

May 17, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs2,414	Rs2,480
EPS change FY12E/13E (%)	-13 /-14
Target Price change (%)	-8
Nifty	5,439
Sensex	18,137

Price Performance

(%)	1M	3M	6M	12M
Absolute	-14	-13	-22	7
Rel. to Nifty	-7	-11	-13	0

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	3,515/2,138
Market Cap (Rs bn/USD mn)	1,533/33,954
Daily Avg Volume (No of sh)	582829
Daily Avg Turnover (US\$m)	35

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	59.4	59.4	59.4
FII/NRI	15.8	16.4	17.2
Institutions	16.6	15.6	15.5
Private Corp	2.4	2.8	2.4
Public	5.9	5.8	5.4

Source: Capitaline

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- SBI's results extremely disappointing with NII of Rs80.6bn (down 10% qoq) and net profit of just Rs209mn. Sharp drop of 56bps qoq in NIMs to 3.04%
- Lower NII with Rs8.8bn of pension expenses, Rs32bn of NPA provisions (100% qoq), high tax rate drag the net profit down
- Good thing – has cleaned up all liabilities like pensions, teaser rate loan provision, bad thing – low tier I of 7.77% and sharp rise in slippages to Rs56.4bn
- Early rights issue holds the key. Cutting loan growth estimate to 17% (from 20%) for FY12/13. Cutting earning estimates by 13%/14%. Maintain HOLD with TP of Rs2,480

NII down 10% qoq on rising costs and lower yields

SBI's NII declined by 10% qoq to Rs80.6bn, below our as well as market expectations. The lower than expected growth in NII was led by 56bps qoq compression in NIM's to 3.0% as the costs rose by 22bps while the yields declined by 26bps

We believe that the rise in costs is on two counts (1) the recently raised retail tier II bonds at 9.5% and (2) higher bulk borrowings to fund growth in Q4FY11. Also during the quarter, the balances with RBI and overall cash balances (for ATMs) has seen a rise resulting in lower yields.

Yield Analysis

%	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (bps)	QoQ (bps)
Yield on advances*	8.4	8.4	8.7	8.9	8.8	34	-17
Yield on investments*	6.2	6.1	6.5	7.5	7.4	124	-5
Yield on assets*	7.0	6.9	7.2	7.4	7.2	18	-26
Cost of funds*	4.4	4.2	4.3	4.3	4.5	13	22
Cost of deposits*	5.2	5.0	5.0	5.0	5.3	4	30
NIM*	2.6	2.7	3.0	3.1	2.7	4	-48
NIM (Reported)	3.0	3.2	3.4	3.6	3.0	4	-56

Source: Company, Emkay Research

* Calculated based on average quarterly balances

Benefit of the term deposit repricing may not materialize

During Dec-2008, SBI had accumulated large quantum of long term deposits at high rates of 10.5%. These deposits are due for repricing over CY11 (largely in Dec-11). However, we believe that large part of these benefits may be offset by higher rates being offered by SBI on short term deposits and also as we expect the domestic CDR to gradually come down from current high level of 76%. We expect SBI's NIMs to contract by 25bps for FY12 and believe that the NIMs are likely to remain near Q4FY11 level of 3%.

Valuation table

Y/E	Net income	Net profit	EPS (Rs)	Conso ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/CABV (x)
Mar 31								
FY10	386,391	91,725	144.5	992.7	0.9	14.8	17.0	2.5
FY11	483,528	82,663	130.2	1,008.8	0.7	12.6	18.9	2.4
FY12E	525,644	118,689	186.9	1,233.5	0.9	17.0	13.2	2.0
FY13E	609,668	152,653	240.4	1,555.6	1.0	18.8	10.2	1.6

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	67,215	73,037	81,149	90,498	80,581	19.9	-11.0	325,264	236,709	37.4
Other Income	45,085	36,900	40,052	33,139	48,155	6.8	45.3	158,245	149,682	5.7
Fee Income	34,858	24,096	29,450	24,774	37,312	7.0	50.6	115,633	96,409	19.9
Net Income	112,300	109,937	121,201	123,636	128,735	14.6	4.1	483,509	386,391	25.1
Total Operating Expenses	60,361	48,593	57,631	55,992	67,938	12.6	21.3	230,154	203,187	13.3
<i>As % Of Net Income</i>	<i>53.7</i>	<i>44.2</i>	<i>47.5</i>	<i>45.3</i>	<i>52.8</i>			<i>47.6</i>	<i>52.6</i>	
Employee Expenses	35,918	30,739	36,758	35,117	42,188	17.5	20.1	144,802	127,546	13.5
<i>As % Of Net Income</i>	<i>32.0</i>	<i>28.0</i>	<i>30.3</i>	<i>28.4</i>	<i>32.8</i>			<i>29.9</i>	<i>33.0</i>	
Other Expenses	24,443	17,854	20,873	20,876	25,750	5.3	23.3	85,353	75,640	12.8
<i>As % Of Net Income</i>	<i>21.8</i>	<i>16.2</i>	<i>17.2</i>	<i>16.9</i>	<i>20.0</i>			<i>17.7</i>	<i>19.6</i>	
Operating Profit	51,939	61,344	63,570	67,644	60,797	17.1	-10.1	253,355	183,204	38.3
<i>As % Of Net Income</i>	<i>46.3</i>	<i>55.8</i>	<i>52.5</i>	<i>54.7</i>	<i>47.2</i>			<i>52.4</i>	<i>47.4</i>	
Provisions	23,494	15,514	26,215	20,515	41,570	76.9	102.6	103,813	43,948	136.2
Prov for NPA	21,868	17,334	21,625	16,323	32,639	49.3	100.0	87,921	48,621	80.8
PBT	28,445	45,830	37,356	47,129	19,227	-32.4	-59.2	149,541	139,256	7.4
Total Tax	9,779	16,688	12,342	18,849	19,019	94.5	0.9	66,897	47,600	40.5
Adjusted PAT	18,666	29,142	25,014	28,280	209	-98.9	-99.3	82,644	91,655	-9.8
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	18,666	29,142	25,014	28,280	209	-98.9	-99.3	82,644	91,655	-9.8
Reported EPS	29.4	45.9	39.4	44.5	0.3	-98.9	-99.3	130.2	144.4	-9.8

Source: Company, Emkay Research

Advances growth at 20%; low CAR to restrain advances growth

The advance grew by 4.1% qoq to Rs 7.6tn led by 30.5%qoq growth in agri advances and 7.9% increase in retail advances.

The tier I CAR as on March 31, 2011 was at just 7.77% (as the bank adjusted Rs80bn of pension liabilities through reserves). Also net NPLs/net worth ratio was very high at 19%. We believe that these two will act as a constraint on SBI's advances growth. We are cutting our advances growth estimates for FY12/13E to 17% from 20% earlier.

Advances growth @ 20% yoy

Rs bn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	% of total
Foreign	971	1,052	1,055	1,090	1,094	12.7	0.3	14.5
SME	1,101	1,106	1,122	1,163	1,197	8.7	2.9	15.8
Agriculture	637	639	695	727	948	48.8	30.5	12.5
Retail	1,327	1,372	1,430	1,526	1,646	24.0	7.9	21.7
Housing	712	747	793	824	868	21.9	5.3	11.5
Others	2,283	2,363	2,506	2,761	2,663	16.7	-3.6	35.2
Total	6,319	6,532	6,807	7,266	7,567	19.8	4.1	100.0

Source: Company, Emkay Research

Fee income growth hit by retail fees

The fee income growth was at just 7% yoy, much lower than the advances growth driven by lower fees from retail segment as the bank has stopped charging processing fees on retail loans like housing.

Other income

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Fee/Commission income	34,858	24,096	29,450	24,774	37,312	7.0	50.6	115,633	96,409	19.9
Trading gains/(losses)	4,256	1,734	1,973	2,202	3,347	-21.3	52.0	9,257	21,168	-56.3
Forex gains/(losses)	1,895	5,025	3,087	4,083	2,446	29.1	-40.1	14,641	15,871	-7.8
Dividend income	471	3,772	2,877	0	1,628	NA	NA	8,277	5,735	44.3
Other	3,606	2,272	2,665	2,079	3,422	-5.1	64.6	10,438	10,499	-0.6
Total	45,085	36,900	40,052	33,139	48,155	6.8	45.3	158,245	149,682	5.7

Source: Company, Emkay Research

Core operating profit down 8%qoq

The poor performance on the NII front also reflected in the core operating performance as the core operating profit adjusted for one-offs and treasury gains declined sequentially for the first time at least in last eight quarters and despite fourth quarter being seasonally good quarter historically.

Core operating profit declines 8% qoq

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Reported operating profit	51,939	61,344	63,570	67,644	60,797	17.1	-10.1	253,355	183,204	38.3
Add: wage revision provisions		-8,450	-1,800					-10,250	6,270	
Add Gratuity	7,290	11,000	3,000	1,400	240			15,640	19,980	-21.7
Add: Pension		5,330	5,330	5,330	8,750					
Adjusted operating profit	59,229	69,224	70,100	74,374	69,787	17.8	-6.2	283,485	209,454	35.3
Less: Treasury gains	4,256	1,734	1,973	2,202	3,347	-21.3	52.0	9,257	21,168	-56.3
Core operating profit	54,973	67,490	68,127	72,172	66,440	20.9	-7.9	274,228	188,286	45.6

Source: Company, Emkay Research

High slippages, taxes resulting in higher provisions

To our negative surprise, the slippages bounced back again to Rs56.4bn (we were expecting them to be lower than Q3FY11) in Q4FY11, resulting in almost doubling of the NPAs provisions. SBI has also provided standard asset provisions of Rs5.0bn on teaser rate home loans. In Q1FY12, SBI will have to do additional provisions of Rs10bn as per the new RBI norms for NPAs and standard asset provisioning.

During the quarter, the tax provisions has also remained high (almost 100% of PBT) as some portion of the pension expenses were not tax deductible and also as the provisions for NPAs are not tax deductible expenses.

Provision break up

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
NPAs	21,868	17,334	21,625	16,323	32,639	49.3	100.0	87,921	48,621	80.8
As % of advances	0.3	0.3	0.3	0.2	0.4			1.2	0.8	
Investment Depreciation	356	-2,983	4,318	2,088	3,045	756.3	45.8	6,468	-9,686	-166.8
Others	546	104	126	-146	-425	-177.9	191.9	-341	4,213	-108.1
Total	23,494	15,514	26,215	20,515	41,570	76.9	102.6	103,813	43,948	136.2

Source: Company, Emkay Research

Slippage rose sharply as the bank move to system based NPA recognition

The bank reported sharp rise in slippage during the quarter as the same stood at Rs56bn as against Rs124bn for 9MFY11 resulting in slippage rate of 3% (annualised) as against 2.2% (annualized) for 9MFY11. Slippages have increased significantly as the bank moved to system based NPA recognition.

Around Rs31.3bn of the outstanding restructured assets slipped till date, resulting in a slippage ratio of 17.0%.

NPA analysis

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)
Gross NPAs	195,340	208,252	232,046	234,378	253,263	29.7	8.1
Net NPAs	108,700	110,744	116,012	116,951	123,469	13.6	5.6
Gross NPAs (%)	3.1	3.1	3.4	3.2	3.3		
Net NPAs (%)	1.7	1.7	1.7	1.6	1.6		
Net NPAs/Net worth (%)	16.5	16.1	16.1	15.6	19.0		
Provision cover (%)	44.4	46.8	50.0	50.1	51.2		
Slippages (Rs bn)	25.0	40.8	44.1	39.1	56.5		
Slippage rate (%)	0.4	0.6	0.6	0.5	0.7		

Source: Company, Emkay Research

Rights issue holds key to growth

As highlighted earlier, the tier I CAR of the bank has gone down to 7.77% at the end of FY11. What ails the bank further is the net NPLs/net worth ratio of almost 20%. We believe that the future growth in SBI's loan book now hinges very firmly on the passage of the rights issue. In the meantime we have cut our loan growth assumptions to 17% for FY12/13 compared to 20% earlier.

Valuation and view

We have cut our earnings estimates for FY12/13 by 13%/14% taking into account lower loan growth of 17% and NIMs contraction of 25bps for FY12. We have also raised our slippage estimate from 1.7% earlier for FY12 to 2.0% now. Add to that, the pension liabilities may give surprises if actuarial valuations change though we are building in Rs25bn of pension expenses for next two years. As highlighted earlier the rights issue now becomes very important for the company for future growth. We maintain HOLD rating on the stock while cutting price target to Rs2,480 (from Rs2700 earlier) valuing the consolidated banking operations at 1.4x FY13E ABV.

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

(Y/E Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	236,709	325,264	348,115	408,099
Other income	149,682	158,264	177,529	201,569
Net income	386,391	483,528	525,644	609,668
Operating expenses	203,187	230,154	243,369	261,459
Pre provision profit	183,204	253,374	282,275	348,208
PPP excl treasury	162,036	244,117	273,019	338,952
Provisions	43,948	103,813	106,583	122,240
Profit before tax	139,256	149,560	175,693	225,968
Tax	47,589	66,897	57,004	73,315
Tax rate	34%	45%	32%	32%
Profit after tax	91,667	82,663	118,689	152,653

Balance Sheet (Rs. Mn)

(Y/E Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	6,349	6,350	6,350	6,350
Reserves	653,143	643,510	739,912	870,277
Net worth	659,492	649,860	746,262	876,627
Deposits	8,041,162	9,339,328	11,038,149	13,019,949
Borrowings	1,838,912	2,248,173	2,411,759	2,607,315
Total liabilities	10,539,566	12,237,361	14,196,170	16,503,891
Assets				
Cash and bank	961,838	1,228,741	1,452,249	1,712,987
Investments	2,696,626	2,794,731	3,253,413	3,788,499
Customer assets	6,480,416	7,728,468	9,011,530	10,512,712
Others	400,686	485,420	476,107	486,334
Total assets	10,539,566	12,237,361	14,196,170	16,503,891

Key Ratios (%)

(Y/E Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.3	2.9	2.6	2.7
Non-ll/avg assets	1.5	1.4	1.3	1.3
Fee income/avg assets	1.0	1.0	1.0	1.0
Opex/avg assets	2.0	2.0	1.8	1.7
Provisions/avg assets	0.8	1.3	1.2	1.2
PBT/avg assets	1.3	1.2	1.2	1.4
Tax/avg assets	0.5	0.5	0.4	0.4
RoA	0.9	0.7	0.9	1.0
RoAE	14.8	12.6	17.0	18.8
GNPA (%)	3.3	3.6	3.4	3.1
NNPA (%)	1.7	1.6	1.3	0.9

Valuations Table (Rs. Mn)

(Y/E Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	91,725	82,663	118,689	152,653
Shares in issue (mn)	635	635	635	635
EPS (Rs)	144.5	130.2	186.9	240.4
PER (x)	17.0	18.9	13.2	10.2
FDEPS(Rs)	144.5	130.2	186.9	240.4
FDPER (x)	17.0	18.9	13.2	10.2
Book value (Rs)	1,038.8	1,023.4	1,175.2	1,380.5
P/BV (x)	2.4	2.4	2.1	1.8
Adj book value (Rs)	867.5	829.0	993.9	1,241.5
P/ABV (x)	2.8	3.0	2.5	2.0
P/PPP (x)	8.5	6.2	5.5	4.5
Dividend yield (%)	1.4	1.4	1.4	1.4

Recommendation History: State Bank of India – SBIN IN

Date	Reports	Reco	CMP	Target
15/04/2011	SBI Management Meet Update	Accumulate	2,819	3,000
24/01/2011	State Bank of India Q3FY11 Result Update	Accumulate	2,598	3,000
08/11/2010	State Bank of India Q2FY11 Result Update	Reduce	3,423	3,000
13/08/2010	State Bank of India Q1FY11 Result Update	Reduce	2,784	2,650

Recent Research Reports

Date	Reports	Reco	CMP	Target
16/05/2011	ICRA Q4FY11 Result Update	Accumulate	1,101	1,280
6/05/2011	Union Bank of India Q4FY11 Result Update	Hold	320	335
5/05/2011	Canara Bank Q4FY11 Result Update	Reduce	559	560
4/05/2011	LIC Housing Finance Event Update	Buy	205	250

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