


# SBI Banking & Financial Services Fund

## AN OPEN-ENDED SECTOR FUND

**NFO Opens:** 11<sup>th</sup> Feb 2015 **NFO Closes:** 24<sup>th</sup> Feb 2015




**Scheme Re-Opens:** On or Before 11<sup>th</sup> March 2015

**This product is suitable for investors who are seeking\*:**

- long term investment.
- Investment predominantly in a portfolio of equity & equity related securities of companies engaged in banking and financial services.
- High risk.  (Brown)

\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

*Note: Risk may be represented as:*

|   |   |   |  |   |   |
|---|---|---|--|---|---|
|  | <b>(BLUE)</b> investors understand that their principal will be at low risk |  | <b>(YELLOW)</b> investors understand that their principal will be at medium risk |  | <b>(BROWN)</b> investors understand that their principal will be at high risk |
|---|---|---|--|---|---|

**SBI FUNDS MANAGEMENT PRIVATE LIMITED**

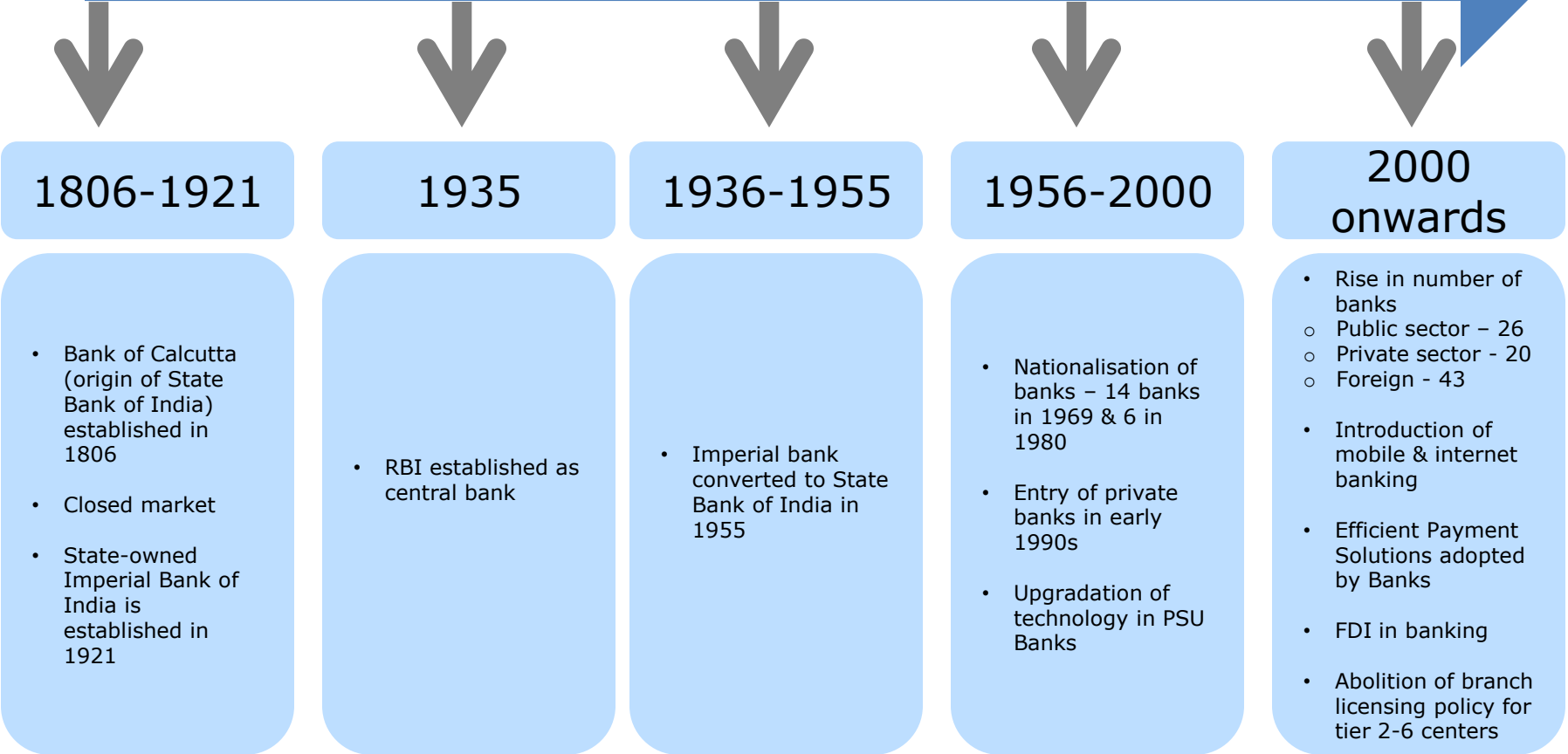
A joint venture between SBI & AMUNDI

- Overview & Trends in Indian Banking & Financial Services
- Growth stories in the Banking & Financial Services sector
- Drivers of Growth
- SBI Banking & Financial Services Fund
- Why Invest?
- Key Features
- Investment Team

# Overview & Trends in Indian Banking & Financial Services

# Evolution of Indian Banking

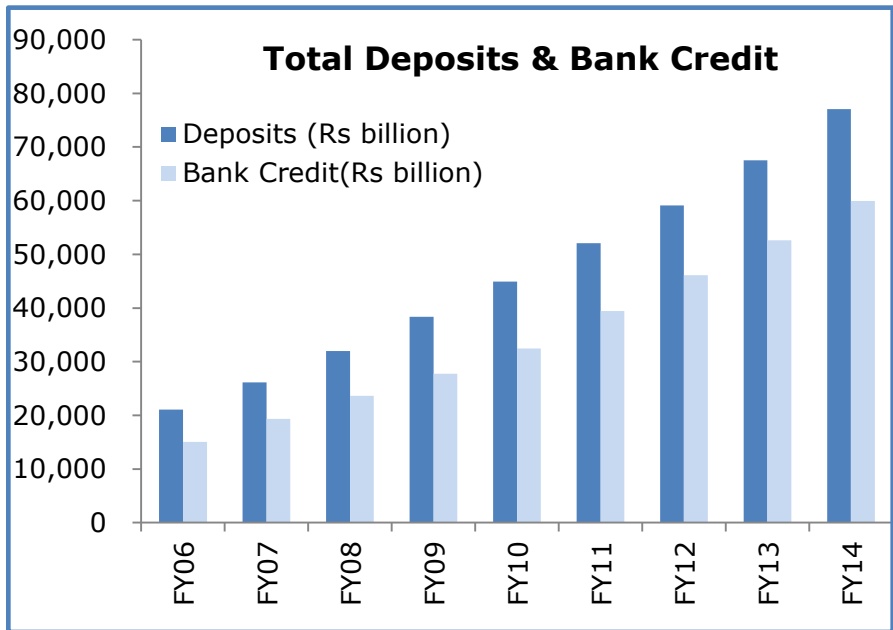
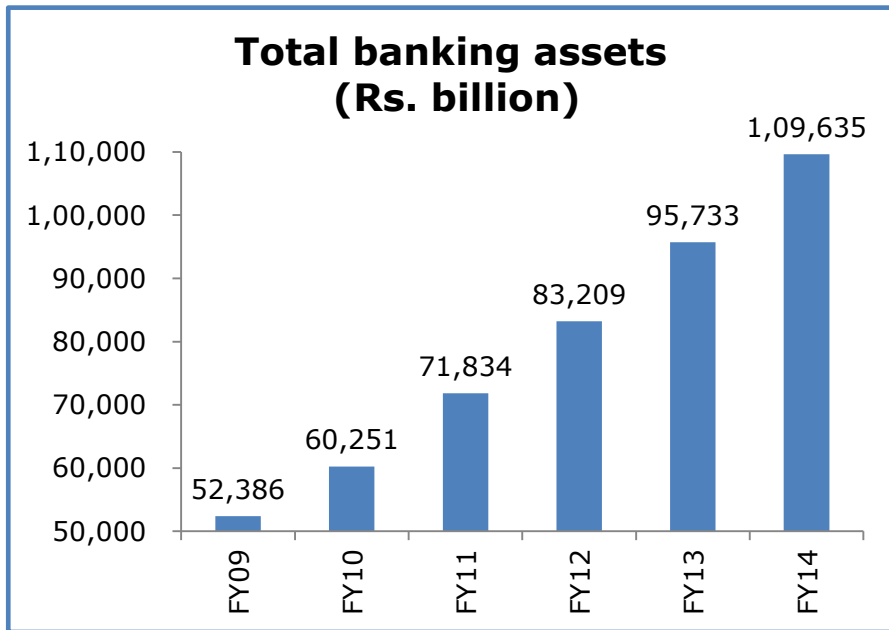
## Indian Banking: Road to Development



Source: Indian Bank's Association, ibef.org

# Robust Growth of Banking Sector

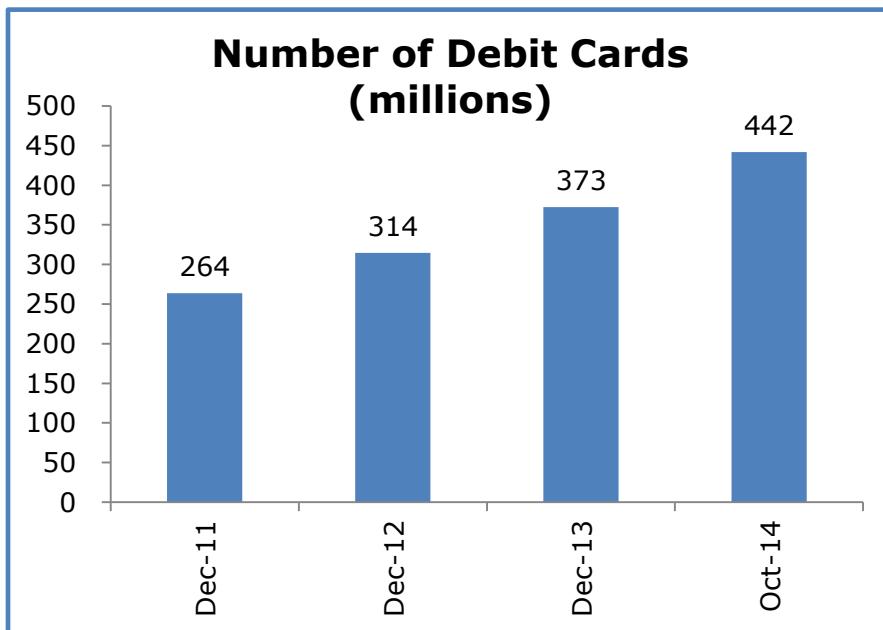
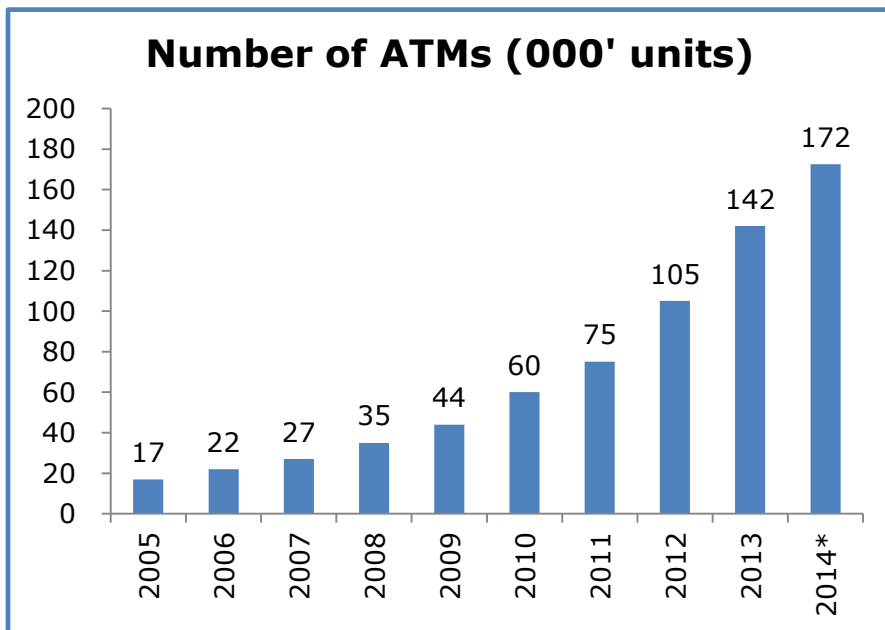
- Banking assets have seen growth across private sector, public sector & foreign banks
- Deposits witnessed steady growth due to rise in household savings as a result of increase in disposable income levels
- Credit off-take has grown both in terms of corporate & retail loans mainly in the services, real estate & consumer durables sectors
- With the revival of exports, International banking expected to be the next growth region



Source: RBI

# Technological Innovations: A Paradigm Shift

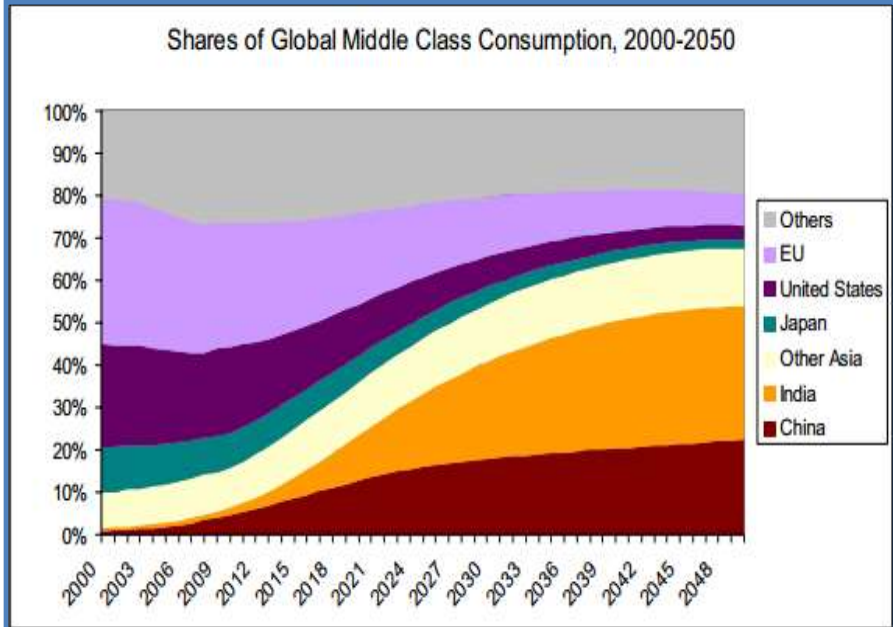
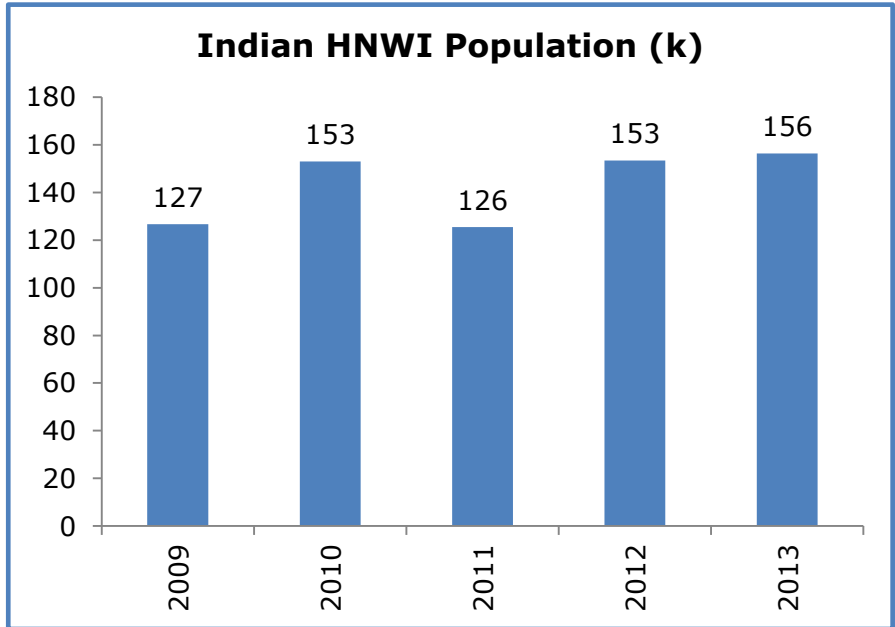
- Alternate channels like online banking, mobile banking & ATMs have led to a shift from traditional/ brick & mortar branch banking to net banking
- Banks are aggressively using technology at different levels to enhance customer experience
- ATMs have increased ten-fold to 1,72,460 (Sep 2014) while the number of ATMS/ debit cards has doubled in the last 3 years
- Increasing use of debit cards & availability of POS machines leading the shift towards cashless transaction settlement



\*As on Sep-14 (latest published data). Source: RBI, ibef.org

# Emergence of Wealth Management

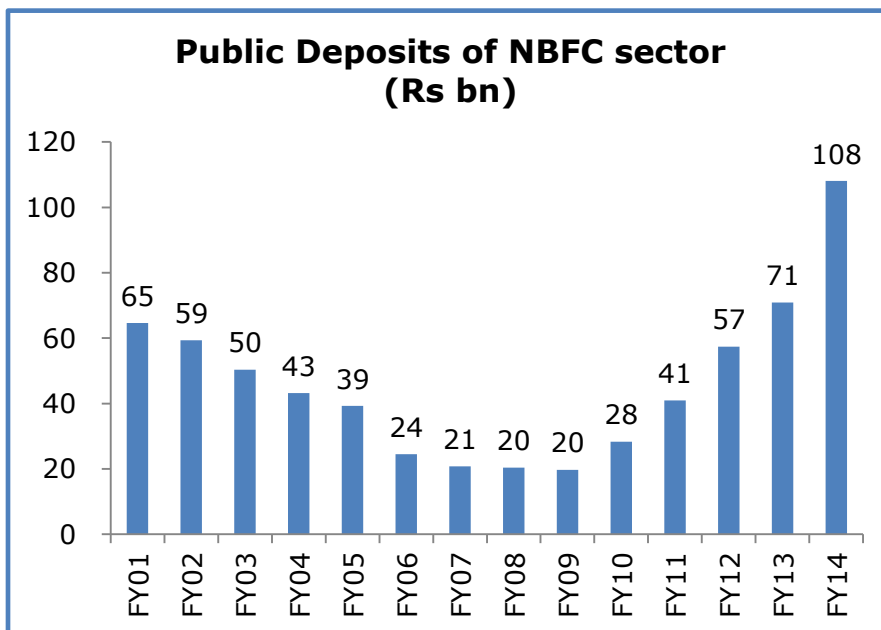
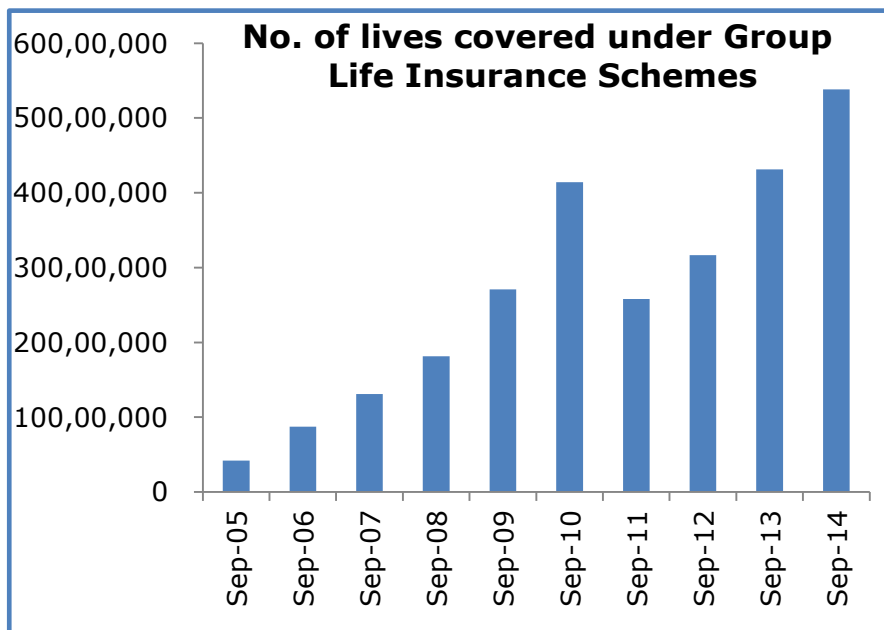
- High net worth individuals (HNWI) have consistently grown in numbers
- HNWI population is one of the primary focus of wealth management market
- Dramatic expansion of Indian middle class in the next 30 years will create a further need for wealth services & demand for aspirational living standard resulting into buoyancy in retail credit
- Per capita leverage of younger generation is expected to be higher



Source: World Wealth Report, Capgemini, OECD

# Insurance Companies & NBFCs growing in prominence

- Life insurance premium has grown by 18.4% p.a. in the last 13 years
- Insurance penetration to GDP, in case of both life & non-life, has grown from 2.7% in 2001 to 3.9% in 2014
- The number of lives being covered by Life Insurers has been steadily rising
- NBFCs have rapidly grown in importance as intermediaries in retail finance space



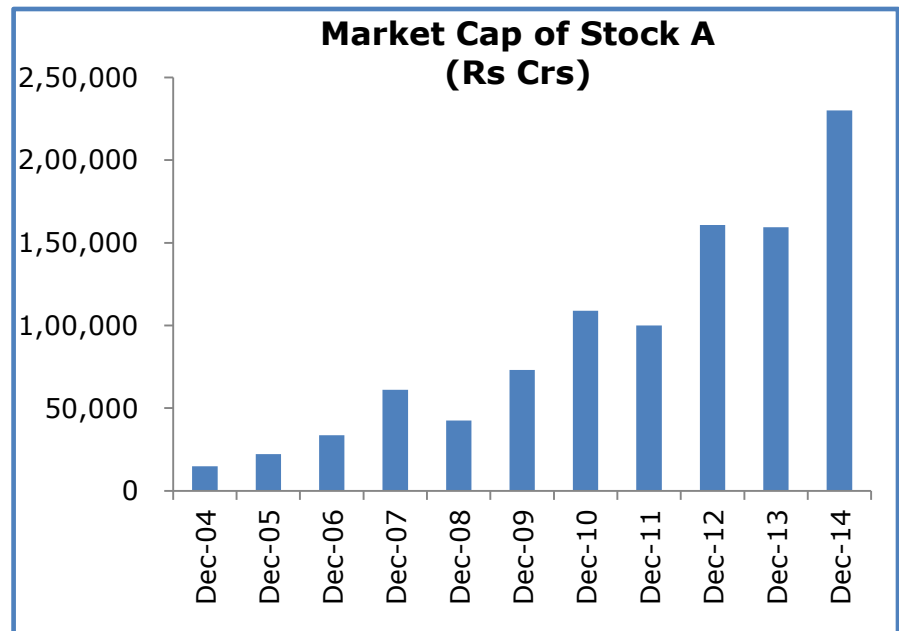
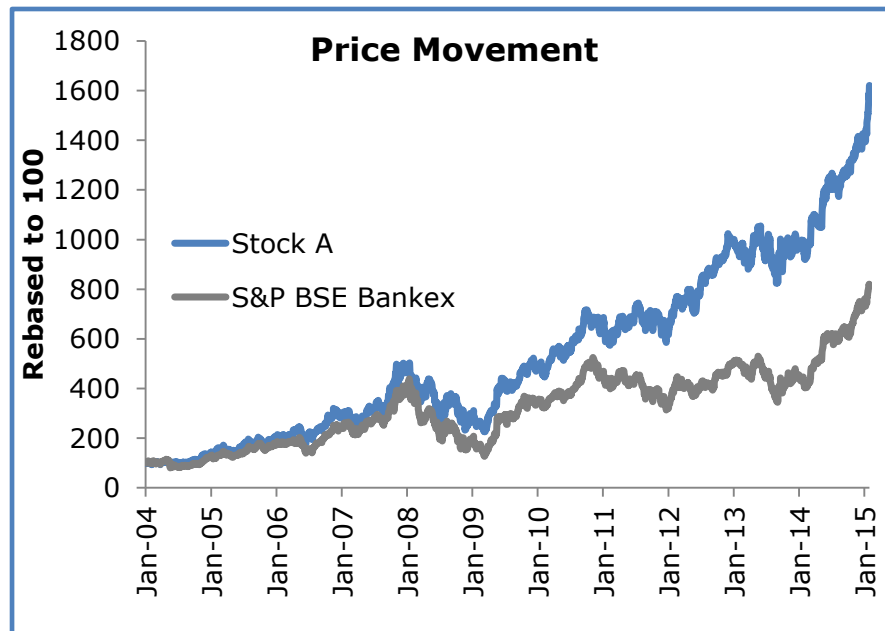
Source: IRDA, RBI



# Growth stories in Banking & Financial Services Sector

# Stock A: One of the Largest Private Sector Banks in India

- One of the largest private sector banks in India; established in 1994
- Business spread across retail banking, wholesale banking & treasury operations
- As on 31<sup>st</sup> March 2014: Number of branches – 3,403; number of ATMS – 11,256

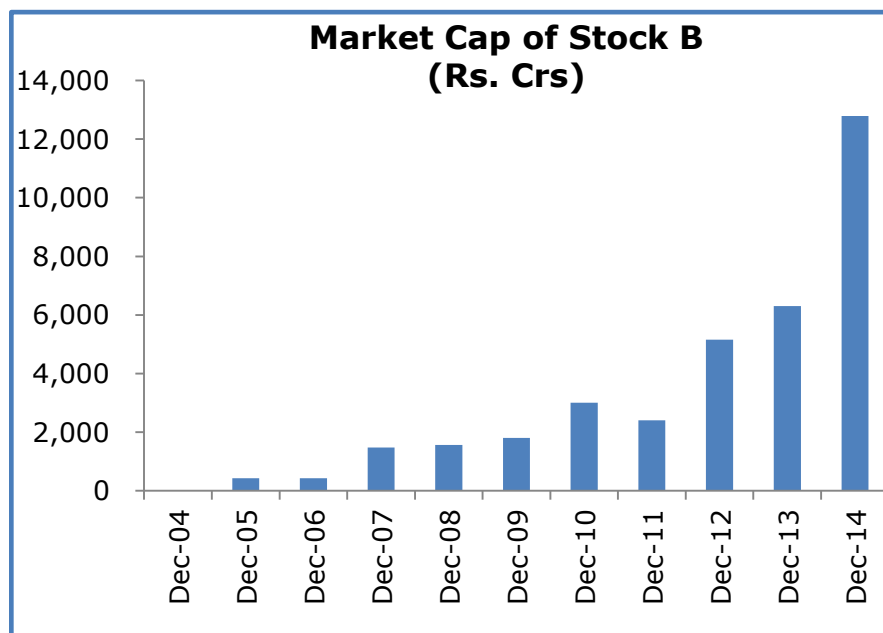
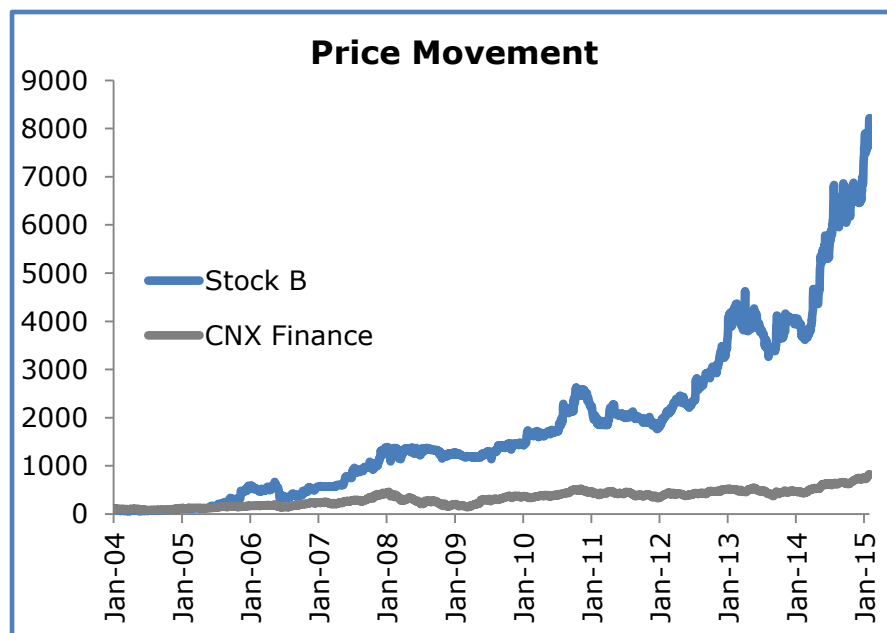


This slide is to illustrate the theme of the fund. The performance of the stock would ultimately depend on various factors such as prevailing market condition, global political scenario, exchange rate etc. Investors are requested to note that there are various factors (both local & international) that can have an impact on the future performance & expectations of any company. This should not be construed as recommendation to buy/sell the stock in any way. **Past performance may or may not be sustained in future.**

Source: Bloomberg, Company website

# Stock B: Premier financial services company

- Premier financial services company specializing in retail finance; established in 1986
- Business spread across commercial vehicles financing, personal loans, small business loans & loans against gold; strong client franchise coming from the group ecosystem
- As on 31<sup>st</sup> March 2014: AUMs – Rs. 14,668 crs; number of branches - 980



This slide is to illustrate the theme of the fund. The performance of the stock would ultimately depend on various factors such as prevailing market condition, global political scenario, exchange rate etc. Investors are requested to note that there are various factors (both local & international) that can have an impact on the future performance & expectations of any company. This should not be construed as recommendation to buy/sell the stock in any way. **Past performance may or may not be sustained in future.**

Source: Bloomberg, Company website

## Drivers of Growth

**JAN DHAN YOJANA LAUNCHED**

# **Dream Start to PM's Vision for Fin Inclusion**

**■ RBI to Keep Tabs on Banks'  
Leverage Ratio for Basel III**

**President signs  
insurance, coal  
ordinances**

## **Infra Lender IDFC, Microfin Co Bandhan Get Licence to Bank**

**Minimum capital for payments/small banks may be ₹100 cr**

Source: Times of India, Financial Express

# Introduction of major policy reforms

Jan Dhan Yojana

Launch of 'Pradhanmantri Jan-Dhan Yojana' with the aim to increase bank accounts for the poor

Insurance Bill

FDI cap increased for Insurance companies from 26% to 49%

Banking Licence

RBI started granting in-principle banking licences in 2014; IDFC & Bandhan Financial Services are the first two; niche banking licences to bring innovation

NBFC reforms

Draft guidelines allowing supermarkets and cellular phone companies etc to set up Payment Banks and permitting NBFCs to set up Small Banks

Make in India

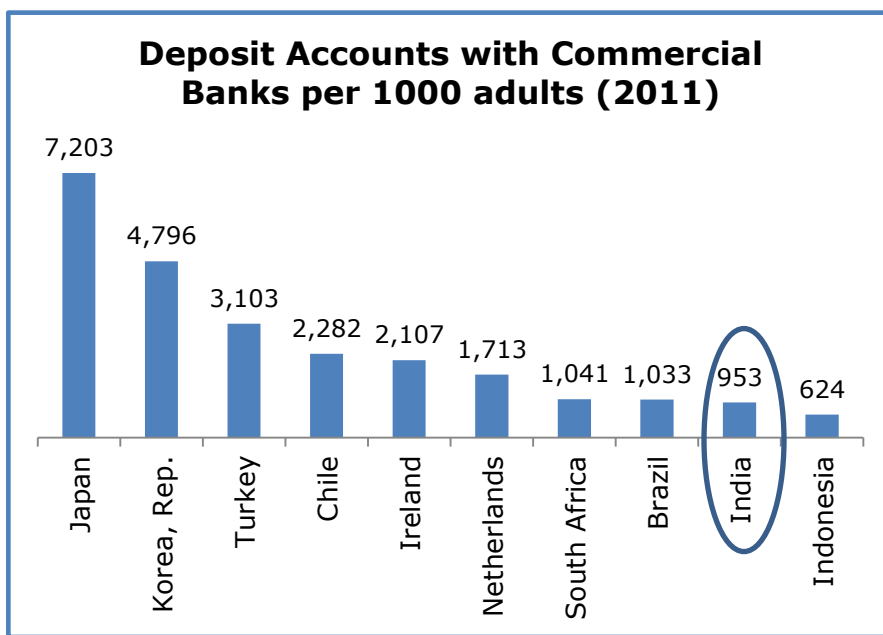
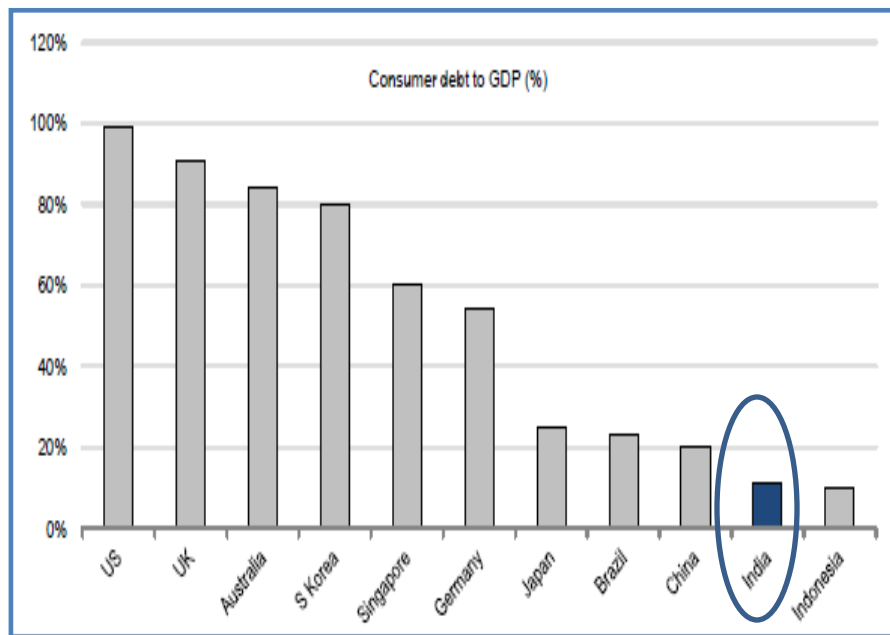
New national program introduced by Government designed to attract investments & strengthen India's manufacturing sector; Banks being the proxy of the Indian economy will benefit

Basel III norms

RBI announced changes for the leverage ratio under Basel III to be implemented from April 1, 2015; banks likely to need additional capital

# Low banking penetration shows latent demand

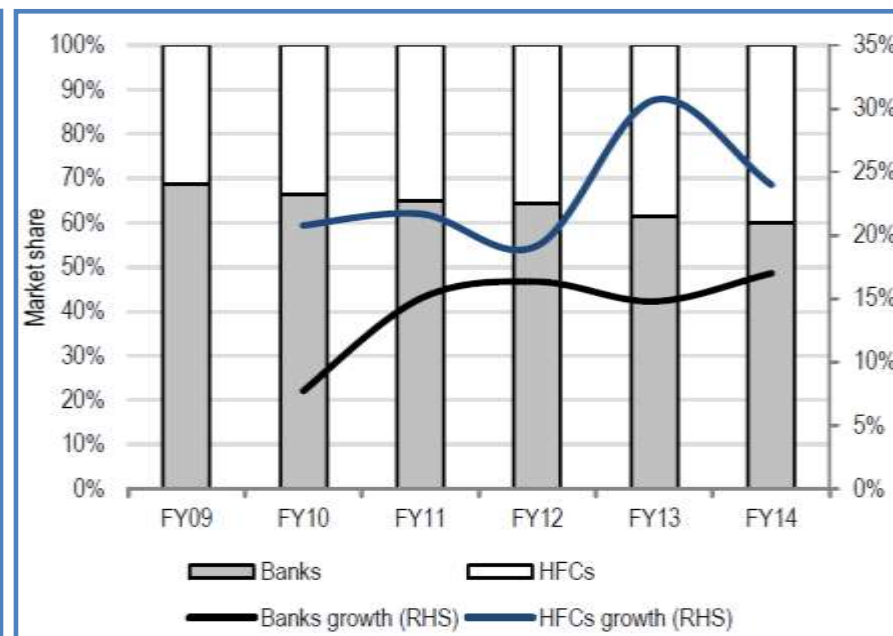
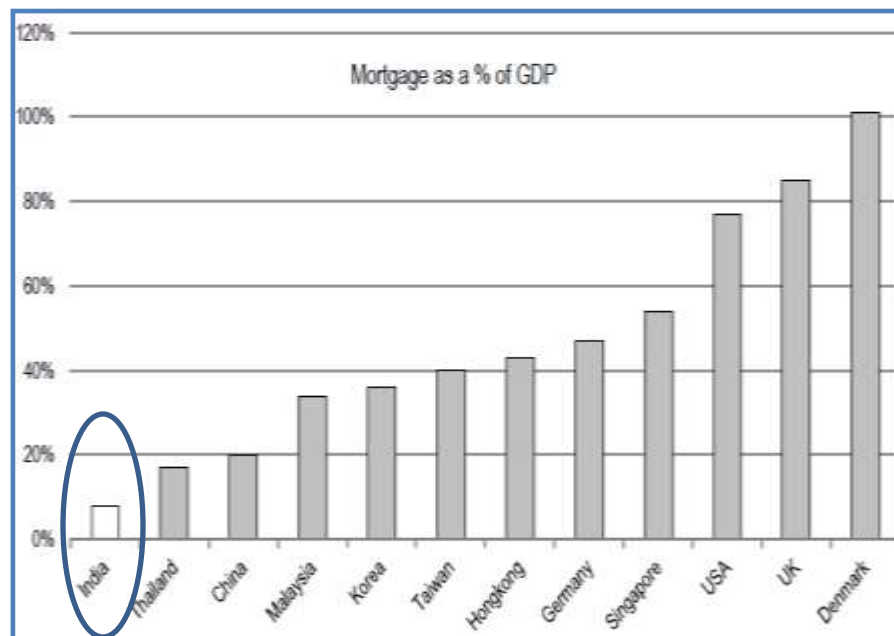
- Consumer debt levels in India are significantly below other emerging & developed economies
- Demographic composition & increasing aspirations of middle class expected to increase retail credit
- Limited banking penetration in India; lower than many other emerging economies like Turkey, Brazil & South Africa
- Banking system (including NBFCs) have less than 65% of total outstanding consumer debt
- Share of the unorganised market (like money lenders) has been steadily falling



Source: Credit Suisse report dated 13<sup>th</sup> Jan 2015, RBI, World Bank

# Housing Finance: Under penetrated & mainly bank driven

- Size of housing market in India was ~Rs 9 tn as on Mar-14
- India's mortgage penetration (8% of GDP) is low compared to other countries including emerging economies
- At current penetration levels, India is 9-11 years behind countries like China & Thailand
- Currently, banks have the lion's share of the loan assets (60% as on FY14); housing finance companies (HFCs) have increased share from 26% to 40% in the last 10 years

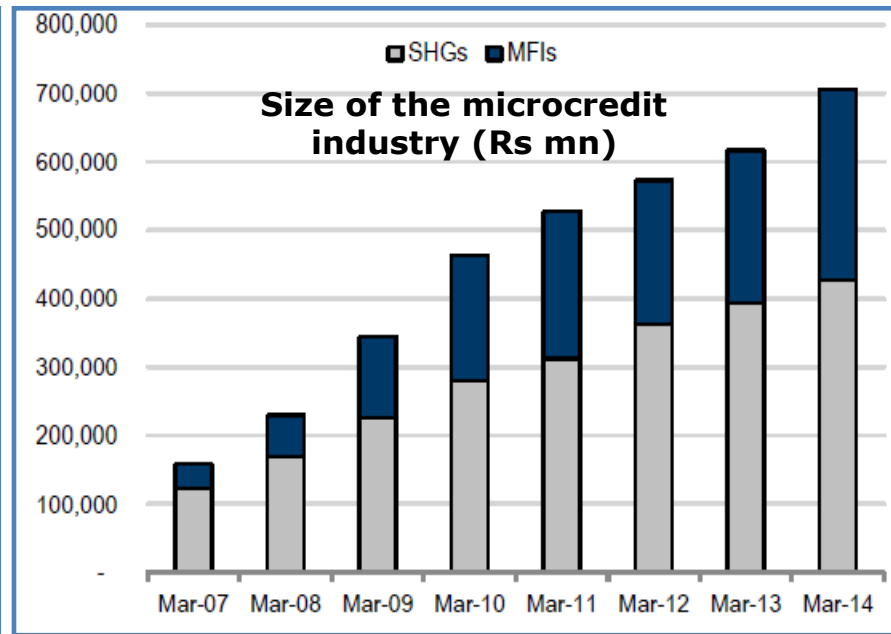
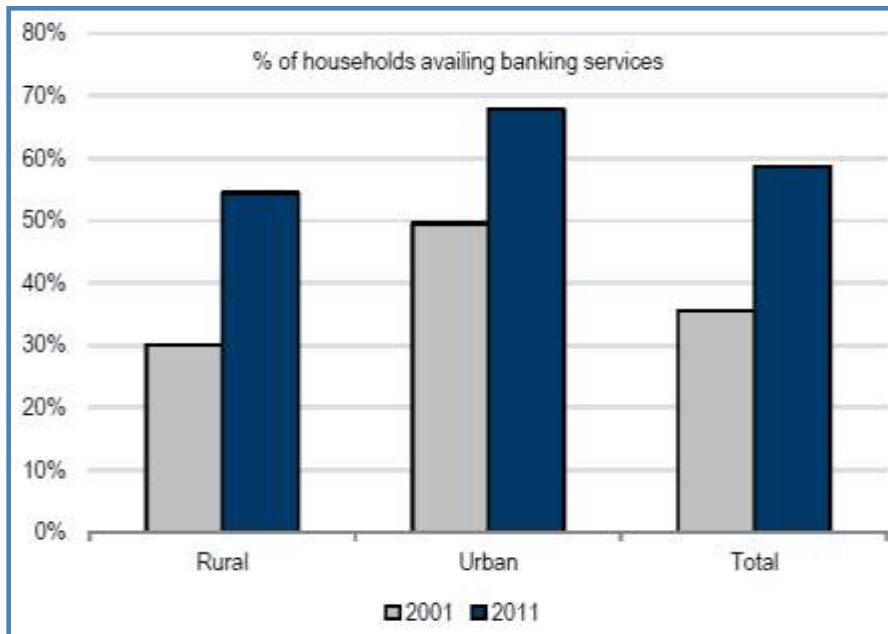


Source: RBI, Credit Suisse report dated 13<sup>th</sup> Jan 2015



# Banking potential at the bottom of the pyramid

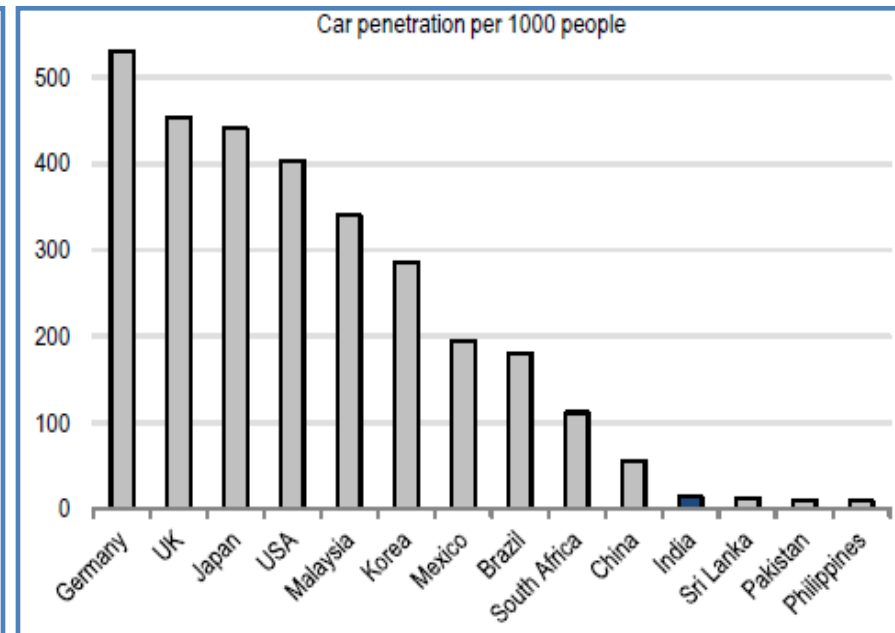
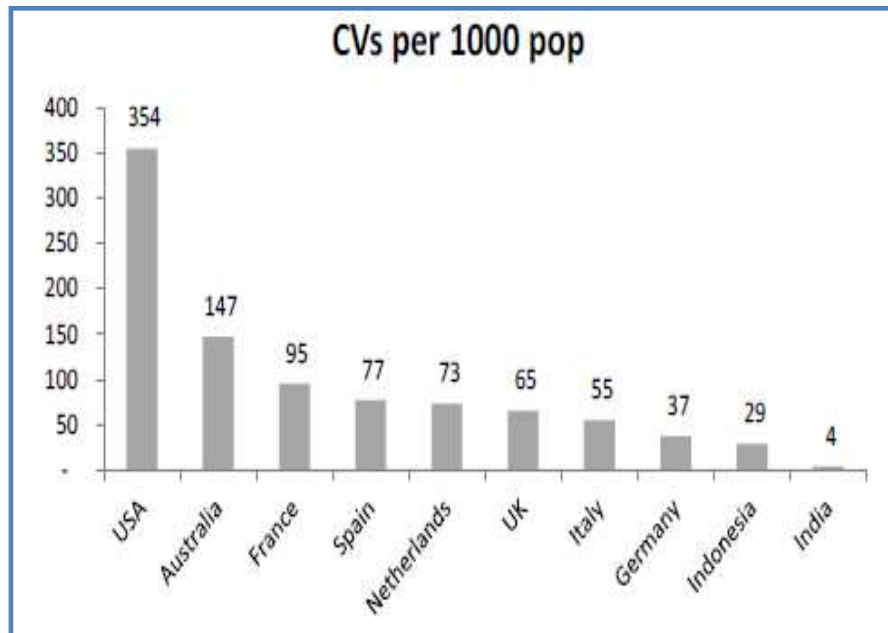
- Banking penetration is low in India especially among the rural poor who are largely excluded from banking services
- Specialist Micro Finance Institutions (MFIs) & the bank-held self-help groups (SHGs) combined cater to ~85 mn borrowers with average loan ticket size of ~Rs 8,400
- Loan book of the micro finance industry is ~US\$11.6 bn in 2014; true potential size is estimated to be US\$40-50 bn



Source: RBI, Credit Suisse, Ministry of Finance

# Vehicle Financing: Recovering from the bottom

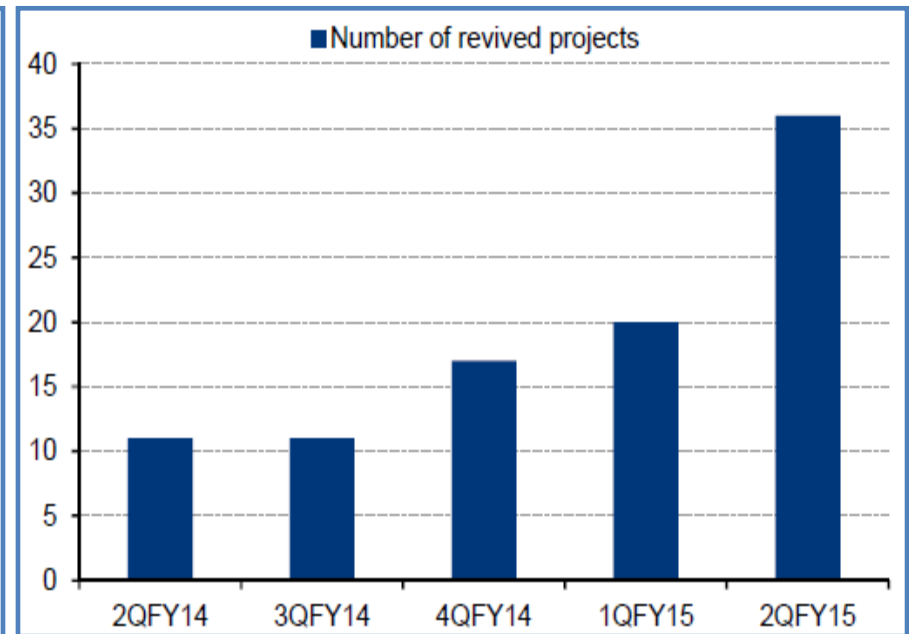
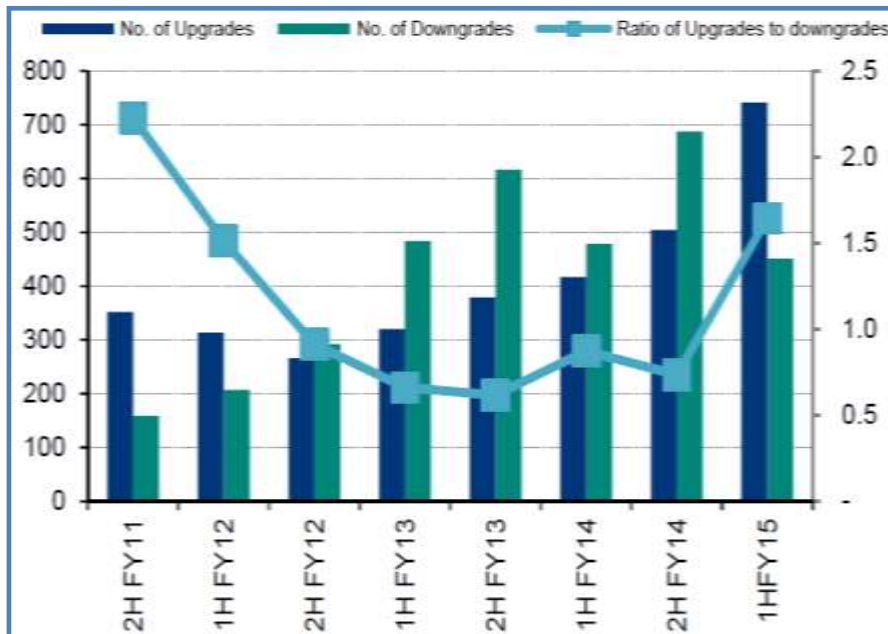
- Truck penetration in India is at least 15 years behind other emerging economies like Indonesia; structural potential for CV sales
- With pick-up in CV sales, CV financiers may witness strong growth in loan book
- Organised financing in car sales in India is fairly high at ~75%; car penetration is significantly lower indicating long term potential for auto financing



Source: Road Transport authorities of respective countries, SIAM, World Bank, Credit Suisse report dated 13<sup>th</sup> Jan 2015

# Growth pick up to revive loan growth & improve asset quality

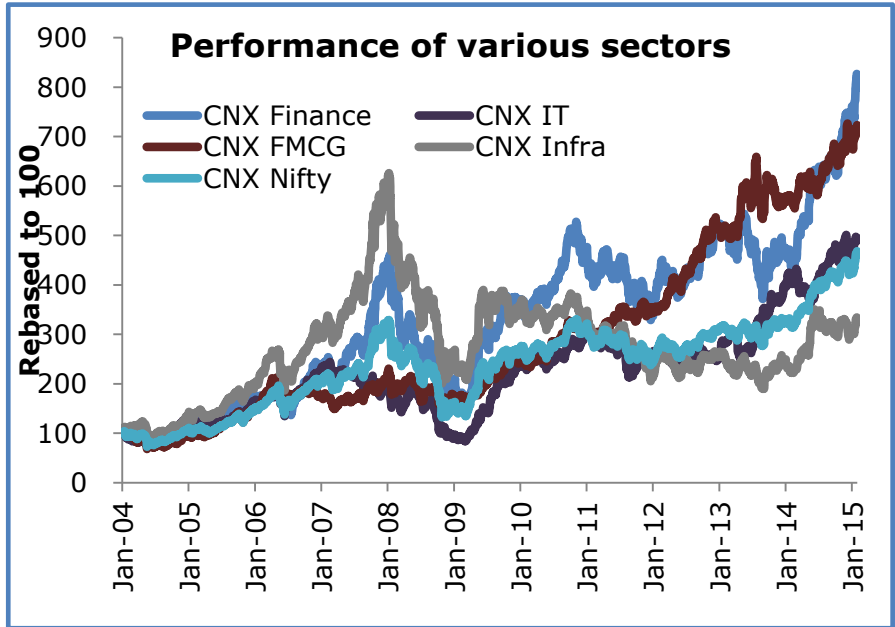
- Pent-up demand & Government's focus on resolving bottlenecks likely to revive the capex cycle
- Capacity utilisation is still not at maximum levels; excess capacity utilisation will lead to increase in working capital availability
- Government has taken steps to improve the funding requirement of the infra sector & to facilitate many of stalled projects
- Early signs of recovery seen in the corporate upgrades outnumbering downgrades for the first time in 30 months



Source: CRISIL, CMIE, ML

# Banking & Financial Services: An all-weather theme

- CNX Finance has outperformed other themes like FMCG, IT & Infra in the long term
- CNX Finance has also been a relatively stable performer in the medium term unlike other themes which have a seasonal flavour
- CNX Finance has also outperformed broad based indices like CNX Nifty

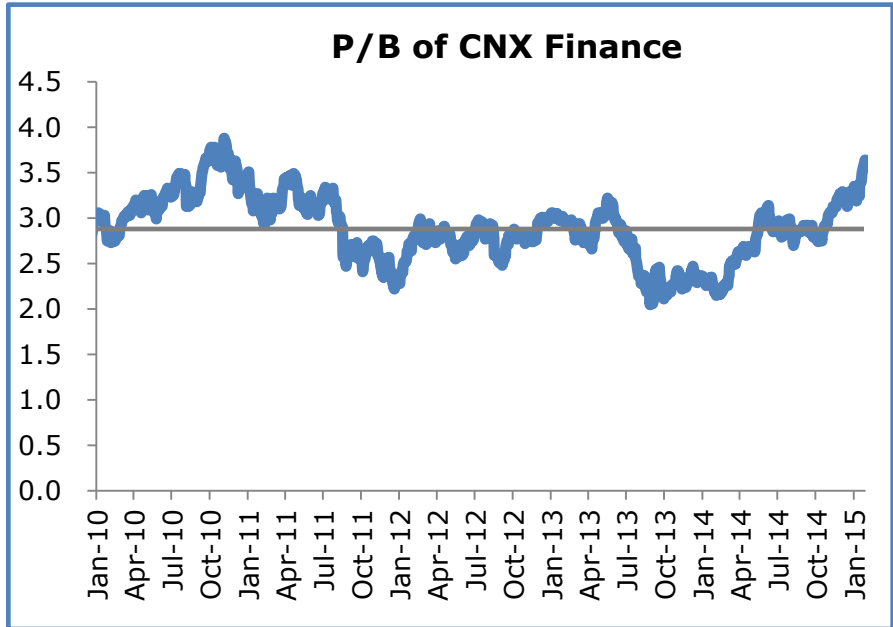
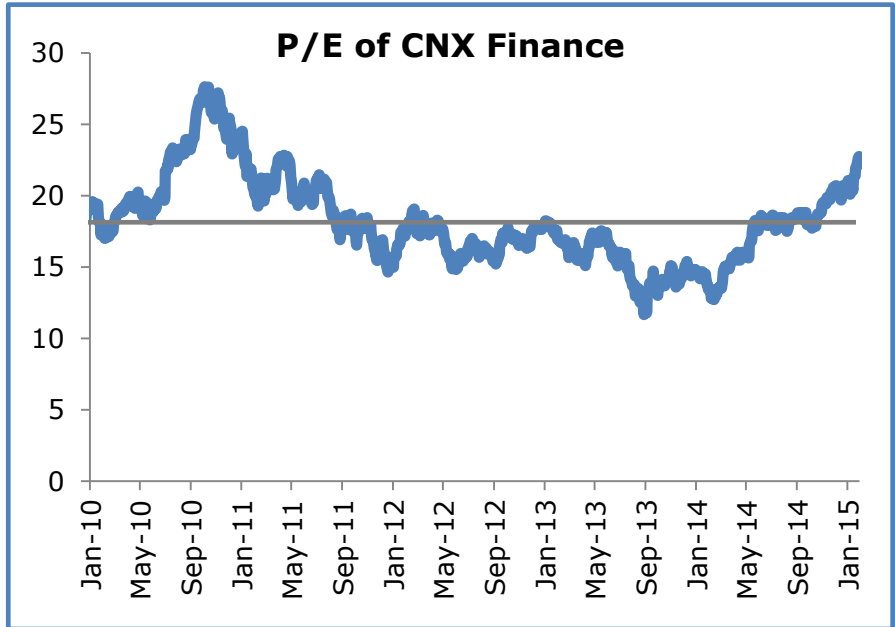


| Sector      | Average Rolling 1 year return (Period: Jan 2004* – Jan 2015) |
|-------------|--|
| CNX Finance | 26.5%  |
| CNX FMCG    | 24.9%  |
| CNX IT      | 22.6%  |
| CNX Nifty   | 19.5%  |
| CNX Infra   | 17.0%  |

**Past performance may or may not be sustained in future.** Source: Bloomberg \*CNX Finance was launched in Jan 2004

# Pockets of value still available in the sector

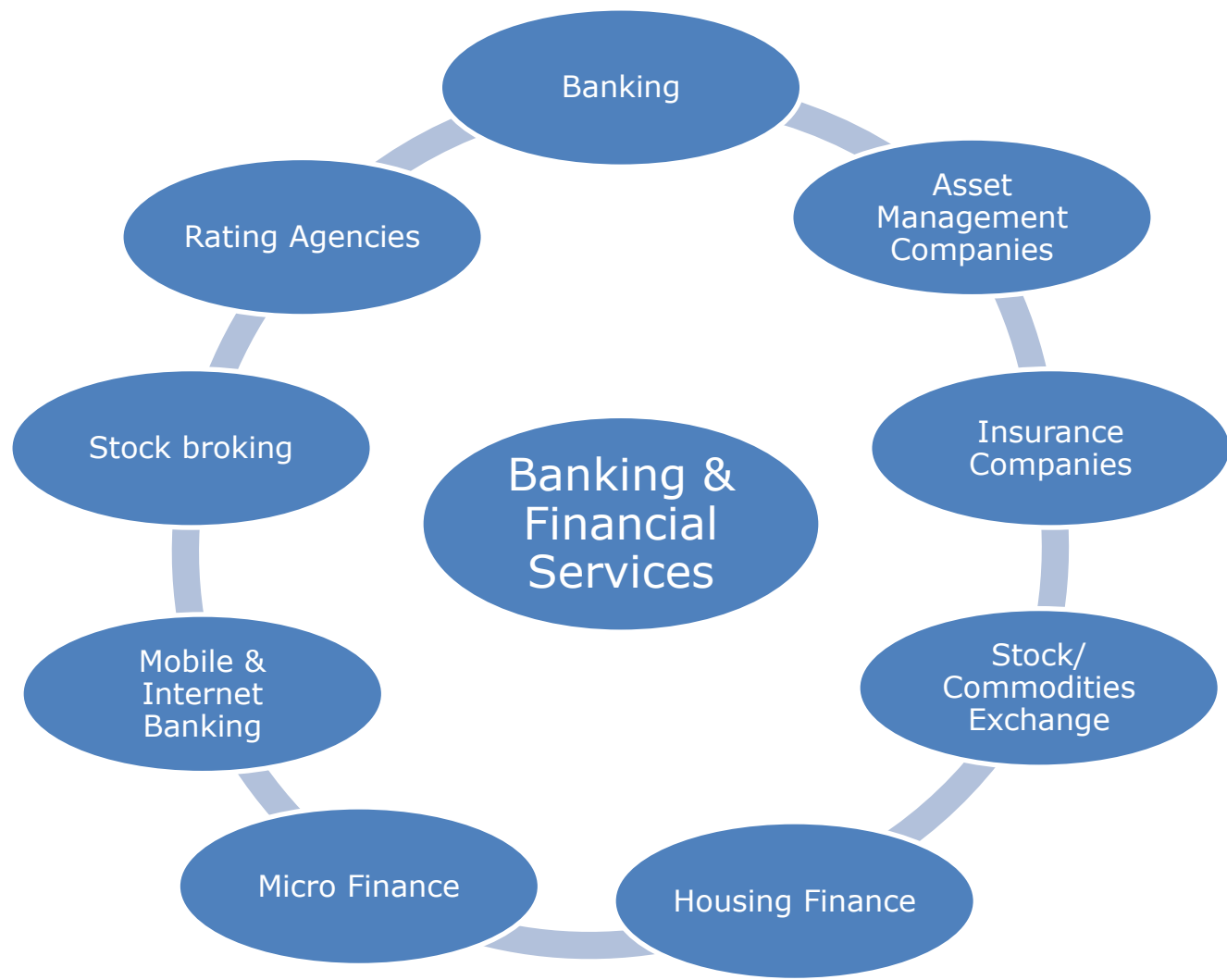
- While CNX Finance has rallied in the last year, current valuation still in sync with the broader market valuation
- Current P/E of CNX Finance is still 18% below its peak in the last 3 years
- P/E dispersion of companies in the sector is between 4 to 55; areas of value still remain in the sector



Source: Bloomberg, NSE

# SBI Banking & Financial Services Fund

# Banking & Financial Services: Widely Diversified Sector



## Step 1: Top Down Approach

1. Macro Economic Trends
2. Interest Rate Backdrop

## Step 2: Sub sector Allocation

1. Public Sector Banks
2. Private Sector Banks
3. Housing Finance Cos.
4. NBFCs
5. Others

## Step 3: Bottom Up Stock Selection Parameters

1. Capital Adequacy
2. Asset Quality
3. Management
4. Earnings
5. Liability Franchise Quality
6. Valuations

## Step 4: Internal Template Constraints & Risk Metrics

**Final Portfolio**



# Parameters considered for allocation

|                             |  |
|-----------------------------|--|
| Capital Adequacy            | Capital Adequacy Level, Composition & Quality of Capital   |
| Asset Quality               | Reported & Forward Expectations including reported NPAs, Restructured Loans & Security Receipts                |
| Management                  | Quality & Expected Changes   |
| Earnings                    | Growth Expectations & Return Ratios such as Return on Assets, Return on Risk Weighted Assets, Return on Equity |
| Liability Franchise Quality | CASA ratio, retail deposits base   |
| Valuations                  | P/E, P/B, Dividend Yield   |

# Fund Philosophy & Asset Allocation

- Aims to generate long-term capital appreciation from a portfolio that is invested predominantly in equity and equity related securities of companies engaged in banking and financial services
- Invests across market capitalization
- Bottom-up stock allocation
- Suitable for investors looking for exposure to the Indian financial services sector
- Indicative Asset Allocation

| Instruments   | Indicative allocations<br>(% of total assets)* |         | Risk Profile  |
|---|--|---------|---------------|
|   | Minimum  | Maximum |               |
| Equity and equity related securities of companies engaged in banking & financial services | 80   | 100     | High          |
| Debt and Money Market instruments   | 0  | 20      | Low to Medium |

\*Exposure to derivatives may be to the extent of 50% of the net assets. Cumulative gross exposure through debt, equity & derivative shall not exceed 100% of the net assets of the Scheme. Exposure to securitized debt may be to the extent of 20% of the net assets. The Scheme shall not invest in ADR/GDR/Foreign securities / Foreign securitized debt. The Scheme shall not invest in repo in corporate debt. The Scheme shall not engage in short selling and securities lending

# Key Features

## Plans/ Options

The Scheme has two plans viz. Regular plan & Direct plan. Both plans would offer Growth & Dividend options. Dividend option will have the facility of Reinvestment, Payout & Transfer

## Benchmark

CNX Finance Index

## Fund Manager

Ms. Sohini Andani

## Load Structure

**Entry Load:** Not Applicable

**Exit Load:**

For exit within 12 months from the date of allotment -2%

For exit after 12 months but within 18 months from the date of allotment -1%

For exit after 18 months from the date of allotment - Nil

## Minimum Application Amount

Rs. 5,000/- and in multiples of Re. 1 thereafter

## Additional Purchase Amount

Rs. 1,000/- and in multiples of Re. 1 thereafter

# Why Invest?

- 1** Major policy reforms undertaken in the banking & financial services sector
- 2** Huge potential across banks & NBFCs due to low penetration
- 3** Economic revival to revive loan growth & improve asset quality
- 4** Delicate balancing between level of capital & return on equity improving efficiency in the sector
- 5** Emergence of new technologies & innovations like net banking & mobile technology to drive the sector



## State Bank of India

- India's premier and largest bank with over 200 years experience (Estd: 1806)
- Asset base of USD 404 bn\*
- Pan-India network of ~22,635 branches and ~ 50,000 ATM's as at end of June 2014
- Servicing over 256 million customers
- Only Indian bank in Fortune 500 list; ranked among the top 100 banks in the world

63%



37%

## Amundi

ASSET MANAGEMENT

- Global leader in asset management
- Backed by Credit Agricole and Société Générale
- More than 2,000 institutional clients and distributors in 30 countries
- Over 100 million retail clients via its partner networks
- € 843.9 bn AuM as at end of September 2014
- Ranking N° 1 in Europe, Top 10 worldwide #

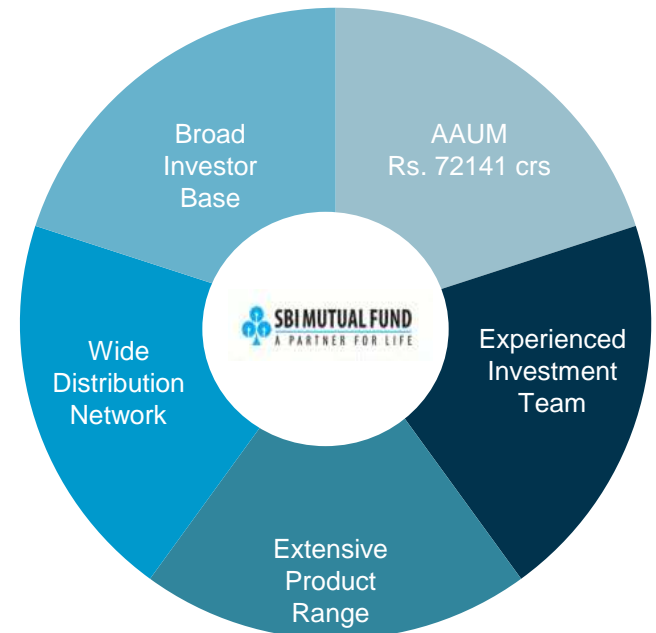
\*Source: SBI Analyst Presentation as on end September 2014

# Source : Amundi website as on end September 2014

# SBI Funds Management: India's First Bank Sponsored Funds

Established in 1987: A leading asset manager in India

- Expertise in managing assets across mutual funds, segregated managed accounts, domestic advisory and offshore advisory business
- Multiple asset classes ranging from equities and debt, money market to ETFs and structured funds
- Investment team of 33 professionals with strong track record
- Broad customer base with ~ 4.02 million folios related to individual, corporate and institutional investors



Source: SBI Funds Management Private Limited, AMFI; Average AUM (AAUM) for the quarter ending on December 31, 2014

# Annexure

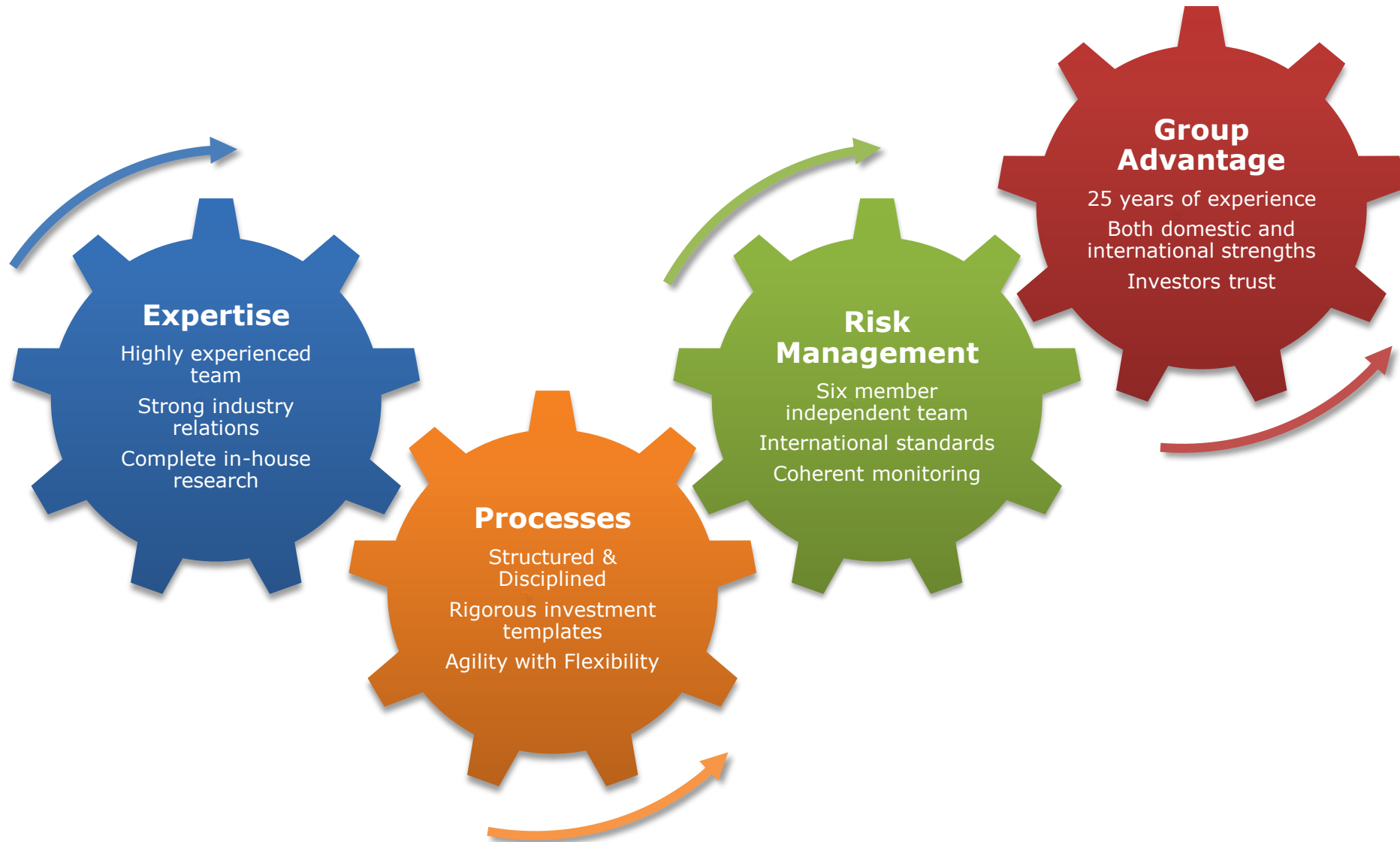
- **Mr. Navneet Munot**

Mr. Navneet Munot joined SBI Funds Management Pvt. Ltd. as Chief Investment Officer in Dec. 2008. Prior to SBIFM he was the Head of Multi Strategies fund at Morgan Stanley Investment Management before which he worked as the Chief Investment Officer (Fixed Income and Hybrid Funds) of Birla Sun Life Asset Management Company Ltd. Navneet has been associated with the financial services business of the Birla group for over 13 years and worked in various areas such as fixed income, equities and foreign exchange. His articles on matters related to financial markets have widely been published. Navneet holds a Masters in Commerce and is also a rank holder Chartered Accountant. He is a charter holder of Chartered Financial Analyst Institute, US and Chartered Alternative Analyst Institute, US. He has also done Financial Risk Management, FRM from Global Association of Risk Professionals (GARP).

- **Ms. Sohini Andani**

Ms. Sohini Andani has experience of more than 16 years in the area of financial services. Prior to joining SBI Funds Management Pvt. Ltd. Ms. Sohini was with ING Investment Management Pvt. Ltd., where she worked as Senior Analyst and was responsible for contributing to Fund Managers and the CIO on their equity investments. Before that she worked with many organizations viz: ASK Raymond James & Associates Pvt. Ltd., LKP Shares & Securities Ltd., Advani Share Brokers Pvt. Ltd. CRISIL, K R Choksey Shares & Securities Pvt. Ltd. handling primarily equity research responsibilities. Sohini is a commerce graduate from Mumbai University and a Chartered Accountant from ICAI.





**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**

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