

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	SBI.BO
Bloomberg code	SBIN IN
Market cap. (US\$ mn)	28,805
6M avg. daily turnover (US\$ mn)	124.6
Issued shares (mn)	635
Target price (Rs)	2,307

Performance (%)	1M	3M	12M
Absolute	(6)	(11)	101
Relative	(3)	(11)	4

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs.)	159.2	179.2
+/- (%)	10.8	12.6
ABV (Rs.)	917.0	1050.8
+/- (%)	12.7	14.6
PER (x)	13.1	11.7
PABV (x)	1.9	1.6
Dividend/Yield (%)	1.4	1.6

Major shareholders (%)

Promoters	59
FII's	15
MF's	16
Public & Others	10

Financial highlights

(Rs mn)	3QFY09	3QFY10	YoY (%)	9MFY09	9MFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Interest Earned	180,303	177,797	(1.4)	473,960	530,283	11.9	637,884	723,094	13.4	857,796	18.6
Interest Expended	122,722	114,634	(6.6)	313,648	360,783	15.0	429,153	481,727	12.3	567,633	17.8
Net Interest Income	57,582	63,163	9.7	160,312	169,500	5.7	208,731	241,367	15.6	290,163	20.2
Other Income	32,256	33,657	4.3	79,726	104,596	31.2	126,908	143,764	13.3	163,675	13.8
Total Income	212,559	211,454	(0.5)	553,686	634,879	14.7	764,792	866,858	13.3	1,021,471	17.8
Total Net Income	89,838	96,820	7.8	240,038	274,096	14.2	335,639	385,131	14.7	453,838	17.8
Staff Expenses	30,456	31,175	2.4	73,977	91,629	23.9	97,473	120,639	23.8	138,995	15.2
Other operating expenses	14,559	19,464	33.7	39,682	51,197	29.0	59,014	69,746	18.2	77,157	10.6
Operating Profit	44,823	46,181	3.0	126,379	131,270	3.9	179,152	194,747	8.7	237,686	22.0
Provision & Contingencies	1,968	8,566	335.2	23,569	20,454	(13.2)	37,346	39,268	5.1	62,682	59.6
Provision for tax	18,074	12,825	(29.0)	39,023	37,822	(3.1)	50,594	54,418	7.6	61,251	12.6
Reported Profit	24,781	24,790	0.0	63,786	72,995	14.4	91,212	101,061	10.8	113,752	12.6

State Bank of India

Maintain BUY

Price: Rs 2,091

BSE Index: 16,780

25 January 2010

3QFY10 Result – NII growth surprises, asset quality drags profit

- State Bank of India (SBIN) reported flat net profit growth at Rs 24.8 bn, above our estimates due to better than expected NII progression (12.6% QoQ).
- Key positives:** Loan growth improved by 4.5% QoQ coupled with sequential NII growth of 12.6% helps improvement in NIMs to 2.82% (2.55% in 2QFY10). NIMs also improved as bank deposit growth remained flat sequentially and replacement of bulk deposits with retail liabilities. The cost of deposits declined by 14 bps QoQ to 5.92% (flatish YoY) on account of falling share of bulk deposits (2.4% against 16%, a year ago) and strong CASA growth 29.9% YoY (CASA ratio up at 42.9% against 40.9% in 2QFY10). Core fee-income growth momentum continued at 36.1% YoY.
- Key negatives:** Slippages as on 9MFY10-end stood at Rs 93.4 bn (2.1%) and gross NPAs increasing by 14.9 bn QoQ to Rs 188.6 bn (3.11%). The NPA coverage declined to 40.2%; however, including technical write-offs coverage improves to 56.2%. The bank is set to improve its NPA coverage (including technical write-offs) to ~70% by 1HFY11E, as per RBI's new guidelines.

Outlook

SBIN's pre-emptive strategy of mobilising funds has placed it in good stead to grow the balance sheet in the recent quarters. SBIN will continue to lead the credit growth (18-20%) in the sector, driven by its expanding reach, ample liquidity on its balance sheet, a healthy and efficiently-priced retailised liability structure. Incrementally, margins have improved sharply and are likely to range between 2.8-2.9% in the coming quarters. Besides, fee-income will continue to driver earnings. The current upturn in core business earnings will help SBIN partially offset the high NPA provision coverage requirements (~Rs 30 bn), to be met by 1HFY11E, will not have any material impact on the bank's earnings. However, incremental slippages have increased substantially in current fiscal; we continue to remain conservative in our NPA estimates. Maintain Buy.

Valuation

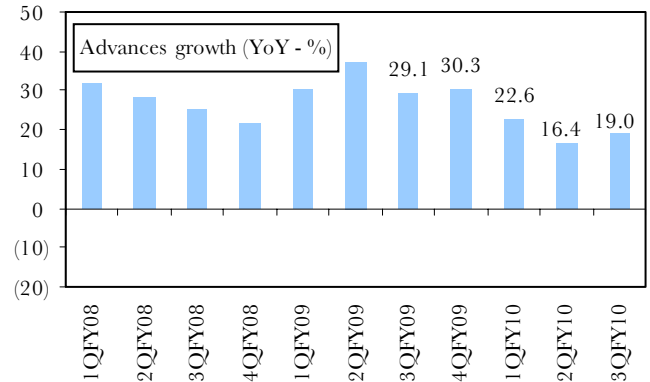
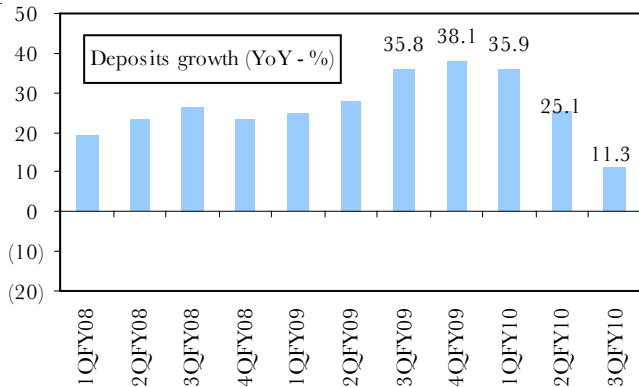
Excluding the value of subsidiaries, associate banks and JVs (Rs 521 per share), the stock is trading at 1.9x FY10E and 1.6x FY11E ABV at the current market price of Rs 2,091. We maintain a Buy rating on the stock with a revised target price of Rs 2,307.

SOTP valuation

(Rs mn)	Valuation basis	Enterprise value	SBI's stake (%)	Value for SBI
JVs				
SBI Life Insurance	15x FY11E NBAP	156,423	74	115,753
SBI AMC	4% of AUM	17,437	63	10,985
Subsidiaries				
SBI Capital Markets	15x FY11E earnings	26,473	86	22,809
SBI DFHI	15x FY11E earnings	22,891	67	15,339
SBI Factors	15x FY11E earnings	6,772	70	4,732
Global Trade Finance	15x FY11E earnings	12,756	92	11,739
Associate Banks				197,987
Total value of Subsidiaries/Associate Banks/JVs		1x FY11E ABV		379,345
No. of shares (mn) – SBI				635
Value per share from associates/subsidiaries		20% holding company discount		478
Value of unrealised gains from unlisted investments				43
Value of standalone business		1.8x FY11E ABV		1,787
Value per share (Rs)				2,307

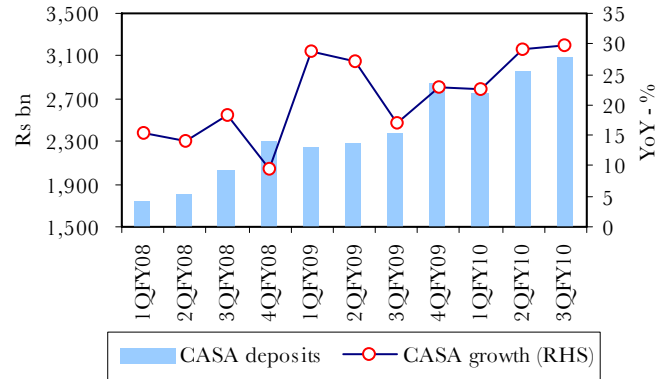
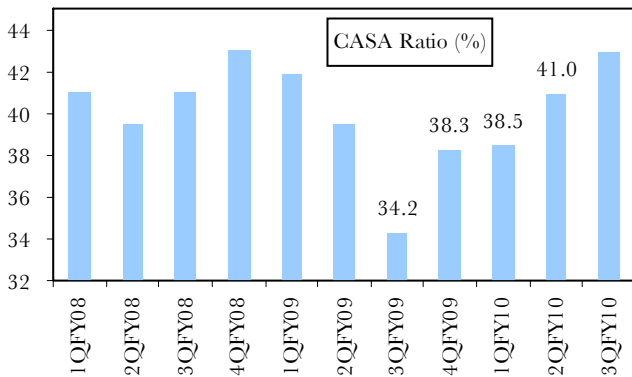
Key performance charts

Credit growth improves to 19% (4.5% QoQ); however, deposits growth slows down (11.3% YoY) as bank shed its high cost bulk deposits ~574.5 bn in 9MFY10



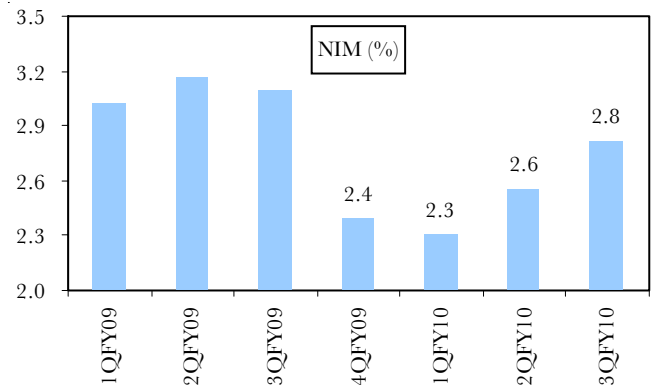
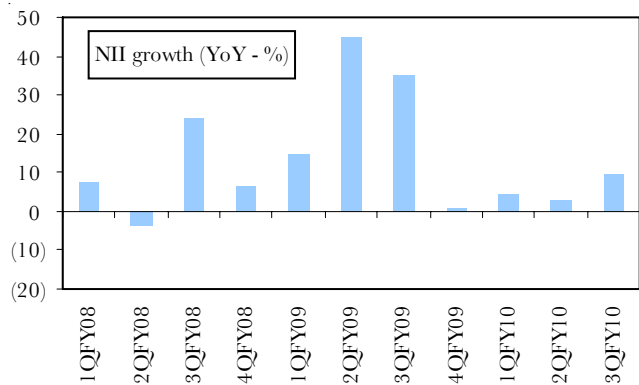
Source: Company, B&K Research

In 3QFY10, bank's CASA ratio improved to 42.94% and CASA growth up at 29.9% YoY and 4.4% QoQ



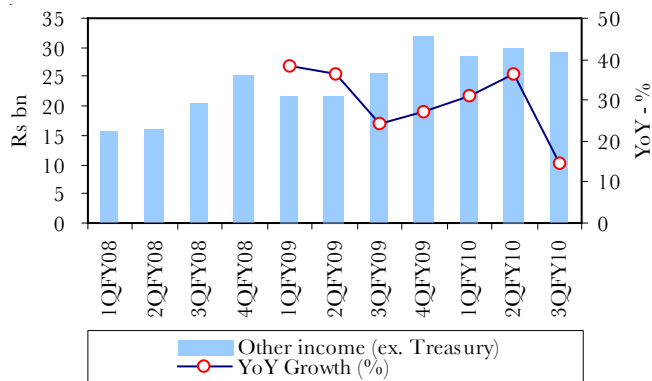
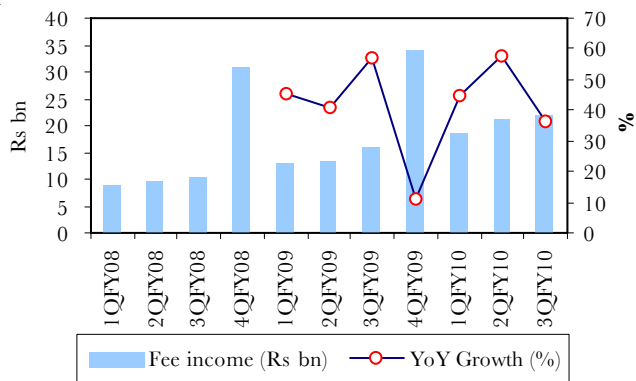
Source: Company, B&K Research

NII growth improves sequentially to 12.9% QoQ (9.7% YoY) and margins improves to 2.82% against 2.55% in 2QFY10 and 2.3% in 1QFY10. We expect NII progression to gain further pace in the coming quarters with pick up credit off-take



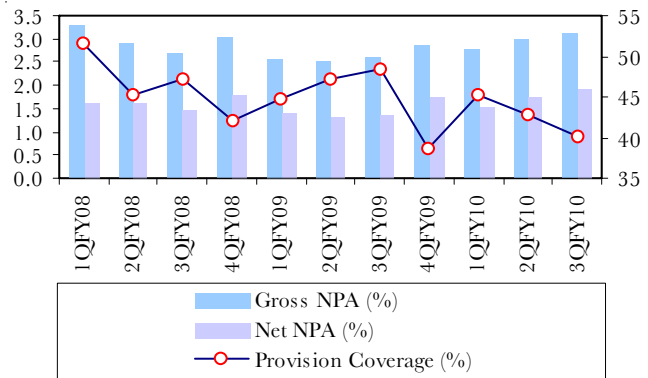
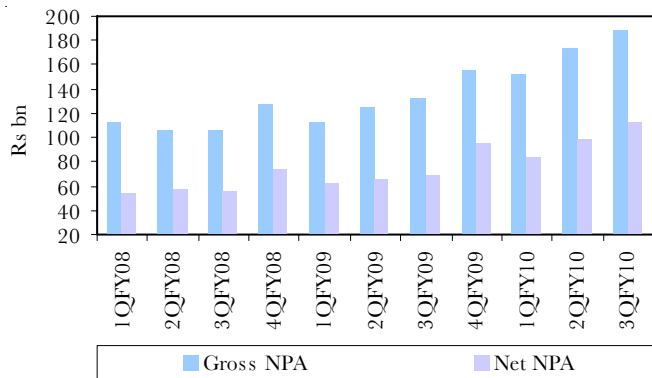
Source: Company, B&K Research

Fee income growth remains strong, however, overall other income growth to decline as treasury gains dry up



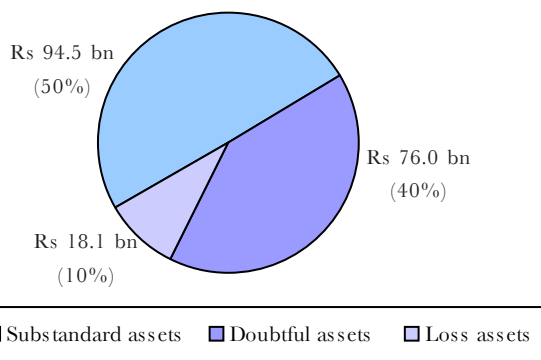
Source: Company, B&K Research

Gross NPAs continue to pose risk to earnings; the gross NPA increased to 3.11% with the incremental delinquencies' of Rs 2.6 bn in 3QFY10 and Rs 9.3 bn in 9MFY10 (slippages of 2.1% annualised)...NPA coverage drops to 40.2%, however, including technical write-offs is at 56.2%

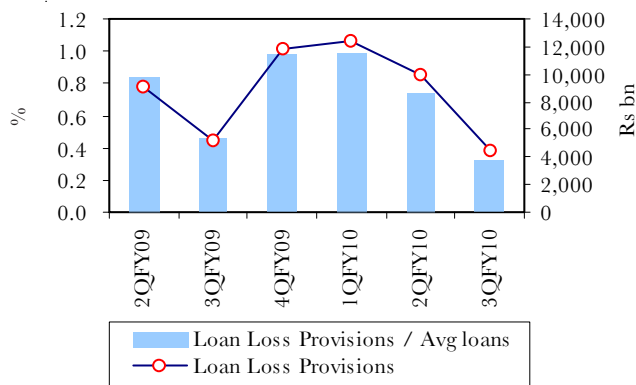


Source: Company, B&K Research

50% of the gross NPAs in substandard category and 40% in doubtful category explains the bank's low NPA coverage



Loan loss provisions come off in recent quarters



Source: Company, B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Interest income	489,503	637,884	723,094	857,796
Interest expense	(319,291)	(429,153)	(481,727)	(567,633)
Net interest income	170,212	208,731	241,367	290,163
<i>Growth (%)</i>	<i>13.0</i>	<i>22.6</i>	<i>15.6</i>	<i>20.2</i>
Non-interest income	86,949	126,908	143,764	163,675
Operating income	257,162	335,639	385,131	453,838
Operating expenses	(126,086)	(156,487)	(190,384)	(216,152)
Pre-provisions profit	131,076	179,152	194,747	237,686
Core operating profit	121,612	153,485	176,266	224,749
<i>Growth (%)</i>	<i>15.3</i>	<i>26.2</i>	<i>14.8</i>	<i>27.5</i>
Provisions & Contingencies	(26,687)	(37,346)	(39,268)	(62,682)
Pre-tax profit	104,389	141,806	155,479	175,004
(before non-recurring items)				
Pre-tax profit	104,389	141,806	155,479	175,004
(after non-recurring items)				
Tax (current + deferred)	(37,098)	(50,594)	(54,418)	(61,251)
Net profit	67,291	91,212	101,061	113,752
Adjusted net profit	67,291	91,212	101,061	113,752
<i>Growth (%)</i>	<i>34.1</i>	<i>35.5</i>	<i>10.8</i>	<i>12.6</i>
Net income	67,291	91,212	101,061	113,752

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and balance with RBI/Banks	674,663	1,044,038	816,061	1,087,472
Investments	1,895,013	2,759,540	3,422,923	3,710,396
Advances	4,167,682	5,425,032	6,296,184	7,391,921
Fixed assets (Net block)	33,735	38,378	43,201	47,568
Other assets	444,170	377,333	436,785	478,230
Total assets	7,215,263	9,644,321	11,015,154	12,715,586
Deposits	5,374,039	7,420,731	8,121,198	9,824,444
Borrowings	517,274	537,137	617,707	691,832
Other liabilities & prov.	833,623	1,106,976	1,617,995	1,451,816
Total liabilities	6,724,937	9,064,844	10,356,901	11,968,093
Share capital	6,315	6,349	6,349	6,349
Reserves & surplus	484,012	573,128	651,905	741,145
Shareholders' funds	490,327	579,477	658,254	747,493
Total equity & liab.	7,25,263	9,644,321	11,015,154	12,715,586

Key Ratios

Yr end 31 Mar	FY08	FY09	FY10E	FY11E
Operational & financial ratios (Rs)				
Adjusted EPS	106.6	143.7	159.2	179.2
DPS	21.5	29.0	30.0	33.0
Adjusted Book NAV/share	698.9	813.4	917.0	1,050.8
Profitability ratios (%)				
Yield on investment	7.1	6.7	5.9	6.0
Yield on advances	9.5	9.8	9.1	9.3
Yield on earning assets	8.2	8.1	7.4	7.6
Cost of deposits	5.6	5.9	5.7	5.8
Cost of funds	5.8	6.0	5.6	5.7
Performance ratios (%)				
RoA	1.0	1.1	1.0	1.0
RoE	16.1	16.4	15.8	15.7
Asset quality ratios (%)				
Gross NPLs	3.0	2.8	3.3	3.6
Net NPLs	1.8	1.8	1.8	1.6
Net NPLs/Net worth	14.6	15.9	17.0	15.8
Loan prov./Net int. income	15.1	13.7	17.3	20.6
Loan provisions/Avg loans	0.7	0.6	0.7	0.9
Provisions cover	42.2	38.7	45.0	55.0
Provisions cover [incl General Provisions]	56.7	52.2	54.9	63.2
Capitalisation ratios (%)				
Tier I cap.adequacy	9.1	9.1	9.5	9.0
Total cap.adequacy	13.5	13.5	13.5	13.1
Equity/Total assets	0.1	0.1	0.1	0.0
Loans/Assets	57.8	56.3	57.2	58.1
Investments/Assets	26.3	28.6	31.1	29.2
Loans/Deposits	77.6	73.1	77.5	75.2
Investments/Deposits	35.3	37.2	42.1	37.8
Efficiency ratios (%)				
Cost/Income	49.0	46.6	49.4	47.6
Cost/Core income	50.9	50.5	51.9	49.0
Cost/Assets	2.0	1.9	1.8	1.8
Productivity ratios (Rs mn)				
Staff cost per employee	0.4	0.5	0.6	0.6
Assets per employee	39.6	50.1	52.2	57.6
Optg revenue per employee	1.4	1.7	1.8	2.1
Optg expense per employee	0.7	0.8	0.9	1.0
Adj. net profit per employee	0.4	0.5	0.5	0.5
Valuation ratios (x)				
PER	19.6	14.6	13.1	11.7
Price/Adjusted book	2.5	2.1	1.9	1.6
Yield (%)	1.0	1.4	1.4	1.6

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 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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