

RESULTS REVIEW

Share Data

Market Cap	Rs. 1358.1 bn
Price	Rs. 2,139.15
BSE Sensex	16,693.00
Reuters	SBI.BO
Bloomberg	SBIN IN
Avg. Volume (52 Week)	0.91 mn
52-Week High/Low	Rs. 2,195 / 894
Shares Outstanding	634.9 mn

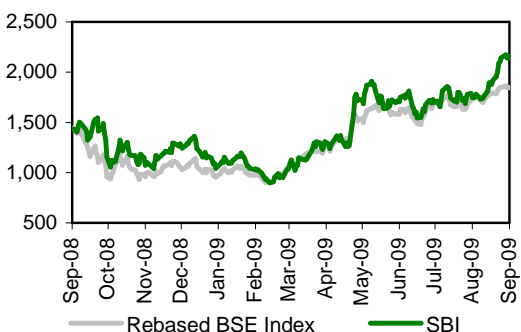
Valuation Ratios (Standalone)

Year to 31 March	2010E	2011E
EPS (Rs.)	174.4	220.1
+/- (%)	21.3%	26.2%
PER (x)	12.3x	9.7x
P / PPP (x)	6.6x	5.1x
P / ABV (x)	2.0x	1.7x

Shareholding Pattern (%)

Promoter	59
FII's	9
Institutions	16
Public & Others	16

Relative Performance



State Bank of India

Hold

Maintaining momentum despite hiccups

During Q1'10, State Bank of India's (SBI) results exceeded our expectation with net profit increasing 42.0% y-o-y to Rs. 23.3 bn. This was primarily a result of higher non-interest income and write-back of investment provisions. Though, rising fee income will play a key role to the Bank's bottom-line; we expect NIM to witness some strain, delinquencies to increase, and advances' growth to moderate in the upcoming quarters. Our DECF valuation suggests a fair value of Rs. 2,268, indicating a limited upside from the current levels. Further, the stock is trading at a P/B of ~2.3 (vis-à-vis an average P/B of ~1.2 for PSU banks) and has advanced significantly in the last three months. Hence, we maintain our Hold rating on the stock.

NIMs to see some strain in the near term: In Q1'10, NIM of the Bank declined 73 bps y-o-y to 2.30% led by higher level of liquidity on the balance sheet (evident from 57.1% y-o-y increase in investments compared to 22.5% growth in advances) and increase in cost of funds. Cost of funds increased because the Bank incurred high cost on its deposits (SBI was getting ~Rs. 10 bn/day in term deposits, which were offered at higher rates for much of Q3'09) and CASA ratio deteriorated from 41.7% in Q1'09 to 38.6%. We believe that margins would remain under pressure, as cost of funds will rise due to monetary tightening in the wake of expected increase in inflation; however, there will be no commensurate increase in the yields due to lower credit demand in the economy. Thus, for FY10 we expect margins to remain in the range of 2.3%-2.1%.

Key Figures (Standalone)

Quarterly Data	Q1'09	Q4'09	Q1'10	YoY %	QoQ%	FY08	FY09	YoY %
(Figures in Rs. mn, except per share data)								
Net Interest Income	48,177	48,419	50,249	4.3%	3.8%	170,212	208,731	22.6%
Net Operating Income	72,216	95,602	85,936	19.0%	(10.1%)	257,162	335,639	30.5%
Pre-Prov Oprtng. Profit	39,624	52,771	36,739	(7.3%)	(30.4%)	131,076	179,152	36.7%
Net Profit	16,408	27,423	23,304	42.0%	(15.0%)	67,291	91,212	35.5%
Cost/Oprtng. Income(%)	45.1%	44.8%	57.2%	-	-	49.0%	46.6%	-
Net Interest Margin	3.03%	-	2.30%	-	-	3.1%	2.9%	-
NPA ratio	1.42%	1.76%	1.55%	-	-	1.78%	1.76%	-
Per Share Data (Rs.)								
PPP per share	62.6	83.2	57.9	(7.5%)	(30.4%)	246.6	282.4	14.5%
EPS	25.9	43.2	36.7	41.7%	(15.0%)	126.6	143.8	13.5%
BVPS	802.4	912.7	973.7	21.4%	6.7%	776.5	912.7	17.5%

Advances growth to moderate: SBI's advances growth slowed down to 22.5% y-o-y and the credit-deposit ratio also slipped down to 71.1% vis-à-vis 78.9% in the corresponding period last year. We expect this trend to continue in the upcoming quarters. Given the sharp growth in advances in H2'09 and expectation of a muted growth for the Indian economy, we believe advances growth will be moderate in FY10. We thus expect advances to increase in a range of 20-23% in FY10 and FY11.

Asset quality to deteriorate further: During the quarter, SBI's gross NPA ratio increased from 2.54% in Q1'09 to 2.79%, and the net NPA ratio rose from 1.42% to 1.55% over the same period. In addition, the Bank restructured assets worth Rs. 81.2 bn in the quarter. Presently, the economic environment continues to remain uncertain and we expect delinquencies to continue rising, especially for SME portfolios. Moreover, we expect that the current deficient monsoon will also lead to increase in the number of defaults. Consequently, the Bank will need to increase its provisioning (current coverage ratio is 45.1%) and that will hurt the bottom-line. Our base case scenario assumes 2.9% gross NPA for FY10 and FY11.

Growth in fee income to support bottom-line: The Bank's other income jumped 48.5% y-o-y to Rs. 35.7 bn in Q1'10, increasing its share in the total operating income by 8.2 percentage points to 41.5%. The growth in other income was mainly due to sharp profit on sale/revaluation of investments and higher fee income. Core fee income, which comprised 52.2% of non-interest income, grew 44.9% y-o-y to Rs. 18.6 bn, while the profit on sale/revaluation of investment magnified 3x to Rs. 7.1 bn. Going forward, fee income is expected to grow at ~15% and ~25% in FY10 and FY11, respectively, on the back of the Bank's strong branch network and growth in advances.

Valuation

We have valued SBI using the sum-of-the-parts (SOTP) methodology:

- The (standalone) bank has been valued at Rs.1,905 using the DECF methodology, assuming a 16.18% cost of equity and a 12.17% terminal growth rate.
- Associate banks have been valued at target P/B multiples of 1.0x, resulting in a valuation of Rs. 208.
- SBI Life has been valued at a target NBAP (New Business Achieved Profit) multiple of 15x, which gives the life insurance business a valuation of Rs. 145.
- SBI Asset Management has been valued at 6% of its AUM, which offers a valuation of Rs. 24.
- SBI Capital Markets and SBI Cards & Payments have been valued at Rs. 28 and Rs. 17 respectively, using a target P/E multiple of 14x.

The SOTP fair-value estimate of Rs. 2,268 indicates an upside of 6.0% over the current market price of Rs. 2,139.15. The stock is currently trading at a P/B of ~2.3x, which in our view is relatively high, considering the uncertainty surrounding the Bank's delinquencies. Therefore, we maintain our rating to **Hold**.

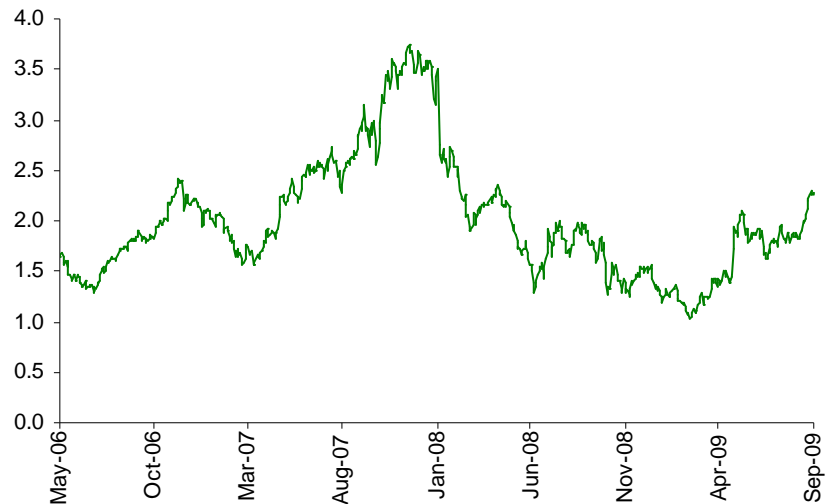
SOTP Methodology Table:

Target Price Calculation		
Name	Value	Basis
SBI - Standalone	1,905	DECF Valuation (Cost of equity: 16.18%, Terminal growth rate of 12.17%)
SBI Associate Banks	208	Target P/B multiple of 1.0x
SBI Life Insurance	145	Target NBAP multiple of 15x
SBI Mutual Fund	24	6% of AUM
SBI Capital Markets Ltd	28	Target P/E multiple of 14x
SBI Cards & Payments	17	Target P/E multiple of 14x
Less Investment in Sub./Associates	(59)	
Total	2,268	

Sensitivity Analysis of the SOTP Fair-Value Estimate:

Terminal growth	Cost of equity				
		15.68%	15.93%	16.18%	16.43%
11.67%	2,305	2,193	2,094	2,005	1,924
11.92%	2,412	2,286	2,176	2,077	1,989
12.17%	2,534	2,392	2,268	2,158	2,061
12.42%	2,674	2,513	2,372	2,249	2,141
12.67%	2,838	2,652	2,492	2,353	2,231

Historical P/B



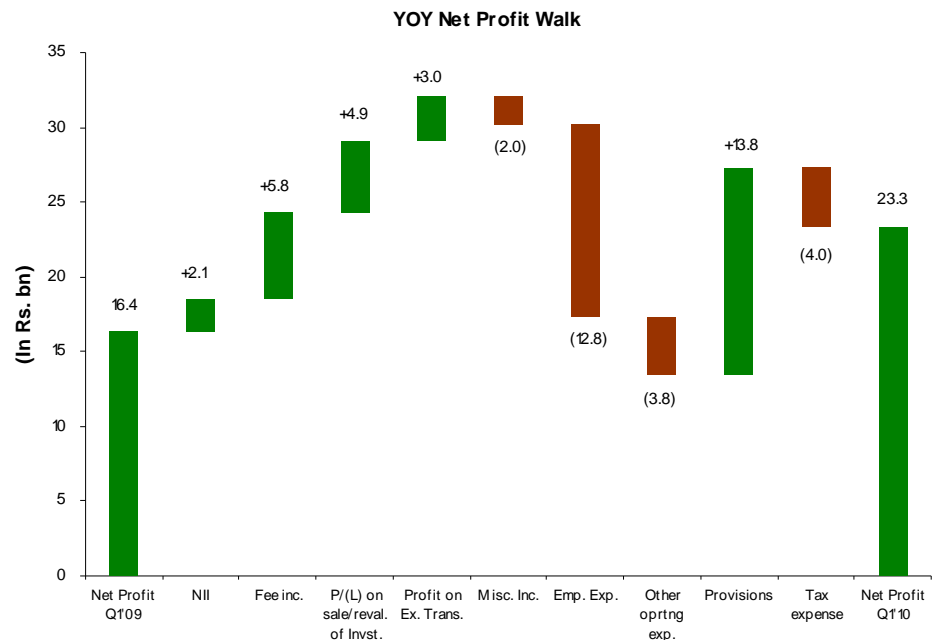
Source: CMIE

Result Highlights

Net Interest Income remained muted: During the quarter ended June 30, 2009, SBI's net interest income increased by a mere 4.3% y-o-y to Rs. 50.2 bn, as the growth in interest income (26.6% y-o-y to Rs. 174.7 bn) was offset by higher interest expense (up 38.6% y-o-y to Rs. 124.5 bn). This was a result of higher deposit growth (35.9%) which outpaced the advances growth of 22.5%. As a result, the Bank's NIM came under pressure and stood at 2.30% as against 3.03% in Q1'09.

Sharp increase in operating expenses...: The quarter witnessed a 51.0% y-o-y increase in the operating expenses to Rs. 49.1 bn. This was a result of a sharp rise of 60.1% y-o-y in the employee expenses after the bank provided Rs. 7.7 bn towards the provision for wage revision and Rs. 4.2 bn as pension contribution. Excluding the effect of the above, the increase in operating expenses was 14%. The cost-to-income ratio also rose from 45.1% in Q1'09 to 57.2%.

...Nonetheless, higher non-interest income provided a push to the net profit: Despite a muted growth in the net interest income, SBI's net profit for Q1'10 surged 42.0% y-o-y to Rs. 23.3 bn, primarily driven by a 48.5% increase in the non-interest income and lower provisions. The quarter witnessed a significant increase in the non-interest income on the back of higher fee income and treasury income. Further, lower provisioning was a result of the reversal of Rs. 12 bn of provisions made towards depreciation of investment on account of sharp recovery in the capital markets.



Capital adequacy and return Ratios

As per Basel II, the Bank's total capital adequacy ratio improved from 11.7% in Q1'09 to 14.12%. In addition, the Tier I capital adequacy ratio improved marginally from 8.29% in Q1'10 to 9.69%. In line with its expansion plans for the next 5 years, the Bank plans to raise Rs. 200 bn through a rights issue this year in order to augment its Tier I capital base.

For Q1'10, SBI's return on average equity was 15.88%, an increase of 3.02 pps over Q1'09. The Bank's return on average assets was 0.92%, as compared with 0.85% over the same period.

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY08	FY09	FY10E	FY11E		FY08	FY09	FY10E	FY11E
Interest Income	489,503	637,884	770,777	1,001,327	Per share data (Rs.)				
Interest Expense	319,291	429,153	531,378	712,709	Shares outstanding (mn)	631.5	634.9	634.9	634.9
Net Interest Income	170,212	208,731	239,399	288,618	Basic EPS	106.6	143.8	174.4	220.1
YoY Growth (%)	13.0%	22.6%	14.7%	20.6%	Diluted EPS	106.6	143.8	174.4	220.1
Other Income	86,949	126,908	159,763	196,252	Book value per share	776.5	912.7	1,060.9	1,236.8
Net Operating Income	257,162	335,639	399,162	484,870	Adj. book value per share	776.5	912.7	1,060.9	1,236.8
YoY Growth (%)	17.8%	30.5%	18.9%	21.5%	Valuation ratios (x)				
Operating Expense	126,086	156,487	193,181	217,736	P/PPP	7.7x	3.8x	6.6x	5.1x
Pre-Provisioning Profit	131,076	179,152	205,981	267,133	P/E	15.0x	7.4x	12.3x	9.7x
Provisions and Contingencies	24,499	37,346	39,753	52,337	P/B	2.1x	1.2x	2.0x	1.7x
Profit Before Tax	106,576	141,807	166,228	214,796	P/ABV	2.1x	1.2x	2.0x	1.7x
Tax	39,285	50,594	55,586	75,179	Performance ratio (%)				
Net Profit	67,291	91,212	110,642	139,617	Return on avg. assets	1.0%	1.1%	1.0%	1.1%
YoY Growth (%)	48.2%	35.5%	21.3%	26.2%	Return on avg. net worth	16.8%	17.1%	17.7%	19.1%
Balance Sheet					Balance Sheet ratios (%)				
(Rs mn, as on March 31)	FY08	FY09	FY10E	FY11E	Advances to deposits	77.6%	73.1%	74.0%	75.0%
Cash and balances with RBI	674,663	1,044,040	1,040,289	1,214,192	Borrowings to advances	12.4%	9.9%	14.2%	14.7%
Investments	1,895,013	2,759,540	3,461,903	4,202,739	Investments to assets	26.3%	28.6%	29.7%	29.4%
YoY Growth (%)	27.1%	45.6%	25.5%	21.4%	Investments to deposits	35.3%	37.2%	38.4%	37.9%
Advances	4,167,682	5,425,030	6,666,623	8,312,237	Tier I capital adequacy	8.5%	7.5%	7.1%	6.7%
YoY Growth (%)	23.5%	30.2%	22.9%	24.7%	Productivity ratio (Rs. mn)				
Fixed Assets (Net)	33,735	38,380	44,495	47,687	Opt. expense per employee	0.7	0.8	0.9	0.9
Other Assets	444,170	377,339	450,418	526,314	Net profit per employee	0.4	0.4	0.5	0.6
Total Assets	7,215,263	9,644,329	11,663,728	14,303,169	Asset per employee	40.3	47.2	53.1	58.9
Deposits	5,374,039	7,420,730	9,008,364	11,080,287	Operating ratios (%)				
YoY Growth (%)	23.4%	38.1%	21.4%	23.0%	Operating cost to net income	49.0%	46.6%	48.4%	44.9%
Borrowings	517,274	537,140	945,878	1,218,832	Operating cost to avg. assets	2.0%	1.9%	1.8%	1.7%
YoY Growth (%)	30.3%	3.8%	76.1%	28.9%					
Other Liabilities & Provisions	833,623	1,106,980	1,035,962	1,218,832					
Total Liabilities	6,724,937	9,064,850	10,990,204	13,517,950					
Share Capital	6,315	6,349	6,349	6,349					
Reserves & Surplus	484,012	573,130	667,176	778,870					
Total Equity & Liabilities	7,215,263	9,644,329	11,663,728	14,303,169					
All figures are for the Standalone Bank					Source: Bank data, Indiabulls research				
					Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank				

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.