

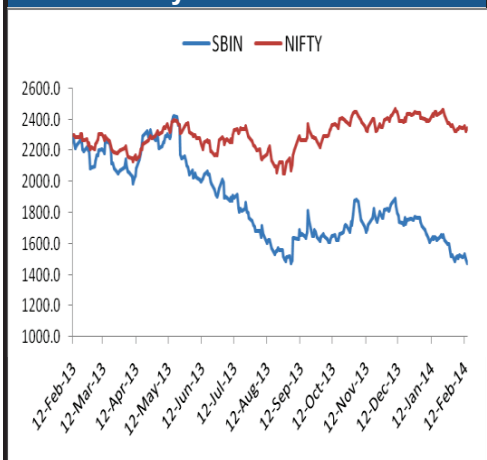
Result update	BUY
CMP	1473
Target Price	1779
Previous Target Price	1776
Upside	21
Change from Previous	-

Market Data	
BSE Code	500112
NSE Symbol	SBIN
52wk Range H/L	2469/1452
Mkt Capital (Rs Cr)	110126
Average Daily Volume	9.44 lakh
Nifty	6048

Stock Performance			
	1M	1yr	YTD
Absolute	-10.2	-35.8	-35.8
Rel.to Nifty	-5.9	-37.9	-37.9

Share Holding Pattern-%			
	Current	4QFY13	3QFY14
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 SBI's profitability declined by 34% largely due to higher provisions and contingencies led by deteriorating asset quality and higher tax in order to create DTL special reserve as per suggestion by RBI. However, bank has seen growth in loan and deposits which translated into growth in profit loss to some extent. Due to higher operating expenses, operating profit growth was negative despite of 14% growth in revenue. We value bank at Rs.1779/share which would be 1.1 times of FY14E's book value.*

### Moderate NII growth led by lower growth in interest earnings assets than interest bearing liabilities

Bank reported NII growth of 13.4% YoY to Rs.12641 cr lower than our expectation of Rs. 12959 cr largely due to lower interest income from advances than higher deposits and borrowing cost. Total income was grown by 13.7% YoY to Rs.16831 cr supported by other income growth of 15% YoY to Rs.4190 cr. Other income growth was led by exchange and commission income gain of Rs.2971 cr and forex income Rs.643 cr.

### Operating profit reported negative growth due to higher operating expenses led by employee benefit provisions

Operating expenses increased by 31.4% YoY to Rs.9212 cr in which employee cost and other operating cost increased by 35% and 25.7% respectively. Employee cost was led by higher provision for pension and gratuity to the tune of Rs. 1355 cr as against Rs.743 cr in 3QFY13 and Rs.1283 cr in 2QFY14. Adjusting the same, employee cost increased by 8% YoY. Operating profit was declined by 2.2% YoY to Rs.7618 cr. Cost income ratio increased by 735 bps YoY to 54.7% from 47.4% in 3QFY13.

### Moderate NII growth, higher operating expenses and higher provision and tax rate led profit de growth of 34% YoY

SBI's profitability was declined by 34% YoY largely due to higher provisions and contingencies led by deterioration in asset quality and higher tax rate in order to create DTL special reserve as per suggestion by RBI.

### Financials

	Rs, Cr				
	2011	2012	2013	2014E	2015E
NII	32526	43291	44331	49365	58302
Total Income	48351	57643	60366	65288	74225
PPP	25336	31574	31081	29105	33401
Net Profit	8265	11707	14105	10241	11765
EPS	130.2	174.5	206.2	149.7	172.0

(Source: Company/Eastwind)

# State Bank of India

## **Continue to report week trend of asset quality**

During quarter bank increased provisions and contingencies by 37% QoQ to Rs. 4150 cr due to deteriorating asset quality. In absolute term GNPA and net NPA increased by 6% and 16% sequentially. In absolute term, GNPA and net NPA stood at 5.9% and 3.2% versus 5.8% and 2.9% in 2QFY14 respectively. During quarter bank's loan loss provision increased by 29.6% sequentially and stood at Rs.23429 cr. Standard asset provisions and depreciation provisions were Rs.196 cr and Rs.621531 cr respectively. Net provisions were declined by 4% sequentially which resulted 16% rise in net NPA in absolute term. Consequently provision coverage ratio without technical writ off was declined by 475 bps QoQ to 45.2% from 50% in previous quarter.

## **Strong traction in loan and deposits growth**

Loan grew by 17.4% YoY led by across the sectors. Loan to large corporate grew by 17% YoY, mid corporate grew by 19%, SME grew by 14% and retail loan grew by 19%. Strong traction in auto loan (21.2% YoY) and house loan (19.4% YoY) led retail loan growth. Deposits grew by 17% YoY largely supported by 20% YoY growth in term deposits followed by saving deposits and demand deposits which grew by 8% and 13% respectively. Overall CASA ratio was declined by 153 bps YoY to 41%.

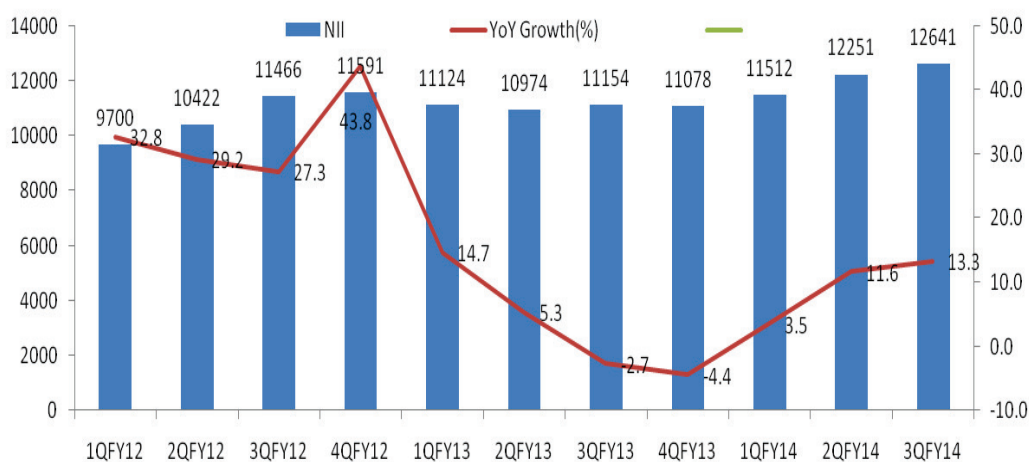
## **NIM declined on account of higher deposits cost and lower yield**

SBI's net interest margin was flat at 3.19% versus 3.18% in previous year. Domestic NIM declined by 2 bps to 3.49% while oversea NIM declined by 1 bps sequentially to 1.49%. Cost of deposits increased to 6.25% from 6.22% sequentially while yield on advances inch up to 10.4% from 10.3% in previous quarter. Credit deposits ratio marginally declined from 85.3% to 85.1%.

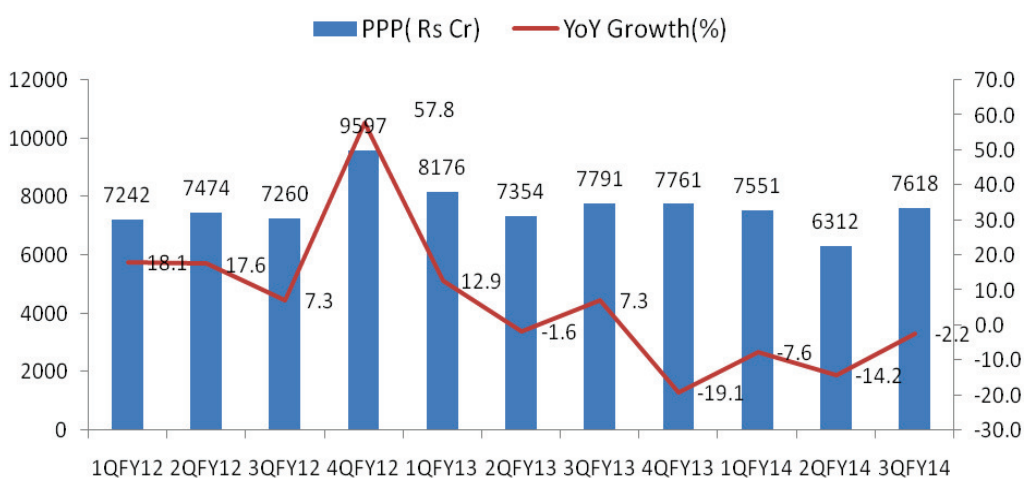
## **Valuation & View**

During quarter SBI's profitability declined by 34% largely due to higher provisions and contingencies led by deteriorating asset quality and higher tax in order to create DTL special reserve as per suggestion by RBI. However, bank has seen growth in loan and deposits which translated into growth in profit loss to some extent. Due to higher operating expenses, operating profit growth was negative despite of 14% growth in revenue. We value bank at Rs.1779/share which would be 1.1 times of FY14E's book value.

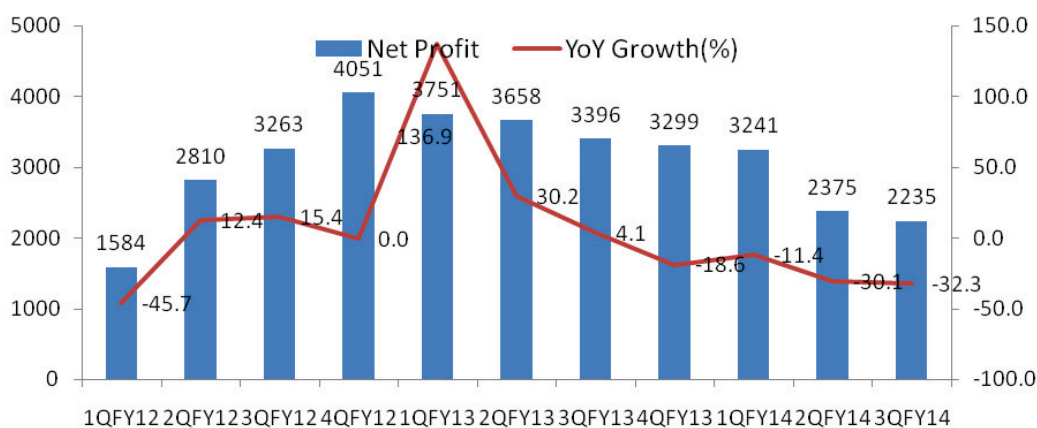
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Moderate NII growth led by lower growth in interest earnings assets than interest bearing liabilities



Operating profit reported negative growth due to higher operating expenses led by employee benefit provisions



Moderate NII growth, higher operating expenses and higher provision and tax rate led profit de growth of 34% YoY

Source: Esatwind/Company

# State Bank of India

## Quarterly Performance

	3QFY14	2QFY14	3QFY13	% YoY	% QoQ	3QFY14E	Variation(%)
Interest/discount on advances / bills	26310	25379	22800	15.4	3.7	25937	1.4
Income on investments	8228	8137	7072	16.3	1.1	8303	-0.9
Interest on balances with Reserve Bank of India	92	106	110	-16.1	-13.0	109	-15.9
Others	241	300	362	-33.3	-19.7	349	-30.9
Total Interest Income	34870	33922	30344	14.9	2.8	34699	0.5
Others Income	4190	3278	3648	14.9	27.8	3876	8.1
Total Income	39061	37200	33992	14.9	5.0	38575	1.3
Interest Expended	22230	21671	19189	15.8	2.6	21739	2.3
NII	12641	12251	11154	13.3	3.2	12959	-2.5
Other Income	4190	3278	3648	14.9	27.8	3876	8.1
Total Income	16831	15529	14803	13.7	8.4	16835	0.0
Employee	5867	5819	4351	34.8	0.8	6364	-7.8
Other Expenses	3345	3399	2661	25.7	-1.6	3737	-10.5
Operating Expenses	9212	9218	7012	31.4	-0.1	10101	-8.8
PPP( Rs Cr)	7618	6312	7791	-2.2	20.7	6734	13.1
Provisions	4150	3029	2668	55.5	37.0	3112	33.3
PBT	3469	3283	5123	-32.3	5.7	3622	-4.2
Tax	1234	908	1727	-28.5	36.0	1087	13.6
Net Profit	2235	2375	3396	-34.2	-5.9	2535	-11.9

## Balance Sheet (Rs Cr)

Deposits	1349940	1292456	1156691	16.7	4.4	1337803	0.9
Borrowings	189969	188937	148374	28.0	0.5	202402	-6.1
Investments	426728	398536	359959	18.5	7.1	415135	2.8
Loan	1148901	1103090	978115	17.5	4.2	1152774	-0.3

## Asset Quality

GNPA	67799	64206	53458	26.8	5.6		
NPA	37167	32151	25370	46.5	15.6		
% GNPA	5.9	5.8	5.5				
% NPA	3.2	2.9	2.6				
PCR(%) (w/o technical write-off)	45.2	49.9	52.5				

Source: Esatwind/Company

# State Bank of India

<b>Income Statement</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>
Interest/discount on advances / bills	59976	81078	90537	102590	120306
Income on investments	19826	23949	27200	32037	39720
Interest on balances with Reserve Bank of India	236	350	545	415	415
Others	1356	1144	1374	1253	1253
Total Interest Income	81394	106521	119657	136294	161693
Others Income	15825	14351	16035	15923	15923
Total Income	97219	120873	135691	152217	177616
Interest on deposits	43235	55644	67465	61066	70226
Interest on RBI/Inter bank borrowings	2562	3886	4124	10146	11668
Others	3071	3700	3737	0	0
Interest Expended	48868	63230	75326	86929	103391
NII	32526	43291	44331	49365	58302
Other Income	15825	14351	16035	15923	15923
Total Income	48351	57643	60366	65288	74225
Employee	15212	16974	18381	22795	25719
Other Expenses	7804	9095	10904	13388	15105
Operating Expenses	23015	26069	29284	36183	40824
PPP( Rs Cr)	25336	31574	31081	29105	33401
Provisions	17071	13090	11131	14253	16594
PBT	8265	18483	19950	14852	16808
Tax	0	6776	5846	4611	5042
<b>Net Profit</b>	<b>8265</b>	<b>11707</b>	<b>14105</b>	<b>10241</b>	<b>11765</b>
Deposits	933933	1043647	1202740	1383151	1590623
Change (%)	16.1	11.7	15.2	15.0	15.0
of which CASA Dep	461521	467607	539063	580923	668062
Change (%)	49	45	45	42	42
Borrowings	119569	127006	169183	215867	248248
Investments	295601	312198	350927	32037	39720
Loans	756719	867579	1045617	1202459	1382828
<b>Ratio</b>					
Yield on Advances	7.9	9.3	8.7	8.5	8.7
Yield on Investments	6.9	7.9	8.0	7.4	8.0
Yield on Funds	7.0	8.4	8.0	0.0	0.0
Cost of deposits	4.6	5.3	5.6	6.3	6.5
Cost of Borrowings	4.7	6.0	4.6	4.7	4.7
Cost of fund	4.6	5.4	5.5	5.4	5.6
<b>Valuation</b>					
ROE(%)	12.7	13.9	14.3	9.3	9.8
Book Value	1023	1251	1446	1617	1617
P/BV	2.7	1.7	1.4	0.9	0.9

Source: Esatwind/Company