

July 18, 2017

State Bank of India (STABAN)

₹ 295

SBI Life Insurance IPO's rich valuation a positive

State Bank of India (SBI) yesterday informed exchanges that its subsidiary SBI Life Insurance Company has filed a draft red hearing prospectus with Sebi for an IPO. It will be an offer for sale of up to 12 crore shares representing 12% of total paid up capital of SBI Life that is a joint venture between SBI and BNP Paribas Cardiff. SBI would sell 8 crore shares (or 8% stake) while BNP Paribas would sell 4 crore shares (or 4% stake). SBI holds 70.1% stake in SBI Life while BNP Paribas holds a 26% stake. The balance stake is held by affiliates of KKR Asian Fund LP (1.9% stake) and Temasek Holdings (Pvt) Ltd (1.9% stake). In December 2016, the bank sold a 3.9% stake to these two entities for ₹ 1794 crore, valuing SBI Life at ₹ 46000 crore then.

However, as per media sources, through a 12% stake sale in SBI Life, SBI and BNP Paribas plan to raise ~₹ 8500 crore, thus valuing SBI Life at sub ₹ 70000 crore. Further, the embedded value (EV) of SBI Life, as per media sources, is ~₹ 16538 as on FY17 (no official numbers published on EV yet). This values SBI Life at ~ 4.2x FY17 EV.

SBI Life IPO coupled with QIP to enable maintain strong capital

The valuation of SBI Life is seen close to ₹ 70000 crore, which is higher than our initial estimates of ~50,000-60,000 crore. This translates to ₹ 45 per share for SBI vs. initial estimates of ₹ 30-35 per share. Markets are banking on SBI's strong branch franchise of 24000 plus for bancassurance insurance distribution model at low cost. Hence, any increase in valuation of SBI Life post listing will directly add to SBI.

The merger with associate banks has resulted in muted profits and huge NPA stress for SBI. With fresh issuance of merger shares and factoring the new QIP shares, our revised merged bank adjusted book value for FY19E is at ₹ 184. Valuing the same at 1.5x ABV, we arrive at a bank valuation of ₹ 277 per share. Factoring in increased value of SBI Life, we value subsidiaries at ₹ 63 and arrive at a target price of ₹ 340 (₹ 335 earlier). Strategic stake in non-core investments like NSE (5.19%), BSE (4.75%), NSDL, ARCIL, UTI AMC, etc, may add further value not factored in by us. We reiterate our **BUY** recommendation on SBI.

The CET1 post capital raising in QIP for the consolidated entity is 10.2% (roughly up 80 bps) with CAR at 13.6%. The capital will suffice for two years, as per the management. Further inflow of ~₹ 5000-6000 crore from SBI Life IPO will add further to its capital adequacy, enabling it to manage the future credit growth and NPA resolution process.

Concerns remain on return ratios as it will take longer to improve due to lower profits in merged entity. Long term structural value remains intact.

Exhibit 1: SoTP valuation of SBI

	FY19E ₹/share
SBI (consol banks)	277
SBI AMC	8
SBI Life	45
SBI capital markets	4
SBI cards	3
SBI General Insurance	4
Value per share	340

Source: ICICIdirect.com Research

Rating matrix		
Rating	:	Buy
Target	:	₹ 340
Target Period	:	12 months
Potential Upside	:	15%

Valuation summary (merged bank)		
	FY18E	FY19E
P/E	27.2	13.7
Target P/E	31.4	15.8
P/ABV	1.9	1.6
Target P/ABV	2.1	1.8
RoA	0.3	0.5
RoE	4.0	7.2

Stock data	
Market Capitalisation	₹ 252000 Crore
GNPA	₹ 177866 Crore
NNPA	₹ 96978 Crore
NIM	2.9%
52 week H/L	308/166
Networth	₹ 211812 Crore
Face value	₹ 1
DII Holding (%)	21.6
FII Holding (%)	11.2

Price performance				
Return %	1M	3M	6M	12M
SBI	2.6	0.0	16.2	25.7
BOI	5.1	-1.6	28.9	25.7
PNB	1.1	-1.7	22.8	15.6

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Merged SBI bank balance sheet...

(Year-end March)-₹ crore	1st April 2017	FY18E
Sources of Funds		
Capital	810.98	862.18
Reserves and Surplus	211001.0	235667.1
Networth	211812.0	236529.3
Deposits	2585320.3	2820723.0
Borrowings	332105.7	374137.4
Other Liabilities & Provisions	175623.2	194668.5
Total	3,304,861	3,626,058

Application of Funds		
Fixed Assets	49906.4	20190.5
Advances	1868962.6	2046938.5
Investments	932926.7	1031549.1
Cash and balances with RBI	160741.4	184665.0
Money at call, balance at bank	110120.3	121132.4
Other Assets	182204.3	221582.6
Total assets	3,304,862	3,626,058

Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 2: Summary of merged entity as of April 1, 2017

Financial metrics	
Total Deposits	2,585,320.0
CASA Ratio (%)	44
Total Advances	1,868,962.0
Mkt. Share - Deposits (%)	23
Mkt. Share – Advances (%)	21.2
Number of branches	24,017
Total Staff	278,872.0
No. of customers (in lakhs)	4,204

Capital Adequacy	
CET 1	9.4
Tier 1	10.1
CAR	12.9
Gol Shareholding	60.8

Asset quality	
Gross NPA Ratio	9.1
Net NPA Ratio	5.2
Provision Coverage Ratio	61.5
Slippage Ratio	5.8
Credit Cost	2.9

Financial Ratios	
Cost to income Ratio	49.5
Cost of Deposits	5.9
Yield on Advances	9.3
NIM (Domestic)	2.9

Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 3: Non banking subsidiaries profitability trend

(₹ crore)	FY15	PAT FY16	FY17	ROE % FY15	FY16	FY17
Non- Banking Subsidiaries						
SBI Capital Markets	338	279	252	33.2	26.3	20.2
SBI Funds Management	163	165	224	30.8	26.6	29.6
SBI Life Insurance	820	861	955	20.3	18.2	20.0
SBI cards & payment	267	284	390	27.61	26.7	29.5
SBI General Insurance	-105	-120	153	NA	NA	13.9

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banking)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17E	FY18E	FY19E
Bank of Baroda (BANBAR)	164	200	Buy	37,842	6	10	19	27.4	16.1	8.6	1.6	1.4	1.1	0.2	0.3	0.5	3	5	10
Punjab National Bank (PUNBAN)	155	160	Buy	32,514	6	15	21	24.9	10.5	7.3	4.2	2.5	1.8	0.2	0.4	0.5	3	7	10
State Bank of India (STABAN)	291	340	Buy	252,740	13	18	26	22.1	16.1	11.2	1.8	1.6	1.4	0.4	0.5	0.7	6	8	10
Indian Bank (INDIBA)	319	350	Buy	15,231	29	32	42	10.9	10.1	7.5	1.4	1.3	1.1	0.7	0.7	0.9	8	9	11
Axis Bank (AXIBAN)	517	540	Hold	122,289	15	22	36	33.6	23.3	14.4	2.6	2.4	1.9	0.7	0.8	1.2	7	9	13
City Union Bank (CITUNI)	167	185	Buy	11,206	8	9	11	21.9	19.2	15.8	3.6	3.1	2.6	1.5	1.5	1.6	15	15	16
DCB Bank (DCB)	197	200	Hold	6,105	7	9	11	28.0	22.6	18.1	3.1	2.5	2.2	0.9	1.0	1.1	11	12	12
Federal Bank (FEDBAN)	113	130	Buy	22,166	5	6	8	23.5	18.5	13.9	2.4	1.9	1.7	0.8	0.9	1.1	10	11	12
HDFC Bank (HDFBAN)	1,684	1,700	Buy	432,711	57	69	84	29.7	24.3	20.0	4.9	4.4	3.9	1.9	1.9	2.0	18	19	20
IndusInd Bank (INDBA)	1,570	1,650	Hold	94,596	48	59	75	32.7	26.8	21.0	4.7	4.1	3.6	1.8	1.8	1.9	15	16	18
Jammu & Kashmir Bk(JAMKAS)	83	95	Buy	4,641	-31	7	13	-2.7	11.5	6.6	1.3	1.3	1.1	-2.0	0.4	0.7	-27	6	11
Kotak Mahindra Bank (KOTMAH)	977	950	Hold	252,740	19	23	30	52.7	41.8	32.9	6.9	6.0	5.3	1.7	1.8	2.0	13	14	16
Yes Bank (YESBAN)	1,558	1,650	Hold	70,767	73	98	128	21.4	16.0	12.2	3.3	2.8	2.3	1.8	1.9	2.0	19	19	20

Source: Company, ICICIdirect.com Research

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Buy: > 10%/15% for large caps/midcaps, respectively;

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