

**State Bank Of Travancore ₹ 595*****The Princely Affair !!!*****Accumulate**

February 24, 2012

**Company Background**

State Bank of Travancore (SBT) is a subsidiary of the State Bank Group and also has minority private share-holders. SBT was established as the Travancore Bank on Sep 12, 1945 under the patronage of the then Maharaja of Travancore. SBT offers all standard banking products in addition to innovative customer service practices. Traditionally, it has been an active player in gold loans and banker to the government of Kerala. The bank has the largest ATM network in state of Kerala and around 200 in other states in addition to support from 25,000 strong ATM network of parent SBI group. They are also corporate agents for SBI Life and Mutual Funds, five other mutual funds, United India Insurance and SBI Cards. The SBT has tie up with many money exchange companies and also manages City Exchange, a money remittance company.

SBT immediately became the bank of the Kerala state undertaking government treasury work and foreign exchange business, apart from its general banking business. It became a subsidiary of State Bank of India under the SBI Subsidiary Banks Act, 1959, enacted by the Parliament of India. Between 1959 and 1965, SBT acquired numerous small, private banks in Kerala. Today, SBT is amongst the largest associate banks of the State bank Group. It was the first public sector bank in India to link its network through satellite in 1994. It was also the first public sector bank to provide automated teller machines (ATMs) in Kerala. Recently, the Bank has signed MoU with Unique Identification Authority of India (UIDAI) to become registrars for UID Project of the Government of India.

**Financial Performance**

State bank of Travancore posted good financial results for the quarter ended on December 2011 (Q3FY12). The performance was in line with its steady growth. The Return on Equity for the previous FY was at 25%, which continues to be amongst the highest among Public Sector Banks. Its operations have continuously been growing at healthy rates. The net sales of the bank were up by 7% QOQ. The income from interest was ₹ 17.3 bn against ₹ 16.29 bn during Q2FY12. Operating margins remained same. However the net profit of the bank dropped by 13%. This was due to 85% jump in the tax provision.

**Financial Inclusion**

SBT is actively pursuing initiatives to improve Financial Inclusion and Financial Literacy. 29 villages in Kerala and 14 villages in Tamil Nadu have been allocated to the bank for financial inclusion. The bank has already fulfilled its financial inclusion target by extending banking services to all allotted villages in Kerala with one branch having been opened in one of the 29 such villages and Business Correspondent / Business Facilitator (BC/BF) services being rolled out in the remaining 28. It has also plans to open more Small Scale Industry (SSI) branches to support the industry in the state. The Bank has further expanded its credit deployment in Kerala, particularly in Housing Loans, Car Loans and other Retail Loans. Consequently, its CD Ratio in Kerala has improved from 59% in March 2010 to 62% in March 2011.

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**Info Codes**

Reuters	SBKT.BO
Bloomberg	SBTR@IN
NSE	SBT
BSE	532191

**Market Data**

52 Wk Range (₹)	: 841 / 451
Shares in Issue (mn)	: 50.0
Mkt. Cap (₹ bn)	: 29.51
BSE 2 Wk Avg Vol	: 9712

**Share Holding Pattern (%)**

Promoters	: 75.00
DII's	: 2.35
FII's	: 3.24
Others	: 19.41

**Investment Theme**

SBT is amongst the largest associate banks of SBI. It is the premier bank of Kerala & has very strong network in the state. It offers a variety of services & has many innovative products. In the last few years, SBT's income has been steadily rising. Its ROCE has remained amongst highest in PSU banks. Its mobile banking & self service utilities are getting good response which has helped the bank in clocking higher sales. The SBI has been acquiring its associate banks and SBT remains on the list. This offers great potential for investors in the long term. In the short term, the macro scenario is improving. SBT offers great discount compared to its parent SBI. We remain bullish on the bank & thus we recommend to accumulate the stock.

**Merging soon with an SBI near you**

## Investment Rationale

### ➔ Superior Business Profile

SBT has a very strong retail customer base. The successful implementation of financial inclusion has helped the Bank strengthen this base by penetrating into untapped rural market. The bank offers all standard banking products in addition to innovative customer service practices. Its gold loan portfolio is growing at a steady rate now. The bank has plans to open exclusive gold loan branches at all district headquarters in Kerala shortly. The bank has a significant portfolio in road transport companies/automobile finance, with tie-ups with all major players for financing customers. Kerala has very large population working abroad mainly in gulf countries. It is one of the largest contributors to remittance money coming in the country from abroad. The bank's interest income as well as fee based income has been improving steadily. We believe it would continue to do so with focussed efforts.

### ➔ NPA management

SBT has lesser challenges compared to other banks due to the sheer numbers of its retail portfolio. The loan portfolio includes essentially small retail loan such as agriculture, auto, housing etc. The percentage of Net NPA to Net advances remained just below 1%. The total CRAR position under Basel-II framework as on March 31, 2011 was 13% against a minimum of 9% prescribed by RBI. SBT has set up the Asset Tracking Centres (ATCs) through which its personnel are engaging with the borrowers.

### ➔ Macro environment improving

Reserve Bank of India recently cut CRR by 50 bps. To curb the inflation, RBI hiked key policy rates 13 times (350bps) since March 2010, since the RBI has started raising the key policy rates, the net interest margin (NIM) of the banks become under pressure. The monthly inflation, which compelled RBI to raise the interest rates, has fallen below the 9% for the first time in past 20 months or so. Further it has to improve the liquidity in the market. The RBI has indicated that rates could be cut further. Also most of the banks have reduced housing rate slightly. This could boost the demand which was hit due to peak rates & could turn positively for the banks who were badly hit.

### ➔ Merger with SBI

A key point for State Bank of Travancore is merger with its parent SBI. After taking over two associate banks State Bank of Saurashtra in 2008 and State Bank of Indore in 2010. SBI is planning to acquire State Bank of Mysore this year. As part of its consolidation strategy, India's largest bank wants to first merge the smaller associates before SBT. SBT is currently trading at steep valuation discount to SBI which is at historic low level, offering great prospects.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	48117.2	50011.0	60807.6
<b>Rev. growth (%)</b>	<b>24.0</b>	<b>3.9</b>	<b>21.6</b>
Net profit (₹ mn)	6078.4	6842.7	7277.3
Net profit (%)	57.4	12.6	6.4
Shares outstanding (mn)	50.0	50.0	50.0
EPS (₹)	121.6	136.9	145.5
<b>EPS growth (%)</b>	<b>57.4</b>	<b>12.6</b>	<b>6.4</b>
P/E (x)	1.7	4.5	5.1
<b>ROCE (%)</b>	<b>10.9</b>	<b>12.6</b>	<b>9.9</b>

## Banking industry on the verge of technological revolution-II

In the last decade or so, Indian banking sector was revolutionized by the computerization and core banking services. Though banking industry in India has developed and spread fairly, it remains fairly below the standards in developed countries. The industry has started to witness the change, mainly driven by technology. Transactions through self service mechanisms have increased significantly. Going forward, it is expected that more than half the transaction would be done through such mechanisms. Many banks are coming up with more paperless transactions facilities to cater to customers. These are not only helping in serving the customers, but also have helped in shooting up the volume and number of transactions. Mobile banking has also started to pick momentum. Also with the introduction of account portability customers with bank accounts in one bank will be able to use the same account number while moving to a new location. This is expected to bring in more flexibility in the banking system.

To accelerate the growth and wider spread of ATMs, the Reserve Bank recently issued draft guidelines permitting setting up of white label ATMs. State-run banks led by State Bank of India plan to install 40,000 White label ATMs, across the country. SBI recently sought offers from vendors for setting up 40,000 ATMs. The access to banking is especially troublesome in rural and remote areas around the country. Owing to high cost of ATMs, the number of ATM network in India has remained fairly low. This has been the key issue in lower penetration in rural & remote places.

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Interest Earned	41231.5	43781.2	6.18	52287.6	19.43
Interest Expended	28406	29779.4	4.83	35327.3	18.63
NII	12825.5	14001.8	9.17	16960.3	21.13
Other Income	5731	5279.6	(7.88)	5812.4	10.09
Net Income	18556.5	19281.4	3.91	22772.7	18.11
Employee Cost	4878.5	5315.4	8.96	7003.9	31.77
Selling & Admin Expenses	2008.5	2442.5	21.61	4326.3	77.13
Depreciation	413.4	428.2	3.58	469.4	9.62
Misc Expenses	5177.8	4252.6	(17.87)	3695.8	(13.09)
Operating Income	12853	12340.9	(3.98)	10847.7	(12.10)
Provisions	3939.1	2910.7	(26.11)	2027.4	(30.35)
PBT	8913.9	9430.2	5.79	8820.3	(6.47)
Tax	2835.5	2587.5	(8.75)	1543	(40.37)
Net Profit	6078.4	6842.7	12.57	7277.3	6.35

### 4 Years Balance Sheet

(₹ mn)

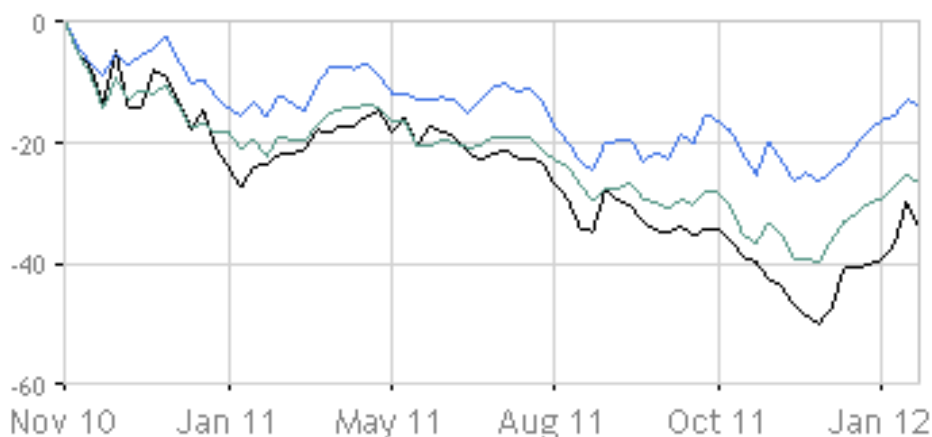
Balance Sheet as on 31 <sup>st</sup>	Mar 08	Mar 09	Mar 10	Mar 11
<b>SOURCES OF FUNDS</b>	<b>441045.6</b>	<b>494605.1</b>	<b>594547.1</b>	<b>709767.5</b>
Equity Share capital	500.0	500.0	500.0	500.0
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves	16681.1	21999.0	27905.8	34135.5
Revaluation Reserves	0.0	0.0	0.0	0.0
Net Worth	17181.1	22499.0	28405.8	34635.5
Deposits	353538.9	420419.2	508833.9	581579.2
Borrowings	28492.9	8077.6	32501.5	57265.0
Total Debt	382031.8	428496.8	541335.4	638844.2
Other Liabilities & Provisions	41832.7	43609.3	24805.9	36287.8
<b>USES OF FUNDS</b>	<b>441045.6</b>	<b>494605.1</b>	<b>594547.1</b>	<b>709767.5</b>
Cash & Balances with RBI	32748.5	23287.3	34680.4	47095.7
Balance with Banks, Money at Call	4126.5	1259.3	6651.2	1429.7
Advances	281366.2	327109.3	384612.6	460442.3
Investments	113529.5	132317.1	158443.9	179269.9
Gross Block	4677.9	5008.5	5700.5	6247.0
Depreciation	3015.8	3292.6	3672.3	4033.3
Net Block	1662.1	1715.9	2028.2	2213.7
Capital Work In Progress	0.0	0.0	0.0	0.0
Other Assets	7612.8	8916.3	8130.7	19316.2
Total Assets	441045.6	494605.2	594547.0	709767.5
Contingent Liabilities	153893.6	123963.5	98368.1	150922.8

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 11	Jun 11	Sep 11	Dec 11
Total Sales	14256.50	15698.90	16285.00	17318.20
Cost Of Sales	1948.10	1505.10	1484.00	1752.60
Total Income	16204.60	17204.00	17769.00	19070.80
Interest Expended	10039.10	11137.20	12104.60	12808.40
Net Interest Income (NII)	4217.40	4561.70	4180.40	4509.80
Operating Expenses	3927.40	4633.60	3909.90	4168.30
Operating profit	3151.00	2808.80	2995.20	3241.80
Exceptional Items	0.00	0.00	0.00	0.00
Depreciation	0.00	0.00	0.00	0.00
Provisions	913.00	1375.60	1240.80	1147.70
PBT	2238.00	1433.20	1754.40	2094.10
Non Recurring Item	0.00	0.00	0.00	0.00
Tax	(145.20)	40.70	584.90	1082.00
Profit After Tax	2383.20	1392.50	1169.50	1012.10

## 52 Week Index Relative Percentage Appreciation



## SBT vs SENSEX vs PSU

## Risks Associated

## ➔ Maintaining NIMs

Bank has witnessed strong loan growth. However banks had to mobilize high cost deposits, going forward to support loan growth. Now banks have started to reduce rates marginally to encourage customers. However inflation may force RBI to keep the interest rates high. Raised interest rates would also result in higher EMIs on home, car and personal loans and delay in corporate investment plans could lead to a cutback in banks lending. SBT has greater exposure to retail customer and gold financing NBFCs in Kerala. It stands a risk if RBI takes some tough stance on NBFC exposure.

## ➔ Impact of FII investments

Last couple of months, Indian stock market has seen unprecedented inflows of overseas funds. However, such portfolio investments are marked by sudden withdrawal triggered by global events. Even though Greek crisis has temporarily been averted, the risk of default remains and the capability of Greece to implement the deal is in questions. Sudden reversal of overseas portfolio investments could trigger a vacuum in the economy.

## In a Nutshell

State bank of Travancore is amongst the large associate banks of SBI. It is the premier bank of Kerala. It has a very strong network in the state. SBT was established as the Travancore Bank on September 12, 1945 under the patronage of the then Maharaja of Travancore. It is the premier bank of Kerala, India. The bank offers a variety of product and services suiting their needs it has introduced many innovative products. Bank has already fulfilled its financial inclusion target. The Bank has further expanded its credit deployment in Kerala, particularly in Housing Loans, Car Loans and other Retail Loans. Consequently, its CD Ratio in Kerala has improved from 59% in March 2010 to 62% in March 2011. In the last few years, SBTs income has been steadily rising. Its income is well diversified and its return on capital has remained amongst highest in PSU banks. Its mobile banking and self service mechanisms are getting good response which has helped the bank in clocking higher sales. The SBI has been acquiring its associate banks and SBT remains on the list. This offers great potential for investors in the long term. In the short term, the macro scenario is improving. Bank offers great discount compared to its parent SBI. We remain bullish on the bank & thus we recommend to accumulate the scrip.

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## 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

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