

## High Slippage offsets better margins

### ■ Event: Q2 results marred by higher NPL slippages

Reported net profit of Rs 28.1bn (+12% y/y) was ahead of our estimates, while NPL slippage at 4.2% of loans (annualised) was higher than expected. Key highlights 1) Margins improved 17bp q/q to 4.1% on back of higher domestic margins at 4.07% (+18bp q/q), 2) Fee declined 11% YoY due to lack of new corporate proposals, 3) Loans grew 16% y/y, 3% q/q partly driven by currency depreciation, 4) Gross NPA increased to 4.2% +67bp q/q with coverage declining to 63.5% from 67.3% in Q1, while restructured loans remain flat QoQ.

### ■ Earnings cut due to higher slippage and slower fee despite better margins

In FY12, we raise our margin estimates by 20bps to 3.7%, while reduce fee income growth to 4% from 8% earlier and raise LLP estimate by 10bps to 1.1%. We increase FY13 LLP forecast by 10bps to 1.2%. Resultantly, we cut our net profit forecast by 5%/6% for FY12/FY13 respectively. We are replacing rights issue of Rs180 bn by capital infusion of Rs40 bn in FY12 and Rs80 bn in FY13.

### ■ Price target cut to Rs2400

The stock has corrected 30% and u/p markets by 23% in last 6 months. Adjusting for stressed loans (NNPL+30% of restructured loans), and value of subs (at Rs100 per share), the stock trades at 1.4x FY12E consolidated book. We believe weak asset quality is priced in current valuations.

### ■ Valuation: Maintain Buy

On consolidated nos, we value core banking business at 1.3x FY13E book and 8.5x FY13E earning and value non banking business at Rs100 per share.

Highlights (Rsm)	03/10	03/11	03/12E	03/13E	03/14E
Revenues	396,275.82	477,042.44	552,310.28	665,496.78	783,288.24
Pre-tax profits	139,260.82	149,542.24	182,865.23	252,426.94	314,034.05
Net income	91,660.52	82,645.14	115,205.10	161,553.24	200,981.79
EPS (UBS, Rs)	144.37	130.15	175.29	230.24	286.44
Net DPS (UBS, Rs)	30.00	30.00	30.00	30.00	40.00

Profitability & Valuation	5-yr hist av.	03/11	03/12E	03/13E	03/14E
ROE %	15.3	12.6	16.0	17.9	18.3
P/Op x	6.1	6.8	4.1	3.6	2.9
P/BVPS x	1.9	2.6	1.6	1.3	1.1
PE (UBS) x	14.2	20.5	10.6	8.1	6.5
Net dividend yield %	1.5	1.1	1.6	1.6	2.1

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs1,862.50 on 09 Nov 2011 23:54 SGT

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## Global Equity Research

India

Banks, Ex-S&L

12-month rating **Buy**  
**Unchanged**

12m price target **Rs2,400.00/US\$95.81**  
*Prior: Rs2,600.00/US\$103.79*

Price **Rs1,862.50/US\$77.50 (ADR)**

RIC: SBI.BO BBG: SBIN IB

10 November 2011

### Trading data (local/US\$)

52-wk range	Rs3,213.50-1,715.30/US\$146.40-75.00
Market cap.	Rs1,182bn/US\$24.6bn
Shares o/s	635m (ORD)/317m (ADR)
ADR ratio	1 ADR:2 ORD
Free float	40%
Avg. daily volume ('000)	3,712/22
Avg. daily value (m)	Rs7,161.6/US\$1.9

### Balance sheet data 03/12E

Common equity	Rs789bn
P/BVPS x	1.6
Tier one capital ratio	8.5%

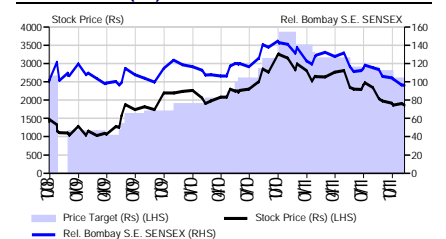
### Forecast returns

Forecast price appreciation	+28.9%
Forecast dividend yield	1.6%
Forecast stock return	+30.5%
Market return assumption	13.5%
Forecast excess return	+17.0%

### EPS (UBS, Rs)

	03/12E		03/11	
	From	To	Cons.	Actual
Q1	26.00	29.07	31.07	45.89
Q2	34.61	42.85	37.62	39.39
Q3E	46.45	45.19	44.97	44.54
Q4E	58.59	58.17	58.38	0.33
03/12E	165.65	175.29	166.97	
03/13E	234.55	230.24	235.97	

### Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

## Key takeaways from analyst meet

1) Bank has provided Rs5.5bn as counter cyclical buffer in Q1 and Q2 and thus has complied with RBI norms. These provisions won't be recurring in H2 and to that extent LLP will fall

2) Management is extremely comfortable with power exposure. Total SEB exposure stands at Rs90bn out of which Rs12bn is to distribution co's and rest to genco's.

3) Management was surprised to see couple of large corporate accounts slipping into NPA at the end of qtr. Agro, Hospitality and Gems and Jewellery were hit. Two major a/c in agro close to Rs12.7bn slipped into NPA due to fall in cotton and mustard prices. Management expects Rs20bn to recover from this qtr slippage in H2.

5) Rupee book to grow at 16-18% in FY12. Management expects NIM at 3.65% (earlier guidance of 3.5%) with upside bias in FY12 along with significant upside in international margins.

6) Finds writing off loan as tax neutral. Writing off negatively impacts recovery process

7) No first move in SB rate hike. If they do then will raise lending rate

8) Rs1.4bn CDS hit on account of a FCCB. Expected recovery could be around 30-35%

9) Yield rise of 50bp leads to MTM loss of Rs8bn

10) Management has taken steps to reduce RWA by 1) bought ECGC cover for Rs300bn export credit which will be now assigned 20% risk weight, 2) will go for cancelling of unused working capital limits, 3) assigning right ratings for corporate loan

11) Target branch expansion of 700-800 branches with 30% in rural unbanked areas and rest in metro areas

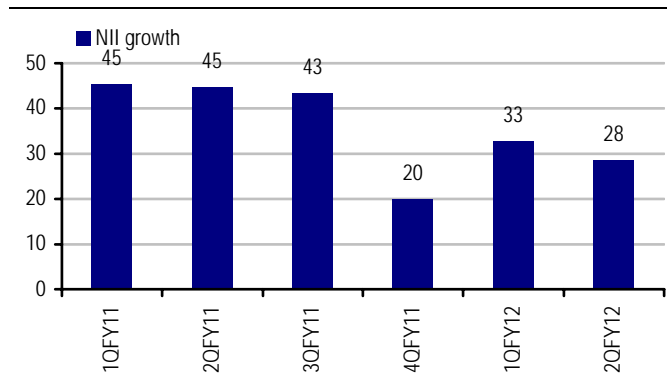
## Margins profile improved during the quarter

SBI reported strong NII performance of Rs 104.2bn (+28% y/y, 7% q/q) ahead of UBS-e of Rs 98bn. The beat came from margin improvement of 17bp q/q to 3.8%. Domestic margins improved to 4.07% up 18bp sequentially on back of higher yields. Management is confident to close the year with margins above guided target of 3.5%.

Other income reported sluggish growth as it fell 14% y/y and 3% q/q due to weaker core fee income (fell 12% y/y and 1% q/q), lower treasury and dividend income.

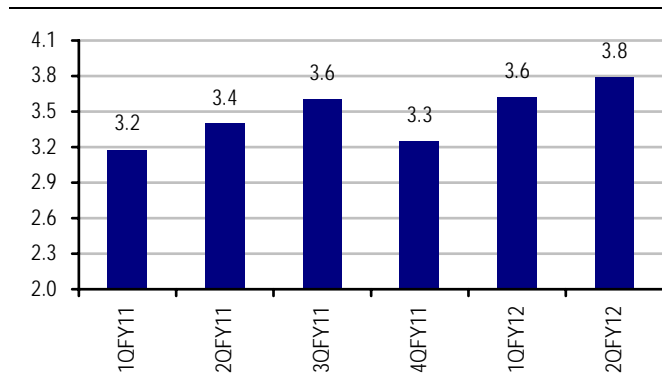
Cost to income ratio remained stable at 46%.

Chart 1: NII growth came in strong...



Source: Company data

Chart 2: ...driven by improved margin profile



Source: Company data

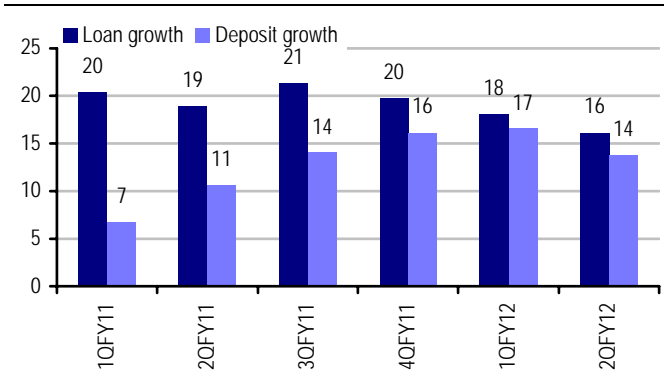
Table 1: Non interest income breakdown (Rs mn)

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	YoY
Fees, Commission	24,096	29,450	24,774	37,312	26,329	26,003	(12)
Investment income	1,734	1,970	2,202	3,347	1,689	280	(86)
Forex income	5,025	3,090	4,080	2,446	3,312	4,806	56
Dividend	3,772	2,880	0	1,628	2,278	840	(71)
Miscl income	2,263	2,660	2,078	3,413	1,734	2,342	(12)
Income from leasing	9						
<b>Total Non interest income</b>	<b>36,900</b>	<b>40,050</b>	<b>33,134</b>	<b>48,146</b>	<b>35,342</b>	<b>34,271</b>	<b>(14)</b>

Source: Company data

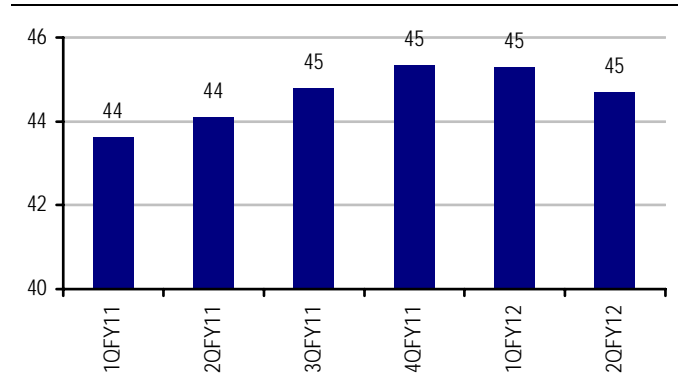
Gross advances grew 17% y/y and 5% q/q due to higher growth in international book on account of depreciating rupee. Domestic advances grew 15.6% y/y, 1% q/q. CASA remained stable at 48%.

**Chart 3: Business momentum (%)**



Source: Company data

**Chart 4: Global CASA trend (%)**



Source: Company data

### Slippages remain at elevated levels

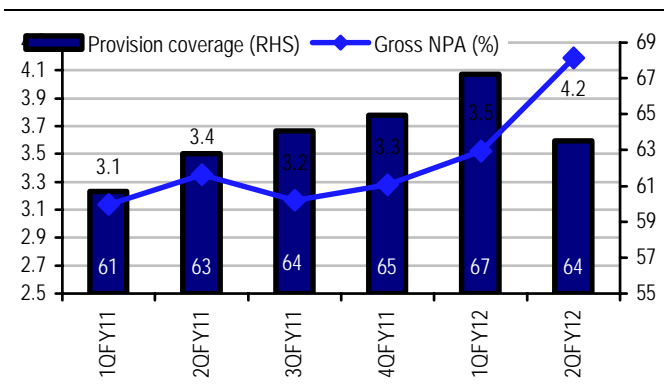
Gross slippage remained at elevated levels with Q2 run rate of 4.1% vs 3.2% in Q1. Stress is evident across the portfolio with rising NPA for SME at 5% (+80bp q/q), agriculture at 8.9% (175 bp q/q).

High slippages in Q2 came from few large corporate accounts in agro business, gems and jewellery and hospitality slipping into NPA. Out of Rs 80bn slippage in Q2, management expects Rs20bn to turn into standard asset in H2.

Management will be focussing on net NPA and is targeting to end year at 1.7%. However, the end result will depend on how global and Indian macro environment plays out in H2.

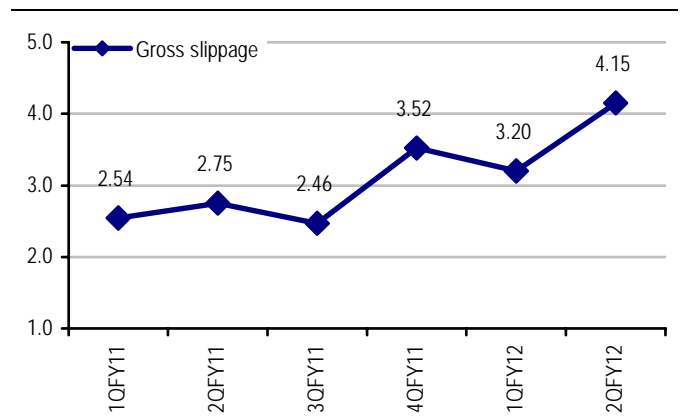
Gross NPA increased 67bp q/q to 4.19% while net NPA at 2.04% (vs 1.61% in Q1). Provision coverage (including write off) fell to 63.5% from 67.3% in Q1. Stressed book (restructured loan +gross NPA) is at high level 8.8%

**Chart 5: Gross NPA**



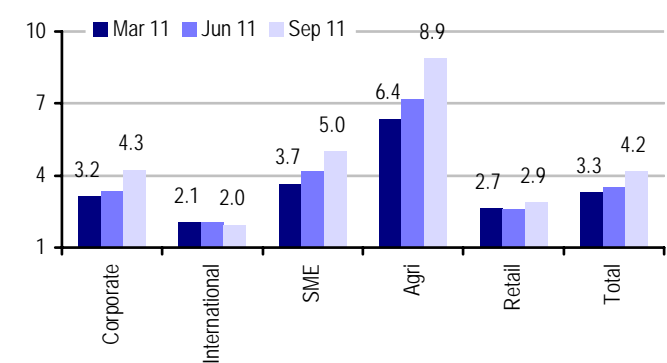
Source: Company data

**Chart 6: Slippage ratio**



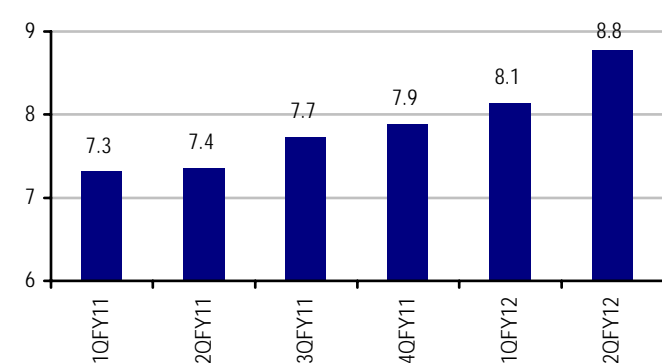
Source: Company data

Chart 7: Sector wise NPA



Source: Company data

Chart 8: Share of stressed asset at high levels



Source: Company data

Table 2: Sector wise slippage

(Rs mn)	1QFY11	2QFY11	3QFY11	4QFY10	1QFY12	2QFY12
Corporate	5,490	19,030	16,320	18,520	17,160	24,540
International	220	5,150	2,050	4,970	1,410	1,430
SME	11,150	11,770	1,870	14,430	19,610	22,440
Agri	12,830	9,570	4,910	12,590	14,420	20,080
Retail	11,120	7,140	6,380	5,940	9,200	11,660
Total	40,810	52,660	31,530	56,450	61,800	80,150

Source: Company data

Table 3: SBI consolidated earning summary (Rs mn)

	2QFY11	2QFY12	YoY growth (%)
SBI consolidated	23,640	34,704	47%
State Bank of India	25,014	28,104	12%
<b>Banking subs</b>			
State Bank of Bikaner & Jaipur	1,275	1,122	-12%
State Bank of Hyderabad	2,645	2,320	-12%
State Bank of Mysore	934	778	-17%
State Bank of Patiala	1,561	1,554	0%
State Bank of Travancore	1,635	1,170	-28%
<b>Non banking subs</b>			
SBI Life	2,168	2,000	-8%
SBI Cards & Payment Services Pvt Ltd.	76	185	144%
SBI Funds Management Pvt Ltd.	NA	363	

Source: Company data

Table 4: SBI quarterly earnings summary (Rsmn)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11E	1QFY12E	2QFY12E	YoY growth (%)
<b>Income earned</b>	<b>174,728</b>	<b>177,759</b>	<b>177,797</b>	<b>179,656</b>	<b>184,521</b>	<b>198,081</b>	<b>214,128</b>	<b>217,214</b>	<b>241,974</b>	<b>259,671</b>	<b>31</b>
Income on advances	123,571	126,688	126,394	129,673	134,221	145,808	157,166	162,566	182,564	197,889	36
Income on investments	43,385	45,121	44,333	44,523	44,722	48,044	51,569	52,179	55,801	58,927	23
Interest on balance with RBI	7,771	5,949	7,070	5,459	5,578	4,230	5,394	2,469	3,610	2,855	(33)
<b>Interest expense</b>	<b>124,479</b>	<b>121,671</b>	<b>114,634</b>	<b>112,442</b>	<b>111,484</b>	<b>116,932</b>	<b>123,630</b>	<b>136,633</b>	<b>144,979</b>	<b>155,452</b>	<b>33</b>
Interest on deposits	114,358	111,560	104,454	102,971	100,803	104,300	107,819	119,429	127,565	138,166	32
Interest on borrowings	3,303	3,103	2,993	2,881	3,572	5,090	7,892	9,065	8,459	8,195	61
Other sundry interest	6,818	7,007	7,186	6,590	7,109	7,550	7,918	8,139	8,955	9,090	20
<b>Nil adjt for invest. amortization</b>	<b>50,249</b>	<b>56,088</b>	<b>63,163</b>	<b>67,214</b>	<b>73,037</b>	<b>81,149</b>	<b>90,498</b>	<b>80,581</b>	<b>96,995</b>	<b>104,219</b>	<b>28</b>
yoy growth (%)	4	3	10	39	45	45	43	20	33	28	
<b>NIM</b>	<b>2.3</b>	<b>2.4</b>	<b>2.6</b>	<b>2.7</b>	<b>3.2</b>	<b>3.4</b>	<b>3.6</b>	<b>3.1</b>	<b>3.6</b>	<b>3.8</b>	
<b>Other income</b>	<b>35,688</b>	<b>35,251</b>	<b>33,657</b>	<b>45,085</b>	<b>36,900</b>	<b>40,052</b>	<b>33,139</b>	<b>48,155</b>	<b>35,342</b>	<b>34,272</b>	<b>(14)</b>
Fees, commission	18,620	21,030	21,900	34,858	24,096	29,450	24,774	37,312	26,329	26,003	(12)
Inv. income	7,088	5,454	4,370	4,256	1,734	1,970	2,202	3,347	1,689	280	(86)
Forex income	4,704	5,237	4,036	1,895	5,025	3,090	4,080	2,446	3,312	4,806	56
Dividend	3,581	1,682	-	471	3,772	2,880	-	1,628	2,278	840	(71)
Other income excl. treasury	28,599	29,797	29,287	40,829	35,166	38,082	30,937	44,808	33,654	33,992	(11)
<b>Total income</b>	<b>85,936</b>	<b>91,339</b>	<b>96,820</b>	<b>112,300</b>	<b>109,937</b>	<b>121,201</b>	<b>123,637</b>	<b>128,735</b>	<b>132,338</b>	<b>138,492</b>	<b>14</b>
<b>Operating expenses</b>	<b>49,198</b>	<b>42,990</b>	<b>50,639</b>	<b>60,361</b>	<b>48,593</b>	<b>57,631</b>	<b>55,992</b>	<b>67,938</b>	<b>59,913</b>	<b>63,749</b>	<b>11</b>
Staff expenses	29,642	23,602	25,555	35,918	30,739	36,758	35,117	42,188	37,174	39,143	6
Other operating expenses	15,085	16,648	19,464	24,443	17,854	20,873	20,876	25,750	22,740	24,605	18
<b>Pre-provision operating profit</b>	<b>36,739</b>	<b>48,350</b>	<b>46,181</b>	<b>51,939</b>	<b>61,344</b>	<b>63,570</b>	<b>67,645</b>	<b>60,797</b>	<b>72,424</b>	<b>74,743</b>	<b>18</b>
<b>Provisions and extr. Ord.</b>	<b>1,727</b>	<b>10,161</b>	<b>8,566</b>	<b>23,494</b>	<b>15,514</b>	<b>26,215</b>	<b>20,515</b>	<b>41,570</b>	<b>41,569</b>	<b>33,855</b>	<b>29</b>
Loan loss provisions	12,342	9,974	4,437	21,868	17,334	21,625	18,572	32,639	27,817	29,212	35
Standard assets	140	(87)	23	725	1,059	146	2,249	6,311	2,883	1,209	730
Investment depreciation	(12,005)	(494)	2,460	356	(2,983)	4,318	2,087	3,045	10,479	4,583	6
Other provisions	1,250	767	1,649	546	104	126	(145)	(425)	390	(1,149)	(1,010)
<b>PBT</b>	<b>35,011</b>	<b>38,189</b>	<b>37,615</b>	<b>28,445</b>	<b>45,830</b>	<b>37,355</b>	<b>47,130</b>	<b>19,227</b>	<b>30,855</b>	<b>40,888</b>	<b>9</b>
Less tax	11,708	13,289	12,825	9,779	16,688	12,342	18,849	19,019	15,020	12,784	3.6
<b>Profit after tax</b>	<b>23,304</b>	<b>24,900</b>	<b>24,790</b>	<b>18,666</b>	<b>29,142</b>	<b>25,014</b>	<b>28,281</b>	<b>209</b>	<b>15,836</b>	<b>28,104</b>	<b>12</b>
yoy growth (%)	42	10	0	(32)	25	0	14	(99)	(46)	12	

Source: Company data

Table 5: Other key details

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11E	1QFY12E	2QFY12E	YoY growth (%)
<b>Key balance sheet data (Rs bn)</b>											
Advances gross	5,498	5,802	6,072	6,415	6,638	6,932	7,400	7,718	7,709	8,106	17
Advances net	5,429	5,722	5,989	6,319	6,532	6,807	7,267	7,567	7,709	7,906	16
Housing finance	575	623	673	712	747	793	824	868	899	924	17
Large corporates	673	-	684	881	956	931	1,058	1,087	1,141	1,133	22
Mid Corporates	1,190	-	1,261	1,337	1,319	1,449	1,493	1,576	1,596	1,613	11
SME	971	959	1,029	1,108	1,106	1,122	1,242	1,197	1,203	1,260	12
Retail to total advances (%)	20.8	20.8	21.1	21.0	21.0	22.0	21.5	21.7	21.4	21.3	
Agriculture	551	590	611	637	639	695	712	948	955	958	38
Deposits	7,636	7,729	7,710	8,041	8,153	8,553	8,790	9,339	9,501	9,732	14
Low cost deposits (%)	38.5	41.0	40.0	43.1	43.6	44.1	44.8	45.3	45.3	44.7	
<b>Yield management ratios (%)</b>											
Cost of deposits	6.2	6.1	5.9	5.8	5.3	5.3	5.2	5.3	5.7	5.8	
Yield on advances	10.0	10.0	9.8	9.7	9.3	9.5	9.6	9.6	10.4	10.8	
Net interest margin			2.6	2.7	3.2	3.4	3.6	3.1	3.6	3.8	
<b>Asset quality details</b>											
Gross NPLs (Rs bn)	153	174	189	195	208	232	234	253	278	339	46
Gross NPLs (%)	2.7	3.0	3.1	3.1	3.1	3.4	3.2	3.3	3.5	4.2	
Net NPLs (Rs bn)	84	99	113	109	111	116	117	123	124	161	39
Net NPLs (%)	1.6	1.7	1.9	1.7	1.7	1.7	1.6	1.6	1.6	2.0	
Total restructured loan (Rs bn)	195	240	250	268	269	269	328	343	349	354	32
Gross NPL + restructured loan (Rs bn)	348	414	439	464	477	501	562	597	627	694	38
% of total loans	6.4	7.2	7.3	7.3	7.3	7.4	7.7	7.9	8.1	8.8	
Net NPL + restructured loan (Rs bn)	279	339	363	377	380	385	444	467	473	515	34
% of total loans	5.1	5.9	6.1	6.0	5.8	5.7	6.1	6.2	6.1	6.5	
<b>Capital adequacy details (%)</b>											
CAR (Basel II)	14.1	14.1	13.8	13.4	13.5	13.2	13.2	12.0	11.6	11.4	
Tier I	9.7	9.8	9.7	9.5	9.8	9.6	9.6	7.8	7.6	7.5	
Tier II	4.4	4.3	4.1	3.9	3.8	3.6	3.6	4.2	4.0	3.9	

Source: Company data

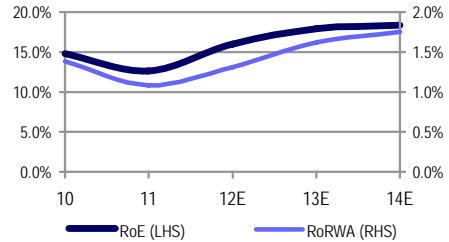
**State Bank of India**

Per share (Rs)	3/10	3/11	3/12E	3/13E	3/14E
EPS (stated)	144.37	130.15	175.29	230.24	286.44
EPS (UBS adjusted)	144.37	130.15	175.29	230.24	286.44
GOPS	304.13	388.80	451.21	522.64	638.18
DPS	30.00	30.00	30.00	30.00	40.00
BVPS (stated)	1,038.76	1,023.40	1,200.73	1,443.20	1,682.84
BVPS (adjusted)	872.64	816.91	927.87	1,112.44	1,266.91
<b>Profit &amp; Loss (Rsm)</b>					
Net interest income	236,714.40	325,264.00	416,268.07	486,773.66	580,168.77
Other income	159,561.43	151,778.44	136,042.22	178,723.12	203,119.47
<b>Total revenues</b>	<b>396,275.82</b>	<b>477,042.44</b>	<b>552,310.28</b>	<b>665,496.78</b>	<b>783,288.24</b>
Expenses	(203,186.80)	(230,154.30)	(255,766.78)	(298,780.99)	(335,496.16)
Operating profit	193,089.02	246,888.14	296,543.50	366,715.80	447,792.08
Provisions and other items	(53,828.20)	(97,345.90)	(113,678.27)	(114,288.85)	(133,758.04)
Profit before tax	139,260.82	149,542.24	182,865.23	252,426.94	314,034.05
Pre-exceptional net income	91,660.52	82,645.14	115,205.10	161,553.24	200,981.79
<b>Capital dynamics (Rsm)</b>					
Risk-weighted assets	6,974,661.34	8,309,242.36	9,251,853.03	10,683,344.97	12,337,897.70
Tier one capital	659,105.50	645,628.13	784,915.11	976,121.90	1,144,268.55
Total capital	933,907.15	1,002,702.15	1,165,379.23	1,380,764.33	1,563,818.29
Tier one ratio	9.5%	7.8%	8.5%	9.1%	9.3%
Total capital ratio	13.4%	12.1%	12.6%	12.9%	12.7%
Net profit after tax	91,660.52	82,645.14	115,205.10	161,553.24	200,981.79
Tier 1 requirement					
Less: Working capital requirement					
Less: Dividends	21,414.03	21,515.17	22,268.11	24,626.36	32,835.15
Surplus capital generated					
Surplus capital generation ratio					
<b>Balance sheet (Rsm)</b>					
Assets	10,534,137.31	12,237,362.00	14,218,868.76	16,703,926.72	19,404,635.39
Customer loans	6,414,800.00	7,718,020.00	9,042,449.39	10,648,988.99	12,535,360.21
Customer deposits	8,041,162.27	9,339,328.13	10,927,013.91	12,893,876.42	15,094,221.67
Funds under management					
Loans : assets	60.9%	63.1%	63.6%	63.8%	64.6%
Deposits : assets	76.3%	76.3%	76.8%	77.2%	77.8%
Loans : deposits	79.8%	82.6%	82.8%	82.6%	83.0%
Shareholders funds : assets	6.26%	5.31%	5.55%	6.06%	6.09%
<b>Asset quality (Rsm)</b>					
Non-performing assets	195,350.50	253,264.50	386,622.12	524,779.31	687,482.38
Total risk reserves	86,648.80	129,795.60	198,335.68	271,507.46	356,862.35
NPLs : loans	3.05%	3.28%	4.28%	4.93%	5.48%
NPL coverage	44%	51%	51%	52%	52%
Provision charge : average loans	0.87%	1.38%	1.36%	1.16%	1.15%
Net NPLs : shareholders' funds	16.5%	19.0%	23.9%	25.0%	28.0%
<b>Profitability</b>					
Net interest margin (avg assets)	2.35%	2.86%	3.15%	3.15%	3.21%
Provisions : operating profit	27.9%	39.4%	38.3%	31.2%	29.9%
RoE	14.8%	12.6%	16.0%	17.9%	18.3%
RoAdjE					
RoRWA	1.39%	1.08%	1.31%	1.62%	1.75%
RoA	0.91%	0.73%	0.87%	1.04%	1.11%
<b>Productivity</b>					
Cost : income ratio	51.3%	48.2%	46.3%	44.9%	42.8%
Costs : average assets	2.0%	2.0%	1.9%	1.9%	1.9%
Compensation expense ratio	39.8%	37.0%	35.0%	33.7%	31.3%
<b>Momentum</b>					
Revenue growth	+20.6%	+20.4%	+15.8%	+20.5%	+17.7%
Operating profit growth	+12.2%	+27.9%	+20.1%	+23.7%	+22.1%
Net profit growth	+0.5%	-9.8%	+39.4%	+40.2%	+24.4%
Dividend growth	+3.4%	+0.0%	+0.0%	+0.0%	+33.3%
<b>Value*</b>					
<b>UBS bank valuation</b>					
Leveraged P/E					
Risk tendency P/E					
Merger P/E					
Market capitalisation (Rsm)	1,203,860.36	1,690,286.08	1,182,464.01	1,182,464.01	1,182,464.01
<b>Conventional valuation</b>					
Market cap./Revenues	3.0x	3.5x	2.1x	1.8x	1.5x
Market cap./Operating profit	6.2x	6.8x	4.0x	3.2x	2.6x
P/E (stated)	13.1x	20.4x	10.6x	8.1x	6.5x
P/E (UBS adjusted)	13.1x	20.4x	10.6x	8.1x	6.5x
Dividend yield (net)	1.58%	1.13%	1.61%	1.61%	2.15%
P/BV (stated)	1.8x	2.6x	1.6x	1.3x	1.1x
P/BV (adjusted)	2.2x	3.3x	2.0x	1.7x	1.5x

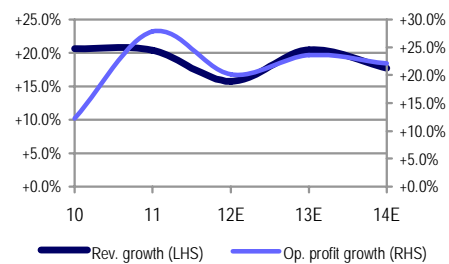
Source: UBS estimates, \* Historical valuations are based on an "average for the year" share price. Current & future valuations are based on a share price of Rs1,862.50 on 09/11/2011

State Bank of India (SBI) is a public sector bank with the government of India holding around 60% of the company. It has the largest network of branches (11,472) and ATMs (8,548) in India. SBI also owns 75-100% stakes in six banks that have significant regional focus. SBI and its associates/subsidiaries together have a deposit base of Rs94bn and advances of Rs64bn. In addition, SBI has several other subsidiaries, including SBI Life, SBI Mutual Fund Life, and SBI Cards.

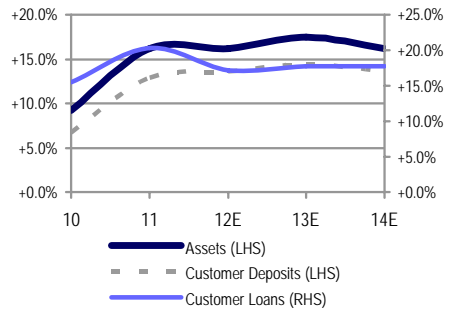
Profitability (RoE & RoRWA)



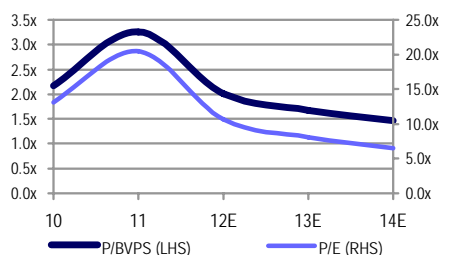
Momentum (Revenue & Operating profit growth)



Balance Sheet Growth



Value (P/Adj. BVPS & P/Adj. EPS)





## ■ State Bank of India

State Bank of India (SBI) is a public sector bank with the government of India holding around 60% of the company. It has the largest network of branches (11,472) and ATMs (8,548) in India. SBI also owns 75-100% stakes in six banks that have significant regional focus. SBI and its associates/subsidiaries together have a deposit base of Rs94bn and advances of Rs64bn. In addition, SBI has several other subsidiaries, including SBI Life, SBI Mutual Fund Life, and SBI Cards.

## ■ Statement of Risk

Key risk to our call remains stronger than expected economy which could lead to lower NPA losses and therefore better than expected profitability. Favourable decisions by the government like stake dilution etc could also lead to near term price movement.

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	20%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2011.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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**Equity Price Targets** have an investment horizon of 12 months.

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**UBS Securities India Private Ltd:** Vishal Goyal, CFA; Ajitesh Nair. **UBS Securities Asia Limited:** Stephen Andrews, CFA.

**Company Disclosures**

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
State Bank of India <sup>2, 4, 16</sup>	SBI.BO	Buy	N/A	Rs1,862.50	09 Nov 2011

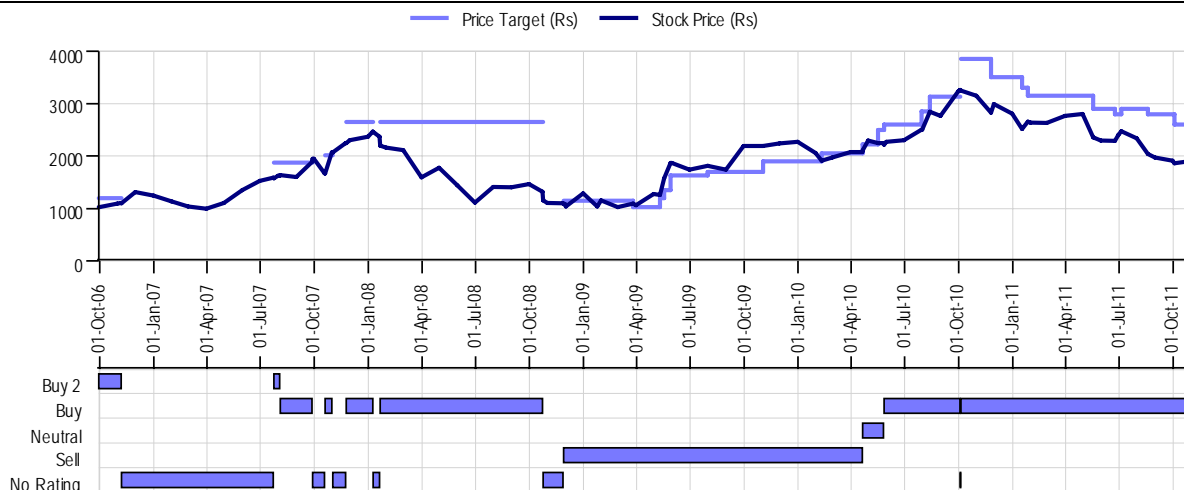
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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State Bank of India (Rs)



Source: UBS; as of 09 Nov 2011

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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