% yoy adjusted for accounting changes. The trading gains almost halved in line with expectations.

Other income

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Fee/Commission income	21,900	34,858	24,096	29,450	24,774	13.1	-15.9	78,321	61,551	27.2
Trading gains/(losses)	4,370	4,256	1,734	1,973	2,202	-49.6	11.6	5,910	16,912	-65.1
Forex gains/(losses)	4,036	1,895	5,025	3,087	4,083	1.2	32.3	12,195	13,977	-12.7
Dividend income	0	471	3,772	2,877	0	NA	NA	6,650	5,264	26.3
Other	3,351	3,606	2,272	2,665	2,079	-38.0	-22.0	7,016	6,893	1.8
Total	33,657	45,085	36,900	40,052	33,139	-1.5	-17.3	110,090	104,596	5.3

Source: Company, Emkay Research

Core operating profit grows by 60% yoy

Driven by the strong growth in operating revenues, the core operating profit has grown by 60% yoy and 6.4% qoq.

Core operating profit growth at 60% yoy

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Reported operating profit	46,182	51,939	61,344	63,570	67,644	46.5	6.4	192,558	131,265	46.7
Add: wage revision provisions			-8,450	-1,800				-10,250	0	
Add: AS-pension prov/ Gratuity	-	7,290	11,000	3,000	1,400			15,400	8,580	79.5
Adjusted operating profit	46,182	59,229	63,894	64,770	69,044	49.5	6.6	197,708	139,845	41.4
Less: Treasury gains	4,370	4,256	1,734	1,973	2,202	-49.6	11.6	5,910	16,912	-65.1
Core operating profit	41,811	54,973	62,160	62,797	66,842	59.9	6.4	191,798	122,933	56.0

Source: Company, Emkay Research

Pension liabilities not yet ascertained

Although, SBI is fully pension paying banks, they will have to revise their pension liabilities under the ninth bipartite agreement for higher basic salaries and DAs. The bank has not ascertained its liabilities yet and also not provided for the same. We believe that the liability could be anywhere between Rs1.5-2.0bn.

PCR could have been higher if not for technical reasons

During the quarter, SBI has converted provisions worth Rs10.9bn into write offs resulting in ~116bps lower PCR of 64.07%. Had it not been done the CDR would have been at 65.23%.

Lower provisions due to some write backs; teaser rate provisions not done

During the quarter, SBI adjusted the unrealized interest for previous years of Rs7.6bn against slippages under the RBI instructions resulting in lower gross NPAs of Rs234bn. Resultantly the provision requirement for the quarter has also been low. Also on incremental slippages, the provisioning has been done at rate of 60%.

SBI has not done any teaser rate loan provisions as it doesn't believe that its mortgage loans are teaser rate loans. The rationale given by the management is that that the eligibility of the borrower for these loans is decided on the basis of the EMI calculated on probable floating rate but loans are given at fixed rate. Thus, it's not a fixed rate loan but it's more like a discount given on the floating rate loan.

Provision break up

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
NPAs	4,437	21,868	17,334	21,625	16,323	267.9	-24.5	55,282	26,753	106.6
As % of advances	0.1	0.3	0.3	0.3	0.2			0.8	0.4	
Investment Depreciation	2,458	356	-2,983	4,318	2,088	-15.0	-51.7	3,423	-10,042	-134.1
Others	1,649	546	104	126	-146	-108.8	-215.4	84	3,667	-97.7
Total	8,566	23,494	15,514	26,215	20,515	139.5	-21.7	62,244	20,454	204.3

Source: Company, Emkay Research

High slippages continue; likely to come down in H1CY11

The slippages during the quarter were high at Rs39bn (including technical adjustments) higher than Rs32bn in Q2FY11 (excluding SBIndore). **Around Rs28.9bn of the outstanding restructured assets slipped till date, resulting in a slippage ratio of 15.7%. The slippages in restructured portfolio during the quarter was in line with management's guidance of Rs5bn for Q3FY11.**

The management has guided for reduction in slippages in coming quarters from the agriculture and restructured advances. Sector wise, exposure to MFIs is around ~Rs11bn and to new 2G players is Rs36bn.

NPA analysis

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Gross NPAs	188,612	195,340	208,252	232,046	234,378	24.3	1.0
Net NPAs	112,708	108,700	110,744	116,012	116,951	3.8	0.8
Gross NPAs (%)	3.1	3.1	3.1	3.4	3.2		
Net NPAs (%)	1.9	1.7	1.7	1.7	1.6		
Net NPAs/Net worth (%)	16.9	16.5	16.1	16.1	15.6		
Provision cover (%)	40.2	44.4	46.8	50.0	50.1		
Slippages (Rs bn)	26.2	25.0	40.8	44.1	39.1		
Slippage rate (%)	0.4	0.4	0.6	0.6	0.5		

Source: Company, Emkay Research

Valuation and view

Our underlying argument for negative stand on the stock has been its high slippages. However, we believe that from H1CY11 onwards the slippage number is likely to come down with NPAs in agriculture and restructured asset portfolio likely to taper off. The operating numbers have been strong for past few quarters and are likely to remain so. We have revised our FY11E EPS by ~5.5% due to the higher tax rate for the quarter.

At CMP, the stock trades at 2.0x/1.6x FY11E/12E consolidated banking operations ABV. The valuations have seen significant beating over past few weeks and have come at quite attractive level now. We upgrade the stock to ACCUMULATE. We have not included the impact of rights issue in our numbers which can add another Rs133/share to ABV implying an upside of 7% to our target price.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	208,731	236,709	335,659	400,470
Other income	126,908	149,682	159,956	182,207
Net income	335,639	386,391	495,615	582,678
Operating expenses	156,487	203,187	226,720	250,499
Pre provision profit	179,152	183,204	268,895	332,179
PPP excl treasury	153,485	162,036	260,895	324,179
Provisions	37,346	43,948	88,118	100,104
Profit before tax	141,806	139,256	180,777	232,075
Tax	50,594	47,589	65,803	78,905
Tax rate	36%	34%	36%	34%
Profit after tax	91,212	91,667	114,974	153,169

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	6,349	6,349	6,349	6,349
Reserves	573,128	653,143	745,834	876,720
Net worth	579,477	659,492	752,183	883,069
Deposits	7,420,731	8,041,162	9,596,998	11,329,225
Borrowings	1,644,113	1,838,912	2,002,419	2,181,428
Total liabilities	9,644,321	10,539,566	12,351,600	14,393,721
Assets				
Cash and bank	1,044,038	961,838	993,361	1,172,660
Investments	2,610,650	2,696,626	3,141,157	3,458,010
Customer assets	5,573,922	6,480,416	7,800,467	9,339,091
Others	415,711	400,686	416,976	423,960
Total assets	9,644,321	10,539,566	12,351,600	14,393,721

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.8	2.6	3.2	3.3
Non-ll/avg assets	1.5	1.5	1.4	1.4
Fee income/avg assets	0.9	1.0	1.0	1.0
Opex/avg assets	1.9	2.0	2.0	1.9
Provisions/avg assets	0.5	0.8	1.1	1.1
PBT/avg assets	1.5	1.3	1.5	1.6
Tax/avg assets	0.5	0.5	0.5	0.5
RoA	1.1	0.9	1.0	1.1
RoAE	17.1	14.8	16.3	18.7
GNPA (%)	3.3	3.3	3.5	3.2
NNPA (%)	1.8	1.7	1.6	1.2

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	91,229	91,725	114,974	153,169
Shares in issue (mn)	635	635	635	635
EPS (Rs)	143.7	144.5	181.1	241.3
PER (x)	18.1	18.0	14.3	10.8
FDEPS(Rs)	143.7	144.5	181.1	241.3
FDPER (x)	18.1	18.0	14.3	10.8
Book value (Rs)	912.7	1,038.8	1,184.8	1,390.9
P/BV (x)	2.8	2.5	2.2	1.9
Adj book value (Rs)	760.3	867.5	987.9	1,220.1
P/ABV (x)	3.4	3.0	2.6	2.1
P/PPP (x)	9.2	9.0	6.1	5.0
Dividend yield (%)	1.3	1.3	1.4	1.4

Recommendation History: State Bank of India – SBIN IN

Date	Reports	Reco	CMP	Target
08/11/2010	State Bank of India Q2FY11 Result Update	Reduce	3,423	3,000
13/08/2010	State Bank of India Q1FY11 Result Update	Reduce	2,784	2,650
17/05/2010	State Bank of India Q4FY10 Result Update	Reduce	2,223	2,000
28/01/2010	State Bank of India Q3FY10 Result Update	Reduce	1,987	1,800

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/01/2011	LIC Housing Finance Company Update	Buy	174	210
20/01/2011	Yes Bank Q3FY11 Result Update	Accumulate	273	300
20/01/2011	South Indian Bank Q3FY11 Result Update	Buy	22	30
19/01/2011	LIC Housing Finance Q3FY11 Result Update	UR	170	UR

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