

August 4, 2010

**CARE REAFFIRMS 'CARE AAA' RATING TO VARIOUS INSTRUMENTS OF STATE BANK OF INDORE**

CARE has reaffirmed the 'CARE AAA' [Triple A] rating assigned to various outstanding bonds aggregating to Rs.715 crore of State Bank of Indore (SBIIn).

Instrument	Amount outstanding (Rs crore)	Ratings <sup>1</sup>
Upper Tier II Bonds	100	CARE AAA
Upper Tier II Bonds	200	CARE AAA
Perpetual Bonds	165	CARE AAA
Upper Tier II Bonds	250	CARE AAA

The rating for the aforesaid

and hybrid instruments takes into consideration their increased sensitiveness to SBIIn's capital adequacy ratio, capital raising ability and profitability during the long tenure of the instruments. It also factors in the additional risk arising due to existence of the lock-in clause in these 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 somewhat sharper migration of rating as compared to conventional subordinated debt instruments.

**Rating Rationale**

The ratings factor in strength of the bank's parentage (SBI holds 98.05% stake in the bank) and the impending merger of the bank with its parent. The rating is further strengthened by the bank's robust capitalisation levels, healthy CASA and reasonable profitability and operational parameters.

**Company Profile**

State Bank of Indore is one of the smaller associate banks of State Bank of India with the latter holding a controlling stake in the entity. The parentage of SBI brings with it significant growth opportunities in addition to operational, managerial and brand value benefits for SBIIn. SBIIn had a branch network of 472 branches as on March 31, 2010, spread across all the major cities of India with almost 68% of it in Madhya Pradesh.

Merger Update: Post the initial announcement in FY09, the Board of Directors of SBI and SBIIn have in-principle approved the merger of SBIIn with SBI. SBI has set a share swap ratio of 34:100 (34 shares of SBI for every 100 shares of SBIIn). Recently the merger has received a cabinet nod, post which the process is expected to be expedited. The merger is expected to take place without any glitches given that all the SBI associates share common technology platform and business processes which will enable seamless integration post the merger.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

During FY10, SBI registered deposits and advances growth of 8.1% and 9.6% respectively; slower than the pace of industry growth of around 17% during FY10. It reported PAT of Rs.308 crore on Total Income of Rs.3109 crore during FY10 as sluggish credit growth, decline in yields and weak other income growth led to weak growth in earnings profile of the bank. SBI's CAR stood at a healthy 13.53% (Tier I at 8.58%) as on March 31, 2010.

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

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