

January 25th, 2010

BUY

MEDIUM RISK

PRICE Rs.598

TARGET Rs.1260

BFSI

EARLIER RECO

Buy	
Price	Rs. 478
Target	Rs. 1260
Date	21 ST Aug.09

SHARE HOLDING (%)

Promoters	75.0
FII	2.8
FI	2.3
Body Corporates	3.2
Public & Others	16.7

STOCK DATA

Reuters Code	SBKT.BO	
Bloomberg Code	SBTR@IN	
BSE Code	532191	
NSE Symbol	SBT	
Market Capitalization	Rs. 30 bn US\$ 0.7 bn	
Shares Outstanding	50 mn	
52 Weeks (H/L)	Rs.650 / 176	
Avg. Daily Volume (6m)	8674 Shares	
Price Performance (%)		
1M	2M	3M
11	4	27
200 Days EMA: Rs.493		

Part of  Classic

Muted YoY Performance due to High Base; Excellent Performance Sequentially

- State Bank of Travancore (SBT) reported a 37% YoY decline in PAT due to a high base effect and higher provision on account of wage revision, but the business seems to have improved on a sequential basis. Advances growth was decent at 16% YoY whereas deposits grew by 20%. NII declined by 4% YoY, but sequentially NII improved sharply by 19% led by QoQ margin improvement. NIM improved sequentially by 8 bps to 2.8%. Non-interest income fell by 14% YoY owing to a fall in treasury income. Profit Prior to Provisioning fell by 14% YoY, owing to lower NII and muted treasury income. The Bank made a onetime provision for wage revision of Rs. 666 mn, which has resulted in sharp 42% decline in PBT and 37% YoY decline in PAT. Sequentially, PAT improved by 35% over Q2FY10.
- Bank is well capitalized with CAR of 13.6% and Tier I of 9% under Basel II. Its Gross NPA percentage increased to 2% (from 1.8% in Q2FY10) while Net NPA's increased marginally to 0.9%. Its Coverage ratio (without considering write offs) is at 54%. We expect Banks PAT growth to be decent at 26% YoY in Q4FY10, resulting in FY10E Net profit growth of 16%.
- The Bank's Deposit franchise includes a niche NRI customer base that contributes +20% of deposits (one of the highest in industry), which gives it a strong cost advantage over peers. Hence, about 32% CASA share and 26% NRI deposit, results in very high share of low cost deposits (+40% excluding the overlaps). This will help the bank in maintaining its low funding cost, going forward.

SBT, established in 1945, is one of the six associate banks of State bank of India (SBI). SBI holds 75% stake in the Bank. The Bank has strong presence in Rural and semi-urban areas of the Southern states with a network of 735 branches and 623 ATMs as on Q3FY10. Out of this, about 585 branches and 400 ATMs are in Kerala (largest ATM network in the state). SBT's cost-efficiency, profitability, strong local network and high technology make it an attractive standalone franchise. Also, SBT enjoys the strong franchise of SBI along with other operational benefit like treasury operations and IT initiatives. SBT has a total business size of about Rs. 840 bn as on Q3FY10. The Bank maintains a premier position in Kerala with a market share in business of 22.3% as on Dec'08 with 14.6% of the total branch network in the state.

In the past 9 years, SBT's Business grew at about 20% CAGR and Net Profit by +25% CAGR. Bank has been able to maintain its ROE at +25%. Gross and Net NPA decreased drastically from 6.7% and 3.1% in FY03 to 1.65% and 0.6% in FY09 respectively. We expect its business to grow at 18-20% in FY10-11. We expect Net Interest Income and Net Profit to grow at 16% CAGR over FY10-11E.

OUTLOOK & VALUATION

At current market Price, Stock is available at 0.9x FY11E ABV and PE of 3.7x FY11E, which is very attractive given its strong ROE of +25% and ROA of 1.3%. Maintain Buy rating with price target of Rs. 1260 (at 1.8x of its FY11E ABV). Strong business growth, well-capitalized with Tier I of +9% under Basel II, good Margins, high CASA share of +30% with very high NRI deposit, high sustainable ROE of +25%, strong regional presence and very high franchise value, coupled with +2.3% dividend yield are the key positive factors.

KEY FINANCIALS

Y/E	EPS (Rs.)	EPS (% Chg)	ROE (%)	NIM (%)	NET NPA (%)	CASA (%)	P/ABV (x)	PER (x)	P/PPP (x)	Div Yield (%)
FY09	122	57.4	30.6	3.0	0.6	32.4	1.5	4.9	2.8	2.1
FY10E	141	16.4	27.6	2.8	0.7	32.0	1.2	4.2	2.6	2.3
FY11E	163	15.5	25.3	2.8	0.6	31.6	0.9	3.7	2.1	2.6

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Please refer to important disclosures at the end of the report

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(Rs mn)	Q3FY10	Q3FY09	YoY growth (%)	Q2FY10	QoQ growth (%)
Interest earned	11,162	11,076	0.8	10,620	5.1
- on Advances / Bills	8,539	8,561	(0.3)	8,223	3.8
- Income on investments	2,439	2,260	7.9	2,316	5.3
- On bal with RBI	28	59	(52.8)	25	9.6
- Others	157	196	(20.0)	56	181.3
Interest Expended	7,435	7,209	3.1	7,490	(0.7)
Net Interest Income	3,727	3,867	(3.6)	3,130	19.1
Other income	1,430	1,659	(13.8)	1,089	31.3
Operating income	5,157	5,526	(6.7)	4,220	22.2
Total Operating expenses	2,179	2,060	5.8	1,983	9.9
- Employee expenses	1,296	1,237	4.7	1,412	(8.2)
- Other expenses	883	823	7.3	571	54.6
Operating profit	2,978	3,466	(14.1)	2,236	33.2
Provisions & contingencies	761	(344)	(321.0)	433	75.5
PBT	2,217	3,810	(41.8)	1,803	23.0
Provision for Tax	568	1,202	(52.8)	578	(1.7)
PAT	1,650	2,609	(36.8)	1,225	34.7
EPS	33	52	(36.8)	24	34.7
Advances	356,880	308,820	15.6	349,250	2.2
Deposits	481,960	402,200	19.8	455,340	5.8
Gross NPAs	7,072	6,244	13.3	6,473	9.3
Net NPAs	3,287	3,543	(7.2)	2,997	9.7
Ratio (%)	Q3FY10	Q3FY09	YoY chg (bps)	Q2FY10	QoQ chg (bps)
Gross NPAs (%)	2.0	2.0	(4.0)	1.8	13.0
Net NPAs (%)	0.9	1.2	(23.0)	0.9	6.0
Coverage ratio	53.5	43.3	1,026.1	53.7	(17.6)
ROA Annualised	1.2	1.2	(2.0)	1.2	2.0
C/I Ratio	42.3	37.3	497.8	47.0	(475.3)
BASEL II - CAR	13.6	14.4	(75.0)	13.8	(20.0)
BASEL II - Tier I	8.9	8.6	30.0	8.9	5.0
Cost of Deposits	6.1	6.4	(33.0)	6.2	(14.0)
NIM	2.81	-	NA	2.7	8.0

OUTLOOK & VALUATION

At current market Price, Stock is available at 0.9x FY11E ABV and PE of 3.7x FY11E, which is very attractive given its strong ROE of +25% and ROA of 1.3%. Maintain Buy rating with price target of Rs. 1260 (at 1.8x of its FY11E ABV and 1.5x FY12E ABV). Strong business growth, well-capitalized with Tier I of +9% under Basel II, good Margins, high CASA share of +30% with very high NRI deposit, high sustainable ROE of +25%, strong regional presence and very high franchise value, coupled with +2.3% dividend yield are the key positive factors.

PROFIT & LOSS STATEMENT

(Rs.bn)

Y/E March	FY08	FY09	FY10E	FY11E
Interest income	34.3	41.2	44.5	52.7
Interest expense	24.8	28.4	30.2	35.6
Net interest income	9.6	12.8	14.4	17.2
Growth %	(3.5)	34.0	12.2	19.3
Other income	4.4	5.7	5.6	6.3
Total income	14.0	18.6	20.0	23.4
Operating expenses	6.9	8.0	8.4	9.1
Pre-provision Profit	7.1	10.6	11.6	14.3
Total Provision	1.8	2.5	1.7	2.5
- Provision for NPL	1.4	2.2	1.5	2.2
PBT	5.3	8.0	9.8	11.8
Provision for Tax	1.4	1.9	2.8	3.7
PAT	3.9	6.1	7.1	8.2
Growth %	(4.1)	36.8	17.3	24.7
PPP (Excl. Treasury)	6.7	9.1	10.7	13.3
Growth %	(4.1)	36.8	17.3	24.7

BALANCE SHEET STATEMENT

(Rs.bn)

As on 31 st March	FY08	FY09	FY10E	FY11E
Cash balance	37	25	29	42
Advances	281	327	386	463
Investments	114	132	165	187
- Government Securities	106	117	146	168
Fixed assets	2	2	2	2
Current assets	8	9	9	10
Total Assets	441	495	591	704
Equity Capital	0.5	0.5	0.5	0.5
Reserves & Surplus	17	22	28	35
Shareholders' funds	17	22	29	36
Deposits	354	420	502	598
- Demand deposits	104	136	161	189
- Term deposits	250	284	341	409
Borrowings	28	8	9	10
Subordinated debt	17	17	23	27
Current liabilities	25	26	29	33
Total Liabilities	441	495	591	704

Source: Company, Sushil Finance Research Estimates

FINANCIAL RATIO STATEMENT

Y/E March	FY08	FY09	FY10E	FY11E
PROFITABILITY RATIO				
EPS (Rs)	77.2	121.6	141.5	163.4
Earnings growth (%)	18.3	57.4	16.4	15.5
CEPS (Rs)	86.9	129.8	150.4	173.0
PPP / Share (Rs)	141.8	211.3	231.3	286.6
ROAA (%)	0.9	1.3	1.3	1.3
ROAE (%)	23.3	30.6	27.6	25.3
Dividend per share (Rs)	10.0	13.0	14.3	16.0
Dividend Payout (%)	15.2	12.5	11.8	11.4
EFFICIENCY RATIO (%)				
Cost-Income ratio (Excl Tr.)	50.8	46.7	44.0	40.5
Salary / Non Interest cost	60.5	61.0	60.9	60.9
Other Inc (Excl tr.) / Net Total Inc (Excl Tr.)	29.3	25.0	24.7	23.4
Cost Asset Ratio	1.7	1.7	1.5	1.4
CASA	29.3	32.4	32.0	31.6
ASSET QUALITY RATIO (%)				
Gross NPLs	2.0	1.6	1.9	2.0
Net NPLs	1.0	0.6	0.7	0.6
Coverage	53.1	65.4	63.3	70.6
Provision/ Loans	0.5	0.7	0.4	0.5
ASSET-LIABILITY PROFILE (%)				
Capital Adequacy Ratio	12.7	12.1	12.7	12.3
- Tier I CAR	6.9	7.4	7.8	7.6
Adv. / Deposit Ratio	79.6	77.8	77.0	77.4
Equity / Assets	3.9	4.5	4.9	5.1
Equity / Loans	6.1	6.9	7.4	7.8
Loan Growth	14.2	16.3	18.0	20.0
Deposit Growth	14.1	18.9	19.3	19.3
Balance Sheet Growth	15.9	12.1	19.5	19.1
SPREADS ANALYSIS (%)				
Yield on Advances	9.8	10.4	9.6	9.5
Yield on Investments	7.3	7.0	6.6	6.7
Cost of funds	7.0	7.0	6.4	6.4
NIM (Calculated)	2.6	3.0	2.8	2.8
VALUATION				
Dividend Yield (%)	1.6	2.1	2.3	2.6
BVPS (Excl. Revaluation Res)	343.6	450.0	574.7	719.5
Adjusted BVPS	290.1	412.3	521.7	663.3
P/E (x)	7.7	4.9	4.2	3.7
P/PPP (x)	4.2	2.8	2.6	2.1
P/ABV (x)	2.06	1.45	1.15	0.90

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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