

**January 19, 2012**

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Rating	<b>BUY</b>
Price	Rs1,865
Target Price	Rs2,100
Implied Upside	12.6%
Sensex	16,451
Nifty	4,956

*(Prices as on January 18, 2012)*
**Trading data**

Market Cap. (Rs bn)	1,184.6
Shares o/s (m)	720.7
3M Avg. Daily value (Rs m)	7931

**Major shareholders**

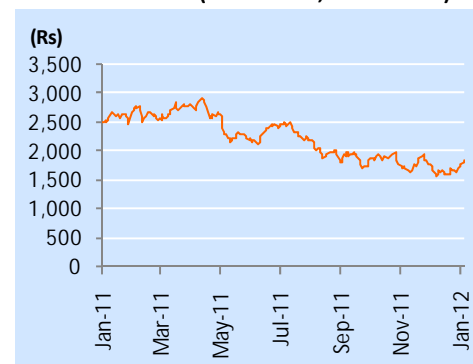
Promoters	59.40%
Foreign	8.65%
Domestic Inst.	18.54%
Public & Other	13.41%

**Stock Performance**

(%)	1M	6M	12M
Absolute	11.1	(24.7)	(27.0)
Relative	4.9	(13.6)	(13.1)

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	264.3	262.3	0.8
2014	296.2	288.1	2.8

**Price Performance (RIC: SBI.BO, BB: SBIN IN)**


Source: Bloomberg

**We met with Mr. Diwakar Gupta, MD and CFO at SBI. Management seemed confident on gradual increase in recoveries/upgrades and low stress from restructuring though 2HFY12 slippages could continue to remain elevated. Growth would continue to remain muted, though high margins would aid operating performance. We maintain our positive view on SBI given much lower stress expected from restructuring but slippage trend would need to moderate <2.3-2.5% (currently 3.0%) for a re-rating beyond Rs2100/share (1.25x FY13 book).**

- Mixed asset quality performance:** (1) Management is comfortable with current restructuring and does not expect a sharp increase. This ties in with our view that SBI's performance on restructuring would hold up relatively well given low Air India/SEB/private power exposure (2) Slippages could continue to remain elevated in 2HFY12 impacted by large a/s like Kingfisher. Though slippages are expected to moderate with lower Agri NPAs, the transition from ~3.0% slippages (currently) to <2.5% (management aim - inline peer group) does not look completely certain to play out in 1HFY13.
- Weak growth trend but margin resilience to continue near term:** Overall growth trends continue to remain muted and with 9M YTD growth at ~7% (including rupee depreciation impact), we see risk to 16% growth expected with ~Rs650bn accretion to loan book expected in 4Q. With Infra and term lending slowing down, management expects similar credit growth trend in FY13.
- Infusion + Preservation to provide some comfort on capital:** With ~Rs60bn (0.6% of tier-1) of infusion expected by Mar-11 and large part of the capital preservation steps likely to play out by Mar-11, we expect SBI's tier-1 could be >8.2-8.3% by Mar-11. Though capital levels would still not be optimum, it addresses near term growth concerns especially in a slow growth environment.

**Key financials ( Y/e March)**

	2011	2012	2013E	2014E
Net interest income (Rs m)	455,500	579,091	634,073	726,523
Growth (%)	36.2	27.1	9.5	14.6
Operating profit (Rs m)	332,395	400,409	428,847	480,175
PAT (Rs m)	111,799	146,495	190,496	213,503
EPS (Rs)	176.1	230.7	264.3	296.2
Growth (%)	—	31.0	14.6	12.1
Net DPS (Rs)	30.0	36.0	43.2	51.8

**Profitability & Valuation**

	2011	2012	2013E	2014E
NIM (%)	2.95	3.26	3.11	3.08
RoAE (%)	13.4	16.4	17.2	15.9
RoAA (%)	0.72	0.82	0.93	0.91
P / BV (x)	1.4	1.2	1.1	0.9
P / ABV (x)	1.5	1.3	1.1	1.0
PE (x)	10.6	8.1	7.1	6.3
Net dividend yield (%)	1.6	1.9	2.3	2.8

Source: Company Data; PL Research

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## Key asset quality takeaways:

**Overall Slippages to remain elevated near term:** Large accounts like Kingfisher (~Rs15bn) would impact slippages in 3Q11 and management expects elevated levels of slippages to continue in 2HFY12. Though slippages are expected to moderate from FY13 with lower Agri NPAs, the transition from ~3.0% slippages (currently) to <2.5% (management aim - inline peer group) does not look completely certain to play out in 1HFY13.

1. **Agri Slippages:** Monsoon has been good and thus management expects Agri slippages to moderate from 1HFY12 levels though moral hazard issues would likely continue. Good monsoon is positive for asset quality but a bumper crop may not also be the best possible outcome for farmers as realizations dip significantly.
2. **Retail asset quality:** We have noticed some inch up in retail slippages over the last 2 qtrs but management believes that retail asset quality is under check and should continue to see robust trends in line with industry trends.
3. **SME credit quality:** With SME gross NPAs already ~6% and with rate cycle expected to reverse over the next 3-6mnts, management believes worst of SME slippages are behind us. Though some part of the pain is already recognized, our interest coverage analysis did suggest pain to continue for some more time in the SME segment.
4. **Large corporate and Restructuring:** As mentioned earlier, slippages could remain elevated in 2HFY12 but we believe large corporate slippages may come off from FY13 as pace of restructuring increases. Management seemed comfortable and does not expect a sharp increase in their restructured book. This ties in with our view that SBI's performance on restructuring would hold up relatively well given low Air India/SEB/private power exposure.

**Exhibit 1: Agri and SME slippages expected to moderate, corporate to remain elevated**

Sectoral slippage trend (Rs mn)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
Corporate	5490	19030	16320	18520	17160	24540
International	220	5150	2050	4970	1410	1430
SME	11150	11770	1870	14430	19610	22440
Agri	12830	9570	4910	12590	14420	20080
Retail	11120	7140	6380	5940	9220	11660
<b>Total</b>	<b>40810</b>	<b>52660</b>	<b>31530</b>	<b>56450</b>	<b>61820</b>	<b>80150</b>

Source: Company Data, PL Research

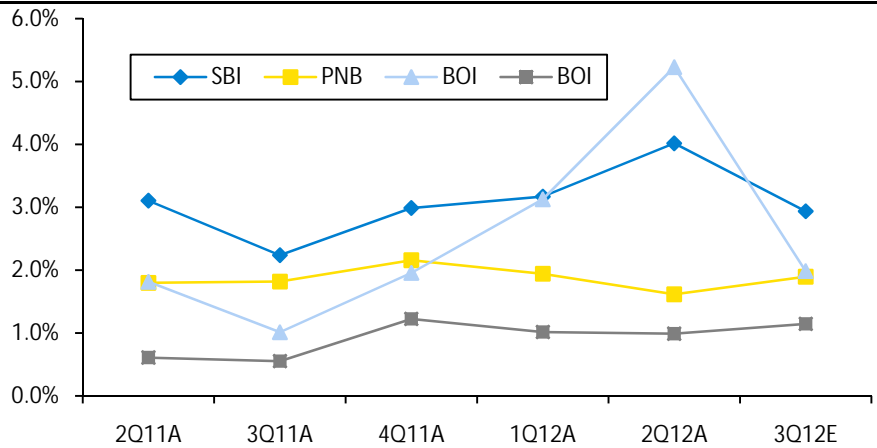
Management expects gradual improvement in upgrade and recovery from 3Q12 but high slippages remain the pain point

**Exhibit 2: We expect ~Rs70bn of slippages in 3Q12**

Rs mn	2Q11A	3Q11A	4Q11A	1Q12A	2Q12A	3Q12E
Opening	208,250	232,050	234,380	234,380	258,800	320,420
Additions	52,660	40,070	56,450	61,800	80,000	70,000
Upgradation+Recovery	20,870	14,300	26,660	30,760	17,720	25,000
Write offs	7,990	14,900	10,910	6,620	660	660
<b>Closing</b>	<b>232,050</b>	<b>242,920</b>	<b>253,260</b>	<b>258,800</b>	<b>320,420</b>	<b>364,760</b>
<b>Gross Slippages %</b>	<b>3.1%</b>	<b>2.2%</b>	<b>3.0%</b>	<b>3.2%</b>	<b>4.0%</b>	<b>3.4%</b>
<b>Reductions (ex write offs %)</b>	<b>1.2%</b>	<b>0.8%</b>	<b>1.4%</b>	<b>1.6%</b>	<b>0.9%</b>	<b>1.2%</b>
<b>Net Slippages (%)</b>	<b>1.9%</b>	<b>1.4%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>3.1%</b>	<b>1.7%</b>

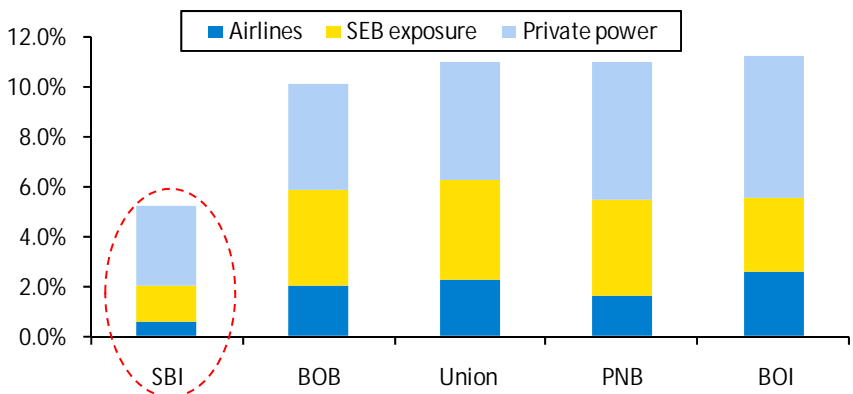
Source: Company Data, PL Research

Management aims to bring gross slippages to industry level of 2.0-2.5% which we believe would be the key for a re-rating as we build in 2.5-2.6% slippages for FY13.

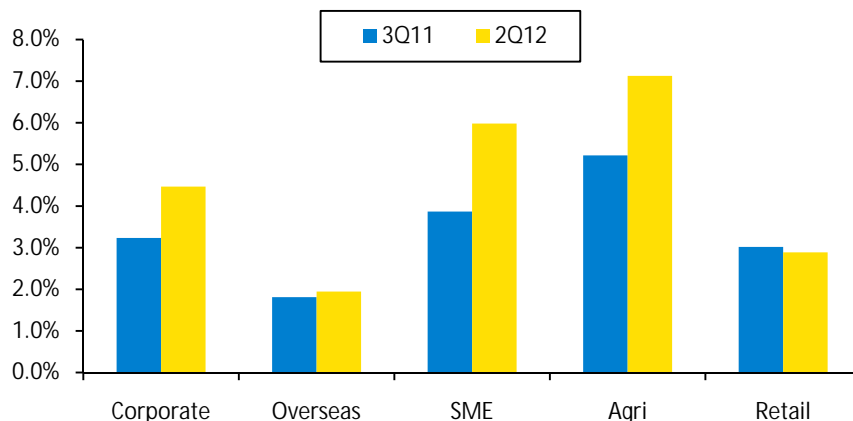
**Exhibit 3: SBI's slippages levels remain much higher than industry peers**


Source: Company Data, PL Research

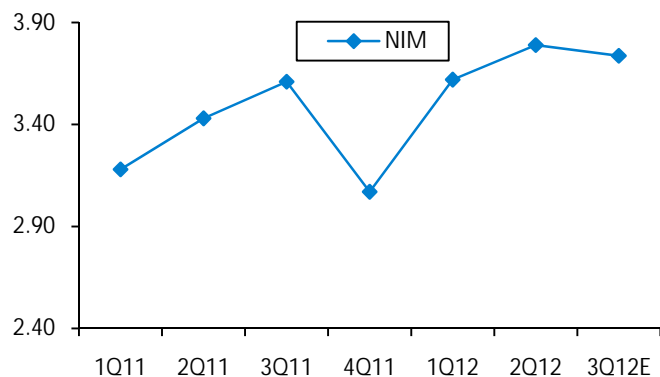
Management seemed comfortable on current restructuring – We expect restructuring for SBI will be relatively much lower for SBI

**Exhibit 4: Low Air India/ SEB/Private power to lead to lower restructuring for SBI v/s peers**


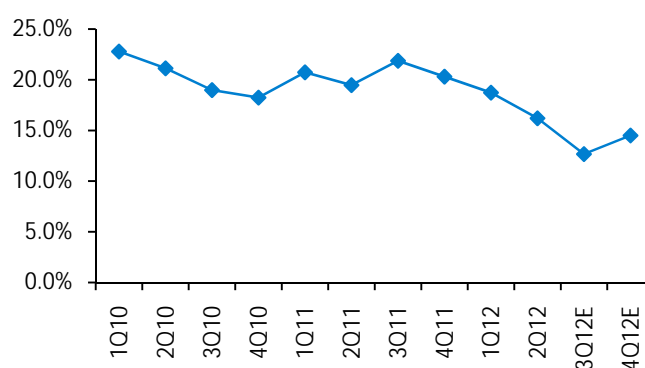
Source: Company Data, PL Research

**Exhibit 5: Sectoral gross NPA trends**


Source: Company Data, PL Research

**Exhibit 6: Margins at peak expect some moderation in FY13**


Source: Company Data, PL Research

**Exhibit 7: Loan growth expected to moderate significantly (%)**


Source: Company Data, PL Research

**Exhibit 8: We expect ~10% sequential growth in PAT in 3Q12E**

(Rs m)	3Q11	2Q12	3Q12E	YoY	QoQ
Net interest income	90,498	104,219	105,101	16.1%	0.8%
Non-interest income	33,139	34,272	33,484	1.0%	-2.3%
Operating expenses	55,992	63,749	63,470	13.4%	-0.4%
<b>Pre provisioning profit</b>	<b>67,645</b>	<b>74,743</b>	<b>75,115</b>	<b>11.0%</b>	<b>0.5%</b>
Provisions	20,515	33,855	26,572	29.5%	-21.5%
Profit before tax	47,130	40,888	48,543	3.0%	18.7%
Provision for tax	18,849	12,784	17,475	-7.3%	36.7%
<b>Profit after tax</b>	<b>28,281</b>	<b>28,104</b>	<b>31,067</b>	<b>9.9%</b>	<b>10.5%</b>

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
Int. Earned from Adv.	837,972	1,106,920	1,271,808	1,461,037
Int. Earned from Inv.	276,795	328,579	375,276	430,663
Others	21,597	17,564	20,343	23,605
Total Interest Income	1,136,364	1,453,064	1,667,427	1,915,304
Interest expense	680,864	873,972	1,033,354	1,188,782
<b>NII</b>	<b>455,500</b>	<b>579,091</b>	<b>634,073</b>	<b>726,523</b>
<i>Growth (%)</i>	<i>36.2</i>	<i>27.1</i>	<i>9.5</i>	<i>14.6</i>
Treasury Income	10,614	4,800	9,000	5,000
NTNII	184,197	188,794	227,835	261,442
Non Interest Income	194,811	193,594	236,835	266,442
Total Income	1,331,176	1,646,658	1,904,262	2,181,746
<i>Growth (%)</i>	<i>13.0</i>	<i>23.7</i>	<i>15.6</i>	<i>14.6</i>
Operating Expense	317,917	372,276	442,062	512,789
<b>Operating Profit</b>	<b>332,395</b>	<b>400,409</b>	<b>428,847</b>	<b>480,175</b>
<i>Growth (%)</i>	<i>35.5</i>	<i>20.5</i>	<i>7.1</i>	<i>12.0</i>
NPA Provisions	125,176	140,502	123,347	138,157
Investment Provisions	7,661	23,000	—	—
Total Provisions	133,198	167,877	126,472	141,282
<b>PBT</b>	<b>199,197</b>	<b>232,532</b>	<b>302,375</b>	<b>338,893</b>
Tax Provisions	87,398	86,037	111,879	125,390
<i>Effective Tax Rate (%)</i>	<i>43.9</i>	<i>37.0</i>	<i>37.0</i>	<i>37.0</i>
<b>PAT</b>	<b>111,799</b>	<b>146,495</b>	<b>190,496</b>	<b>213,503</b>
<i>Growth (%)</i>	<i>(4.4)</i>	<i>31.0</i>	<i>30.0</i>	<i>12.1</i>

**Balance Sheet (Rs m)**

Y/e March	2011	2012	2013E	2014E
Par Value	10	10	10	10
No. of equity shares	635	635	721	721
Equity	6,350	6,350	7,207	7,207
Networth	834,712	954,462	1,258,530	1,428,320
Adj. Networth	671,981	688,064	904,967	977,506
Deposits	12,555,625	14,566,916	16,294,856	19,246,358
<i>Growth (%)</i>	<i>12.5</i>	<i>16.0</i>	<i>11.9</i>	<i>18.1</i>
Low Cost deposits	5,637,899	6,414,398	7,216,016	8,571,176
<i>% of total deposits</i>	<i>44.9</i>	<i>44.0</i>	<i>44.3</i>	<i>44.5</i>
<b>Total Liabilities</b>	<b>16,449,168</b>	<b>19,070,641</b>	<b>21,680,725</b>	<b>25,467,547</b>
Net Advances	10,064,015	11,674,258	13,425,397	15,841,968
<i>Growth (%)</i>	<i>15.7</i>	<i>16.0</i>	<i>15.0</i>	<i>18.0</i>
Investments	4,191,564	4,861,036	5,394,503	6,255,093
<b>Total Assets</b>	<b>16,449,168</b>	<b>19,070,641</b>	<b>21,680,725</b>	<b>25,467,547</b>

Source: Company Data, PL Research.

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12E
Interest Income	217,214	241,974	259,671	269,312
Interest Expense	136,633	144,979	155,452	164,210
<b>Net Interest Income</b>	<b>80,581</b>	<b>96,995</b>	<b>104,219</b>	<b>105,101</b>
Non Interest Income	48,155	35,342	34,272	33,484
CEB	37,312	26,329	26,003	—
Treasury	3,347	1,689	281	1,000
<b>Net Total Income</b>	<b>128,735</b>	<b>132,338</b>	<b>138,492</b>	<b>138,585</b>
Operating Expenses	67,938	57,996	63,749	63,470
Employee Expenses	42,188	36,750	39,143	38,628
Other Expenses	25,750	21,246	24,605	24,842
<b>Operating Profit</b>	<b>60,797</b>	<b>74,341</b>	<b>74,743</b>	<b>75,115</b>
Core Operating Profit	57,450	72,653	74,462	74,115
Provisions	41,570	41,569	33,855	26,572
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
<b>Profit before tax</b>	<b>19,227</b>	<b>32,772</b>	<b>40,888</b>	<b>48,543</b>
Tax	19,019	15,020	12,784	17,475
<b>PAT before EO</b>	<b>209</b>	<b>17,753</b>	<b>28,104</b>	<b>31,067</b>
Extraordinary item	—	—	—	—
<b>PAT</b>	<b>209</b>	<b>17,753</b>	<b>28,104</b>	<b>31,067</b>

**Key Ratios**

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	1,644	1,644	1,644	1,644
Equity Shrs. Os. (m)	635	635	721	721
Market Cap (Rs m)	1,043,701	1,043,701	1,184,586	1,184,586
<i>M/Cap to AUM (%)</i>	<i>6.3</i>	<i>5.5</i>	<i>5.5</i>	<i>4.7</i>
EPS (Rs)	176.1	230.7	264.3	296.2
Book Value (Rs)	1,315	1,503	1,746	1,982
Adj. BV (75%) (Rs)	1,263	1,431	1,662	1,874
P/E (x)	10.6	8.1	7.1	6.3
P/BV (x)	1.4	1.2	1.1	0.9
P/ABV (x)	1.5	1.3	1.1	1.0
DPS (Rs)	30.0	36.0	43.2	51.8
<i>Dividend Yield (%)</i>	<i>1.6</i>	<i>1.9</i>	<i>2.3</i>	<i>2.8</i>

**Profitability (%)**

Y/e March	2011	2012	2013E	2014E
NIM	2.9	3.3	3.1	3.1
RoAA	0.7	0.8	0.9	0.9
RoAE	13.4	16.4	17.2	15.9

**Efficiency**

Y/e March	2011	2012	2013E	2014E
<i>Cost-Income Ratio (%)</i>	<i>48.9</i>	<i>48.2</i>	<i>50.8</i>	<i>51.6</i>
<i>C-D Ratio (%)</i>	<i>80.2</i>	<i>80.1</i>	<i>82.4</i>	<i>82.3</i>
Business per Emp. (Rs m)	101	109	114	125
Profit per Emp. (Rs m)	5	6	7	8
Business per Branch (Rs m)	1,670	1,794	1,882	2,057
Profit per Branch (Rs m)	8	10	12	13

**Asset Quality**

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	323,163	548,100	727,440	927,529
Net NPAs (Rs m)	162,731	266,398	353,563	450,814
<i>Gr. NPAs to Gross Adv. (%)</i>	<i>3.2</i>	<i>4.7</i>	<i>5.4</i>	<i>5.9</i>
<i>Net NPAs to Net Adv. (%)</i>	<i>1.6</i>	<i>2.3</i>	<i>2.6</i>	<i>2.8</i>
<i>NPA Coverage (%)</i>	<i>49.6</i>	<i>51.4</i>	<i>51.4</i>	<i>51.4</i>

Source: Company Data, PL Research.

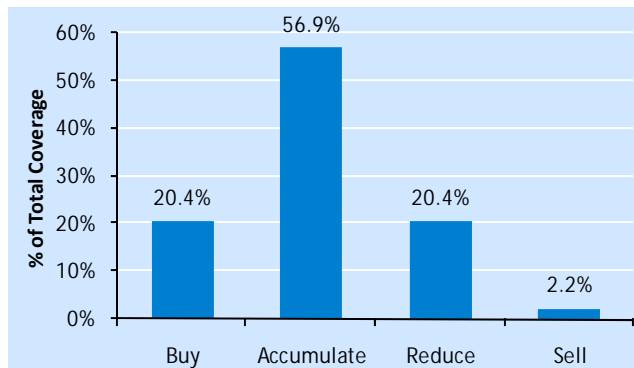


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#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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