

State Bank of India

DOLAT CAPITAL

CMP: Rs 2,193

Target Price: Rs 2,393

View: Accumulate

High Points

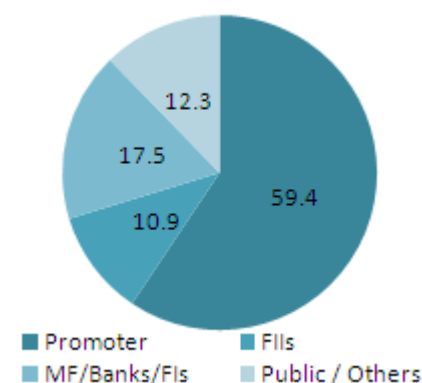
- Improvement in margin; a positive surprise
- Operating Profit in line with our estimates
- Rise in slippages, requirement of higher loan provisions and provisioning for counter-cyclical buffer dented bottomline
- View: Considering robust NIM and limited employees' benefits liabilities, we upgrade the stock rating to an Accumulate

BSE Sensex	16,840
NSE Nifty	5,073

Scrip Details

Equity	Rs.6350mn
Face Value	Rs 10/-
Market Cap	Rs 1393bn
	USD 30.9mn
52 week High/Low	Rs 3515 / 2123
Avg. Volume (no)	2,870,784
Bloomberg Code	SBIN IN
Reuters Code	SBI.BO

Shareholding Pattern as on June'11(%)



Financials (Standalone)

Year	NII	PPP	NP	NIM (%)	BV (Rs)	ABV (Rs)	RoAA (%)	RoAE (%)	P/B (x)	P/ABV (x)	P/E (x)
FY10	236,714	183,209	91,661	2.4	1,039	926	0.9	14.8	2.1	2.4	15.2
FY11E	325,264	253,356	82,645	3.0	1,023	916	0.7	12.6	2.1	2.4	16.8
FY12E	386,493	317,499	133,788	3.0	1,308	1,193	1.0	16.7	1.7	1.8	11.9
FY13E	451,155	374,992	176,456	3.0	1,493	1,367	1.1	17.4	1.5	1.6	9.0

Figure in Rs.mn

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Core interest income higher than our estimates, operating profit in line with our expectation but higher provisioning impacted bottom-line level

In Q1FY12, State Bank of India's (SBI) NII grew 33% YoY to Rs 97bn-11% higher than our estimates of Rs 87bn. Margins rose by 55bps QoQ and 44bps YoY to 3.62%, compared to 3.07% in Q4FY11 and 3.18% in Q1FY11. Other Income declined by 4% YoY to Rs 35bn and operating expenses rose 23% YoY to Rs 20bn due to 21% YoY jump in employees' expenses on account of write-back of wage revision provisions in Q1FY11 and employee addition in Q1FY12. It reported operating profit of Rs 72bn (18% YoY growth) in-line with our estimates. It reported a bottom-line of Rs 16bn compared to our estimates of Rs 31.5bn and consensus estimates of Rs 20 bn.

On NII level, deviation was mainly due to higher than expected volume growth and margin expansion. Improvement in margin could be attributed to much faster re-pricing of advances compared to deposits. During the quarter, yield on advances and cost of deposits went up by 89 bps and 28 bps to 10.3% and 5.8% respectively. Deviation at bottom-line level was mainly due to additional provisions on bad debt resulted in 46% YoY decline in bottom-line to Rs 16bn. Strength in margin and containment in slippages would be critical factors for the bank's valuation going ahead.

Considering robustness in margin, limited employees' benefits provisions and contained slippages going forward we raise our earning estimates for FY13 by 6% and revise upward our target price by 7.8% to Rs 2,393. We upgrade our stock rating to Accumulate.

Q1FY12 Result

Particulars (Rs mn)	Q1FY12	Q4FY11	Q1FY11	QoQ (%)	YoY (%)
Total Interest Income	241,974	217,214	184,521	31	11
Total Interest Expenditure	144,979	136,633	111,484	30	6
Net interest income	96,995	80,581	73,037	33	20
Total other operating income	35,342	48,155	36,900	(4)	(27)
Commission, Exc. Brokerage	26,329	37,312	24,096	9	(29)
Profit on sale of Investments	1,689	3,347	1,734	(3)	(50)
Forex Income	3,312	2,446	5,025	(34)	35
Dividend	2,278	1,628	3,772	(40)	40
Others Other Income	1,734	3,413	2,263	(23)	(49)
Total Net Income	132,338	128,735	109,937	20	3
Overheads	59,913	67,938	48,593	23	(12)
Operating profit	72,424	60,797	61,344	18	19
Tax Prov.	15,020	19,019	16,688	(10)	(21)
Loan Loss Prov.	27,817	32,639	17,334	60	(15)
Invest. Dep. Prov.	10,479	3,045	(2,983)	(451)	244
Std. Asset Prov.	2,883	6,311	1,059	172	(54)
Other Prov.	390	(425)	104	276	(192)
Total Prov.	41,569	41,570	15,514	168	(0)
Net profit	15,835	209	29,142	(46)	7,488
EPS (in unit INR)	25	0	46	(46)	7,488
Gross NPA	277,680	253,263	208,252	33	10
Net NPA	124,350	123,469	110,744	12	1
GNPA (%)	3.5	3.3	3.1		
NNPA (%)	1.6	1.6	1.7		
RoA (Annulised)	0.5	0.0	1.1		

Business growth in line with industry growth: In Q1FY12, SBI's total business grew 17% YoY to Rs 17.4tn. Deposits and net advances grew 17% and 18% to Rs 9.5tn and Rs 7.9tn respectively. Higher credit disbursement than deposit mobilization leads in 100 bps increase in credit-deposit ratio to 81% from 80% in Q1FY11. The credit growth was mainly from the large corporates, retail and agriculture segments. On the deposits side, the CASA share marginally increased to 47.9% from 47.5% in Q1 FY11 and though fell from 48.7% in Q4FY11. The bank's management expects business to grow by 18-19% cagr in FY11-13; we expect its business to expand by 18% cagr on the back of 18% growth in deposits and 18.9% growth in credit book.

Traction in margin; a positive surprise: In Q1FY12, SBI recorded improvement in margin on sequential and yearly basis unlike all other banks in industry, which is a positive surprise. Sustainability of margin in slackening credit demand scenario would be a difficult task to achieve and remains a key parameter to watch going forward. The bank's management expects margin to improve by almost 30 bps to 3.6% for FY12 and expects average NII per quarter of Rs 90-100 bn. We estimate that in FY12, calculated margin would improve by 5 bps to 3.0% and in FY13 it would remain flat at 3.0% level.

Higher operating expenses due to employee addition and lower base: Total operating expenses rose 23% YoY to Rs 60bn, mainly due to 21% YoY jump in employees' expenses on account employee addition and lower base in Q1FY11. In Q1FY12, the bank provided Rs250 mn for gratuity liabilities and there are no un-provided pension liabilities in accordance with 9th bipartite agreement. Its cost-income ratio went up to 45% from 44% in Q1FY11 and fell from 53% in Q4FY11. It reported operating profit of Rs 72bn (18% YoY growth) in line with our estimates.

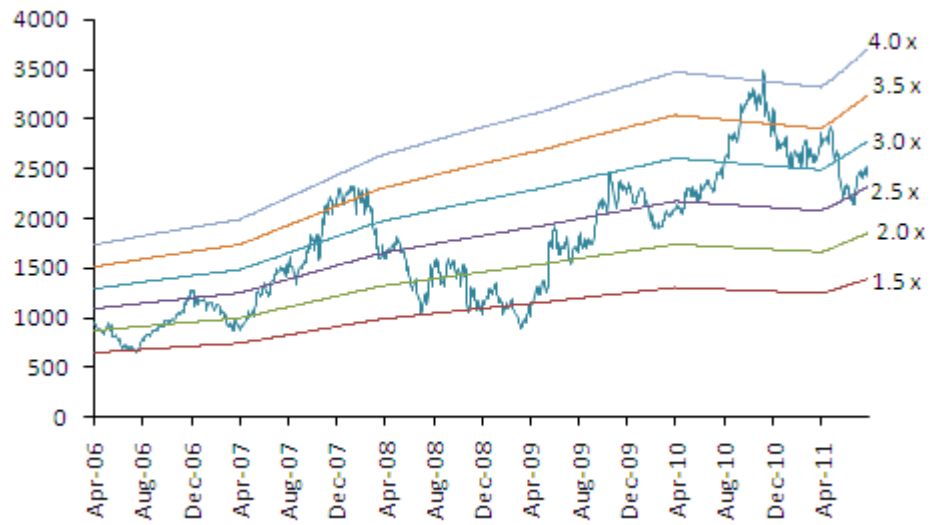
Better asset quality with higher provisions: During the quarter, the bank's gross NPAs rose by 33% YoY and 10% QoQ to Rs 278bn, whereas Net NPAs rose by 12% YoY and 1% QoQ to Rs 124bn. Net NPAs ratio sequentially came down 2bps and 9bps on YoY basis to 1.61%, while the gross NPA ratio increased by 24bps QoQ and 38bps YoY to 3.52%. SBI made additional loan-losses provisions of Rs 10bn towards increased provisioning requirements for each of gross NPA buckets and Rs 5.5bn towards meeting provision coverage ratio of 70% as on end-September'11 for counter-cyclical buffer. The bank's provision coverage rose to 67.3% from 65% in Q4FY11 and 61% in Q1FY11. In Q2FY12, the bank would make additional Rs5.5 bn for counter-cyclical buffer.

Healthy performance of subsidiaries: SBI's associate banks reported 11% YoY jump in bottom-line to Rs 7358mn. SBI Life saw 27% YoY growth in net profit to Rs 1440mn and SBI Cards & Payment Services Pvt. Ltd reported a bottom-line of Rs131mn.

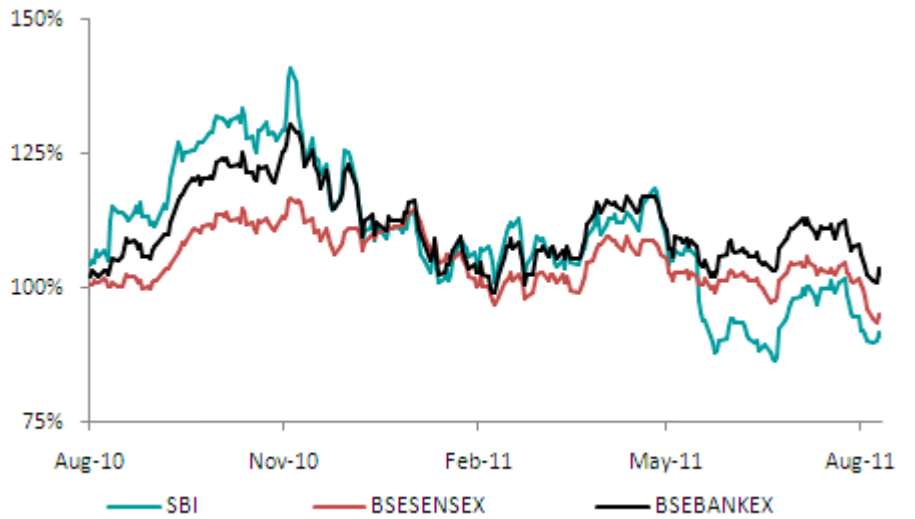
Valuation

In FY11-13, we expect the bank's business to grow by 18.4% cagr and estimate RoAA and RoAE in a range of 1.0-1.1% and 16-17% respectively. We stick to our FY12's earning estimates for FY13, we raise it by 6% and increase our target price by 7.8% to Rs 2,393 (on SoTP basis; factor in intrinsic worth of Rs1,873 for SBI standalone, Rs 351 for five associate banks, Rs 88 for SBI Life and Rs 80 for other subsidiaries) and upgrade stock rating to **Accumulate** from previous Sell rating.

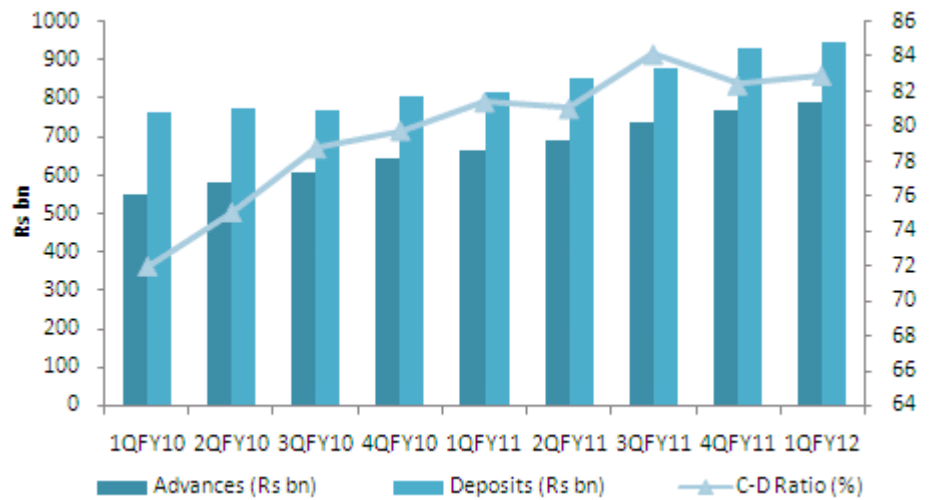
SBI's P/BV Chart



Price performance of SBI vis-a-vis BSESENSEX & BANKEX

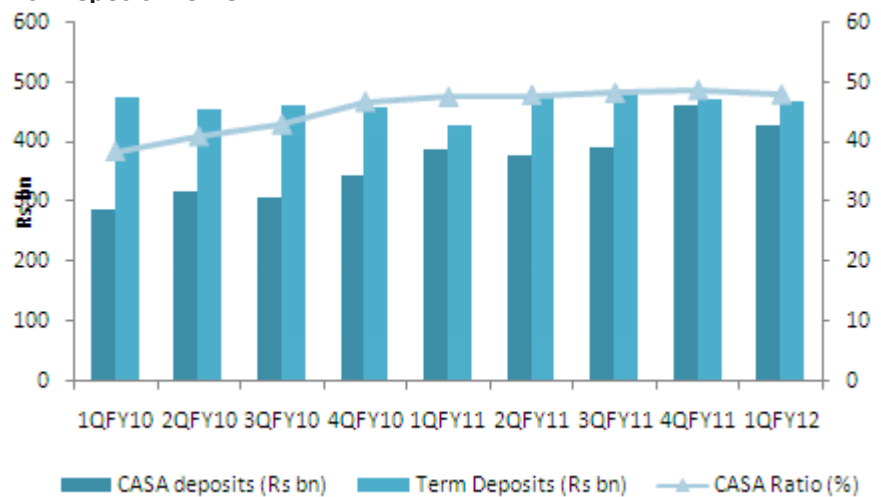


SBI's Business Mix



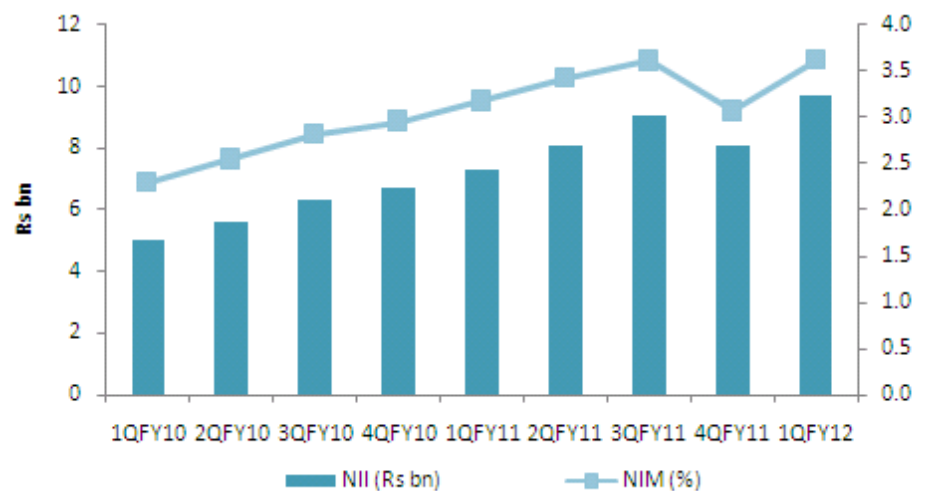
Source: Banks, Dolat Research

SBI's Deposit Profile



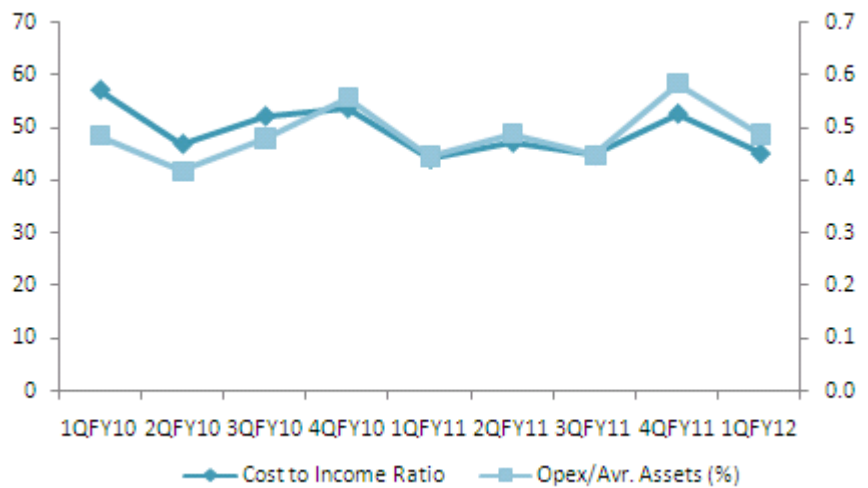
Source: Banks, Dolat Research

SBI's NII & NIM (%)



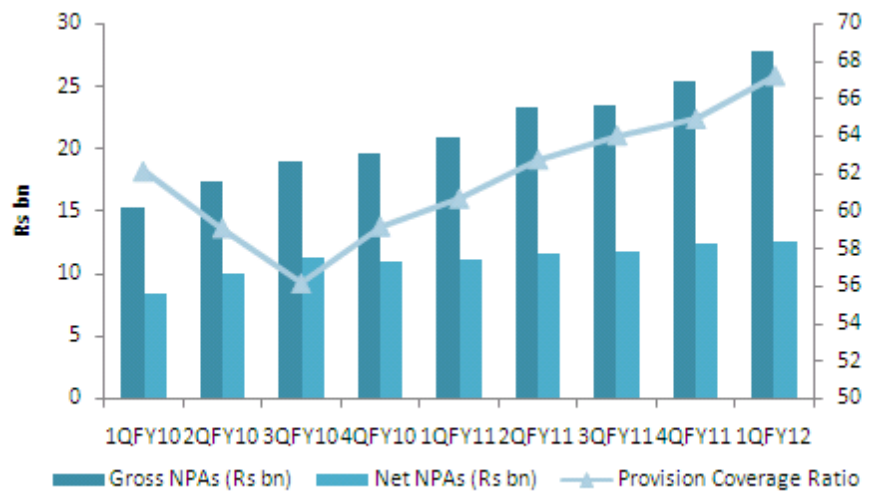
Source: Banks, Dolat Research

SBI's Operating Cost Structure (%)



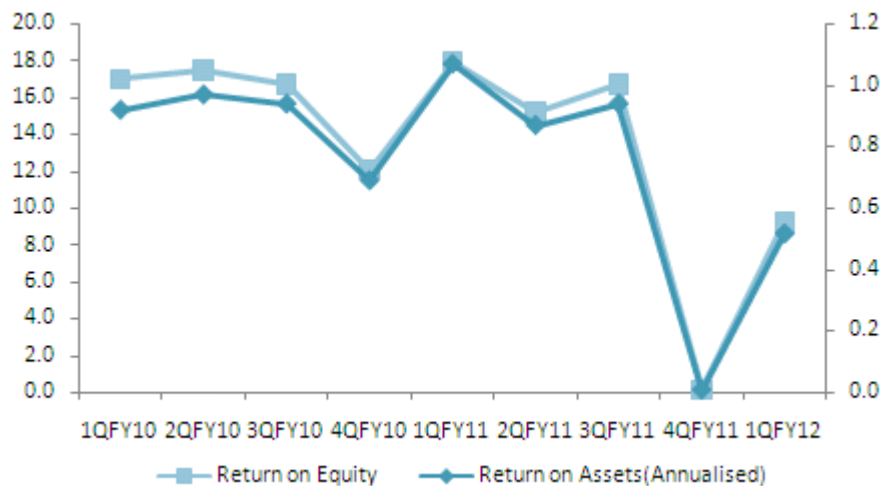
Source: Banks, Dolat Research

SBI's Asset Quality



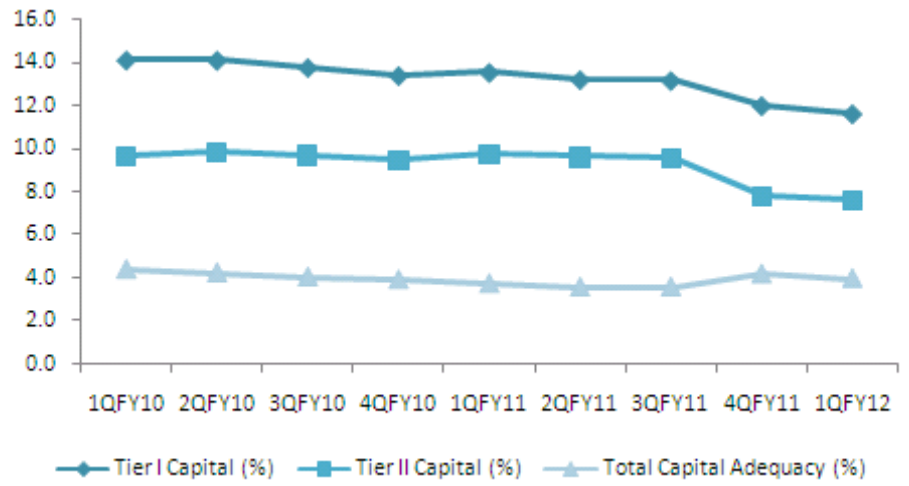
Source: Banks, Dolat Research

SBI's Return Ratios (%)



Source: Banks, Dolat Research

SBI's Capital Adequacy (%)



Source: Banks, Dolat Research

INCOMESTATEMENT					IMPORTANT RATIOS				
Particulars	Rs.mn				Particulars	Mar10	Mar11	Mar12E	Mar13E
	Mar10	Mar11	Mar12E	Mar13E					
Net Interest Income	236714	325264	386493	451155	DPS (Rs)	30.0	30.0	40.0	50.0
CXB	96409	115633	130730	150833	Book Value (Rs)	1,038.8	1,023.4	1,308.3	1,492.8
Profits on sale of investments	21168	9257	8027	7250	Adjusted Book Value (Rs)	867.5	829.0	1,119.3	1,293.5
Profits on foreign exchange	15871	14640	16880	19622	EPS (Rs)	144.4	130.2	184.3	243.1
Other operating income	16234	18716	18695	21607	EPS Growth (%)	0.5	(9.9)	41.6	31.9
Total other income	149682	158246	174332	199312	Payout (%)	20.8	23.1	21.7	20.6
Total Income	386396	483510	560825	650467	Net interest margin (%)	2.4	3.0	3.0	3.0
Salaries	127546	144802	141550	157555	Spread (%)	1.7	2.3	2.3	2.3
Other operating costs	75640	85353	101776	117920	Cost-to-income (%)	52.6	47.6	43.4	42.4
Total Overheads	203187	230154	243326	275475					
Profit before provisions	183209	253356	317499	374992	ROAA				
Bad Debt Provisions	46223	84154	80552	75560	Net Interest Income	2.3	2.9	2.9	2.9
Stnd. Asset Provision	801	9766	7525	8901	Other Income	1.5	1.4	1.3	1.3
Investment Provisions	(9880)	6468	9255	8505	Less Overheads	(2.0)	(2.0)	(1.8)	(1.8)
Other provision	6804	3426	1355	1580	Less Provisions	(0.4)	(0.9)	(0.7)	(0.6)
Total provisions	43948	103813	98687	94546	Less Tax	(0.5)	(0.6)	(0.6)	(0.7)
Profit before tax	139261	149542	218812	280446	ROAA	0.9	0.7	1.0	1.1
Tax	47600	66897	85024	103990	ROAE	14.8	12.6	16.7	17.4
Reported Net profit	91661	82645	133788	176456					
BALANCE SHEET					Valuation				
Particulars	Mar10	Mar11	Mar12E	Mar13E	Price Earnings (x)	15.2	16.8	11.9	9.0
Cash with RBI	612909	943955	1009007	1123777	Price to Book Value (x)	2.1	2.1	1.7	1.5
Cash at call	348930	284786	380466	456520	Price to Adjusted BV (x)	2.4	2.4	1.8	1.6
Total Cash	961838	1228741	1389473	1580297	Dividend Yield (%)	1.4	1.4	1.8	2.3
Govt. securities	2267060	2307414	2750590	3195392					
Other investments	590841	648591	687648	798848	Asset Quality				
Total Investments	2857901	2956006	3438238	3994240	Gross NPLs	195349	269263	331020	381660
Bills discounted	427747	517158	809920	962450	Restructured standard Loans	188724	343490	226170	226170
Cash credit	2751505	3398253	3869618	4598373	Gross Impaired Loans	384073	612753	557190	607830
Term loans	3139889	3651783	4319574	5133067	Net NPLs	108702	123469	137145	144696
Total Credit	6319142	7567194	8999112	10693890	Provision coverage ratio (%)	44.4	54.1	58.6	62.1
Gross Fixed Assets	112740	127194	149663	162507	Gross NPLs (%)	3.0	3.5	3.6	3.5
Accumulated Depreciation	77141	87575	98560	109553	Net NPLs (%)	1.7	1.6	1.5	1.4
Net Fixed Assets	35599	39619	51103	52954					
Leased Assets	8531	8023	4310	4120	Assumptions				
Other Assets	351128	437778	550067	688230	Yield on Advances (%)	8.6	8.6	9.3	9.3
Total Assets	10534137	12237362	14432303	17013731	Yield on Investment (%)	6.3	6.8	7.5	7.4
					Cost of Deposits (%)	5.6	5.0	5.5	5.5
Demand Deposits	1225794	1311953	1646057	1950578	Interest Inc. on Cash (%)	1.5	0.4	0.5	0.5
Savings Deposits	2574603	3303261	3840799	4551348	CRAR (%)	14.3	14.6	13.1	12.2
Term Deposits	4240765	4724114	5486855	6501925	Growth in credit book (%)	16.5	19.8	18.9	18.8
Total Deposits	8041162	9339328	10973710	13003850	Growth in Deposits (%)	8.4	16.1	17.5	18.5
Perpetual Debts (IPDI)	48060	49524	59850	66850	Growth in Investments (%)	3.6	3.4	16.3	16.2
Upper Tier II Capital	194664	200164	240164	285164	Gross slippages ratio (%)	2.0	2.6	2.2	2.0
Subordinate Debt	77080	146550	162050	177550	Credit Cost (%)	0.8	1.2	1.0	0.8
Other Borrowings	710312	799451	988563	1165820	E-estimates				
Total Borrowings	1030116	1195689	1450627	1695384					
Other liabilities	803367	1052484	1058290	1230830					
Equity	6349	6350	7259	7259					
Reserves	653143	643510	942417	1076408					
Total Equity	659492	649860	949676	1083667					
Total Liab & Equity	10534137	12237362	14432303	17013731					

BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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