

11 November 2011

MF Global Quarterly Report

State Bank of India

| Sticky asset plays the spoil spot

BANKING

SBIN IN: **Neutral**

RS 1863

Strong top line driven by margin improvement and stable provision (despite high slippage) resulted above consensus PAT. NII was strong, driven by margin expansion. Although credit growth remained subdued, stability in CASA and re-pricing of loans (on account of base rate / PLR hike) has led to improvement in NIMs. Asset quality continued to slide (higher slippage, Rs80bn coupled with muted recovery/upgradation, Rs18bn), with major contribution from agri and SME segments. These two segments constitute 27% of loan book but have contributed 52% of net slippage in last one year. The management expects to recover Rs20bn worth of recent slippage in subsequent quarter. Looking at Q2FY12 experience in terms of recovery, higher interest rate, slow-down in economic activity; corporate / individuals are largely unable to repay complete overdue amount; hence recovery/upgradation prospect looks bleak. Given the concern on asset quality and its impact on bottom line, the risk-reward ratio seems to be unfavourable; hence, we maintain Neutral rating on the stock with a revised price target of Rs 2200.

- » **NII driven by margin improvement:** NII increased by 28% to Rs 104bn due to above-expected improvement in margins (3.79%) and credit growth of 16% yoy. Management guided for further improvement in NIMs.
- » **Moderate growth in fee income:** Fee income continued to register moderate growth, driven by slow sanctions in infra-projects. Low trading gain and dividend from subsidiary translating to negative growth of 14% in non-interest income.
- » **Stable operating cost:** Employee cost increased by 6.5% yoy whereas total operating expenses increased by 10.6%. Operating profit increased by 18% YoY.
- » **Slippages:** GNPA increased by 67bps sequentially to 4.19% due to fresh additions. Incremental slippage was Rs 80bn equivalent to 1% of advances.

VALUATION SUMMARY (CONSOLIDATED)

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
PRE-PROV ROE (%)	38.5	34.7	44.7	52.7	48.4
PRE-PROV ROA (%)	2.1	1.9	2.3	2.4	2.2
NET PROFIT	109,553	117,338	106,850	127,986	172,764
% GROWTH	22.3	7.1	-8.9	19.8	35.0
EPS (RS)	172.6	184.8	168.3	201.3	271.3
ADJ BVPS (RS)	1052.2	1198.9	1176.2	1319.8	1518.1
ROE (%)	17.7	16.4	14.2	16.1	19.1
P/E (X)	10.7	10.0	11.0	9.2	6.8
ADJ. P/BV (X)	1.8	1.5	1.6	1.4	1.2

Source: Company, MF Global India Research Estimates

TARGET RS 2200 (+18%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	635MN
MARKET CAP (RS) :	1183BN
MARKET CAP (USD) :	23.7BN
52 - WK HI/LO (RS) :	3348 / 1710
LIQUIDITY 3M (USD) :	137.5MN
FACE VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	59.4
FII / NRI :	13.9
FI / MF :	17.4
NON-PROMOTER CORP. HOLDINGS :	3.0
PUBLIC & OTHERS :	6.2

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	6.3	-16.2	-43.1
REL TO BSE	-0.7	-19.2	-26.0

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

Q2FY12 RESULTS

(RS MN)	Q2FY12	Q2FY11	YOY GWTH
INTEREST EARNED	259,671	198,081	31.1
INTEREST EXPENDED	155,452	116,932	32.9
NET INTEREST INCOME	104,219	81,149	28.4
NET INTEREST MARGINS	3.8	3.4	
NON INTEREST INCOME	34,272	40,052	-14.4
TOTAL INCOME	138,492	121,201	14.3
TOTAL OPERATING EXPENSES	63,749	57,631	10.6
PAYROLL COSTS	39,143	36,758	6.5
OTHERS	24,605	20,873	17.9
PRE-PROVISION PROFIT	74,743	63,570	17.6
PROVISIONS & CONTINGENCIES	33855	26215	29.1
% OPERATING INCOME	45.3	41.2	
PBT	40,888	37,355	9.5
PROVISION FOR TAXES	12,784	12,342	3.6
% OF PBT	31.3	33.0	
NET PROFIT	28,104	25,014	12.4
EQUITY	6,350	6,350	0.0
EPS, RS	44	39	12.4
ADVANCES	7,906,012	6,807,495	16.1
DEPOSITS	9,731,711	8,553,450	13.8
ADVANCES / DEPOSITS (%)	81.2	79.6	1.7
GROSS NPAS	339463.1	232045.9	46.3
GROSS NPAS (%)	4.2	3.4	0.8
NET NPAS	161204.9	116012.3	39.0
NET NPAS (%)	2.0	1.7	0.3
CAR – TOTAL	11.4	13.2	-1.8

Source: Company, MF Global India Research

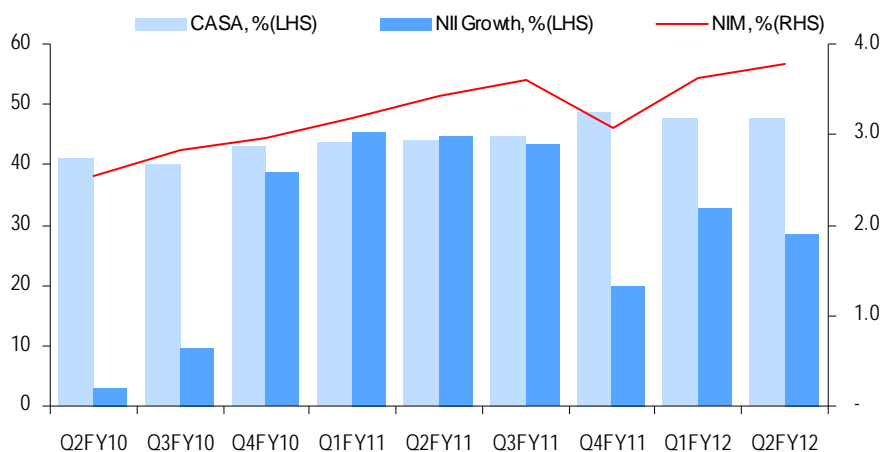
SUM-OF-THE-PARTS

	OWNERSHIP	VALUE/SHARE	COMMENT
*SBI AND ITS BANKING SUBSIDIARIES *		2006	1.5X FY13E ABV OF RS1337
SBI LIFE	74.0%	139	18 TIMES FY12 NBAP OF RS6.6BN
SBI CARDS	60.0%	1	10 TIMES FY12 PAT OF RS0.10BN
SBI FUND MGT.	63.0%	14	3% OF FY12 AUM OF RS460BN
SBI FACTORS	54.0%	2	10 TIMES FY12 PAT OF RS 0.27BN
SBI CAPS	86.2%	36	10 TIMES FY12 PAT OF RS2.7BN
		2199	

Source: Company, MF Global India Research

Business highlights

NIM MOVEMENT



Source: Company, MF Global India Research

- *Net Interest Margin (NIM) witnessed a sharp improvement due to rising base rate and as the bank shed high cost deposits.*
- *NIMs were up 36 bps YoY and 17 bps QoQ to 3.79%*
- *Yield on advances stood at 10.8% while cost of deposits was contained at 5.8%.*
- *Domestic NIMs were 4.07% while overseas NIMs stood at 1.73%.*

CONSTITUENTS OF NON-INTEREST INCOME

RS BN	Q2FY12	Q2FY11	YOY GROWTH
COMMISSION / BROKERAGE	26.00	29.45	-11.7
FOREX / DERIVATIVES	4.81	3.09	55.7
PORTFOLIO GAINS	0.28	1.97	-85.8
DIVIDEND INCOME	0.84	2.88	-70.8
OTHER MISC INCOME	2.34	2.66	-12.2
TOTAL	34.27	40.05	-14.4

Source: Company, MF Global India Research

- *Non-interest income remained subdued due to muted fee income, lower portfolio gains and as no interim dividend was received from subsidiaries.*
- *Fee income in Q2FY11 included fees on few large corporate deals (Tata Corus) of ~ Rs 3.5 bn.*

BREAK-UP OF OPERATING EXPENSES

RS BN	Q2FY12	Q2FY11	YOY GROWTH
PAYMENT TO EMPLOYEES	30.6	28.5	7.4
CONTRIBUTION FOR EMPLOYEES	8.6	8.2	4.9
OTHER OPERATING EPENSES	24.6	20.9	17.9
TOTAL	63.8	57.6	10.6

Source: Company, MF Global India Research

- *Operating costs were contained taking the Cost/Income ratio (excluding portfolio gains) at 46.1%.*

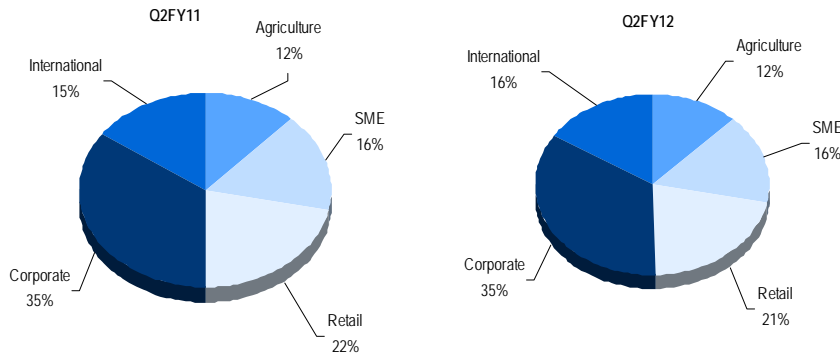
CONSTITUENTS OF PROVISIONS AND CONTINGENCIES

RS BN	Q2FY12	Q2FY11	YOY GROWTH
NPA PROVISION	29.21	21.62	35.1
INVESTMENT DEPRECIATION	4.58	4.32	6.1
STANDARD ADVANCES	1.21	0.15	731.0
TOTAL	33.86	26.21	29.1

Source: Company, MF Global India Research

- *Higher slippages led to a 35.1% growth in loan loss provisions.*
- *SBI also made an additional provision of Rs 5.5 bn during Q2 (Rs 11 bn for 1HFY12) to reach 70% PCR as on Sep'10.*
- *Provisions on investment depreciation were led by MTM losses on the equity portfolio, Loss due to credit event in foreign book. Domestic bond book witnessed MTM gain.*

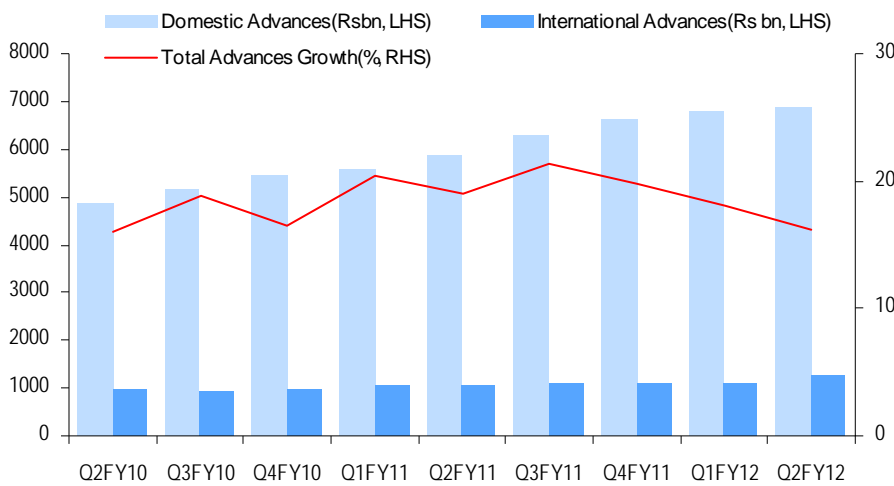
CREDIT MIX



Source: Company, MF Global India Research

- **Loan book grew by 16.9% YoY; large part of the growth coming from international, large corporate (iron steel, power & roads) and SME advances.**
- **Proportion of retail portfolio marginally declined.**
- **Overseas advances growth benefited from rupee depreciation.**
- **Amongst retail advances, growth in auto loans during the quarter remained strong.**

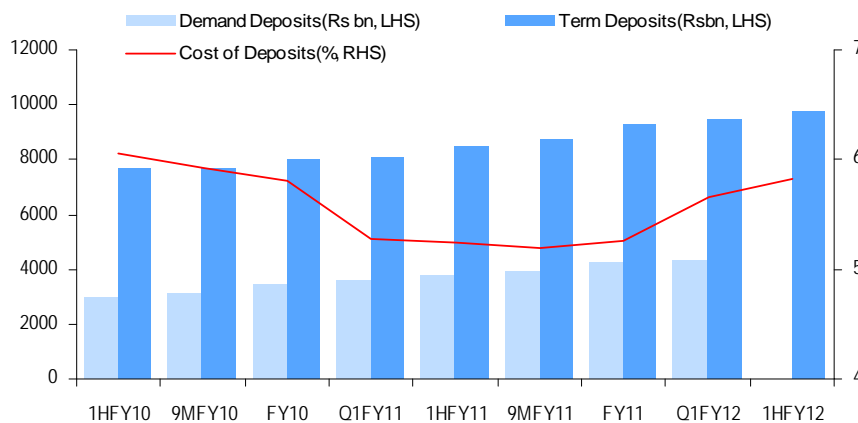
ADVANCES BREAK UP



Source: Company, MF Global India Research

- **Domestic advances grew by 16.6% YoY while overseas advances grew by 18.9%. Domestic CD ratio increased to 75% Vs 73% during previous year.**
- **The management indicated loan book growth of 16-18% for FY12 with large part coming from longer tenor term loans.**

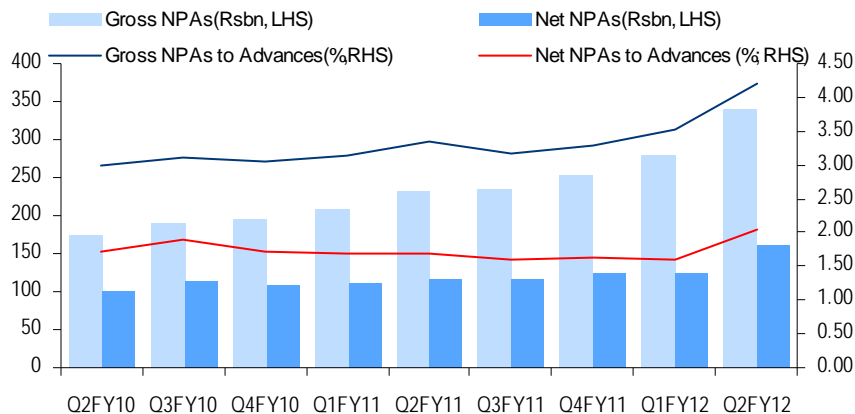
DEPOSIT MIX



Source: Company, MF Global India Research

- **Deposits growth moderated to 13.8%; taking the C/D ratio to 75.8%.**
- **Deposits growth was largely driven by retail deposits; overseas deposits grew by 17.5%.**
- **Term deposits grew by 13.5% while CASA deposits grew by 13.6% taking the CASA ratio to 47.62%.**

ASSET QUALITY



Source: Company, MF Global India Research

- Asset quality further deteriorated with slippages of Rs 80.2 bn taking GNPA to 4.19% (3.52% in Q1FY12) and NNPA to 2.04% (1.61% in Q1FY12)
- Incremental slippages largely came from corporate, agriculture and SME portfolio.
- Amongst the corporate segment, stress was witnessed in iron & steel, metal, mining and textiles, to name a few.
- SBI resorted to virtually no write-offs for the time being.
- The management indicated possibility of recovering Rs 20 bn of the Rs 80 bn fresh slippages in the ensuing quarters (largely from agro based industries).
- Furthermore, management has guided for NNPA of 1.7% by FY12.

MOVEMENT OF NPA

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Gross Slippage (annualised percent to outstanding loan)						
Retail	3.2	1.9	1.6	1.4	2.2	2.8
Agriculture	8.0	4.7	2.8	5.3	6.0	8.4
SME	4.0	4.2	0.6	4.8	6.5	7.1
Corporate	1.0	3.2	2.5	2.8	2.5	3.6
International	0.1	2.0	0.7	1.8	0.5	0.5
Total	2.5	3.0	1.7	2.9	3.1	4.0
Upgradation+Recovery (annualised percent to outstanding loan)						
Retail	1.8	1.6	1.0	2.0	2.0	1.1
Agriculture	2.0	0.7	0.7	1.5	2.6	1.7
SME	2.5	2.9	0.8	2.4	3.1	1.1
Corporate	0.8	0.6	0.8	0.8	1.0	0.5
International	0.2	0.7	0.5	0.9	0.2	0.8
Total	1.3	1.2	0.8	1.4	1.6	0.9
Net Slippage (annualised percent to outstanding loan)						
Retail	1.4	0.4	0.6	-0.5	0.3	1.7
Agriculture	6.0	3.9	2.0	3.8	3.4	6.7
SME	1.4	1.3	-0.2	2.4	3.4	6.1
Corporate	0.2	2.6	1.7	2.0	1.5	3.1
International	-0.2	1.3	0.2	0.9	0.3	-0.3
Total	1.2	1.8	0.9	1.5	1.6	3.1

- Higher slippages coupled with decline in recovery / upgradation led to sharp rise in GNPA.
- Agri and SME segments constitute 27% of loan book but have contributed 52% of net slippage in last one year.
- Corporate segment also witnessed rise in net slippage contributed by agro based industries (players in cotton and mustard oil segment).
- Within the SME segment, export oriented businesses has been relatively more under stress.

Financials (Standalone)

INCOME STATEMENT					
RS MN	FY09	FY10	FY11	FY12E	FY13E
INTEREST ON LOANS	464,047	506,326	599,760	773,691	866,533
INTEREST ON INVESTMENTS	155,741	177,363	200,620	230,713	267,627
OTHERS	18,096	26,250	13,563	15,191	17,318
TOTAL INTEREST EARNED	637,884	709,939	813,944	1,019,595	1,151,478
TOTAL INTEREST EXPENDED	429,153	473,225	488,680	607,777	700,162
NET INTEREST INCOME	208,731	236,714	325,264	411,818	451,316
TOTAL NON INTEREST INCOME	126,908	149,682	158,246	166,457	199,889
TOTAL INCOME	335,639	386,396	483,510	578,275	651,205
PERSONNEL EXPENSES	97,473	127,546	144,802	153,312	171,709
OTHER EXPENSES	59,014	75,640	85,353	101,817	121,465
TOTAL OP EXPENSES	156,487	203,187	230,154	255,129	293,174
NET INC (LOSS) BEFORE PROV	179,152	183,209	253,356	323,146	358,030
PROVISIONS AND CONTINGENCIES	26,687	37,346	43,948	103,813	155,284
NET INC (LOSS) BEFORE TAX	141,806	139,261	149,542	167,862	254,003
PROVISION FOR INCOME TAX	50,594	47,600	66,897	67,145	96,521
NET PROFIT	91,212	91,661	82,645	100,717	157,482

Source: Company, MF Global India Research Estimates

BALANCE SHEET

RS MN	FY09	FY10	FY11	FY12E	FY13E
ASSETS					
CASH & BAL WITH RBI	1,044,038	961,838	1,228,741	1,413,053	1,608,635
LOANS, ADV & INT ACCRUED	5,425,030	6,319,142	7,567,195	8,887,461	10,664,953
INVESTMENTS	2,826,835	2,934,751	3,034,393	3,583,799	4,196,136
FIXED ASSETS (NET)	38,378	44,129	47,642	54,642	61,642
OTHER ASSETS	310,038	274,278	359,391	371,811	409,102
TOTAL ASSETS	9,644,319	10,534,137	12,237,362	14,310,766	16,940,488
LIABILITIES					
SHARE CAPITAL	6,349	6,349	6,349	6,349	6,349
RESERVES AND SURPLUS	573,128	653,143	643,510	718,230	849,714
HYBRID CAPITAL	31,700	48,060	68,060	78,269	90,009
DEBT	303,442	319,804	349,804	379,804	439,804
BORROWING	505,438	662,253	777,826	855,609	941,170
TOTAL DEPOSITS	7,489,912	8,107,214	9,410,004	11,192,517	13,425,435
OTHER LIAB INCLD PROV	702,652	737,315	981,808	1,079,989	1,187,988
TOTAL LIABILITIES	9,612,621	10,534,137	12,237,360	14,310,766	16,940,468

Source: Company, MF Global India Research Estimates

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY09	FY10	FY11	FY12E	FY13E
EARNINGS AND VALUATION RATIOS					
PRE-PROVISION OPERATING ROAE (%)	37.7	33.4	44.2	54.4	52.6
ROAE (%)	19.2	16.7	14.4	16.9	23.1
PRE-PROVISION OPERATING ROA (%)	2.1	1.8	2.2	2.4	2.3
ROAB (%)	1.1	0.9	0.7	0.8	1.0
EPS (RS.)	144	144	130	159	248
DIVIDEND PER SHARE (RS.)	29	30	30	35	35
BOOK VALUE (RS.)	913	1,039	1,024	1,141	1,348
ADJ BV (RS.)	807	919	887	985	1,161
REVENUE ANALYSIS					
INTEREST INCOME ON IBA (%)	7.9	7.3	7.4	7.9	7.6
INTEREST COST ON IBL (%)	5.9	5.4	5.0	5.3	5.1
NIM ON IBA / AWF (%)	2.6	2.4	3.0	3.2	3.0
CORE FEE INC / AWF (%)	1.1	1.2	1.2	1.1	1.1
PORTFOLIO GAINS / TOTAL INC (%)	8.3	5.8	1.9	0.7	1.6
OP.EXP / TI (%)	50.5	55.6	48.5	44.4	45.7
OP.EXP / AWF (%)	1.9	2.1	2.1	2.0	1.9
EMPLOYEE EXPS / OP EXPS (%)	62.3	62.8	62.9	60.1	58.6
TAX / PRE-TAX EARNINGS (%)	35.7	34.2	44.7	40.0	38.0
ASSET QUALITY					
GNPAS / GR ADV (%)	2.84	3.05	3.29	4.31	4.57
NNPAS / NET ADV (%)	1.78	1.74	1.66	1.65	1.65
GROWTH RATIO					
LOANS (%)	30.2	16.5	19.8	17.4	20.0
INVESTMENTS (%)	44.4	3.8	3.4	18.1	17.1
DEPOSITS (%)	38.1	8.2	16.1	18.9	20.0
NETWORTH (%)	18.2	13.8	(1.5)	11.5	18.1
NET INT INCOME (%)	22.6	13.4	37.4	26.6	9.6
NON-FUND BASED INCOME (%)	28.8	26.6	19.9	10.0	20.0
NON-INT EXP (%)	24.1	29.8	13.3	10.9	14.9
PROFIT BEFORE TAX (%)	35.8	(1.8)	7.4	12.3	51.3
NET PROFIT (%)	35.5	0.5	(9.8)	21.9	56.4
ASSET / LIABILITY PROFILE					
AVG CASA/ DEPOSITS (%)	43.5	44.2	45.3	43.7	43.2
AVG ADV / AVG DEP (%)	72.1	73.0	76.7	76.7	75.8
AVG INVST / AVG DEP (%)	37.0	36.9	34.1	32.1	31.6
INCR ADV / DEPOSITS (%)	60.9	144.8	95.8	74.1	79.6
AVG CASH / AVG DEP (%)	13.3	12.9	12.5	12.8	12.3
CAPITAL ADEQUACY RATIO:					
TIER I (%)	9.4	9.5	7.8	6.9	6.8
INTERNAL CAPITAL GENERATION RATE (%)	14.8	12.5	9.6	12.1	18.7
NNPAS TO EQUITY (%)	16.5	16.5	19.0	19.6	19.9

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
NEUTRAL	2200	1853	11 NOVEMBER 2011
NEUTRAL	2380	2193	16 AUGUST 2011
NEUTRAL	2650	2414	17 MAY 2011
NEUTRAL	2983	2598	24 JANUARY 2011
NEUTRAL	3290	3423	9 NOVEMBER 2010
BUY	3290	2784	13 AUGUST 2010
BUY	2640	2223	17 MAY 2010
BUY	2610	2191	3 NOVEMBER 2009
BUY	1964	1723	31 JULY 2009
BUY	1614	1042	27 JANUARY 2009
BUY	1634	1448	28 JULY 2008

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TECHNICAL & QUANT RESEARCH

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INSTITUTIONAL CASH EQUITY SALES

SUDHIR PADIYAR	VP - EQUITY SALES (ASIAPAC)	91-22-6667 9991	SPADIYAR@MFGLOBAL.COM
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KSHITIJ SHAH	EQUITY SALES (EUROPE)	91-22-6667 9944	KSSHAN@MFGLOBAL.COM
PAWAN KAKUMANU	EQUITY SALES	91-22-6667 9934	PKAKUMANU@MFGLOBAL.COM
SHUBHANGI AGRAWAL	EQUITY SALES	91-22-6667 9964	SAGRAWAL@MFGLOBAL.COM
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INSTITUTIONAL CASH EQUITY SALES TRADING

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INSTITUTIONAL CASH EQUITY DEALING

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Rating Rationale

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