

May 3, 2008

BUY

Price **Rs1,822** Target Price **Rs2,200**

Sensex **17,600**

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------|-----|------|------|-----|
| Absolute | 10 | (16) | (14) | 72 |
| Rel. to Sensex | (1) | (15) | (3) | 38 |

Source: Capitaline

Stock Details

| | |
|---------------------------------|-------------|
| Sector | Banks |
| Reuters | SBI.BO |
| Bloomberg | SBIN@IN |
| Equity Capital (Rs mn) | 6315 |
| Face Value(Rs) | 10 |
| No of shares o/s (mn) | 631 |
| 52 Week H/L | 2,397/1,008 |
| Market Cap (USD mn) | 28,297 |
| Daily Avg Volume (No of shares) | 1.4mn |
| Daily Avg Turnover (US\$m) | 64.7 |

Shareholding Pattern (%)

| | M'08 | D'07 | S'07 |
|--------------|------|------|------|
| Promoters | 59.7 | 59.7 | 59.7 |
| FII/NRI | 19.6 | 19.8 | 19.8 |
| Institutions | 11.6 | 11.9 | 11.5 |
| Private Corp | 3.2 | 2.7 | 3.1 |
| Public | 5.9 | 5.9 | 5.8 |

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State Bank of IndiaResult
Update**Results in line ; NPA problem persists**

State Bank of India's (SBI) Q4FY08 net profit at Rs18.8bn was ahead of our expectations mainly driven by higher than expected NII (interest on income tax refund of Rs4bn). The operating performance was remained in line with NIMs declining by 10bps at 2.6% on sequential basis, fee income growth remaining strong at 31% (Rs31bn).

Highlight of the quarter was sharp increase in gross NPAs by 20% qoq to Rs128bn. The bank has attributed the same to a) agriculture NPA and b) some slippages in SME segment due to technical reasons. However, the management is confident of converting 90% of incremental Rs22bn of NPA into standard assets over next 3-4 months. The provision cover has fallen further to 42.1%. if the bank is able to convert the fresh slippages into standard assets, the provision cover could rise to 50%.

We are keeping our estimates unchanged for FY09-10E We maintain our BUY rating with price target of Rs2,200

NII in line with expectations

SBI has reported NII of Rs48bnm, a growth of 5.6%. Adjusted for one-time income of interest income on income tax refund of Rs4.0bn, NII at Rs44bn is in line with our expectations. On sequential basis, the growth was at 3.4%.

NIMs drop in line with expectations

The NIMs (adjusted for one-time income) declined to 2.6%. The NIMs dropped by 77bps over last year mainly driven by

- Increase in the cost of deposits of 74bps. however, the same has declined by 15bps sequentially
- Drop in yield on investments and other assets of about 3bps

Yield analysis

| % | Q4FY08 | Q4FY07 | Q3FY08 | Change in bps | |
|-------------------|--------|--------|--------|---------------|-----|
| | | | | yoy | qoq |
| Yield on advances | 9.52 | 8.73 | 9.90 | 79 | -38 |
| Yield on assets | 7.71 | 7.74 | 7.96 | -3 | -26 |
| Cost of deposits | 5.67 | 4.69 | 5.72 | 97 | -5 |
| Cost of funds | 5.13 | 4.39 | 5.29 | 74 | -15 |
| NIM | 2.57 | 3.34 | 2.68 | -77 | -10 |
| NIM (Reported) | 3.07 | 3.41 | 3.01 | -34 | 6 |

Source: Company, Emkay Research

Note:

1. Calculated on basis of average quarterly balances,
2. Adjusted for extraordinary items
3. Reported NIMs for FY08, 9FY07 and M9FY08 respectively
4. There have been some changes in the accounting treatment at NII level which has resulted in upward revision of NII by Rs2.3bn for Q4FY08
 - a) The bank seems to have again started booking interest on FCNR deposits as the spread as part of interest income earlier instead reporting it as part of interest income and interest expenses separately. As a result the interest income on investments has gone down by ~ Rs13.8bn, while the interest expense on borrowings has gone down by ~Rs11bn. However, this has had no impact on NII.
 - b) The bank has classified some part of amortisation expenses write back last year as part of interest income on investments. The interest income on investment has been revised upwards by Rs2.3bn

Healthy growth across categories in advances

The advances have grown by 23.6% yoy to Rs4.16tn driven by healthy growth across the categories. All the categories have mainly grown in 20's besides the international advances book growing at 50.4%

Advances mix

| Rs bn | Q4FY08 | Q4FY07 | Q3FY08 | % of total | % yoy chg | % qoq chg |
|----------------|--------|--------|--------|------------|-----------|-----------|
| Retail | 883 | 736 | 817 | 21 | 20.0 | 8.1 |
| <i>Housing</i> | 451 | 380 | 425 | 11 | 18.8 | 6.1 |
| SME | 782 | 621 | 691 | 19 | 26.0 | 13.1 |
| Agriculture | 436 | 350 | 414 | 10 | 24.6 | 5.4 |
| Top corporates | 440 | 358 | 420 | 11 | 23.0 | 4.9 |
| Mid-corporates | 1,086 | 875 | 946 | 26 | 24.2 | 14.8 |
| International | 581 | 387 | 554 | 14 | 50.4 | 4.9 |
| Total | 4,168 | 3,373 | 3,903 | 100 | 23.6 | 6.8 |

Source: Company, Emkay Research

CASA mix remains stable

The CASA mix has remained stable at 43.0% of the domestic deposits for Q4FY08 compared with 43.6% for Q4FY07. However, on sequential basis, the same has improved by 200bps.

CASA Mix

| Rs bn | Q4FY08 | Q4FY07 | Q3FY08 | % yoy chg | % qoq chg |
|----------|--------|--------|--------|-----------|-----------|
| Deposits | 5,374 | 4,355 | 5,101 | 23.4 | 5.3 |
| CASA | 2,311 | 2,111 | 1,920 | 9.4 | 20.4 |
| CASA (%) | 43.0 | 43.6 | 41.1 | -57.0 | 195.0 |

Source: Company, Emkay Research

Fee income growth continues to remain healthy

The fee income has grown by 31% yoy to Rs30.6bn driven by sharp jump in the corporate fees in the large and mid corporate segment.

The total non-interest income grew by only 5.6% yoy due to

- Lower dividend income as the subsidiaries had largely paid out dividends in Q4FY07 to avoid higher dividend distribution tax in FY08
- Flat treasury income
- Negative Forex income which the management has attributed mainly to branch account reconciliations

Other income

| Rs mn | Q4FY08 | Q4FY07 | Q3FY08 | % yoy chg | % qoq chg |
|--------------|---------------|---------------|---------------|------------|------------|
| CEB | 30,602 | 23,373 | 10,237 | 30.9 | 198.9 |
| Treasury | 2,965 | 2,993 | 6,436 | -1.0 | -53.9 |
| Forex | -1,016 | 112 | 4,314 | NA | NA |
| Dividend | 21 | 2,229 | 230 | -99.1 | -90.9 |
| Others | -4,400 | -2,030 | 5,755 | 116.7 | -176.4 |
| Total | 28,172 | 26,677 | 26,972 | 5.6 | 4.5 |

Source: Company, Emkay Research

Controlled expenses help further

The expenses have remained flat at Rs32.4bn in line with our expectations. The employee expenses have declined by 22% driven by a write back of Rs4.7bn of the gratuity and pension liabilities for the current year which were no longer required. The

bank has used the write back to provide for Rs.2.0bn on wage hike revision which is currently under negotiations.

The decline in employee costs was also partially offset by higher expenses on ATM and branch redesign and expansion as well as higher depreciation.

Opex break up

| Rs mn | Q4FY08 | Q4FY07 | Q3FY08 | % yoy chg | % qoq chg |
|--------------------------|--------|--------|--------|-----------|-----------|
| Employee cost | 1,570 | 2,024 | 2,195 | -22 | -28 |
| Other operating expenses | 1,676 | 1,222 | 1,099 | 37 | 52 |
| Total Opex | 3,245 | 3,246 | 3,294 | 0 | -1 |

Source: Company, Emkay Research

Provisioning remains moderate

The provisioning remained moderate as it grew by just 14.6% yoy to Rs16.2bn, driven by much lower provisioning against investment depreciation. The investment depreciation also includes MTM losses of Rs1.7bn on the securities issued by the government of India with respect to SBI's rights issue.

Provisions break up

| Rs mn | Q4FY08 | Q4FY07 | Q3FY08 | % yoy chg | % qoq chg |
|-------------------------|---------------|---------------|--------------|-------------|--------------|
| NPA | 10,670 | 7,312 | 4,441 | 45.9 | 140.2 |
| As % of advances | 0.26 | 0.22 | 0.11 | | |
| Investment depreciation | 2,168 | 3,343 | 575 | -35.2 | 277.1 |
| Std assets | 2,490 | 2,992 | 2,200 | -16.8 | 13.1 |
| Others | 865 | 479 | 828 | 80.6 | 4.4 |
| Total | 16,192 | 14,126 | 8,044 | 14.6 | 101.3 |

Source: Company, Emkay Research

Asset quality remains cause of concern

SBI has witnessed a sharp increase in gross NPAs, 20% qoq to Rs128bn during the quarter. The bank has attributed the same to a) agriculture NPA and b) some slippages in SME segment due to technical reasons.

The management is confident of converting 90% of incremental Rs22bn of NPA into standard assets over next 3-4 months. The provision cover has fallen further to 42.1%. If the bank is able to convert the fresh slippages into standard assets, the provision cover could rise to 50%.

NPAs rising

| Rs mn | Q4FY08 | Q4FY07 | Q3FY08 | % yoy chg | % qoq chg |
|-------------------------|--------|--------|--------|-----------|-----------|
| Gross NPAs (Rs) | 128.4 | 100.0 | 106.4 | 28.4 | 20.6 |
| Gross NPA (%) | 3.0 | 2.9 | 2.7 | | |
| Net NPAs (Rs) | 74.2 | 52.6 | 56.1 | 41.2 | 32.3 |
| Net NPA (%) | 1.8 | 1.6 | 1.4 | | |
| Provision cover (%) | 42.2 | 47.4 | 47.3 | | |
| Gross slippages (Rs bn) | 73 | 50 | | | |
| Gross slippages (%) | 1.8 | 1.5 | | | |

Source: Company, Emkay Research

Consolidation of associate banks

SBI's management is quite confident about the merger or amalgamation of the associate banks with itself by FY09. In management's view the delay is happening because of the lack of legal clarity as to whether the merger requires the parliamentary approval or just a cabinet approval is enough for the same,

Consolidated profit grows by 40%

The consolidated profit of the SBI group has grown by 40% to Rs89.6bn. SBI Mutual Fund, SBI Life Insurance and SBI DFHI were the key drivers of the performance.

SBI Cards has reported losses of ~Rs1.5bn as it has been facing some problems regarding delinquencies in the card portfolio. The company has seen rapid growth over FY08 as it expanded its card base by nearly one-third to 2.2mn holders.

Performance of key subsidiaries

| Rs mn | FY08 | FY07 | % yoy change | SBI's share |
|----------------------------------|--------|-------|--------------|---------------|
| SBI | | | | 67,291 |
| State Bank of Patiala | 4,140 | 3,670 | 12.8 | 4,140 |
| State Bank of Hyderabad | 5,570 | 870 | 10.1 | 5,570 |
| State Bank of Bikaner and Jaipur | 3,150 | 3,260 | 2.9 | 2,363 |
| State Bank of Saurashtra | 520 | 1,900 | -40.2 | 520 |
| State Bank of Travancore | 3,860 | 5,060 | 18.4 | 2,895 |
| State Bank of Indore | 2,340 | 3,060 | 23.2 | 2,293 |
| State Bank of Mysore | 3,190 | 2,490 | 28.1 | 2,935 |
| SBI Life Insurance | 343 | 38 | 800.0 | 254 |
| SBI MF | 697 | 396 | 76.0 | 439 |
| SBI Caps | 1,422 | 711 | 100.0 | 1,052 |
| SBI Cards | -1,500 | NA | NA | -900 |
| SBI DFHI | 959 | 599 | 60.0 | 527 |
| SBI Factors | 284 | 132 | 115.0 | 199 |
| Global Trade Finance | 736 | 289 | 155.0 | 677 |
| SBI consolidated | | | | 89,600 |

Source: Company, Emkay Research

Valuation and view

We are keeping our estimates unchanged for FY09-10E. At the current market price of Rs1,822, the stock is quoting at 14.2x FY10E EPS and 2.1x FY10E ABV. We maintain our BUY rating with price target of Rs2,200.

Quarterly results

| Rs mn | FY08 | FY07 | % yoy chg | Q4FY08 | Q4FY07 | Q3FY08 | % yoy chg | % qoq chg |
|----------------------------|---------|---------|-----------|--------|--------|--------|-----------|-----------|
| Net interest income | 170,213 | 150,582 | 13.0 | 48,006 | 45,467 | 42,564 | 5.6 | 12.8 |
| Other Income | 86,949 | 73,609 | 18.1 | 28,172 | 26,677 | 26,972 | 5.6 | 4.4 |
| <i>Fee income</i> | 59,143 | 48,045 | 23.1 | 30,602 | 23,373 | 10,237 | 30.9 | 198.9 |
| Net income | 257,162 | 220,738 | 16.5 | 76,178 | 72,144 | 69,535 | 5.6 | 9.6 |
| Operating expenses | 126,094 | 118,375 | 6.5 | 32,454 | 32,460 | 32,938 | 0.0 | -1.5 |
| Pre-provision profit | 131,068 | 102,363 | 28.0 | 43,724 | 39,684 | 36,597 | 10.2 | 19.5 |
| Provisions & Contingencies | 26,687 | 26,465 | 0.8 | 16,192 | 14,126 | 8,044 | 14.6 | 101.3 |
| <i>NPA</i> | 20,009 | 14,295 | 40.0 | 10,670 | 7,312 | 4,441 | 45.9 | 140.2 |
| Profit before tax | 104,381 | 75,898 | 37.5 | 27,532 | 25,558 | 28,553 | 7.7 | -3.6 |
| Taxes | 37,090 | 30,485 | 21.7 | 8,700 | 10,626 | 10,467 | -18.1 | -16.9 |
| Net Profit | 67,291 | 45,413 | 48.2 | 18,832 | 14,932 | 18,086 | 26.1 | 4.1 |

Valuation table

| Y/E March 31 | Net income | Net profit | EPS (Rs) | ABV (Rs) | RoA (%) | RoE (%) | PE (x) | P/ABV (x) |
|--------------|---------------|---------------|-------------|-------------|------------|------------|-----------|--------------|
| FY2007 | 218,526 | 45,413 | 86.3 | 494.8 | 0.9 | 15.4 | 25.3 | 3.7 |
| FY2008 | 257,162 | 67,291 | 106.3 | 731.1 | 1.0 | 16.0 | 17.1 | 2.5 |
| FY2009E | 287,912 | 69,360 | 109.8 | 788.4 | 0.9 | 12.6 | 16.6 | 2.3 |
| FY2010E | 325,507 | 80,730 | 127.8 | 863.3 | 0.9 | 13.3 | 14.3 | 2.1 |

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