

August 13, 2010

REDUCE

Price **Rs 2,784** Target Price **Rs 2,650**

Sensex **18,074**

Price Performance

(%)	1M	3M	6M	12M
Absolute	15	20	45	64
Rel. to Sensex	14	14	30	36

Source: Bloomberg

Stock Details

Sector	Banks
Reuters	SBI.BO
Bloomberg	SBIN@IN
Equity Capital (Rs mn)	6349
Face Value(Rs)	10
No of shares o/s (mn)	635
52 Week H/L	2,798/1,670
Market Cap (Rs bn/USD mn)	1,768/38,053
Daily Avg Volume (No of sh)	1856621
Daily Avg Turnover (US\$m)	93.0

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	59.4	59.4	59.4
FII/NRI	14.9	13.8	15.2
Institutions	17.2	17.5	15.8
Private Corp	2.7	3.1	3.6
Public	5.8	6.3	6.1

Kashyap Jhaveri

kashyap.jhaveri@emkayglobal.com
+91 22 6612 1249

Pradeep Agrawal

pradeep.agrawal@emkayglobal.com
+91 22 6612 1340

- SBI Bank's net profit at Rs29.1bn ahead of our estimates driven by 3.5% above estimate NII and write back of Rs8.5bn of wage provisions
- The slippages continue to remain high at Rs40.8bn for the quarter (Rs37.3bn excluding agri relief NPAs). Stronger recoveries/upgrades saved the day
- We expect the provision expenses to remain high at Rs18-19bn quarter for next four quarters as PCR is jacked up to 70%
- We are keeping our numbers unchanged for FY11E/FY12E but upgrading our valuation multiple to 1.5x FY12E ABV on stronger recoveries. Maintain REDUCE with TP of Rs2,650

NII growth inline with expectations

SBI reported 45.4% yoy growth in NII to Rs73.0bn, marginally ahead of our expectations of Rs70.5bn. The NII growth was driven by 20% yoy growth in advances and 11bps qoq expansion in NIM's to 2.7%.

Yield Analysis

%	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (bps)	QoQ (bps)
Yield on advances*	9.11	9.09	8.63	8.43	8.36	-75	-7
Yield on investments*	6.06	5.96	5.94	6.21	6.09	3	-12
Yield on assets*	7.20	7.24	7.16	7.00	6.89	-31	-11
Cost of funds*	5.13	4.95	4.61	4.38	4.16	-97	-22
NIM*	2.07	2.28	2.54	2.62	2.73	66	11
NIM (Reported)	2.30	2.55	2.82	2.96	3.18	88	22

Source: Company, Emkay Research

Calculated based on average quarterly balances

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 6-6.5%. Hence, the cost of funds came down by 22bps. With Rs170bn of more deposits retiring over next six months, the cost of deposits may come down by another ~10bps.

Advances growth at 20%

The advance grew by 20% yoy and 3.4%qoq to Rs6.5tn led by 8.3%qoq increase in international advances and 4.9%qoq increase in housing loans. Large corporates also grew by a healthy 3.5%qoq to Rs3.7tn.

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	19.4	3.7
FY2010	386,391	91,725	144.5	867.5	0.9	14.8	19.3	3.2
FY2011E	448,859	115,548	182.0	1,026.2	1.0	16.4	15.3	2.7
FY2012E	530,316	145,861	229.7	1,229.0	1.1	17.9	12.1	2.3

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Net Interest Income	50,249	56,083	63,163	67,215	73,037	45.4	8.7
Other Income	35,688	35,252	33,657	45,085	36,900	3.4	-18.2
Fee Income	18,620	21,030	21,900	34,858	24,096	29.4	-30.9
Net Income	85,936	91,334	96,820	112,300	109,937	27.9	-2.1
Total Operating Expenses	49,198	42,990	50,639	60,361	48,593	-1.2	-19.5
As % Of Net Income	57.2	47.1	52.3	53.7	44.2		
Employee Expenses	34,113	26,341	31,175	35,918	30,739	-9.9	-14.4
As % Of Net Income	39.7	28.8	32.2	32.0	28.0		
Other Expenses	15,085	16,648	19,464	24,443	17,854	18.4	-27.0
As % Of Net Income	17.6	18.2	20.1	21.8	16.2		
Operating Profit	36,739	48,345	46,182	51,939	61,344	67.0	18.1
As % Of Net Income	42.8	52.9	47.7	46.3	55.8		
Provisions	1,727	10,161	8,566	23,494	15,514	798.1	-34.0
Prov for NPA	12,342	9,974	4,437	21,868	17,334	40.4	-20.7
PBT	35,011	38,184	37,615	28,445	45,830	30.9	61.1
Total Tax	11,708	13,289	12,825	9,779	16,688	42.5	70.7
Adjusted PAT	23,304	24,895	24,791	18,666	29,142	25.1	56.1
Extra Ordinary Items	-	-	-	-	-	-	-
Reported PAT	23,304	24,895	24,791	18,666	29,142	25.1	56.1
Reported EPS	36.7	39.2	39.1	29.4	45.9	25.1	56.1

Source: Company, Emkay Research

Advances growth @ 20.3%yoy

Rs bn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)	% of total
Foreign	862	948	937	971	1,052	22.1	8.3	16.1
Large corporates	1,925	2,036	2,147	3,610	3,735	94.0	3.5	57.2
Mid-corporate/SME	962	959	1,029	1,101	1,106	15.0	0.4	16.9
Agriculture	551	590	612	637	639	16.0	0.3	9.8
Housing	575	623	673	712	747	29.8	4.9	11.4
Total	5,429	5,722	5,989	6,319	6,532	20.3	3.4	100.0

Fee income keeps momentum

As the trading gains were significantly high during Q1FY10, the other income grew by a slower 3.4%yoy at Rs36.9bn. However, the fee income continues to grow at a healthy pace of 29.4%yoy driven by growth in loan Processing, non-funded business, income from third party products and government business.

Other income

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Fee/Commission income	18,620	21,030	21,900	34,858	24,096	29.4	-30.9
Trading gains/(losses)	7,088	5,454	4,370	4,256	1,734	-75.5	-59.3
Forex gains/(losses)	4,704	5,237	4,036	1,895	5,025	6.8	165.2
Dividend income	3,581	1,682	0	471	3,772	5.3	700.7
Other	1,694	1,848	3,351	3,606	2,272	34.2	-37.0
Total	35,688	35,252	33,657	45,085	36,900	3.4	-18.2

Source: Company, Emkay Research

Write back of wage provisions drive operating profit higher

SBI's operating profit grew by a higher 67.0%yoy to Rs61.3bn led by 10% decline in employee expenses. The employee expenses came down significantly during the quarter as the bank wrote back wage provisions of Rs8.5bn. Though the bank also provided Rs11bn for gratuity during the quarter, but this was in line with wage provisions and AS-15 pension provision of the similar tune in Q4FY10 and Q1FY10. Adjusted for these one off items the adjusted operating profit grew by 35% to Rs62.2bn. Adjusted for trading gains, the core operating profit grew by 55% yoy to Rs62.1bn.

Core operating profit growth at 54.6% yoy

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Reported operating profit	36,739	48,345	46,182	51,939	61,344	67.0	18.1
Add: wage revision provisions	6,270	4,810	4,830	4,830	-8,450	-234.8	-274.9
Add: AS-pension prov/ Gratuity	4,290	2,560	-	7,290	11,000	156.4	50.9
Adjusted operating profit	47,299	55,715	51,012	64,059	63,894	35.1	-0.3
Less: Treasury gains	7,088	5,454	4,370	4,256	1,734	-75.5	-59.3
Core operating profit	40,210	50,261	46,641	59,803	62,160	54.6	3.9

Source: Company, Emkay Research

Asset quality continue to witnesses more slippages

The slippages during the quarter remained higher at Rs40.8bn (2.5% annualised). However, stronger recoveries and upgradations saved the day. As a result, the gross NPAs went up by ~Rs13bn.

Around Rs17.8bn of the outstanding restructured assets slipped till date, resulting in a slippage ratio of 10.6%.

NPA analysis

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Gross NPAs	153,183	173,758	188,612	195,340	208,252	36.0	6.6
Net NPAs	84,025	99,273	112,708	108,700	110,744	31.8	1.9
Gross NPAs (%)	2.7	3.0	3.1	3.1	3.1		
Net NPAs (%)	1.6	1.7	1.9	1.7	1.7		
Net NPAs/Net worth (%)	13.9	15.4	16.9	16.5	16.1		
Provision cover (%)	45.1	42.9	40.2	44.4	46.8		

Source: Company, Emkay Research

Provisioning remains elevated; however provision cover still low

The bank overall provisioning stood at Rs15.5bn during the quarter including NPA provision of Rs17.3bn and write back on investment depreciation of Rs3.0bn. Despite elevated provisioning on NPA bank's provision cover grew by just 2.4% to 46.8% sequentially as the slippages were higher during the quarter.

The bank needs to provide ~Rs28bn for the 70% PCR which alongwith the fresh slippages would keep the provisions at elevated level of Rs18-19bn per quarter for next four quarters.

Provision break up

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
NPAs	12,342	9,974	4,437	21,868	17,334	40.4	-20.7
As % of advances	0.2	0.2	0.1	0.3	0.3		
Investment Depreciation	-12,005	-494	2,458	356	-2,983	-75.2	-938.9
Others	1,250	767	1,649	546	104	-91.7	-81.0
Total	1,727	10,161	8,566	23,494	15,514	798.1	-34.0

Source: Company, Emkay Research

Valuation and view

Our underlying argument for negative stand on the stock remains valid with gross slippages of Rs40.8bn (1.9% for FY10), however, the upgradations have surprised us positively. We are keeping our numbers unchanged for FY11E/12E but upgrading the P/ABV multiple to 1.5x. We maintain our REDUCE rating on the stock with price target of Rs2,650.

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	208,731	236,709	277,295	333,011
Other income	126,908	149,682	171,564	197,305
Net income	335,639	386,391	448,859	530,316
Operating expenses	156,487	203,187	199,680	221,577
Pre provision profit	179,152	183,204	249,180	308,739
PPP excl treasury	153,485	162,036	237,180	296,739
Provisions	37,346	43,948	74,107	87,738
Profit before tax	141,806	139,256	175,072	221,001
Tax	50,594	47,589	59,525	75,140
Tax rate	36%	34%	34%	34%
Profit after tax	91,212	91,667	115,548	145,861

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	6,349	6,349	6,349	6,349
Reserves	573,128	653,143	746,407	869,985
Net worth	579,477	659,492	752,756	876,333
Deposits	7,420,731	8,041,162	9,571,971	11,465,314
Borrowings	1,644,113	1,838,912	1,982,130	2,145,008
Total liabilities	9,644,321	10,539,566	12,306,857	14,486,655
Assets				
Cash and bank	1,044,038	961,838	1,118,968	1,340,300
Investments	2,610,650	2,696,626	2,983,552	3,494,755
Customer assets	5,573,922	6,480,416	7,793,639	9,233,659
Others	415,711	400,686	410,698	420,195
Total assets	9,644,321	10,539,566	12,306,857	14,486,655

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.8	2.6	2.7	2.7
Non-II/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	1.7	1.7
Provisions/avg assets	0.5	0.8	1.0	1.0
PBT/avg assets	1.5	1.3	1.4	1.5
Tax/avg assets	0.5	0.5	0.5	0.5
RoA	1.1	0.9	1.0	1.1
RoAE	17.1	14.8	16.4	17.9
GNPA (%)	3.3	3.3	3.1	3.0
NNPA (%)	1.8	1.7	1.3	1.1
Tier I (%)	7.5	7.4	7.1	7.1

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	91,229	91,725	115,548	145,861
Shares in issue (mn)	635	635	635	635
EPS (Rs)	143.7	144.5	182.0	229.7
PER (x)	19.4	19.3	15.3	12.1
FDEPS(Rs)	143.7	144.5	182.0	229.7
FDPER (x)	19.4	19.3	15.3	12.1
Book value (Rs)	912.7	1,038.8	1,185.7	1,380.3
P/BV (x)	3.1	2.7	2.3	2.0
Adj book value (Rs)	760.3	867.5	1,026.2	1,229.0
P/ABV (x)	3.7	3.2	2.7	2.3
P/PPP (x)	9.9	9.6	7.1	5.7
Dividend yield (%)	1.2	1.2	1.3	1.3

Recommendation History: State Bank of India – SBIN IN

Date	Reports	Reco	CMP	Target
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
31.07.2009	State Bank of India Q1FY10 Result Update	Reduce	1,723	1,400

Recent Research Reports

Date	Reports	Reco	CMP	Target
02.08.2010	Bank of India Q1FY11 Result Update	Reduce	410	350
29.07.2010	Corporation Bank Q1FY11 Result Update	Accumulate	565	600
27.07.2010	Union Bank of India Q1FY11 Result Update	Reduce	321	300
23.07.2010	Allahabad Bank Q1FY11 Result Update	Accumulate	185	220

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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