



# KRC Equity Research

Daily Corporate News Analysis

February 5<sup>th</sup>, 2010

## State Bank Of India

**HOLD**

Company Info	
CMP (Rs.)	1,949
Target Price (Rs.)	2,169
Sector	Banking
52 week H/L (Rs.)	2,500/894
BSE Code	500112
NSE Code	SBIN
Face Value (Rs)	10
Market Cap (Rs. In Crore)	123,722

Price Performance			
%	1m	3m	1yr
<b>Absolute</b>	-2.4%	-9.9%	77.7%
<b>Relative to Sensex</b>	-8.0%	-11.7%	0.8%

Shareholding Pattern (%)	
Promoters	
FII / Institutions	
Public & Others	

## INVESTMENT RATIONALE

SBI reported stand alone results in line with our expectations with a flat growth on a y-o-y basis at Rs. 2,479 cr vis-à-vis Rs. 2,478 crs. Substantial growth in the advances which have increased by 19% on y-o-y basis have helped the bank maintain its bottom line despite falling yields. However, most of this growth (67% of Incremental advances) has come on account of substantial increase in the sub-PLR lending making up for the loss on yields on advances. Profit growth will continue to be held back on account of excess liquidity overhang of Rs. 75,000 crs in the current quarter which is likely to persist. Credit concerns though having moderated continue to be a risk in the coming quarters.

**Business Performance:** Business performance assessed purely on the quantum of growth basis has been satisfactory with 15% increase in total business on y-o-y basis. Advances grew by 19% on y-o-y basis while deposits grew by 11% on y-o-y basis. The quality growth in the deposits has been extraordinary as almost all of the incremental growth, has come in the form of CASA ( Rs. 77,500 crs of Rs. 78,500 crs growth ) while the high cost deposits have come back in the form of low cost deposits. The quality of advances growth has been unsatisfactory as most of it has come in the sub-PLR segment (67% of incremental growth).

**Margin Management:** NIM for Q3FY10 expanded to 2.82% still lower from 3.1% enjoyed in Q3FY09 but better than 2.3% in Q1FY10. Margin expansion may not happen substantially in the coming quarters despite the substantial increase in the CASA base as there will be overhang from the incremental deposits outpacing to incremental advance growth. We expect the NIM to move to 3% levels by the end of Q2FY11.

**Asset Quality-**Asset quality continues to be under pressure with Gross and Net NPA increasing to 3.11% and 1.88% from 2.99% and 1.73% in Q2FY10 respectively. Fresh slippages of Rs 2,600 crs in the current quarter indicate that despite the moderation in the credit concerns, further deterioration may still continue in the next two quarters. The provisioning cover calculated including the technical write-offs has reached 56%.

**Fee Income growth and return Parameters-** The core fee income has recorded a 36% growth on y-o-y basis to Rs. 581 cr. We expect this growth rate to moderate to a stable rate of 24% on a y-o-y basis. The high growth in the core fee income has helped the bank in reporting a ROA of 0.94% despite the lower growth in the net interest income.

**Our View and Valuation-** We continue to maintain a HOLD on the bank with a price target of Rs. 2,169 valuing SBI parent on stand alone basis at Rs. 1,626 which is 1.5X FY11 Adj BV and value of subsidiaries and associates at Rs. 543 per share . Despite the pain due to liquidity overhang and higher credit costs continuing into the first half of FY11 we believe that SBI is well prepared to cash in on improvement in the credit-off take.



February 5, 2010



Disclaimer :

This publication has been prepared solely for information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed to be reliable, investors are advised to satisfy themselves before making any investments. Kisan Ratilal Choksey Shares & Sec Pvt Ltd., does not bear any responsibility for the authentication of the information contained in the reports and consequently, is not liable for any decisions taken based on the same. Further, KRC Research Reports only provide information updates and analysis. All opinion for buying and selling are available to investors when they are registered clients of KRC Investment Advisory Services. As a matter of practice, KRC refrains from publishing any individual names with its reports. As per SEBI requirements it is stated that, Kisan Ratilal Choksey Shares & Sec Pvt Ltd., and/or individuals thereof may have positions in securities referred herein and may make purchases or sale thereof while this report is in circulation.



Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.  
1102, Stock Exchange Tower, Dalal Street, Mumbai 400  
001.  
Head-Off Phone : 91-22-66535000 Fax : 66338060  
Branch-Off Phone : 91-22-66965555 Fax : 66919576

Members: BSE & NSE  
[www.krchoksey.com](http://www.krchoksey.com)