

State Bank of India

"BUY"
11th August, 2014

Result update	BUY
CMP	2400
Target Price	3100
Previous Target Price	3000
Upside	29
Change from Previous	3

Market Data

BSE Code	500112
NSE Symbol	SBIN
52wk Range H/L	2835/1452
Mkt Capital (Rs Cr)	180316
Average Daily Volume	106.65 cr
Nifty	7569

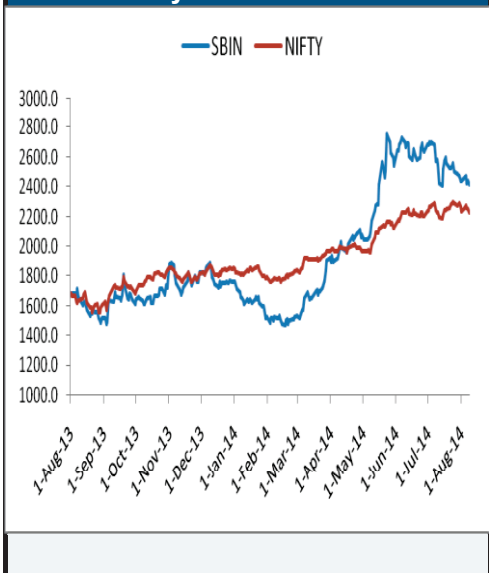
Stock Performance

	1M	1yr	YTD
Absolute	-6.4	43.5	43.5
Rel.to Nifty	-6.2	11.3	11.3

Share Holding Pattern-%

	Current	4QFY13	3QFY1
Promoters	62.3	62.3	62.3
FII	8.8	8.9	9.8
DII	17.9	17.7	16.7
Others	10.9	11.1	11.2

SBIN Vs Nifty



During quarter bank's operating as well as financial metrics were by and large stable. Margin expansion was happen by 10 bps YoY along with very steady growth in cost are some of big positive for the bank. Although fresh slippages were high which caused of worry but we believe with the revival in economy, asset quality would improve. Capital adequacy ratio at 12.6% in which tier 1 at 9.86% much healthier than other PSU banks is well enough for maintaining current growth rate. We have slightly tweaked our earnings estimate and raised our target price to Rs.3100/share from earlier of Rs.3000.

Modest growth in profit was led by lower non interest come

SBI reported modest set of numbers in during the quarter. Profitability was grown by 3% to Rs. 3349 cr which was in-line with our expectation of Rs. 3263 cr. Muted growth in profit was due to non supportive other income, however provisions and contingencies provided some comfort at PBT level but higher tax rate (36.7% vs 30.8% in 1QFY14) offset the benefit of lower provisions. After the fifth consecutive negative growth in profit at year on year basis, bank reported positive growth of 3%. We observed that higher cost income ratio had exerted pressure in earnings. This quarter bank reported CI ratio of 50% against average of 53% in previous five sequential quarters. Return ratio like ROA came down to 0.74% from 0.8% but was up at sequential basis from 0.68%. Due to compression in ROA, ROE declined to 11% from 12.4%.

NII growth at 15% YoY was due to margin expansion along with loan growth, CD ratio remained flat

NII reported 15% YoY to Rs.13252 cr in-line with our expectation (Rs.13246 cr). Margin was expanded by 10 bps along with credit growth of 13% supported bank to report NII at modest growth. CD ratio was remained flat at 84.5%. NII growth was higher in what it had reported in 1QFY14 (+3.5% YoY) but lower than 4QFY14 (+16.5% YoY). Non- interest income during the quarter was declined from Rs.4474 cr to Rs. 4252 cr (5% YoY lower) due to muted growth in fee income which was lower than loan growth. Within fee income segment, loan processing charges declined by 13% YoY while commission on letter of credit was just up by 6% (both of them are major contributor in fee segment). Government related business commission and transaction fees which include ATM operating and accounts maintenance registered growth of 23.5% and 37% YoY respectively. Bank booked Rs. 587 cr from sales of investment during the quarter as against Rs.1201 cr booked in last quarter which was down by 51% on year on year basis. With the lower support from non interest income, total revenue was up by 9%.

Financials

	2011	2012	2013	2014	2015E
NII	32526	43291	44331	49306	54196
Total Income	48351	57643	60366	67834	74438
PPP	25336	31574	31081	32109	34986
Net Profit	8265	11707	14105	10891	11686
EPS	130.2	174.5	206.2	159.2	156.5

(Source: Company/Eastwind)

State Bank of India

Steady operating expenses one of key positive

Operating cost was remained flat at year on year basis at 3% in which employee cost was just up by 0.5% YoY due to lower headcount and lower provisions for wage revisions. Other operating expenses were up by 9% YoY due to 86 branch addition in 1QFY15 86 branch additions in 1QFY14. Cost income ratio was declined from 53% to 50% which is one of key positive. Despite of muted growth in revenue, operating profit reported healthy growth at 16% YoY due to controlled cost income ratio.

Asset quality was by and large flat but higher fresh slippages caused us worry

Provisions and contingencies were declined by 41% at sequential basis; this was largely account of right back of investment depreciation to the tune of Rs. 552 cr as against right back of Rs.597 cr in previous quarter. Provisions for bad loan declined from Rs.5884 cr to Rs.3903 cr which is very positive for bank. In absolute basis, gross NPA declined by 2% sequentially while cumulative provisions for bad loans were declined by 6% QoQ as the result net NPA was up by 3% sequentially. In percentage basis gross NPA declined by 4 bps QoQ to 4.92% while net NPA was declined by 9 bps to 2.66%. Fresh addition during the quarter was Rs.9932 cr versus Rs.7947 cr which was due to higher slippages came from mid size corporate followed by agriculture and SME. In percentage term slippage ratio increased to 3.3% from 2.6% in previous quarter. Outstanding standard restructure assets stood at 3.44% of gross advances while impaired assets (gross NPA+ Restructure) stood at 8.36% during the quarter lower from 8.44% in previous quarter. Provisions coverage ratio was at 47.2% versus 49.5% in previous quarter.

Asset Quality	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15
Amount of GNPA	60891	64206	67799	61605	60434
Amount of NPA	29990	32151	37167	31096	31884
Amount of Provisions	30901	32055	30632	30509	28550
Slippage as a % of Advance	5.2	3.0	4.0	2.6	3.3
Provision Coverage Ratio	50.7	49.9	45.2	49.5	47.2
GNPA as % of Advance	5.7	5.8	5.7	5.0	4.9
NNPA as % of Advance	2.8	2.9	3.2	2.6	2.7

Margin improved by 10 bps YoY led by stable cost

Margin of the bank was expanded by 10 bps YoY and 5 bps QoQ at 3.54%. Yield on advances were improved to 10.58% versus 10.47% in previous quarter while cost of deposits was remained flat at 6.28% versus 6.27% in 4QFY14. Due to flat cost of borrowings, overall cost of fund was also remained flat at 6.42% from 6.41% in previous quarter. Yield on investment at sequential basis declined to 7.7% from 8.3% at sequential basis, however investment at sequential basis increased by 12% and share of its percentage to NDTL increased to 27.8% from 25.2% in previous quarter. Therefore we are expecting higher contribution in margin expansion from investment side as there is still low credit demand in the system.

State Bank of India

Loan growth was supported by corporate segment, riskier sector exposure declined

Loan growth was healthy at 13% YoY which was led by large corporate growth of 34% YoY followed by retail (12% YoY) and mid corporate (4.5% YoY) while international loan grew by 20% YoY. Within large corporate, infra segment reported growth of 29% YoY in which power sector exposure grew by 47% YoY and share of power sector within infra increased to 61% versus 53% in last quarter. Share to telecom declined to 18% from 15% in last quarter, road and port sector share declined to 9% from 15% from 12% and 17% respectively. Retail sector registered growth of 12% YoY in which housing segment reported 16% YoY growth while auto segment grew by 7% YoY.

Modest deposits growth but CASA share remained healthy

Deposits growth at 13% YoY was led by 15% YoY growth in term deposits followed by saving accounts deposits (12% YoY). Current account reported muted growth at 1% YoY which caused its share lower to 6.3% as against 7.3% in last quarter. Share of term deposits improved to 59.2% from 58% in last quarter while share of saving account deposits was remained flat at 34.5%. CASA in absolute basis up by 10% YoY while in percentage to total deposits, it stood at 41% declined from 42% in last quarter. Higher base of CASA continue to provide cushion on cost of fund in case of deposits rate increase. CASA is the one of major factor that keep cost of fund under controlled.

Deposits Trend	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15
Total Deposits	1257389	1292456	1349940	1394409	1418915
Demand Deposits	88955	80852	86552	110935	89710
Savings Bank Deposits	438639	445443	465833	469262	489422
Term Deposits	729795	766161	797555	814212	839783
CASA(Rs)	527594	526295	552385	580197	579132
CASA(%)	42.0	40.7	40.9	41.6	40.8

Valuation & View

During quarter bank's operating as well as financial metrics were by and large stable. Margin expansion was happen by 10 bps YoY along with very steady growth in cost are some of big positive for the bank. Although fresh slippages were high which caused of worry but we believe with the revival in economy, asset quality would improve. Capital adequacy ratio at 12.6% in which tier 1 at 9.86% much healthier than other PSU banks is well enough for maintaining current growth rate. We have slightly tweaked our earnings estimate and raised our target price to Rs.3100/share from earlier of Rs.3000.

State Bank of India

Quarterly Performance

	1QFY15	4QFY14	1QFY14	% YoY	% QoQ	1QFY15E	Variation(%)
Interest/discount on advances / bills	27560	26949	23846	15.6	2.3	28007	-1.6
Income on investments	8559	8228	7361	16.3	4.0	8371	2.3
Interest on balances with Reserve Bank of India	90	98	113	-20.4	-8.5	105	-14.4
Others	278	582	398	-30.2	-52.2	421	-34.0
Total Interest Income	36487	35858	31718	15.0	1.8	36904	-1.1
Others Income	4252	6586	4474	-5.0	-35.4	5061	-16.0
Total Income	40739	42443	36193	12.6	-4.0	41964	-2.9
Interest Expended	23235	22955	20206	15.0	1.2	23658	-1.8
NII	13252	12903	11512	15.1	2.7	13246	0.0
Other Income	4252	6586	4474	-5.0	-35.4	5061	-16.0
Total Income	17504	19488	15986	9.5	-10.2	18307	-4.4
Employee	5565	5279	5539	0.5	5.4	6113	-9.0
Other Expenses	3152	3581	2895	8.9	-12.0	3590	-12.2
Operating Expenses	8717	8861	8435	3.3	-1.6	9703	-10.2
PPP(Rs Cr)	8788	10628	7551	16.4	-17.3	8604	2.1
Provisions	3497	5891	2866	22.0	-40.6	3734	-6.4
PBT	5291	4737	4685	12.9	11.7	4870	8.6
Tax	1942	1696	1444	34.5	14.5	1607	20.8
Net Profit	3349	3041	3241	3.3	10.1	3263	2.6

Balance Sheet (Rs Cr)

Deposits	1418915	1394409	1257389	12.8	1.8
Borrowings	187328	183131	173789	7.8	2.3
Investments	446800	398308	419942	6.4	12.2
Loan	1198903	1209829	1060689	13.0	-0.9

Asset Quality

GNPA	60434	61605	60891	-0.8	-1.9
NPA	31884	31096	29990	6.3	2.5
% GNPA	4.9	5.0	5.7		
% NPA	2.7	2.6	2.8		
PCR(%) (w/o technical write-off)	47.2	49.5	50.7		

Source: Esatwind/Company

State Bank of India

Income Statement (Rs bn)	2013	2014	2015E	2016E
Interest/discount on advances / bills	90537	102484	114709	129104
Income on investments	27200	31954	35072	38363
Interest on balances with Reserve Bank of India	545	409	421	460
Others	1374	1521	1683	1841
Total Interest Income	119657	136369	151886	169768
Others Income	16035	18528	20243	22783
Total Income	135691	154897	172129	192551
Interest on deposits	67465	77885	86599	94724
Interest on RBI/Inter bank borrowings	4124	5152	5546	6066
Others	3737	4025	5546	6066
Interest Expended	75326	87062	97690	106856
NII	44331	49306	54196	62912
Other Income	16035	18528	20243	22783
Total Income	60366	67834	74438	85695
Employee	18381	22504	24855	28614
Other Expenses	10904	13221	14597	16805
Operating Expenses	29284	35725	39452	45418
PPP(Rs Cr)	31081	32109	34986	40277
Provisions	11131	15935	17544	19745
PBT	19950	16173	17442	20532
Tax	5846	5283	5756	6775
Net Profit	14105	10891	11686	13756
Balance Sheet (Rs bn)				
Equity Share Capital	684	747	747	747
Reserves & Surplus	98200	117536	127149	138666
Net Worth	98884	118282	127896	139412
Deposits	1202740	1394409	1551948	1697555
Borrowings	169183	183131	201666	220586
Other Liabilities & Prov.	95455	96413	143152	199796
Total Liabilities	1566261	1792235	2024661	2257349
Cash In hand	48990	47594	52608	57544
Money at Call	48990	47594	52608	57544
Investments	350927	398308	438403	479535
Loans	1045617	1209829	1349520	1518865
Fixed Assets	7005	8002	8768	9591
Other Assets	47892	43546	52608	57544
Total Assets	1566261	1792235	2024661	2257349
Ratio				
Yield on Advances	8.7	8.5	8.5	8.5
Yield on Investments	8.0	8.0	8.0	8.0
Yield on Funds	8.0	9.6	10.1	10.3
Cost of deposits	22.4	5.6	5.6	5.6
Cost of Borrowings	4.6	5.0	5.0	5.0
Cost of fund	5.5	5.5	5.6	5.6
Valuation				
ROE(%)	14.3	9.2	9.1	9.9
Book Value	1446	1584	1713	1867
P/BV	1.4	1.7	1.6	1.4

Source: Esatwind/Company