

# State Bank of India

## Margins Surprise; Stable Asset Quality

SBI reported a strong set of numbers which were marginally above our estimates (PAT up 14% YoY to Rs 2,828 cr), supported by a strong CASA ratio and redeployment of resources, which strengthened margins. Core income growth was robust at 43% YoY, while non interest income was muted due to lower treasury gains. Asset quality has remained stable sequentially on an absolute basis along with provisioning coverage ratio which improved to 64%.

### Key Highlights

- **CASA:** CASA ratio improved by 38 bps sequentially to 48.17%, whereas the overall credit-deposit ratio grew by over 4 pps YTD to 82.7% (domestic CD ratio is at 77.2%). CASA ratio is mainly supported by rural & semi urban regions wherein the bank has a very high ratio of ~60%. It is also adding ~6 mn customers every month, which is aiding in retail business.
- **Margins:** Improved CASA ratio has resulted in improved margin of 3.4% for 9MFY11 (up 74 bps YTD). We believe going forward SBI will have to focus more on resource accumulation which may put pressure on margins in a rising interest rate scenario. The management is confident of maintaining the margins in Q4FY11, however for FY12E; the margins outlook will be dependent on the upcoming RBI policy.

### Outlook and Valuations

SBI has surprised on the margin front along with stable asset quality. Core income growth was robust, however, deposit growth lagged behind. The stabilization in fresh slippages is comforting. However, incremental provisions to achieve 70% coverage ratio, provisions for dual rate home loans (if required), additional provisions for pension liability and MTM hit due to rising yields (AFS ~27% with duration of ~3.5 years) are likely to remain an overhang on profitability. We maintain our **TP of Rs 2,994 with a BUY rating** [1.6 x FY12E Adj. BV (adjusting for value and cost of investment) + Rs 883 value of investments] - Upside of 11% from CMP of Rs 2,693.

### Financial summary (standalone)

Y/E	PAT	FDEPS	FDEPS chg	P/E	P/E	Adj. BV	P/Adj.	P/Adj. BV	RoE	RoA	Net NPA
Mar	(Rs cr)	(Rs)	(%)	(x)	(x)*	(Rs.)	BV (x)	(x)*	(%)	(%)	(%)
2009	9,121	143.7	34.8	18.7	12.3	815	3.3	2.4	17.1	1.1	1.8
2010	9,166	144.4	0.5	18.6	12.3	929	2.9	2.1	14.8	0.9	1.7
2011E	11,166	175.9	21.8	15.3	10.1	1,060	2.5	1.9	15.9	1	1.6
2012E	14,123	199.1	13.2	13.5	8.9	1,419	1.9	1.3	15.6	1.1	1.2

Source: Company, ENAM Research.\*P/Adj. BV and P/E calculated after deducting value of investment from price and cost of investment from BV. We have assumed dilution of Rs 20,000 cr in FY12.

<b>CMP (Rs)</b>	<b>2,693</b>
<b>Target price (Rs)</b>	<b>2,994</b>
<b>Potential upside</b>	<b>11%</b>

### Stock data

No. of shares (cr)	63.5
FV (Rs)	10/-
Market cap (Rs cr)	1,65,000
52 week high/low (Rs)	3,515/ 1,863
Avg. daily vol.* (shares)	26,13,199
BSE Code	500112
NSE Code	SBIN
Bloomberg code	SBIN IB
Reuters Code	SBI.BO

\* BSE & NSE 6 monthly

### Shareholding (%)

	Sep-10	QoQ Chg
Promoter	59.4	0.0
FIIs	14.0	2.5
MFs / UTI	4.1	(0.4)
Banks / Fis	11.5	(1.3)
Others	11.1	(0.8)

### Price performance



Source: Cline, ENAM Direct Research

## Other Highlights

- **Business Growth:** Advances have grown at 21.9% YoY whereas deposit growth was much lower at 14% YoY. The key growth areas in loans were auto (up 52.2% YoY), home (up 22.4% YoY) and large corporate advances which grew by 28.2% YoY.
- **Non core income reported poor growth** (down 1.5% YoY) mainly due to lower treasury gains. Fee income was up 13% YoY in Q3FY11 against 27% YoY in 9MFY11. Profit on sale of investments was down almost 50% YoY in Q3FY11 and down 66% in 9MFY11.
- **Yields and costs:** Yield on advances has increased by 8 bps QoQ to 9.58% whereas the cost of deposits has gone down by 5 bps QoQ to 5.2%. This has helped in margin improvement to 3.61% in Q3FY11 and 3.4% for 9MFY11.
- **Asset Quality:** SBI has additional three quarters to achieve an overall coverage ratio of 70%. On the dual rate housing loan product, SBI has not made any provision which is under review by RBI. The total outstanding restructured assets are at Rs 18,400 cr of which 15.7% have slipped into the NPA category by Q3FY11. The total amount restructured in Q3FY11 was Rs 2,080 cr (H1FY11 restructured amount ~Rs 1,020 cr) which included one large airline account of ~ Rs 1,600 cr being restructured under the RBI scheme.
- **One time slippage adjustment:** With RBI permission the bank has done an adjustment of Rs 770 cr from fresh slippages which was interest income accrued but not due on NPAs (INCA & URIPY). Consequently, the fresh slippages are down by the above amount in Q3FY11. Accounting for this, slippages would have been ~Rs 3,900 cr against reported Rs 3,150 cr.
- **Capital Adequacy:** Total Capital adequacy of the bank stood at 13.16% (down 4 bps sequentially), while Tier 1 ratio sequentially declined by 3 bps to 9.57%. SBI has also infused capital in some its banking (State Bank of Mysore – Rs 540 cr) and non banking subsidiaries. Going forward, some of its other banking subsidiaries are also planning to raise capital that will require additional deployment by SBI to maintain its shareholding in these entities.
- **Fund raising plans:** SBI plans to raise up to ~Rs 2,000 cr through bonds to retail investors next month, which will help in augmenting its capital base to support its growth strategy. On the decision on proposed rights issue, it is still awaiting final nod / clearance from the government.
- **Gratuity liability:** SBI has witnessed a reduction in estimated gratuity liability from ~Rs 2,200 cr to ~Rs 1,900 cr (due to rise in yields), hence has reduced the provisions in Q3FY11 to factor in the lower requirement. It has provided ~ Rs 130 cr in Q3FY11 and ~Rs 1,500 cr in 9MFY11.
- **Tax rate on the higher side:** A certain portion of the provisions made during the quarter are not eligible for tax exemptions which led to a higher tax rate of 40% during Q3FY11. Even going forward as the bank is required to make additional provisions to achieve the 70% NPA provisioning coverage ratio, the tax rate is likely to remain on the higher side.

**SOTP Valuation**

(Rs)	Valuation basis	(Val/ shr)
<b>JVs</b>		
- SBI Life Insurance	14x FY12E NBAP (15%) +EV	233
- SBI AMC	5% of AUM	18
- SBI Cards & Payment Services	10x FY12E earnings	15
<b>Subsidiaries</b>		
- SBI Capital Markets	14x FY12E earnings	31
- SBI DFHI	8x FY12E earnings	10
<b>Associate Banks</b>		577
<b>Total Value of Subsidiaries/Associate Banks/JVs</b>		<b>883</b>
Value of standalone business	1.6x FY12E ABV (adj for NPA & Inv)	2,111
<b>Value per share (Rs)</b>		<b>2,994</b>

Source: ENAM Research

**Profitability/Highlights of Subsidiaries / Associates**

	9MFY11 PAT (Rs cr)	% YoY change
<b>Associate Banks</b>		
- SBBJ	360	26
- SBH	720	27
- SBM	340	5
- SBP	430	14
- SBT	490	5
<b>Other Subs/JVs</b>		
- SBI Life	PAT at ~Rs 300 cr increased by 51% YoY	
- SBI Cap	PAT at ~Rs 3,200 cr increased by 181% YoY	
- SBI AMC	Avg AUM increased by ~Rs 4,100 cr in 9M	

Source: Company, ENAM Research

## Reported results (Standalone)

(Rs cr)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Interest Income	21,413	17,780	20	19,808	8	82,591	70,994	16
Interest Expended	12,363	11,463	8	11,693	6	49,319	47,323	4
<b>Net Interest Income</b>	<b>9,050</b>	<b>6,316</b>	<b>43</b>	<b>8,115</b>	<b>12</b>	<b>33,272</b>	<b>23,671</b>	<b>41</b>
Non-Interest Income	3,314	3,366	(2)	4,005	(17)	14,838	14,968	(1)
<b>Net Income</b>	<b>12,364</b>	<b>9,682</b>	<b>28</b>	<b>12,120</b>	<b>2</b>	<b>48,110</b>	<b>38,640</b>	<b>25</b>
Operating Expenses	5,599	5,064	11	5,763	(3)	22,243	20,319	9
Operating profit	6,765	4,618	46	6,357	6	25,867	18,321	41
Provision & Contingencies	2,052	857	139	2,622	(22)	8,420	4,395	92
<b>PBT</b>	<b>4,713</b>	<b>3,762</b>	<b>25</b>	<b>3,736</b>	<b>26</b>	<b>17,447</b>	<b>13,926</b>	<b>25</b>
Tax	1,885	1,283	47	1,234	53	6,281	4,760	32
<b>Net Profit</b>	<b>2,828</b>	<b>2,479</b>	<b>14</b>	<b>2,501</b>	<b>13</b>	<b>11,166</b>	<b>9,166</b>	<b>22</b>
No. of shares (cr)	63.5	63.5		63.5		63.5	63.5	-
<b>Rep. EPS - non-annualized (Rs.)</b>	<b>45</b>	<b>39</b>	<b>14</b>	<b>39</b>	<b>13</b>	<b>176</b>	<b>144</b>	<b>22</b>
<b>Yields &amp; Margins (%)</b>								
Yield on advances	9.58	9.8	(22) bps	9.5	8 bps	8.83	8.75	8 bps
Cost of deposit	5.2	5.92	(72) bps	5.25	(5) bps	5.16	5.61	(45) bps
Net interest margin	3.61	2.82	79 bps	3.43	18 bps	3.07	2.47	60 bps
<b>Asset quality</b>								
Gross NPAs (Rs cr)	23,438	18,861	24	23,205	1	23,751	19,535	22
Gross NPAs (%)	3.17	3.11	6 bps	3.35	(18) bps	3.06	3.05	1 bps
Net NPAs (Rs cr)	11,695	11,271	4	11,601	1	11,876	10,870	9
Net NPAs (%)	1.61	1.88	(27) bps	1.7	(9) bps	1.56	1.72	(16) bps
Provisioning coverage (%)	50	40	986 bps	50	10 bps	50	44	564 bps
<b>Capital (%)</b>								
Tier-I	9.6	9.7	(13) bps	9.6	(3) bps	9.3	9.5	(17) bps
CAR	13.2	13.8	(61) bps	13.2	(4) bps	13.5	13.4	12 bps
<b>Balance sheet (Rs cr)</b>								
Advances	726,600	598,900	21	693,200	5	763,200	631,900	21
Deposits	879,000	771,000	14	855,300	3	932,800	804,100	16
CASA (%)	48.2	42.9	523 bps	47.8	38 bps	48.2	47.3	91 bps

Source: Company, ENAM Research. Note: Full year numbers and ratios are on calculated basis.

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