

**Snapshot**

CMP	286
Target price	316/355
1 year High/Low	336/234
Market Cap: (in cr)	220,366
Face Value	1
Rating	Buy
Risk rating	Medium
Investment Period	Medium-term
NSE SYMBOL	SBIN

Shareholding Pattern (%)

	Current	Q3FY15	Q2FY15
Promoters	58.6	58.6	58.6
MF's & FI's	18.69	19.01	20.07
FII's	11.71	11.95	11.18
Others	11	10.44	10.15

Price Performance

	Stock	Nifty
1 Month	-1.1	-5.6
3 Month	-6.6	-6.1
12 Month	25.8	16

Valuation

We expect that SBIN's RoA & RoE to improve gradually over next two years due to provisioning expenses moderates in line with improving asset quality; bank is already going slow on mid-corporate and SME segments for few quarters now, CD ratio picks up and low yielding investments (30% of total assets currently) moves to loans, international NIM continues to improve further. We initiate our BUY rating with PT of Rs355 which corresponds to 2x FY16E ABV.

Trend setter for PUB banks:

SBI defied the trend for other PSU banks as it faces sequential decline in fresh slippages and was able to prevent any major damage to its bottom-line despite elevated provisions. Due to bottom out of Indian economy and pickup in recovery in coming quarters SBI's provisions could decline further. Opex efficiency continues as headcount declined further and bank expects ~9k employees to retire every year for next three years.

RBI's steps to improve asset quality:

Introduction of "5:25 structure": Able to extend finance to such projects without getting adversely impacted by asset-liability management (ALM) issues and tighter leash on willful/non-cooperative defaulters.

Superior liability franchise:

SBI Group has the best franchise garnering 30% of the industry's SA with just 24% of the industry's branches. Further, the productivity in garnering deposits reflected in CA/branch and SA/branch is also substantially higher even compared to private peers.

Hard stance against debtors:

Recent announcements of various corporate to sell non-core assets to deleverage balance sheets: Recently Jaypee and Lanco has sold assets worth ~INR 23,000cr.

Best placed to capture economic recovery:

Within PSU banks, given large stress assets recognition done through the NPA route, SBI has maximum upside potential to EPS. Also, its stressed assets are the lowest. There's strong correlation between slippages and GDP growth—with likely economic recovery, slippages should ease. Recoveries retracing to near historical average can significantly aid profitability of PSU banks as they are sitting on a large accumulated slippage pool.

Valuation Metrics

Year to March	FY14	FY15E	FY16E	FY17E
Diluted EPS (INR)	14.6	20.1	20.5	33
EPS growth (%)	-29.3	33.5	33.2	26.5
Book value per share (INR)	188	207.5	233	270
Adjusted book value/share (INR)	154	167.5	196.5	240
Diluted P/E (x)	19.5	14.2	11.1	8.6
Price/BV (x)	1.5	1.4	1.2	1.1
Price/ABV (x)	1.8	1.7	1.5	1.2

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