



Recommendations: Invest

Key Investment Arguments

- YTC of 9.25% to 9.50% as against YTM of 8.50% to 8.75% in comparable bonds.
- Given, the YTC of the bond is greater than YTM of the comparable bonds; we expect a listing gain of 1% to 2%.
- Given the longer tenor of the bond, the liquidity is expected to be high.

Issuer:

State Bank of India

Open Date: October 18, 2010

Close Date: October 25, 2010

Face Value: Rs 10,000

Redemption Value: Rs 10,000

Issue Size:

Rs. 500 Cr

Greenshoe option of Rs 500 Cr

Issue Allocation:

Investor Type	Investment Limit	% of Issue Size
Retail Portion	< Rs 5 lacs	50%
HNI Portion	> Rs 5 lacs	25%
NII/Corp./QIBs	NA	25%

Registrar to the Issue:

Datamatics Financial Services Limited

Listing: NSE

Credit Rating:

“AAA” by CARE

“AAA/Stable” by CRISIL

SBI retail bond issue provides an opportunity to invest in bonds of India’s largest public sector bank with 12,496 domestic branches and 142 branches outside India. Based on its robust fundamentals and business operations, the bank is well positioned to discharge its debt obligations. Currently, the AAA rated bond with tenor of 5yrs and 10yrs are trading at an YTM of 8.50% and 8.75% respectively. While the SBI retail bond provides an YTC of 9.25% to 9.50%, providing a straightway benefit of 50bps to 75bps. Since the YTC is higher than that of comparable bonds, the bond is likely to give a listing gain of 1% to 2%. Given the longer duration of the bond, the liquidity is expected to be high and can be exited before the maturity. So, we advise the investors to invest in the bond.

Investment Rationale

Higher than Market Returns....

Tenors	G-Sec Yield	AAA Spread	AAA Yield	YTC Series I	YTC Series II
5 Year (% p.a.)	8.00	0.49	8.49	9.25	-
10 Year (% p.a.)	8.25	0.51	8.76	-	9.50

A comparison between YTC of the issue and YTM on similar bonds reveals that the issue is providing returns higher by 50bps to 75bps.

.....Leading to Listing Gains

With the higher YTC of the issue than YTM of comparable bonds trading in secondary market, the issue is expected to give listing gain of 1% to 2%.

Liquidity Expected to High

As the tenor of the bond is high, post issue liquidity of the bond in secondary market is expected to high. Therefore, the investment can be exited anytime before the maturity through secondary market.

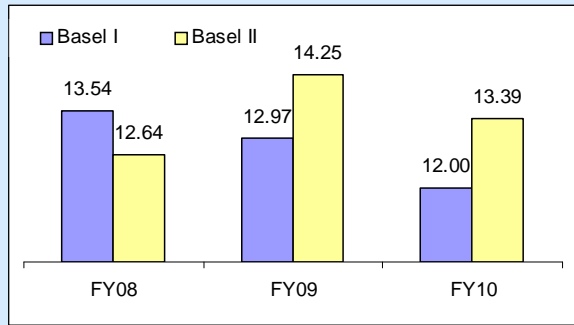
Issue Features

Lower Tier II Bonds	Series 1	Series 2
Interest frequency	Annual	Annual
Issue Price (Rs./ Bond)	10,000	10,000
Minimum Application (Rs)	10,000	10,000
In Multiples of (Rs)	10,000	10,000
Coupon (% p.a.)	9.25%	9.50%
Tenor (Years)	10	15
Call Option (Year)	5th	10th
Yield to Call (% p.a.)	9.25%	9.50%
Yield to Maturity (% p.a.)	9.45%	9.60%
Step-up, if bond not called	0.5%	0.5%
Interest on Application Money		
Allotment (% p.a.)	9.25%	9.50%
Refund to Allottees (% p.a.)	6%	6%
Refund to Non-Allottees (%p.a.)	4%	4%

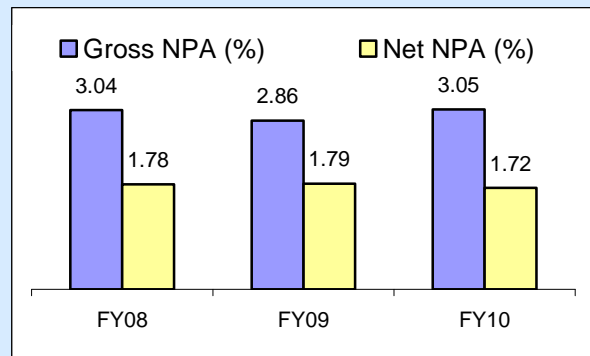
Objective of The Issue

- To improve the Bank’s Capital Adequacy Ratio (CAR)
- To augment the long-term resources for increasing the business

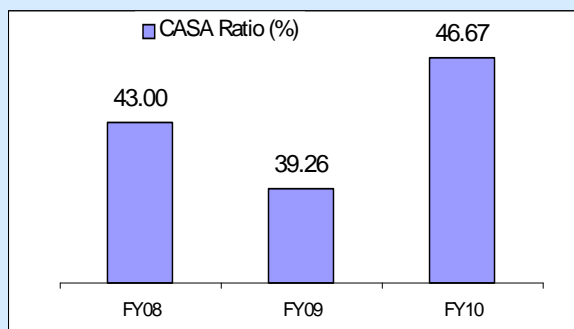
Capital Adequacy Ratio



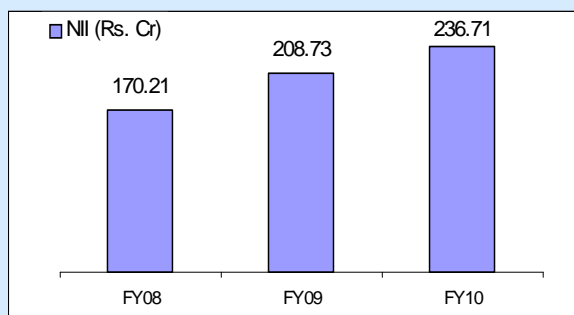
NPAs



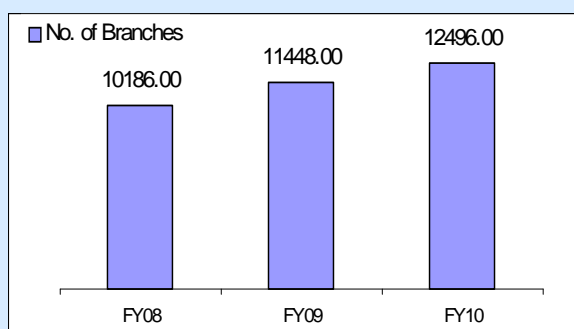
CASA Ratio



Net Interest Income



Branches



Business Analysis

Higher than Statutory Required CAR

The Bank's capital position, as measured by its Basel II and Basel I capital adequacy ratios of 13.39% and 12%, respectively, as of March 31, 2010 (higher than mandatory levels of 9%), allows it to take advantage of significant growth opportunities in the market.

Maintained Lower levels of NPAs

The bank has maintained lower levels of NPAs with gross NPAs at 3.05% and net NPAs at 1.72%, mainly driven by higher provision coverage ratio of 59.23% backed by farmers debt relief waiver scheme stipulated by Government of India. Furthermore, overall gross NPAs stands lower among other PSU banks like Bank of Baroda, Punjab National Bank.

Increased CASA ratio to improved profitability

CASA deposits grew much faster by 26.8% YoY leading to 741 bps improvement in CASA ratio to 46.7%.

Increased Net Interest Income

The bank has been able to witness steady growth in net interest income on advances and investments. This improvement can be explained by traction in low cost deposits especially in saving deposits and re-pricing of high cost bulk deposits.

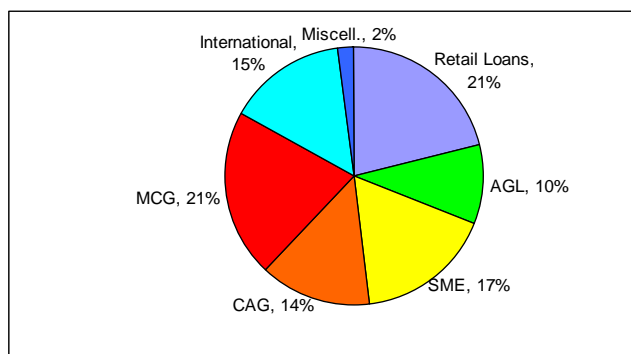
Further Geographical penetration

The Bank is on continuous expansion mode adding further 1048 domestic branches to 12,496 branches during FY2010. It intends to increase revenues generated from its banking business by expanding its distribution network, growing its customer base and diversifying its banking product mix. In addition, the Bank is expanding into the more rural areas of India where growth potential is significant.

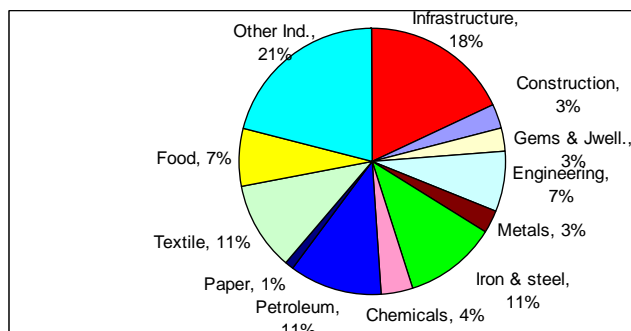
Well Diversified Loan Book

The Bank's loan book has picked up to Rs 641,480 Cr as on 31st March 2010. The market share of the bank is increases to 16.28% during FY10. The loan growth was supported by growth in auto loan, education loan and home loan segment.

Following is the loan book across segments



Following is the loan book across industries:



For Further Details/Clarifications please contact

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NSE - INB 231219636, INF 231219636

BSE - INB 011219632

Red Herring prospectus can be downloaded from the following link:

www.sebi.gov.in/dp/coaldrhp.pdf