



(Investment Idea

State Bank of India (SBI)

State Bank of India (SBI), India's premier commercial bank, has come out with excellent numbers for Quarter ended December, 2006 (Q3 FY 2007).

Consolidated Net Interest Income (net of interest expenses) grew @ 33.3% (excluding one time items) to Rs. 5,684 crore (Rs. 4,263 crore) led by 27% rise in gross advances to Rs. 315,376 crore across segments as well as improvement in net interest margins (NIM). Less reliance on low yielding corporate bulk deposits resulted in deposits growth of only 11.17%.

Strong increase in Net Interest Income coupled with 79% spurt in other income (excluding one time items) to Rs. 3302 crore (Rs. 1,845 crore) led to 173.5% jump in PBT (before extra ordinary items) of Rs. 2506.11 crore (Rs. 916.28 crore). This growth was despite 62.7% higher provisions & contingencies (mainly NPA provisioning of Rs. 520 crore against write back of Rs.45 crore in Q3 FY 2006). SBI had extraordinary gains to the tune of Rs. 1,864 crore in Q3 FY 2006 (including, interalia, interest on IT refund – Rs. 954 crore, IMD maintenance value refund from RBI – Rs. 564 crore, forex gain on redemption of India Millennium Deposits – Rs. 532 crore, one-off adjustment in salaries of Rs. 313 crore). In absence of such one time gain, PBT (after extraordinary items) declined 10% to Rs. 2506 crore (Rs. 2780 crore). Consolidated PAT, however, increased 4.4% to Rs. 1575 crore (Rs. 1508 crore) due to lower average tax rate.

Important Ratios	9 months FY 2007	9 months FY 2006
NIM	3.29%	2.87%
CASA (Current account saving account)	43.29%	40.85%
Net NPA (Rs. in crore)	4,487	4,046
Net NPA as a % of net advances	1.67%	1.45%
Gross NPA	4.41%	3.30%
CAR	11.86%	12.49%

SBI, proxy for the India economy, with its substantial market share of 18%, is well positioned to take advantage of buoyant economic conditions supported by vast geographic spread (to every nook and corner of the country) and its bouquet of almost the entire gamut of financial services. SBI has adopted a very aggressive technology implementation policy; it has over 13,800 branches (group) on core banking platform and also has the largest number of ATMs which will help in competing against private sector banks.

There is improved visibility of SBI's life insurance venture that has begun gaining traction. Total first year premiums for its life insurance subsidiary grew by +200% during first 8 months of FY 2007. Insurance venture will also be divested at opportune time. This has not been factored in earnings.

Huge value unlocking is expected from stake divestment in its subsidiaries if amendment to SBI (Subsidiary Banks) Act takes place.

However, steadily rising deposit costs, expected interest rate hike by RBI and impact of implementation of Basel II norms on CAR continue to be key concerns going forward.

At CMP of Rs. 1,173/-, share (Rs. 10/- paid up) is trading at 10.2 times FY 2007 consolidated expected EPS of Rs. 115/- and 8.5 times FY 2008 expected consolidated EPS of Rs. 138/-. At CMP, it is available at 1.9 (x) adjusted book value. In view of excellent business prospects, we recommend to “BUY” the share at CMP.

Disclosures:

The author may have held / hold the above-mentioned securities in their personal accounts or on behalf of the clients. The information contained has been obtained from sources believed to be reliable. While taking utmost care in making the report, the authors or the company does not take responsibility for the consequences of the report. All investment and information and opinion are subject to change without notice. The investment recommendations may not be suitable to all the investors.

January 29, 2007