

## State Bank of India

Rs 1,942



Strong delivery on all operating metrics

BUY

SBI delivered strong bottom line of Rs 4,050 crore growing 24.1% Q-o-Q above our and street expectation, driven by robust NII growth, sharp pick up in non interest income and improved asset quality. NII grew strongly 45.2% y-o-y and 2.1% q-o-q driven by healthy NIM and steady loan growth 15.8% y-o-y. Core fee income witnessed strong sequential jump (59.6% Q-o-Q) mainly due to year end transaction fees and strong growth in government business. Trading loss came down sharply from Rs1,090 crore in Q3FY12 to Rs26 crore due to relatively better market conditions. Cost to income ratio declined 314bps Q-o-Q to 43.4% reflecting improving operating efficiency. Despite sharp improvement in asset quality, the bank saw marginal reduction in loan loss provision, aiming to improve overall coverage ratio. Advances and deposits growth were 15.8% y-o-y and 11.7% y-o-y respectively mirroring industry trend. CASA ratio remained at healthy levels 43.9%. Asset quality saw marked improvement; slippage ratio came down from 4.2% in Q3FY12 to 2.1% in Q4FY12. However the bank has restructured loans amounting to Rs5,134 Cr (0.6% of advances), one of the lowest in peers during the quarter. Gross and Net NPAs stood at 4.4% & 1.8% respectively with coverage ratio of 68.1%. Consolidated PAT grew 37.2% Rs15,343 crore in FY12. Maintain BUY.

**Strong NII growth:** Net interest income showed strong momentum growing 45.2% y-o-y and 2.1% q-o-q led by steady loan growth 15.8% y-o-y and healthy margins. Net interest margins came off 16bps Q-o-Q to 3.89% largely attributable to higher funding costs and stable asset yields. The management has guided net interest margins to sustain at ~3.75% with upward bias in FY13. We expect NII to grow 13.4% CAGR over FY12-14.

**Healthy loan growth & strong CASA:** Loan growth has been at healthy levels of 15.8% y-o-y & 2.8% Q-o-Q driven by SME advances, agricultural and retail. Retail loan growth has been at healthy level of 10.8% y-o-y and 4.1% q-o-q largely driven by strong growth in auto loans and housing loans. The management has indicated 16-17% loan growth and 15-16% deposit growth in FY13. The bank has maintained superior CASA ratio at 44% despite challenging macro environment and system level contraction in current account deposits. CASA Deposits increased 12.0% y-o-y and 2.8% y-o-y reflecting superior power of franchise.

**Improving asset quality – a key positive:** Asset quality has improved significantly sequentially. The bank reported fresh slippages of Rs 4383 crore as compared to Rs 8161 crore in Q3FY12, decline by 46.2% Q-o-Q. Incremental slippages ratio came off to 2.1% from 4.2% in Q3FY12. Up gradation and recoveries were steady at Rs1603crore and Rs3118 crore respectively while the bank wrote off only Rs84 crore during the quarter. SME, Agri and mid corporate primarily contributed to incremental slippages during the quarter. Gross NPAs and Net NPAs stood at 4.4% and 1.8 % respectively with coverage ratio 68.1% (including technical write offs). Restructured assets stood at 4.9% of loan book, out of which 25.8% turned into NPAs till date.

**Valuation & Recommendation:** SBI has delivered strong operating performance led by steady NII, strong non interest income and marked improvement in asset quality. Strong pick up in non interest income and better than expected asset quality are key positives from the result. We expect SBI to deliver 23.2% CAGR in earnings over FY12-FY14 driven by steady NIMs, industry line loan growth and stable provisions. Higher-than-expected slippages and credit costs due to further deterioration in macro environment are key investment risk in the stock. **At Rs 1,942 the stock is trading 1.1x FY13 core book and 6.9x FY13 core earnings; We maintain our BUY rating on the stock with a target price of Rs 2,407.**

## Key Financials

Rs in crore	FY11	FY12	FY13E	FY14E
Net Interest Income	32,526	43,291	48,274	55,628
Pre-provision profit	25,336	31,574	36,130	42,648
Net Profit	8,265	11,707	14,841	17,772
EPS	130	174	221	265
BVPS	1,023	1,251	1,389	1,592
ABVPS	829	1,015	1,143	1,292
Core P/E	12.1	8.9	6.9	5.8
Core Price to ABV	1.6	1.3	1.1	1.0

Source: Company, KRChoksey Research

Target Price (Rs): 2,407

Potential Upside : 23.9%

Previous TP (Rs): 2,492

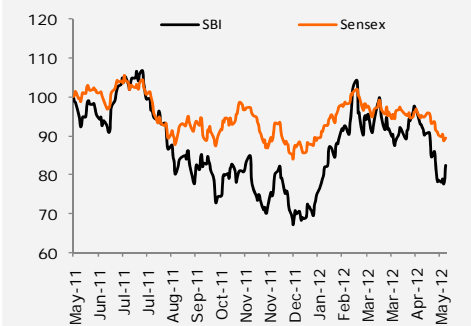
## Market Data

Equity sh O/S (cr)	67.1
MCAP (Rs cr)	1,30,308
52 Wk H/L (Rs)	2925/1576
Avg Vol (3m)	3,39,550
Fee float (%)	30.4%
Face Value (Rs)	10
Bloomberg Code	SBIN IN

## Market Info:

SENSEX	16,152
NIFTY	4,906

## Price Performance



## Share Holding pattern (%)

Particulars	Mar-12	Dec-11	Chg
Promoters	61.6	59.4	2.2
FIIIs	8.7	7.9	0.8
Institutions	17.1	18.7	-1.6
Others	12.6	14.0	-1.4
Total	100.0	100.0	

Source: BSE

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## Q4FY12: Result Analysis

Exhibit 1 : Detailed financials and key ratios

Rs in crore	Q4FY12	Q3FY12	Q4FY11	Q-o-Q	Y-o-Y
<b>Income Statement</b>					
Interest income	28696	27661	21721	3.7%	32.1%
Interest expense	16992	16196	13663	4.9%	24.4%
<b>Net interest income</b>	<b>11704</b>	<b>11466</b>	<b>8058</b>	<b>2.1%</b>	<b>45.2%</b>
Non interest income	5264	2126	4815	147.6%	9.3%
- Core fee income	4216	2642	3731	59.6%	13.0%
- Trading gains	-26	-1090	335	-97.6%	-107.9%
Operating income	16968	13592	12874	24.8%	31.8%
- Employee costs	5431	3911	4219	38.9%	28.7%
- Other operating costs	1940	2420	2575	-19.9%	-24.7%
Operating expenses	7371	6332	6794	16.4%	8.5%
<b>Pre-provision profits</b>	<b>9597</b>	<b>7260</b>	<b>6080</b>	<b>32.2%</b>	<b>57.8%</b>
Provisions	3140	2407	4157	30.4%	-24.5%
- Loan loss provisions	2837	3006	3264	-5.6%	-13.1%
- Dep. on investments	27	-870	304	-103.1%	-91.1%
Profit before tax	6457	4853	1923	33.1%	235.8%
Tax expense	2406	1590	1902	51.4%	26.5%
<b>Net profits</b>	<b>4051</b>	<b>3263</b>	<b>21</b>	<b>24.1%</b>	<b>-</b>
<b>Balance sheet items</b>					
Deposits	1043647	1000965	933933	4.3%	11.7%
CASA deposits	458120	447358	430453	2.4%	6.4%
Advances	893613	869393	771802	2.8%	15.8%
<b>Asset Quality</b>					
Gross NPAs	39676	40098	25326	-1.1%	56.7%
Net NPAs	15819	18803	12347	-15.9%	28.1%
NPA provisions	23857	21295	12979	12.0%	83.8%
GNPA %	4.4%	4.6%	3.3%	-17 bps	116 bps
NNPA %	1.8%	2.2%	1.6%	-40 bps	19 bps
PCR - calculated	60.1%	53.1%	51.2%	702 bps	888 bps
Reported PCR	60.1%	53.1%	51.2%	703 bps	888 bps
<b>Key ratios</b>					
Yield on advances	10.0%	9.9%	8.6%	10 bps	144 bps
Cost of deposits	5.8%	5.8%	5.3%	2 bps	53 bps
NIM	3.9%	4.1%	3.1%	-16 bps	82 bps
CD ratio	85.6%	86.9%	82.6%	-123 bps	298 bps
CASA ratio	43.9%	44.7%	46.1%	-80 bps	-219 bps
Cost to income ratio	43.4%	46.6%	52.8%	-314 bps	-933 bps
<b>Capital Adequacy ratio</b>					
Tier I	9.8%	7.6%	7.8%	220 bps	202 bps
CAR	13.9%	11.6%	12.0%	226 bps	188 bps

Source: Company, KRChoksey Research

Exhibit 2 : Non interest Break up &amp; growth rates

Rs in crore	Q4FY12	Q3FY12	Q4FY11	Q-o-Q	Y-o-Y
Core fee income	4,216	2,642	3,731	59.6%	13.0%
Trading gains #	-26	-1090	335	-	-
Forex income	335	286	245	17.3%	36.7%
Others	739	289	341	155.6%	116.8%
Non- Interest Income	5,264	2,126	4,815	147.6%	9.3%

Source: Company, KRChoksey Research # The bank has incurred a loss of Rs1,063 crore on account equity portfolio sale in Q3FY12.

Exhibit 3 : Loan book break down and segmental growth rates

Rs in crore	Q4FY12	Q3FY12	Q4FY11	Q-o-Q	Y-o-Y
Gross Advances	893,613	869,393	771,802	2.8%	15.8%
Net Advances	867579	846266	758823	2.5%	14.3%
- Large Corp	125,023	123,118	108,741	1.5%	15.0%
- Mid Corp	167,639	166,068	157,566	0.9%	6.4%
- International	135,724	134,063	109,358	1.2%	24.1%
- SME	139,175	132,677	119,676	4.9%	16.3%
- Agriculture	116,910	101,882	94,826	14.8%	23.3%
- Retail	182,427	175,322	164,576	4.1%	10.8%
-- Home Loans	102,739	99,019	86,769	3.8%	18.4%
-- Education Loans	12,429	12,274	10,980	1.3%	13.2%
-- Auto Loans	25,289	24,609	20,910	2.8%	20.9%

Source: Company, KRChoksey Research

Exhibit 4 : Deposit break down , segmental growth rates and CASA trend

Rs in crore	Q4FY12	Q3FY12	Q4FY11	Q-o-Q	Y-o-Y
Total Deposits	1,043,647	1,000,965	933,933	4.3%	11.7%
Domestic Deposits	982214	941432	887152	4.3%	10.7%
CA Deposits	79,462	82,632	80,401	-3.8%	-1.2%
SA Deposits	367,896	352,408	319,006	4.4%	15.3%
CASA Deposits	447,358	435,040	399,407	2.8%	12.0%
Term Deposits	534,856	506,392	487,745	5.6%	9.7%
Retail TDs	412,285	388,144	347,453	6.2%	18.7%
Bulk Deposits	122,571	118,248	99,170	3.7%	23.6%
Overseas Deposits	61433	59533	46781	3.2%	31.3%
CASA ratio	45.5%	46.2%	45.0%	-66 bps	52 bps

Source: Company, KRChoksey Research

Exhibit 5 : Asset Quality Trend – Continued deterioration in asset quality in last three quarters

Rs in crore	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q-o-Q	Y-o-Y
Gross NPAs	25326	27768	33946	40098	39676	-1%	57%
Net NPAs	12347	12435	16120	18803	15819	-16%	28%
Gross NPA ratio	3.28%	3.52%	4.19%	4.61%	4.44%	-42 bps	-25 bps
Net NPA ratio	1.63%	1.61%	2.04%	2.22%	1.82%	-18 bps	22 bps
Coverage ratio	65.0%	67.3%	63.5%	62.5%	68.1%	100 bps	-460 bps
Slippage ratio	3.15%	3.31%	4.35%	4.20%	2.11%	15 bps	224 bps
LLP / Avg advances	1.73%	1.43%	1.46%	1.43%	1.29%	3 bps	17 bps
Restructured assets pool	4.53%	4.52%	4.47%	4.44%	4.93%	2 bps	-46 bps
Impaired asset ratio	6.16%	6.13%	6.51%	6.66%	6.75%	-16 bps	-24 bps

Source: Company, KRChoksey Research

## Other Key highlights

- SBI life reported PAT of Rs556 crore in FY12 vs. Rs366 crore in FY11, a growth of 52% Y-o-Y. Other non bank financial companies performed well in terms of business growth and profitability.
- The bank has provided Rs 2837 crore for loan loss provisioning, largely attributable to fresh slippages of Rs4383 crore and improvement in PCR. The management has indicated quarterly fresh slippages run rate to trend down from ~ Rs4400 crore to Rs2000crore going forward. We believe loan loss provisioning would see some moderation due to decline in pace of fresh slippages.
- The size of total restructured assets book stood at Rs 42,744crore (incl. Rs 18,395 crore under RBI scheme) out of which 25.8% have slipped so far. Total restructuring and slippage from the restructured assets book during the quarter were at Rs 5134 crore and Rs 1361 crore respectively.
- The government infused capital amounting to Rs7900 crore on 30<sup>th</sup> March 2012.
- The capital adequacy ratio stood at 13.9% while Tier I pegged at 79.8% as on 31<sup>st</sup> March,2012.

## Earnings Revision – factoring moderation margins and lower provisions

Exhibit 6 : Earning Revision

	FY13e			FY14e		
	Old	New	Change (%)	Old	New	Change (%)
NII	49,262	48,274	-2%	-	55,628	-
PPP	36,079	36,130	0%	-	42,648	-
PAT	14,372	14,841	3%	-	17,772	-

Source: KRChoksey Research

## SOTP Valuation

Exhibit 7 : Valuation Table

Based on FY13 estimates	Stake (%)	Value (Rs cr)	Per Share	Basis of valuation
Value of standalone business	100%	129925	1936	1.8x FY13 core book value
SBI Life insurance	74%	7641	114	14x FY13 NBAP
SBI AMC	60%	2407	36	4.5% FY13 AUMs
SBI Capital markets	100%	3000	45	12x FY13 PAT
SBI DFHI	100%	962	14	15x FY13PAT
State Bank of Bikaner & Jaipur	75%	2698	40	1x FY13BV
State Bank of Hyderabad	92%	7267	108	1.1x FY13BV
State Bank of Mysore	100%	4271	64	1.0x FY13BV
State Bank of Patiala	100%	4910	73	1.0x FY13BV
State Bank of Travancore	75%	4011	60	1.2x FY13BV
Subsidiaries/Associates values		35219	554	
20% Holding discount		31592	471	
<b>Value per share (Rs)</b>		<b>161517</b>	<b>2407</b>	

Source: KRChoksey Research

Exhibit 8: Loan growth & NII growth trend

Healthy loan growth at 15.8% and healthy NIMs (3.89%) driving NII growth 26.45.2% y-o-y. Domestic and overseas NIM stood at 4.28% and 1.53% respectively.

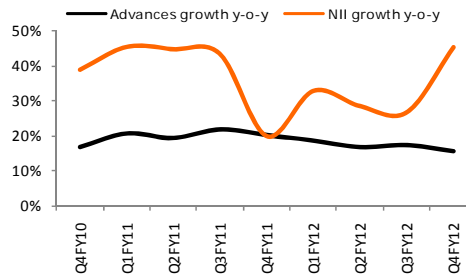


Exhibit 9: NIM & Cost of Deposit trend

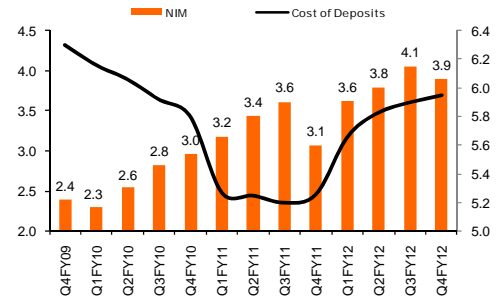


Exhibit 10: Non-interest income growth trend

Fee income witnessed strong 59.6% Q-o-Q treasury reported loss came down sharply to Rs26 crore from Rs1090 crore in Q3FY12.

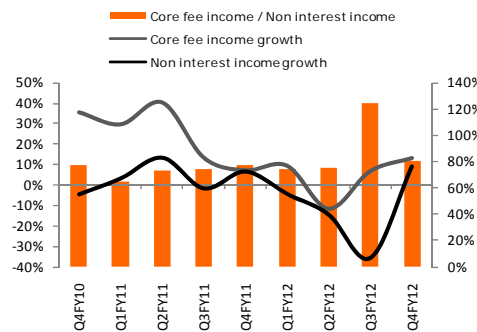
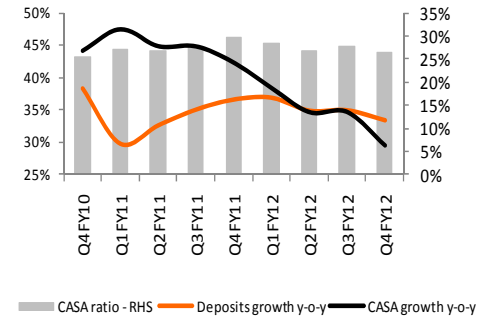


Exhibit 11: CASA Ratio & Deposit growth trend



Deposits grew by 12.0% y-o-y driven by strong growth in savings deposits. CASA deposits grew by 12.0% y-o-y and CASA ratio stood at 44.0%.

Exhibit 12: Sequential change in GNPA & NNPA

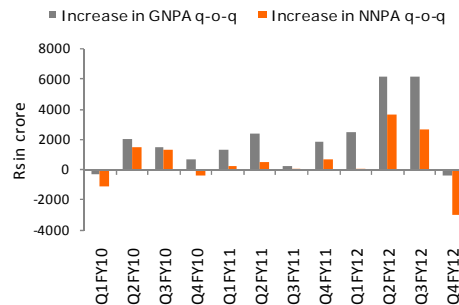


Exhibit 13: Gross NPA, Net NPA and Coverage

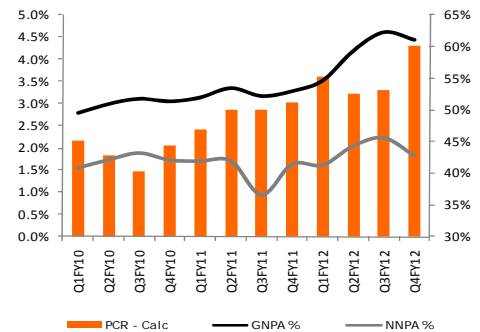


Exhibit 14: Core profitability trend

Cost to income ratio declined 314bps q-o-q to 43.4%.

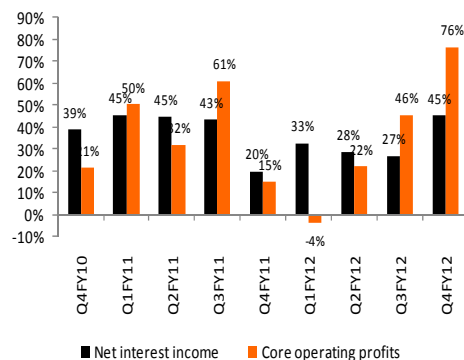
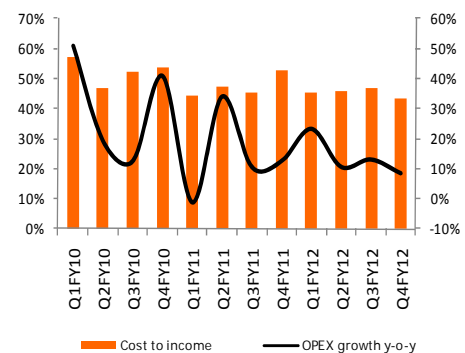


Exhibit 15: Opex growth & C/I ratio trend



Source: Company, KRChoksey Research

## Financials

### Income Statement

Rs in crore	FY11	FY12	FY13E	FY14E
Interest income	81394	106521	120056	135168
Interest expense	48868	63230	71782	79541
<b>Net Interest Income</b>	<b>32526</b>	<b>43291</b>	<b>48274</b>	<b>55628</b>
-- Core fee Income	15825	14351	17174	19561
Non interest income	13027	13523	14943	17009
Operating income	48351	57643	65447	75188
Operating expenses	23015	26069	29318	32541
-Employee cost	12755	14480	16974	18589
-Other operating expenses	10261	11589	12344	13952
<b>Pre-provision profits</b>	<b>25336</b>	<b>31574</b>	<b>36130</b>	<b>42648</b>
Provisions	10381	13090	12941	14878
PBT	14954	18483	23189	27769
Provision for taxes	6690	6776	8348	9997
<b>Net profit</b>	<b>8265</b>	<b>11707</b>	<b>14841</b>	<b>17772</b>
Dividend (Inc. tax)	2141	2152	2748	3473

### Balance Sheet

Rs in crore	FY11	FY12	FY13E	FY14E
Equity capital	635	671	671	671
Reserve and Surplus	64351	83280	92542	106156
Net worth	64986	83951	93213	106827
<b>Deposits</b>	<b>933933</b>	<b>1043647</b>	<b>1210631</b>	<b>1416438</b>
Borrowings	79945	86940	99981	114978
CL and provisions	144872	120981	141850	163865
<b>Total</b>	<b>1223736</b>	<b>1335519</b>	<b>1545675</b>	<b>1802108</b>
Cash & Bal. with RBI	94396	54076	70618	82854
Balances with RBI	28479	43087	43087	43087
Investments	<b>756719</b>	<b>867579</b>	<b>1008439</b>	<b>1180857</b>
<b>Advances</b>	<b>295601</b>	<b>312198</b>	<b>363189</b>	<b>424931</b>
Fixed assets	4764	5467	6243	7305
Other assets	43778	53113	54099	63074
<b>Total</b>	<b>1223736</b>	<b>1335519</b>	<b>1545675</b>	<b>1802108</b>

### Spread Analysis

	FY11	FY12	FY13E	FY14E
Avg Yield On Advances	8.6%	10.0%	9.8%	9.3%
Avg Yield On Investments	6.8%	7.9%	8.0%	8.0%
Avg Yield On IBA	7.3%	8.6%	8.6%	8.3%
Avg Cost Of Deposits	5.0%	5.6%	5.5%	5.2%
Avg Cost of Funds	5.0%	5.7%	5.7%	5.4%
Spread	2.3%	2.9%	2.9%	2.9%
NIM	3.0%	3.5%	3.5%	3.5%

### DuPont Analysis

(As % Avg assets)	FY11	FY12	FY13E	FY14E
NII	2.9%	3.4%	3.4%	3.3%
Fee Income	1.0%	0.9%	0.9%	0.9%
Treasury Income	0.1%	-0.1%	0.0%	0.0%
Employee Cost	1.3%	1.3%	1.3%	1.3%
Operating Costs	2.0%	2.0%	2.0%	1.9%
Provisions	0.9%	1.0%	0.9%	0.9%
Tax	0.6%	0.5%	0.6%	0.6%
ROAA	0.7%	0.9%	1.0%	1.1%
RoAE	12.6%	15.7%	16.8%	17.8%

### Asset Quality Profile

	FY11	FY12	FY13E	FY14E
Gross NPA	25326	39676	43487	48365
Net NPA	12347	15819	16525	20098
Gross NPA %	3.29%	4.45%	4.20%	4.00%
Net NPA %	1.63%	1.82%	1.64%	1.70%
Credit Costs	1.21%	1.42%	1.30%	1.25%

### Business Profile

	FY11	FY12	FY13E	FY14E
Advances	764616	917539	1091872	1091872
CD ratio	81%	79%	79%	79%
Deposits	933933	1043647	1210631	1416438
CASA Deposits	461521	458120	506215	561802
CASA Ratio	49.4%	43.9%	41.8%	39.7%

### Per Share Data

(Rs)	FY11	FY12	FY13E	FY14E
EPS	130.1	174.5	221.2	264.8
DPS	30.0	35.0	44.2	53.0
BVPS	1023	1251	1389	1592
ABVPS	829	1015	1143	1292
P/E	14.9	11.1	8.8	7.3
P/ABV	2.3	1.9	1.7	1.5
Dividend Yield	1.5%	1.8%	2.3%	2.7%

### Growth ratios

	FY11	FY12	FY13E	FY14E
Net interest income	37.4%	33.1%	11.5%	15.2%
Fee income	19.9%	4.6%	9.6%	13.7%
Pre-provision Profits	38.3%	24.6%	14.4%	18.0%
Net Profits	-9.8%	41.7%	26.8%	19.8%
Advances	19.8%	14.7%	16.2%	17.1%
Deposits	16.1%	11.7%	16.0%	17.0%
Total Assets	16.2%	9.1%	15.7%	16.6%

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State Bank of India			
Date	CMP (Rs)	TP (Rs)	Recomm
21-May-12	1,942	2,407	BUY
4-Apr-12	2,090	2,492	BUY
14-Feb-12	2,129	2,366	HOLD
5-Jan-12	1,706	2,053	BUY
10-Nov-11	1,863	2,016	HOLD
4-Oct-11	1,863	2,317	BUY
16-Aug-11	2,193	2,561	BUY
18-May-11	2,356	2,472	REDUCE
24-Jan-11	2,597	3,168	BUY

Rating Legend	
Our Rating	Upside
<b>Buy</b>	More than 15%
<b>Accumulate</b>	5% - 15%
<b>Hold</b>	0 – 5%
<b>Reduce</b>	-5% – 0
<b>Sell</b>	Less than -5%

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