

JUNE 05, 2012

UPDATE

Coverage view: **Neutral**

Price (Rs): **2,083**

Target price (Rs): **2,375**

BSE-30: **16,021**

**Tough times for subsidiaries.** SBI's banking subsidiaries' FY2012 performance was weak on most counts: (1) A sharp rise in slippages/restructuring resulting in higher provisions, (2) a decline in NIMs and (3) subdued non-interest income. We expect profitability to be weak over the medium term (RoE of about 15% and RoAs of 0.8-0.9%) as we factor the regulatory impact of dynamic provisions. The contribution of the subsidiaries remains low at 13% of the overall value. Maintain BUY.

#### Company data and valuation summary

State Bank of India

##### Stock data

52-week range (Rs) (high,low) 2,530-1,571

Market Cap. (Rs bn) 1,397.6

##### Shareholding pattern (%)

Promoters 59.4

FIs 10.7

MFs 4.6

##### Price performance (%)

Absolute 1M 3M 12M 4.3 (4.3) (9.9)

Rel. to BSE-30 9.6 3.7 3.3

##### Forecasts/Valuations

	2012	2013E	2014E
EPS (Rs)	174.5	211.4	229.7
EPS growth (%)	34.0	21.1	8.7
P/E (X)	11.9	9.9	9.1
NII (Rs bn)	432.9	440.6	487.0
Net profits (Rs bn)	117.1	141.8	154.2
BVPS	996.9	1,122.4	1,275.1
P/B (X)	2.1	1.9	1.6
ROE (%)	15.7	15.8	15.2
Div. Yield (%)	1.7	1.8	1.9

#### QUICK NUMBERS

- FY2012 NII up 10%, earnings flat
- Slippages and fresh restructured loans at 8% of loans
- Shortfall in retirement liabilities at 3% of subsidiaries' net worth

#### Earnings growth muted in FY2012; expect continued pressure on RoA and RoEs

SBI subsidiaries reported a weak performance on earnings (flat yoy) due to higher credit costs (up 10 bps), lower NIM (down 15 bps) and weak non-interest income. We expect earnings of 11% CAGR over FY2012-14 factoring slower loan growth (14% CAGR), weak non-interest income to continue (11% CAGR) and high credit costs of 24% CAGR (dynamic provisions). RoA and RoEs would continue to remain under pressure in the medium term (RoAs at 0.8-0.9% and RoEs at 14-15%).

#### A challenging year for asset quality; coverage ratio declines

FY2012 was one of the most challenging years for SBI's banking subsidiaries in recent times as about 8% of loans either slipped into NPLs or had to be restructured (4% each). Overall gross NPLs increased 100 bps to 3% and net NPLs increased 100 bps to 2% of net loans. Transition-related issues seem to have created most of the impact on NPLs. Loan-loss provisions remained high at 1.1% and the NPV sacrifice was marginally higher at 4% of restructured loans. Coverage ratios declined due to higher slippages and write-offs.

#### Well capitalized for now; dilution needed in a few subsidiaries

A combination of lower RWA growth and capital infusion resulted in tier-1 ratio improving by 100 bps to 9% with core tier-1 ratio at 8.5%. Select subsidiaries would need additional capital in the medium term but we see limited risk, especially considering slower balance sheet growth, towards transition of these banks under the new Basel-3 guidelines.

#### Lower retirement benefits aid better cost management

Cost ratios were broadly stable in FY2012 at 45% with select banks reporting a decline in staff costs. Importantly, the shortfall between pension assets/liabilities declined to 3% of net worth against 10% in FY2011. We broadly expect cost ratios to remain closer to current levels factoring the impact of new wage agreement.

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### Flat earnings due to weak performance by two subsidiaries

FY2012 was a reasonably challenging year for select banking subsidiaries as credit costs continued to rise, fee income growth disappointed at all subsidiaries and NIMs declined at most banks.

Performance by two subsidiaries led the muted earnings in FY2012.

- ▶ State Bank of Travancore reported a 30% decline in earnings, led by a sharp rise in credit costs (60% yoy) and
- ▶ State Bank of Mysore reported a 26% decline in earnings (3% decline in NII) in FY2012.

The other subsidiaries reported fairly strong performance as State Bank of Patiala delivered 22% yoy growth, State Bank of Bikaner and Jaipur reported 18% yoy growth and State Bank of Hyderabad reported earnings growth of 11% yoy.

Asset quality was under pressure with slippages at 4% and fresh restructuring at 4.3% driving overall credit costs to 1.1%.. RoAs declined by about 7 bps yoy to 0.8% in FY2012 and the impact on RoE was higher as one of the subsidiaries had capital infusion. Balance sheet growth was healthy with overall loan growth at 20% yoy.

We expect earnings growth to remain muted over FY2012-14 as most of the banking subsidiaries reported (1) a sharp decline in provision coverage ratio in FY2012 which we expect to improve to meet the new regulatory requirements (70%), (2) factor the impact of dynamic provisions in our models and (3) impact of a new wage settlement over FY2012-17E.

We expect overall earnings of 10% CAGR due to 14% CAGR in loans over FY2012-14E. Overall balance sheet is reasonably well capitalized currently at 13% for FY2012 but select subsidiaries would need capital as they steadily transition to Basel-3 requirements.

#### Lower non-interest income and higher loan-loss provisions resulted in lower RoA RoE decomposition, March fiscal year-ends, 2007-15E (%)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Net interest income	1.4	2.2	2.2	2.4	2.8	2.8	2.8	2.8	2.8
Loan loss provisions	0.2	0.2	0.2	0.3	0.6	0.7	0.8	0.8	0.8
Net other income	0.6	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.8
Operating expenses	0.9	1.7	1.6	1.6	1.7	1.6	1.6	1.6	1.6
Invt. depreciation	0.2	0.3	0.2	(0.0)	0.0	0.1	0.0	0.0	0.0
(1- tax rate)	66.9	70.0	70.7	65.2	68.2	69.4	69.0	69.2	69.2
ROA	0.4	0.8	0.8	0.9	0.9	0.8	0.8	0.8	0.8
Average assets/average equity	19.4	21.9	22.4	20.9	19.7	19.0	18.5	18.4	18.3
ROE	7.7	17.2	18.5	18.2	17.4	15.5	14.8	14.2	14.3

Source: Company, Kotak Institutional Equities

## Key performance of subsidiaries

March fiscal year end, 2012

	State bank of Bikaner and Jaipur	State bank of Hyderabad	State bank of Mysore	State bank of Patiala	State bank of Travancore
<b>Balance Sheet</b>					
Loans outstanding (Rs bn)	492	771	398	629	553
Deposits (Rsbn)	616	987	502	794	715
CASA ratio (%)	37.3	27.9	32.2	24.5	27.3
Balance sheet size (Rs bn)	725	1183	604	985	859
Net Profit (Rs mn)	6,520	12,983	3,691	7,964	5,105
<b>Capital Adequacy (%)</b>	<b>13.8</b>	<b>13.6</b>	<b>12.6</b>	<b>12.3</b>	<b>13.6</b>
Tier-1 ratio	9.8	9.6	9.2	8.6	9.4
Tier-2 ratio	4.0	3.9	3.4	3.7	4.2
<b>Return ratios (%)</b>					
NIM	3.3	3.0	2.8	2.6	2.3
RoA	1.0	1.2	0.7	0.9	0.7
RoE	18.6	22.0	9.6	17.9	13.9
<b>Asset quality (%)</b>					
Gross NPL	3.4	2.6	3.8	3.0	2.7
Net NPL	1.9	1.3	1.9	1.3	1.5
Slippage	3.8	3.4	3.9	3.0	6.0
Coverage ratio	42.8	50.1	48.9	55.1	42.7
Coverage ratio inc. tech.w/off	58.3	62.4		67.9	61.7
<b>Valuation</b>					
Networth (Rs bn)	42	65	40	48	39
Networth adj for NPL (Rs bn)	36	58	35	42	33
PBR - FY2012 (X)	0.6		0.5		0.6
PBR adj for NPLs - FY2012 (X)	0.7		0.6		0.7
PER (X)	3.8		5.7		4.8

Source: Company, Kotak Institutional Equities

**Higher provisions will affect near-term profitability**

We broadly expect a muted performance on most return metrics for the banking subsidiaries. SBI's subsidiaries should deliver RoEs of 15% (before factoring dilution) and RoAs of 0.8-0.9% over FY2012-15E. The ability to expand revenue contribution looks limited as NIMs are on the higher side and fee income contribution is unlikely to improve as corporate activity is likely to remain low. On the other hand, the impact of a new wage settlement (negotiations are expected to start in FY2013) and dynamic provisions are likely to keep expenses/provisions on the higher side.

Any upside is likely from (1) a sharp improvement in asset quality from loans that are delinquent in small-ticket loans and (2) lower regulatory charge (on dynamic provisions which has already been factored as we expect loan-loss provisions at 1.2% against 1.4% recommended on RBI's illustration).

**State Bank of Travancore saw a steep decline in return ratios in FY2012**  
RoE of banking subsidiaries, March fiscal year-ends, 2007-15E (%)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
State Bank of Bikaner and Jaipur	18.5	18.7	21.5	20.4	20.9	18.6	15.3	14.1	14.4
State Bank of Travancore	20.4	23.3	30.6	26.9	23.1	13.9	13.7	13.6	13.0
State Bank of Mysore	21.8	25.3	18.5	18.1	15.8	9.6	12.3	13.1	14.5
State Bank of Hyderabad	19.9	21.3	20.9	22.0	24.3	22.0	20.5	18.2	17.7
State Bank of Patiala	14.7	15.9	18.2	16.0	16.7	17.9	16.4	16.4	16.3
<b>Consolidated</b>	<b>18.6</b>	<b>20.3</b>	<b>21.6</b>	<b>20.5</b>	<b>20.4</b>	<b>17.0</b>	<b>16.2</b>	<b>15.5</b>	<b>15.6</b>

Source: Company, Kotak Institutional Equities

**State Bank of Travancore saw a steep decline in return ratios in FY2012**  
RoE of banking subsidiaries, March fiscal year-ends, 2007-15E (%)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
State Bank of Bikaner and Jaipur	0.9	0.8	0.9	0.9	0.9	1.0	0.9	0.8	0.8
State Bank of Travancore	0.9	0.9	1.3	1.3	1.1	0.7	0.6	0.6	0.6
State Bank of Mysore	0.9	1.1	0.9	1.0	1.0	0.7	0.8	0.8	0.9
State Bank of Hyderabad	1.0	1.0	0.9	1.0	1.2	1.2	1.2	1.1	1.1
State Bank of Patiala	0.8	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.8
<b>Consolidated</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>0.9</b>

Source: Company, Kotak Institutional Equities

**NIMs fall 15 bps; 25-50 bps decline in Travancore, Patiala and Mysore**

Overall NIMs (KS calc) declined by 15 bps to 2.8% due to (1) a sharp rise in funding costs for few banks and (2) income de-recognition on higher slippages as these banks moved towards a stringent reporting NPL platform in FY2012. NIMs declined by 55 bps for State Bank of Mysore, 35 bps for State Bank of Patiala and 30 bps for State Bank of Travancore. Higher slippages had limited impact on State Bank of Bikaner and Jaipur, which saw its NIM improve by 25 bps yoy.

Overall we broadly expect neutral performance by these subsidiaries over the next few years. Slippages-led NIM decline is unlikely to be repeated on a similar scale as seen in FY2012 but competitive intensity, possible shift in asset book towards low-yielding, low-risk assets in retail and pressure on funding costs with further erosion in CASA ratio are likely to keep NIMs stable.

**State Bank of Travancore, State Bank of Mysore and State Bank of Patiala saw a steep decline in NIMs in FY2012**  
NIM of banking subsidiaries, March fiscal year-ends, 2007-15E (%)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
State Bank of Bikaner and Jaipur	3.1	2.5	2.5	2.4	3.0	3.3	3.2	3.1	3.1
State Bank of Travancore	3.0	2.7	2.7	2.6	2.6	2.3	2.4	2.5	2.5
State Bank of Mysore	2.7	2.7	2.3	2.9	3.4	2.8	2.9	2.9	2.9
State Bank of Hyderabad	2.8	2.2	2.1	2.3	2.9	3.0	3.0	2.9	2.9
State Bank of Patiala	2.3	1.7	1.8	2.1	3.0	2.6	2.7	2.7	2.7
<b>Consolidated</b>	<b>2.7</b>	<b>2.3</b>	<b>2.2</b>	<b>2.4</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>

Source: Company, Kotak Institutional Equities

### Pressure on CASA ratio continues, led by a further decline in CA deposits

Overall CASA ratio declined by >150 bps to 29% in FY2012 but pressure was witnessed mainly from weak growth in CA deposits. Three banks reported a decline in CA deposits in FY2012 (State Bank of Hyderabad 16% yoy, State Bank of Patiala 11% yoy and State Bank of Travancore 8% yoy). On savings account, overall growth was reasonably strong at 11% yoy with only State Bank of Patiala reporting weak performance (4% yoy growth).

There has been limited impact of de-regulation and the slower savings deposits growth could also be a result of higher interest rates available on term deposits. Inability of these banks to convert their large corporate book into meaningful CA deposits is a cause for concern as it probably indicates weak execution as demanded by their corporate customers or higher participation through consortiums where the bank does not benefit from float balances.

#### Decline in current account balances had a larger impact on the decline in CASA ratio across banks

CASA ratio, March fiscal year-ends, 2007-12 (%)

	Current account						Savings account						CASA					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
SBBJ	8.5	10.1	9.5	7.7	6.6	6.3	26.5	25.1	28.3	31.4	31.9	31.0	35.0	35.3	37.8	39.1	38.5	37.3
SBT	5.5	5.8	5.4	4.7	5.0	3.8	22.8	23.5	27.1	25.7	25.3	23.6	28.3	29.3	32.4	30.4	30.3	27.3
SBM	8.4	9.1	6.9	7.5	7.1	6.2	23.6	22.7	22.0	24.1	27.1	26.0	32.0	31.9	28.9	31.6	34.2	32.2
SBH	12.2	11.8	12.3	9.7	10.9	8.2	19.1	18.8	18.4	18.8	19.2	19.7	31.4	30.6	30.7	28.4	30.2	27.9
SBP	7.3	7.9	5.2	6.3	5.6	4.3	20.0	18.0	17.4	19.7	22.8	20.3	27.2	25.9	22.6	26.0	28.4	24.5
<b>Consoli</b>	<b>8.6</b>	<b>9.1</b>	<b>8.1</b>	<b>7.3</b>	<b>7.4</b>	<b>5.9</b>	<b>21.9</b>	<b>21.1</b>	<b>21.8</b>	<b>23.2</b>	<b>24.4</b>	<b>23.4</b>	<b>30.5</b>	<b>30.2</b>	<b>29.9</b>	<b>30.5</b>	<b>31.8</b>	<b>29.2</b>

Source: Company, Kotak Institutional Equities

### Loan growth at 20% CAGR; expect sharp slowdown over FY2012-14

Overall loan book registered 20% CAGR in FY2012, a much strong performance over FY2011 despite the underlying environment sending weak signals. We believe these banks would have witnessed higher drawdown from their exposure to previously sanctioned infrastructure projects.

A weak macro environment, decline in fee income (indicating lower sanctions) in FY2012, headline drop in sanctions data (as reported by the RBI) and slower deposit growth (keeping interest rates high) indicates that loan growth would be challenging over FY2012-14E (we expect a sharp decline in loan growth to 14%). Select banks are likely to focus on maintaining or improving the quality of their balance sheets, rather than on loan growth, after witnessing a fairly large slippage/restructuring cycle over FY2010-12.

#### Building conservative loan growth for FY2012-15E for the banking subsidiaries

Loan growth, March fiscal year-ends, 2007-15E (%)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
SBBJ	29.1	22.2	19.0	18.0	17.0	19.5	14.0	14.0	14.0
SBT	30.5	14.2	16.3	17.6	19.7	20.2	14.0	14.0	14.0
SBM	40.1	27.7	21.8	15.3	15.2	17.1	14.0	14.0	14.0
SBH	34.7	27.5	21.8	21.4	22.0	19.1	14.0	14.0	14.0
SBP	29.7	26.5	19.9	6.2	11.0	22.4	14.0	14.0	14.0
<b>Cons (ex SBI)</b>	<b>32.3</b>	<b>23.6</b>	<b>19.8</b>	<b>15.5</b>	<b>17.2</b>	<b>19.8</b>	<b>14.0</b>	<b>14.0</b>	<b>14.0</b>

Source: Company, Kotak Institutional Equities

Deposit growth likely to move at a similar pace as loan growth resulting in a stable CD ratio environment  
CD ratio across banks, March fiscal year-ends, 2007-15E (%)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
SBBJ	72.1	73.5	76.1	76.5	76.5	80.0	79.7	79.5	79.3
SBT	79.5	79.6	77.8	75.6	79.2	77.4	71.8	66.6	61.8
SBM	74.8	76.6	77.8	76.0	78.7	79.4	76.0	72.8	69.8
SBH	67.7	71.5	69.9	72.7	73.0	78.0	79.9	81.7	83.6
SBP	73.4	74.9	72.7	71.8	75.6	79.2	77.4	75.7	73.9
<b>Cons (ex SBI)</b>	<b>73.1</b>	<b>74.9</b>	<b>74.2</b>	<b>74.1</b>	<b>76.1</b>	<b>78.7</b>	<b>77.1</b>	<b>75.4</b>	<b>73.7</b>

Source: Company, Kotak Institutional Equities

### Subdued performance on non-interest income

Overall non-interest income saw a subdued performance with growth at 4% yoy for FY2012. Core fee income growth, which is primarily driven by credit-related activities, grew 5% yoy in FY2012. Contribution of treasury was lower by 13% yoy. We expect fee income contribution to be low for the next few years as corporate activity has declined (lower income from sanctions and primarily on disbursements/maintenance) while fee income from retail business tends to be extremely competitive.

Core fee income to assets declined to 0.7% in FY2012  
Fee income to assets, March fiscal year-ends, 2007-15E (%)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
SBBJ	1.3	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8
SBH	0.8	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
SBM	1.1	0.9	0.8	0.8	0.8	0.7	0.7	0.7	0.7
SBT	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.5	0.4
SBP	0.8	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
<b>Consolidated</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>

Source: Company, Kotak Institutional Equities

### Asset quality performance similar to parent; coverage ratio drops for most banks

Weak asset quality, similar to the parent, was visible across all the subsidiaries. We note that several of these subsidiaries resorted to higher write-offs in FY2012. Segmental break-up of NPLs indicate that the bulk of the slippages could have occurred from the migration towards a stringent NPL reporting platform that public sector banks undertook in 1HFY12. Overall gross NPLs increased to 3% in FY2012 from 2% in FY2011 and net NPL increased to 1.6% from 1% in FY2011. Coverage ratios (without adjusting for technically write-off portfolio) dropped to 48% from 51%. Overall loan-loss provisions were 1.2% in FY2012, up from 1.1% in FY2011.

## Asset quality worsened in FY2012 resulting in a fall in coverage ratio across most banks

Gross, net NPL and coverage ratios, March fiscal year-ends (%)

	Gross NPL (%)				Net NPL (%)				Coverage ex. w/off (%)				Coverage inc w/off (%)		
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2010	2011	2012
SBBJ	1.6	1.7	2.0	3.4	0.8	0.9	0.8	1.9	48.4	47.2	59.1	42.8	68.8	71.7	58.3
SBH	1.0	1.2	1.8	2.6	0.4	0.5	0.9	1.3	63.4	55.5	51.1	50.1	—	65.8	62.4
SBM	1.4	2.0	2.5	3.8	0.5	1.0	1.4	1.9	64.9	49.6	45.8	48.9	—	67.6	—
SBT	1.6	1.7	1.8	2.7	0.6	0.9	1.0	1.5	64.3	45.4	46.0	42.7	69.7	69.0	61.7
SBP	1.3	2.2	2.7	3.0	0.6	1.0	1.2	1.3	54.1	52.0	55.1	55.1	63.8	70.2	67.9
<b>Total</b>	<b>1.4</b>	<b>1.7</b>	<b>2.1</b>	<b>3.0</b>	<b>0.6</b>	<b>0.9</b>	<b>1.0</b>	<b>1.6</b>	<b>58.6</b>	<b>50.2</b>	<b>51.8</b>	<b>48.3</b>			
<b>SBI</b>	<b>2.9</b>	<b>3.1</b>	<b>3.3</b>	<b>4.6</b>	<b>1.8</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>	<b>55.6</b>	<b>51.2</b>	<b>60.1</b>	<b>57.9</b>	<b>59.2</b>	<b>65.0</b>	<b>68.1</b>

Source: Company, Kotak Institutional Equities

## Sharp rise in small-ticket loans resulted in higher NPLs for select banks

Break-up of gross NPLs, March fiscal year-ends, 2010-12 (%)

	Agriculture (%)			Industry (%)			Services (%)			Personal (%)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
SBBJ	0.1	1.4	6.2	1.8	2.6	2.6	2.6	1.7	3.8	2.0	1.8	2.3
SBH	0.6	1.0	2.1	1.3	2.1	1.3	1.5	1.2	1.6	1.7	2.3	5.9
SBM	1.2	5.7	13.2	2.0	1.9	1.9	3.4	2.5	3.1	0.8	0.7	11.2
SBT	0.8	0.8	0.7	1.9	2.1	8.8	2.0	1.7	1.1	1.3	1.7	1.7
SBP	1.9	3.6	7.2	1.9	2.3	2.1	2.9	3.1	3.4	2.3	3.3	4.6

Source: Company, Kotak Institutional Equities

## Slippages and fresh restructuring at 8% in FY2012 from 6.6% in FY2011

Fresh slippages were at 4% in FY2012, up from 2.3% in FY2011 with State Bank of Travancore reporting a fairly large slippage of 6%. Also, fresh restructuring, undertaken by these banks was at 4.3%, indicating that nearly 8.3% of the loans for these subsidiaries were under stress. As compared to most of the other banks, we note that SBI subsidiaries have been restructuring loans at a much higher rate though the sacrifice reported has been at 4% in FY2012 against 3.2% in FY2011.

## State Bank of Mysore continues to witness high levels of restructuring and higher slippages

Slippages and fresh restructuring of loans, March fiscal year-ends, 2009-12 (%)

	Loans restructured (%)				Slippages (%)				Slippages + Loans restructured (%)			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
SBBJ	2.7	5.8	6.0	5.9	1.3	1.7	1.8	3.8	4.1	7.5	7.8	9.8
SBH	4.1	3.9	1.0	1.5	0.9	0.9	2.2	3.4	5.0	4.8	3.2	4.9
SBM	4.6	9.1	8.2	7.8	0.9	1.5	2.7	3.9	5.5	10.6	10.8	11.7
SBT	2.0	2.7	0.6	0.7	1.4	1.7	1.9	6.0	3.5	4.5	2.5	6.6
SBP	5.8	7.7	7.7	7.4	1.1	2.3	2.7	3.0	6.9	10.0	10.4	10.5
<b>Total</b>	<b>4.0</b>	<b>5.7</b>	<b>4.4</b>	<b>4.3</b>	<b>1.1</b>	<b>1.6</b>	<b>2.3</b>	<b>4.0</b>	<b>5.1</b>	<b>7.3</b>	<b>6.6</b>	<b>8.3</b>
<b>SBI</b>	<b>2.6</b>	<b>3.5</b>	<b>0.9</b>	<b>0.5</b>	<b>2.7</b>	<b>2.2</b>	<b>2.9</b>	<b>3.6</b>	<b>5.3</b>	<b>5.7</b>	<b>3.8</b>	<b>0.5</b>

Notes:

(1) Loans restructured calculated as percentage of opening advances

Source: Company, Kotak Institutional Equities

### Loan loss provisions to remain elevated as dynamic provisions kick in

We broadly factor higher loan-loss provisions over FY2012-14 despite evidence that some of the small-ticket loans that slipped could potentially have higher recovery rates. We are factoring loan loss provisions at 1.2% over FY2012-14 due to (1) higher restructuring in the power-related portfolio and (2) dynamic provisions is likely to take its final form over the next few quarters (current guidelines indicate that banks would need to make provisions of 1.4%). The positive impact would be an improvement in coverage ratios over the next few years but at the cost of lower RoEs.

#### Credit costs rose sharply in FY2012 due to higher restructuring and slippages

Sacrifice, write-offs and loan-loss provisions, March fiscal year-ends, FY 2009-12 (%)

	Sacrifice on loans restructured (%)				Write-offs (%)				Loan-loss provisions (%)			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
SBBJ	1.8	1.7	2.0	1.5	0.2	0.1	0.5	0.7	0.4	0.5	0.9	1.3
SBH	3.0	5.1	3.5	7.5	—	0.2	0.4	0.3	0.6	0.3	0.8	1.1
SBM	1.6	2.8	3.3	3.4	—	0.1	0.3	0.5	0.2	0.6	1.6	1.6
SBT	4.1	3.1	0.7	5.9	0.3	0.4	0.4	0.4	0.6	0.3	0.8	1.0
SBP	2.2	3.8	4.0	5.0	0.2	0.0	0.9	0.2	0.3	0.7	1.5	0.9
<b>Total</b>	<b>2.4</b>	<b>3.4</b>	<b>3.2</b>	<b>4.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>1.1</b>	<b>1.2</b>
<b>SBI</b>	<b>1.9</b>	<b>3.6</b>	<b>9.0</b>		<b>0.5</b>	<b>0.4</b>	<b>0.6</b>	<b>0.1</b>	<b>0.7</b>	<b>1.0</b>	<b>1.5</b>	<b>1.7</b>

Source: Company, Kotak Institutional Equities

#### Loans to infrastructure form 11% of the total loan book

Exposure to infrastructure loans as a percentage of advances, March fiscal year-ends, FY 2008-12 (%)

	2008	2009	2010	2011	2012
SBBJ	6.6	9.3	8.2	8.2	11.7
SBH	-	12.3	13.8	12.1	—
SBM	10.6	13.0	14.5	15.0	16.1
SBT	3.9	6.0	7.1	8.0	9.2
SBP	9.3	10.7	12.0	11.1	9.7
<b>Consolidated</b>	<b>7.6</b>	<b>10.3</b>	<b>11.3</b>	<b>10.8</b>	<b>11.3</b>

Notes:

(1) Consolidated exposure for FY2008 and FY2012 excludes State Bank of Hyderabad

Source: Company, Kotak Institutional Equities

### Overall capital adequacy ratio of subsidiaries comfortable

A combination of lower growth in risk-weighted assets and capital infusion in State Bank of Bikaner and Jaipur (27% of FY2011 net worth) resulted in an improvement in tier-1 ratio for all subsidiaries barring State Bank of Travancore. Total tier-1 ratio improved 100 bps yoy to 9.2% and the core tier-1 ratio was at 8.5%.

### Transition to Basel-3 expected to be smooth for all subsidiaries

We believe the transition to Basel-3 for these banks is likely to be less disruptive on RoE given the headroom available and slower balance sheet growth. Ability to improve RoEs is less likely given the macro conditions, competitive intensity and regulatory requirements to improve coverage ratios/build dynamic provisions. We believe select banks, importantly State Bank of Travancore, would need capital infusion over the next few years. We estimate a near-term requirement of ₹16 bn for these subsidiaries to keep adequate headroom under the new guidelines.



**Core tier-1 ratio has improved for most banking subsidiaries**

Break-up of tier-1 capital, March fiscal year-ends, 2008-12 (%)

	2008	2009	2010	2011	2012
<b>Tier-1 capital</b>					
State Bank of Bikaner and Jaipur	6.7	8.5	8.4	7.9	9.8
State Bank of Travancore	7.4	8.6	9.2	7.8	9.4
State Bank of Mysore	6.5	7.4	7.6	9.0	9.2
State Bank of Hyderabad	7.2	7.1	8.6	8.5	9.6
State Bank of Patiala	7.3	6.9	8.2	8.7	8.6
<b>Total tier-1 capital</b>	<b>7.2</b>	<b>7.6</b>	<b>8.4</b>	<b>8.2</b>	<b>9.2</b>
<b>Core tier-1 capital</b>	<b>6.6</b>	<b>7.0</b>	<b>7.6</b>	<b>7.5</b>	<b>8.5</b>
<b>Tier-2 capital</b>	<b>5.7</b>	<b>5.4</b>	<b>5.3</b>	<b>4.0</b>	<b>3.9</b>
<b>Total capital</b>	<b>13.0</b>	<b>13.0</b>	<b>13.7</b>	<b>12.2</b>	<b>13.1</b>

Source: Company, Kotak Institutional Equities

**Dividend payout ratio has changed selectively for few subsidiaries reflecting CAR and profitability**

Dividend payout ratio, March fiscal year-ends, 2008-12 (%)

	2008	2009	2010	2011	2012
State Bank of Bikaner and Jaipur	15.9	14.9	15.8	18.2	15.6
State Bank of Travancore	12.9	10.7	11.7	10.9	17.6
State Bank of Mysore	11.3	10.7	8.1	9.3	12.7
State Bank of Hyderabad	14.9	13.4	12.1	11.9	11.8
State Bank of Indore	11.2	9.4	8.5		
State Bank of Saurashtra	18.0				
State Bank of Patiala	17.9	17.1	16.5	16.3	13.3
<b>Total</b>	<b>14.4</b>	<b>13.0</b>	<b>12.4</b>	<b>13.1</b>	<b>13.7</b>

Source: Company, Kotak Institutional Equities

**Select banking subsidiaries would need higher capital infusion to meet Basel-3 guidelines**

March fiscal year-ends, 2013E-2015E (₹ bn)

	2013E	2014E	2015E	Total
State Bank of Bikaner and Jaipur	-	0.0	1.0	1.0
State Bank of Travancore	1.8	1.4	2.0	5.3
State Bank of Mysore	2.1	0.6	0.1	2.8
State Bank of Hyderabad	-	-	-	-
State Bank of Patiala	5.9	0.6	0.7	7.2
<b>Total tier-1 capital</b>	<b>9.8</b>	<b>2.7</b>	<b>3.8</b>	<b>16.3</b>

Source: Company, Kotak Institutional Equities

**Stable cost-ratios at 45%; shortfall in retirement liabilities declines**

Overall, FY2012 saw limited impact on operating expenses with the cost-income ratio at 45% (broadly flat yoy). Operating expenses grew 10% yoy but staff costs declined 8% yoy in FY2011 as FY2011 saw higher costs due to revised retirement benefits offered to current and retired employees. We expect these ratios to broadly remain closer to these levels after factoring 13% CAGR in employee expenses for FY2013-14 when the next wage revisions are finalized (the management indicated it would make ad hoc provisions in FY2013).

**Cost-income ratios have been broadly stable for these entities in FY2012**

Cost-income ratio, March fiscal year-ends, 2007-12 (%)

	2007	2008	2009	2010	2011	2012
State Bank of Bikaner and Jaipur	48.2	53.1	46.9	49.6	52.7	47.2
State Bank of Travancore	43.1	45.7	45.3	45.2	48.4	49.6
State Bank of Mysore	52.9	52.1	54.3	49.4	40.6	49.6
State Bank of Hyderabad	41.7	42.0	41.7	36.4	39.5	39.6
State Bank of Patiala	42.4	47.6	45.1	40.8	43.0	43.1
<b>Cost-income (ex SBI)</b>	<b>45.0</b>	<b>47.5</b>	<b>46.0</b>	<b>43.4</b>	<b>44.3</b>	<b>44.8</b>

Source: Company, Kotak Institutional Equities

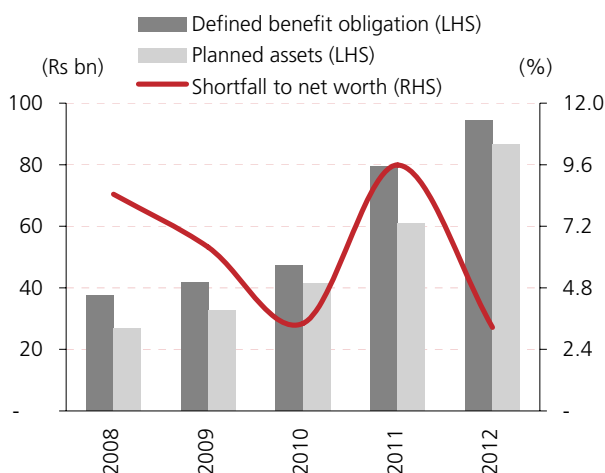
**Shortfall drops in retirement funds; retirement costs account for 20% of staff costs**

Overall shortfall between pension assets and liabilities declined in FY2012 to 3% of net-worth against 10% in FY2011. Higher contribution from SBI subsidiaries and a change in assumptions contributed to this decline. Retirement costs accounted for 20% of the overall staff costs in FY2012 against 31% when the bank had to fund the shortfall for benefits that had been vested and a fifth of the total liability for employees who were yet to vest their benefits.

Assumptions taken would continue to remain a concern as they are factoring all positives that result in lower pension liability: (1) Lower discount rate, (2) higher returns on assets and (3) a marginal increase in staff salary. We believe these liabilities would increase sharply after every wage settlement. However, a key benefit is that new employees (post FY2007) are under defined contribution compared with defined benefit, which should help in managing the lower assumptions taken by public banks.

**Shortfall in pension benefits reduced in FY2012**

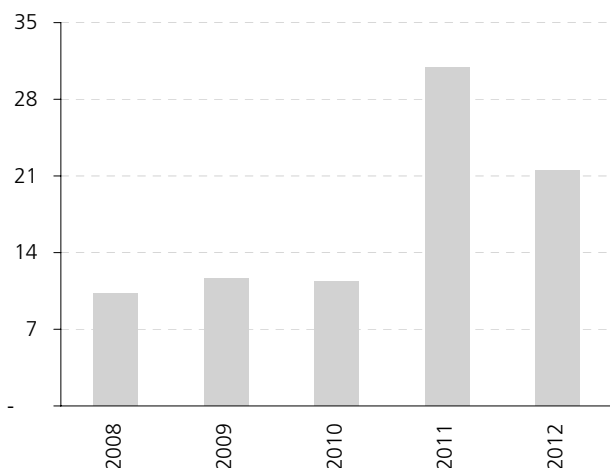
March fiscal year-ends, 2008-12



Source: Company, Kotak Institutional Equities

**Retirement costs are at 20% of total staff expenses**

Retirement costs/staff costs, March fiscal year-ends, 2008-12 (%)



Source: Company, Kotak Institutional Equities

State Bank of Bikaner and Jaipur: Growth rates and key ratios  
March fiscal year-ends, 2010-2015E (%)

	2010	2011	2012	2013E	2014E	2015E
<b>Growth rates (%)</b>						
Net loan	17.6	19.7	20.2	14.0	14.0	14.0
Investments	21.1	11.9	25.2	11.6	12.6	13.1
Deposits	21.0	14.3	22.9	15.0	15.0	15.0
<b>Net interest income</b>	<b>9.2</b>	<b>21.1</b>	<b>7.9</b>	<b>18.5</b>	<b>17.6</b>	<b>14.4</b>
Loan loss provisions	-37.9	190.8	59.4	37.1	24.4	18.8
Net interest income	16.1	7.7	-3.1	12.0	14.7	12.4
Non-interest income	-7.9	10.1	11.5	3.3	8.8	8.6
Net fee income	6.4	11.2	8.3	8.3	8.3	8.3
Net capital gains	-45.4	24.5	36.5	-10.6	16.7	14.3
Net exchange gains	16.2	-28.8	5.5	10.0	10.0	10.0
Total income	3.9	18.1	8.8	14.6	15.5	13.1
Operating expenses	3.7	26.3	11.7	9.4	14.4	14.4
Employee expenses	0.3	31.8	12.5	8.0	15.0	15.0
<b>Asset management measures (%)</b>						
Yield on average loans	9.5	9.5	10.4	10.4	10.2	10.0
Yield on average investments	6.6	6.8	6.9	6.9	6.8	6.6
Yield on average earning assets	8.2	8.2	9.0	9.0	8.8	8.7
Interest on deposits	5.9	5.7	6.7	6.6	6.4	6.2
Average cost of funds	5.9	5.9	6.9	6.8	6.6	6.4
<b>Difference</b>	<b>2.3</b>	<b>2.3</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>
<b>Net interest income/earning assets</b>	<b>2.6</b>	<b>2.7</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>
Spreads on lending business	3.5	3.6	3.5	3.6	3.7	3.7
Spreads on lending business (incl. Fees)	4.4	4.5	4.3	4.4	4.4	4.4
Spread on investment income	1.3	1.4	0.5	0.5	0.7	0.7
<b>New provisions/average net loans</b>	<b>0.3</b>	<b>0.7</b>	<b>0.9</b>	<b>1.1</b>	<b>1.2</b>	<b>1.3</b>
Loans-to-deposit ratio	75.6	79.2	77.4	76.8	76.1	75.4
Tax rate	22.9	17.4	31.7	31.7	31.7	31.7
Tax rate exld provisions	20.6	13.0	19.4	17.7	16.8	15.9
<b>Profitability measures (%)</b>						
Fee income to total income	17.2	16.2	16.1	15.3	14.3	13.7
Net trading income to PBT	11.2	10.4	15.9	13.3	14.2	15.4
Operating expenses/total income	45.2	48.4	49.6	47.4	46.9	47.5
ROA (beginning assets)	1.4	1.2	0.7	0.7	0.6	0.6
ROE (beginning equity)	30.4	25.6	14.7	14.5	14.4	13.7
Payout ratio	26.0	26.0	26.0	17.6	17.6	17.6
Sustainable growth rate	22.5	19.0	10.9	11.9	11.9	11.3
Equity/assets (EoY)	4.8	4.9	4.5	4.4	4.4	4.3
<b>ROA decomposition - % of avg. assets</b>						
Net interest income	2.6	2.6	2.3	2.4	2.5	2.5
Loan loss provisions	0.2	0.5	0.6	0.7	0.8	0.8
Net other income	1.0	0.9	0.8	0.7	0.7	0.7
Operating expenses	1.6	1.7	1.6	1.5	1.5	1.5
Invnt. Depreciation & other provisions	0.1	0.0	0.0	0.0	0.0	0.0
(1- tax rate)	77.1	82.6	68.3	68.3	68.3	68.3
ROA	1.3	1.1	0.7	0.6	0.6	0.6
Average assets/average equity	21.4	20.7	21.4	22.4	22.7	23.1
<b>ROE</b>	<b>26.9</b>	<b>23.1</b>	<b>13.9</b>	<b>13.7</b>	<b>13.6</b>	<b>13.0</b>

Source: Kotak Institutional Equities

State Bank of Bikaner and Jaipur: P&L and balance sheet  
March fiscal year-ends, 2010-2015E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
<b>Income statement</b>						
Total interest income	43,781	52,288	68,288	79,884	89,141	99,255
Total interest expense	29,779	35,327	49,984	58,185	63,627	70,061
<b>Net interest income</b>	<b>14,002</b>	<b>16,960</b>	<b>18,304</b>	<b>21,699</b>	<b>25,514</b>	<b>29,194</b>
Loan loss provisions	1,025	2,981	4,751	6,514	8,101	9,620
<b>Other income</b>	<b>5,280</b>	<b>5,812</b>	<b>6,483</b>	<b>6,700</b>	<b>7,290</b>	<b>7,917</b>
Net fee income	3,319	3,692	3,999	4,332	4,693	5,084
Net capital gains	790	983	1,342	1,200	1,400	1,600
Net exchange gains	566	403	425	467	514	565
Net other income	<b>605</b>	<b>735</b>	<b>717</b>	<b>700</b>	<b>683</b>	<b>667</b>
<b>Total income pre loan loss provision</b>	<b>19,281</b>	<b>22,773</b>	<b>24,787</b>	<b>28,398</b>	<b>32,805</b>	<b>37,110</b>
Operating expenses	8,723	11,013	12,299	13,452	15,391	17,614
Employee expenses	5,315	7,004	7,878	8,508	9,785	11,252
Insurance	457	517	619	712	819	942
Depreciation on own assets	428	469	502	602	723	867
Others	2,522	3,023	3,299	3,629	4,065	4,552
Depreciation on investments	<b>(205)</b>	<b>66</b>	<b>156</b>	<b>125</b>	<b>100</b>	<b>100</b>
Other Provisions	859	(103)	108	108	108	108
Pretax income	8,880	8,815	7,472	8,199	9,105	9,668
Tax provisions	2,037	1,538	2,368	2,598	2,885	3,064
<b>Net Profit</b>	<b>6,843</b>	<b>7,277</b>	<b>5,105</b>	<b>5,601</b>	<b>6,220</b>	<b>6,604</b>
PBT+provision-treasury gains	9,769	10,777	11,146	13,746	16,014	17,896
% growth	12	10	3	23	16	12
Op to total income	55	52	50	53	53	53
<b>Balance sheet</b>						
Cash and bank balance	39,536	48,525	58,167	66,011	74,008	83,183
Net value of investments	160,240	179,270	224,376	250,454	282,080	318,932
Net loans and advances	384,613	460,442	553,460	630,944	719,276	819,975
Fixed assets	2,028	2,214	2,433	2,676	2,944	3,238
Net Owned assets	2,028	2,214	2,433	2,798	3,217	3,700
Other assets	8,131	19,316	21,059	21,059	21,059	21,059
<b>Total assets</b>	<b>594,547</b>	<b>709,768</b>	<b>859,493</b>	<b>971,144</b>	<b>1,099,366</b>	<b>1,246,386</b>
Deposits	508,834	581,579	714,698	821,903	945,188	1,086,967
Borrowings and bills payable	40,780	65,472	86,488	86,488	86,488	86,488
Other liabilities	16,527	28,081	19,646	19,646	19,646	19,646
<b>Total liabilities</b>	<b>566,141</b>	<b>675,132</b>	<b>820,832</b>	<b>928,037</b>	<b>1,051,322</b>	<b>1,193,100</b>
Paid-up capital	500	500	500	500	500	500
Reserves & surplus	27,906	34,135	38,162	42,607	47,544	52,786
<b>Total shareholders' equity</b>	<b>28,406</b>	<b>34,635</b>	<b>38,662</b>	<b>43,107</b>	<b>48,044</b>	<b>53,286</b>

Source: Kotak Institutional Equities

State Bank of Hyderabad: Growth rates and key ratios  
March fiscal year-ends, 2010-2015E (%)

	2010	2011	2012	2013E	2014E	2015E
<b>Growth rates (%)</b>						
Net loan	21.4	22.0	19.1	14.0	14.0	14.0
Investments	14.4	18.5	2.8	11.9	15.0	15.3
Deposits	16.8	21.5	11.4	14.0	15.0	15.0
<b>Net interest income</b>	<b>27.0</b>	<b>52.9</b>	<b>18.1</b>	<b>11.0</b>	<b>11.3</b>	<b>14.4</b>
Loan loss provisions	(30.9)	220.5	65.6	12.9	31.1	19.0
Net interest income	36.1	39.5	9.4	10.5	5.6	12.7
Non-interest income	9.4	16.9	4.1	10.5	10.4	11.0
Net fee income	12.3	36.6	10.0	10.0	10.0	10.0
Net capital gains	18.5	(22.1)	(69.4)	20.0	16.7	28.6
Net exchange gains	7.0	2.2	5.0	10.0	10.0	10.0
Total income	20.9	41.7	14.5	10.9	11.1	13.6
Operating expenses	5.4	53.8	14.7	7.6	10.0	10.2
Employee expenses	9.1	72.4	(42.0)	8.0	15.0	15.0
<b>Asset management measures (%)</b>						
Yield on average loans	9.7	10.0	11.5	11.1	10.9	10.7
Yield on average investments	6.8	7.1	7.9	7.8	7.6	7.4
Yield on average earning assets	8.1	8.4	9.8	9.6	9.5	9.3
Interest on deposits	6.1	5.7	7.2	7.1	7.0	6.8
Average cost of funds	6.1	5.7	7.2	7.1	7.0	6.8
<b>Difference</b>	<b>2.1</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>
<b>Net interest income/earning assets</b>	<b>2.4</b>	<b>3.0</b>	<b>3.1</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
Spreads on lending business	3.7	4.3	4.3	4.0	3.9	3.9
Spreads on lending business (incl. Fees)	4.8	5.5	5.4	5.1	5.0	4.9
Spread on investment income	1.9	1.6	0.5	0.7	0.7	0.7
<b>New provisions/average net loans</b>	<b>0.3</b>	<b>0.7</b>	<b>1.0</b>	<b>1.0</b>	<b>1.2</b>	<b>1.2</b>
Loans-to-deposit ratio	72.7	73.0	78.0	78.0	77.4	76.7
Tax rate	40.9	34.0	32.0	32.0	32.0	32.0
Tax rate exld provisions	37.2	27.2	23.2	23.1	21.6	21.3
<b>Profitability measures (%)</b>						
Fee income to total income	19.9	19.2	18.5	18.3	18.1	17.6
Net trading income to PBT	19.5	4.5	(1.5)	2.8	3.1	3.5
Operating expenses/total income	36.4	39.5	39.6	38.4	38.0	36.9
ROA (beginning assets)	1.1	1.3	1.2	1.2	1.1	1.2
ROE (beginning equity)	25.6	27.3	24.4	22.5	19.7	19.2
Payout ratio	27.0	27.0	27.0	11.5	12.1	11.7
Sustainable growth rate	18.7	20.0	17.8	19.9	17.3	17.0
Equity/assets (EoY)	4.8	5.0	5.5	5.8	6.0	6.1
<b>ROA decomposition - % of avg. assets</b>						
Net interest income	2.3	2.9	3.0	3.0	2.9	2.9
Loan loss provisions	0.2	0.5	0.6	0.7	0.8	0.8
Net other income	1.0	1.0	0.9	0.9	0.9	0.9
Operating expenses	1.2	1.5	1.5	1.5	1.4	1.4
Invnt. depreciation	0.2	0.1	0.0	0.0	0.0	0.0
(1- tax rate)	59.1	66.0	68.0	68.0	68.0	68.0
ROA	1.0	1.2	1.2	1.2	1.1	1.1
Average assets/average equity	22.1	20.4	19.0	17.6	16.9	16.5
<b>ROE</b>	<b>22.0</b>	<b>24.3</b>	<b>22.0</b>	<b>20.5</b>	<b>18.2</b>	<b>17.7</b>

Source: Kotak Institutional Equities

State Bank of Hyderabad: P&L and balance sheet  
March fiscal year-ends, 2010-2015E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
<b>Income statement</b>						
Total interest income	63,341	78,513	106,467	117,796	131,533	147,258
Total interest expense	44,709	50,028	72,822	80,438	89,967	99,725
<b>Net interest income</b>	<b>18,632</b>	<b>28,485</b>	<b>33,645</b>	<b>37,358</b>	<b>41,566</b>	<b>47,533</b>
Loan loss provisions	1,375	4,407	7,299	8,245	10,809	12,858
<b>Other income</b>	<b>8,413</b>	<b>9,838</b>	<b>10,243</b>	<b>11,317</b>	<b>12,489</b>	<b>13,868</b>
Net fee income	5,389	7,362	8,098	8,908	9,798	10,778
Net capital gains	2,095	1,632	500	600	700	900
Net exchange gains	563	575	604	664	731	804
Net other income	<b>366</b>	<b>269</b>	<b>1,041</b>	<b>1,145</b>	<b>1,260</b>	<b>1,386</b>
<b>Total income pre loan loss provision</b>	<b>27,046</b>	<b>38,323</b>	<b>43,888</b>	<b>48,676</b>	<b>54,055</b>	<b>61,401</b>
Operating expenses	9,838	15,128	17,358	18,672	20,546	22,645
Employee expenses	6,026	10,390	6,026	6,172	6,740	7,393
Insurance	491	739	491	559	643	740
Depreciation on own assets	493	627	493	558	641	738
Others	2,829	3,372	10,349	11,384	12,522	13,774
Depreciation on investments	<b>(618)</b>	<b>841</b>	<b>790</b>	<b>300</b>	<b>200</b>	<b>200</b>
Other Provisions	2,539	287	(655)	—	—	—
Pretax income	13,912	17,659	19,096	21,459	22,500	25,699
Tax provisions	5,685	5,997	6,113	6,869	7,203	8,227
<b>Net Profit</b>	<b>8,227</b>	<b>11,662</b>	<b>12,983</b>	<b>14,589</b>	<b>15,297</b>	<b>17,472</b>
PBT+provision-treasury gains	15,113	21,563	26,030	29,403	32,808	37,856
% growth	34	43	21	13	12	15
Op to total income	64	61	60	62	62	63
<b>Balance sheet</b>						
Cash and bank balance	74,592	104,122	90,082	97,897	107,376	118,247
Net value of investments	240,085	284,467	292,418	327,206	376,307	434,043
Net loans and advances	530,401	647,203	770,523	878,396	1,001,372	1,141,564
Fixed assets	3,050	3,980	4,374	4,812	5,293	5,822
Net Owned assets	3,050	3,980	4,374	5,331	6,431	7,696
Other assets	37,885	27,280	25,757	25,757	25,757	25,757
<b>Total assets</b>	<b>886,013</b>	<b>1,067,052</b>	<b>1,183,154</b>	<b>1,334,067</b>	<b>1,516,105</b>	<b>1,725,434</b>
Deposits	729,707	886,279	987,319	1,125,544	1,294,375	1,488,532
Borrowings and bills payable	61,904	67,539	73,137	73,137	73,137	73,137
Other liabilities	51,757	60,083	57,722	57,722	57,722	57,722
<b>Total liabilities</b>	<b>843,368</b>	<b>1,013,901</b>	<b>1,118,178</b>	<b>1,256,402</b>	<b>1,425,234</b>	<b>1,619,390</b>
Paid-up capital	208	208	208	208	208	208
Reserves & surplus	42,437	52,944	64,769	77,458	90,664	105,836
<b>Total shareholders' equity</b>	<b>42,645</b>	<b>53,152</b>	<b>64,977</b>	<b>77,665</b>	<b>90,871</b>	<b>106,043</b>

Source: Kotak Institutional Equities

State Bank of Mysore:-Growth rates and key ratios  
March fiscal year-ends, 2010-2015E (%)

	2010	2011	2012	2013E	2014E	2015E
<b>Growth rates (%)</b>						
Net loan	15.3	15.2	17.1	14.0	14.0	14.0
Investments	1.0	12.5	14.0	10.4	11.9	13.4
Deposits	18.1	11.2	16.1	15.0	15.0	15.0
<b>Net interest income</b>	<b>47.5</b>	<b>32.3</b>	<b>(3.2)</b>	<b>15.5</b>	<b>13.1</b>	<b>14.5</b>
Loan loss provisions	306.0	205.2	15.1	(7.9)	18.8	14.0
Net interest income	34.9	7.0	(10.8)	28.2	11.0	14.7
Non-interest income	(11.4)	6.9	13.4	10.9	15.2	15.3
Net fee income	13.0	13.7	8.5	12.0	13.0	14.0
Net capital gains	(73.3)	(58.0)	183.5	3.6	50.0	33.3
Net exchange gains	(11.9)	18.4	(29.8)	10.0	13.0	15.0
Total income	26.1	25.8	0.5	14.4	13.6	14.7
Operating expenses	14.6	3.5	22.6	8.3	9.0	9.3
Employee expenses	18.0	6.7	13.2	13.2	13.2	13.2
<b>Asset management measures (%)</b>						
Yield on average loans	9.9	10.1	11.0	10.8	10.6	10.4
Yield on average investments	6.8	7.1	7.3	7.3	7.1	7.0
Yield on average earning assets	8.6	8.7	9.4	9.3	9.1	9.0
Interest on deposits	5.8	5.4	6.9	6.7	6.5	6.3
Average cost of funds	5.9	5.5	6.9	6.7	6.5	6.3
<b>Difference</b>	<b>2.7</b>	<b>3.2</b>	<b>2.6</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>
<b>Net interest income/earning assets</b>	<b>3.0</b>	<b>3.5</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
Spreads on lending business	4.0	4.5	4.1	4.1	4.1	4.1
Spreads on lending business (incl. Fees)	5.1	5.7	5.2	5.2	5.1	5.1
Spread on investment income	1.5	1.5	0.3	0.6	0.7	0.9
<b>New provisions/average net loans</b>	<b>0.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>
Loans-to-deposit ratio	76.0	78.7	79.4	78.7	78.0	77.3
Tax rate	36.7	32.5	19.4	29.4	29.4	29.4
Tax rate exld provisions	30.0	19.7	8.8	17.3	17.3	17.9
<b>Profitability measures (%)</b>						
Fee income to total income	19.5	17.6	19.0	18.6	18.5	18.4
Net trading income to PBT	9.8	(0.5)	(1.0)	0.7	3.7	5.4
Operating expenses/total income	49.4	40.6	49.6	46.9	45.0	42.9
ROA (beginning assets)	1.1	1.1	0.7	0.9	0.9	1.0
ROE (beginning equity)	19.6	18.8	10.0	12.9	13.9	15.5
Payout ratio	26.0	27.0	27.0	13.6	14.9	13.2
Sustainable growth rate	14.5	13.7	7.3	11.1	11.8	13.4
Equity/assets (EoY)	5.9	7.1	6.6	6.5	6.4	6.3
<b>ROA decomposition - % of avg. assets</b>						
Net interest income	2.9	3.4	2.8	2.9	2.9	2.9
Loan loss provisions	0.4	1.0	1.0	0.8	0.8	0.8
Net other income	1.0	0.9	0.9	0.9	0.9	0.9
Operating expenses	1.9	1.7	1.9	1.8	1.7	1.6
Invnt. depreciation	(0.0)	0.0	0.1	0.1	0.0	0.0
(1- tax rate)	63.3	67.5	80.6	70.6	70.6	70.6
ROA	1.0	1.0	0.7	0.8	0.8	0.9
Average assets/average equity	17.4	15.3	14.7	15.3	15.6	15.8
<b>ROE</b>	<b>18.1</b>	<b>15.8</b>	<b>9.6</b>	<b>12.3</b>	<b>13.1</b>	<b>14.5</b>

Source: Kotak Institutional Equities

State Bank of Mysore: P&L and balance sheet  
March fiscal year-ends, 2010-2015E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
<b>Income statement</b>						
Total interest income	35,589	40,791	50,784	57,423	63,837	71,327
Total interest expense	23,224	24,431	34,941	39,117	43,126	47,618
<b>Net interest income</b>	<b>12,366</b>	<b>16,360</b>	<b>15,843</b>	<b>18,306</b>	<b>20,712</b>	<b>23,709</b>
Loan loss provisions	1,581	4,824	5,551	5,115	6,074	6,924
<b>Other income</b>	<b>4,257</b>	<b>4,552</b>	<b>5,164</b>	<b>5,727</b>	<b>6,594</b>	<b>7,606</b>
Net fee income	3,239	3,682	3,996	4,475	5,057	5,765
Net capital gains	324	136	386	400	600	800
Net exchange gains	392	464	326	358	405	465
Net other income	<b>303</b>	<b>270</b>	<b>457</b>	<b>493</b>	<b>532</b>	<b>575</b>
<b>Total income pre loan loss provision</b>	<b>16,623</b>	<b>20,912</b>	<b>21,007</b>	<b>24,032</b>	<b>27,306</b>	<b>31,314</b>
Operating expenses	8,204	8,493	10,411	11,277	12,291	13,429
Employee expenses	5,138	5,484	6,206	6,685	7,228	7,842
Insurance	314	360	397	457	525	604
Depreciation on own assets	424	848	927	1,024	1,178	1,355
Others	2,328	1,802	2,881	3,111	3,360	3,629
Depreciation on investments	<b>(368)</b>	<b>173</b>	<b>432</b>	<b>346</b>	<b>277</b>	<b>221</b>
Other Provisions	161	—	31			
Pretax income	7,045	7,421	4,582	7,294	8,664	10,740
Tax provisions	2,587	2,415	890	2,147	2,550	3,161
<b>Net Profit</b>	<b>4,458</b>	<b>5,006</b>	<b>3,691</b>	<b>5,148</b>	<b>6,114</b>	<b>7,579</b>
PBT+provision-treasury gains	8,095	12,282	10,210	12,355	14,415	17,085
% growth	68	52	(17)	21	17	19
Op to total income	51	59	50	53	55	57
<b>Balance sheet</b>						
Cash and bank balance	29,795	29,403	33,627	37,988	42,989	48,725
Net value of investments	114,944	129,271	147,327	162,590	181,994	206,472
Net loans and advances	295,359	340,298	398,353	454,123	517,700	590,178
Fixed assets	7,330	7,250	7,494	8,618	9,911	11,398
Net Owned assets	7,330	7,250	7,494	8,258	9,136	10,146
Other assets	6,662	14,102	17,234	17,234	17,234	17,234
<b>Total assets</b>	<b>454,089</b>	<b>520,325</b>	<b>604,036</b>	<b>680,553</b>	<b>769,828</b>	<b>874,006</b>
Deposits	388,800	432,255	501,863	577,142	663,714	763,271
Borrowings and bills payable	26,838	36,645	47,586	44,613	42,383	40,710
Other liabilities	11,799	14,591	14,701	14,701	14,701	14,701
<b>Total liabilities</b>	<b>427,436</b>	<b>483,491</b>	<b>564,150</b>	<b>636,456</b>	<b>720,798</b>	<b>818,682</b>
Paid-up capital	360	468	468	468	468	468
Reserves & surplus	26,293	36,365	39,417	43,628	48,562	54,856
<b>Total shareholders' equity</b>	<b>26,653</b>	<b>36,833</b>	<b>39,885</b>	<b>44,096</b>	<b>49,030</b>	<b>55,324</b>

Source: Kotak Institutional Equities



State Bank of Patiala: Growth rates and key ratios  
March fiscal year-ends, 2010-2015E (%)

	2010	2011	2012	2013E	2014E	2015E
<b>Growth rates (%)</b>						
Net loan	6.2	11.0	22.4	14.0	14.0	14.0
Investments	6.7	(4.9)	27.6	10.4	13.3	13.8
Deposits	7.6	5.4	16.7	15.0	15.0	15.0
<b>Net interest income</b>	<b>36.0</b>	<b>52.1</b>	<b>0.5</b>	<b>21.0</b>	<b>12.7</b>	<b>14.6</b>
Loan loss provisions	179.5	136.9	(31.9)	78.8	18.8	18.6
Net interest income	21.0	31.6	14.6	6.0	10.0	12.7
Non-interest income	6.8	12.0	(0.6)	5.9	15.9	14.5
Net fee income	10.6	30.6	(5.1)	10.0	15.0	15.0
Net capital gains	11.9	(54.5)	29.0	(29.6)	40.0	14.3
Net exchange gains	(12.4)	25.8	0.3	5.0	10.0	12.0
Total income	25.5	39.9	0.2	17.3	13.4	14.5
Operating expenses	13.5	47.6	0.2	9.9	12.8	12.9
Employee expenses	12.8	76.0	(5.8)	10.0	15.0	15.0
<b>Asset management measures (%)</b>						
Yield on average loans	10.2	10.3	11.2	11.1	10.8	10.6
Yield on average investments	6.6	7.4	7.6	7.6	7.4	7.2
Yield on average earning assets	8.8	8.9	9.7	9.6	9.4	9.2
Interest on deposits	6.7	5.7	7.2	7.1	6.8	6.6
Average cost of funds	6.7	5.8	7.0	6.9	6.7	6.5
<b>Difference</b>	<b>2.1</b>	<b>3.2</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>
<b>Net interest income/earning assets</b>	<b>2.3</b>	<b>3.2</b>	<b>2.8</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>
Spreads on lending business	3.6	4.5	4.2	4.2	4.2	4.1
Spreads on lending business (incl. Fees)	4.6	5.8	5.3	5.2	5.1	5.1
Spread on investment income	0.7	1.9	0.7	0.8	0.9	1.0
<b>New provisions/average net loans</b>	<b>0.7</b>	<b>1.4</b>	<b>0.8</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>
Loans-to-deposit ratio	71.8	75.6	79.2	78.6	77.9	77.2
Tax rate	36.5	38.6	33.8	31.8	30.8	30.8
Tax rate exld provisions	27.1	23.2	24.1	18.8	17.8	17.5
<b>Profitability measures (%)</b>						
Fee income to total income	21.4	20.0	18.9	17.7	18.0	18.1
Net trading income to PBT	15.5	4.9	2.5	1.6	4.3	4.4
Operating expenses/total income	40.8	43.0	43.1	40.4	40.1	39.6
ROA (beginning assets)	0.8	0.9	1.0	0.9	0.9	0.9
ROE (beginning equity)	17.6	17.4	19.4	17.7	17.6	17.5
Payout ratio	28.0	29.0	29.0	13.3	13.3	13.3
Sustainable growth rate	12.7	12.4	13.8	15.3	15.2	15.1
Equity/assets (EoY)	4.9	5.0	4.9	4.9	5.0	5.1
<b>ROA decomposition - % of avg. assets</b>						
Net interest income	2.1	3.0	2.6	2.7	2.7	2.7
Loan loss provisions	0.4	0.9	0.5	0.8	0.9	0.9
Net other income	0.9	1.0	0.8	0.8	0.8	0.8
Operating expenses	1.2	1.7	1.5	1.4	1.4	1.4
Invnt. depreciation	0.2	(0.0)	0.1	0.1	0.0	0.0
(1- tax rate)	63.5	61.4	66.2	68.2	69.2	69.2
ROA	0.8	0.8	0.9	0.8	0.8	0.8
Average assets/average equity	21.2	20.1	20.3	20.4	20.1	19.8
<b>ROE</b>	<b>16.0</b>	<b>16.7</b>	<b>17.9</b>	<b>16.4</b>	<b>16.4</b>	<b>16.3</b>

Source: Kotak Institutional Equities

State Bank of Patiala: P&L and balance sheet  
March fiscal year-ends, 2010-2015E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
<b>Income statement</b>						
Total interest income	59,753	64,781	81,211	95,046	105,234	117,110
Total interest expense	44,410	41,446	57,762	66,684	73,284	80,505
<b>Net interest income</b>	<b>15,342</b>	<b>23,335</b>	<b>23,449</b>	<b>28,362</b>	<b>31,950</b>	<b>36,605</b>
Loan loss provisions	2,987	7,074	4,815	8,609	10,224	12,121
<b>Other income</b>	<b>6,744</b>	<b>7,555</b>	<b>7,510</b>	<b>7,953</b>	<b>9,221</b>	<b>10,555</b>
Net fee income	4,721	6,167	5,854	6,439	7,405	8,515
Net capital gains	1,210	551	711	500	700	800
Net exchange gains	419	527	528	555	610	683
Net other income	395	311	418	460	506	556
<b>Total income pre loan loss provision</b>	<b>22,087</b>	<b>30,890</b>	<b>30,960</b>	<b>36,316</b>	<b>41,171</b>	<b>47,160</b>
Operating expenses	9,009	13,298	13,331	14,656	16,529	18,656
Employee expenses	5,006	8,810	8,300	9,130	10,499	12,074
Insurance	568	618	620	713	820	943
Depreciation on own assets	467	455	482	570	627	689
Others	2,968	3,415	3,929	4,244	4,583	4,950
Depreciation on investments	(131)	28	416	300	100	100
Other Provisions	1,548	(142)	368	368	368	368
Pretax income	8,673	10,632	12,031	12,383	13,951	15,915
Tax provisions	3,164	4,103	4,066	3,938	4,297	4,902
<b>Net Profit</b>	<b>5,509</b>	<b>6,530</b>	<b>7,964</b>	<b>8,445</b>	<b>9,654</b>	<b>11,014</b>
PBT+provision-treasury gains	11,867	17,041	16,918	21,160	23,942	27,704
% growth	38	44	(1)	25	13	16
Op to total income	59	57	57	60	60	60
<b>Balance sheet</b>						
Cash and bank balance	59,597	60,867	74,841	89,816	101,887	115,755
Net value of investments	181,651	172,746	220,429	243,287	275,571	313,658
Net loans and advances	463,472	514,332	629,345	717,453	817,897	932,402
Fixed assets	2,441	2,467	3,177	3,495	3,844	4,229
Net Owned assets	2,441	2,467	3,177			
Other assets	53,608	62,450	57,189	57,189	57,189	57,189
<b>Total assets</b>	<b>760,770</b>	<b>812,862</b>	<b>984,982</b>	<b>1,111,240</b>	<b>1,256,388</b>	<b>1,423,233</b>
Deposits	645,519	680,661	794,166	913,291	1,050,285	1,207,827
Borrowings and bills payable	47,187	61,703	113,050	113,050	113,050	113,050
Other liabilities	30,592	29,546	29,956	29,956	29,956	29,956
<b>Total liabilities</b>	<b>723,299</b>	<b>771,910</b>	<b>937,172</b>	<b>1,056,297</b>	<b>1,193,291</b>	<b>1,350,834</b>
Paid-up capital	2,948	2,948	2,948	2,948	2,948	2,948
Reserves & surplus	34,524	38,005	44,862	51,995	60,149	69,452
<b>Total shareholders' equity</b>	<b>37,471</b>	<b>40,953</b>	<b>47,810</b>	<b>54,943</b>	<b>63,097</b>	<b>72,399</b>

Source: Kotak Institutional Equities

**State Bank of Travancore: Growth rates and key ratios**  
 March fiscal year-ends, 2010-2015E (%)

	2010	2011	2012	2013E	2014E	2015E
<b>Growth rates (%)</b>						
Net loan	17.6	19.7	20.2	14.0	14.0	14.0
Investments	21.1	11.9	25.2	11.6	12.6	13.1
Deposits	21.0	14.3	22.9	15.0	15.0	15.0
<b>Net interest income</b>	<b>9.2</b>	<b>21.1</b>	<b>7.9</b>	<b>18.5</b>	<b>17.6</b>	<b>14.4</b>
Loan loss provisions	(37.9)	190.8	59.4	37.1	24.4	18.8
Net interest income	16.1	7.7	(3.1)	12.0	14.7	12.4
Non-interest income	(7.9)	10.1	11.5	3.3	8.8	8.6
Net fee income	6.4	11.2	8.3	8.3	8.3	8.3
Net capital gains	(45.4)	24.5	36.5	(10.6)	16.7	14.3
Net exchange gains	16.2	(28.8)	5.5	10.0	10.0	10.0
Total income	3.9	18.1	8.8	14.6	15.5	13.1
Operating expenses	3.7	26.3	11.7	9.4	14.4	14.4
Employee expenses	0.3	31.8	12.5	8.0	15.0	15.0
<b>Asset management measures (%)</b>						
Yield on average loans	9.5	9.5	10.4	10.4	10.2	10.0
Yield on average investments	6.6	6.8	6.9	6.9	6.8	6.6
Yield on average earning assets	8.2	8.2	9.0	9.0	8.8	8.7
Interest on deposits	5.9	5.7	6.7	6.6	6.4	6.2
Average cost of funds	5.9	5.9	6.9	6.8	6.6	6.4
<b>Difference</b>	<b>2.3</b>	<b>2.3</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>
<b>Net interest income/earning assets</b>	<b>2.6</b>	<b>2.7</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>
Spreads on lending business	3.5	3.6	3.5	3.6	3.7	3.7
Spreads on lending business (incl. Fees)	4.4	4.5	4.3	4.4	4.4	4.4
Spread on investment income	1.3	1.4	0.5	0.5	0.7	0.7
<b>New provisions/average net loans</b>	<b>0.3</b>	<b>0.7</b>	<b>0.9</b>	<b>1.1</b>	<b>1.2</b>	<b>1.3</b>
Loans-to-deposit ratio	75.6	79.2	77.4	76.8	76.1	75.4
Tax rate	22.9	17.4	31.7	31.7	31.7	31.7
Tax rate exld provisions	20.6	13.0	19.4	17.7	16.8	15.9
<b>Profitability measures (%)</b>						
Fee income to total income	17.2	16.2	16.1	15.3	14.3	13.7
Net trading income to PBT	11.2	10.4	15.9	13.3	14.2	15.4
Operating expenses/total income	45.2	48.4	49.6	47.4	46.9	47.5
ROA (beginning assets)	1.4	1.2	0.7	0.7	0.6	0.6
ROE (beginning equity)	30.4	25.6	14.7	14.5	14.4	13.7
Payout ratio	26.0	26.0	26.0	17.6	17.6	17.6
Sustainable growth rate	22.5	19.0	10.9	11.9	11.9	11.3
Equity/assets (EoY)	4.8	4.9	4.5	4.4	4.4	4.3
<b>ROA decomposition - % of avg. assets</b>						
Net interest income	2.6	2.6	2.3	2.4	2.5	2.5
Loan loss provisions	0.2	0.5	0.6	0.7	0.8	0.8
Net other income	1.0	0.9	0.8	0.7	0.7	0.7
Operating expenses	1.6	1.7	1.6	1.5	1.5	1.5
Invnt. depreciation	0.1	(0.0)	0.0	0.0	0.0	0.0
(1- tax rate)	77.1	82.6	68.3	68.3	68.3	68.3
ROA	1.3	1.1	0.7	0.6	0.6	0.6
Average assets/average equity	21.4	20.7	21.4	22.4	22.7	23.1
<b>ROE</b>	<b>26.9</b>	<b>23.1</b>	<b>13.9</b>	<b>13.7</b>	<b>13.6</b>	<b>13.0</b>

Source: Kotak Institutional Equities

State Bank of Travancore: P&L and balance sheet  
March fiscal year-ends, 2010-2015E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
<b>Income statement</b>						
Total interest income	43,781	52,288	68,288	79,884	89,141	99,255
Total interest expense	29,779	35,327	49,984	58,185	63,627	70,061
<b>Net interest income</b>	<b>14,002</b>	<b>16,960</b>	<b>18,304</b>	<b>21,699</b>	<b>25,514</b>	<b>29,194</b>
Loan loss provisions	1,025	2,981	4,751	6,514	8,101	9,620
<b>Other income</b>	<b>5,280</b>	<b>5,812</b>	<b>6,483</b>	<b>6,700</b>	<b>7,290</b>	<b>7,917</b>
Net fee income	3,319	3,692	3,999	4,332	4,693	5,084
Net capital gains	790	983	1,342	1,200	1,400	1,600
Net exchange gains	566	403	425	467	514	565
Net other income	<b>605</b>	<b>735</b>	<b>717</b>	<b>700</b>	<b>683</b>	<b>667</b>
<b>Total income pre loan loss provision</b>	<b>19,281</b>	<b>22,773</b>	<b>24,787</b>	<b>28,398</b>	<b>32,805</b>	<b>37,110</b>
Operating expenses	8,723	11,013	12,299	13,452	15,391	17,614
Employee expenses	5,315	7,004	7,878	8,508	9,785	11,252
Insurance	457	517	619	712	819	942
Depreciation on own assets	428	469	502	602	723	867
Others	2,522	3,023	3,299	3,629	4,065	4,552
Depreciation on investments	<b>(205)</b>	<b>66</b>	<b>156</b>	<b>125</b>	<b>100</b>	<b>100</b>
Other Provisions	859	(103)	108	108	108	108
Pretax income	8,880	8,815	7,472	8,199	9,105	9,668
Tax provisions	2,037	1,538	2,368	2,598	2,885	3,064
<b>Net Profit</b>	<b>6,843</b>	<b>7,277</b>	<b>5,105</b>	<b>5,601</b>	<b>6,220</b>	<b>6,604</b>
PBT+provision-treasury gains	9,769	10,777	11,146	13,746	16,014	17,896
% growth	12	10	3	23	16	12
Op to total income	55	52	50	53	53	53
<b>Balance sheet</b>						
Cash and bank balance	39,536	48,525	58,167	66,011	74,008	83,183
Net value of investments	160,240	179,270	224,376	250,454	282,080	318,932
Net loans and advances	384,613	460,442	553,460	630,944	719,276	819,975
Fixed assets	2,028	2,214	2,433	2,676	2,944	3,238
Net Owned assets	2,028	2,214	2,433	2,798	3,217	3,700
Other assets	8,131	19,316	21,059	21,059	21,059	21,059
<b>Total assets</b>	<b>594,547</b>	<b>709,768</b>	<b>859,493</b>	<b>971,144</b>	<b>1,099,366</b>	<b>1,246,386</b>
Deposits	508,834	581,579	714,698	821,903	945,188	1,086,967
Borrowings and bills payable	40,780	65,472	86,488	86,488	86,488	86,488
Other liabilities	16,527	28,081	19,646	19,646	19,646	19,646
<b>Total liabilities</b>	<b>566,141</b>	<b>675,132</b>	<b>820,832</b>	<b>928,037</b>	<b>1,051,322</b>	<b>1,193,100</b>
Paid-up capital	500	500	500	500	500	500
Reserves & surplus	27,906	34,135	38,162	42,607	47,544	52,786
<b>Total shareholders' equity</b>	<b>28,406</b>	<b>34,635</b>	<b>38,662</b>	<b>43,107</b>	<b>48,044</b>	<b>53,286</b>

Source: Kotak Institutional Equities

SBI SOTP valuation based on FY2013E

	SBI holding (%)	NW FY2013E (Rs mn)	Multiple assumed (X)	Value FY2013 (Rs mn)	Value per share FY2013 (Rs)	Methodology adopted
<b>SBI standalone</b>					<b>1,864</b>	<b>Residual income model</b>
<b>Non banking subsidiaries and investments</b>						
SBI Life				67,859	101	Based on appraisal value
SBI MF	63%			11,642	17	4% of AUM- Rs460 bn (10% CAGR - AUM)
NSE	8%			14,976	22	NSE value at Rs130 bn (last transaction)
UTI MF	17%			4,488	7	4% of Rs660 bn AUM (10% CAGR - AUM)
SBI Caps	86%			17,028	25	10X FY2013E PAT
SBI DFHI	72%			7,872	12	1X FY2013 networkth
<b>Non-bank subsidiaries</b>					<b>186</b>	
<b>SBI Associate banks</b>						
State Bank of Bikaner and Jaipur	75%	30,453	1.1	33,498		ABV multiple based on RoE
State Bank of Hyderabad	100%	70,794	1.1	77,873		ABV multiple based on RoE
State Bank of Mysore	92%	30,395	1.1	33,435		ABV multiple based on RoE
State Bank of Patiala	100%	49,290	1.1	54,219		ABV multiple based on RoE
State Bank of Travancore	75%	27,846	1.1	30,631		ABV multiple based on RoE
Banking subsidiaries and associates		208,778		229,656		
<b>post discount of 10%</b>		<b>187,900</b>		<b>206,690</b>	<b>308</b>	
<b>Value of all subsidiaries</b>					<b>494</b>	
<b>Total value of the bank</b>					<b>2,358</b>	

Source: Kotak Institutional Equities

**SBI growth rates and key ratios**  
 March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
<b>Growth rates (%)</b>						
Net loan	30.2	16.5	19.8	14.7	14.4	14.2
Total Asset	33.7	9.2	16.2	9.1	16.7	14.6
Deposits	38.1	8.4	16.1	11.7	20.5	17.3
Current	12.9	10.7	7.0	(3.3)	21.5	18.3
Savings	28.5	29.9	28.3	8.9	18.8	15.6
Fixed	51.9	(2.1)	11.4	17.9	21.4	18.2
Net interest income	22.6	13.4	37.4	33.1	1.8	10.5
Loan loss provisions	5.5	92.9	86.9	28.2	3.9	12.7
Total other income	46.1	17.9	5.7	(9.3)	21.8	14.8
Net fee income	28.8	26.6	19.9	4.6	5.0	12.0
Net capital gains	171.2	(17.5)	(56.5)	(199.9)	(230.5)	50.0
Net exchange gains	70.2	34.6	(7.8)	(2.2)	10.0	10.0
Operating expenses	24.1	29.8	13.3	13.3	6.5	16.5
Employee expenses	25.2	30.9	13.5	(6.7)	19.7	12.5
<b>Key ratios (%)</b>						
Yield on average earning assets	8.1	7.4	7.5	8.8	8.4	8.2
Yield on average loans	9.7	8.6	8.6	10.0	9.6	9.4
Yield on average investments	7.0	6.5	7.0	8.3	7.7	7.6
Average cost of funds	5.8	5.3	4.9	5.6	5.6	5.5
Interest on deposits	5.9	5.6	5.0	5.6	5.8	5.7
<b>Difference</b>	<b>2.3</b>	<b>2.1</b>	<b>2.7</b>	<b>3.2</b>	<b>2.8</b>	<b>2.7</b>
<b>Net interest income/earning assets</b>	<b>2.6</b>	<b>2.5</b>	<b>3.0</b>	<b>3.6</b>	<b>3.2</b>	<b>3.1</b>
New provisions/average net loans	0.6	0.9	1.4	1.5	1.4	1.4
Interest income/total income	62.2	61.3	67.3	75.1	71.6	70.8
Fee income to total income	22.7	25.0	23.9	21.0	20.6	20.7
Operating expenses/total income	46.6	52.6	47.6	45.2	45.1	47.0
Tax rate	35.7	34.2	44.7	36.7	32.0	30.0
Dividend payout ratio	20.2	23.4	26.0	20.1	17.5	17.0
Share of deposits						
Current	14.9	15.2	14.0	12.2	12.3	12.4
Fixed	58.4	52.7	50.6	53.4	53.8	54.2
Savings	26.7	32.0	35.4	34.5	34.0	33.5
Loans-to-deposit ratio	73.1	78.6	81.0	83.1	78.9	76.8
Equity/assets (EoY)	6.0	6.3	5.3	6.3	6.1	6.0
<b>Asset quality trends (%)</b>						
Gross NPL (%)	2.9	3.0	3.3	4.4	4.3	3.8
Net NPL (%)	1.8	1.4	1.6	1.8	1.9	1.8
Slippages (%)	2.7	2.2	2.9	3.6	3.0	3.0
Provision coverage (% ex write-off)	39.2	55.6	51.2	60.1	57.9	54.0
<b>Dupont analysis (%)</b>						
Net interest income	2.5	2.3	2.9	3.4	3.0	2.9
Loan loss provisions	0.3	0.5	0.9	1.0	0.9	0.9
Net other income	1.5	1.5	1.4	1.1	1.2	1.2
Operating expenses	1.9	2.0	2.0	2.0	1.9	1.9
Inv. depreciation	0.1	(0.1)	—	—	—	—
(1- tax rate)	64.3	65.8	55.3	63.3	68.0	70.0
ROA	1.1	0.9	0.7	0.9	1.0	0.9
Average assets/average equity	15.8	16.3	17.4	17.2	16.2	16.5
ROE	17.1	14.8	12.6	15.7	15.8	15.2

Source: Kotak Institutional Equities

## SBI P&amp;L and balance sheet

March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
<b>Income statement</b>						
Total interest income	637,884	709,939	813,944	1,065,215	1,157,523	1,302,911
Loans	464,047	506,326	599,760	810,777	896,419	997,111
Investments	155,741	177,363	196,514	238,852	242,186	281,184
Total interest expense	429,153	473,225	488,680	632,304	716,944	815,873
Net interest income	208,731	236,714	325,264	432,911	440,579	487,038
Loan loss provisions	27,098	52,279	97,687	125,247	130,183	146,669
Net interest income (after prov.)	181,634	184,435	227,577	307,664	310,396	340,369
Other income	126,908	149,682	158,246	143,515	174,805	200,666
Net fee income	76,172	96,409	115,633	120,909	126,954	142,189
Net capital gains	25,667	21,168	9,210	(9,197)	12,000	18,000
Net exchange gains	11,792	15,871	14,640	14,322	15,754	17,329
Operating expenses	156,487	203,187	230,154	260,690	277,579	323,325
Employee expenses	97,473	127,546	144,802	135,033	161,654	181,852
Depreciation on investments	7,072	(9,880)	6,468	6,637	2,000	1,000
Other Provisions	3,176	1,549	(341)	(981)	(2,944)	(3,533)
Pretax income	141,806	139,261	149,542	184,833	208,566	220,243
Tax provisions	50,594	47,600	66,897	67,760	66,741	66,073
<b>Net Profit</b>	<b>91,212</b>	<b>91,661</b>	<b>82,645</b>	<b>117,073</b>	<b>141,825</b>	<b>154,170</b>
% growth	35.5	0.5	(9.8)	41.7	21.1	8.7
PBT - Treasury + Provisions	153,485	162,041	244,145	324,933	325,805	346,379
% growth	26.21	5.57	50.67	33.09	0.27	6.31
<b>Balance sheet</b>						
Cash and bank balance	1,044,038	861,887	1,228,741	971,632	1,550,664	1,731,454
Cash	42,955	68,410	74,766	74,766	74,766	74,766
Balance with RBI	512,507	544,499	869,189	465,994	1,045,027	1,225,816
Balance with banks	116,152	21,559	39,806	39,806	39,806	39,806
Net value of investments	2,759,540	2,957,852	2,956,006	3,121,976	3,513,263	4,190,420
Govt. and other securities	2,262,175	2,267,060	2,307,414	2,477,622	2,868,909	3,546,066
Shares	45,904	71,994	88,646	88,646	88,646	88,646
Debentures and bonds	148,890	161,274	151,341	151,341	151,341	151,341
Net loans and advances	5,425,032	6,319,142	7,567,194	8,675,789	9,921,737	11,334,592
Fixed assets	38,378	44,129	47,642	54,666	69,660	74,157
Other assets	377,333	351,128	437,778	531,130	531,130	531,130
<b>Total assets</b>	<b>9,644,321</b>	<b>10,534,137</b>	<b>12,237,362</b>	<b>13,355,192</b>	<b>15,586,454</b>	<b>17,861,753</b>
Deposits	7,420,731	8,041,162	9,339,328	10,436,474	12,580,427	14,756,841
Current	1,107,536	1,225,794	1,311,953	1,269,101	1,542,392	1,823,983
Fixed	4,330,953	4,240,765	4,724,114	5,568,902	6,763,238	7,992,305
Savings	1,982,243	2,574,603	3,303,261	3,598,470	4,274,798	4,940,553
Borrowings and bills payable	1,029,880	1,241,122	1,412,725	1,270,056	1,270,056	1,270,056
Other liabilities	614,233	592,361	835,449	809,151	783,681	759,012
<b>Total liabilities</b>	<b>9,064,844</b>	<b>9,874,645</b>	<b>11,587,502</b>	<b>12,515,680</b>	<b>14,634,164</b>	<b>16,785,909</b>
<b>Total shareholders' equity</b>	<b>579,477</b>	<b>659,492</b>	<b>649,860</b>	<b>839,512</b>	<b>952,290</b>	<b>1,075,844</b>

Source: Kotak Institutional Equities

## APPENDIX

## State Bank of Bikaner and Jaipur

Capital requirements for SBBJ, March fiscal year-ends, 2012-15E (₹ bn)

	2011	2012	2013E	2014E	2015E
Reported assets (RA, Rs bn)	630	725	827	943	1,075
Growth (%)		15.2	14.0	14.0	14.0
Reported risk- weighted assets (RWA, Rs bn)	381	446	509	580	661
RWA / RA (%)	61	62	62	62	62
Growth (%)		17.1	14.0	14.0	14.0
RoE (%)	20.9	18.6	15.3	14.1	14.4
Net profit (Rs bn)	6	7	7	7	8
Dividend payout (%)	18.2	15.6	16.4	17.4	16.7
<b>Tier-1 Capital (Rs bn)</b>					
Paid up equity + reserves & surplus	28	42	47	53	60
Amount of capital raised			-	0	1
IPDI and other capital instruments	2	2	2	2	2
Less deductions	(0)	(0)	(0)	(0)	(0)
<b>Total tier-1 capital</b>	<b>30</b>	<b>44</b>	<b>48</b>	<b>55</b>	<b>63</b>
Tier-2 Capital (Rs bn)	14	18	20	23	26
<b>Tier-1 capital (%)</b>	<b>7.9</b>	<b>9.8</b>	<b>9.5</b>	<b>9.5</b>	<b>9.5</b>
Tier-2 capital (%)	3.8	4.0	4.0	4.0	4.0
<b>Total CAR (%)</b>	<b>11.7</b>	<b>13.8</b>	<b>13.5</b>	<b>13.5</b>	<b>13.5</b>

Source: Company, Kotak Institutional Equities

## State Bank of Travancore

Capital requirements for State Bank of Travancore, March fiscal year-ends, 2012-15E (₹ bn)

	2011	2012	2013E	2014E	2015E
Reported assets (RA, Rs bn)	710	859	980	1,117	1,273
Growth (%)		21.1	14.0	14.0	14.0
Reported risk- weighted assets (RWA, Rs bn)	451	433	494	563	641
RWA / RA (%)	64	50	50	50	50
Growth (%)		(4.1)	14.0	14.0	14.0
RoE (%)	23.1	13.9	13.7	13.6	13.0
Net profit (Rs bn)	7	5	6	6	7
Dividend payout (%)	26.0	26.0	17.6	17.6	17.6
<b>Tier-1 Capital (Rs bn)</b>					
Paid up equity + reserves & surplus	34	38	43	50	56
Amount of capital raised			2	1	2
IPDI and other capital instruments	3	3	3	3	3
Less deductions	(2)	(0)	(0)	(0)	(0)
<b>Total tier-1 capital</b>	<b>35</b>	<b>40</b>	<b>47</b>	<b>53</b>	<b>61</b>
Tier-2 Capital (Rs bn)	14	18	21	24	27
<b>Tier-1 capital (%)</b>	<b>7.8</b>	<b>9.4</b>	<b>9.5</b>	<b>9.5</b>	<b>9.5</b>
Tier-2 capital (%)	3.1	4.2	4.2	4.2	4.2
<b>Total CAR (%)</b>	<b>10.8</b>	<b>13.6</b>	<b>13.7</b>	<b>13.7</b>	<b>13.7</b>

Source: Company, Kotak Institutional Equities



**State Bank of Mysore**

Capital requirements for Mysore, March fiscal year-ends, 2012-15E (₹ bn)

	2011	2012	2013E	2014E	2015E
Reported assets (RA, Rs bn)	520	604	689	785	895
Growth (%)		16.1	14.0	14.0	14.0
Reported risk- weighted assets (RWA, Rs bn)	421	386	440	501	571
RWA / RA (%)	81	64	64	64	64
Growth (%)		(8.4)	14.0	14.0	14.0
RoE (%)	15.8	9.6	12.3	13.1	14.5
Net profit (Rs bn)	5	4	5	6	8
Dividend payout (%)	27.0	27.0	13.6	14.9	13.2
<b>Tier-1 Capital (Rs bn)</b>					
Paid up equity + reserves & surplus	31	34	38	46	53
Amount of capital raised			2	1	0
IPDI and other capital instruments	3	3	3	3	3
Less deductions	(0)	(1)	(1)	(1)	(1)
<b>Total tier-1 capital</b>	<b>33</b>	<b>35</b>	<b>42</b>	<b>48</b>	<b>54</b>
Tier-2 Capital (Rs bn)	14	13	15	17	19
<b>Tier-1 capital (%)</b>	<b>7.9</b>	<b>9.1</b>	<b>9.5</b>	<b>9.5</b>	<b>9.5</b>
Tier-2 capital (%)	3.2	3.4	3.4	3.4	3.4
<b>Total CAR (%)</b>	<b>11.1</b>	<b>12.5</b>	<b>12.9</b>	<b>12.9</b>	<b>12.9</b>

Source: Company, Kotak Institutional Equities

**State Bank of Hyderabad**

Capital requirements for State Bank of Hyderabad, March fiscal year-ends, 2012-15E (₹ bn)

	2011	2012	2013E	2014E	2015E
Reported assets (RA, Rs bn)	1,067	1,183	1,349	1,538	1,753
Growth (%)		10.9	14.0	14.0	14.0
Reported risk- weighted assets (RWA, Rs bn)	668	740	843	961	1,096
RWA / RA (%)	63	63	63	63	63
Growth (%)		10.7	14.0	14.0	14.0
RoE (%)	24.3	22.0	20.5	18.2	17.7
Net profit (Rs bn)	12	13	15	15	17
Dividend payout (%)	27.0	27.0	11.5	12.1	11.7
<b>Tier-1 Capital (Rs bn)</b>					
Paid up equity + reserves & surplus	50	61	74	87	103
Amount of capital raised			-	-	-
IPDI and other capital instruments	10	10	10	10	10
Less deductions	(3)	(3)	(3)	(3)	(3)
<b>Total tier-1 capital</b>	<b>57</b>	<b>69</b>	<b>80</b>	<b>91</b>	<b>104</b>
Tier-2 Capital (Rs bn)	32	30	34	39	45
<b>Tier-1 capital (%)</b>	<b>8.5</b>	<b>9.3</b>	<b>9.5</b>	<b>9.5</b>	<b>9.5</b>
Tier-2 capital (%)	4.8	4.1	4.1	4.1	4.1
<b>Total CAR (%)</b>	<b>13.4</b>	<b>13.3</b>	<b>13.6</b>	<b>13.6</b>	<b>13.6</b>

Source: Company, Kotak Institutional Equities

## State Bank of Patiala

Capital requirements for State Bank of Patiala, March fiscal year-ends, 2012-15E (₹ bn)

	2011	2012	2013E	2014E	2015E
Reported assets (RA, Rs bn)	813	985	1,123	1,280	1,459
Growth (%)		21.2	14.0	14.0	14.0
Reported risk-weighted assets (RWA, Rs bn)	507	591	674	768	876
RWA / RA (%)	62	60	60	60	60
Growth (%)		16.5	14.0	14.0	14.0
RoE (%)	16.7	17.9	16.4	16.4	16.3
Net profit (Rs bn)	7	8	8	10	11
Dividend payout (%)	29.0	29.0	13.3	13.3	13.3
<b>Tier-1 Capital (Rs bn)</b>					
Paid up equity + reserves & surplus	41	48	55	69	80
Amount of capital raised			6	1	1
IPDI and other capital instruments	3	3	3	3	3
Less deductions	-	-	-	-	-
<b>Total tier-1 capital</b>	<b>44</b>	<b>51</b>	<b>64</b>	<b>73</b>	<b>83</b>
Tier-2 Capital (Rs bn)	24	22	25	28	32
<b>Tier-1 capital (%)</b>	<b>8.7</b>	<b>8.6</b>	<b>9.5</b>	<b>9.5</b>	<b>9.5</b>
Tier-2 capital (%)	4.8	3.7	3.7	3.7	3.7
<b>Total CAR (%)</b>	<b>13.4</b>	<b>12.3</b>	<b>13.2</b>	<b>13.2</b>	<b>13.2</b>

Source: Company, Kotak Institutional Equities

## Buckets for CASA do not correlate with CASA growth

State Bank of Bikaner and Jaipur gives reasonably strong evidence on the ineffectiveness at looking at the ALM profiles for banks. Most the bank's low cost deposits are placed under the >1 year buckets (equally split for CA and SA across three buckets – 1-3 years, 3-5 years and >5 years bucket). Term deposits are mainly placed in the 14 day 3-year bucket. However, one notes that CA growth has been muted in the past year at 8% yoy while SA growth was better at 17% yoy. Over the past four years CA growth has been disappointing at 3% CAGR while SA growth has been better at 16% CAGR over FY2008-12.

## Behavioral analysis of CA deposits has changed

Maturity pattern of CA deposits, March fiscal year-ends, 2008-12 (%)

	1-14 days	14 days-1 year	1 year-3 years	3 year-5 years	Above 5 years
2008	10.0	-	30.0	30.0	30.0
2009	10.0	-	30.0	30.0	30.0
2010	7.0	-	31.0	31.0	31.0
2011	4.0	-	32.0	32.0	32.0
2012	5.8	-	32.1	32.1	30.1

Source: Company, Kotak Institutional Equities

## Behavioral analysis of SA deposits

Maturity pattern of SA deposits, March fiscal year-ends, 2008-12 (%)

	1-14 days	14 days-1 year	1 year-3 years	3 year-5 years	Above 5 years
2008	5.0	-	30.0	30.0	35.0
2009	5.0	-	30.0	30.0	35.0
2010	3.0	-	32.0	32.0	33.0
2011	3.0	-	32.0	32.0	33.0
2012	4.0	-	32.0	32.0	32.0

Source: Company, Kotak Institutional Equities

**Residual maturity shows decline in long term deposits**

Maturity pattern of deposits, March fiscal year-ends, 2008-12 (%)

	14 days-1 1-14 days	14 days-1 year	1 year-3 years	3 year-5 years	Above 5 years
2008	3.6	34.4	14.9	12.0	35.1
2009	2.9	24.9	19.9	11.7	40.6
2010	2.8	23.1	19.1	13.1	41.9
2011	4.6	39.8	25.7	15.4	14.5
2012	5.2	31.0	31.1	17.8	14.9

Source: Company, Kotak Institutional Equities

**FY2011-12 saw CASA proportion rise sharply in >5 year bucket**

CASA proportion across buckets, March fiscal year-ends, 2008-12 (%)

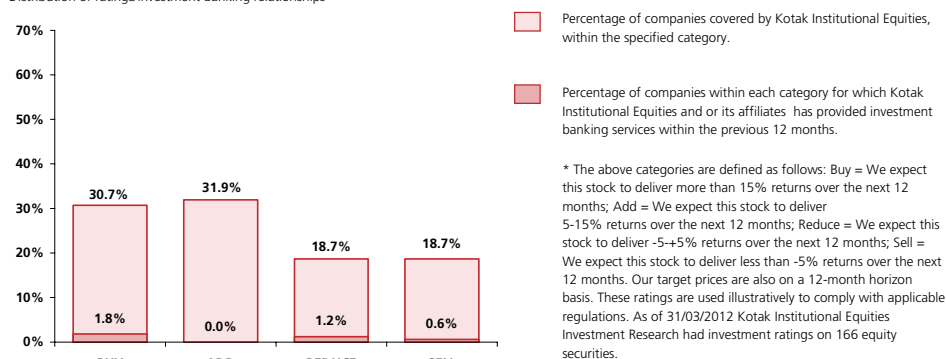
	14 days-1 1-14 days	14 days-1 year	1 year-3 years	3 year-5 years	Above 5 years
2008	62.7	-	71.4	88.3	33.8
2009	81.5	-	57.1	97.3	31.5
2010	52.1	-	65.2	95.0	30.4
2011	26.5	-	48.1	80.1	87.3
2012	31.0	-	38.5	67.2	79.6

Source: Company, Kotak Institutional Equities

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As of March 31, 2012

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