



State Bank of India – Q4FY11 update

18th May, 2011

Recommendation: *“Accumulate on dips”*

CMP: Rs. 2,361

Target price: Rs. 2,745

Upside from CMP: 16.3%

FV: Rs. 10

Q4FY11 Financial summary - (Rs. in mn)

Particulars	Q4FY11	Q4FY10	% yoy change	Q3FY11	% qoq change
Interest income	217,214	179,656	20.9	214,128	1.4
Interest expense	(136,633)	(112,441)	21.5	(123,630)	10.5
Net Interest income	80,581	67,215	19.9	90,498	(11.0)
Non Interest income	48,155	45,085	6.8	33,139	45.3
Total income	128,735	112,300	14.6	123,637	4.1
Employee cost	(42,188)	(35,918)	17.5	(35,117)	20.1
Other overheads	(25,750)	(24,443)	5.3	(20,876)	23.4
Total operating expenses	(67,938)	(60,631)	12.6	(55,992)	21.3
Operating profit (before provisions)	60,797	51,939	17.1	67,645	(10.1)
<i>Prov. For contingencies</i>	(41,570)	(23,494)	76.9	(20,515)	102.6
Loan Loss Provisions	(32,639)	(21,868)	49.3	(16,323)	100
Investment Depreciation	(3,045)	(356)	755	(2,088)	45.8
Standard Assets Provision	(6,311)	(725)	770	(2,250)	180.4
Other Provisions	425	(545)	-	146	191
PBT	19,227	28,445	(32.4)	47,130	(59.2)
Tax	(19,019)	(9,779)	94	(18,849)	0.9
PAT	209	18,666	(98.9)	28,281	(99.3)
Equity	6,350	6,348.8	0.02	6,350	-
EPS	0.33	29.4	(98.9)	44.54	(99.3)

Q4FY11 update

Net interest income witnessed yoy growth of 20% to touch Rs. 80.5 bn in Q4FY11 on account of good loan growth. However, on a qoq basis, it remained flat. Growth in non interest income at 6.8% was impacted by decline in profit on sale of investments by 21.3%. Operating income before provision for contingencies registered yoy growth of 17.1%. The growth could have been much

higher on lower employee provisioning. Operating expenses increased by 12.6% due to increase in employee costs by 17.5% to touch Rs. 8.6 bn in Q4FY11. Higher employee expenses were on account of high pension provisions. The bank did not take any reversal in gratuity provisions made in earlier quarters.

The bank's provisions for contingencies increased by a whopping 76.9% owing to standard provision of Rs. 5 bn for teaser rate home loans which SBI had introduced to gain market share. In addition to this, there was increased provisioning to march towards RBI's stipulated Provision Coverage ratio of 70%. The bank needs to make Rs. 11 bn more provisions to comply with RBI's PCR levels.

NIMs increased marginally by 11 bps on yoy basis to 3.07% in Q4FY11. This was mainly attributable to Domestic CASA ratio improving by 200 bps on yoy basis. However, on a qoq basis CASA ratio remained flat.

Deposits of the bank witnessed yoy growth of 16.1% to touch Rs. 9,339 bn mainly driven by CASA growth of 22.1% and term deposits growing up by 12.8%. On the other hand, loans registered yoy growth of 19.8% to Rs. 7,567 bn in Q4FY11.

On a qoq basis, SBI's non performing loans increased by 8%. Slippages rose by 80% on qoq basis, to Rs. 56.5 bn in Q4FY11, mainly attributed to higher slippages from the standard restructured assets portfolio. SME and agriculture sector witnessed higher slippages. According to the management, slippages were higher on account of NPLs being identified by technology driven system.

The bank's capital adequacy ratio as per Basel II, deteriorated by 141 bps to 11.98% (Tier I: 7.77%) in Q4FY11. The decline is mainly attributed to the provision made towards pension fund on account of wage revision of Rs. 79.2 bn deducted from shareholder's reserves. Accretion to reserves (Tier II) capital would help the bank to grow at a steady rate in FY12. However, the bank would be dependent on the planned rights issue of ~Rs. 200 bn to augment its Tier I capital.

Key Ratios (%)

Particulars	Q4FY11	Q4FY10	yoy change	Q3FY11	qoq change
<i>Capital Adequacy ratio</i>					
<i>As per Basel – I</i>	10.69	12.00	(131) bps	11.95	(126) bps
<i>As per Basel – II</i>	11.98	13.39	(141) bps	13.16	(118) bps
<i>Credit/Deposit (Domestic)</i>	76.32	73.56	276 bps	77.22	(90) bps
<i>Cost of Deposits</i>	5.26	5.8	(54) bps	5.2	6 bps
<i>Cost to Income ratio</i>	52.8	53.7	(90)bps	45.3	750 bps
<i>Domestic CASA</i>	48.7	46.7	200 bps	48.2	50 bps
<i>NIMs</i>	3.07	2.96	11 bps	3.61	(54) bps
<i>Net NPAs</i>	1.6	1.7	(10) bps	1.6	-
<i>Provision Coverage ratio</i>	51.2	44.4	680 bps	50.1	110 bps

Outlook and Recommendation

The bank's Q4FY11 numbers surprised the street on account of decline in net profitability owing to conservative accounting policy and one off provisions to clean up its books. In addition, NIMs declining by 54 bps on qoq basis and Net NPAs rising sharply on qoq basis disappointed the streets. At the CMP, the stock is valued at P/BV of 2.32x (FY11 Book Value). We believe, considering Q4FY11 numbers, the stock would remain under pressure for the short term. We would advice investors to accumulate the stock on dips with a target price of Rs.2,745 (2.3x FY12E Book value).

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