

State Bank of India

BSE SENSEX 17,362
S&P CNX 5,221

CMP: INR1,863

TP: INR2,700

Buy

Bloomberg SBIN IN
Equity Shares (m) 635.0
52-Week Range (INR) 3,354/1,709
1,6,12 Rel.Perf.(%) 1/-23/-26
M.Cap. (INR b) 1,183.0
M.Cap. (USD b) 23.7

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	CONS. EPS (INR)	CONS. P/E (X)*	CONS. BY (INR)	CONS. P/BY (X)*	CONS. P/ABY (X)*	ROAA (%)	ROAE (%)
3/10A	386,396	91,661	144.4	184.8	-	1,309	-	-	0.9	14.8
3/11A	483,510	82,645	130.2	168.3	10.6	1,315	1.4	1.5	0.7	12.6
3/12E	576,881	110,626	174.2	212.8	8.3	1,496	1.2	1.4	0.8	16.0
3/13E	666,396	136,879	215.6	270.7	6.5	1,727	1.0	1.2	0.9	17.4

* Valuation multiples are adjusted for SBI Life's value

State Bank of India (SBIN) posted a PAT of INR28b for 2QFY12, 12% higher than our estimate. Strong NII growth of 28% YoY (4% above our estimate) was partly offset by lower other income, leading to in-line operating profit. However, lower than expected tax rate (31.3% v/s our estimate of 38.3%) led to higher than expected PAT.

- **Slippages increase QoQ:** Asset quality disappointed again, with gross slippages in 2QFY12 at INR80b as against INR62b in 1QFY12. Of the overall slippages, INR12.7b were on account of agro-based industries (one large account of INR7.5b), INR4.8b were from iron & steel and INR2.9b from the textiles segment. Slippages in agriculture and retail segment continues to disappoint.
- **Lower upgrades and recoveries disappointing:** Traction in recoveries and upgrades decelerated to INR17.7b in 2QFY12 as against INR31b in 1QFY12. Write-offs for the quarter were at INR660m as against INR6.6b in 1QFY12.
- **Strong margin performance:** Reported NIM improved by 17bp QoQ to 3.8% (on the back of a 55bp QoQ improvement in 1QFY12), which is a positive surprise. The management remains confident of maintaining/improving margins further and has guided NIM of 3.65% (v/s 3.5% earlier) for FY12, with an upward bias.
- **Muted fee income:** Fee income for 2QFY12 was flat QoQ (down 12% YoY). However in 2QFY11, bank booked INR3.5b on a large deal, adjusted for which fee income was flat YoY.
- **Stable CASA ratio:** CASA growth moderated to 1% QoQ and 13.5% YoY. However, savings deposit growth was healthy at ~2.5% QoQ and 16% YoY. As a result, CASA ratio was largely stable QoQ at 47.6%.

Valuation and view: While core operating performance continues to improve and remains strong, sustained pressure on asset quality is a concern. Fall in net slippages will be a key catalyst for stock performance. **Buy.**

State Bank of India: Quarterly Performance

Y/E March	FY11				FY12				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY11	FY12E
Interest Income	184,522	198,081	214,128	217,214	241,974	259,671	275,536	291,891	813,944	1,069,072
Interest Expense	111,484	116,932	123,630	136,633	144,979	155,452	166,242	176,985	488,680	643,657
Net Interest Income	73,038	81,149	90,498	80,581	96,995	104,219	109,293	114,907	325,264	425,415
% Change (YoY)	45.4	44.7	43.3	19.9	32.8	28.4	20.8	42.6	37.4	30.8
Other Income	36,900	40,052	33,139	48,155	35,342	34,272	36,606	45,246	158,246	151,467
Net Income	109,938	121,201	123,637	128,735	132,338	138,492	145,899	160,153	483,510	576,881
Operating Expenses	48,593	57,631	55,992	67,938	59,913	63,749	65,446	77,617	230,154	266,724
Operating Profit	61,345	63,570	67,645	60,797	72,424	74,743	80,454	82,536	253,356	310,157
% Change (YoY)	67.0	31.5	46.5	17.1	18.1	17.6	18.9	35.8	38.3	22.4
Other Provisions	15,514	26,215	20,515	41,570	41,569	33,855	30,787	31,093	103,813	137,304
Profit before Tax	45,831	37,355	47,130	19,227	30,855	40,888	49,666	51,443	149,542	172,853
Tax Provisions	16,688	12,342	18,849	19,019	15,020	12,784	16,887	17,537	66,897	62,227
Net Profit	29,143	25,014	28,281	209	15,836	28,104	32,780	33,906	82,645	110,626
% Change (YoY)	25.1	0.5	14.1	-98.9	-45.7	12.4	15.9	N.A.	-9.8	33.9
Deposit Growth (%)	6.8	10.7	14.0	16.1	16.5	13.8	16.3	16.0	16.1	16.0
Loan Growth (%)	20.3	19.0	21.3	19.8	18.0	16.1	14.2	17.0	19.8	17.0
CD Ratio (%)	80.1	79.6	82.7	81.0	81.1	81.2	81.2	81.7	81.1	81.7
Net Interest Margin (Reported, %)	3.2	3.4	3.6	3.1	3.6	3.8			3.3	
Net Interest Margin (Cal, %)	3.1	3.4	3.7	3.1	3.7	3.8	3.9	3.9	3.2	3.7
Tax Rate (%)	36.4	33.0	40.0	98.9	48.7	31.3	34.0	34.1	44.7	36.0
Gross NPA (%)	3.1	3.4	3.2	3.3	3.5	4.2	4.5	4.5	3.3	4.5

E: MOSL Estimates

Quarterly performance v/s our estimates: Strong NII growth and lower tax rate drives PAT (INR m)

Y/E March	2QFY12A	2QFY12E	Var. (%)	Comments
Net Interest Income	104,219	100,009	4	Margins surprised positively led by higher yield on loans
% Change (YoY)	28	23		
Other Income	34,272	39,025	-12	Fee income disappoints; Lower trading gains
Net Income	138,492	139,034	0	
Operating Expenses	63,749	65,609	-3	Opex higher than est. led by higher employee exp.
Operating Profit	74,743	73,424	2	Operating profits largely inline with est
% Change (YoY)	18	16		
Other Provisions	33,855	32,900	3	Asset quality disappoints yet again
Profit Before Tax	40,888	40,525	1	
Tax Provisions	12,784	15,501	-18	Tax rate lower than est
Net Profit	28,104	25,024	12	Strong NII growth and lower tax rate leading to higher PAT
% Change (YoY)	12	0		

Source: Company/MOSL

Strong margin performance

Strong margin performance led to robust NII growth of 28% YoY and 7% QoQ. Reported NIM improved by 17bp QoQ to 3.8% (on the back of a 55bp QoQ improvement in 1QFY12) - a positive surprise. Domestic NIM increased 18bp QoQ (at 4.1% - one of the best in the industry), whereas overseas NIM was 1.73% as against 1.66% a quarter ago. Overall yield on loans (+70bp QoQ; calculated) outpaced the increase in cost of deposits (+34bp QoQ; calculated), leading to margin accretion.

Margin expansion came from mix of (1) higher CASA share (~48%) coupled with the benefits of re-pricing high cost deposits (raised at 10.25-10.75% in FY08) at lower rates (9.25-9.5%), and (2) steep increase in lending rates, cumulatively, SBIN has raised its base rate by 175bp since March 2011 and by 240bp since 3QFY11. The management remains confident of maintaining/improving margins further and has guided NIM of 3.65% with an upward bias (v/s 3.5% earlier) for FY12 v/s 3.3% for FY11.

Slippages remain elevated; traction in upgrades and recoveries decelerates

Asset quality disappointed again, with gross slippages during 2QFY12 at INR80b v/s INR62b a quarter ago. The annualized slippage ratio was 4.7% v/s 3.8% in 1QFY12 and 2.9% in FY11. Of the overall slippages, INR12.7b were on account of agro-based industries (one large account of INR7.5b), INR4.8b were from iron & steel and INR2.9b from the textiles segment. The management mentioned that it expects few large accounts aggregating to INR20b that slipped during the quarter to be upgraded in 2HFY12 itself. Management stated that SBIN has been witnessing stress across sectors except retail, which held fairly well (though slippages have been rising in this segment as well). Stress is also visible in agro-based industries, iron & steel, textiles and other export oriented industries. The management remains circumspect on asset quality due to adverse macro environment.

Traction in recoveries and upgrades decelerated to INR17.7b in 2QFY12 as against INR31b in 1QFY12. Write-offs for the quarter were negligible and as a policy, the bank would write-off less in coming quarters and focus more on recoveries. The management expects recoveries and upgrades to be strong in 2HFY12. It has guided NNPA of 1.7% (earlier guidance of 1.5%) for FY12 as against 2% currently.

Across the segment rise in GNPA a concern

GNPA for the agriculture segment continued to increase and was 8.92% v/s 7.17% a quarter ago. A sharp increase was also noticed in GNPA for the corporate and SME segments to 4.25% (+87bp QoQ) and 4.99% (+80bp QoQ), respectively. In absolute terms, GNPA increased 22% QoQ to INR339b while NNPA was up 30% QoQ. Agriculture slippages have increased to INR20b (v/s INR14.4b in 1QFY12 and INR12.6b in 4QFY11) and SME slippages have increased to INR22.4b (v/s INR19.6b in 1QFY12 and INR14.4b in 4QFY11). While its peer banks are reporting lower retail slippages, SBIN's slippages in the retail segment have been on the upward trajectory - at INR11.7b v/s INR9.2b in 1QFY12 and INR5.94b in 4QFY11.

During the quarter, SBIN restructured fresh loans worth INR5.1b, taking the cumulative restructured book to INR354b or 4.5% of net loans. Of the slippages worth INR17.6b in restructured loans, loans worth INR6.5b slipped from the assets restructured under the RBI scheme. Cumulatively 22% of the restructured loans have slipped into NPA.

Adjusted credit cost at ~120bp

Higher slippages are leading to higher credit cost. Credit cost was stable QoQ at 150bp. However, adjusted for one-offs, credit cost for 2QFY12 (INR5.5b towards countercyclical buffer to meet 70% requirement) was 121bp as against 65bp in 1QFY12 (one-offs of INR15.5b towards change in RBI norms). We model in credit cost of 130bp for FY12 and 115bp for FY13 as against 120bp in FY11.

PCR (calculated) declined to ~53% from 55%, a quarter ago. PCR (including write-offs) was 63.5% v/s 67.3% in 1QFY12. Provision towards depreciation on investments stood at INR4.6b. Of this, INR4.8b pertains to the MTM losses on the bank's equity portfolio; SBIN had a write-back of INR1.7b on its domestic bond portfolio.

Loan growth moderates; CASA ratio stable QoQ

Gross loans grew ~17% YoY (3% QoQ) while deposits were up 13.8% YoY (2.4% QoQ). International loans grew 13% QoQ and 19% YoY to INR1.3t, partially driven by sharp depreciation of the INR. Adjusted for this, overall loans grew 1.5% QoQ and 15.6% YoY. On domestic operations, CD ratio declined marginally to 75.8% as against 76.7% a quarter ago. Large corporate loans grew 22% YoY and were flattish QoQ. However, SME loans grew ~5% QoQ and 12.3% YoY. For FY12, the management has guided loan growth of 16-18%. SBIN's exposure to the power sector stood at INR344b, of which exposure to SEBs is at INR90b.

Reported CASA ratio was largely stable QoQ at 47.6%, among the best in the industry. CASA deposits growth moderated to 1% QoQ and 13.5% YoY, as CA deposits grew just 4% YoY (declining 4% QoQ). Savings deposit growth was healthy at ~2.5% QoQ and 16% YoY.

Muted fee income growth disappoints

CEB income growth was muted sequentially (down 12% YoY) at INR26b. The management stated that YoY decline in fee income was due to one-off opportunity of INR3.5b that SBIN booked in 2QFY11 on one large corporate deal, adjusted for which fee income was flat. Forex income was INR4.8b as against INR3.3b in 1QFY12 and INR3.1b in 2QFY11. Dividend income was INR840m as against INR2.3b in 1QFY12 and INR2.9b in 2QFY11. Trading gains were INR281m as against INR1.7b a quarter ago INR1.9b a year ago. Muted fee income and lower dividend and trading gains led to 3% QoQ and 14% YoY decline in non-interest income (12% below our estimate).

Consolidated earnings down 25%, NII up 27%

- Consolidated NII grew 21% YoY and 5% QoQ to INR138b, while other income declined 45% YoY and 8% QoQ to INR55.4b. Operating profit grew 16% YoY (flat QoQ) to INR95b.
- SBIN's subsidiary banks reported sharp decline in earnings - down 6% QoQ and 14% YoY, led by deterioration in asset quality. While operating profit grew 5% QoQ and 11% YoY, sharp increase in provisions (up 36% QoQ and 79% YoY) dented earnings. Asset quality deteriorated sharply, with 30-60% QoQ increase in GNPA.
- SBI Life reported a PAT of INR2b as against INR2.2b a year ago.

Other details

■ Effective tax rate at 31%

Tax provisions were INR12.8b, implying an effective tax rate of ~31% as against 49% in 1QFY12 and our estimate of 38.3%.

■ Tier-I ratio at 7.5%

- As at 30 September 2011, SBIN's capital adequacy ratio (CAR; without including 1HFY12 PAT) stood at 11.4%, with tier-I ratio at 7.5%. To meet its growth plans, the management intends to raise fresh equity capital by way of rights issue/preferential allotment/QIP in FY12. SBIN has moved INR300b worth export credit under the guaranteed ECGC scheme with effect from 1 November 2011, which will result in lower risk weights being assigned to these loans, thereby releasing ~20bp of capital. It has similar plans to move credit to small industries under GoI guarantee schemes, which too would result in release of capital.
- SBIN expects to receive capital of INR30b-40b from the government by the end of FY12 (however, mode of capital raising is unknown).

Valuation and view

SBIN has delivered strong performance on NIM (up 70bp+ over the past two quarters). The management has revised its NIM guidance to 3.65%+ (improvement of 30bp+ over FY11) from 3.5% earlier. Continued re-pricing of 1,000 days deposit, shedding of high cost bulk deposits and increase in lending rates will provide cushion to margins. We model 45bp increase in NIM in FY12. Asset quality remains concerning, with slippages remaining at elevated levels. Higher slippages, coupled with fall in recoveries, have increased concerns

about high stress being added in the balance sheet in the coming quarters. Improvement in upgrades and recoveries would be critical in 2HFY12 to provide impetus to asset quality and stock performance. We model slippage ratio of 3.6% for FY12 and 3.3% for FY13. Our credit cost estimates remain conservative at 130bp for FY12 and 115bp FY13 (v/s 120bp in FY11).

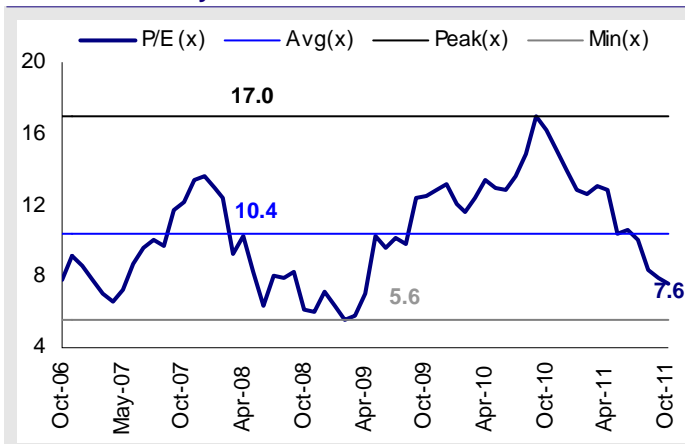
Absence of one-off provisioning (INR25b) will provide strong cushion to earnings in FY13. One-off provisions also led to higher tax rate, which should decline in FY13. As SBIN reports superior margins at 3.6%+ and asset quality improves (key catalyst in the rest of FY12), valuations should improve from current levels of 1x FY13E consolidated BV. We expect standalone RoE of 16% for FY12 and 17.4% for FY13 (without assuming capital raising). Standalone RoA is likely to improve from 0.7% in FY11 and 0.8-0.9% in FY12-13. **Buy** with a target price of INR2,700 (1.5x FY13E consolidated BV + INR102/share for the insurance business).

We downgrade our earnings est by ~5% for FY12/13 (INR b)

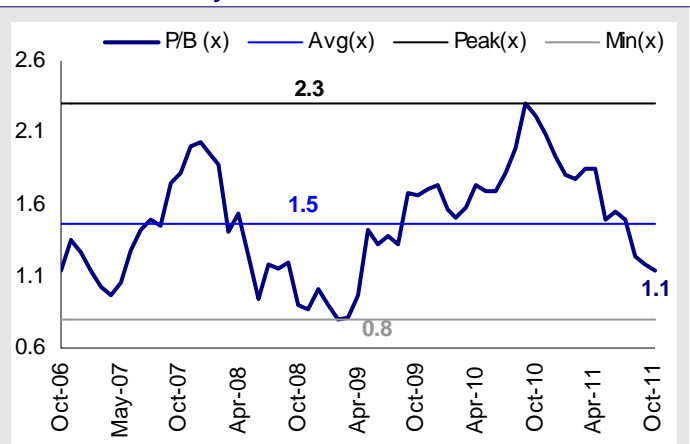
	Old Estimates		Rev. Estimates		Change (%)	
	FY12	FY13	FY12	FY13	FY12	FY13
Net Interest Income	404	463	425	494	5.4	6.5
Other Income	169	189	151	173	-10.4	-8.3
Total Income	573	652	577	666	0.7	2.2
Operating Expenses	271	321	267	317	-1.7	-1.2
Operating Profits	301	331	310	349	3.0	5.5
Provisions	127	121	137	135	7.7	11.3
PBT	174	209	173	214	-0.5	2.2
Tax	65	75	62	77	-4.5	2.2
PAT	109	134	111	137	1.9	2.2
Loans	8,854	10,447	8,854	10,447	0.0	0.0
Deposits	11,020	13,004	10,834	12,892	-1.7	-0.9
Margins (%)	3.5	3.4	3.7	3.6		
Credit Cost (%)	1.2	1.1	1.3	1.2		
RoA (%)	0.8	0.9	0.8	0.9		
RoE (%)	15.7	17.1	16.0	17.4		

Source: MOSL

State Bank: One year forward P/E

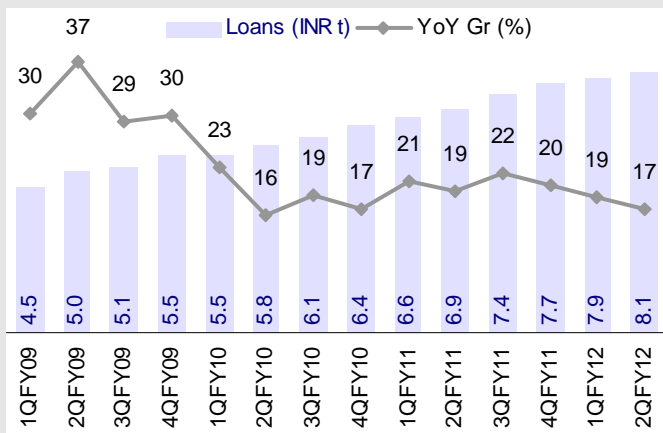


State Bank: One year forward P/BV



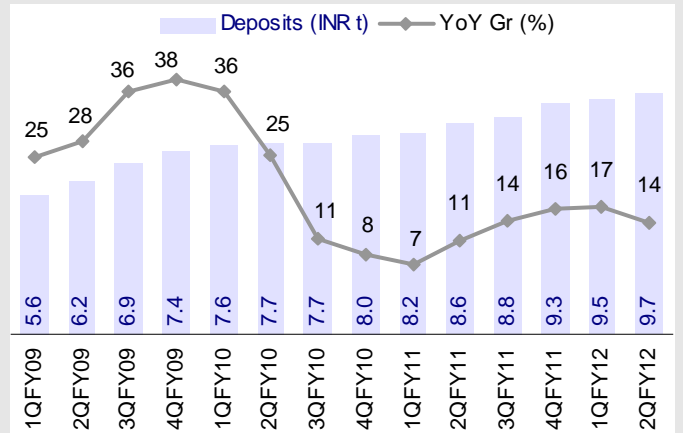
Quarterly trends

Loan growth moderates...



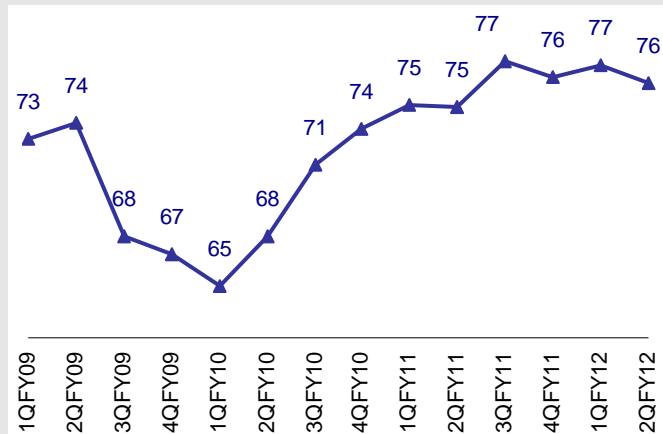
■ The management has guided loan growth of 16-18% for FY12

...as does deposit growth



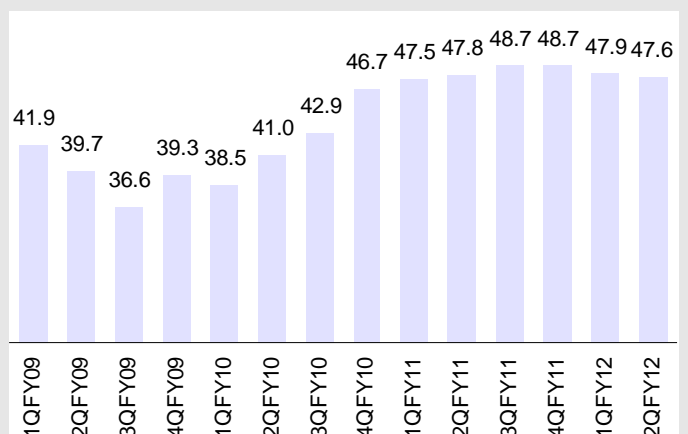
■ Shedding of high cost deposits is leading to moderation in deposit growth

Domestic CD ratio declines marginally QoQ (%)



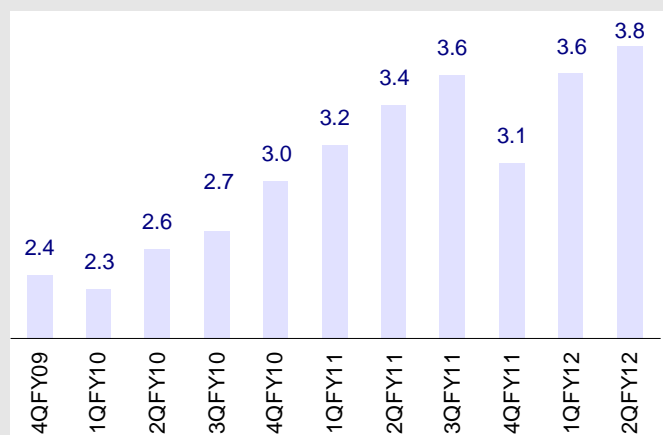
■ CD ratio remains at an optimal level

CASA ratio largely stable QoQ (%)



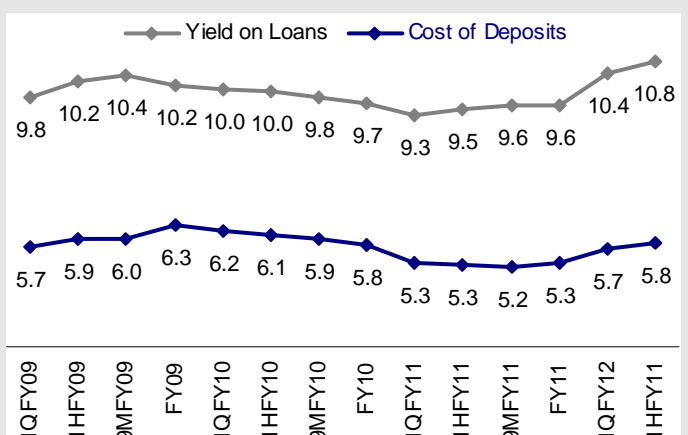
■ Savings deposits grew by a healthy ~2.5% QoQ and 16% YoY

Strong margin performance (%)



■ Overall yield on loans (+70bp QoQ - calculated) outpaced the increase in cost of deposits (+34bp QoQ - calculated)

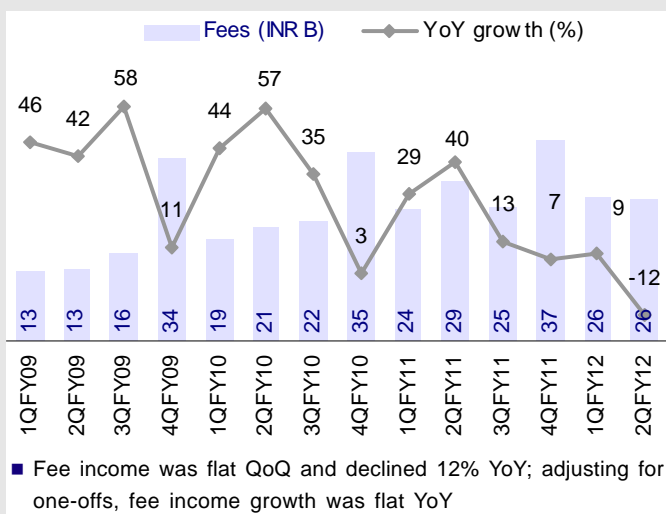
Higher increase in yield on loans boosts margins (%)



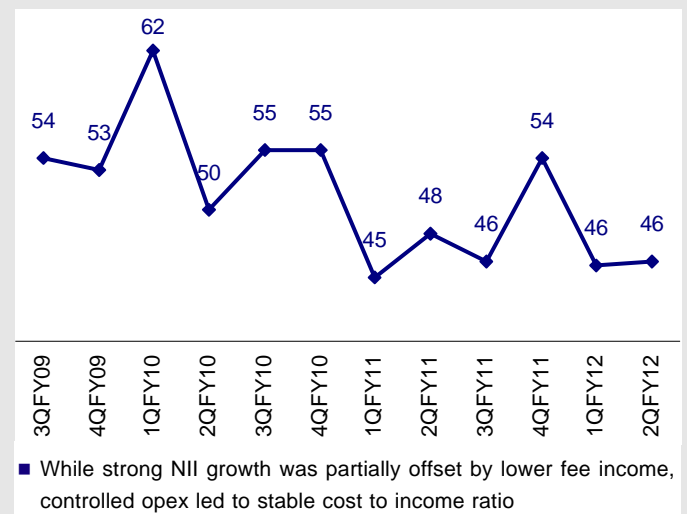
■ Higher CASA share coupled with the benefits of re-pricing high cost deposits at lower rates led to containment of cost of deposits

Quarterly trends (Contd.)

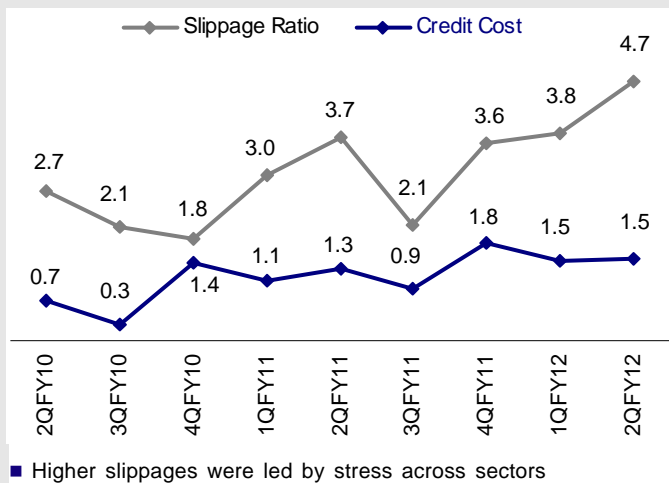
Muted fee income growth - a disappointment



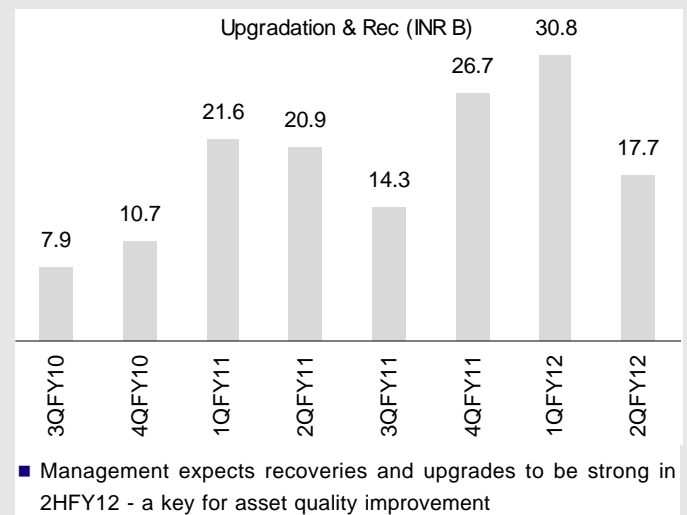
Cost to core income remains stable QoQ (%)



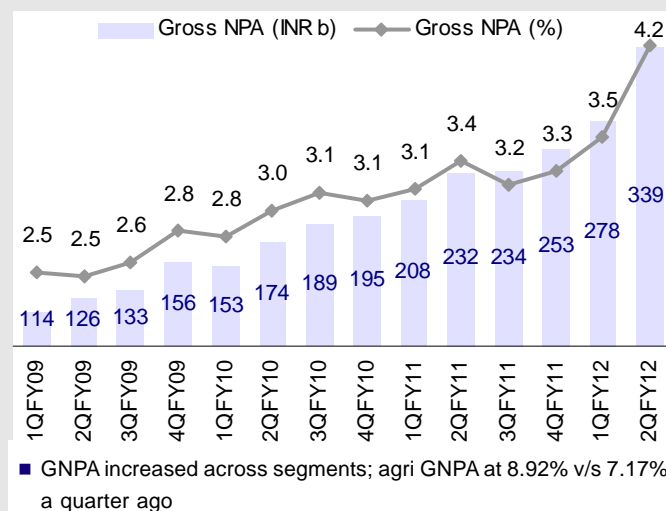
Higher slippages disappoint (%)



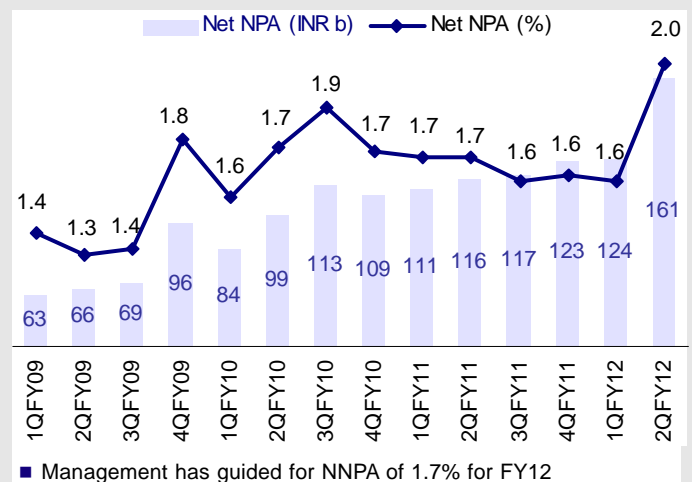
Traction in upgrades and recoveries decelerates



GNPA up 22% QoQ



Higher slippages and lower provisions led to 30% QoQ increase in NNPA



Quarterly Snapshot

	FY11				FY12		Variation (%)		Cumulative Numbers		
	1Q	2Q	3Q	4Q	1Q	2Q	QoQ	YoY	1H FY11	1H FY12	YoY Gr (%)
Profit and Loss (INR m)											
Net Interest Income	73,038	81,149	90,498	80,581	96,995	104,219	7	28	154,187	201,215	31
Other Income	36,900	40,052	33,139	48,155	35,342	34,272	-3	-14	76,952	69,615	-10
Trading profits	1,734	1,927	2,202	3,347	1,689	281	-83	-85	3,661	1,970	-46
Fee Income	24,096	29,450	24,774	37,312	26,329	26,003	-1	-12	53,546	52,332	-2
Forex Income	5,025	3,090	4,083	2,446	3,312	4,806	45	56	8,115	8,119	0
Others	6,045	5,586	2,080	5,050	4,012	3,182	-21	-43			
Total Income	109,938	121,201	123,637	128,735	132,338	138,492	5	14	231,139	270,829	17
Operating Expenses	48,593	57,631	55,992	67,938	59,913	63,749	6	11	106,224	123,662	16
Employee	30,739	36,758	35,117	42,188	37,174	39,143	5	6	67,497	76,317	13
Others	17,854	20,873	20,876	25,750	22,740	24,605	8	18	38,727	47,345	22
Operating Profits	61,345	63,570	67,645	60,797	72,424	74,743	3	18	124,915	147,168	18
Provisions	15,514	26,215	20,515	41,570	41,569	33,855	-19	29	41,728	75,424	81
PBT	45,831	37,355	47,130	19,227	30,855	40,888	33	9	83,186	71,744	-14
Taxes	16,688	12,342	18,849	19,019	15,020	12,784	-15	4	29,030	27,804	-4
PAT	29,143	25,014	28,281	209	15,836	28,104	77	12	54,157	43,940	-19
Asset Quality (INR b)											
GNPA	208	232	234	253	278	339	22	46	232	339	46
NNPA	111	116	117	123	124	161	30	39	116	161	39
GNPA (%)	3.1	3.4	3.2	3.3	3.5	4.2	67	84	3	4	84
NNPA (%)	1.7	1.7	1.6	1.6	1.6	2.0	43	34	2	2	34
PCR (Calculated, %)	47	50	50	51	55	53	-271	251	50	53	251
PCR (Reported, %)	61	63	64	65	67	64	-375	72	63	64	72
Slippages	41	53	32	56	62	80	30	52			
Slippage Ratio (%)	3.0	3.7	2.1	3.6	3.8	4.7	93	103			
Prov. for NPA in qtr	17	22	16	33	28	29	5	35			
Credit Cost (%)	1.1	1.3	0.9	1.8	1.5	1.5	4	20			
Restructured loans	303	307	328	343	349	354	1	15			
% to Loans	4.6	4.5	4.5	4.5	4.5	4.5	-5	-2			
of which turned into NPA	28	38	44	51	60	78	29	105			
% to restructured Loans	9.4	12.3	13.5	15.0	17.2	21.9	473	954			
O/S std restructured loans	275	269	283	292	289	277	-4	3			
% to Loans	4.2	3.9	3.9	3.9	3.8	3.5	-25	-45			
Ratios (%)											
Fees to Total Income	21.9	24.3	20.0	29.0	19.9	18.8			23.2	19.3	
Cost to Core Income	44.9	48.3	46.1	54.2	45.9	46.1			51.1	48.8	
Tax Rate	36.4	33.0	40.0	98.9	48.7	31.3			34.9	38.8	
Loan/Deposit	80.1	79.6	82.7	81.0	81.1	81.2					
Domestic Loan/Deposit	74.9	74.7	77.2	76.3	76.7	75.8					
CAR	13.5	13.2	13.2	12.0	11.6	11.4					
Tier I	9.8	9.6	9.6	7.8	7.6	7.5					
RoA (cal)	1.1	0.9	1.0	0.0	0.5	0.9					
RoE (Cal)	17.3	14.2	15.4	0.1	9.6	16.4					
Margins - cumulative (%)											
Yield on Advances	9.3	9.5	9.6	9.6	10.4	10.8	35	128			
Yield On Funds	6.8	6.9	7.0	7.0	7.2	7.3	12	44			
Cost of Deposits	5.3	5.3	5.2	5.3	5.7	5.8	17	58			
Quarterly margins	3.2	3.4	3.6	3.1	3.6	3.8	17	36			
NIM Cumulative	3.2	3.3	3.4	3.3	3.6	3.7	8	40			

Source: Company/MOSL, For %age change QoQ and YoY is bp

Quarterly Snapshot

INR b	FY10				FY11				FY12		Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	QoQ	YoY
Balance sheet												
Deposits	7,636	7,729	7,710	8,041	8,153	8,553	8,790	9,339	9,501	9,732	2	14
Domestic	7,324	7,384	7,362	7,647	7,624	8,078	8,334	8,872	8,999	9,173	2	14
Overseas	311	345	348	394	529	476	456	468	502	559	11	17
Investments	3,202	3,085	2,881	2,858	3,000	2,855	2,700	2,956	3,014	3,015	0	6
Loans	5,498	5,721	5,989	6,319	6,532	6,807	7,266	7,567	7,709	7,906	3	16
Deposit Break-up												
CASA Deposits	2,678	2,953	3,067	3,466	3,624	3,830	3,938	4,305	4,304	4,350	1	14
Savings Deposits	2,122	2,312	2,453	2,563	2,840	3,039	3,186	3,234	3,444	3,524	2	16
% to Total Deposits	28	30	32	32	35	36	36	35	36	36	-4	61
Current Deposits	637	641	628	903	784	791	752	1,071	860	826	-4	4
% to Total Deposits	8	8	8	11	10	9	9	11	9	8	-56	-76
CASA Reported	38	41	43	47	48	48	49	49	48	48	-27	-17
Domestic Loan Break Up												
Large Corporate	638	650	825	881	956	931	1,058	1,087	1,141	1,133	-1	22
Mid Corporate	1,273	1,219	1,120	1,337	1,312	1,449	1,502	1,576	1,596	1,613	1	11
SME	967	959	1,029	975	993	1,122	1,242	1,197	1,203	1,260	5	12
Agriculture	567	590	612	783	760	695	713	948	955	958	0	38
Retail	1,129	1,189	1,265	1,348	1,403	1,430	1,564	1,646	1,651	1,688	2	18
Others	22	248	283	120	163	251	215	171	228	200	-12	-20
Domestic Loan Mix (%)												
Large Corporate	14	13	16	16	17	16	17	16	17	17		
Mid Corporate	28	25	22	25	23	25	24	24	24	24		
SME	21	20	20	18	18	19	20	18	18	18		
Agriculture	12	12	12	14	14	12	11	14	14	14		
Retail	25	24	25	25	25	24	25	25	24	25		
Others	0	5	6	2	3	4	3	3	3	3		

Source: Company/MOSL, For %age change QoQ and YoY is bp

Stock Info

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	212.8	227.8	-6.6
FY13	270.7	279.7	-3.2

Shareholding pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	59.4	59.4	59.4
Domestic Inst	18.5	17.4	15.5
Foreign	11.7	13.9	17.2
Others	10.4	9.3	7.8

1-year Sensex rebased



Financials: Valuation Matrix

	Rating	CMP (INR)	Mkt. Cap (USDb)	EPS (INR)		P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13
ICICI*	Buy	862	20.1	55	65	11.7	9.6	1.6	1.4	1.4	1.5	13.9	14.9
HDFCB	Neutral	477	22.4	22	28	21.5	17.2	3.8	3.2	1.6	1.7	18.9	20.3
Axis	Buy	1,112	9.2	97	114	11.5	9.8	2.1	1.8	1.5	1.5	19.9	19.9
Kotak	Neutral	494	3.7	22	27	21.1	17.4	2.7	2.3	2.1	2.1	15.0	15.7
Yes	Buy	307	2.2	27	33	11.4	9.2	2.3	1.9	1.4	1.4	22.3	22.7
Indusind	Buy	270	2.5	17	21	16.3	13.1	2.8	2.4	1.5	1.5	18.6	19.9
ING Vysya	Buy	323	0.8	29	34	11.2	9.6	1.3	1.1	1.0	1.0	13.5	12.4
Federal	Buy	403	1.4	45	51	9.0	8.0	1.2	1.1	1.3	1.3	14.2	14.5
J&K Bk	Buy	817	0.8	151	168	5.4	4.9	1.0	0.9	1.3	1.2	19.4	18.7
SIB	Buy	23	0.5	3	4	7.2	6.0	1.3	1.1	1.0	0.9	20.0	20.2
Private Aggregate			64			15.1	12.6	2.2	1.9				
SBI (cons)*	Buy	1,863	23.9	213	271	8.3	6.5	1.2	1.0	0.8	0.9	15.7	17.1
PNB	Buy	968	6.2	171	203	5.7	4.8	1.3	1.0	1.3	1.3	24.3	23.7
BOI	Neutral	325	3.6	46	59	7.1	5.5	1.0	0.9	0.7	0.7	14.7	16.9
BoB	Neutral	789	6.3	118	136	6.7	5.8	1.3	1.1	1.2	1.1	21.3	20.7
Canara	Buy	477	4.3	80	96	6.0	5.0	1.0	0.9	1.0	1.0	18.2	18.7
Union	Buy	224	2.4	40	49	5.6	4.6	0.9	0.8	0.8	0.9	17.6	18.7
IOB	UR	101	1.3	22	18	4.7	5.6	0.7	0.6	0.7	0.5	15.6	12.0
OBC	Buy	297	1.8	42	54	7.1	5.5	0.8	0.7	0.7	0.8	11.4	13.4
Indian Bk Corporation	Buy	213	1.9	42	48	5.1	4.4	1.0	0.8	1.3	1.3	20.3	20.3
Andhra Bk	Buy	114	1.3	26	27	4.5	4.2	0.9	0.7	1.2	1.1	20.4	19.1
IDBI *	Neutral	111	2.2	20	21	4.3	4.1	0.6	0.5	0.7	0.7	14.5	14.1
Dena Bank	Buy	77	0.5	21.8	25.5	3.5	3.0	0.6	0.5	0.9	0.9	17.9	18.4
Public Aggregate			57			7.2	6.1	1.1	1.0				
HDFC*	Neutral	680	20.2	28	32	17.4	14.6	4.9	4.5	2.8	2.8	27.1	29.4
LICHF	Buy	232	2.2	23	28	9.9	8.2	2.2	1.8	2.0	1.9	24.2	24.3
DHFL	Buy	212	0.4	30	39	7.1	5.4	1.2	1.0	1.4	1.4	18.7	19.6
IDFC	Neutral	123	3.6	9.7	11.7	12.6	10.5	1.4	1.2	2.8	2.8	12.9	13.7
REC	Buy	203	4.0	29	35	7.0	5.7	1.4	1.2	3.1	3.1	20.9	22.0
PFC	Buy	169	3.9	22	27	7.7	6.2	1.1	1.0	2.6	2.6	16.2	16.6
STF	Buy	575	2.6	61	71	9.4	8.2	2.1	1.7	3.1	3.0	25.3	23.5
MMFSL	Neutral	686	1.4	56	70	12.2	9.8	2.4	2.0	4.1	4.1	21.3	22.4
IBFC Aggregate			38			12.9	10.7	3.1	2.6				

* Multiples adjusted for value of key ventures/investments; For ICICI Bank, HDFC Ltd BV is adjusted for investments in subsidiaries

Financials and Valuation

Income Statement (Standalone)					(INR Million)	
Y/E March	2008	2009	2010	2011	2012E	2013E
Interest Income	489,503	637,884	709,939	813,944	1,069,072	1,285,351
Interest Expense	319,291	429,153	473,225	488,680	643,657	791,836
Net Interest Income	170,212	208,731	236,714	325,264	425,415	493,516
Change (%)	13.0	22.6	13.4	37.4	30.8	16.0
Non Interest Income	86,949	126,908	149,682	158,246	151,467	172,881
Net Income	257,162	335,639	386,396	483,510	576,881	666,396
Change (%)	17.8	30.5	15.1	25.1	19.3	15.5
Operating Expenses	126,086	156,487	203,187	230,154	266,724	317,375
Pre Provision Profits	131,076	179,152	183,209	253,356	310,157	349,021
Change (%)	31.1	36.7	2.3	38.3	22.4	12.5
Provisions (excl tax)	26,687	37,346	43,948	103,813	137,304	135,148
PBT	104,389	141,806	139,261	149,542	172,853	213,873
Tax	37,098	50,594	47,600	66,897	62,227	76,994
Tax Rate (%)	35.5	35.7	34.2	44.7	36.0	36.0
PAT	67,291	91,212	91,661	82,645	110,626	136,879
Change (%)	48.2	35.5	0.5	-9.8	33.9	23.7
Equity Dividend (Incl tax)	13,577	20,892	21,414	21,515	25,886	32,030
Core PPP*	105,887	144,599	152,051	234,439	296,657	334,021
Change (%)	25.2	36.6	5.2	54.2	26.5	12.6

*Core PPP is (NII+Fee income-Opex)

Balance Sheet					(INR Million)	
Y/E March	2008	2009	2010	2011	2012E	2013E
Equity Share Capital	6,315	6,349	6,349	6,350	6,350	6,350
Reserves & Surplus	484,012	573,128	653,143	643,510	728,250	833,099
Net Worth	490,327	579,477	659,492	649,860	734,600	839,449
Deposits	5,374,050	7,420,731	8,041,162	9,339,328	10,833,621	12,892,009
Change (%)	23.4	38.1	8.4	16.1	16.0	19.0
of which CASA Dep	2,523,639	3,089,778	3,800,397	4,615,214	5,143,736	5,964,652
Change (%)	19.5	22.4	23.0	21.4	11.5	16.0
Borrowings	730,168	840,579	1,030,116	1,195,690	1,138,185	1,251,551
Other Liabilities & Prov.	620,731	803,534	803,368	1,052,485	1,111,409	1,227,820
Total Liabilities	7,215,274	9,644,321	10,534,137	12,237,362	13,817,814	16,210,827
Current Assets	674,663	1,044,038	861,887	1,228,741	1,054,995	1,243,903
Investments	1,895,013	2,759,540	2,957,852	2,956,006	3,310,726	3,807,335
Change (%)	27.1	45.6	7.2	-0.1	12.0	15.0
Loans	4,167,682	5,425,032	6,319,142	7,567,194	8,853,618	10,447,269
Change (%)	23.5	30.2	16.5	19.8	17.0	18.0
Fixed Assets	33,735	38,378	44,129	47,642	51,251	55,652
Other Assets	444,181	377,333	351,128	437,778	547,223	656,668
Total Assets	7,215,274	9,644,321	10,534,137	12,237,362	13,817,814	16,210,827

Asset Quality					(%)	
GNPA (INR m)	128,373	157,140	195,349	253,263	404,377	508,369
NNPA (INR m)	74,243	96,774	108,702	123,469	198,145	241,475
GNPA Ratio	3.04	2.86	3.05	3.29	4.46	4.74
NNPA Ratio	1.78	1.78	1.72	1.63	2.24	2.31
PCR (Excl Tech. write off)	42.2	38.4	44.4	51.2	51.0	52.5
PCR (Incl Tech. Write off)	0.0	57.0	59.2	65.0	60.9	60.5

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2008	2009	2010	2011	2012E	2013E
Spreads Analysis (%)						
Avg. Yield-Earning Assets	8.7	8.6	7.8	8.0	9.2	9.5
Avg. Yield on loans	9.3	9.7	8.6	8.6	9.9	10.3
Avg. Yield on Investments	7.1	6.7	6.2	6.6	7.5	7.5
Avg. Cost-Int. Bear. Liab.	5.8	6.0	5.5	5.0	5.7	6.1
Avg. Cost of Deposits	5.6	5.9	5.6	5.0	5.7	6.0
Interest Spread	2.9	2.6	2.3	3.0	3.5	3.4
Net Interest Margin	3.0	2.8	2.60	3.20	3.65	3.64

Profitability Ratios (%)

RoE	16.8	17.1	14.8	12.6	16.0	17.4
RoA	1.0	1.1	0.9	0.7	0.8	0.9
Int. Expense/Int. Income	65.2	67.3	66.7	60.0	60.2	61.6
Fee Income/Net Income	25.7	26.2	29.1	26.9	22.9	22.8
Non Int. Inc./Net Income	33.8	37.8	38.7	32.7	26.3	25.9

Efficiency Ratios (%)

Cost/Income*	52.4	50.5	55.6	48.5	46.6	48.1
Empl. Cost/Op. Exps.	61.8	62.3	62.8	62.9	61.5	61.4
Busi. per Empl. (Rs m)	47.4	58.1	67.0	73.9	79.4	89.5
NP per Empl. (Rs lac)	3.7	4.7	4.5	3.9	4.8	5.7

* ex treasury

Asset-Liability Profile (%)

Loans/Deposit Ratio	77.6	73.1	78.6	81.0	81.7	81.0
CASA Ratio	47.0	41.6	47.3	49.4	47.5	46.3
Investment/Deposit Ratio	35.3	37.2	36.8	31.7	30.6	29.5
G-Sec/Investment Ratio	75.7	82.7	77.0	78.2	75.7	78.3
CAR	13.54	14.25	13.39	11.98	11.37	10.87
Tier 1	9.14	9.38	9.45	7.77	7.84	7.60

Valuation

Book Value (INR)	776	913	1,039	1,023	1,157	1,322
BV Growth (%)	30.6	17.5	13.8	-1.5	13.0	14.3
Price-BV (x)	2.4	2.0	1.8	1.8	1.6	1.4
Consol BV (INR)	970	1,140	1,309	1,315	1,496	1,727
BV Growth (%)	20.0	17.6	14.8	0.4	13.8	15.5
Price-Consol BV (x)	1.8	1.5	1.3	1.4	1.2	1.0
Adjusted BV (INR)	700	814	927	897	954	1,075
Price-ABV (x)	2.7	2.3	2.0	2.1	2.0	1.7
Adjusted Consol BV	879	1,031	1,168	1,153	1,242	1,418
Price-Consol ABV (x)	2.0	1.7	1.5	1.5	1.4	1.2
EPS (Rs)	106.6	143.7	144.4	130.2	174.2	215.6
EPS Growth (%)	23.5	34.8	0.5	-9.9	33.9	23.7
Price-Earnings (x)	17.5	13.0	12.9	14.3	10.7	8.6
Consol EPS (INR)	141.9	172.6	184.8	168.3	212.8	270.7
Con. EPS Growth (%)	17.3	21.6	7.1	-8.9	26.4	27.2
Price-Concol EPS (x)	12.4	10.2	9.5	10.6	8.3	6.5
Dividend Per Share (INR)	21.5	29.0	30.0	30.0	34.8	43.1
Dividend Yield (%)	1.2	1.6	1.6	1.6	1.9	2.3

E: MOSL Estimates

N O T E S

Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

State Bank of India

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with company covered	Yes
4. Investment Banking relationship with company covered	No

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

For U.S.

MOST is not a registered broker-dealer in the United States (U.S.) and, therefore, is not subject to U.S. rules. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., Motilal Oswal has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, Marco Polo and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.



Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com