

RESULTS REVIEW

Share Data

Market Cap	Rs. 1120.6 bn
Price	Rs. 1,765.10
BSE Sensex	14,785.74
Reuters	SBI.BO
Bloomberg	SBIN IN
Avg. Volume (52 Week)	0.98 mn
52-Week High/Low	Rs. 1,935 / 894
Shares Outstanding	634.9 mn

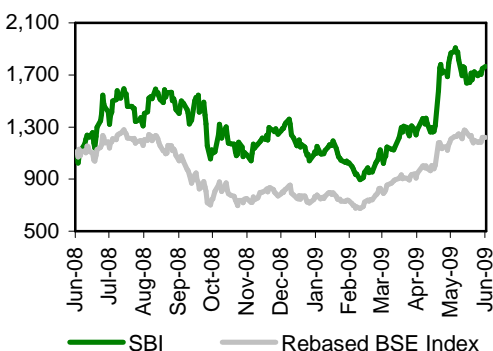
Valuation Ratios (Standalone)

Year to 31 March	2010E	2011E
EPS (Rs.)	177.0	250.6
+/- (%)	23.1%	74.3%
PER (x)	10.0x	7.0x
P / PPP (x)	4.0x	3.3x
P / ABV (x)	1.7x	1.4x

Shareholding Pattern (%)

Promoter	59
FII's	8
Institutions	16
Public & Others	16

Relative Performance



State Bank of India

Hold

Strong numbers, yet uncertainty ahead

Despite a debilitating economic environment, State Bank of India (SBI) exhibited a strong bottom-line for FY09. The Bank's FY09 net profit increased 35.5% yoy to Rs. 91.2 bn. While the growth in the first three quarters was led by NII, in Q4'09 it was dependent on other income. For the next few quarters, we foresee SBI's bottom-line to be pressured by declining yields, higher cost structure, and larger provisioning-outlay required due to rising delinquencies. The stock currently trades at a P/B multiple of ~1.5x, which we believe is high considering the uncertainty regarding the quantum of the Bank's delinquencies and the growth in SBI Life's new-business premium. We see limited upside from current levels and therefore, downgrade our rating to **Hold**.

Advances growth to moderate: SBI's advances increased 30.2% yoy and 7.7% qoq to Rs. 5.4 tn, chiefly led by international advances, and large-, mid-corporate, and SME loans. While we do believe that the basic industries (Iron & Steel, Petroleum), Infrastructure, and SMEs will continue to lead the loan-book growth, we expect growth to moderate at 24-26% for FY10. We have estimated this growth keeping in view the government's sizeable borrowing programme. Because of rising bond yields and declining corporate spreads, banks are likely to place their surplus funds in government bonds. In addition, rising bond yields run contrary to the low-interest rate regime that the RBI is trying to maintain. These factors, in our view, can potentially crowd-out credit disbursement to the private sector, and dampen loan growth.

Margins likely to remain under pressure: SBI's margin for FY09

Key Figures (Standalone)

Quarterly Data	Q4'08	Q3'09	Q4'09	YoY %	QoQ%	FY08	FY09	YoY %
(Figures in Rs. mn, except per share data)								
Net Interest Income	48,006	57,582	48,419	0.9%	(15.9%)	170,212	208,731	22.6%
Net Operating Income	76,178	80,675	95,602	25.5%	18.5%	257,162	335,639	30.5%
Pre-Prov Oprtng. Profit	43,731	44,826	52,771	20.7%	17.7%	131,076	179,152	36.7%
Net Profit	18,833	24,784	27,423	45.6%	10.6%	67,291	91,212	35.5%
Cost/Oprtng. Income(%)	42.6%	55.8%	44.8%	-	-	49.0%	46.6%	-
Net Interest Margin	-	3.1%	-	-	-	3.1%	2.9%	-
NPA ratio	1.78%	1.36%	1.76%	-	-	1.78%	1.76%	-
Per Share Data (Rs.)								
PPP per share	80.5	70.6	83.2	3.4%	17.8%	246.6	282.4	14.5%
EPS	34.7	39.0	43.2	24.8%	10.7%	126.6	143.8	13.5%
BVPS	776.5	872.9	912.7	17.5%	4.6%	776.5	912.7	17.5%

contracted by 14 bps yoy to 2.93%. While it exhibited an improving trend during the first three quarters on the back of rising yields, it corrected sharply in Q4'09 because of a severe fall in yields following a series of PLR cuts. Although the cost of funds declined as well and we expect it to continue to move further downhill, the yields are likely to fall faster because of another reduction in the PLR and a contraction in corporate spreads. Therefore, for Q1'10 we estimate the Bank's NIM to be in the range of 2.85% - 2.95%.

Delinquencies on the rise: SBI's gross NPA ratio declined from 3.04% to 2.84%, and the net NPA ratio declined from 1.78% to 1.76% at the close of FY09. The Bank's delinquencies (additions to gross NPAs) have, however, risen from 1.87% to 1.94% (as percentage of gross advances) despite the fact that it had restructured Rs. 83.1 bn (1.5% of Q4'09 advances) loans. Presently, the economic environment continues to remain uncertain and we expect delinquencies to continue rising, especially, for the Real Estate and SME portfolios. Consequently, the Bank will need to step up its provisioning and that will hurt the bottom-line. Without accounting for any further restructuring, we estimate a base-case scenario of gross NPAs at 3.02% of gross advances in Q1'10.

Valuation

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

- The (standalone) bank has been valued at Rs.1,513 using the DECF methodology, assuming a 16.24% cost of equity and a 10.5% 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. 19.
- SBI Capital Markets and SBI Cards & Payments have been valued at Rs. 31 and Rs. 17 respectively, using a target P/E multiple of 14x.

The SOTP fair-value estimate of Rs. 1,874 indicates an upside of 6% over the current market price of Rs. 1,765.10. The stock is currently trading at a P/B of ~1.5x, which in our view is relatively high, considering the uncertainty surrounding the Bank's delinquencies and its life insurance, and asset management businesses. Therefore, we downgrade our rating to **Hold**.

SOTP Methodology Table:

Target Price Calculation		
Company	Value	Basis
SBI - Standalone	1,513	DECF Valuation (Cost of equity: 16.24%, Terminal growth rate of 10.5%)
SBI Associate Banks	208	Target P/B multiple of 1.0x
SBI Life Insurance	145	Target NBAP multiple of 15x
SBI Mutual Fund	19	6% of AUM
SBI Capital Markets Ltd	31	Target P/E multiple of 14x
SBI Cards & Payments	17	Target P/E multiple of 14x
Less Investment in Sub./Associates	(59)	
Total	1,874	

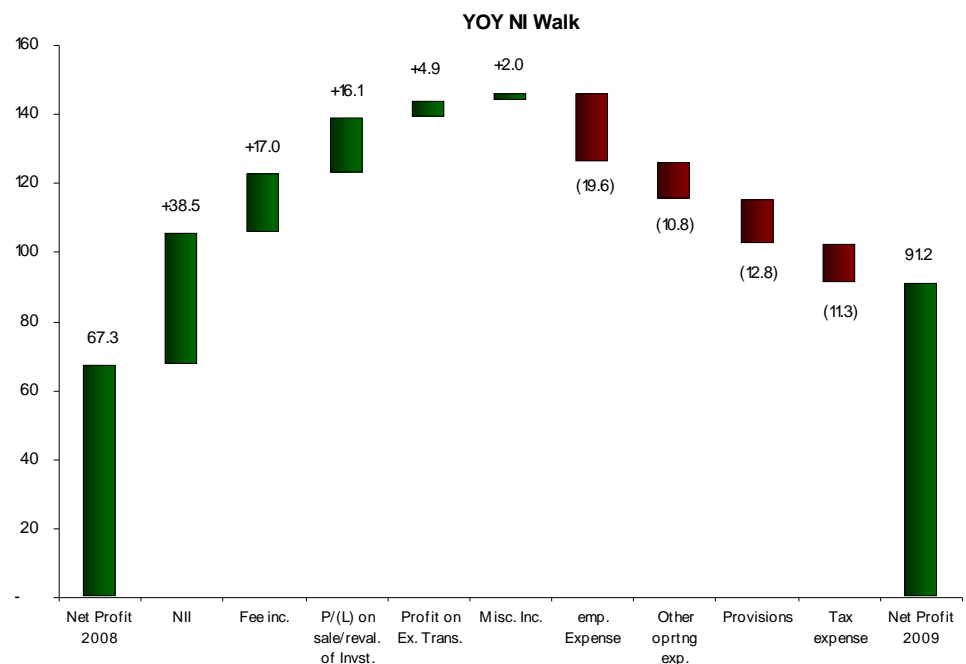
Sensitivity Analysis of the SOTP Fair-Value Estimate:

Terminal growth	Cost of equity				
	15.74%	15.99%	16.24%	16.49%	16.74%
10.00%	1,903	1,841	1,784	1,731	1,682
10.25%	1,955	1,888	1,827	1,771	1,719
10.50%	2,013	1,940	1,874	1,814	1,758
10.75%	2,077	1,998	1,926	1,860	1,800
11.00%	2,147	2,060	1,982	1,911	1,847

Result Highlights and Outlook

SBI's net profit for FY09 surged 35.5% yoy from Rs. 67.3 bn to Rs. 91.2 bn, primarily driven by a 22.6% increase in the NII and a 28.8% growth in commission and fee income, and a profit on revaluation of investments. Comparing on a like-to-like basis, net of revaluation profit, the net profit increased 13.5% yoy.

Sequentially, the growth in net profit was rather muted at 10.6% because of a sharp fall in the NII and miscellaneous income, which mitigated the rise in commission and fee income as well as the profit on exchange transactions. Further, a six-fold increase in provisions also pulled down the Bank's profit.



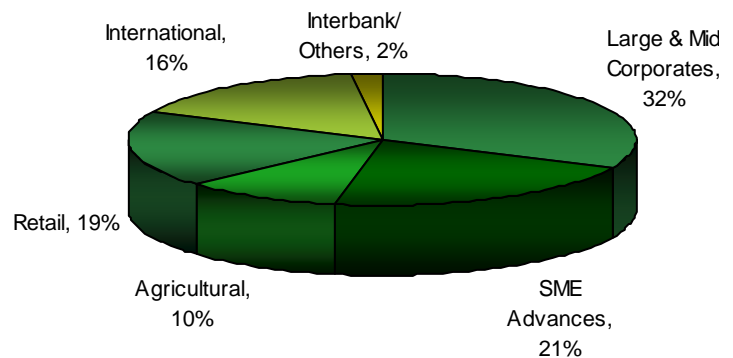
Figures in Rs. bn

Advances growth to moderate

SBI's advances increased 30.2% yoy and 7.7% sequentially to Rs. 5.4 tn, primarily driven by international advances, and large-, mid-corporate and SME loans. We estimate a growth of 5.5-6.0% in Q1'10 and 24-26% for FY10. Basic industries (Iron & Steel, Petroleum), Infrastructure, and SMEs are likely to remain the key drivers of growth. However, given a

burgeoning fiscal deficit, and the sizeable amount of the government's borrowing programme, we expect the level of liquidity available with banks (for disbursing credit to the private sector) to decline as banks increasingly deploy their surplus funds in government bonds. In addition, the rising fiscal deficit puts an upward pressure on yields which is contrary to the prevailing low-interest rate environment, and can potentially crowd-out credit disbursement to the private sector. Finally, the Bank's credit growth is also dependent on its ability to maintain its capital adequacy. Therefore, although the growth in credit is likely to remain high, it will be moderate compared to FY09.

Advances Portfolio as on Mar 31, 2009



Margins likely to remain under pressure

The Bank's NIM fell from 3.07% in FY08, to 2.93% for FY09. The NIM remained above 3.07% in the first three quarters; however, it was significantly lower in Q4'09. This resulted from a sharp fall in yields as a result of a series of PLR cuts. For Q1'10, we believe that the NIM will remain under pressure and range between 2.85%-2.95%, after improving from the lows of Q4'09. This is primarily because the Bank's cost of deposits is on a decline. However, the bank has reduced its PLR further and this should impact yields for the Retail portfolio. On the wholesale side, spreads commanded by corporates are fast reducing, which should further affect the Bank's margin adversely.

Other income growth to moderate

The Bank's other income for FY09 increased 46.0% yoy to Rs. 126.9 bn. The rise was driven by a 28.8% increase in the fee and commission income, a 168.2% increase in profit on revaluation of investments, and a 70.2% growth in income from exchange transactions.

Sequentially, the other income increased 46.3%, mainly driven by a rise in commission and fee income, and a 123.9% increase in the profit on revaluation of investments. For Q1'10, we expect the profit on investments to slow down as bond-yields touch new highs in the wake of the government's borrowing programme. Additionally, we do not expect the fee income to retain the same high that it had achieved in Q4'09 (having grown by 110% qoq to Rs. 33.9 bn). Therefore, for Q1'10 we expect other income to de-grow by 3-5% qoq.

Operating efficiency ratios likely to stabilise

For FY09, SBI's operating expenses increased 24.1% yoy to Rs. 156.5 bn because of the significant increase in the pension provisions from Rs. 5.7 bn to Rs. 15.3 bn; and the provision for wage increase from Rs. 5.8 bn to Rs. 13.8 bn. Sequentially, however, the operating expenses declined, largely because of a fall in the above-mentioned components.

In FY10-11, an uptick in operating expenses is likely because of the absorption of 46,703 new employees and the Bank's plans of merging its associate banks with itself. This can cause it to make provisions for absorbing the higher cost structures of these banks. However, the rise in expenditure is likely to be partially mitigated by lower pension provisions for FY10-11. Therefore, in the next couple of quarters, the cost-income ratio may decline marginally; however, we estimate it to stabilise around 42-43%.

Delinquencies on the rise

SBI's gross NPA ratio declined from 3.04% to 2.84% yoy. However, scrutiny reveals that as a percentage of gross advances, the addition to gross NPAs increased from 1.87% for FY08 to 1.94% for FY09. This increase occurred despite the Bank restructuring Rs. 83.1 bn in loans. In

addition, the Bank's coverage ratio has deteriorated from 42.2% in FY08 to 38.7% for FY09.

We believe that SBI is likely to witness increasing slippages in the near future, especially in the Real Estate and SME segments. The Bank will require making provisions for these, taking a hit in the P&L, which will adversely impact profitability.

Capital adequacy and return Ratios

As per Basel II, the Bank's total capital adequacy ratio improved to 14.25% as on March 31, 2009, as compared with 13.72% in Q3'09 and 12.64% in Q4'08. However, the Tier I capital adequacy ratio declined marginally from 9.44% to 9.38% qoq. 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 FY09, SBI's return on average equity was 17.82%, an increase of 2.09 pps over FY08. The Bank's return on average assets was 1.04%, as compared with 1.01% in FY08.

SBI Life—Premium collection likely to pick up

SBI Life's new-business premium for FY09 stood at Rs. 44.9 bn, a decline of 6.3% yoy. For FY10, we do not expect the trend to improve as presently there is considerable uncertainty about the economic outlook, and this is likely to weigh on the capital markets as well. We estimate a growth of 10-12% in the NBP.

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.