

## BUY

CMP*	Rs1,845
Target Price	Rs2,142

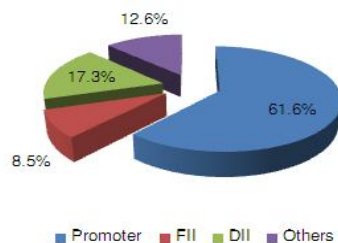
## Stock Info

Sector	Banking
Market Cap (Rs cr)	1,24,506
52 Week High/Low	2,475/1,571
Avg. Daily Volume (3m, '000)	2,946
Avg. Daily Value (3m, cr)	612
Dividend Yield (%)	1.9
Sensex	17,679
Nifty	5,350
BSE Code	500112
NSE Code	SBIN

## Stock Performance

(%)	SBIN	NIFTY
1-week	(2.4)	(0.2)
1-month	(4.6)	5.0
1-year	(1.9)	12.8

## Shareholding Pattern (%)



## Stock Price Chart



Note: \*CMP as on August 27, 2012

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## Striving to maintain market share in retail space

Post 1QFY2013 results, we spoke to the management of State Bank of India (SBI) at various forums regarding the impact on the bank's margins post retail lending rate cut, asset quality issues and overall business outlook.

- Retail lending rate cut:** SBI had cut its lending rates in its retail portfolio such as Home loans (upto Rs30 lakh) by 25bp to 10.25% and Auto loans by 50bp to 10.75%. SBI's rate cut followed the RBI's decision to decrease the Statutory Liquidity Ratio (SLR i.e. the amount of deposits that have to be invested in government bonds and other liquid assets), by 100bp to 23%. The 100bp reduction in the SLR has freed additional Rs10,000cr for SBI, coupled with Rs6,500cr released through the reduction in export refinance, which led the bank to cut lending rates in retail.
- Striving to retain market share amidst increasing competition in retail:** The Indian economy has been witnessing a slowdown with receding capex loan pipeline, and hence, majority of the banks are increasing their lending portfolio in retail segment, since the consumption story in India remains robust. For instance, the gross bank credit for scheduled commercial banks as on June 29, 2012 has increased 3% since March 23, 2012 to ~Rs45 lakh crore, however, the retail sector grew by 4.1% to ~Rs8 lakh crore during the same period. Considering SBI's strong distribution network with access to cheaper deposits, the bank has one of the lowest costs of funds as compared to some other peer group banks. Hence, in anticipation of increasing competition in the retail space, due to drying term loan demand, SBI cut its retail rates to maintain the market share in home loans (~26%) and auto segment (~18%). SBI had cut lending rates by 50-350bp (earlier in June 2012) across various categories of borrowers such as SME and agriculture segments. The bank had also reduced the tenor premium on term loans by 40-100bp. We believe that the margins should be maintained at 3.8% for FY2013 considering the CRR and SLR cut.
- Asset quality issues:** GNPA's in absolute terms increased 69.8% yoy and 18.9% qoq to Rs47,156cr, whereas, NNPA's increased 63.4% yoy and 28.5% qoq to Rs20,324cr as on 1QFY2013. Gross slippages increased by 2.5x sequentially to Rs10,844cr on the back of higher stress in Mid-corporate and SME sectors. Management has guided for Rs3,000-4,000cr by way of recoveries and up-gradations. Cumulatively, the restructured book stood at Rs36,904cr out of which 20% has slipped into NPA.

## Outlook and Valuation

Given the monsoon deficit in the country and the prevailing stress in the overall economy, we forecast continued asset quality pressure on SBI (at least for another 2-3 quarters). The bank reported its worst asset quality numbers with unprecedented rise in slippages in 1QFY2013. **At the CMP of Rs1,845, the stock is trading at 1.1x its FY2014E standalone ABV (after adjusting for its associate banks and non-banking subsidiaries). We maintain our Buy recommendation (based on SOTP methodology) on SBI with a target price of Rs2,142.**

## Risks to the view

- Government's gridlock on economic reforms and India's rising fiscal deficit hold downside risk to our growth estimates.
- Considering the slowdown in the economy, continuity of high slippages holds major downside risks to our estimates

Year End	Net Interest Income		Net Profit		EPS	NIM	GNPA	ROA	ROE	Valuation	
	(Rs cr)	% growth	(Rs cr)	% growth	(Rs)	(%)	(%)	(%)	(%)	P/E (x)	P/ABV (x)
FY2011	32,526	37.4	8,265	(9.8)	130.2	3.2	3.3	0.7	12.6	11.5	1.7
FY2012	43,291	33.1	11,707	41.7	179.3	3.8	4.5	0.9	15.7	8.4	1.3
FY2013E	49,943	15.4	14,202	21.3	211.6	3.8	5.0	1.0	15.8	7.1	1.3
FY2014E	57,630	15.4	17,107	20.5	254.9	3.8	4.5	1.1	16.7	5.9	1.1

**Profit and Loss**

Y/E March (Rs cr)	FY2011	FY2012	FY2013E	FY2014E
Interest income	81,394	106,521	122,212	140,928
Interest expenses	48,868	63,230	72,269	83,298
<b>Net interest income</b>	<b>32,526</b>	<b>43,291</b>	<b>49,943</b>	<b>57,630</b>
Non-interest income	15,825	14,351	16,745	19,450
<b>Total income</b>	<b>48,351</b>	<b>57,643</b>	<b>66,689</b>	<b>77,079</b>
Operating expenses	23,015	26,069	29,688	34,521
<b>Pre provision profits</b>	<b>25,336</b>	<b>31,574</b>	<b>37,000</b>	<b>42,558</b>
Provisions	10,381	13,090	15,285	16,638
Profit before tax	14,954	18,483	21,715	25,920
Income tax	6,690	6,776	7,513	8,813
<b>Net Profit</b>	<b>8,265</b>	<b>11,707</b>	<b>14,202</b>	<b>17,107</b>

**Balance Sheet**

Y/E March (Rs cr)	FY2011	FY2012	FY2013E	FY2014E
Cash and bank bal.	1,22,874	97,163	82,042	70,848
Investments	2,95,601	3,12,198	3,53,597	4,17,244
Loans (net)	7,56,719	8,67,579	10,06,392	11,87,542
Fixed assets	4,764	5,467	6,287	7,230
Other assets	43,778	53,113	54,307	55,681
<b>Total assets</b>	<b>12,23,736</b>	<b>13,35,519</b>	<b>15,02,625</b>	<b>17,38,545</b>
Total deposits	9,33,933	10,43,647	11,96,341	13,95,606
Total borrowings	1,19,569	1,27,006	1,40,887	1,59,002
Other liabilities	1,05,248	80,915	70,099	74,953
Total liabilities	11,58,750	12,51,568	14,07,327	16,29,561
Shareholders' equity	64,986	83,951	95,298	1,08,984
<b>Total liabilities and equity</b>	<b>12,23,736</b>	<b>13,35,519</b>	<b>15,02,625</b>	<b>17,38,545</b>

**Key ratios**

Y/E March	FY2011	FY2012	FY2013E	FY2014E
<b>Asset quality ratios (%)</b>				
GNPA	3.3	4.5	5.0	4.5
NNPA	1.6	1.8	2.0	1.8
Credit costs	1.3	1.4	1.5	1.4
<b>Growth ratios (%)</b>				
Advances growth	19.8	14.7	16.0	18.0
Deposits growth	16.1	11.7	14.6	16.7
CD ratio (%)	81.0	83.1	84.1	85.1
CASA ratio (%)	46.1	43.9	40.3	37.9
Net interest income	37.4	33.1	15.4	15.4
Fee income	19.9	4.6	5.0	15.0
Non interest income	5.7	(9.3)	16.7	16.1
Core earnings growth	25.1	19.2	15.7	15.6
Pre-provision profits	38.3	24.6	17.2	15.0
Net Profit	(9.8)	41.7	21.3	20.5
Total assets	16.2	9.1	12.5	15.7
NIM (%)	3.2	3.8	3.8	3.8
ROE (%)	12.6	15.7	15.8	16.7
ROA (%)	0.7	0.9	1.0	1.1
Cost-to-income ratio (%)	47.6	45.2	44.5	44.8
<b>Capital adequacy ratio (%)</b>				
Tier 1	7.8	9.8	9.0	8.6
Tier 2	4.2	4.1	3.8	3.6
Total CAR	12.0	13.9	12.8	12.2
<b>Per share data (Rs)</b>				
EPS	130.2	179.3	211.6	254.9
DPS	30.0	35.0	42.5	51.2
Dividend yield (%)	1.6	1.9	2.3	2.8
BVPS	1,023.4	1,251.1	1,420.1	1,624.1
Adj. BVPS	908.7	1,133.6	1,195.2	1,385.2
P/E (x)	11.5	8.4	7.1	5.9
P/ABV (x)	1.7	1.3	1.3	1.1

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