

November 8, 2010

Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs3,423	Rs3,000
EPS change FY11E/12E (%)	5.2/6.2
Target Price change (%)	10
Nifty	6,273
Sensex	20,852

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	31	48	55
Rel. to Nifty	3	13	23	19

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	SBIN@IN
Equity Capital (Rs mn)	6350
Face Value(Rs)	10
No of shares o/s (mn)	635
52 Week H/L	3,515/1,863
Market Cap (Rs bn/USD mn)	2,173/48,961
Daily Avg Volume (No of sh)	1954032
Daily Avg Turnover (US\$mn)	132.4

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	59.4	59.4	59.4
FII/NRI	17.2	14.9	13.8
Institutions	15.5	17.2	17.5
Private Corp	2.4	2.7	3.1
Public	5.4	5.8	6.3

Source: Capitaline

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- **SBI's net profit at Rs25.0bn, lower than our estimates driven by higher than expected provisions for the merger of State Bank of Indore (SBIndore)**
- **Operating performance strong with NII growth of 45% (Rs81bn), operating profit growth of 31.5%. Other highlights (1) CASA at 47% and (2) fee income growth of 22% qoq**
- **The slippages continue to remain high at Rs44.1bn for the quarter (Rs41.6bn excluding agri relief NPAs). Provision expenses to remain high at Rs18-19bn in coming quarters**
- **We are upgrading FY11E/FY12E estimates by 5.2%/6.2% each. ABV estimates upgrade by -2%/+1.4%. Maintain REDUCE with TP of Rs3,000 (1.8x consolidated ABV + subsidiary value)**

NII growth ahead of expectations driven by NIMs

SBI reported 44.7% yoy growth in NII to Rs81.1bn, ahead of our expectations. The NII excluding SBIndore's NII has grown by 41% yoy. The better than expected growth was driven by 25bps qoq expansion in NIMs.

Yield Analysis

%	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (bps)	QoQ (bps)
Yield on advances*	9.1	8.6	8.4	8.4	8.7	-34	39
Yield on investments*	6.0	5.9	6.2	6.1	6.5	58	46
Yield on assets*	7.2	7.2	7.0	6.9	7.2	-1	33
Cost of funds*	5.0	4.6	4.4	4.2	4.3	-69	10
NIM*	2.3	2.5	2.6	2.7	3.0	68	23
NIM (Reported)	2.6	2.8	3.0	3.2	3.4	88	25

Source: Company, Emkay Research

Calculated based on average quarterly balances

NIMs may have peaked out

SBI continued to benefit from the redemption of the high cost deposits taken in FY08 at 9-10.5% which are now being repriced at 7-7.5%. Hence, the cost of deposits has remained stable qoq.

However, with the CD ratio moving upto 74.7% in September 2010, we believe that the deposit growth can no longer lag behind the advances growth. SBI has raised its deposit rates by 50-100bps across maturities. We expect the deposit costs to move up from here and have some pressure on NIMs.

Valuation table

Y/E March 31	Net Income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2009	335,639	91,229	143.7	760.3	1.1	17.1	23.8	4.5
FY2010	386,391	91,725	144.5	867.5	0.9	14.8	23.7	3.9
FY2011E	489,138	121,571	191.5	1,004.0	1.1	17.1	17.9	3.4
FY2012E	578,173	154,691	243.7	1,246.1	1.2	18.8	14.1	2.7

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	56,083	63,163	67,215	73,037	81,149	44.7	11.1	154,186	106,332	45.0
Other Income	35,252	33,657	45,085	36,900	40,052	13.6	8.5	76,952	70,939	8.5
Fee Income	21,030	21,900	34,858	24,096	29,450	40.0	22.2	53,546	39,651	35.0
Net Income	91,334	96,820	112,300	109,937	121,201	32.7	10.2	231,138	177,271	30.4
Total Operating Expenses	42,990	50,639	60,361	48,593	57,631	34.1	18.6	106,224	92,187	15.2
<i>As % Of Net Income</i>	<i>47.1</i>	<i>52.3</i>	<i>53.7</i>	<i>44.2</i>	<i>47.5</i>					
Employee Expenses	26,341	31,175	35,918	30,739	36,758	39.5	19.6	67,497	60,454	11.6
<i>As % Of Net Income</i>	<i>28.8</i>	<i>32.2</i>	<i>32.0</i>	<i>28.0</i>	<i>30.3</i>					
Other Expenses	16,648	19,464	24,443	17,854	20,873	25.4	16.9	38,727	31,733	22.0
<i>As % Of Net Income</i>	<i>18.2</i>	<i>20.1</i>	<i>21.8</i>	<i>16.2</i>	<i>17.2</i>					
Operating Profit	48,345	46,182	51,939	61,344	63,570	31.5	3.6	124,914	85,083	46.8
<i>As % Of Net Income</i>	<i>52.9</i>	<i>47.7</i>	<i>46.3</i>	<i>55.8</i>	<i>52.5</i>					
Provisions	10,161	8,566	23,494	15,514	26,215	158.0	69.0	41,728	11,888	251.0
Prov for NPA	9,974	4,437	21,868	17,334	21,625	116.8	24.8	38,959	22,316	74.6
PBT	38,184	37,615	28,445	45,830	37,356	-2.2	-18.5	83,185	73,195	13.6
Total Tax	13,289	12,825	9,779	16,688	12,342	-7.1	-26.0	29,030	24,997	16.1
Adjusted PAT	24,895	24,791	18,666	29,142	25,014	0.5	-14.2	54,156	48,199	12.4
Extra Ordinary Items	-	-	-	-	-	-	-	-	-	-
Reported PAT	24,895	24,791	18,666	29,142	25,014	0.5	-14.2	54,156	48,199	12.4
Reported EPS	39.2	39.1	29.4	45.9	39.4	0.4	-14.2	85.3	75.9	12.3

Source: Company, Emkay Research

Agriculture, mortgages and corporate drive advances growth

The advance grew by 19% yoy and 4.2% qoq to Rs6.8tn. The growth was also higher driven by consolidation of SBIndore advances book which at the end of FY10 was at Rs236bn. Excluding SBIndore advances book the growth was very moderate at 0.6% qoq. Agriculture, housing and large corporate book saw a strong growth of 6%+ qoq.

Advances growth @ 19.0% yoy

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	% of total
Foreign	948	937	971	1,052	1,055	11.3	0.3	15.5
SME	959	1,029	1,101	1,106	1,122	17.0	1.5	16.5
Agriculture	590	612	637	639	695	17.8	8.6	10.2
Retail	1,189	1,265	1,327	1,372	1,430	20.2	4.2	21.0
Housing	623	673	712	747	793	27.2	6.2	11.6
Others	2,036	2,147	2,283	2,363	2,506	23.1	6.0	36.8
Total	5,722	5,989	6,319	6,532	6,807	19.0	4.2	100.0

Source: Company, Emkay Research

Fee income keeps momentum

As the trading gains were significantly high during Q2FY10, the other income grew by a lower 13.6%yoy. However, the fee income continued to grow at a healthy pace of 40.0%yoy driven by growth in loan processing, non-funded business, income from third party products and government business. On sequential basis also, the growth was significantly higher at 22.2%.

Other income

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Fee/Commission income	21,030	21,900	34,858	24,096	29,450	40.0	22.2	53,546	39,651	35.0
Trading gains/(losses)	5,454	4,370	4,256	1,734	1,973	-63.8	13.8	3,707	12,542	-70.4
Forex gains/(losses)	5,237	4,036	1,895	5,025	3,087	-41.1	-38.6	8,112	9,941	-18.4
Dividend income	1,682	0	471	3,772	2,877	71.0	-23.7	6,650	5,264	26.3
Other	1,848	3,351	3,606	2,272	2,665	44.2	17.3	4,937	3,542	39.4
Total	35,252	33,657	45,085	36,900	40,052	13.6	8.5	76,952	70,939	8.5

Source: Company, Emkay Research

Core operating profit grows by 38% yoy

Driven by the strong growth in operating revenues, the core operating profit has grown by 38% yoy. However, on sequential basis, the core operating profit was flat.

Core operating profit growth at 54.6% yoy

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Reported operating profit	48,345	46,182	51,939	61,344	63,570	31.5	3.6	124,914	85,083	46.8
Add: wage revision provisions				-8,450	-1,800			-10,250		
Add: AS-pension prov/ Gratuity	2,560	-	7,290	11,000	3,000	17.2	-72.7	14,000	6,850	104.4
Adjusted operating profit	50,905	46,182	59,229	63,894	64,770	27.2	1.4	128,664	91,933	40.0
Less: Treasury gains	5,454	4,370	4,256	1,734	1,973	-63.8	13.8	3,707	12,542	-70.4
Core operating profit	45,451	41,811	54,973	62,160	62,797	38.2	1.0	124,956	79,392	57.4

Source: Company, Emkay Research

Asset quality continue to witnesses more slippages

The slippages during the quarter remained higher at Rs44.1bn (2.6% annualised). **Around Rs24.4bn of the outstanding restructured assets slipped till date, resulting in a slippage ratio of 14.5%. The management has guided that there could be further slippages of Rs5bn from the restructured asset portfolio, taking the total to 17.5% of the restructured assets.**

Of the total slippages during the quarter, Rs2.5bn was on account of agriculture debt relief related slippages, Rs2.5bn was from Dubal World and Rs6bn was from the restructured assets.

NPA analysis

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Gross NPAs	173,758	188,612	195,340	208,252	232,046	33.5	11.4
Net NPAs	99,273	112,708	108,700	110,744	116,012	16.9	4.8
Gross NPAs (%)	3.0	3.1	3.1	3.1	3.4		
Net NPAs (%)	1.7	1.9	1.7	1.7	1.7		
Net NPAs/Net worth (%)	15.4	16.9	16.5	16.1	16.1		
Provision cover (%)	42.9	40.2	44.4	46.8	50.0		
Slippages (Rs bn)			26.2	25.0	40.8		44.1
Slippage rate (%)			0.4	0.4	0.6		0.6

Source: Company, Emkay Research

Provisioning remains elevated

The bank overall provisioning stood at Rs26.2bn during the quarter including NPA provision of Rs21.6bn. Despite elevated provisioning on NPA bank's provision cover grew by just 2.0% to 62.8% sequentially as the slippages were higher during the quarter.

The bank needs to provide ~Rs14bn more for the 70% PCR which along with the fresh slippages would keep the provisions at elevated level of Rs18-19bn per quarter for next few quarters.

Provision break up

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
NPAs	9,974	4,437	21,868	17,334	21,625	116.8	24.8	38,959	22,316	74.6
As % of advances	0.2	0.1	0.3	0.3	0.3			0.6	0.4	
Investment Depreciation	-494	2,458	356	-2,983	4,318	-974.4	-244.7	1,335	-12,499	-110.7
Others	767	1,649	546	104	126	-83.5	21.8	230	2,018	-88.6
Total	10,161	8,566	23,494	15,514	26,215	158.0	69.0	41,728	11,888	251.0

Source: Company, Emkay Research

Valuation and view

Our underlying argument for negative stand on the stock remains valid with gross slippages of Rs44.1bn (1.9% for FY10). We are upgrading FY11E/FY12E estimates by 5.2%/6.2% each. However, the change in ABV estimates is by -2%/+1.4% due to change in slippage assumptions.

At CMP, the stock trades at 3.4x/2.8x and 2.8x/2.2x FY11E/12E standalone/consolidated ABV. Since, our last note on banking sector, "PSU Banks - shifting valuation base up" dated August 18, 2010, the valuations of all large PSU banks have moved up by 20% on P/ABV basis and so is the case with SBI. We are raising our P/ABV multiple for SBI consolidated banking operations to 1.8x and raising our TP of Rs3,000 (including subsidiary value). We have not included the impact of rights issue in our numbers which can add another Rs133/share to ABV implying an upside of 7% to our target price. We maintain our REDUCE rating on the stock.

We continue to prefer BOB and PNB amongst the large PSU banks driven by their superior RoEs (20-22%) and comparably reasonable valuations (1.8-1.9x FY12E ABV)

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	208,731	236,709	321,773	386,590
Other income	126,908	149,682	167,365	191,583
Net income	335,639	386,391	489,138	578,173
Operating expenses	156,487	203,187	215,853	238,257
Pre provision profit	179,152	183,204	273,285	339,916
PPP excl treasury	153,485	162,036	264,285	330,916
Provisions	37,346	43,948	89,087	105,536
Profit before tax	141,806	139,256	184,198	234,380
Tax	50,594	47,589	62,627	79,689
Tax rate	36%	34%	34%	34%
Profit after tax	91,212	91,667	121,571	154,691

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	6,349	6,349	6,350	6,350
Reserves	573,128	653,143	752,430	884,838
Net worth	579,477	659,492	758,779	891,187
Deposits	7,420,731	8,041,162	9,333,291	11,130,912
Borrowings	1,644,113	1,838,912	2,000,212	2,185,437
Total liabilities	9,644,321	10,539,566	12,092,282	14,207,536
Assets				
Cash and bank	1,044,038	961,838	966,066	1,152,133
Investments	2,610,650	2,696,626	2,919,108	3,404,466
Customer assets	5,573,922	6,480,416	7,793,639	9,233,659
Others	415,711	400,686	413,801	424,744
Total assets	9,644,321	10,539,566	12,092,282	14,207,536

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.8	2.6	3.1	3.2
Non-Il/avg assets	1.5	1.5	1.5	1.5
Fee income/avg assets	0.9	1.0	1.1	1.1
Opex/avg assets	1.9	2.0	1.9	1.8
Provisions/avg assets	0.5	0.8	1.2	1.2
PBT/avg assets	1.5	1.3	1.5	1.6
Tax/avg assets	0.5	0.5	0.5	0.6
RoA	1.1	0.9	1.1	1.2
RoAE	17.1	14.8	17.1	18.8
GNPA (%)	3.3	3.3	3.5	3.2
NNPA (%)	1.8	1.7	1.6	1.1

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	91,229	91,725	121,571	154,691
Shares in issue (mn)	635	635	635	635
EPS (Rs)	143.7	144.5	191.5	243.7
PER (x)	23.8	23.7	17.9	14.1
FDEPS(Rs)	143.7	144.5	191.5	243.7
FDPER (x)	23.8	23.7	17.9	14.1
Book value (Rs)	912.7	1,038.8	1,195.2	1,403.7
P/BV (x)	3.8	3.3	2.9	2.4
Adj book value (Rs)	760.3	867.5	1,004.0	1,246.1
P/ABV (x)	4.5	3.9	3.4	2.7
P/PPP (x)	12.1	11.9	8.0	6.4
Dividend yield (%)	1.0	1.0	1.0	1.0

Recommendation History: State Bank of India – SBIN IN

Date	Reports	Reco	CMP	Target
13/08/2010	State Bank of India Q1FY11 Result Update	Reduce	2,784	2,650
17/05/2010	State Bank of India Q4FY10 Result Update	Reduce	2,223	2,000
28/01/2010	State Bank of India Q3FY10 Result Update	Reduce	1,987	1,800
03/11/2009	State Bank of India Q2FY10 Result Update	Reduce	2,191	1,400

Recent Research Reports

Date	Reports	Reco	CMP	Target
29/10/2010	Andhra Bank Q2FY11 Result Update	Buy	176	210
28/10/2010	Bank of Baroda Q2FY11 Result Update	Buy	1,011	1,160
28/10/2010	Punjab National Bank Q2FY11 Result Update	Buy	1,310	1,500
27/10/2010	Union Bank of India Q2FY11 Result Update	Hold	393	400

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