

## State Bank of India

₹ 2129

NPA to Reverse

Accumulate



April 27, 2012

## Financial Performance

State Bank of India (SBI) reported strong performance during the quarter ended on December 31, 2011. Its Standalone total income rose by 20.4% to ₹ 297.87 bn in the quarter ended December 31, 2011, compared to ₹ 247.27 bn in the same quarter of the last fiscal. However the non-interest income of the bank declined by 38% yoy to ₹ 212.6 bn as against ₹ 331.4 bn forming a lower 19% of the total income. Core fee income of the bank grew poorly by 1.5% QoQ and 7% YoY has been low for a few quarters now due to weak economic activity. SBI delivered a substantial margin expansion of 30bps taking its quarterly Net interest Margin (NIM). Its Net interest income increased 26.6% to ₹ 114.63 bn from ₹ 905 bn in December 2010. As a result, SBI reported a 15.3% jump in standalone net profit at ₹ 326.3 bn for the third quarter ended December 2011 as compared to ₹ 282.8 bn during corresponding previous quarter. Gross nonperforming assets were at 4.61% as against 4.19% a year ago. On a consolidated basis, SBI's income stood at ₹ 431.56 bn during the Q3FY12, up 16.7% as against ₹ 369.67 bn during Q3FY11.

## Investment Rationale

## Asset quality to improve

The higher NPA was one of the reasons for deep correction in the banks. However the worst of the NPA cycle seems to be over. We expect to see improvement in terms of NPA cycle over next few months. Further the NPA of SBI was mainly due to higher exposure to airlines especially kingfisher and power sectors. The kingfisher airlines though still remains troubled have shown some signs of improvement. The decision to allow FDI would be a game changer for the airline. This could help the SBI see lower NPA in the coming quarters.

## Capital infusion not to restrict growth

With Tier-1 capital below 8%, the capital adequacy of SBI has been fragile. SBI recently approved to issue preference share to government which will infuse ₹ 79 bn in the bank. The bank is confident that its Tier-1 capital would improve to above 9% post infusion and including full-year profit plough bcks and thus CAR will not restrict its loan growth in the near future.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	764797.8	859620.7	963294.5
<b>Rev. growth (%)</b>	31.1	12.4	12.1
Net profit (₹ mn)	91215.7	91663.9	73706.9
Net profit (%)	35.5	0.5	(19.6)
Shares outstanding (mn)	6348826440	634998991	671044838
EPS (₹)	143.7	144.4	116.1
<b>EPS growth (%)</b>	34.8	0.5	(19.6)
P/E (x)	7.4	14.4	23.8
<b>ROCE (%)</b>	<b>15.7</b>	<b>13.9</b>	<b>12.7</b>

Arpit Jain

aj@indiratrade.com

## Previous Report

Date	: Jan 07, 2011
Recommendation	: Accumulate
Price	: ₹ 2607

## Market Data

52 Wk Range (₹)	: 2960/1576
Shares in Issue (mn)	: 671
Mkt. Cap (₹ bn)	: 1350
BSE 2 Wk Avg Vol	: 634000

## Share Holding Pattern (%)

Promoters	: 61.58
DII's	: 17.14
FII's	: 8.70
Others	: 12.58

## Investment Theme

SBI the largest bank on the country has surprised the market with strong growth. The bank's margin has improved strongly. As the banks approved issuance of preference share to government, it will be getting capital infusion to the tune of ₹ 78 bn. The key contributor to its NPA Kingfisher has shown some signs of improvement. Roping in a private equity could save the kingfisher and that could reduce the burden on the SBI's balance sheet. The bank has been conscious shedding high-cost bulk deposits as well as favourable re-pricing of costly retail TDs. It has also been aggressive to compete with private banks in the recent quarters. The abolishing of penalties in pre payment of housing loan, slashing educational loan and teaser loans have been the key growth drivers for the bank. We remain bullish on SBI and thus recommend to accumulate this stock.

Size Matters !

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Interest Earned	637884.3	709939.2	11.30	813943.6	14.65
Interest Expended	429152.9	473224.8	10.27	488679.6	3.27
NIM	208731.4	236714.4	13.41	325264	37.41
Other income	126913.5	149681.5	17.94	149350.9	(0.22)
Net Income	335644.9	386395.9	15.12	474614.9	22.83
Employee cost	97473.1	127546.5	30.85	144801.7	13.53
Depreciation	7631.4	9326.6	22.21	9905	6.20
Misc Expenses	97473.1	127546.5	30.85	144801.7	13.53
Operating Exp.	181236.6	249410.1	37.62	314308.8	26.02
Operating Income	444051.6	462804.1	4.22	479975.9	3.71
Provisions	63196.0	45325.3	(28.28)	86602.8	91.07
PBT	141806.6	139260.8	(1.80)	149542.3	7.38
Taxes	50594.2	47600.3	(5.92)	66897.1	40.54
Net Profit	91212.4	91660.5	0.49	82645.2	(9.84)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 08	Mar 09	Mar 10	Mar 11
Total Share Capital	6314.7	6348.8	6348.8	6350.0
Equity Share Capital	6314.7	6348.8	6348.8	6350.0
Share Application Money	0.0	0.0	0.0	0.0
Reserves	484011.9	573128.2	653143.2	643510.4
Revaluation Reserves	0.0	0.0	0.0	0.0
<b>Net Worth</b>	<b>490326.6</b>	<b>579477.0</b>	<b>659492.0</b>	<b>649860.4</b>
Deposits	5374039.4	7420731.3	8041162.3	9339328.1
Borrowings	517274.1	537136.8	1030116.0	1195689.6
Total Debt	5891313.5	7957868.1	9071278.3	10535017.7
Other Liabilities & Provisions	833623.0	1106975.7	803367.0	1052483.9
Total Liabilities	7215263.1	9644320.8	10534137.3	12237362.0
<b>Assets</b>				
Cash & Balances with RBI	515346.2	555461.7	612908.7	943955.0
Balance with Banks, Money at Call	159317.2	488576.3	348929.8	284786.5
Advances	4167682.0	5425032.0	6319141.5	7567194.5
Investments	1895012.7	2759539.6	2857900.7	2956005.7
Gross Block	89883.5	104030.6	118316.3	131892.8
Accumulated Depreciation	58491.3	68286.5	77139.0	87573.3
<b>Net Block</b>	<b>31392.2</b>	<b>35744.1</b>	<b>41177.3</b>	<b>44319.5</b>
Capital Work In Progress	2342.6	2634.4	2951.8	3322.3
Other Assets	444170.3	377332.7	351127.6	437778.5
Total Assets	7215263.2	9644320.8	10534137.4	12237362.0
Contingent Liabilities	7360875.9	6146034.7	4299173.7	5852945.0
Book Value (Rs)	7764.8	9127.3	10387.6	10234.0

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 11	Jun 11	Sep 11	Dec 11
Total Income	265368.4	277316.7	293943.2	297873.7
Interest Earned	217213.5	241974.4	259670.9	276614.2
Interest Expended	136633.0	144979.1	155451.5	161955.6
Net Interest Income (NII)	80580.5	96995.3	104219.4	114658.6
Other Income	48154.9	35342.3	34272.3	21259.5
Operating Expenses	109508.1	101482.2	97603.6	87392.3
Provisions	41569.8	41569.0	33855.0	24074.2
Exceptional Items	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0
PBT	19227.3	30855.4	40888.1	48525.8
Extra-ordinary Items	0.0	0.0	0.0	0.0
Non Recurring Item	0.0	0.0	0.0	0.0
Tax	19018.5	15019.9	12783.8	15895.4
Profit After Tax	208.8	15835.5	28104.3	32630.4

## 52 Week Index Relative Percentage Appreciation



## SBI vs SENSEX vs Bankex vs PSU

## Economy Overview

- ➔ RBI surprised the market by 50 bps in reverse repo for the first time in past three years. The bank's move will infusion roughly 800 bn in the economy. As the cost of borrowing becomes lower for the banks, they are set to pass it on to the customers. Many banks have already slashed their lending and deposit rates. SBI is expected to follow the suit. This also indicates that RBI is trying to boost the economic activity by infusing liquidity. We expect it can push the credit growth, as demand had been sluggish due to higher borrowing cost.
- ➔ In the Union Budget 2012-13, the Finance minister has proposed many encouraging decision for the equity markets. The announcement of Rajiv Gandhi Equity scheme could benefit the blue chip companies like SBI.

## Key Risks

- ➔ SBI's GNPL increased substantially by 18% QoQ to a higher 4.6%. The banks added rs Rs 82bn to NPAs up 158% YoY. Addition of slippage as well as Slippages from restructured assets portfolio continued to be high at Rs 19.3bn.
- ➔ Even though RBI as decided to go ahead with cut in rates to infuse liquidity, higher price due to depreciating Rupee and higher inflation could discourage the loan growth.

### In a Nutshell

The oldest bank in Indian subcontinent, SBI is the largest bank in India and owned by government of India. Along with its associate banks it controls 20% of banking sector in India. It enjoys an unparalleled trust in investor's mind. The operations of the banks are so robust that it's considered as a proxy to Indian economy. The bank has recently integrated two of its associate banks. The government has plans to integrate other associate banks too. A recent deterioration economy coupled with higher slippages has led to correction in the stock. However, its performance is improving. Its NIMs have remained healthy. SBI is using more aggressive strategies to drive the growth further. . The bank has been consciously shedding high-cost bulk deposits as well as favourable re-pricing of costly retail TDs. It has also been aggressive to compete with private banks in the recent quarters. The abolishing of penalties in pre payment of housing loan, slashing educational loan and teaser loans have been the key growth drivers for the bank. While slippages could remain high in the next few quarters, asset quality is expected improve with the cheaper borrowing cost. The key contributor to its NPA Kingfisher has shown some signs of improvement. Roping in a private equity could save the kingfisher and that could reduce the burden on the SBI's balance sheet. RBI has recently reduced the repo rate to infuse liquidity in the economy. We remain bullish on SBI and thus recommend to accumulate this stock.

### Indira Group Offices

<b>Registered Office</b>	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	<b>Tel :</b> +91-22-22656812 <b>Fax :</b> +91-22-22656985 <b>Email :</b> <a href="mailto:im@indiratrade.com">im@indiratrade.com</a>
<b>Administrative Office</b>	: Ramavat House, E-15 Saket Nagar, Indore 452018
	<b>Tel :</b> +91-731-2566361 <b>Fax :</b> +91-731-2562117 <b>Email :</b> <a href="mailto:ii@indiratrade.com">ii@indiratrade.com</a>
<b>Institutional Dealing Unit</b>	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	<b>Tel :</b> +91-22-30080675 <b>Fax :</b> +91-22-23870767 <b>Email :</b> <a href="mailto:ie@indiratrade.com">ie@indiratrade.com</a>

### Rating Interpretation

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

### Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. 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 company or companies and its or their securities, 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. The Analyst does not have any holding in this stock.