State Bank of India (STABAN) ₹ 335

NPA stress easing; operationally better than peers

After a soft Q1FY18 (first quarter when merged financials were announced) in terms of asset quality, SBI reported an improved Q2FY18 performance with slippages lower at ₹ 10627 crore vs. ₹ 30059 in Q1FY18. Corporate slippages were at ₹ 4538 crore (54% from watch list). As per the management, going ahead, corporate slippages would largely occur from watch list. The watch list fell 13% QoQ and is now at ₹ 21288 crore. Stressed assets (GNPA + RA) were at ₹ 220139 crore (11.6% of loans) vs. ₹ 227406 crore (12.05% of loans) in Q1FY18. Including accounts under SDR & S4A, overall stressed assets are below 14%, better than peers.

Further, with respect to exposure to accounts under Insolvency & Bankruptcy code (IBC), the bank has provisions of ~50%. In the first list, the exposure is towards 12 accounts of ~₹ 50000 crore while in the second list it is ~₹ 22000 crore (27 accounts). Against total exposure of ~₹ 72000 crore, provisions are to the tune of ₹ 37000 crore. Improvement in NPAs and large gains from stake sale in SBI Life allowed the bank to improve its provisions coverage ratio in Q2FY18 to 65.1% from 60.8% in Q1FY18. SBI would be one of the key beneficiaries of the mega capital infusion of ~₹ 2.1 lakh crore announced by the government. This would allow the bank to address the further provision requirements for accounts under IBC and for growth.

Operational performance healthy in Q2; loan traction to improve ahead

The bank's core performance was healthy in Q2. PPP (excluding large one-off gains) increased 22.6% QoQ (11.4% YoY) to ₹ 14563 crore. Overall margins improved 7 bps QoQ to 2.43% while domestic margins improved 9 bps QoQ to 2.59%. Advances traction though largely flat at ₹ 1892440 crore, is expected to improve in the second half. We expect loan CAGR of 9% over FY17-19E to ₹ 2220328 crore.

Performing relatively better than peers; revise TP higher; retain BUY

Merger with associate banks resulted in huge NPA stress and subsequently muted earnings in Q1FY18. However, the performance improved in Q2FY18 with slippages down considerably. Post complete integration, business growth will remain in focus. We believe capital raising via QIP, inflow of ~₹ 5000 crore from SBI Life stake sale and large capital infusion announced by the government, would be sufficient to meet provisions, growth requirements ahead. Capital adequacy ratio (CAR) is at 13.9% in Q2FY18 with Tier 1 capital at 10.9% Return ratios are expected to take longer to improve due to lower profits in merged entity. However, long term structural value of the bank remains intact. We revise our target price higher to ₹ 390/share, valuing the merged bank at 1.8x FY19E ABV (₹ 168/share) and subsidiaries at ₹ 79/share. 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 **BUY**.

Exhibit 1: SoTP valuation of SBI

	FY19E ₹/share
SBI (merged banks)	311
SBI AMC	8
SBI Life	49
SBI capital markets	4
SBI cards	3
SBI General Insurance	15
Value per share	**390**

Source: ICICIdirect.com Research

Rating matrix

Rating	:	Buy
Target	:	₹ 390
Target Period	:	12 months
Potential Upside	:	16%

Valuation summary (merged bank)

	FY18E	FY19E
P/E	31.6	20.5
Target P/E	36.7	23.9
P/ABV	2.2	2.0
Target P/ABV	2.5	2.3
RoE	4.1	5.9
RoA	0.3	0.4

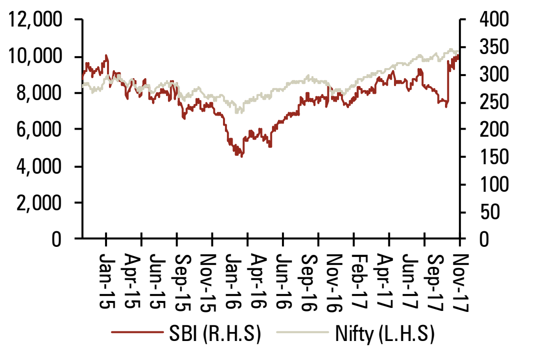
Stock data

Market Capitalisation	₹ 289434 Crore
GNPA	₹ 186115 Crore
NNPA	₹ 97896 Crore
NIM (Domestic)	2.6%
52 week H/L	352/241
Networth	₹ 231291 Crore
Face value	₹ 1
DII Holding (%)	22.3
FII Holding (%)	10.9

Price performance

Return %	1M	3M	6M	12M
SBI	38.1	22.4	13.9	30.3
BOI	50.4	45.6	27.9	73.0
PNB	46.0	37.1	25.3	37.7

Price Chart – SBI



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Variance analysis (Merged bank)

	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	
NII	18,586	18,119	2.6	17,606	5.6	NII (merged bank) remained subdued largely due to muted credit growth
NIM (%)	2.4	2.8	-36 bps	2.4	7 bps	QoQ improvement in NIMs is led by lower reversal of interests owing to NPAs
Other Income	16,017	10,146	57.9	8,006	100.1	Optically higher growth led by one-off gains from sale of stake in SBI Life
Net Total Income	34,603	28,265	22.4	25,612	35.1	
Operating expense	14,603	14,277	2.3	13,738	6.3	
PPP	20,000	13,988	43.0	11,874	68.4	
Provision	19,137	14,830	29.0	8,929	114.3	Increased provisions help improve provision coverage ratio
PBT	863	-842	-202.5	2,945	-70.7	
Tax Outgo	-720	-284	153.5	939	-176.7	
PAT	1,583	-558	-383.7	2,006	-21.1	
Key Metrics						
GNPA	186,115	159,806	16.5	188,068	-1.0	Slippages were considerably lower QoQ
NNPA	97,896	92,368	6.0	107,760	-9.2	
Total Restructured assets	34,024	NA	NA	39,337	-13.5	Total stressed assets (GNPA + RA) stood at 11.6% of advances vs 12.05% in Q1FY18
Advances	1892440	1874715	0.9	1886666	0.3	Corporate segment growth remained sluggish but healthy traction was seen in retail portfolio
Deposits	2623180	2378956	10.3	2602534	0.8	CASA remained healthy at 44.9%

Source: Company, ICICIdirect.com Research

Change in estimates (Merged Bank)

	Current		Earlier	
	FY18E	FY19E	FY18E	FY19E
Credit growth (%)	8.0	10.0	8.0	10.0
Deposit Growth (%)	10.0	10.0	10.0	10.0
Cost to income ratio (%)	49.5	49.0	49.2	48.2
GNPA ratio (%)	9.6	8.7	9.6	8.7
NNPA ratio (%)	5.0	4.5	5.0	4.5
Credit cost (%)	2.7	2.4	2.7	2.5

Source: Company, ICICIdirect.com Research

Financial summary (Merged bank)

Profit and loss statement			₹ Billion
(Year-end March)	FY17E	FY18E	FY19E
Interest Earned	228,530	246,472	269,628
Interest Expended	149438.7	160418.9	175069.6
Net Interest Income	79,092	86,053	94,558
% growth		8.8	9.9
Non Interest Income	40662.4	44748.8	48736.2
Net Income	119754.1	130802.0	143294.3
Employee cost	36727.5	39516.1	43037.2
Other operating Exp.	23265.9	25261.4	27119.3
Operating Income	59760.6	66024.4	73137.8
Provisions	60690.0	53489.7	53287.9
PBT	-929.4	12534.7	19849.9
Taxes	835.0	3384.4	5756.5
Net Profit	(1,764)	9,150	14,093
% growth		NA	54.0
EPS	(2.2)	10.6	16.3

Source: Company, ICICIdirect.com Research

Key ratios			
(Year-end March)	FY17E	FY18E	FY19E
Valuation			
No. of Equity Shares (Crore)	811.0	862.2	862.2
BV (₹)	261.2	270.7	284.8
BV-ADJ (₹)	141.6	154.7	167.9
P/BV	1.3	1.2	1.2
P/ABV	2.4	2.2	2.0
GNPA	9.5	9.6	8.7
NNPA	5.2	5.0	4.5
RONW	-0.8	4.1	5.9
ROA	(0.1)	0.3	0.4

Source: Company, ICICIdirect.com Research

Balance sheet			₹ Billion
(Year-end March)-₹ crore	1st April 2017	FY18E	FY19E
Sources of Funds			FY19E
Capital	810.98	862.18	862.18
Reserves and Surplus	211001.0	232511.1	244705.1
Networth	211812.0	233373.3	245567.3
Deposits	2585320.3	2843852.4	3128237.6
Borrowings	332105.7	345389.9	359205.5
Other Liabilities & Provisions	175623.2	186160.6	197330.2
Total	3,304,861	3,608,776	3,930,341
Application of Funds			
Fixed Assets	49906.4	49906.4	49906.4
Advances	1868962.6	2018479.6	2220327.6
Investments	932926.7	1016890.1	1108410.2
Cash and balances with RBI	160741.4	171993.2	184032.8
Money at call, balance at bank	110120.3	121132.4	133245.6
Other Assets	182204.3	230374.4	234418.0
Total assets	3,304,862	3,608,776	3,930,341

Source: Company, ICICIdirect.com Research

Growth ratios		(% growth)
(Year-end March)	FY18E	FY19E
Total assets	9.2	8.9
Advances	8.0	10.0
Deposits	10.0	10.0
Total Income	9.2	9.6
Net interest income	8.8	9.9
Operating expenses	8.0	8.3
Operating profit	10.5	10.8
Net profit	NA	54.0
Book value	3.6	5.2
EPS	NA	54.0

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banking)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY17	FY18E	FY19E	P/E (x) FY17	FY18E	FY19E	P/ABV (x) FY17	FY18E	FY19E	RoA (%) FY17	FY18E	FY19E	RoE (%) FY17	FY18E	FY19E
Bank of Baroda (BANBAR)	178	220	Buy	41,625	6	10	19	29.7	17.4	9.3	1.3	1.2	1.0	0.2	0.3	0.6	3	6	10
Punjab National Bank (PUNBAN)	186	245	Buy	40,261	6	12	20	29.8	15.9	9.1	1.8	1.6	1.3	0.2	0.3	0.5	3	6	10
State Bank of India (STABAN)	334	390	Buy	289,434	13	18	26	25.4	18.5	12.8	2.0	1.8	1.6	0.4	0.5	0.7	6	8	10
Axis Bank (AXIBAN)	539	600	Hold	129,632	15	16	30	35.1	34.5	17.7	2.7	3.0	2.7	0.6	0.6	1.0	7	7	12
City Union Bank (CITUNI)	163	180	Buy	10,951	8	9	11	21.4	18.0	15.4	3.4	2.9	2.5	1.5	1.6	1.6	15	16	16
DCB Bank (DCB)	179	200	Hold	5,501	7	9	11	25.5	20.6	16.5	2.8	2.3	2.0	0.9	1.0	1.0	11	12	12
Federal Bank (FEDBAN)	113	140	Buy	22,204	5	6	8	23.3	19.0	14.4	2.4	1.9	1.7	0.8	0.9	1.0	10	11	12
HDFC Bank (HDFBAN)	1,849	2,050	Buy	479,777	57	70	87	32.6	26.2	21.3	5.4	4.9	4.3	1.9	1.9	2.0	18	19	21
IndusInd Bank (INDBA)	1,643	1,920	Buy	97,508	48	59	75	34.2	28.0	21.9	5.0	4.3	3.7	1.8	1.8	1.9	15	16	18
Jammu & Kashmir Bk(JAMKAS)	75	105	Buy	4,149	-31	8	12	-2.4	9.6	6.3	1.2	1.0	1.0	-2.0	0.5	0.7	-27	7	10
Kotak Mahindra Bank (KOTMAH)	1,025	1,015	Hold	195,422	19	23	30	55.3	43.9	34.4	7.3	6.3	5.5	1.7	1.8	2.0	13	14	16
Yes Bank (YESBAN)	309	325	Hold	71,168	15	19	24	20.8	16.5	12.9	3.3	2.8	2.4	1.8	1.7	1.8	19	18	19

Source: Company, ICICIdirect.com Research

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