

# State Bank of India

12 November 2012

Reuters: SBIN.BO; Bloomberg: SBIN IN

## Poor Performance; Asset Quality Overhang Persists

State Bank of India (SBI) posted net earnings of Rs36.6bn for 2QFY13 versus our estimate of Rs33.8bn, weighed down by modest net interest income growth of 5.3% YoY and poor non-interest income. Higher loan slippage (Rs85bn) and elevated restructuring (Rs47bn) in 2QFY13 reinforces our negative stance on the stock as we feel the weak macro-economic environment would continue to exert strain on asset quality amid cautious loan book expansion. Therefore, we have retained our Sell recommendation and target price of Rs1,786 on SBI.

**Low coverage ratio:** SBI reported loan provision coverage ratio (excluding technical write-offs) of 54.0% for 2QFY13 as against 56.9% in 1QFY13 and 52.5% in 2QFY12, implying lower- than-anticipated provisioning. While we take cognizance of little headroom available for the bank during the quarter in respect of provisioning due to tepid net interest income (NII) growth, we believe there would be higher provisioning in the coming quarters as the coverage ratio currently is low. SBI reported provisioning coverage ratio (including technical write-offs) of 62.8% as against 64.3% in 1QFY13 and 63.5% in 2QFY12. We would have liked if SBI reported lower profits, but higher provisioning.

**Operational performance:** SBI reported 2QFY13 earnings of Rs36,581mn, hit by net interest income growth of just 5.3% following muted growth in its loan portfolio and poor non-interest income (down 2.4% YoY and 4.3% QoQ), but the earnings were higher than our estimate of Rs33,852mn by 8.1% and Bloomberg consensus estimate by 3.8%. The bank reported interest income growth of 14.0% YoY and 2.4% QoQ, while interest costs grew 19.9% YoY and 4.7% sequentially to register tepid NII growth of 5.3% YoY at Rs109,738mn against our estimate of Rs118,402mn, a deviation of 7.3%. SBI witnessed 2.4% YoY and 4.3% contraction in other income for the quarter at Rs33,466mn against our estimate of Rs41,850mn. Total growth in overheads was capped at 9.3% YoY aided by controlled staff costs. Profit before provisioning stood at Rs73,536mn against our estimate of Rs90,752mn, a contraction of 1.6% YoY and 10.1% QoQ. SBI reported a decline of 37.1% YoY and 34.2% QoQ in non-performing asset provisioning at Rs18,372mn against our estimate of Rs33,000mn, thereby aiding its earnings growth. Profit after tax witnessed expansion of 30.1% YoY, but decline of 2.5% QoQ, at Rs36,581mn against our estimate of Rs33,852mn.

## SELL

**Sector:** Banking

**CMP:** Rs2,155

**Target Price:** Rs1,786

**Downside:** 17%

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### Key Data

Current Shares O/S (mn)	671.0
Mkt Cap (Rsbn/US\$b)	1,446.1/26.4
52 Wk H / L (Rs)	2,475/1,571
Daily Vol. (3M NSE Avg.)	3,119,750

### Price Performance (%)

	1 M	6 M	1 Yr
SBI	(5.6)	14.4	15.7
Nifty Index	(0.3)	14.3	8.9

Source: Bloomberg

Y/E March (Rsmn)	2QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)	1HFY12	1HFY13	YoY (%)
Interest on credit	197,889	221,346	225,381	13.9	1.8	380,452	446,727	17.4
Interest on investments	58,534	63,732	67,147	14.7	5.4	112,671	130,879	16.2
Interest on RBI and inter-bank funds	394	1,513	1,180	199.5	(22.0)	2,057	2,693	30.9
Other interest	2,855	2,576	2,361	(17.3)	(8.4)	6,465	4,937	(23.6)
Interest income	259,671	289,167	296,068	14.0	2.4	501,645	585,235	16.7
Interest expenditure	(155,452)	(177,979)	(186,330)	19.9	4.7	(300,431)	(364,309)	21.3
Net interest income	104,219	111,188	109,738	5.3	(1.3)	201,215	220,927	9.8
Total other operating income	34,272	34,988	33,466	(2.4)	(4.3)	69,615	68,454	(1.7)
Total income	138,492	146,176	143,204	3.4	(2.0)	270,829	289,381	6.8
Staff expenses	(39,143)	(41,371)	(42,802)	9.3	3.5	(76,317)	(84,173)	10.3
Total overheads	(63,749)	(64,410)	(69,668)	9.3	8.2	(123,662)	(134,078)	8.4
Profit before provisions	74,743	81,767	73,536	(1.6)	(10.1)	147,167	155,303	5.5
Income tax	(12,784)	(19,688)	(18,699)	46.3	(5.0)	(27,804)	(38,387)	38.1
Bad debt provisions	(29,210)	(27,900)	(18,372)	(37.1)	(34.2)	(57,030)	(46,272)	(18.9)
Total provisions	(46,634)	(44,251)	(36,955)	(20.8)	(16.5)	(103,223)	(81,206)	(21.3)
Net profit	28,109	37,516	36,581	30.1	(2.5)	43,945	74,097	68.6
EPS (Rs)	44.3	55.9	54.5	-	-	69.2	110.4	-

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Total income	386,396	483,510	576,425	651,448	725,562
Profit before provisioning	183,209	253,356	315,735	364,753	406,284
NIM (%)	2.4	3.0	3.5	3.5	3.5
Net profit	91,661	82,646	117,073	135,872	158,086
EPS (Rs)	144.4	130.2	174.5	202.5	235.6
EPS growth (%)	0.5	(9.9)	34.0	16.1	16.3
PE (x)	14.9	16.6	12.4	10.6	9.1
Price/book value (x)	2.2	2.1	1.7	1.5	1.3
Price/adjusted book value (x)	2.8	2.9	2.4	2.3	2.1
Dividend yield (%)	1.4	1.4	1.6	1.6	1.6
Cost-to-income (%)	52.6	47.6	45.2	44.0	44.0
RoA (%)	0.9	0.7	0.9	1.0	1.0
RoE (%)	15.2	13.0	15.9	15.2	15.6
Tier-1 capital (%)	9.5	7.8	8.4	8.3	8.2

Source: Company, Nirmal Bang Institutional Equities Research

**Asset quality concerns continued in 2QFY13:** SBI posted GNPA (gross non-performing asset) growth of 44.9% YoY and 4.3% QoQ at Rs492,025mn against our estimate of Rs479,000mn, and NNPA (net non-performing asset) growth of 40.3% YoY and 11.3% QoQ at Rs226,146mn against our estimate of Rs213,904mn. Consequently, GNPA and NNPA in percentage terms for the quarter stood at 5.15% and 2.44%, respectively, against 4.19% and 2.04% during the corresponding quarter a year ago. The impending stress on asset quality is evident as SBI restructured assets worth Rs46.9bn in 2QFY13 as against Rs5.8bn in 1QFY13. Restructured loan book of the bank stood at Rs404,540mn against our estimate of Rs378,632mn.

**Disappointing non-interest income:** For 2QFY13, SBI reported contraction of 2.4% YoY and 4.3% QoQ in non-interest income at Rs33,466mn. Treasury operations posted improved performance, while commission income disappointed with a decline of 5.8% YoY and 5.9% QoQ. We have factored in non-interest income CAGR of 12.5% over FY13E-FY14E.

**Valuation and outlook:** At the current market price (CMP), SBI stock trades at 1.5x FY13E BV and 2.3x FY13E adjusted BV. As we expect India's economy to remain depressed, the country's banking sector and its largest bank are likely to perform poorly. We have retained our Sell rating and target price of Rs1,786 on SBI, down 17% from the CMP.

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
21 August 2012	Sell	1,896	1,786
4 October 2012	Sell	2,297	1,786
12 November 2012	Sell	2,155	1,786

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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