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February 17, 2014

Stock Rating
Underweight

Industry View
In-Line

State Bank of India Deterioration Unabated

What's Changed

Price Target	Rs1,225 to Rs1,150
F14E/F15E/F16E EPS	-4.4%/ -3.9%/ -2.5%

F3Q14 PAT fell ~35% YoY. Higher credit costs led core operating profit to fall 20% YoY. Impaired loan formation was above our estimate at 1.4% of loans. NII was in line. Fees/FX income picked up, but are unlikely to be sustained. Weak trends at banking subs lead us to trim estimates, PT to Rs1,150.

Pace of impaired loan formation still high – 1.4% of loans (non-annualized). The mid-corporate and SME segments (where collateral tends to be weak) contributed to >75% of NPLs. The stock of impaired loans in this book is ~17% and forms ~50% of overall impaired loans. The recast pipeline remains high at ~Rs100bn (0.8% of loans) – vs. ~Rs40bn of restructuring in F3Q14.

PPoP margin improved, but sustaining it will be tough: This was driven by higher fees and volatile FX income – unlikely to be sustained, as seen at other banks. Margins were stable (given base rate hikes) – but we expect them to trend lower as bad loan formation remains high and the LD ratio moderates. Loan growth (domestic) moderated to 15% yoy and will slow further.

Banking subs – even weaker trends: F3Q14 PAT was down 55% YoY. Share in consolidated profits was lower at 15% YTD from 18% in FY13 and 30% in FY11. Impaired loans ratio increased to 11.5% vs. 10.9% last quarter. Coverage was lower at ~40% vs. 43% last quarter. These will need capital infusion by the parent.

Weak balance sheet and low profitability imply continued dilution ahead – remain UW: Even after the capital raising (9% dilution), F14 consolidated CET Tier 1 at ~9.5% (by our estimate) is the lowest among large Asian banks. Further, high impaired loans (9.1%) with low coverage (~45%) will keep internal capital generation low. Against the backdrop of Basel 3 and D-SIB norms, this could lead to continued cash calls.

Key Ratios and Statistics

Reuters: **SBI.NS** Bloomberg: **SBIN IN**

India Financials

Price target	Rs1,150
Up/downside to price target (%)	(22)
Shr price, close (Feb 14, 2014)	Rs1,475.10
52-Week Range	Rs2,539-1,475
Mkt cap, curr (bn)	US\$16.3

Fiscal Year ending	03/13	03/14e	03/15e	03/16e
ModelWare EPS (Rs)#	267.0	184.7	202.8	243.5
Prior ModelWare EPS (Rs)	-	193.1	211.1	249.8
ModelWare net inc (Rs mn)	179,160	132,100	151,431	181,809
P/E	7.8	8.0	7.3	6.1
P/BV	1.2	0.8	0.7	0.7
Return on avg eqty (%)	15.9	10.0	10.3	11.5

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
= Our pension accounting has changed in ModelWare, which will affect ModelWare EPS figures for some stocks under coverage. Visit www.ms.com/mw.pdf for details
e = Morgan Stanley Research estimates

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Financial Summary: SBI (Parent)

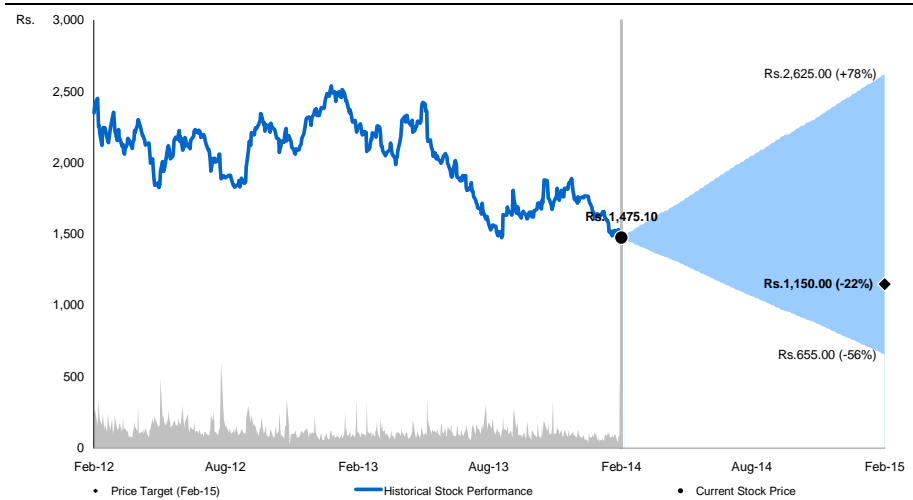
Profit and Loss Statement					Per Share Data and Valuations				
Rs Min (Year end-March)	F2013	F2014E	F2015E	F2016E	Year end-March	F2013E	F2014E	F2015E	F2016E
Interest Income	1,196,571	1,366,059	1,544,307	1,735,943	Per Share Data (Rs)				
Interest Expense	753,258	871,820	997,446	1,123,119	EPS	210.2	146.8	149.3	178.7
Net Interest Income	443,313	494,239	546,862	612,825	Book Value	1445.6	1578.9	1681.5	1813.5
--Fee Income	114,837	122,110	134,321	153,126	DPS	41.5	41.5	41.5	41.5
--Forex Income	16,916	16,032	18,204	20,024	Valuations				
--Capital Gains	11,019	18,257	8,000	7,000	PE	7.0	10.1	9.9	8.3
--Less:Dividend Income	7,155	7,140	7,497	7,872	Price to Book	1.0	0.9	0.9	0.8
--Miscellaneous Inc.	10,421	12,340	13,574	15,610	Dividend Yield	2.8%	2.8%	2.8%	2.8%
Total Non Interest Income	160,348	175,879	181,595	203,632	Ratio Analysis				
Total Operating Income	603,661	670,117	728,457	816,456	Year end-March	F2013	F2014E	F2015E	F2016E
--Employee Exp	183,809	235,015	251,076	259,368	Spread Analysis				
--Other Expenses	109,035	136,235	160,076	188,089	Average yield on assets	8.6%	8.4%	8.3%	8.2%
Total Operating Expenses	292,844	371,250	411,152	447,457	Cost of earning assets	5.4%	5.4%	5.4%	5.3%
Operating Profit	310,817	298,868	317,305	368,999	Net Interest Margin (NIM)	3.2%	3.0%	3.0%	2.9%
--Prov. For Investment Dep.	-9,670	17,945	0	0	Growth Ratios				
--Loan Loss Provisions	121,174	131,791	150,911	169,855	Net Interest Income	2%	11%	11%	12%
Total provisions	111,308	147,859	150,911	169,855	Non Interest Income	12%	10%	3%	12%
Profit Before Tax	199,509	151,009	166,395	199,144	Operating expenses	12%	27%	11%	9%
Provision for Tax	58,459	48,324	54,910	65,717	Operating Profit	-2%	-4%	6%	16%
Net Profit for the year	141,050	102,685	111,484	133,426	Net Profit	20%	-27%	9%	20%
Balance Sheet Data					EPS	14%	-30%	2%	20%
Rs Min (Year end-March)	F2013	F2014E	F2015E	F2016E	Deposits	15%	15%	15%	15%
Shareholders' equity	988,837	1,178,765	1,255,356	1,353,888	Advances	21%	14%	11%	14%
Deposits	12,027,396	13,836,880	15,914,820	18,304,813	Total Assets	17%	14%	14%	14%
Borrowings	1,289,535	1,482,965	1,705,410	1,961,222	Profitability Ratios				
Other Liabilities & Prov.	1,356,843	1,397,072	1,514,653	1,666,119	Return On Equity	15.4%	9.5%	9.1%	10.2%
Total Liabilities	15,662,610	17,895,683	20,390,240	23,286,042	Return on Assets	1.0%	0.6%	0.6%	0.6%
Cash & Balances with RBI	658,304	659,055	756,163	868,732	Efficiency Ratios				
Balances with Banks	489,898	526,640	579,304	622,752	Cost Income Ratio	48.5%	55.4%	56.4%	54.8%
Investments	3,509,273	4,142,559	5,117,522	5,873,098	Expenses/Avg Assets	2.0%	2.2%	2.1%	2.0%
Advances	10,456,166	11,960,059	13,265,115	15,143,872	Capital Ratios				
Fixed Assets	70,050	80,558	92,641	111,170	Tier 1 Ratio	9.5%	10.3%	9.7%	9.2%
Other Assets	478,920	526,812	579,494	666,418	Tier 2 Ratio	3.4%	2.8%	2.5%	2.2%
Total Assets	15,662,610	17,895,683	20,390,240	23,286,042	Capital Adequacy Ratio	12.9%	13.2%	12.2%	11.3%
Earning Assets	15,113,640	17,288,313	19,718,105	22,508,454	Source:Company Data, Morgan Stanley Research E=Morgan Stanley Research Estimates				
Asset Quality									
Credit Costs / Advances (bps)	128	119	120	120					
Gross NPL	511,903	713,815	823,322	937,593					
Net NPL	219,545	378,983	392,908	396,642					
Reserve Coverage	292,358	334,832	430,414	540,950					
Gross NPL Ratio	4.8%	5.8%	6.0%	6.0%					
Net NPL Ratio	2.1%	3.2%	3.0%	2.6%					
Coverage Ratio*	57%	47%	52%	58%					

*Coverage Ratio Excl Technical Write-offs

Source: Company Data, Morgan Stanley Research

Risk-Reward: State Bank of India (SBI.NS, Rs1,475.1, UW, PT Rs1,150)

Revenue/Cost Pressures and Asset Quality Concerns to Pressure Multiples



Price Target Rs1,150	Derived from a probability weighted sum-of-the-parts (we use separate probability weightings for the insurance business – see valuation section for details).	
Bull Case Rs2,625	1.2x F2015e BVPS	Sharp rebound in economic growth: NIM improves in F2015 over F2013-14 as funding cost falls. Loan growth is much stronger than in base case. Asset quality trends are better than expected. Value of insurance business at Rs125/share using a P/EV multiple of 1.9x.
Base Case Rs1,435	0.7x F2015e BVPS	Lower for longer economic growth, rates remain elevated: Loan book expands 11% in F2014-15. Margins (reported, period average) compress by 15bp to 3.05% in F2014 and a further 9bp in F2015 to 2.96%. Value of insurance business at Rs90/share using a P/EV multiple of 1.5x.
Bear Case Rs655	0.3x F2015e BVPS	Materially weaker economic growth: Loan growth and margins are lower than in base case. Impaired loan formation is higher than expected, driven by high slippages from corporate/SME loans and restructuring in the infrastructure segment. Value of insurance business at Rs60/share using a P/EV multiple of 1.2x.

Source: Thomson Reuters, Morgan Stanley Research

Investment Thesis: Why UW

- Revenue progression (loan growth plus fees) likely to be tepid given slowdown in economic growth.
- Asset quality (9.1% impaired loans ratio and 14% infrastructure exposure) will likely remain under pressure, given peak lending rates and slowing growth.
- 0.8x consolidated F2014e book value is expensive in the context of a weak balance sheet and ~6% underlying ROE (average F2014-16e).
- Multiples will be under pressure as revenue growth slows and asset quality pressures increase.

Key Value Drivers

- Revenue – Margin progression, loan growth and fee income progression.
- Credit costs.
- Life insurance valuation/ market share.

Potential Catalysts

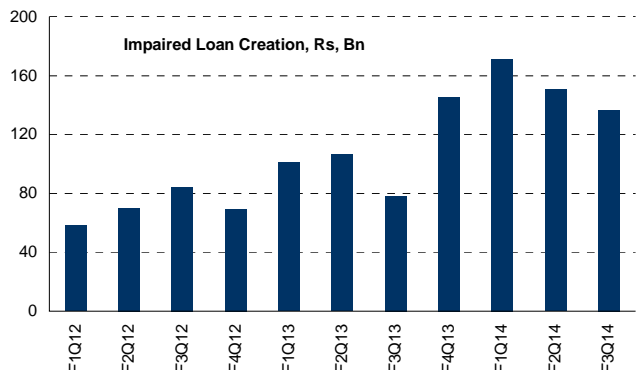
- System-wide loan/deposit growth trends.
- Margin progression.
- Deposit rate trends in India.
- Impaired loan trends.

Key Upside Risks

- Stronger-than-expected loan growth.
- Less-than-expected margin compression.
- Credit costs below expectations.
- Improvement in operating efficiency, supporting ROA progression in the long term.

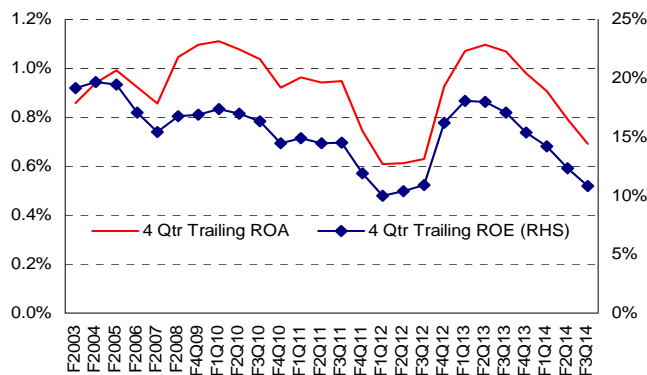
Key Focus Charts

Exhibit 1
Impaired loan formation remains elevated



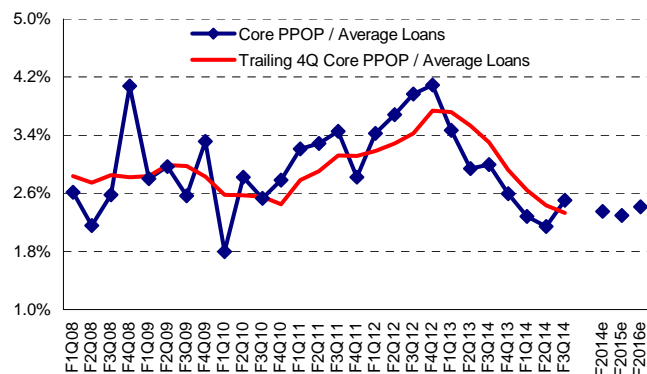
Source: Company Data, Morgan Stanley Research

Exhibit 2
Profitability has also been under pressure



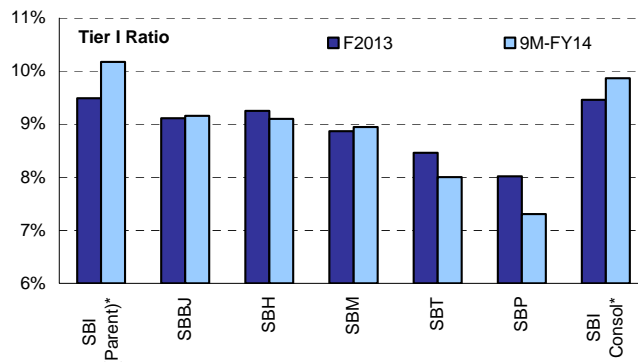
Source: Company Data, Morgan Stanley Research

Exhibit 3
Core PPOP / average loans showed some improvement this quarter – unlikely to be sustained, in our view



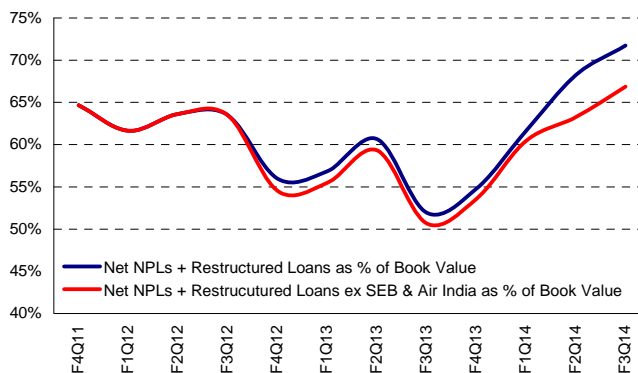
Source: Company Data, Morgan Stanley Research

Exhibit 4
Capital position is weak



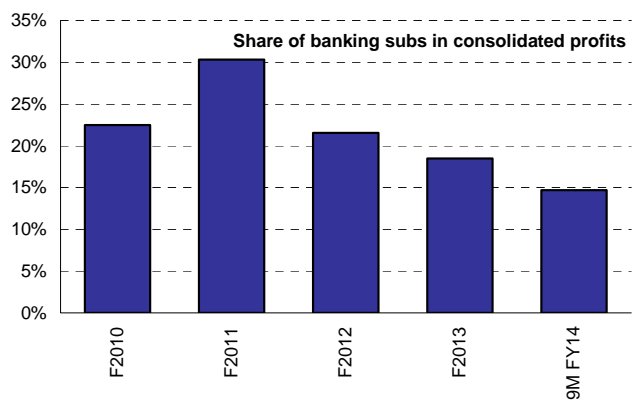
Source: Company Data, Morgan Stanley Research; *including capital infusion in F4Q14

Exhibit 5
Unprovisioned impairments are ~70% of Book Value



Source: Company Data, Morgan Stanley Research

Exhibit 6
Contribution of banking subsidiaries to consolidated profits has been declining



Source: Company Data, Morgan Stanley Research

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Exhibit 7

F3Q14 Results Summary

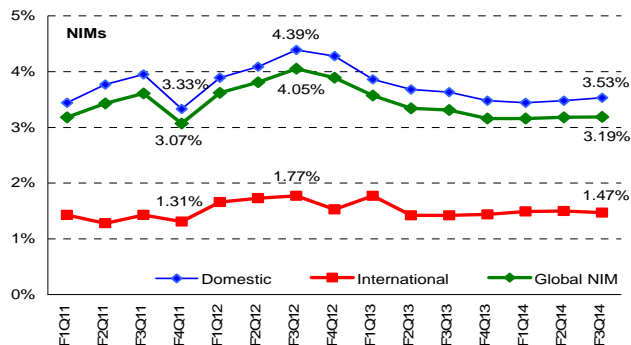
Rs Mln	F3Q13	F2Q14	F3Q14	% YoY	% QoQ	F3Q14e	Act vs Est.	Comments
A Net Interest Income	111535	122514	126405	13%	3%	126450	0%	NIMs were stable QoQ (in-line with Mse) helped by a base rate hike of 20 bps last qtr
--CEB Income	25587	26146	29713	16%	14%	26930	10%	Fee income growth picked up during the quarter, but unlikely to sustain in our view with fee income for the banking system likely to be under pressure
--Forex Income	4401	1496	6432	46%	330%	4841	33%	
B Core Non-Int Income	29988	27642	36145	21%	31%	31771	14%	
C Core Revenues	141522	150156	162550	15%	8%	158221	3%	
Staff Expenses	43512	58185	58671	35%	1%	57343	2%	
-- Pension	7430	12830	13550	82%	6%	12631	7%	There were additional pension provisions of ~Rs 6bn on YoY basis owing to change in LIC of India's mortality table
-- Others	36082	45355	45121	25%	-1%	40412	12%	
Other Expenses	26610	33990	33452	26%	-2%	31932	5%	
D Total Operating Expenses	70122	92175	92124	31%	0%	89275	3%	
E Core pre-provision profit (C-D)	71400	57981	70427	-1%	21%	68947	2%	
Cost to Core Income ratio	50%	61%	57%			56%		
F Loan Loss Provisions	27662	26454	34286	24%	30%	22376	53%	Credit Costs were higher QoQ at ~130bps vs. 115bps last quarter
G Other Provisions	307	3750	1004	226%	-73%	5651	-82%	
H Core Operating Profit (E-F-G)	43431	27777	35137	-19%	26%	40920	-14%	
Gross Capital Gains	4178	2362	2382	-43%	1%	500	376%	
Less Provisions for MTM	-1290	84	6207	NM	NM	8000	-22%	This consisted of provisions in the domestic (Rs 1.85bn) and international book (Rs 4.36bn). Unamortized depreciation in the investment book is Rs. 6.3bn.
I Net Capital Gains	5469	2278	-3825	NM	NM	-7500	NM	
J Other Non-Int Income	2319	2773	3375	46%	22%	2539	33%	
-- Dividends	0	38	83	NM	120%	0	NM	
-- Others	2319	2735	3292	42%	20%	2539	30%	
K Reported PBT (H + I + J)	51219	32829	34689	-32%	6%	35959	-4%	
L PBT ex net cap gains (L - I)	45750	30551	38513	-16%	26%	43459	-11%	
M Income Tax Provisions	17268	9079	12345	-29%	36%	12226	1%	
Effective Tax Rate	34%	28%	36%	6%	29%	34%		
N Net Profit (K - M)	33951	23750	22343	-34%	-6%	23733	-6%	
OTHER KEY METRICS (Rs Bn)								
Net Loans	9781	11031	11489	17%	4%			Loan growth moderated to 17% YoY from 19% YoY partially driven by return of borrowers to the money markets following some normalization in interest rates.
Deposits	11567	12925	13499	17%	4%			
---Domestic low cost deposit % (Reported)	45.5%	43.6%	43.9%					
NIM (Adjusted)	3.31%	3.21%	3.21%			3.21%		
Gross NPA	535	642	678	27%	6%			New NPL formation picked up QoQ to 1.2% of trailing 12M loans (non-annualized) from 0.9% in F2Q14
Net NPAs	254	322	372	47%	16%			
Loan Loss Coverage	52.5%	49.9%	45.2%					
Loan Loss Coverage (with tech/offers)	61.5%	60.2%	58.3%					
Credit Costs / Avg. loans (Ann.)	1.19%	1.14%	1.29%			1.00%		
Cost Income Ratio	47%	59%	55%					
Tier 1 Ratio	9.8%	9.1%	9.2%					

Source: Company Data, Morgan Stanley Research; Note: F2Q14 and F3Q13 Tier 1 ratio are based on Basel III including YTD profits.

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Exhibit 8

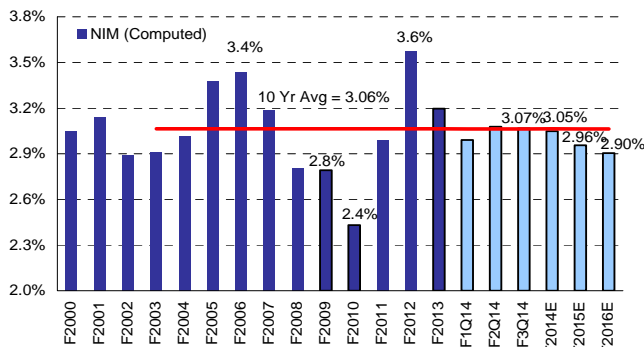
Global NIM was broadly stable QoQ



Source: Company Data, Morgan Stanley Research

Exhibit 9

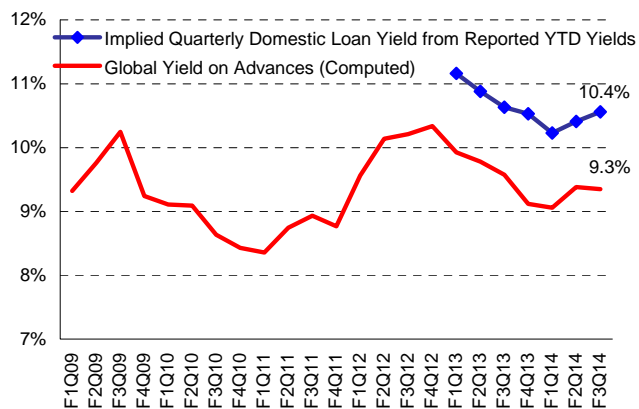
We expect NIM to compress ~10 bps in F2015 (annual average) and ~5 bps in F2016



Source: Company Data, Morgan Stanley Research; *On calculated basis in the above chart

Exhibit 10

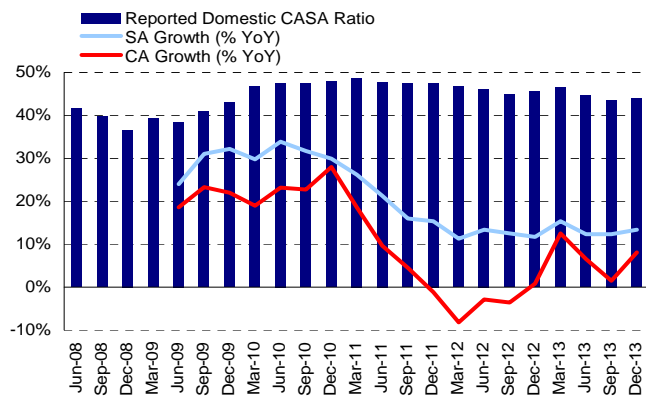
Domestic yield on advances improved ~8 bps QoQ. This was offset by a slight pickup in cost of funds.



Source: Company data, Morgan Stanley Research; *Implied quarterly yield on advances is derived by interpolating YTD yield on advances reported by the company.

Exhibit 11

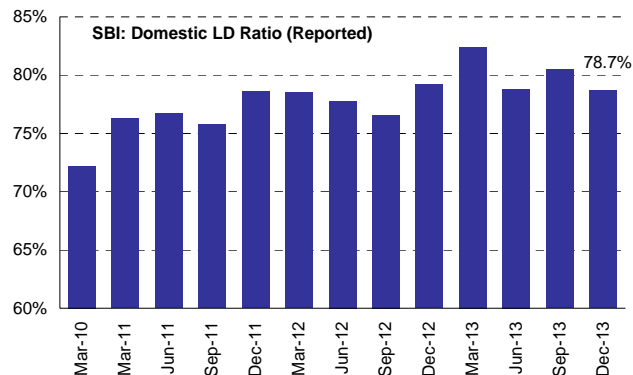
Domestic CASA ratio improved to 43.9% vs. 43.6% last quarter



Source: Company Data, Morgan Stanley Research

Exhibit 12

Domestic LD ratio moderated to 78.7% from 80.5% last quarter as deposit growth (+4% QoQ, 17% YoY) outpaced loan growth (+2% QoQ, 15% YoY)



Source: Company Data, Morgan Stanley Research

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Exhibit 13

Loan Mix: Domestic loan growth moderated, driven by return of corporate borrowers to the money markets following some normalization in interest rates. International loan growth was higher on account of FCNR deposits

Rs bn	Dec-13	% Share in Advances	YoY	QoQ
Large Corporate	1997	17%	27%	0%
Mid Corporate	2193	19%	25%	-1%
SME	1600	14%	1%	-3%
Retail Loans	2308	20%	16%	3%
Agriculture	1132	10%	13%	2%
Others	430	4%	-8%	54%
Domestic Advances	9660	82%	15%	2%
International	2177	18%	26%	15%
Global Advances	11837	100%	17%	4%

Memo: Key Industries

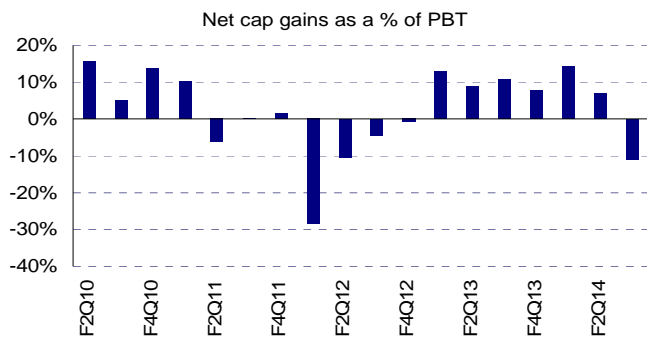
Textiles	445	3.8%	6%	2%
Engineering	269	2.3%	3%	3%
Iron & Steel	634	5.4%	12%	-1%
CRE	157	1.3%	41%	2%
Infrastructure	1349	11.4%	28%	8%
--Power	777	6.6%	56%	14%
--Telecom	214	1.8%	-6%	1%
--Roads & Ports	147	1.2%	6%	-2%
--Other	211	1.8%	14%	3%

Source: Company Data, Morgan Stanley Research

Non Interest Income

Exhibit 14

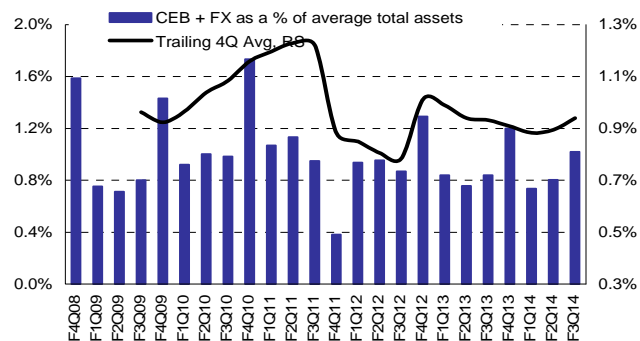
Contribution from net cap gains' was negative at -11% of PBT vs. +7% last quarter (+11% in F3Q13)



Source: Company Data, Morgan Stanley Research

Exhibit 15

Core Fees + FX Income (% of average assets) increased to 1% vs. 0.8% in F2Q13



Source: Company Data, Morgan Stanley Research

Exhibit 16

Segment Wise Fee Income

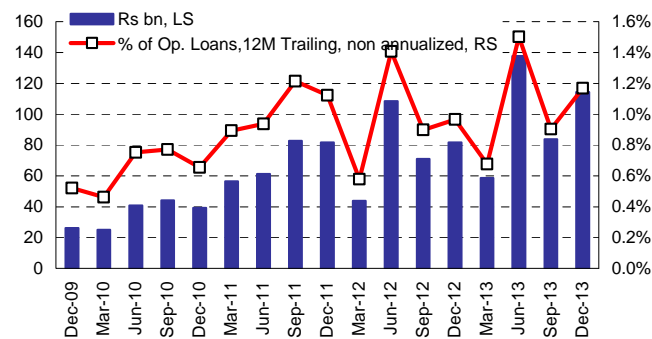
Data in Rs bn	F3Q13	F2Q14	F3Q14	YoY%	QoQ%
Loan Processing Charges	7640	5410	6920	-9.4%	27.9%
Commission on Govt. Business.	3510	4180	4090	16.5%	-2.2%
Commission on LCs/BG Issued	6080	6860	7300	20.1%	6.4%
Transaction Fees	4520	5370	5980	32.3%	11.4%
Commission on Collection	690	980	950	37.7%	-3.1%
Misc Fee Income	3150	3350	4480	42.2%	33.7%
Total	25590	26150	29720	16.1%	13.7%

Source: Company Data, Morgan Stanley Research

Asset Quality trends

Exhibit 17

New NPL creation increased QoQ to 1.2% of 12M Trailing Loans, non-annualized vs. 0.9% in F2Q14



Source: Company data, Morgan Stanley Research

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Exhibit 18

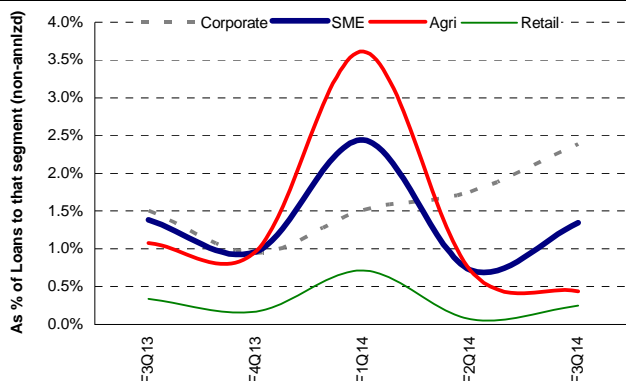
NPL flow table

% of opening loans (12M Trailing)	F3Q13	F4Q13	F1Q14	F2Q14	F3Q14
Op. NPAs	5.8%	6.2%	5.6%	6.6%	6.6%
New NPL Creation	1.0%	0.7%	1.5%	0.9%	1.2%
Upgrad. / recovery	-0.3%	-0.7%	-0.3%	-0.4%	-0.3%
Write-off	-0.1%	-0.3%	-0.1%	-0.1%	-0.5%
Closing NPAs	6.3%	5.9%	6.6%	6.9%	6.9%

Source: Company Data, Morgan Stanley Research

Exhibit 19

QoQ increase in slippages was driven by Mid-corporate (4% non-annualized vs. 2.8%) and SME (1.4% vs 0.7%) segments



Source: Company data, Morgan Stanley Research;

Exhibit 20

Breakdown of New NPL Formation

Rs Bn	F3Q13	F4Q13	F1Q14	F2Q14	F3Q14	QoQ	YoY
Corporate	43.8	28.2	47.3	55.5	79.9	44%	82%
--Large Corporate	5.4	2.5	19.1	7.5	10.4	38%	93%
--Mid Corporate	38.4	25.7	28.3	48.0	69.5	45%	81%
SME	21.1	15.7	39.3	11.6	22.9	97%	8%
Agri	8.7	10.4	32.5	6.8	4.4	-35%	-49%
Retail	5.9	3.0	13.3	1.4	5.0	267%	-16%
International	2.2	1.3	5.3	8.4	2.2	-74%	0%
Total	81.8	58.7	137.7	83.6	114.4	37%	40%

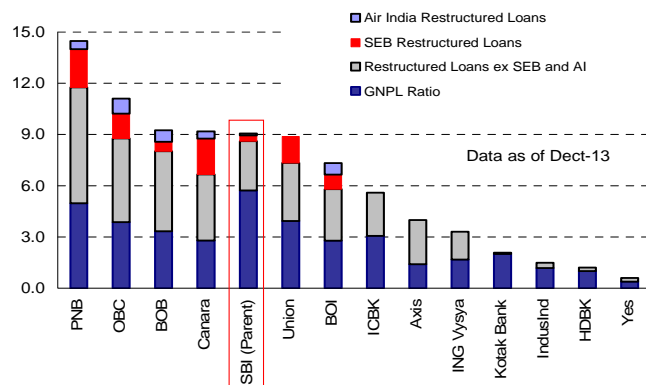
As % of 12M Trailing Loans to that segment

	F3Q13	F4Q13	F1Q14	F2Q14	F3Q14	QoQ	YoY
Corporate	1.5%	0.9%	1.5%	1.8%	2.4%	0.7%	0.9%
--Large Corporate	0.4%	0.2%	1.3%	0.5%	0.7%	0.1%	0.2%
--Mid Corporate	2.3%	1.5%	1.7%	2.8%	4.0%	1.2%	1.7%
SME	1.4%	1.0%	2.4%	0.7%	1.4%	0.7%	0.1%
Agri	1.1%	1.0%	3.6%	0.7%	0.4%	-0.3%	-0.6%
Retail	0.3%	0.2%	0.7%	0.1%	0.2%	0.2%	-0.1%
International	0.2%	0.1%	0.3%	0.5%	0.1%	-0.4%	0.0%
Total	1.0%	0.7%	1.5%	0.9%	1.2%	0.3%	0.2%

Source: Company Data, Morgan Stanley Research

Exhibit 21

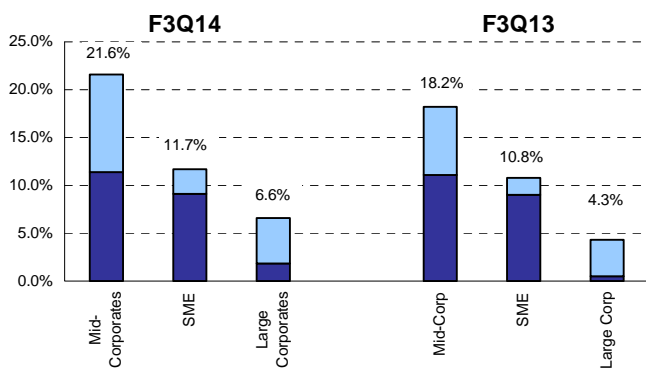
SBI (Parent) impaired loans ratio is at 9.1% as of Dec-13 (9.6% including other banking subs)



Source: Company Data, Morgan Stanley Research

Exhibit 22

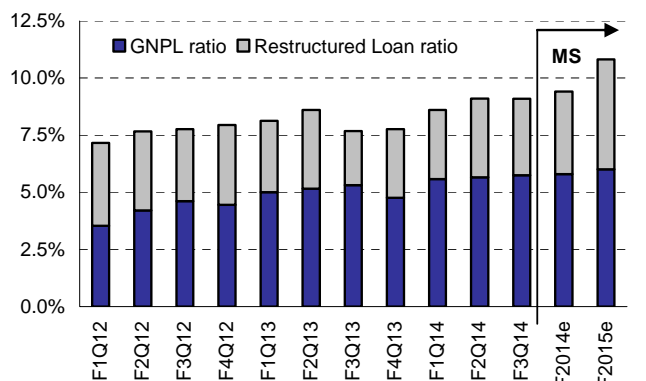
SBI – Segment Wise Impaired Loans



Source: Company Data, Morgan Stanley Research

Exhibit 23

We expect impaired loan ratio to rise to 9.4% in F14e and 10.8% in F15e from 9.1% currently



Source: Company Data, Morgan Stanley Research; e: Morgan Stanley Research Estimates

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Exhibit 24

Impaired Loan Formation (Non-annualized) Trends

	F4Q13			F1Q14			F2Q14			F3Q14		
	New NPL	Impaired Loan	Impaired Loan	New NPL	Impaired Loan	Impaired Loan	New NPL	Impaired Loan	New NPL	Impaired Loan	Impaired Loan	
As % of Trailing 12M Loans	Creation	Restructuring	Formation	Creation	Restructuring	Formation	Formation	Restructuring	Formation	Formation	Restructuring	Formation
BOB	0.7	1.0	1.6	0.8	0.7	1.3	0.7	0.6	1.0	0.5	0.4	0.7
BOI	0.7	0.9	1.5	0.8	0.3	0.9	0.6	0.3	0.9	0.6	0.4	1.0
Canara	0.5	0.9	1.1	1.2	0.6	1.8	0.7	0.5	1.0	1.0	1.6	2.2
OBC	0.9	0.8	1.5	0.7	0.4	1.0	0.9	0.3	1.1	0.8	1.1	1.9
PNB	1.0	1.8	2.8	1.2	0.9	2.2	1.0	0.9	1.9	0.5	0.7	1.2
SBI (Parent)	0.7	1.0	1.4	1.5	0.5	1.9	0.9	0.9	1.6	1.2	0.4	1.4
Union	0.5	0.8	1.0	0.8	0.6	1.1	0.9	0.9	1.6	0.6	0.5	0.9
Axis	0.2	0.5	0.7	0.4	0.4	0.8	0.4	0.6	1.0	0.3	0.4	0.7
ICBK	0.3	0.3	0.6	0.4	0.3	0.7	0.4	0.4	0.8	0.4	0.7	1.1

Source: Company Data, Morgan Stanley Research

Exhibit 25

Impaired loan ratio across our coverage

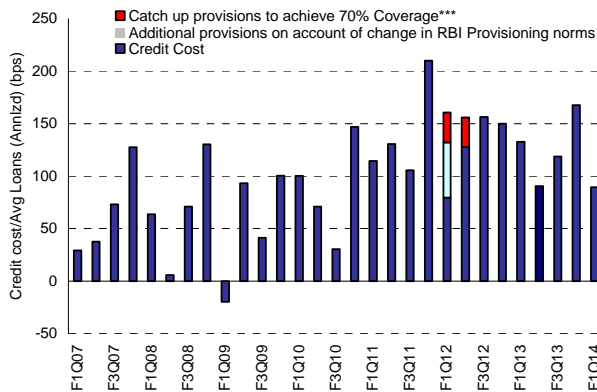
	F4Q13			F1Q14			F2Q14			F3Q14		
	F4Q13 ex SEB	F4Q13 ex SEB & Air India	F4Q13 ex SEB & Air India	F1Q14 ex SEB	F1Q14 ex SEB & Air India	F1Q14 ex SEB & Air India	F2Q14 ex SEB	F2Q14 ex SEB & Air India	F2Q14 ex SEB & Air India	F3Q14 ex SEB	F3Q14 ex SEB & Air India	F3Q14 ex SEB & Air India
BOB	8.4	7.8	7.1	9.4	8.7	8.0	9.4	8.8	8.1	9.3	8.7	8.0
BOI	8.5	7.2	6.5	8.2	6.9	6.2	8.1	6.9	6.1	7.4	6.6	5.9
Canara	9.1	6.9	6.5	10.1	7.7	7.2	9.1	6.9	6.5	9.2	7.1	6.7
OBC	10.8	8.2	7.3	11.4	8.8	7.9	11.0	9.2	8.3	11.1	9.6	8.8
PNB	14.0	11.7	11.0	15.1	12.6	12.1	16.0	13.6	13.1	14.8	12.5	12.0
SBI (Parent)	7.7	7.7	7.6	8.6	8.6	8.5	9.1	8.7	8.6	9.1	8.7	8.6
Union	8.5	7.2	7.2	8.6	7.1	7.3	8.6	7.2	7.2	8.9	7.3	7.3
Axis	3.4	3.4	3.4	3.4	3.4	3.4	3.71	3.71	3.71	4.0	4.0	4.0
HDBK	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.2	1.2	1.2
ICBK	5.4	5.4	5.4	5.5	5.5	5.5	5.5	5.5	5.5	5.9	5.9	5.9

Source: Company Data, Morgan Stanley Research

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Exhibit 26

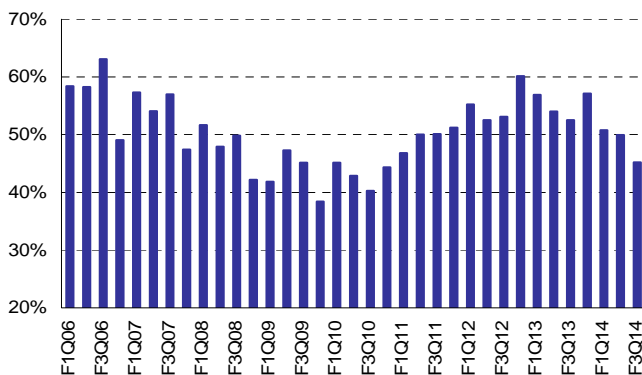
Credit costs / average loans (annualized) were higher at 129 bps vs. 114 bps in F2Q14



Source: Company Data, Morgan Stanley Research

Exhibit 27

Coverage ratio (ex technical write-offs) declined to 45% vs. 50% last quarter



Source: Company data, Morgan Stanley Research

Exhibit 28

Split of total provisions

(Rs bn)	F3Q13	F2Q14	F3Q14	% YoY	% QoQ
Total Provisions	26.7	30.3	41.5	56%	37%
---Loan loss provisions	27.7	26.5	34.3	24%	30%
---Standard asset provision	0.6	4.5	2.0	209%	-56%
---Investment depreciation	-1.3	0.1	6.2	NM	NM
---Other provisions	-0.3	-0.7	-1.0	NM	NM

Source: Company Data, Morgan Stanley Research

Costs

Exhibit 29

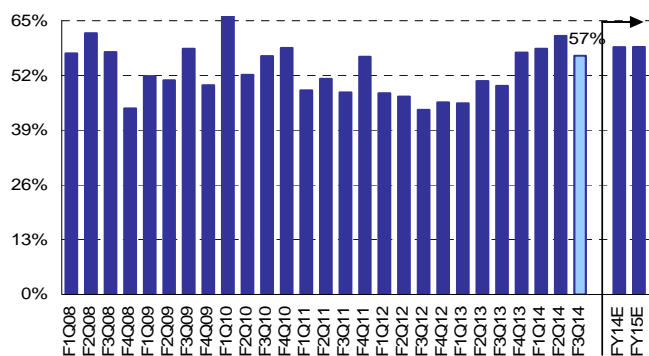
Cost to core income ratio moderated to 57% vs. 61% last quarter

(Rs mn)	F3Q13	F2Q14	F3Q14	% YoY	% QoQ
--Employee Expenses	43512	58185	58671	35%	1%
---- Wage Hike	0	4820	4530	NM	-6%
---- Pension & Gratuity	7430	12830	13550	82%	6%
---- Others	36082	40535	40591	12%	0%
--Non Employee Expenses	26610	33990	33452	26%	-2%
Total Operating Expenses	70122	92175	92124	31%	0%
Cost: Income	47%	59%	55%		
Cost: Core Income	50%	61%	57%		
Cost: Avg. assets	1.9%	2.2%	2.2%		

Source: Company Data, Morgan Stanley Research

Exhibit 30

Cost to core income ratio progression



Source: Company Data, Morgan Stanley Research

Exhibit 31

Employee Expenses Forecast

Rs bn	F2013	F2014E	F2015E
---Employee Expenses	184	235	251
- % YoY	8%	28%	7%
-----Salary Costs	146	165	184
- % YoY	7%	13%	12%
-----Pension & Gratuity	30	52	34
- % YoY	-13%	72%	-36%
-----Wage Hike Related Prov	7	18	33
---Non Employee Expenses	109	136	160
- % YoY	20%	25%	18%
Total Operating Expenses	293	371	411
	12%	27%	11%

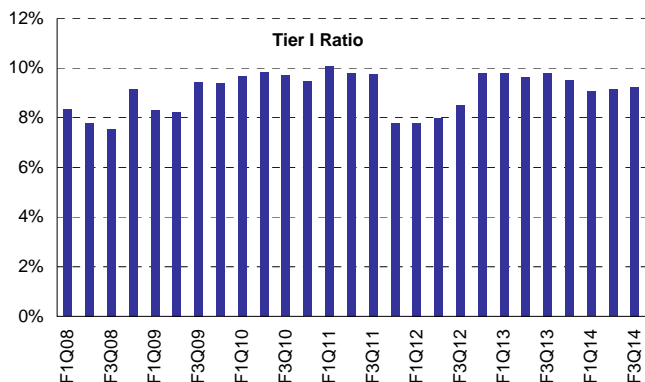
Source: Company Data, Morgan Stanley Research

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Capital Ratios

Exhibit 32

Tier I Ratio was at 9.2%* including profits as per Basel III, CET1 at 9.1%. Tier 1 including Capital raise during F4Q14 will be higher by 100bps



Source: Company Data, Morgan Stanley Research; *excluding capital issuance in F4Q14. Including capital issuance, Tier I ratio is -10.2%.

Subsidiaries

Exhibit 33

SBI Subsidiaries: F3Q14 Results Summary

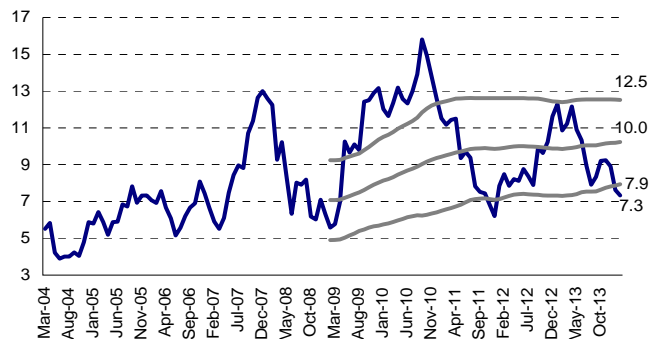
Rs Mn	F3Q13	F2Q14	F3Q14	YoY	QoQ
Interest Income	111614	117335	122460	10%	4%
Interest Expenses	78814	83944	88030	12%	5%
Net Interest Income	32800	33391	34430	5%	3%
Total Non-Interest Income	7951	8013	8079	2%	1%
Total Income	40751	41405	42509	4%	3%
Total Expense	18677	23233	23890	28%	3%
--Employee Expense	11359	14604	15594	37%	7%
--Other Expense	7319	8628	8296	13%	-4%
Operating Profit	22074	18172	18619	-16%	2%
Provisions	8017	13375	9850	23%	-26%
PBT	14057	4797	8769	-38%	83%
Tax	4007	629	4319	8%	586%
-- Effective Tax Rate	29%	13%	49%		
PAT	10050	4167	4450	-56%	7%
GNPLs	110564	162062	181729	64%	12%
NNPLs	57607	93074	106323	85%	14%
Coverage	52958	68988	75406	42%	9%
GNPL Ratio (Computed)	3.5%	4.7%	5.2%		
NNPL Ratio (Computed)	1.8%	2.8%	3.1%		
Coverage Ratio (Ex-tech w/offs)	48%	43%	41%		

Source: Company Data, Morgan Stanley Research

Valuation

Exhibit 34

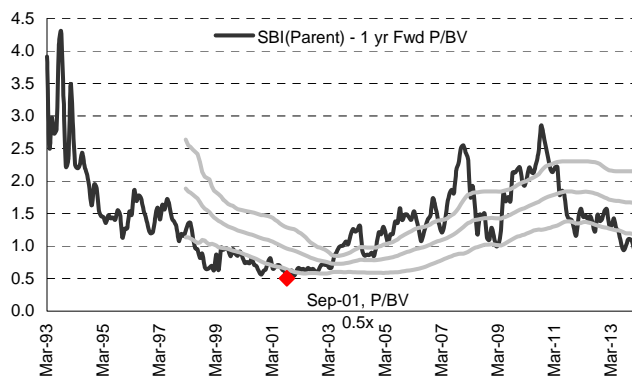
SBI – (Consol) One-year Forward P/E



Source: Company data, Morgan Stanley Research

Exhibit 35

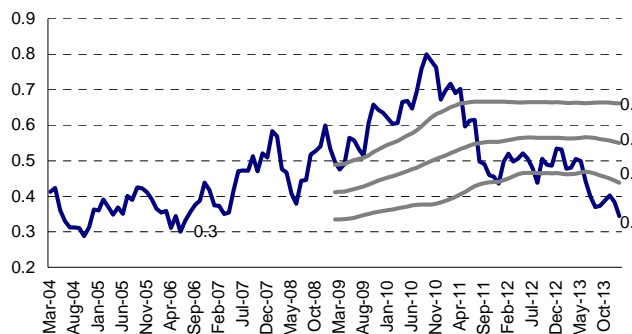
Valuation Not At Crisis Level – SBI (Parent)* bottomed at 0.5x BV in the last NPL cycle



Source: Company data, Morgan Stanley Research; *Contribution of Banking Subsidiaries was much lower then.

Exhibit 36

SBI P/Book Relative to Sensex



Source: Company Data, Morgan Stanley Research

Price Target Discussion for State Bank of India

We have reduced our price target by 6% to Rs1,150 from Rs1,225, implying 22% downside from current levels. We value SBI using a probability-weighted sum-of-the-parts method. We assign probability weightings of 50% to our base case, 45% to our bear case (reflecting the high probability of a deep and protracted slowdown and also to general conditions of balance sheets at the SOE banks), and 5% to our bull case (reflecting our low expectations of a V-shaped economic rebound). These weightings are unchanged. We use a cost of equity of 14.2%, derived using a risk-free rate of 8.25% (Indian 10-year g-sec yield), market risk premium of 5.5% and beta of 1.1.

We have reduced our base-case value by 6% to Rs1,435 from Rs1,530.

We have reduced our bear-case value by 6% to Rs655 from Rs695.

We have reduced our bull-case value by 6% to Rs2,625 from Rs2,795.

The reduction in scenario values is driven mainly by weaker than expected earnings progression at the subsidiary level (lower revenue and higher credit costs).

We value SBI's two components on the following basis:

Consolidated banking business: We value the banking entities using a three-phase residual income model: a five-year high-growth period, a 10-year maturity period, followed by a declining period. Our low implied valuations reflect SBI's high stock of impaired loans (9.1% of loans).

For the banking business, our probability weighted value is Rs1,065 (was Rs1,140). We have reduced our base-case value by 7% to Rs1,345 (was Rs1,440). We have reduced our bull case value by 6% to Rs2,500 from Rs2,670. We have reduced our bear case value by 6% to Rs595 from Rs635.

Exhibit 37

SBI – Sum-of-the-parts Valuation

	Base	Bear	Bull	Wtd
Probability Weights	50%	45%	5%	
Ke	14.2%	14.2%	14.2%	
RI Based Value	1345	595	2500	1065
BVPS (F2015e)	2038			
Adj BVPS (F2014e)	1575			
Implied Target P/BV (F2015e)	0.7	0.3	1.2	0.5
Implied Target Adjusted P/BV (F2014e)	0.9	0.4	1.6	0.7
Probability Weights	75%	20%	5%	
Insurance	90	60	125	85
Total	1435	655	2625	1150

Source: Company Data, Morgan Stanley Research

Exhibit 38

Adjusted Book Value Analysis

Data in Rs bn	SBI (Consol)	SBI (Parent)
Reported Sh/Equity (Mar-14e)	1420	1179
Reported Tier I Equity (Mar-14e)	1452	1140
Less: Provisioning to attain 70% coverage on GNPLs + Restructured Slippages	250	176
Less: Other Adjustments*		
Total Adjustments	250	176
Adjusted Sh/Equity (Mar-14e)	1169	1002
-----Adjustments as % of Sh' Equity (Mar-14e)	18%	15%

Adjusted GNPLs Computation

A) Reported GNPLs (Dec-13)	860	678
--- Coverage Ratio (ex tech w/offs)	44%	45%
B) Non SEB restructured loans	552	342
Adjusted GNPLs (A+B*40%)	1081	815
-- Adjustments As % of Tier I Equity	17%	15%
Adjusted Tier I Equity (Mar-14e)	1202	963
Reported Tier I Ratio (Mar-14e)	9.6%	10.3%
Adjusted Tier I Ratio (Mar-14e)	8.0%	8.7%

Increase Tier I Back to 10% @ Current Price

Amount Raised(Rs mn)	307	139
Price	1475	1475
--implied P/BV at which capital is raised	0.78x	0.93x
No. of Shares (mn)	0.2	0.1
Adjusted No of Shares (Mar-14e)	1.0	0.8

Post-capital raise

Adjusted Sh/Equity (Mar-14e)	1504	1154
Adjusted Tier I Equity (Mar-14e)	1509	1102
Adjusted Tier I Ratio (Mar-14e)	10.0%	10.0%
Reported BVPS (Mar-14e)	1901	1579
Adjusted BVPS (Mar-14e)	1575	1372
% Change	-17%	-13%

P/ Reported BV (Mar-14e)	0.78x	0.93x
P/ Adj BV (Mar-14e)	0.94x	1.07x
P/ BV (Mar-14e) 10 yr Avg.	1.25x	1.54x

Source: Company Data, Morgan Stanley Research; *Pension provisioning gap on account of revised LIC mortality assumptions

Life Insurance: We have assigned a value for SBI life insurance of Rs85/share (unchanged). Our valuation of Rs78bn (US\$1.3bn) is based on a probability-weighted P/EV method. We assign a 75% weighting to our life insurance base case, 20% to our bear case, and 5% to our bull-case scenario. In our base case, we expect new individual business premiums to grow 15% in F2014-15. We expect individual NBP margins at ~12% in F2014-15. Given this, our base case value is Rs82bn, based on a P/EV of 1.5x.

In our bear case, we factor in continuation of the adverse macro-economic environment, leading to slower growth in APE by 5% in F2014-15. We estimate NBP margin of 10% in F2014-15, mainly due to the proposed higher tax rate under the DTC.

In our bull case, we expect a quick improvement in the macro environment, leading to individual APE growth of 20% in F2014 and 25% in F2015. We assume a pre-cost overrun margin of 15% in F2014/15.

The upside risks to our target price include:

- 1) Better-than-expected volume growth and margin progression amid a sharp V-shaped economic rebound.
- 2) Lower-than-expected impaired loan formation driven by a sharp V-shaped economic rebound and policy actions toward infrastructure.

We acknowledge the contribution of Dhaval Gada in this report.

Exhibit 39

SBI Life – Valuation

Rs. Mn	FY16		
	Base Case	Bear Case	Bull Case
Probability Weights	75.0%	20.0%	5.0%
Individual APE	36,323	28,964	44,781
Growth YoY	15.0%	10.0%	25.0%
Expected NBAP Margins, FY15	12.0%	10.0%	15.0%
Embedded Value	54,960	46,005	60,698
Return on EV	17.0%	13.6%	22.7%
Price to Embedded Value (x)	1.5x	1.2x	1.9x
SBI Life Valuation (Rs. Mn)	82,440	55,206	115,326
SBI Life Valuation (US\$ mn, @ Rs/\$ = 62)	1,330	890	1,860
Implied New Business Value	27,480	9,201	54,628
Value of New Business, F2015E	4,359	2,896	6,717
Implied New Business Multiple	6.3x	3.2x	8.1x
SBI's Stake	74.0%	74.0%	74.0%
No. of Shares	684	684	684
Value Attributable to SBI	61,006	40,852	85,341
Value Per Share (Rs)	90	60	125
Prob. Weighted Value of SBI Life (Rs Mn)	78,406		
Prob. Weighted Value (Rs/ Share of SBI)	85		

Source: Morgan Stanley Research. Note that SBI Life does not disclose embedded value and other relevant details critical for valuations. The embedded value used above is based on our best estimates of post cost margins. As a result, our valuation could change materially if the actual EV is different from our estimates.



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(as of January 31, 2014)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	Total IBC	% of Rating Category
Overweight/Buy	1014	34%	311	38%	31%
Equal-weight/Hold	1315	44%	392	48%	30%
Not-Rated/Hold	101	3%	26	3%	26%
Underweight/Sell	543	18%	96	12%	18%
Total	2,973		825		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)

February 17, 2014
State Bank of India

State Bank of India (SBI.NS) - As of 2/16/14 in INR
Industry : India Financials



Stock Rating History: 2/1/11 : O/NR; 4/1/11 : E/NR; 5/2/11 : U/NR; 1/13/14 : U/I

Price Target History: 1/24/11 : 3400; 3/9/11 : 3290; 4/1/11 : 3000; 5/2/11 : 2450; 5/18/11 : 2000;
8/15/11 : 1850; 9/27/11 : 1550; 11/11/11 : 1350; 1/10/12 : 1310; 2/27/12 : 1300; 5/21/12 : 1425; 8/12/12 : 1390;
11/11/12 : 1525; 2/8/13 : 1625; 5/24/13 : 1575; 7/1/13 : 1525; 8/7/13 : 1200; 8/13/13 : 1100; 12/20/13 : 1225

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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February 17, 2014
State Bank of India

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Industry Coverage:India Financials

Company (Ticker)	Rating (as of)	Price* (02/14/2014)
Anil Agarwal		
AXIS Bank (AXBK.NS)	O (11/19/2013)	Rs1,103.05
HDFC (HDFC.NS)	O (05/08/2012)	Rs770.7
HDFC Bank (HDBK.NS)	O (01/18/2010)	Rs641.8
ICICI Bank (ICBK.NS)	O (04/08/2013)	Rs988.45
Kotak Mahindra Bank (KTKM.NS)	U (07/16/2012)	Rs646.45
State Bank of India (SBI.NS)	U (05/02/2011)	Rs1,475.1
Subramanian Iyer		
IDFC (IDFC.NS)	U (11/21/2013)	Rs95.35
LIC Housing Finance Ltd. (LICH.NS)	U (11/21/2013)	Rs198.95
Mahindra and Mahindra Financial Services (MMFS.NS)	E (02/06/2014)	Rs243.95
Multi Commodity Exchange of India Ltd (MCEI.NS)	U (02/06/2014)	Rs489.8
Shriram Transport Finance Co. Ltd. (SRTR.NS)	U (08/07/2013)	Rs556.9
Sumeet Kariwala		
Bank of Baroda (BOB.NS)	U (11/06/2013)	Rs536.3
Bank of India (BOI.NS)	U (08/07/2013)	Rs173.7
Canara Bank (CNBK.NS)	U (05/02/2011)	Rs212.95
ING Vysya Bank Ltd. (VYSA.NS)	U (07/23/2013)	Rs557.45
IndusInd Bank (INBK.NS)	E (08/07/2013)	Rs376.9
Max India (MAXI.NS)	E (01/13/2014)	Rs184.9
Oriental Bank of Commerce (ORBC.NS)	U (11/06/2013)	Rs164.3
Punjab National Bank (PNBK.NS)	U (05/02/2011)	Rs536.7
Union Bank of India (UNBK.NS)	U (08/07/2013)	Rs102.5
Yes Bank (YESB.NS)	E (07/25/2013)	Rs300.65

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* Historical prices are not split adjusted.