

State bank of India

ADD

Dream quarter

CMP: Rs1,941

Target Price: Rs2,260

In the morass of disappointing numbers from PSU banks, SBI's Q4 earnings brought much-needed cheer. PAT at Rs40.5bn outstripped both consensus (Rs35.8bn) and our optimistic expectation of Rs37.5bn. Adjusting for trading and investment depreciation, operating PAT was up 20% qoq, 26% above expectations, driven by quality earnings with falling slippage ratio (2.3% vs. 4.5% in Q3FY12), improvement in NPA ratios sequentially, and improvement in provision coverage (up 550bps qoq). The management intent seems clearly on managing risk-adjusted returns and consolidating growth. We maintain Add, revise estimates, and revise price target to Rs2,260 (from Rs2,220).

What to do with the stock? Notwithstanding macro uncertainties (some of them self-inflicted), buying into the stock at current levels should be positive for longer-term investors. Q4 saw a sharp improvement in asset quality – (a) gross and net NPA ratio was each down 17bps and 40bps sequentially to 4.44% and 1.82% respectively, (b) provision coverage (including AUCA) improved to 68.1% vs. 62.5% last quarter, while (c) slippage ratio was at a multi-quarter low of 2.3%. While establishment of the zonal DGM layer last November has helped refocus efforts on collections, given economic slowdown and no speedy reforms in sight, slippages may continue to be at elevated levels. However, we believe the topline will continue to be strong for SBI (NIM above 3.8%) and provisions/PPOP ratio should improve from 41% in FY11 and FY12 to 35% in FY13 and further to 32% in FY14. Additionally, the moderation in loan growth currently should also lower asset impairment cost going forward. This should result in sharp EPS accretion and we see standalone EPS CAGR of 22.3% over FY12-14 and consolidated EPS CAGR of 22.8%.

Valuation. The stock trades at 1.18x 12-month consolidated book (1.54x standalone) and 6.66x earnings, and provides a reasonable entry point for longer-term investors. We value the stock at 1.36x 12-month forward consolidated book and 7.7x earnings.

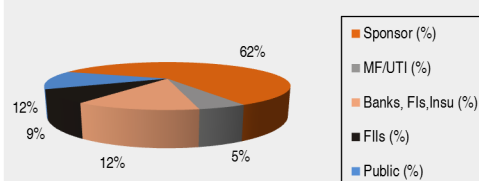
- Corporate development
- Earnings estimate change
- Target price change
- Rating change

KEY DATA

Bloomberg	SBIN IN
Reuters	SBI.BO
52-wk H/L (Rs)	2,529.7/1,571.1
6-m avg trd value	US\$130.8mn
Market cap	Rs1302.2bn/US\$23.9bn
Shares o/s	671.0mn
Face value	Rs10

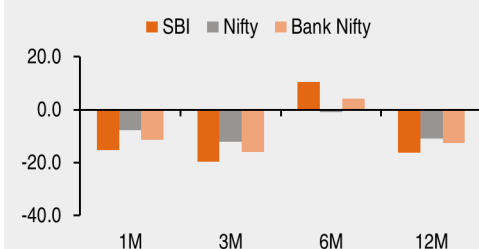
Source: Bloomberg

SHAREHOLDING (%)



Source: Ace equity

RELATIVE PRICE PERFORMANCE



Source: Bloomberg

KEY FINANCIALS

Y/E 31 March	2011	2012	2013E	2014E
Net interest income	325,264	433,440	472,927	511,493
EPS (Rs)	130.2	174.5	230.5	261.0
NIM (%)	3.32	3.85	3.76	3.59
RoE (%)	12.8	14.4	16.7	16.5
NPA coverage ratio (%)	65.0	68.1	77.0	82.0
Tier 1 ratio (%)	7.8	9.8	9.5	9.1
P/E (x)	14.9	11.1	8.4	7.4
P/Adj. BV (x)	2.2	1.8	1.5	1.3

Source: Company, BRICS Research

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Exhibit 1: Valuation summary**(Rs)**

Methodology		Weight	Valuation
Adj. book value (Q4FY13E) – consol	1,661.9		
P/BV multiple	1.24x		
Value per share	2,054	30%	616
Earnings per share (Q1FY13-Q4FY13) – consol	293.7		
P/E multiple	8.73x		
Value per share	2,564	20%	513
DCF	2,503	20%	501
SOTP	2,099	30%	630
Blended value per share (rounded)			2,260

Source: BRICS Research

Tweak earnings estimate

Given our view of economic slowdown, we expect slippage ratio to be elevated at 3% for FY13 and 2.5% for FY14, but SBI should have enough firepower to cover up for the losses with NIM at 3.8% and 3.6%. We continue to build in 17% and 20% loan growth in FY13 and FY14. Given higher recoveries and some improvement in slippages, we see credit cost trending down from 1.6% in FY12 to 1.34% in FY13 and 1.12% in FY14.

Exhibit 2: Summary of estimate changes

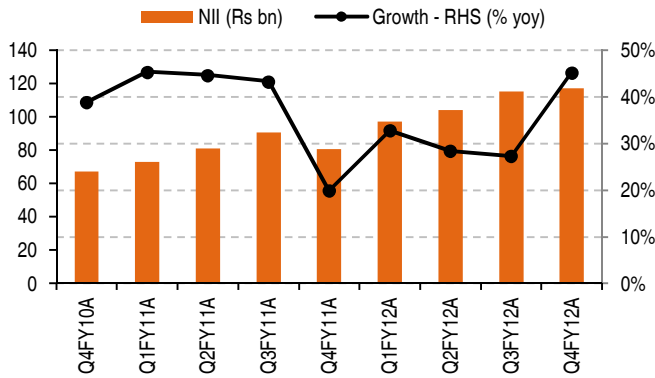
	New		Old		% change	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Profit and loss						
Net interest income	472,927	511,493	450,791	487,330	4.9%	5.0%
Non interest income	189,358	205,570	188,005	216,314	0.7%	-5.0%
Gross revenue	662,285	717,063	638,796	703,644	3.7%	1.9%
Operating expense	(296,410)	(319,312)	(300,450)	(332,018)	-1.3%	-3.8%
Pre provision profit	365,875	397,751	338,347	371,626	8.1%	7.0%
Loan loss charges	(127,505)	(127,233)	(113,681)	(101,985)	12.2%	24.8%
Profit before tax	238,370	270,519	224,666	269,641	6.1%	0.3%
Tax	(83,678)	(95,371)	(78,603)	(94,872)	6.5%	0.5%
Net profit	154,692	175,148	146,063	174,770	5.9%	0.2%
Balance sheet						
Advances	10,209,673	12,251,607	10,512,670	12,745,709	-2.9%	-3.9%
Deposits	12,398,192	14,807,573	12,535,913	15,145,728	-1.1%	-2.2%
Total assets	15,716,397	18,859,676	16,166,634	19,600,655	-2.8%	-3.8%
Ratios						
EPS (Rs)	230.53	261.01	217.66	260.44	5.9%	0.2%
RoAA	1.05%	1.00%	0.98%	0.97%	0.08%	0.03%
RoAE	16.74%	16.54%	15.86%	16.59%	0.88%	-0.05%
NIM (reported)	3.76%	3.59%	3.56%	3.35%	0.20%	0.24%
Cost/Income ratio	44.76%	44.53%	47.03%	47.19%	-2.28%	-2.66%
Provision/Avg advances	1.34%	1.12%	1.17%	0.87%	0.17%	0.25%
Gross NPA ratio	3.81%	3.15%	4.87%	3.93%	-1.06%	-0.78%
Net NPA ratio	1.17%	0.81%	2.11%	1.61%	-0.93%	-0.81%
Provision coverage	77.00%	81.98%	66.45%	69.95%	10.54%	12.03%

Source: BRICS Research

Q4FY12 earnings highlights

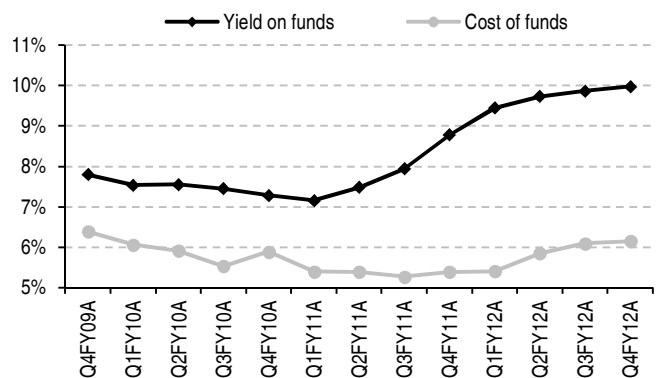
Strong topline. Nil was up 45.2% yoy and was 8.1% ahead of estimate, much of which came through higher-than-expected NIM (3.89% vs. 3.72% expected). Non-interest income was up only 9.3% and was 3.3% below estimate owing to trading loss of Rs263mn, of which Rs420 corresponds to equity-related losses while bond gains were Rs290mn. SBI also received its maiden dividend this year from SBI Life.

Exhibit 3: NII trend has picked up



Source: Company, BRICS Research

Exhibit 4: Spreads have improved



Source: Company, BRICS Research

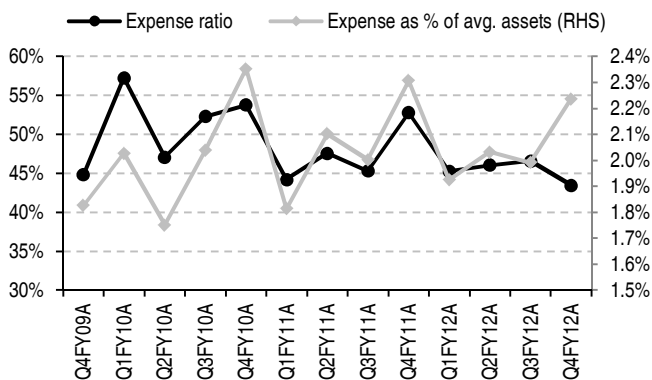
Exhibit 5: Non-interest income split

	Q4FY12A	% yoy	% qoq	Q4FY11A	Q3FY12A
Non-interest income	52.64	9.3%	153.9%	48.15	20.73
o/w fee	42.16	13.0%	59.6%	37.31	26.42
o/w treasury	-0.26	NA	NA	3.35	-10.90

Source: Company, BRICS Research

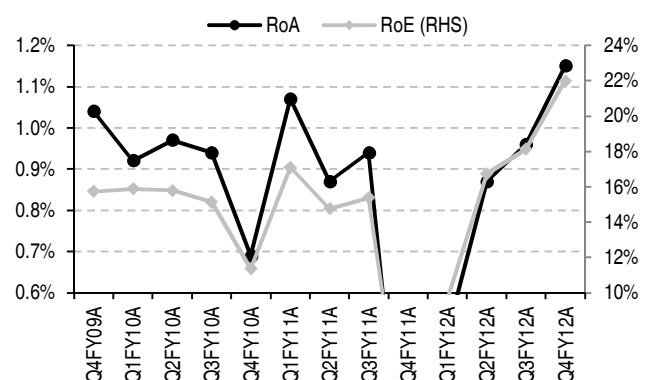
Helped by a strong topline, expense ratio improved to 43.4%. Management expects to bring the expense ratio down to 40-41% over next couple of years. In this context, it is important to note that the current CMD retires in second half of 2013. With an improvement in asset quality, the sequential profit growth was robust. Profitability ratios improved in Q4 – RoA at was 1.2% and RoE at 22%.

Exhibit 6: Expense ratio controlled



Source: Company, BRICS Research

Exhibit 7: RoA/RoE improved



Source: Company, BRICS Research

Balance-sheet consolidation in progress. SBI continued to consolidate its balance sheet and reported a below expectation 14.7% yoy growth in net advances. This was funded by an even weaker 11.7% yoy deposit growth. CASA ratio declined 90bps qoq to 46.6%.

Exhibit 8: Loan trend**(Rs bn)**

	Q4FY12A	% share	% yoy	% qoq	Q4FY11A	% share	Q3FY12A	% share
Gross advances	8,936	100%	15.8%	2.8%	7,718	100%	8,694	100%
International	1,357	15%	24%	1%	1,094	14%	1,341	15%
Domestic	7,579	85%	14%	3%	6,624	86%	7,353	85%
Agriculture and allied	1,169	13%	23%	15%	948	12%	1,019	12%
Industry	2,927	33%	10%	1%	2,663	35%	2,892	33%
Large corporate	1,250	14%	15%	2%	1,087	14%	1,231	14%
Mid corporate	1,676	19%	6%	1%	1,576	20%	1,661	19%
SME	1,392	16%	16%	5%	1,197	16%	1,327	15%
Retail	1,824	20%	11%	4%	1,646	21%	1,753	20%
Housing/Mortgage	1,027	11%	14%	4%	899	12%	990	11%
Auto Loans	183	2%	21%	5%	151	2%	174	2%
Education	126	1%	13%	1%	111	1%	124	1%
Other Personal	488	5%	1%	5%	484	6%	465	5%
Others	267	3%	57%	-26%	171	2%	363	4%

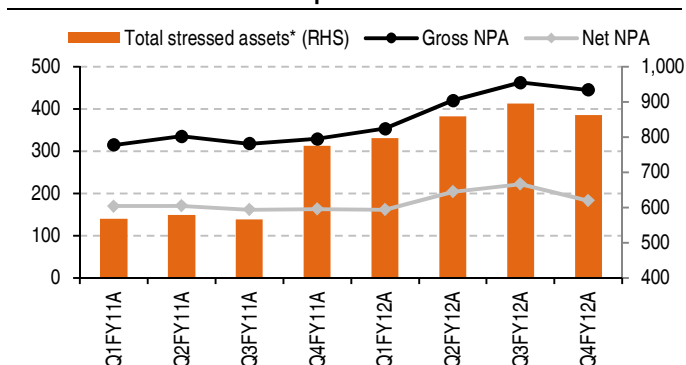
Source: Company, BRICS Research

Exhibit 9: Deposit trend**(Rs bn)**

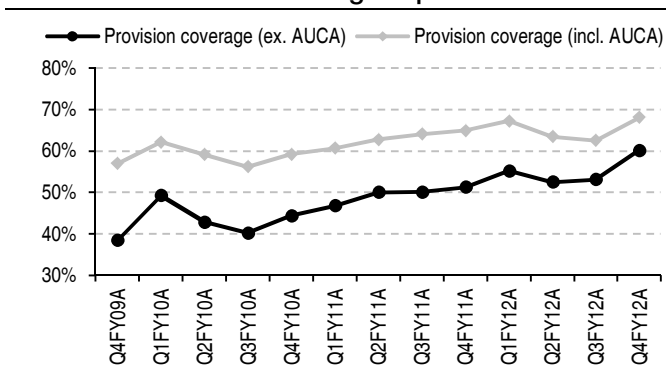
	Q4FY12A	% share	% yoy	% qoq	Q4FY11A	% share	Q3FY12A	% share
Deposits	10,436	100%	11.7%	4.3%	9,339	100%	10,010	100%
Domestic	9,822	94%	10.7%	4.3%	8,872	95%	9,414	94%
Demand	983	9%	-8.2%	23.7%	1,071	11%	795	8%
Savings	3,598	34%	11.3%	-2.2%	3,234	35%	3,679	37%
Term	5,241	50%	14.8%	6.1%	4,567	49%	4,941	49%
Foreign	614	6%	31.3%	3.2%	468	5%	595	6%
CASA ratio (domestic)	46.6%				48.7%		47.5%	

Source: Company, BRICS Research

Asset quality improved after many quarters. Gross NPA ratio improved to 4.45% while net NPA ratio improved to 1.82%. Provision coverage (including AUCA) improved to 68.1%. Total stressed assets too declined to 8.62% of gross advances.

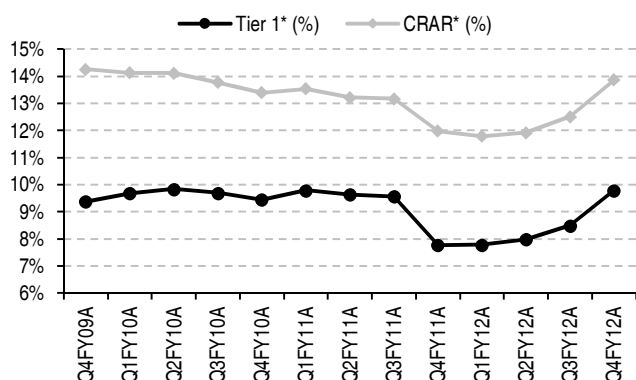
Exhibit 10: NPA ratios improved

Source: Company, BRICS Research

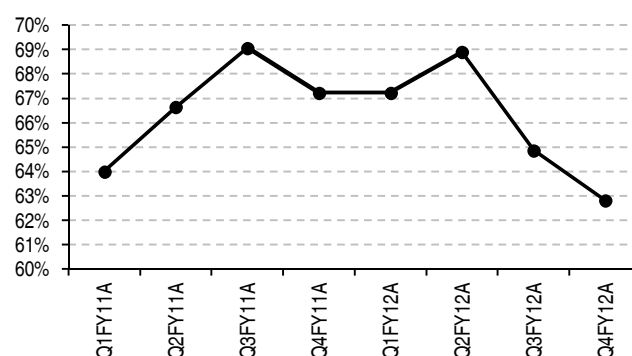
Exhibit 11: Provision coverage improved further

Source: Company, BRICS Research

Capital is not a big concern. Inclusive of the Rs79bn capital infusion by the government, Tier-1 ratio improved to 9.8% while CRAR is at 13.9%. It is interesting that SBI has been successfully shifting assets onto credit-guarantee schemes, which has resulted in a fall in risk-weighted assets compared to total reported assets.

Exhibit 12: Better capital position

Source: Company, BRICS Research

Exhibit 13: RWA as % total assets falling

Source: Company, BRICS Research

Exhibit 14: Profit and loss (standalone)

(Rs mn)

Particulars	Q4FY12	Q4FY12E	variance	Q4FY11	yoy	Q3FY12	Qoq
Interest earned	286,955	284,844	0.7%	217,214	32.1%	277,144	3.5%
Interest Expended	169,918	176,594	-3.8%	136,633	24.4%	161,956	4.9%
Net interest income	117,038	108,250	8.1%	80,581	45.2%	115,188	1.6%
Net interest income (adjusted)	117,038	108,250	8.1%	80,581	45.2%	115,188	1.6%
Non interest income	52,640	54,419	-3.3%	48,155	9.3%	20,730	153.9%
o/w core fee	42,161	40,259	4.7%	37,312	13.0%	26,415	59.6%
o/w trading profit (loss)	(263)	7,566	na	3,347	na	(10,904)	Na
o/w one-time item	-	-	na	-	na	-	Na
Non interest income (adjusted)	52,640	54,419	-3.3%	48,155	9.3%	20,730	153.9%
Total Revenue	169,678	162,668	4.3%	128,735	31.8%	135,918	24.8%
Total Revenue (adjusted)	169,678	162,668	4.3%	128,735	31.8%	135,918	24.8%
Total Revenue (adjusted) ex. trading profits	169,941	155,103	9.6%	125,388	35.5%	146,822	15.7%
Operating expense	73,710	76,105	-3.1%	67,938	8.5%	63,318	16.4%
Employees cost	54,310	47,012	15.5%	42,188	28.7%	41,633	30.5%
Other operating expenses	19,400	29,093	-33.3%	25,750	-24.7%	21,685	-10.5%
o/w one-time item	-	-	na	-	na	-	Na
Operating expense (adjusted)	73,710	76,105	-3.1%	67,938	8.5%	63,318	16.4%
Pre-provision profit	95,968	86,564	10.9%	60,797	57.8%	72,600	32.2%
Pre-provision profit (adjusted)	95,968	86,564	10.9%	60,797	57.8%	72,600	32.2%
Total provisions and contingencies (Net)	31,404	31,445	-0.1%	41,570	-24.5%	24,074	30.4%
Provision for NPAs	28,368	29,574	-4.1%	32,639	-13.1%	30,061	-5.6%
Depreciation on investment	238	-	na	3,045	-92.2%	(8,699)	Na
Exceptional items	-	-	na	-	na	-	Na
Profit/(Loss) before tax	64,564	55,119	17.1%	19,227	235.8%	48,526	33.1%
Tax expense	24,061	17,578	36.9%	19,019	26.5%	15,895	51.4%
Net Profit after Tax	40,503	37,541	7.9%	209	19297.8%	32,630	24.1%
Extraordinary items (net of tax)	-	-	na	-	na	-	Na
Net Profit incl. extraordinary items	40,503	37,541	7.9%	209	19297.8%	32,630	24.1%
Net profit (operating basis)*	40,817	32,388	26.0%	206	19760.7%	34,113	19.7%

Source: Company, BRICS Research * Operating basis excludes trading income, depreciation of investments, extraordinary income and other one-timers

Exhibit 15: Per share data (standalone)**(Rs)**

Particulars	Q4FY12	Q4FY12E	variance	Q4FY11	yoy	Q3FY12	Qoq
Reported EPS (diluted basis)	63.76	55.94	14.0%	0.33	19221.2%	51.39	24.1%
Diluted EPS (operating basis)*	64.25	48.27	33.1%	0.32	19682.3%	53.73	19.6%
Book value per share (calculated)	1,322	1,256	5.2%	1,027	28.7%	1,186	11.4%
Book value per share (adjusted)	1,160.0	1,061	9.4%	900.4	28.8%	993.6	16.7%
Diluted shares outstanding (calculated, mn)	635	671	-5.3%	633	0.4%	635	0.0%

Source: Company, BRICS Research * Operating basis excludes trading income, depreciation of investments, extraordinary income and other one-timers

Exhibit 16: Profitability and other metrics (standalone)

Particulars	Q4FY12	Q4FY12E	variance	Q4FY11	yoy	Q3FY12	Qoq
ROA	1.15%	1.13%		0.00%		0.96%	
ROE	21.99%	18.82%		0.13%		18.12%	
Non-interest income % of revenues	31.0%	33.5%		37.4%		15.3%	
Tax Rate – effective	37.3%	31.9%		98.9%		32.8%	
Expense Ratio	43.4%	46.8%		52.8%		46.6%	
CASA	46.6%	47.32%		48.7%		47.5%	
NIM	3.89%	3.72%		3.07%		4.05%	
Advance / Deposit Ratio %	83.1%	83.6%		81.0%		84.5%	

Source: Company, BRICS Research

Exhibit 17: Credit quality (standalone)**(Rs mn)**

Particulars	Q4FY12	Q4FY12E	variance	Q4FY11	yoy	Q3FY12	Qoq
Absolute gross NPA	396,765	448,577	-11.6%	253,263	56.7%	400,984	-1.1%
Absolute net NPA	158,189	201,860	-21.6%	123,469	28.1%	188,032	-15.9%
Gross NPA (%)	4.44%	4.95%		3.28%		4.61%	
Net NPA (%)	1.82%	2.29%		1.63%		2.22%	
Provision coverage (%)	68.10%	63.62%		64.95%		62.52%	
Fresh slippages during the period	43,830	86,879	-49.6%	56,450	-22.4%	81,610	-46.3%
Slippage ratio as % of 12m prior loans	2.3%	4.6%		3.6%		4.5%	
Recovery and upgrades during the period	47,210	24,249	94.7%	26,660	77.1%	19,680	139.9%
Upgradation as % of opening Gross NPA	47.1%	24.2%		45.5%		23.2%	
Net outstanding restructured assets	371,680	398,798	-6.8%	307,830	20.7%	312,690	18.9%
Net outstanding restructured assets as % of Net advances	4.3%	4.5%		4.1%		3.7%	
Assets restructured during the period	51,340		na	15,990	221.1%	21,880	134.6%
Gross restructured assets	427,440		na	343,490	24.4%	376,100	13.7%
Cumulative slippages from restructured assets	110,440		na	51,390	114.9%	96,830	14.1%
Slippages as % of restructured loans	25.8%		na	15.0%		25.7%	

Source: Company, BRICS Research

Exhibit 18: Capital and leverage ratios (standalone)

Particulars	Q4FY12	Q4FY12E	variance	Q4FY11	yoy	Q3FY12	Qoq
Total Shareholders Equity to Assets (%)	6.3%	6.2%		5.3%		5.8%	
Tier 1 (%)	9.79%	9.18%		7.77%		8.50%	
CRAR (%)	13.86%	12.64%		11.98%		12.51%	

Source: Company, BRICS Research

Exhibit 19: Balance sheet (standalone)**(Rs bn)**

Particulars	Q4FY12	Q4FY12E	variance	Q4FY11	yoy	Q3FY12	qoq
Total Assets (reported)	13,355	13,559	-1.5%	12,237	9.1%	13,014	2.6%
Net worth (reported)	840	843	-0.4%	650	29.2%	753	11.5%
Loans & advances	8,676	8,817	-1.6%	7,567	14.7%	8,463	2.5%
Risk weighted assets	8,391	8,795	-4.6%	8,227	2.0%	8,442	-0.6%
Deposits	10,436	10,551	-1.1%	9,339	11.7%	10,010	4.3%

Source: Company, BRICS Research

Financial summary

Income statement (Rs mn)

Y/E 31 March	2011	2012	2013E	2014E
Net interest income	325,264	433,440	472,927	511,493
<i>Growth (%)</i>	<i>37.4</i>	<i>33.3</i>	<i>9.1</i>	<i>8.2</i>
Other income	158,246	142,985	189,358	205,570
Total income (net of interest expense)	483,510	576,425	662,285	717,063
Employee expenses	144,802	172,260	195,863	210,996
Other operating expenses	85,353	88,430	100,547	108,316
Operating expenses	230,154	260,690	296,410	319,312
Operating profit	253,356	315,736	365,875	397,751
<i>Growth (%)</i>	<i>38.3</i>	<i>24.6</i>	<i>15.9</i>	<i>8.7</i>
Provisions and contingencies	103,813	130,902	127,505	127,233
PBT	149,543	184,833	238,370	270,519
Provision for tax	66,897	67,760	83,678	95,371
PAT	82,646	117,073	154,692	175,148
<i>Growth (%)</i>	<i>(9.8)</i>	<i>41.7</i>	<i>32.1</i>	<i>13.2</i>

Balance sheet (Rs bn)

Y/E 31 March	2011	2012	2013E	2014E
Total assets	12,237	13,355	15,716	18,860
Total equity	650	840	961	1,098
Advances	7,567	8,676	10,210	12,252
Deposits	9,339	10,436	12,398	14,808
CASA deposits	4,305	4,581	5,209	6,332
Borrowings	1,196	1,270	1,403	1,806
Investments	2,956	3,122	3,663	4,402

Per share data and key ratios

Y/E 31 March	2011	2012	2013E	2014E
Diluted EPS (Rs)	130.2	174.5	230.5	261.0
RoAA (%)	0.71	0.88	1.05	1.00
RoAE (%)	12.8	14.4	16.7	16.5
BV / Share (Rs)	1,023	1,251	1,432	1,636
Adj. BV / Share (Rs)	897	1,098	1,316	1,541
Other income / Net revenue (%)	67.3	75.2	71.4	71.3
Cost / Income ratio (%)	47.6	45.2	44.8	44.5
Dividends / Share	30.0	35.0	44.0	50.0
Effective tax rate (%)	44.7	36.7	35.1	35.3
CASA ratio (%)	48.7	46.6	44.6	45.4
Credit / Deposit ratio (%)	83.0	85.1	84.3	84.7

Yields and rates (%)

Y/E 31 March	2011	2012	2013E	2014E
NIM/ Spread	3.32	3.85	3.76	3.59
Yield on advances	9.4	10.7	10.3	9.6
Cost of deposits	5.2	5.8	—	—
Cost of funds	5.4	5.8	6.0	5.6

Capital ratios (%)

Y/E 31 March	2011	2012	2013E	2014E
Tier I	7.8	9.8	9.5	9.1
Total CRAR	12.0	13.9	13.4	13.2
Equity to assets	5.3	6.3	6.1	5.8

Asset quality & credit metrics (%)

Y/E 31 March	2011	2012	2013E	2014E
Gross NPA ratio	3.29	4.45	3.81	3.15
Net NPA ratio	1.63	1.82	1.17	0.81
Provisions / Loans	1.47	1.60	1.34	1.12
NPA coverage ratio (incl. AUCA)	65.0	68.1	77.0	82.0
NPA coverage ratio (excl. AUCA)	51.3	60.1	70.0	75.0
Absolute gross NPAs (Rs mn)	253,263	396,765	399,526	395,174

Valuation ratios (x)

Y/E 31 March	2011	2012	2013E	2014E
Price/ Book	1.9	1.6	1.4	1.2
Price/ Adj. Book	2.2	1.8	1.5	1.3
Price/ Earnings	14.9	11.1	8.4	7.4

BRICS RECOMMENDATION SCALE

BUY:	More than 15% upside
ADD:	Upside up to 15% (between 0% and 15%)
REDUCE:	Downside up to 15% (between 0% and -15%)
SELL:	More than 15% downside

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