
September 15, 2010

**CARE ASSIGNS 'CARE AAA' RATING TO INNOVATIVE PERPETUAL DEBT OF
STATE BANK OF HYDERABAD**

CARE has assigned 'CARE AAA' [Triple A] rating to the proposed issue of Innovative Perpetual Debt Instruments of State Bank of Hyderabad (SBH) amounting to Rs.200 crore.

Instruments	Amount (Rs. crore)	Ratings¹	Remarks
Innovative Perpetual Debt Instrument (IPDI)	200	'CARE AAA' (Triple A)	Assigned

CARE has rated the aforesaid Perpetual Bond issue taking into consideration its increased sensitiveness to SBH's capital adequacy ratio, capital raising ability and profitability during the tenure of the instruments. The rating also factors in additional risk arising due to the existence of lock-in clause in these hybrid instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in-clause would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating as compared to conventional subordinated debt instruments.

Rating Rationale

The rating factors in the bank's parentage [100% ownership by the State Bank of India] as well as its robust risk management systems and processes which are aligned with SBI. Furthermore, SBH also benefits from the operational and managerial synergies arising from the association with SBI especially in key areas like credit, technology, treasury etc. The rating also takes into account the bank's asset quality which is the best amongst the other SBI associate peers and stable restructured assets portfolio, which has shown no slippages. The bank's ability to increase its low cost deposits base and grow its business while maintaining its spreads and its asset quality would be the key rating sensitivities.

Company Profile

SBH is an associate and member of the State Bank Group, the largest banking group in India. State Bank of India (SBI) is the sole promoter holding 100% of stake. SBH has a network of 1185 branches as on March 31, 2010 with a substantial footprint in Andhra Pradesh where 64% of its branch network is concentrated.

¹ Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications

During FY10, SBH earned a net profit of Rs.822.7 crore on Total Income of Rs. 7,175.5 crore, on the back of lower interest expenses and write-backs of provisions on investments. During Q1FY11, the bank's total advances and deposits registered a growth of 27.4% and 26.0%, surpassing the growth for the banking sector which grew by 21.7% and 14.9% respectively. Profitability for the quarter was driven by higher net interest income, operational efficiencies and lower provision requirements and it improved by a stellar 82.6% y-o-y to Rs.201 crore. Asset quality remained stable with the bank reporting a gross NPA ratio of 1.30% and a net NPA to Networth ratio of 7.10%. As on June 30, 2010, SBH reported a capital adequacy ratio of 15.40%, with a Tier I ratio of 9.05 %.

Analyst Contact

Vijay Agrawal

Tel # (022) 6754 3416

E-mail: Vijay.agrawal@careratings.com

P. Soujanya

Tel # (022) 6754 3515

E-mail: soujanya.pantula@careratings.com

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

HEAD OFFICE: MUMBAI

Mr. D.R. Dogra

Managing Director

Cell : +91-98204 16002

E-mail : dr.dogra@careratings.com

Mr. Rajesh Mokashi

Dy. Managing Director

Cell : +91-98204 16001

E-mail: rajesh.mokashi@careratings.com

Mr. Ankur Sachdeva

Head - Business Development

Cell : +91-9819698985

E-mail: ankur.sachdeva@careratings.com

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway,
Sion (East), **Mumbai 400 022** Tel.: (022) 67543456 Fax: (022) 67543457

Website: www.careratings.com

OFFICES

<p>Mr.Mehul Pandya Regional Manager 32 TITANIUM Pralhadnagar Corporate Road, Satellite, Ahmedabad - 380 015. Tel – 079 4026 5656 Mobile - 98242 56265 E-mail: mehul.pandya@careratings.com</p>	<p>Mr.Sundara Vathanan Regional Manager Unit No. 8, I floor, Commander's Place No. 6, Raja Ram Mohan Roy Road, Richmond Circle, Bangalore - 560 025. Tel – 080 2211 7140 Mobile – 98803 60878 E-mail: sundara.vathanan@careratings.com</p>
<p>Mr. Pradeep Kumar Regional Manager Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai 600 002 Tel: 044 2849 7812/2849 0811 Mobile – 98407 54521 E-mail :Pradeep.kumar@careratings.com</p>	<p>Mr. Ashwini Jani Regional Manager 401, Ashoka Scintilla 3-6-520, Himayat Nagar Hyderabad - 500 029 Tel – 040 40102030 Mobile – 91766 47599 E-mail: ashwini.jani@careratings.com</p>
<p>Mr. Sukanta Nag Regional Manager 3rd Floor, Prasad Chambers (Shagun Mall Building) 10A, Shakespeare Sarani Kolkata - 700 071. Tel – 033 2283 1800/1803 Mobile – 98311 70075 E- mail: sukanta.nag@careratings.com</p>	<p>Ms.Swati Agrawal Regional Manager 710 Surya Kiran, 19 K.G. Road, New Delhi - 110 001. Tel – 011 2331 8701/2371 6199 Mobile – 98117 45677 E-mail :swati.agrawal@careratings.com</p>