

**RESULTS REVIEW**
**Share Data**

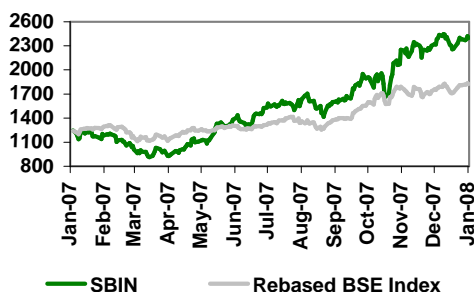
Market Cap	Rs. 1,261.1 bn
Price	Rs. 2,396.15
BSE Sensex	20,345.2
Reuters	SBI.BO
Bloomberg	SBIN IN
Avg. Volume (52 Week)	0.6 mn
52-Week High/Low	Rs. 2,475.25 / 845
Shares Outstanding	526.3 mn

**Valuation Ratios**

Year to 31 March	2008E	2009E
EPS (Rs.)	117.2	147.5
+/- (%)	35.8%	25.9%
PER (x)	20.4x	16.2x
P / PPP (x)	10.2x	8.0x
P / ABV (x)	3.4x	2.9x

**Shareholding Pattern (%)**

Promoter	60
FII's	12
Institutions	12
Public & Others	17

**Relative Performance**

**State Bank of India**
**Hold**
**Operating results ordinary, long term growth intact**

SBI's Q2'08 results were in line with our expectations with net profit increasing 36% yoy to Rs. 16.1 bn. Net interest income rose modestly by 6.3% yoy to Rs. 37.6 bn, owing to an increase in high cost deposits coupled with lower yield on investments. This in turn led to an 18 bps decrease in NIM to 2.84%. Non interest income increased sharply by 42% to Rs. 20.4 bn, led by a strong growth in foreign exchange and treasury income. Balance Sheet grew robustly owing to a 26.2% yoy rise in advances and a 23.3% rise in deposits. The asset quality has remained virtually stagnant with a 4 bps yoy decline to 1.63%.

The Bank has received approval from the government to float a rights issue, which is likely to mobilise around Rs. 167 bn. Further, a huge value will be unlocked post-listing of SBI holding, which is valued at more than USD 5 bn. We maintain a positive outlook on the Bank based on its huge branch network, aggressive expansion plans, and proposed merger with associate Banks. However, we believe that most of the growth prospects have been factored into the current market price and thus we maintain our Hold rating on the stock.

**Result Highlights**

Net interest income showed a modest increase of 6.3% yoy to Rs. 37.6 bn on account of rise in cost of deposits by 97 bps and lower yield on investments by 18 bps to 6.6%. This in turn led to a fall in NIM by

**Key Figures (Standalone)**

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY %	QoQ %	H1'07	H1'08	YoY %
(Figures in Rs. mn, except per share data)								
Net Interest Income	35,403	44,974	37,629	6.3%	(16.3)%	70,723	79,643	12.6%
Total Net Income	49,780	53,400	58,049	16.6%	8.7%	95,982	111,448	16.1%
Pre-Prov Profit	21,125	23,615	27,132	28.4%	14.9%	39,182	50,747	29.5%
Net Profit	11,845	14,258	16,114	36.0%	13.0%	19,831	30,372	53.2%
Cost/Total Income(%)	57.6%	55.8%	53.3%	-	-	59.2%	54.5%	-
Net Interest Margin	3.02%	3.30%	2.84%	-	-	-	-	-
NPA ratio	1.67%	1.62%	1.63%	-	-	1.67%	1.63%	-

**Per Share Data (Rs.)**

PPP per share	40.1	44.9	51.6	28.4%	14.9%	74.4	96.4	29.5%
EPS	22.51	27.09	30.62	36.0%	13.0%	37.68	57.71	53.2%
BVPS	563.0	621.8	647.0	14.9%	4.1%	563.0	647.0	14.9%

18 bps to 2.84%. However, we expect NIM to increase by the end of the current fiscal year as the high cost deposits will get re-priced in the next six months.

*Non-interest income - increasing*

Non interest income witnessed a sharp increase of 42% yoy to Rs. 20.4 bn, led by a strong growth in foreign exchange and treasury income. However, overall operating performance didn't show much improvement on a yearly basis as most of the incomes which have increased were sporadic in nature.

*Moderate rise in operating expenses*

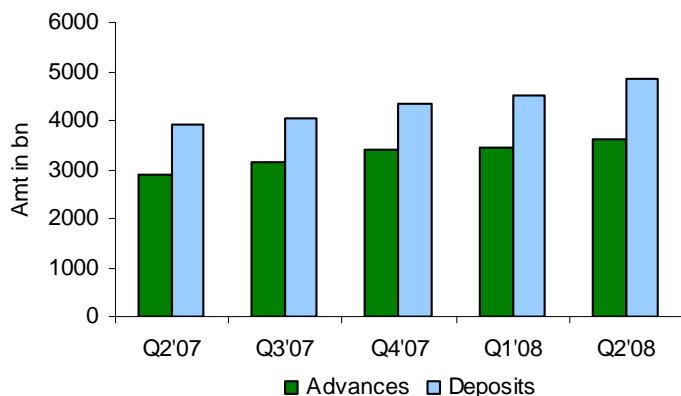
Operating expenses increased moderately by 7.9% yoy to Rs. 30.9 bn. While other expenses increased 20.4% to Rs. 11 bn, staff expenses rose 2.1% to Rs. 20 bn. However, going forward, we expect operating expenses to increase as the Bank is planning to add around 3,000 branches by the end of the next fiscal year. The net profit increased 36% yoy to Rs. 16.1 bn, on account of high non-interest income coupled with lower provisioning by Rs. 2 bn.

*No significant change in asset quality*

SBI showed an impressive growth in its balance sheet, as the total business grew 24.5% yoy to Rs. 8.5 tn, contributed by a 26.2% rise in advances and 23.3% increase in deposits. Retail advances constituted 24.8% of the total advances. While CASA deposits increased 14.2% yoy to Rs. 1.8 tn, CASA ratio decreased to 39.5%. Bank's asset quality didn't show much change, as the net NPA ratio fell 4 bps yoy to 1.63%.

***Total business increasing***

*Business growth – no full stops*



Source: Company data, Indiabulls research

### *Banking subsidiaries performing well*

#### ***Associate Banks – good performance continued***

The Associate Banks, taken together, registered a yoy growth of 16.9% in net profit. Advances grew by 26.8% while deposits grew more sharply at 20.7%. Asset quality improved over the year, as the gross NPAs declined 43 bps to 1.91%.

### *Profits in insurance business*

#### ***Life Insurance Business – from losses to profits***

Net premium increased 79.2% yoy to Rs. 13.8 bn. Profit of the Company improved remarkably to Rs. 140.9 mn against a loss of Rs. 101.3 mn at the end of the second quarter last year. A total of 534K new lives were insured at the end of the second quarter.

### *Billions to come with rights issue*

#### **Prospects**

##### ***Rights issue for expansion***

SBI has received permission by the Government to make a rights issue, which will help it to mobilise a huge sum of money, estimated at around Rs. 167 bn. The Government intends to subscribe to shares worth Rs. 100 bn by issuing bonds. The issue is intended to fund the expansion plans of the Bank as well as to meet the capital requirements under the Basel-II norms.

### *Merger to create unmatchable expansion*

##### ***Merger with subsidiaries***

SBI is considering a merger with its various Banking subsidiaries with itself. This, when materialised, will make SBI a banking behemoth. Post-merger, the Bank will see a huge rise in its balance sheet and market cap.

### *Holding company to unlock value*

##### ***Holding company approval – huge value to be unlocked***

SBI is seeking approval from the RBI to create a holding company in which its shareholdings form the Insurance and asset management business will be transferred. The Bank proposes to sell shares in the holding company. The value of which is estimated to be in the range of USD 5-7 bn.

*From the largest bank to  
a banking behemoth*

## Outlook

SBI is the largest bank in India, with a network of around 14,000 branches and 8,000 ATMs across the country. It is drawing huge money through the rights issue in the next few months which will act as fuel to further expansion. A lot of value is yet to be unlocked from the sale of shares in the proposed holding company, which has an expected valuation of more than USD 5 bn. Further, it is likely to merge itself with the associate banks, which if materialised will make it the Indian Banking behemoth, with an unmatched geographical presence and a huge share in the total credit outflow and inflow. Also, a lot of new initiatives are on the cards, like general insurance, venture capital fund etc., which will be opening new sources of fee income.

At the current share price of Rs. 2,396.15, the stock is trading at the forward P/ABV FY08E of 3.4x and forward P/E FY08E of 20.4x (standalone). We maintain our Hold rating on the stock.

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY06	FY07	FY08E	FY09E		FY06	FY07	FY08E	FY09E
Interest Income	359,796	394,910	485,047	586,274	<b>Per share data (Rs.)</b>				
Interest Expense	203,904	234,368	291,780	340,453	Shares outstanding (mn)	526.3	526.3	526.3	526.3
<b>Net Interest Income</b>	<b>155,891</b>	<b>160,542</b>	<b>193,267</b>	<b>245,821</b>	Basic EPS	83.7	86.3	117.2	147.5
YoY Growth (%)	11.8%	3.0%	20.4%	27.2%	Diluted EPS	83.7	86.3	117.2	147.5
Other Income	74,352	57,692	69,231	83,077	Book value per share	525.3	594.7	696.9	828.4
<b>Total Net Income</b>	<b>230,243</b>	<b>218,235</b>	<b>262,498</b>	<b>328,898</b>	Adj. book value per share	525.3	594.7	696.9	828.4
YoY Growth (%)	9.3%	-5.2%	20.3%	25.3%	<b>Valuation ratios (x)</b>				
Operating Expense	117,251	118,235	139,124	171,027	P/PPP	11.2x	12.6x	10.2x	8.0x
<b>Pre-Provisioning Profit</b>	<b>112,992</b>	<b>99,999</b>	<b>123,374</b>	<b>157,871</b>	P/E	28.6x	27.8x	20.4x	16.2x
Provisions and Contingencies	43,931	23,749	23,899	32,622	P/B	4.6x	4.0x	3.4x	2.9x
<b>Profit Before Tax</b>	<b>69,062</b>	<b>76,251</b>	<b>99,474</b>	<b>125,250</b>	P/ABV	4.6x	4.0x	3.4x	2.9x
Tax	24,995	30,838	37,800	47,595	<b>Performance ratio (%)</b>				
<b>Net Profit</b>	<b>44,067</b>	<b>45,413</b>	<b>61,674</b>	<b>77,655</b>	Return on avg. assets	0.9%	0.9%	1.0%	1.0%
YoY Growth (%)	2.4%	3.1%	35.8%	25.9%	Return on avg. net worth	17.0%	15.4%	18.1%	19.3%
<b>Balance Sheet</b>					<b>Balance Sheet ratios (%)</b>				
(Rs mn, as on March 31)	FY06	FY07	FY08E	FY09E	Advances to deposits	68.9%	77.5%	81.9%	86.6%
Cash and balances with RBI	445,600	519,687	578,624	397,225	Borrowings to advances	11.7%	11.8%	12.0%	12.0%
Investments	1,625,342	1,491,489	1,594,007	1,928,749	Investments to assets	32.9%	26.3%	23.3%	23.4%
YoY Growth (%)	-17.5%	-8.2%	6.9%	21.0%	Investments to deposits	42.8%	34.2%	30.0%	30.0%
Advances	2,618,009	3,373,365	4,351,641	5,570,100	Net Worth to assets	5.6%	5.5%	5.4%	5.3%
YoY Growth (%)	29.4%	28.9%	29.0%	28.0%	<b>Productivity ratio (Rs. mn)</b>				
Fixed Assets (Net)	27,529	28,189	28,956	29,233	Opt. expense per employee	0.6	0.6	0.7	0.9
Other Assets	223,808	252,923	297,548	308,600	Net profit per employee	0.2	0.2	0.3	0.4
<b>Total Assets</b>	<b>4,940,290</b>	<b>5,665,652</b>	<b>6,850,776</b>	<b>8,233,906</b>	Asset per employee	24.9	30.6	35.9	42.3
Deposits	3,800,461	4,355,211	5,313,357	6,429,162	<b>Operating ratios (%)</b>				
YoY Growth (%)	3.5%	14.6%	22.0%	21.0%	Operating cost to net income	50.9%	54.2%	53.0%	52.0%
Borrowings	306,412	397,033	522,197	668,412	Operating cost to avg. assets	2.5%	2.2%	2.2%	2.3%
YoY Growth (%)	59.7%	29.6%	31.5%	28.0%					
Other Liabilities & Provisions	556,976	600,423	648,456	700,333					
<b>Total Liabilities</b>	<b>4,663,849</b>	<b>5,352,667</b>	<b>6,484,011</b>	<b>7,797,907</b>					
Share Capital	5,263	5,263	5,263	5,263					
Reserves & Surplus	271,178	307,723	361,502	430,736					
<b>Total Equity &amp; Liabilities</b>	<b>4,940,290</b>	<b>5,665,652</b>	<b>6,850,776</b>	<b>8,233,906</b>					

Source: Bank data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank

## Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.