

May 11, 2009

Rating	Accumulate
Price	Rs1,325
Target Price	Rs1,448
Implied Upside	9.3%
Sensex	11,876

(Prices as on May 8, 2009)

#### Trading Data

Market Cap. (Rs bn)	841.3
Shares o/s (m)	634.9
Free Float	40.6%
Avg. Daily Vol ('000)	984.7
Avg. Daily Value (Rs m)	1,095.8

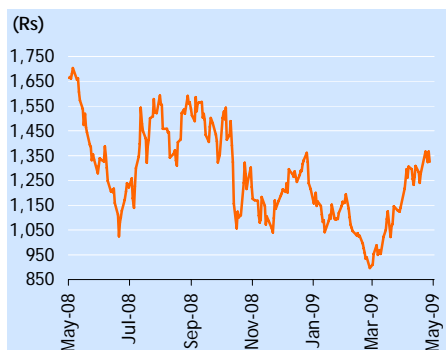
#### Major Shareholders

Govt. Holding	59.4%
Foreign	8.0%
Domestic Inst.	20.5%
Public & Others	12.1%

#### Stock Performance

(%)	1M	6M	12M
Absolute	16.2	8.4	(20.9)
Relative	6.3	(12.3)	8.1

Price Performance (RIC: SBI.BO, BB: SBIN IN)



Source: Bloomberg

- **Margin decline significant; earnings outperformance driven by lower provisions and higher treasury gains, fee income growth remains strong:** State Bank of India (SBI) reported Q4FY09 net profit at Rs27.4bn up 46% YoY, much higher than market and our expectations. However, the quality of earnings has declined significantly, with margins declining by 30-40bps YoY and 50-60bps QoQ, resulting in a core operating profit (excluding treasury) growth of only 7% YoY. Strategic move to gain market share has led to robust growth in advances up 29% YoY and deposits up 38% YoY. Strong fee income growth up by 34% YoY and 260bps QoQ improvement in CASA remain the key positive takeaways. Margin contraction (50-60bps) was more than expected (20bps) and the downward bias is likely to continue. Due to the aggressive growth plans of the bank, we have revised our estimates and upgraded FY10E earnings by 11.3% due to higher business and lower coverage that the bank is likely to maintain.
- **Restructuring at 1.5%-1.8% of advances, remains at the lower end of industry:** SBI's restructured loans were Rs83bn (1.5% of total advances or 1.8% of domestic advances) adding for Dabhol, it is at 2.2% of domestic advances, which still remains at the lower end of the industry. However, pending application details are awaited.
- **Adjusted for Dabhol exposure, asset quality levels look a tad better:** Slippages during the quarter amounted to Rs22.7bn. However, it included a technical NPA of Rs16.2bn for Dabhol UMPP, which is likely to get up-graded by the next quarter. Excluding this, the GNPA's and NNPA's would stand at 2.6% (reported at 2.8%) and 1.5% (reported at 1.7%). Provision coverage, which has gone down to 39%, will also improve to 43%.
- **Valuation:** The stock is currently quoting at 8.4x FY10E EPS, 1.1x FY10E BV and 1.2x FY10E ABV. We maintain our 'Accumulate' rating, with a revised price target of Rs1,448 (earlier PT Rs1,258). Robust growth would be the near-to-medium term driver for the stock. However, we need to maintain a roving eye for signs showing asset quality concerns.

Key financials (Rs m)	FY08	FY09	FY10E	FY11E
Net interest income	170,212	208,731	238,710	305,027
Growth (%)	13.0	22.6	14.4	27.8
Operating profit	131,076	179,152	215,326	283,727
PAT	67,298	91,212	103,728	124,508
EPS (Rs)	106.6	143.7	163.4	196.1
Growth (%)	23.5	34.8	13.7	20.0
Net DPS (Rs)	14.0	21.5	29.0	30.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
NIM (%)	3.0	2.8	2.6	2.3
RoAE (%)	16.8	17.1	16.8	17.5
RoAA (%)	1.0	1.1	1.0	0.9
P / BV (x)*	1.5	1.2	1.1	0.9
P / ABV (x)*	1.6	1.4	1.2	1.1
PE (x)	12.4	9.2	8.4	7.0
Net dividend yield (%)	1.1	1.6	2.2	2.3

Source: Company Data; PL Research

\* Rs 85 per share reduced for investment in subsidiaries from Book Value & Rs 321 per share reduced from the CMP for value of subsidiary

Abhijit Majumder  
AbhijitMajumder@PLIndia.com  
+91-22-6632 2236

Bharat Gorasiya  
BharatGorasiya@PLIndia.com  
+91-22-6632 2242



Q4FY09 Result Overview

(Rs m)

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Interest Income	173,424	135,767	27.7	180,303	637,884	489,503	30.3
Interest on Advances	120,836	96,035	25.8	128,366	464,047	352,281	31.7
Income on investments	42,309	32,117	31.7	40,066	155,741	119,442	30.4
Bal with RBI & others	10,279	7,616	35.0	11,871	18,096	17,780	1.8
Interest Expense	125,005	87,759	42.4	122,722	429,153	319,291	34.4
<b>Net Interest Income</b>	<b>48,419</b>	<b>48,008</b>	<b>0.9</b>	<b>57,582</b>	<b>208,731</b>	<b>170,212</b>	<b>22.6</b>
Non-Interest Income	47,182	28,166	67.5	32,256	126,908	86,949	46.0
Treasury Income	15,190	2,971	411.3	6,740	25,670	9,463	171.3
CEB	29,600	22,010	34.5	16,090	76,170	59,143	28.8
Forex Income	3,995	(1,016)	NA	3,340	11,960	6,927	72.7
Other Income	2,392	3,185	(24.9)	6,086	13,108	11,416	14.8
<b>Net total Income</b>	<b>95,602</b>	<b>76,174</b>	<b>25.5</b>	<b>89,837</b>	<b>335,639</b>	<b>257,162</b>	<b>30.5</b>
Operating Expenses	42,831	32,447	32.0	45,011	156,487	126,086	24.1
Employee	23,496	15,696	49.7	30,456	97,473	77,859	25.2
Other operating expenses	19,335	16,751	15.4	14,556	59,014	48,227	22.4
<b>Operating profit</b>	<b>52,771</b>	<b>43,727</b>	<b>20.7</b>	<b>44,826</b>	<b>179,152</b>	<b>131,076</b>	<b>36.7</b>
Core operating profits	37,581	40,757	(7.8)	38,086	153,482	121,612	26.2
Provisions	13,777	16,193	(14.9)	1,968	37,346	26,687	39.9
Loan loss provisions	11,787	10,670	10.5	5,151	24,750	20,009	23.7
Other provisions	1,989	5,523	(64.0)	(3,182)	12,596	6,677	88.6
<b>Profit before tax</b>	<b>38,994</b>	<b>27,535</b>	<b>41.6</b>	<b>42,858</b>	<b>141,807</b>	<b>104,389</b>	<b>35.8</b>
Tax	11,571	8,695	33.1	18,074	50,594	37,091	36.4
<b>Net Profit after tax</b>	<b>27,423</b>	<b>18,833</b>	<b>45.6</b>	<b>24,784</b>	<b>91,212</b>	<b>67,291</b>	<b>35.5</b>
<b>Asset Quality</b>							
Gross NPA's	155,893	128,373	21.4	133,144	155,893	128,373	21.4
<i>Gross NPA's (%)</i>	<i>2.8</i>	<i>3.0</i>		<i>2.6</i>	<i>2.8</i>	<i>3.0</i>	
Net NPA's	95,523	74,243	28.7	68,640	95,523	74,243	28.7
<i>Net NPA's (%)</i>	<i>1.8</i>	<i>1.8</i>		<i>1.4</i>	<i>1.8</i>	<i>1.8</i>	
<b>Capital Adequacy (%)</b>							
<i>CAR</i>	<i>14.3</i>	<i>13.5</i>		<i>13.4</i>	<i>14.3</i>	<i>13.5</i>	
<i>Tier 1</i>	<i>9.4</i>	<i>9.1</i>		<i>9.2</i>	<i>9.4</i>	<i>9.1</i>	
<b>Balance Sheet Items</b>							
Deposits	7,420,730	5,374,060	38.1	6,929,210	7,420,730	5,374,060	38.1
CASA	2,733,960	2,236,270	22.3	2,373,070	2,733,960	2,236,270	22.3
Advances	5,425,030	4,221,810	28.5	5,102,790	5,425,030	4,221,810	28.5
<i>NIM - reported (%)</i>	<i>2.7</i>	<i>3.1</i>		<i>3.2</i>	<i>2.9</i>	<i>3.0</i>	
<i>NIM - calculated (%)</i>	<i>2.0</i>	<i>2.7</i>		<i>2.6</i>	<i>2.5</i>	<i>2.6</i>	

## Highlights

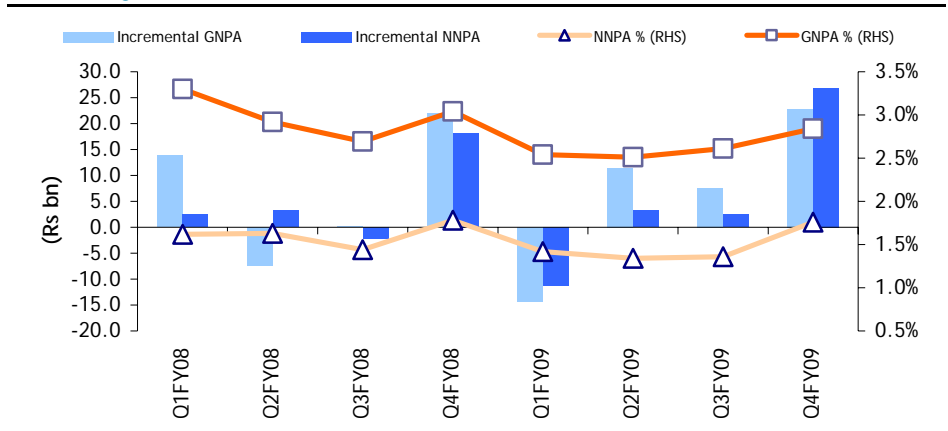
### Net Interest Income (NII) growth declines; substantial margin hit

Q4FY09 NII growth was up 1% YoY and declined 16% QoQ to Rs48.4bn, led by pressure on margins and lack of credit demand. The rise in cost of deposits is largely attributed to special deposit scheme for 1000 day deposits and fall in yield on advances due, sub PLR special schemes on advances in home. SME and car loan segment were the culprits for the 50-60bps QoQ decline in margins.

### Reported asset quality levels show sharp deterioration, adjusted for Dabhol; NPA levels look a tad better

GNPAs and NNPA's increased by Rs22.7bn (17%) and Rs26.9bn (39%) QoQ, respectively. However, it included a technical NPA of Rs16.2bn for Dabhol UMPP, which is likely to get up-graded by the next quarter. Excluding this, the GNPAs and NNPA's would stand at 2.6% (reported at 2.8%) and 1.5% (reported at 1.7%). Provision coverage, which has gone down to 39%, will also improve to 43%.

#### QoQ change in GNPA & NNPA



Source: Company Data, PL research

## Business growth above industry growth rates; special 1000 days deposit scheme to restrict margin improvement

Advances were up 29% YoY and 8% QoQ to Rs5.4tn, mainly driven by higher international advances up 54% YoY and 20% QoQ. Deposits grew by 38% YoY and 7% QoQ to Rs7.4tn, of which overseas deposits grew by 209% YoY to Rs457bn. The special 1000 days deposit scheme launched during Q3FY09 had mobilised in excess of Rs400bn and the effective deposit cost was 9.75%. This will, however, impact the margins, going forward as the deposits are mainly in the duration of one to three years and will continue to remain in the book at more than 150-200bps higher rate than the market rates.

### Advances book split

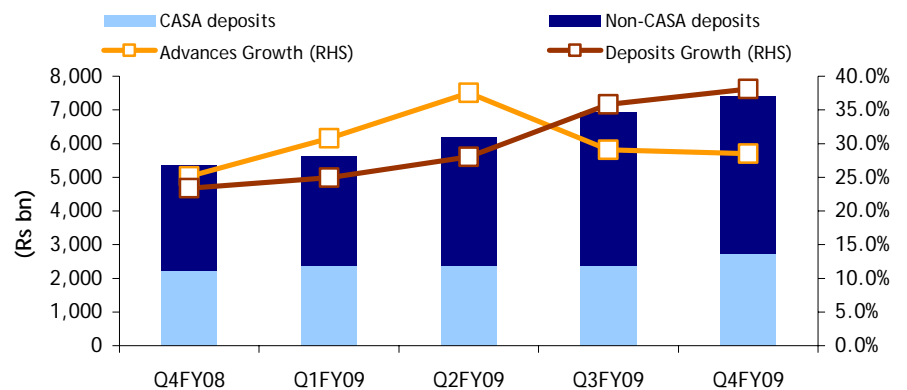
(Rs bn)

Y/e March	FY09	YoY gr. (%)	QoQ gr. (%)
Gross Advances	5,425.1	28.5	7.7
- Mid corporate	1,259.5	23.0	9.0
- Large corporate	686.7	47.0	6.4
- SME	938.1	26.0	5.7
- International	862.7	54.0	19.7
- Agriculture	546.8	10.0	4.6
- Personal loans	365.6	19.2	(1.4)
- Housing Loans	540.6	21.0	3.8
- Auto	97.1	36.0	8.3
- Educational	66.2	50.0	7.6

## CASA up 260bps QoQ as system liquidity improves

Margins remained under stress due to higher decline in asset yields than improvement in costs. However, CASA improved by 260bps QoQ mainly due to lower accretion in term deposits up 3% QoQ, while CASA deposits grew 15% QoQ.

### Advances and deposits trend



Source: Company Data, PL Research



Detail subsidiary wise PAT contribution awaited, insurance venture to have possible restricted consolidated PAT growth: The below mentioned table highlights the fact that contribution from various subsidiaries and JVs declined by 17.4% YoY in FY09 which restricted the overall group consolidated PAT growth at 21.3% YoY for FY09.

#### Trend in Consolidated PAT and contribution of subsidiaries & JVs

(Rs bn)

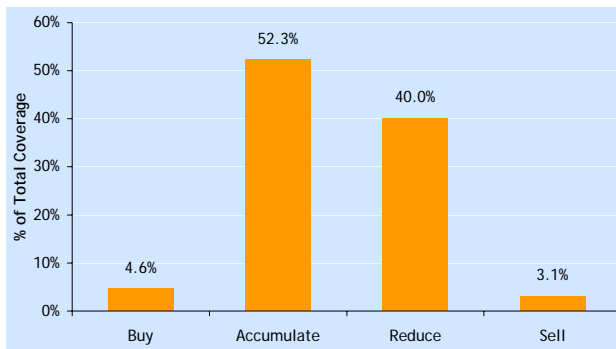
Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	QoQ gr. (%)	FY09	FY08	YoY gr. (%)
Consolidated PAT	35.43	28.12	26.0	(4.5)	111.73	92.12	21.3
Standalone PAT	27.42	18.83	45.6	10.6	91.21	67.29	35.5
PAT contribution of Subs. & JVs	8.00	9.29	(13.8)	(35.0)	20.52	24.83	(17.4)

#### SOTP Valuation

Business	Multiple	Basis	Stake	Value/Share
Standalone Core Banking *	1.4	x FY10E ABV	-	1,128
SBI (associate banks)	0.7	x FY10E ABV	-	158
SBI life	15	x FY10E NBAP	74%	132
SBI Mutual Fund	5%	% of FY10E AUM	63%	10
SBI Capital Market	10	x FY10E PAT	86%	21
<b>Total</b>				<b>1,448</b>

\* Rs 85 per share reduced for investment in subsidiaries from Book Value & Rs 321 per share reduced from the CMP for value of subsidiary

#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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