

November 9, 2011

Reco	Previous Reco
Reduce	Hold
CMP	Target Price
Rs1,863	Rs1,750
EPS change FY12E/13E (%)	NA
Target Price change (%)	-20
Nifty	5,221
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	(17)	(30)	(43)
Rel. to Nifty	1	(19)	(26)	(31)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	SBIN@IN
Equity Capital (Rs mn)	6350
Face Value(Rs)	10
No of shares o/s (mn)	635
52 Week H/L	3,354/1,709
Market Cap (Rs bn/USD mn)	1,183/23,904
Daily Avg Volume (No of sh)	3545432
Daily Avg Turnover (US\$m)	138.9

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	59.4	59.4	59.4
FII/NRI	11.7	13.9	15.8
Institutions	18.5	17.4	16.6
Private Corp	3.9	3.0	2.4
Public	6.6	6.3	5.9

Source: Capitaline

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- **SBI's Q2FY12 B/S quality deteriorates sharply with slippages of Rs80bn, GNPA's @ 4.2%, PCR slipping 400bps qoq and steep pressure on tier I CAR with net NPLs/net worth @23%**
- **P&L provides some grim smile as NII/PAT at Rs104bn/28bn beat the consensus handsomely by 4%/12% respectively driven by 20bps expansion in NIMs and under-provisions**
- **No immediate catalyst in sight with no clarity on tone-down in slippages. Recoveries @ 40% of op. GNPA's not sufficient to stem the provision costs**
- **Operational numbers likely to stay on track, but NPLs pressure to persist. Lowered our FY12E/FY13E ABV by 6%/8% resp. Downgrade to REDUCE with target price of 1,750**

NII above expectation; higher slippage number a shocker

SBI's Q2FY12 NII grew 28.4% yoy to Rs104.2bn, above our and consensus estimates. The growth in NII was led by 17bps qoq expansion in margins to 3.8% and 2.6%qoq growth in advances. Stable provisions on NPA despite sharply higher slippages helped the net profit at Rs28.1bn beat consensus estimates by 10%+.

However, the action on the balance sheet front completely took the sheen away. While the advances grew by 16% yoy, excluding impact of INR depreciation, the growth would have been just 14.5%yoy. However slippage number of Rs80bn came in as sheer disappointment, as it was significantly higher than our and street expectation of Rs60-65bn. The GNPA ratio shot up to 4.2% with PCR slipping by 400bps qoq and net NPLs to net worth ratio going up to 23%.

Yield Analysis

%	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (bps)	QoQ (bps)
Yield on advances*	8.7	8.9	8.8	9.6	10.1	139	58
Yield on assets*	7.2	7.4	7.2	8.0	8.5	127	52
Cost of funds*	4.3	4.3	4.5	4.8	5.1	82	31
Cost of deposits*	5.0	5.0	5.3	5.4	5.7	75	33
NIM*	3.0	3.1	2.7	3.2	3.4	45	21
NIM (Reported)	3.4	3.4	3.3	3.6	3.8	36	17

Source: Company, Emkay Research

* Calculated based on average quarterly balances

Valuation table

Y/E	Net income	Net profit	EPS (Rs)	Conso ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
Mar 31								
FY10	386,391	91,725	144.5	856.2	0.9	14.8	12.9	2.2
FY11	483,510	82,612	130.1	804.9	0.7	12.6	14.3	2.3
FY12E	575,176	100,202	157.8	1,155.4	0.8	14.5	11.8	1.6
FY13E	652,119	131,178	206.6	1,389.3	0.8	16.9	9.0	1.3

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Interest Income	81,149	90,498	80,581	96,995	104,219	28.4	7.4	201,214	154,186	30.5
Other Income	40,052	33,139	48,155	35,342	34,272	-14.4	-3.0	69,614	76,952	-9.5
Fee Income	29,450	24,774	37,312	26,329	26,003	-11.7	-1.2	52,332	53,546	-2.3
Net Income	121,201	123,636	128,735	132,338	138,491	14.3	4.6	270,829	231,138	17.2
Total Operating Expenses	57,631	55,992	67,938	59,913	63,749	10.6	6.4	123,662	106,224	16.4
<i>As % Of Net Income</i>	<i>47.5</i>	<i>45.3</i>	<i>52.8</i>	<i>45.3</i>	<i>46.0</i>			<i>45.7</i>	<i>46.0</i>	
Employee Expenses	36,758	35,117	42,188	37,174	39,143	6.5	5.3	76,317	67,497	13.1
<i>As % Of Net Income</i>	<i>30.3</i>	<i>28.4</i>	<i>32.8</i>	<i>28.1</i>	<i>28.3</i>			<i>28.2</i>	<i>29.2</i>	
Other Expenses	20,873	20,876	25,750	22,740	24,605	17.9	8.2	47,345	38,727	22.3
<i>As % Of Net Income</i>	<i>17.2</i>	<i>16.9</i>	<i>20.0</i>	<i>17.2</i>	<i>17.8</i>			<i>17.5</i>	<i>16.8</i>	
Operating Profit	63,570	67,644	60,797	72,424	74,743	17.6	3.2	147,167	124,914	17.8
<i>As % Of Net Income</i>	<i>52.5</i>	<i>54.7</i>	<i>47.2</i>	<i>54.7</i>	<i>54.0</i>			<i>54.3</i>	<i>54.0</i>	
Provisions	26,215	20,515	41,570	41,569	33,855	29.1	-18.6	75,424	41,728	80.7
Prov for NPA	21,625	16,323	32,639	27,817	29,212	35.1	5.0	57,029	38,959	46.4
PBT	37,356	47,129	19,227	30,855	40,888	9.5	32.5	71,743	83,185	-13.8
Total Tax	12,342	18,849	19,019	15,020	12,784	3.6	-14.9	27,804	29,030	-4.2
Adjusted PAT	25,014	28,280	209	15,835	28,104	12.4	77.5	43,939	54,156	-18.9
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	25,014	28,280	209	15,835	28,104	12.4	77.5	43,939	54,156	-18.9
Reported EPS	39.4	44.5	0.3	24.9	44.3	12.4	77.5	69	85	-18.9

Source: Company, Emkay Research

Margins at multi quarter high but so are slippages

Q2FY12 NIM at 3.79% was at a multi-quarter high and was led by significant improvement on both domestic (4.07%) and international front (1.73%). SBI was the last amongst PSU banks to pass on the lending rate hikes, and as the result, the benefits of the same has accrued in past two-quarters. Also, through a) re-pricing of deposits (raised earlier in FY08 at 10.5%) b) shedding of bulk deposits and c) improved margin outlook on international portfolio, mgmt is now confident of strong performance in H2FY12 as well.

Advances growth lack luster; but as expected due to pressure on tier I

Though overall advance growth was healthy at 2.6%qoq, however a large part of the growth was on account of INR depreciation. While foreign book grew by a robust 13.2%qoq to Rs1.3tn during the quarter, the domestic advances grew by just 0.8%qoq.

We believe that the growth for FY12/FY13 could be in the range of 15-16% driven by the low tier I ratio of 7.5% and pressure coming from NPLs.

SBI exposure to power sector stood at Rs343.7bn, 4.3% of the overall advances. SEB exposure stood at Rs90bn (1.1% of the advances) out of which exposure to distribution companies is only Rs12bn. Most of the loans to the SEB's are short term in nature.

Advances Break up

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	% of total
Foreign	1,055	1,090	1,094	1,107	1,254	18.9	13.2	15.9
SME	1,044	1,163	1,197	1,203	1,260	20.7	4.7	15.9
Agriculture	820	727	948	955	958	16.8	0.4	12.1
Retail	1,495	1,526	1,646	1,651	1,688	12.9	2.2	21.3
Housing	793	824	868	899	924	16.5	2.8	11.7
Others	2,393	2,761	2,663	2,793	2,746	14.7	-1.7	34.7
Total	6,807	7,266	7,567	7,709	7,906	16.1	2.6	100.0

Source: Company, Emkay Research

CASA mix declines marginally

CASA ratio declines marginally by 42bps qoq to 47.6% as CASA deposit grew by relatively lesser 1.5% as against 3.3% qoq increase in term deposits. However CASA ratio at 47.6% still remains highest in the industry. The management also denied any saving rate hike in the near term and it does not expect any significant migration of deposits to competition due to savings rate deregulation.

Fee income follows balance sheet growth; no growth even adj for one-offs

SBI's fee income declined by 12% yoy for Q2FY12. Even adjusted for one-off income in Q2FY11 (Rs3.5bn), the fee income was flat. The trading gains were significantly lower at Rs281mn, driven by Rs1.7bn of losses on G-Sec portfolio. Had Rs1.7bn of gains on liquid MF portfolio not supported, SBI could have actually reported trading losses.

We are also disappointed by the fact that despite carrying Rs100bn of PWO accounts, the recoveries have failed to support the other income.

Other income

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Fee/Commission income	29,450	24,774	37,312	26,329	26,003	-11.7	-1.2	52,332	53,546	-2.3
Trading gains/(losses)	1,973	2,202	3,347	1,689	281	-85.8	-83.4	1,970	3,707	-46.9
Forex gains/(losses)	3,087	4,083	2,446	3,312	4,806	55.7	45.1	8,119	8,112	0.1
Dividend income	2,877	0	1,628	2,278	840	NA	-63.1	3,118	6,650	-53.1
Other	2,665	2,079	3,422	1,735	2,342	-12.1	35.0	4,076	4,937	-17.4
Total	40,052	33,139	48,155	35,342	34,272	-14.4	-3.0	69,614	76,952	-9.5

Source: Company, Emkay Research

Operating profit grew 6.1% qoq

The bank reported operating profit of Rs74.7bn. a growth of 3.2%qoq. Adjusted for Gratuity/pension and treasury gains core operating profit grew by a higher 6.1%qoq.

Core operating profit grows 16% yoy

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Reported operating profit	63,570	67,644	60,797	72,424	74,743	17.6	3.2
Add Gratuity	3,000	1,400	240	1,500	1,750	-41.7	16.7
Add: Pension	5,330	5,330	8,750	6,030	6,850	28.5	13.6
Adjusted operating profit	71,900	74,374	69,787	79,954	83,343	15.9	4.2
Less: Treasury gains	1,973	2,202	3,347	1,689	281	-85.8	-83.4
Core operating profit	69,927	72,172	66,440	78,266	83,062	18.8	6.1

Source: Company, Emkay Research

Asset quality worsens; Slippage in restructured book @ 22%

Asset quality worsens significantly during the quarter with slippages of Rs80.2bn, slippage rate of 4.1% (annualised). The bank witnessed higher slippage in agro based industries (Rs12.7bn), Iron & steel (Rs4.8bn), textiles (Rs2.9bn) and Gems and jewellery (Rs2.2bn). Slippage in restructured accounts also stood higher at Rs17.6bn (22% of the overall slippages) for the quarter. **Around Rs77.5bn of the outstanding restructured assets slipped till date, resulting in a slippage ratio of 22%.**

With lower recovery/ Upgradation at Rs17.7bn and negligible write off during the quarter, the GNPA ratio increased to 4.2% from 3.5% in previous quarter. However the management expects recovery to be higher in the next two quarters, led by recovery in few of the large agro accounts which slipped during the quarter. The management has also guided for NNPA of 1.7% by end FY12.

Inadequate provisions on incremental slippages; PCR declines 400bps qoq

The bank provided just 36.4% towards the incremental slippages during the quarter, as against an average runrate of 46% in the earlier four quarters. Resultantly the PCR came down by 400bps to 63.5% (including tech w/off). NPA provisions also included one time provision of Rs5.5bn towards counter cyclical buffer, which will not be there going forward. However we believe with recovery/ upgradation rate at just 40% of op GNPA, and as the bank jack up provisioning on sub standard assets, the provisioning requirement to remain high in H2FY12 and FY13. Resultantly, we have built in provision cost of 1.7% for FY12 and FY13 as against 1.5% (Annualised) for H1FY12

Provision break up

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
NPAs	21,625	16,323	32,639	27,817	29,212	35.1	5.0	57,029	38,959	46.4
As % of advances	0.3	0.2	0.4	0.4	0.4			0.7	0.6	
Investment Depreciation	4,318	2,088	3,045	10,479	4,583	-206.1	-56.3	15,062	1,335	1,028.3
Others	126	-146	-425	390	-1,149	-1,009.8	-394.5	-759	230	-430.0
Total	26,215	20,515	41,570	41,569	33,855	29.1	-18.6	75,424	41,728	80.7

Source: Company, Emkay Research

NPA analysis

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Gross NPAs	232,046	234,378	253,263	277,680	339,463	46.3	22.2
Net NPAs	116,012	116,951	123,469	124,350	161,205	39.0	29.6
Gross NPAs (%)	3.4	3.2	3.3	3.5	4.2		
Net NPAs (%)	1.7	1.6	1.6	1.6	2.0		
Net NPAs/Net worth (%)	16.1	15.6	19.0	18.7	22.8		
Provision cover (%)	50.0	50.1	51.2	55.2	52.5		
Provision cover (incl tech w/off)	62.8	64.1	65.0	67.5	63.5		
Slippages (Rs bn)	52.7	39.1	56.5	61.8	80.2		

Source: Company, Emkay Research

No clarity on H2FY12 slippages, recoveries remain modest

The management has guided that the slippages in H2FY12 may remain high (but not as much as Q2FY12) due to deterioration in the economic outlook, domestic as well as global. The problem is also worsened by rising interest rates domestically. With recoveries and upgradation having slowed down (30%/40% annualized in Q2/H2FY12), the provision costs may not reduce going forward despite the fact the counter cyclical provisions (Rs5bn/quarter) have been done with.

Capital still a constraint; ECGC and credit guarantee schemes to free-up capital

Limited capital (Tier I CAR at 7.47%) had hindered growth for SBI for some time now. Resultant, with a view to free-up capital, mgmt has moved its loans towards ECGC scheme (Rs300bn) and credit guarantee scheme (Rs200bn) thereby improving its tier-I CAR by 35-40bps. Also, with capital infusion from GoI (right issue / preferential issue / QIP) and plough back of profit, mgmt is now confident of shoring its tier-I CAR to 9% by end-FY12. However, Net NPL/networth at 23% will still remain a drag on tier I capital.

Valuation and view

While operational performance is now well on track, concerns on asset quality remain with slippage rate continue to rise quarter over quarter. Resultantly provision cost to remain elevated for FY12/13 at 1.7% hence keeping a check on the RoA's. We expect the RoA's to remain around 0.8% for FY12/13. As highlighted earlier the capital issue now becomes very important for the company for future growth. We believe that the stock has no catalyst in sight to outperform its peers in the PSU banks' space. We have lowered our FY12E/FY13E ABV by 6%/8% respectively. We downgrade the stock to REDUCE (from HOLD) with TP of Rs1750 valuing the consolidated banking operations at 1.0x FY13E ABV.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	236,709	325,264	422,001	477,233
Other income	149,682	158,246	153,175	174,885
Net income	386,391	483,510	575,176	652,119
Operating expenses	203,187	230,154	253,592	288,663
Pre provision profit	183,204	253,356	321,584	363,455
PPP excl treasury	162,036	244,099	316,584	358,455
Provisions	43,948	103,847	154,581	169,275
Profit before tax	139,256	149,509	167,003	194,180
Tax	47,589	66,897	66,801	63,002
Tax rate	34%	45%	40%	32%
Profit after tax	91,667	82,612	100,202	131,178

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	6,349	6,350	6,350	6,350
Reserves	653,143	643,510	721,425	822,886
Net worth	659,492	649,860	727,775	829,236
Deposits	8,041,162	9,339,328	11,027,194	13,082,467
Borrowings	1,838,912	2,257,750	2,482,370	2,722,076
Total liabilities	10,539,566	12,246,938	14,237,338	16,633,780
Assets				
Cash and bank	961,838	1,228,741	1,196,436	1,550,255
Investments	2,696,626	2,804,665	3,447,965	4,002,888
Customer assets	6,480,416	7,718,536	9,001,597	10,414,474
Others	400,686	494,997	591,341	666,162
Total assets	10,539,566	12,246,938	14,237,338	16,633,780

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.3	2.9	3.2	3.1
Non-ll/avg assets	1.5	1.4	1.2	1.1
Fee income/avg assets	1.0	1.0	0.9	0.9
Opex/avg assets	2.0	2.0	1.9	1.9
Provisions/avg assets	0.8	1.2	1.7	1.7
PBT/avg assets	1.3	1.2	1.2	1.2
Tax/avg assets	0.5	0.5	0.5	0.4
RoA	0.9	0.7	0.8	0.8
RoAE	14.8	12.6	14.5	16.9
GNPA (%)	3.3	3.6	4.1	3.7
NNPA (%)	1.7	1.6	1.8	1.5

Valuations Table (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	91,725	82,612	100,202	131,178
Shares in issue (mn)	635	635	635	635
EPS (Rs)	144.5	130.1	157.8	206.6
PER (x)	12.9	14.3	11.8	9.0
FDEPS(Rs)	144.5	130.1	157.8	206.6
FDPER (x)	12.9	14.3	11.8	9.0
Book value (Rs)	1,038.8	1,023.4	1,146.1	1,305.9
P/BV (x)	1.8	1.8	1.6	1.4
Adj book value (Rs)	867.5	829.0	892.3	1,062.4
P/ABV (x)	2.1	2.2	2.1	1.8
P/PPP (x)	6.5	4.7	3.7	3.3
Dividend yield (%)	1.8	1.9	1.9	2.5

Recommendation History: State Bank of India – SBIN IN

Date	Reports	Reco	CMP	Target
16/08/2011	State Bank of India Q1FY12 Result Update	Hold	2,193	2,200
17/05/2011	State Bank of India Q4FY11 Result Update	Hold	2,414	2,480
15/04/2011	State Bank of India Management Meet Update	Accumulate	2,819	3,000
24/01/2011	State Bank of India Q3FY11 Result Update	Accumulate	2,598	3,000

Recent Research Reports

Date	Reports	Reco	CMP	Target
08/11/2011	Bank of India Q2FY12 Result Update	Hold	328	320
04/11/2011	Manappuram Finance Q2FY12 Result Update	Hold	61	65
02/11/2011	Allahabad Bank Q2FY12 Result Update	Accumulate	161	200
02/11/2011	ICRA Q2FY12 Result Update	Reduce	990	900

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