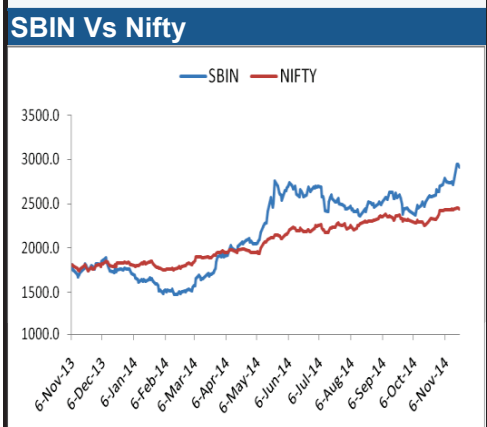


Result update	BUY
CMP	291
Target Price	350
Previous Target Price	300
Upside	20
Change from Previous	17

Market Data	
BSE Code	500112
NSE Symbol	SBIN
52wk Range H/L	298/146
Mkt Capital (Rs Cr)	89967
Average Daily Volume	20.7 lakh
Nifty	8382

Stock Performance			
	1M	1yr	YTD
Absolute	13.4	60.9	60.9
Rel.to Nifty	7.0	26.0	26.0

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



During quarter bank's operating and financial metrics were improved largely led by healthy balance sheet growth and stable asset quality. Fee income growth was healthy and controlled operating expenses along with stable margin would lead to healthy operating profit in FY15E and FY16E as per our view. Fresh slippages were lower during the quarter due to negative growth in riskier sectors. Capital adequacy ratio at 13% in which tier 1 at 10% much healthier than other PSU banks is well enough for maintaining current growth rate. We have raised our price target to Rs.350/share from Rs.300/share earlier which would be 2 times of FY15E book value.

Healthy growth in profit was led by improvement in NII and other income

SBI reported healthy set of numbers in during the quarter. Profitability was grown by 31% to Rs. 3100 cr which was in-line with our expectation of Rs. 3116 cr. Healthy growth in profit was due to improvement in NII and non interest income. Despite of 22% QoQ growth in provisions and contingencies, PBT registered growth of 26% YoY, however tax rate was lower to 25% as against 28% in last quarter. Return ratio like ROA improve to 0.66% from 0.57% but sequentially down from 0.74% and ROE improved to 9.9% from 8.8% in last quarter.

NII growth at 8% YoY was due to limited margin expansion and declined in CD ratio

NII reported 8% YoY to Rs.13275 cr as against our expectation of Rs.13495 cr. Margin was expanded by 2 bps along with credit growth of 10% supported bank to report NII at modest growth. CD ratio was declined to 82.1% from 85.3% in last quarter. Non- interest income during the quarter was healthy at 39% YoY to Rs.4571 cr led by 19% growth in fee income from Rs.12251 cr to Rs.13275 cr. Treasury income was Rs. 453 cr versus Rs.236 cr in last quarter while fore income registered growth of 122% to Rs. 466 cr. During quarter bank received dividend income of Rs. 41 cr versus Rs. 4 cr in 2QFY14 and miscellaneous income was Rs.500 cr as against Rs.213 cr in last quarter. With modest growth in NII but healthy growth in non interest income, bank's total revenue grew by 15% YoY to Rs.17845 cr.

Financials

	Rs, Cr				
	2012	2013	2014	2015E	2016E
NII	43291	44331	49306	57816	60493
Total Income	57643	60366	67834	76573	98007
PPP	31574	31081	32109	36585	46063
Net Profit	11707	14105	10891	13265	17633
EPS	17.5	20.6	14.6	17.8	23.6

(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 2% in which employee cost was decreased by 4% YoY due to lower headcount largely on account of about 11000 employees retired. Other operating expenses were up by 14% YoY due to 135 branches addition in 2QFY15 taking total of 16081 branches. Cost income ratio for the quarter stood at 53% versus 59% in last quarter. Operating expenses are expected to be high in coming quarter due to bank is planning to recruit large scale of employee and branch addition.

Asset quality was by and large flat with lower fresh slippages surprise us positively

Provisions and contingencies were up by 22% at sequential basis; this was largely account of right back of investment depreciation to the tune of Rs. 552 cr in previous quarter. Provisions for bad loan were up from Rs.3903 cr to Rs.4028 cr which is very positive for bank. In absolute basis, gross NPA was remained flat while cumulative provisions for bad loans were declined by 3% QoQ as the result net NPA was up by 3% sequentially. In percentage basis gross NPA stood at 4.91% versus 4.92% in previous quarter while net NPA was up by 7 bps to 2.73%. Fresh addition during the quarter was Rs.7700 cr versus Rs.9932 cr which was due to higher slippages came from mid size corporate followed by agriculture and SME. In percentage term slippage ratio increased to 2.5% from 3.3% in previous quarter. Outstanding standard restructure assets stood at 3.55% of gross advances while impaired assets (gross NPA+ Restructure) stood at 8.46% during the quarter lower from 8.36% in previous quarter. Provisions coverage ratio was at 45.6% versus 47.2% in previous quarter.

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

Loan growth was healthy at 10% YoY which was led by large corporate growth of 17% YoY followed by retail (11% YoY) but mid corporate declined by 3% YoY. International loan grew by 20% YoY. Within large corporate, infra segment reported growth of 31% YoY. Retail sector registered growth of 11% YoY in which housing segment share increased to 62% from 58% in last quarter. Deposits growth at 30% YoY was led by 34% YoY growth in term deposits followed by saving accounts deposits at 26% YoY and Current account growth at 14% YoY. CASA in absolute basis up by 24% YoY while in percentage to total deposits, it stood at 40% declined from 41% 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.

State Bank of India

Quarterly Performance

	2QFY15	1QFY15	2QFY14	% YoY	% QoQ	2QFY15E	Variation(%)
Interest/discount on advances / bills	27869	27560	25379	9.8	1.1	28105	-0.8
Income on investments	9061	8559	8137	11.4	5.9	8680	4.4
Interest on balances with Reserve Bank of India	105	90	106	-1.0	16.2	99	5.5
Others	228	278	300	-24.1	-18.0	397	-42.6
Total Interest Income	37263	36487	33922	9.8	2.1	37281	-0.1
Others Income	4571	4252	3278	39.4	7.5	4372	4.5
Total Income	41833	40739	37200	12.5	2.7	41653	0.4
Interest Expended	23988	23235	21671	10.7	3.2	23786	0.8
NII	13275	13252	12251	8.4	0.2	13495	-1.6
Other Income	4571	4252	3278	39.4	7.5	4372	4.5
Total Income	17845	17504	15529	14.9	1.9	17867	-0.1
Employee	5564	5565	5819	-4.4	0.0	5966	-6.7
Other Expenses	3860	3152	3399	13.5	22.4	3504	10.2
Operating Expenses	9423	8717	9218	2.2	8.1	9470	-0.5
PPP(Rs Cr)	8422	8788	6312	33.4	-4.2	8398	0.3
Provisions	4275	3497	3029	41.1	22.3	3747	14.1
PBT	4147	5291	3283	26.3	-21.6	4650	-10.8
Tax	1047	1942	908	15.3	-46.1	1535	-31.8
Net Profit	3100	3349	2375	30.5	-7.4	3116	-0.5

Balance Sheet (Rs Cr)

Deposits	1473785	1418915	1292456	14.0	3.9
Borrowings	186781	187328	188937	-1.1	-0.3
Investments	485734	446800	398536	21.9	8.7
Loan	1209648	1198903	1103090	9.7	0.9

Asset Quality

GNPA	60712	60434	64206	-5.4	0.5
NPA	32997	31884	32151	2.6	3.5
% GNPA	4.9	4.9	5.8		
% NPA	2.7	2.7	2.9		
PCR(%) (w/o technical write-off)	45.6	47.2	49.9		

State Bank of India

Income Statement (Rs bn)	2013	2014	2015E	2016E
Interest/discount on advances / bills	90537	102484	116001	129104
Income on investments	27200	31954	36560	38363
Interest on balances with Reserve Bank of India	545	409	333	460
Others	1374	1521	1059	1841
Total Interest Income	119657	136369	153953	169768
Others Income	16035	18528	18757	37514
Total Income	135691	154897	172710	207282
Interest on deposits	67465	77885	87378	98246
Interest on RBI/Inter bank borrowings	4124	5152	6497	6066
Others	3737	4025	2263	4963
Interest Expended	75326	87062	96137	109275
NII	44331	49306	57816	60493
Other Income	16035	18528	18757	37514
Total Income	60366	67834	76573	98007
Employee	18381	22504	24893	32725
Other Expenses	10904	13221	15095	19219
Operating Expenses	29284	35725	39988	51944
PPP(Rs Cr)	31081	32109	36585	46063
Provisions	11131	15935	16974	19745
PBT	19950	16173	19611	26318
Tax	5846	5283	6346	8685
Net Profit	14105	10891	13265	17633
Balance Sheet (Rs bn)				
Equity Share Capital	684	747	747	747
Reserves & Surplus	98200	117536	128683	146316
Net Worth	98884	118282	129430	147063
Deposits	1202740	1394409	1551948	1697555
Borrowings	169183	183131	196687	220586
Other Liabilities & Prov.	95455	96413	171392	134601
Total Liabilities	1566261	1792235	2049457	2199805
Cash In hand	65830	84956	74663	76726
Money at Call	48990	47594	55639	57544
Investments	350927	398308	511495	479535
Loans	1045617	1209829	1349520	1518865
Fixed Assets	7005	8002	8917	9591
Other Assets	47892	43546	49223	57544
Total Assets	1566261	1792235	2049457	2199805
Ratio				
Yield on Advances	8.7	8.5	8.6	8.5
Yield on Investments	8.0	8.0	7.1	8.0
Yield on Funds	8.0	9.6	10.2	10.3
Cost of deposits	22.4	5.6	5.6	5.8
Cost of Borrowings	4.6	5.0	4.5	5.0
Cost of fund	5.5	5.5	5.5	5.7
Valuation				
ROE(%)	14.3	9.2	10.2	12.0
Book Value	1446	1584	1734	1970
P/BV	1.4	1.7	1.7	1.5

Source: Esatwind/Company