

EARNINGS REVIEW

State Bank of India (SBI.BO)

Neutral

Equity Research

Below expectations on MTM hit/lower fees; remain Neutral

MTM hit, lower fee income affect earnings; NIMs surprise positive

SBI reported Q2FY12 PAT of Rs 28.1bn, 11% below Gse on MTM hit and lower fee income. **Key highlights:** (1) Gross NPL were up 22% qoq and 46% yoy with incremental slippage ratio touching 4.62% (3.72% in 1Q). Management indicated that Rs20bn (25%) of these was on account of few large corporate loans slipping in NPLs and they are hopeful this will reverse next 2Q. Gross NPL ratio was at 4.2% (up from 3.52% in 1Q) and net NPL 2.04% (1.61% in 1Q). Given the significant jump, we are now factoring higher slippage of Rs 132.7bn for the 2H. Besides this, SME (GNPA: 5%) and Agri (8.9%) were key contributors to NPLs and these sectors grew 21% and 17%, respectively, which was surprising. Management expressed their strategy of (a) revisiting risk appraisal systems, (b) adding a new layer at zonal office and (c) focusing on recoveries/collections. Benefits of these efforts will however take time, in our view. (2) NPL provisions were not increased significantly, just 4% higher than our estimate at Rs29.2bn or 1.54% of loans. PCR thus dropped 375 bps to 63.5%. (3) On the positive front, NIM improved 17bp qoq to 3.79%, buoyed by loan repricing, stable CASA and slower deposit repricing. Mgmt also increased guidance to 3.65% from 3.5% for FY12E. (4) Other income declined on account of loss on investments & higher base in fee income (-20% vs. Gse).

Asset quality continues to remain an overhang; retain Neutral

We lower our 12m SOTP-based target price to Rs2,200 from Rs2,350 on earnings cuts of between 5%-10% for FY12-FY14E despite rolling forward BVPS to Sep-2012, as we factor in higher NPL provisions and MTM hit, while increasing NII growth. We remain Neutral and believe stock performance will likely remain muted until NPL concerns recede. SBI is trading at 9.7X FY12E P/E and 1.3X FY12E P/B (standalone basis). Risk: Upside: Higher NIMs. Downside: higher NPLs.

State Bank of India: Summary of estimates

Rs mn	FY12E	FY13E	FY14E	Y-o-Y Growth (%)		
				FY12E	FY13E	FY14E
NII	421,302	461,635	520,242	30%	10%	13%
PAT	103,352	142,482	161,018	25%	38%	13%
Advances	8,805,144	10,114,598	11,898,594	16%	15%	18%

Source: Goldman Sachs Research estimates.

INVESTMENT LIST MEMBERSHIP

Neutral

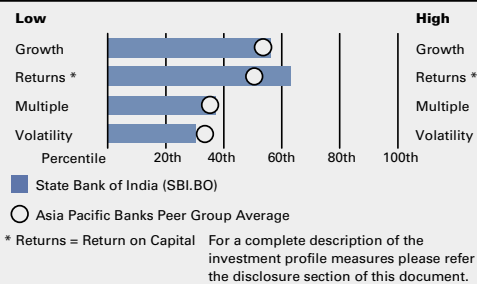
Coverage View: Neutral

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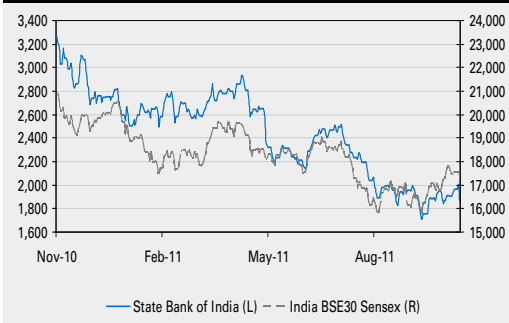
Investment Profile



Key data	Current
Price (Rs)	1,862.50
12 month price target (Rs)	2,200.00
Market cap (Rs mn / US\$ mn)	1,182,685.6 / 23,902.3
Foreign ownership (%)	11.5

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	130.15	162.76	224.38	253.57
EPS revision (%)	0.0	(9.5)	(4.9)	(7.5)
P/B (X)	1.8	1.6	1.4	1.2
P/E (X)	14.3	11.4	8.3	7.3
Dividend yield (%)	1.6	1.9	2.1	2.4
P/POPOP (X)	4.7	3.8	3.5	3.0
POPOP growth (%)	38.3	22.3	9.9	14.1
Preprovision ROA (%)	2.2	2.4	2.3	2.3
Credit cost (%)	1.3	1.6	1.2	1.2
ROA (%)	0.73	0.80	0.97	0.95
ROE (%)	12.6	14.9	17.9	17.5

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(16.5)	(29.0)	(43.1)
Rel. to India BSE30 Sensex	(18.9)	(24.2)	(31.4)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 11/09/2011 close.

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State Bank of India: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E	Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Net interest income	325,264.0	421,301.8	461,635.4	520,242.0	Gross loans	7,696,988.6	9,021,092.3	10,396,291.4	12,250,787.2
Non-interest income	158,246.0	151,551.9	171,043.3	204,878.6	NPLs	253,262.9	400,363.6	600,545.4	720,654.5
Operating revenue	483,510.0	572,853.7	632,678.7	725,120.6	Loan loss reserves	129,794.0	215,948.7	281,693.5	352,192.7
Non-interest expense	(230,154.4)	(262,893.0)	(291,985.8)	(336,402.3)	Total interest earning assets	11,598,710.6	13,081,024.6	15,075,963.8	17,554,894.2
Preprovision operating profit	253,355.6	309,960.7	340,692.9	388,718.3	Other non-interest earning assets	638,651.4	599,985.4	612,422.3	616,281.6
Total provision charge	(103,813.4)	(146,813.6)	(121,489.8)	(140,998.3)	Total assets	12,237,362.0	13,681,010.0	15,688,386.1	18,171,175.8
Associates	0.0	0.0	0.0	0.0	Customer deposits	9,339,328.1	10,965,980.7	12,828,612.5	15,156,351.4
Pretax profit	149,542.2	163,147.0	219,203.1	247,720.0	Total interest-bearing liabilities	10,752,082.7	12,327,734.4	14,222,102.5	16,577,769.3
Tax	(66,897.2)	(59,795.4)	(76,721.1)	(86,702.0)	Total equity	649,860.4	740,928.5	853,936.5	981,059.3
Minorities	--	--	--	--	CAMEL ratios (%)	3/11	3/12E	3/13E	3/14E
Net profit	82,645.0	103,351.7	142,482.0	161,018.0	C: Tier 1 capital ratio	7.8	7.5	7.5	7.3
Dividends	19,050.0	21,907.5	25,193.6	28,972.7	C: Equity/loans	8.6	8.4	8.4	8.2
Dividends payout (%)	23.1	21.2	17.7	18.0	C: Equity/assets	5.3	5.4	5.4	5.4
Earnings growth drivers (%)	3/11	3/12E	3/13E	3/14E	A: NPL ratio	3.3	4.4	5.8	5.9
Net interest margin	2.86	3.25	3.14	3.07	A: Loan loss reserves/NPLs	51.2	53.9	46.9	48.9
Provision charge/total loans	1.37	1.67	1.20	1.19	E: Net interest margin	2.86	3.25	3.14	3.07
YoY Growth (%)					E: Non int inc/oper revenues	32.73	26.46	27.03	28.25
Customer deposits	16.1	17.4	17.0	18.1	E: Cost-income ratio	47.6	45.9	46.2	46.4
Loans	19.8	16.4	14.9	17.6	E: ROAA	0.73	0.80	0.97	0.95
Net interest income	37.4	29.5	9.6	12.7	L: Loan/deposit ratio	81.0	80.3	78.8	78.5
Fee income	19.9	2.7	12.0	18.0	Key CAMELOT assumptions	3/11	3/12E	3/13E	3/14E
Non-interest income	5.7	(4.2)	12.9	19.8	GS CAMELOT implied P/B (X)	--	1.9	--	--
Operating revenue	25.1	18.5	10.4	14.6	GS CAMELOT implied P/E (X)	--	14.4	--	--
Operating expenses	(13.3)	(14.2)	(11.1)	(15.2)	Risk-free rate (%)	7.0	7.0	7.0	7.0
Preprovision operating profit	38.3	22.3	9.9	14.1	Equity risk premium (%)	5.0	5.0	5.0	5.0
Provision charges	86.9	17.5	14.5	7.2	CAMELOT beta (X)	--	1.0	--	--
Pretax profit	7.3	9.1	34.4	13.0	Risk-adjusted cost of equity (%)	--	12.0	--	--
Net profit	(9.9)	25.1	37.9	13.0	3-yr adjusted DPS CAGR (%)	--	15.0	--	--
EPS	(9.9)	25.1	37.9	13.0	Sustainable ROE estimate (%)	--	13.0	--	--
DPS	0.0	15.0	15.0	15.0	LT dividend payout estimate (%)	--	61.5	--	--
Market dimensions	3/11	3/12E	3/13E	3/14E	Ex-growth bond-equivalent P/B (X)	--	1.1	--	--
No of branches	13,542.0	14,065.0	14,265.0	14,465.0	Loan portfolio (%)	3/11	3/12E	3/13E	3/14E
No of staff (000)	223.0	232.9	238.9	244.9	Commercial & corporate	76.9	76.1	75.5	75.2
Revenues/staff (US\$)	47,580.7	53,512.0	53,521.7	59,839.0	Mortgages/home loans	11.3	11.2	11.5	11.9
Net profit/staff (US\$)	8,132.8	9,654.4	12,053.3	13,287.7	Consumer	21.4	21.6	21.8	22.0
DuPont analysis (%)	3/11	3/12E	3/13E	3/14E	Valuation (current price)	3/11	3/12E	3/13E	3/14E
ROE	12.6	14.9	17.9	17.5	P/E basic (X)	14.3	11.4	8.3	7.3
x leverage	5.7	5.4	5.4	5.4	P/B (X)	1.82	1.60	1.38	1.21
=ROA	0.73	0.80	0.97	0.95	P/PPOP (X)	4.7	3.8	3.5	3.0
% of assets	3/11	3/12E	3/13E	3/14E	Dividend yield (%)	1.6	1.9	2.1	2.4
Net interest income	2.86	3.25	3.14	3.07	EPS, basic (Rs)	130.15	162.76	224.38	253.57
Fee income	1.02	0.92	0.91	0.93	EPS, fully-diluted (Rs)	130.15	162.76	224.38	253.57
Non-interest income	1.39	1.17	1.16	1.21	EPS, basic growth (%)	(9.9)	25.1	37.9	13.0
Operating revenue	4.25	4.42	4.31	4.28	EPS, fully diluted growth (%)	(9.9)	25.1	37.9	13.0
Operating expenses	2.02	2.03	1.99	1.99	BVPS (Rs)	1,023.40	1,166.82	1,344.78	1,544.98
Preprovision operating profit	2.23	2.39	2.32	2.30	DPS (Rs)	30.00	34.50	39.68	45.63
Loan loss provisions	0.86	0.89	0.90	0.83					
Pretax profits	1.31	1.26	1.49	1.46					
Taxes	0.59	0.46	0.52	0.51					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Exhibit 1: State Bank of India 2QFY12 results snapshot

State Bank of India Rs mn unless stated	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q2FY12E	Var. Q-o-Q	Var. Y-o-Y	Act vs est
Income statement									
Interest income	198,081	214,128	217,214	241,974	259,671	251,879	7%	31%	3%
Interest expenses	116,932	123,630	136,633	144,979	155,452	156,231	7%	33%	0%
Net interest income	81,149	90,498	80,581	96,995	104,219	95,648	7%	28%	9%
yoy growth (%)	45%	43%	20%	33%	28%	18%			
Non-interest income	40,052	33,139	48,155	35,342	34,272	44,214	-3%	-14%	-22%
Net fee income	29,450	24,774	37,312	26,329	26,003	32,395	-1%	-12%	-20%
Investment income	1,973	2,202	3,347	1,689	280	2,500	-83%	-86%	-89%
Other income	8,629	6,163	7,495	7,324	7,989	9,319	9%	-7%	-14%
Total income	121,201	123,637	128,735	132,338	138,492	139,863	5%	14%	-1%
Operating expenses	57,631	55,992	67,938	59,913	63,749	63,137	6%	11%	1%
Salary	36,758	35,117	42,188	37,174	39,143	40,049	5%	6%	-2%
Other costs	20,873	20,876	25,750	22,740	24,605	23,088	8%	18%	7%
Preprovision profit	63,570	67,645	60,797	72,424	74,743	76,726	3%	18%	-3%
Provisions	26,215	20,515	41,570	41,569	33,855	23,985	-19%	29%	41%
Loan loss provisions	21,770	18,573	38,950	30,699	30,421	27,985	-1%	40%	9%
Investments amortization	4,318	2,088	3,045	10,479	4,583		-56%	6%	NM
Other provisions	126	-146	-425	390	-1,149				NM
Profit before tax	37,356	47,130	19,227	30,855	40,888	52,741	33%	9%	-22%
Tax	12,342	18,849	19,019	15,020	12,784	21,096	-15%	4%	-39%
Net profit	25,014	28,281	209	15,836	28,104	31,644	77%	12%	-11%
yoy growth (%)	0%	14%	-99%	-46%	12%	27%			
Effective tax rate(%)	33%	40%	99%	49%	31%	40%			-22%
PBT-Invt income+NPL provisions	61,597	65,443	57,450	70,736	74,463	74,226	5%	21%	0%
Key balance sheet items (Rs mn)									
Deposits	8,553,450	8,789,790	9,339,328	9,500,720	9,731,711	9,862,163	2%	14%	-1%
CASA ratio (%)	47.8%	48.2%	48.7%	47.9%	47.6%				
Advances	6,807,495	7,266,490	7,567,195	7,728,199	7,906,022	7,995,781	2%	16%	-1%
Retail loans	1,429,574	1,525,963	1,645,760	1,651,310	1,687,610	1,663,115	2%	18%	1%
Retail loans to advances (%)	21%	21%	22%	21%	21%	21%	0%	2%	3%
Housing loans	792,750	823,750	867,690	898,810	923,830	911,663	3%	17%	1%
Net investments	2,855,371	2,647,677	2,956,006	2,899,559	3,137,771	2,992,842	8%	10%	5%
Key analytics									
NIM (by company)	3.43%	3.61%	3.07%	3.62%	3.79%				
Cost/Income (%)	47.5	45.3	52.8	45.3	46.0	45.1			
Loan/Deposit (%)	79.6	82.7	81.0	81.3	81.2	81.1			
Asset quality details									
Gross NPLs	232,046	234,378	253,263	277,683	339,463		22%	46%	
Gross NPLs to advances (%)	3.4%	3.2%	3.28%	3.52%	4.19%				
Additions	52,660	31,530	56,450	61,800	80,160		30%	52%	
Upgrades, Recoveries	20,870	14,300	26,660	30,760	17,720		-42%	-15%	
Writeoffs	7,990	14,900	10,910	6,620	660		-90%	-92%	
Net NPLs	116,012	116,951	123,469	124,352	161,205		30%	39%	
Net NPLs to advances (%)	1.7%	1.6%	1.63%	1.61%	2.04%				
Restructured assets	306,700	327,500	343,490	349,130	354,220		1%	15%	
% of total loans	4.5%	4.5%	4.5%	4.5%	4.5%				
Capital adequacy details									
CAR (%)	13.2%	13.2%	12.0%	11.6%	11.4%				
Tier I (%)	9.6%	9.6%	7.8%	7.6%	7.5%				
Tier II (%)	3.6%	3.6%	4.2%	4.0%	3.9%				

Source: Company data, Goldman Sachs Research estimates.

Exhibit 2: SOTP Valuation

	SBI holding	Value (Rs/share)	Valuation Methodology
SBI standalone		1,670	GS Camelot (1.9X PBR)
Value of all non-bank subsidiaries		170	
Non banking subsidiaries			
SBI Life	74.0	120	Based on appraisal value
SBI MF	63.0	20	5% of average Sep 2011 AUM
NSE	8.0	20	Based on last market valuation
UTI MF	18.5	10	Based on last market valuation
Value of banking subsidiaries		363	
Value of all subsidiaries		533	
Target Price		2,200	

Source: Company data, Goldman Sachs Research estimates.

Reg AC

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Tabassum Inamdar, CFA: Asia Pacific Financials.

Asia Pacific Financials: AMMB Holdings, Axis Bank, Bajaj Finserv, Bangkok Bank, Bangkok Bank (Foreign), Bank Central Asia, Bank Danamon, Bank Mandiri, Bank Negara Indonesia, Bank of Ayudhya, Bank of Ayudhya (Foreign), Bank of Baroda, Bank of East Asia, Bank of India, Bank Rakyat Indonesia, Bank Tabungan Negara, BOC Hong Kong (Holdings), BS Financial Group Inc., Cathay Financial, Chang Hwa Commercial Bank, Chinatrust Financial Holdings, Chong Hing Bank, CIMB Group Holdings, Dah Sing Banking Group, Dah Sing Financial Holdings, DBS Group Holdings, DGB Financial Group, First Financial Holdings, Fubon Financial Holdings, Hana Financial Group, Hang Seng Bank, HDFC Bank, Housing Development Finance Corporation, HSBC Holdings, ICICI Bank, IndusInd Bank, Industrial Bank of Korea, Infrastructure Development Finance Co., Kasikornbank, Kasikornbank (Foreign), KB Financial Group, Korea Exchange Bank, Kotak Mahindra Bank, Krung Thai Bank, Krung Thai Bank (Foreign), LIC Housing Finance, Malayan Banking Berhad, Max India, Mega Financial Holdings, Oversea-Chinese Banking Corp., Power Finance Corporation, Public Bank Berhad, Public Bank Berhad, Punjab National Bank, Religare Enterprises, Samsung Card, Shin Kong Financial Holdings, Shinhan Financial Group, Shriram Transport Finance, Siam Commercial Bank, Siam Commercial Bank (Foreign), SinoPac Holdings, Standard Chartered Bank, State Bank of India, Taishin Financial Holdings, Union Bank, United Overseas Bank, Wing Hang Bank, Woori Finance Holdings, Yes Bank, Yuanta FHC.

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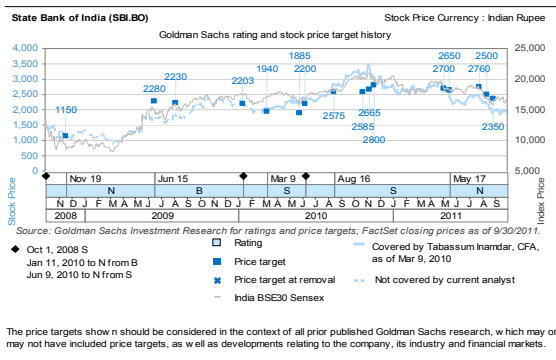
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Price target and rating history chart(s)



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