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State Bank of India

Improving subsidiary focus to add value to the Bank

Management Meet Update

March 20, 2018

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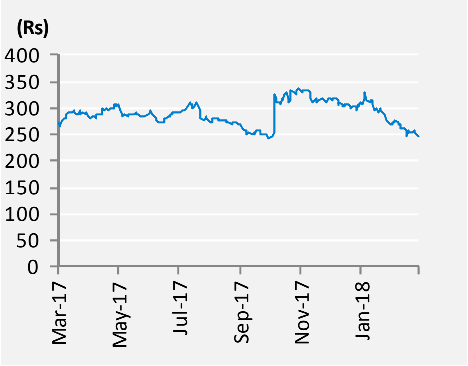
Rating	**BUY**
Price	Rs248
Target Price	Rs341
Implied Upside	37.5%
Sensex	32,923
Nifty	10,094

(Prices as on March 19, 2017)

Trading data			
Market Cap. (Rs bn)			2,141.6
Shares o/s (m)			8,632.1
3M Avg. Daily value (Rs m)			7063.4
Major shareholders			
Promoters			57.46%
Foreign			12.34%
Domestic Inst.			21.97%
Public & Other			8.23%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(7.3)	(7.4)	(9.5)
Relative	(4.8)	(9.0)	(20.5)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2019	11.5	19.0	*-39.7*
2020	18.5	31.2	*-40.8*

Price Performance (RIC: SBI.BO, BB: SBIN IN)



Source: Bloomberg

We attended the SBI's subsidiaries day represented by chief executives of non-lending business and key RRBs. Key takeaways from the session were (i) Improve engagement with bank for cross sell & leverage bank's technology knowhow & reach (ii) Improve USP of each subsidiary to create niche visibility over next few years and (iii) Plans for unlocking value for each subsidiary. Currently 7% of SBI's total fee income is contributed from cross sell of products of subs which SBI targets to increase the share by 3x in next few years, while key large subs contributed 20%of Bank's profits in FY17 and has substantially improved in FY18, we believe bank network synergies are yet to be exploited and could further improve market share for subs, adding higher value to the bank valuation. In our current SOTP of Rs341 (reduced from Rs350) we value subs at Rs80 (up from Rs.74 on our recent TP increase in SBI Life). We have tweaked our FY18 & FY19 numbers on credit losses for the bank due to some impact from revised stressed asset guidelines but should also benefit from the resolution process from NCLT. Retain "BUY".

- **SBI brand & network to be exploited:** Currently 60% of branches do cross sell, 30% of employees are certified to cross sell and out of the 420mn customers, a minuscule 6-7% are cross sold which has higher potential to improve. Higher focus lies on cross sell of insurance products, increase card spends & fee to improve the cross sell fees by 3x which is only 7% of total fees.

- **SBI Life remains the jewel on the crown among subs:** SBI Life has moved to become the largest in terms of market share of 15-16% in APE terms amongst private players with strong growth in ULIP, protection & group credit life segments. It currently has strong tilt towards ULIP with 72% mix in individual business but continues to focus to improve protection share which is much profitable. Improving segmental mix and improving operating efficiency can lead to 1.5% of margin improvement per annum from current 15-16% with steady mix.

Contd...2

Key financials (Y/e March)	**2017**	**2018E**	**2019E**	**2020E**
Net interest income	618,597	749,570	836,506	938,920
Growth (%)	*8.2*	*21.2*	*11.6*	*12.2*
Operating profit	508,479	582,716	588,134	635,256
PAT	104,841	16,932	99,150	159,347
EPS (Rs)	13.3	2.0	11.5	18.5
Growth (%)	*2.0*	*(84.7)*	*463.3*	*60.7*
Net DPS (Rs)	2.6	0.5	3.5	4.5

Profitability & Valuation	**2017**	**2018E**	**2019E**	**2020E**
NIM (%)	2.44	2.46	2.36	2.40
RoAE (%)	6.3	0.8	4.3	6.7
RoAA (%)	0.41	0.06	0.28	0.41
P / BV (x)	1.3	1.0	1.0	1.0
P / ABV (x)	1.9	1.8	1.6	1.3
PE (x)	18.6	121.7	21.6	13.4
Net dividend yield (%)	1.1	0.2	1.4	1.8

Source: Company Data; PL Research

- **Cards business remains highly profitable:** For SBI, cards business has been exceptionally profitable with ROEs ranging at 25-30% over last 4-5 years on back of strong spends CAGR of 40% and lower credit losses of 2.5% (reduced downwards) over FY15-FY18. Profitability has been on improving market share in card spends (up 500bps over last year to 17%) and no of cards (16% market share). Improvement in market share has been on strong tie-up on co-branded segment which contributed 24% in term of product and 25% share on sourcing. Bank focuses on profitable fee based cards and target mid mass and elite segment.

- **General insurance next area of growth:** SBI's subsidiary for general insurance started operation in FY09 and was PAT positive in FY17. Product mix is much diversified than peers and company has been able to underwrite profitable crop insurance business but it currently sees pricing instability in the Motor insurance and corporate property insurance. SBI GI focuses to improve the underwriting profit on some of its business segments especially on the 3rd party motor as the revised guidelines are expected to come in and improve product offering to SME segment which much more under penetrated helping gain market share in general insurance.

- **SBI Fund Management – Higher potential to leverage bank's customers:** SBI fund management business has been seeing substantial growth in AUM mainly on equity with ETF offering (but of lower yields). The company will focus on targeting the profitable retail segment and continue its strong market share gains in the B15 geographies (57% YoY AUM growth v/s 44% for industry) and continue to invest in B30 geographies to improve presence and exploit the existing network & customer base and is currently lower than 1% of SBI's customer base and lowest in terms of sourcing from bank at 25%.

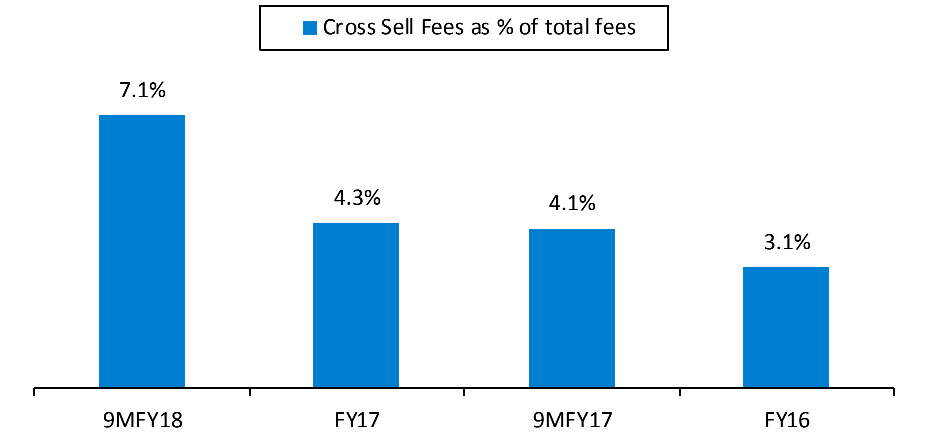
- **Other subsidiaries: (i)** Bank has invested in 18 RRBs with key area of focus being financial inclusion with decent ROEs, lower asset quality issues and self-sustaining. Bank expects to list 1-2 RRBs in next 2 years. **(ii)** SBI capital markets business continues to leverage on the substantial growth seen in equity market improve its market share in offering, but has lost out on project advisory deals and debt capital market, which it plans to improve especially on the NCLT cases, by marketing INVITs, Masala bonds which will improve overall profitability and reach.

Exhibit 1: A miniscule percentage of SBI customers has been cross sold

Values in Rs Million	SBI Customers	% of SBI Customer	Banca Sourcing (%)
SBI Life	5.6	1.3%	68%
SBI Funds	2.5	0.6%	25%
SBI GI	18.0	4.3%	43%
SBI Cards	1.7	0.4%	29%
Total SBI Customers	**420.0**	**6.6%**	

Source: Company Data, PL Research

Exhibit 2: Cross sell fees has been improving for bank as focus on TPP like insurance & mutual funds has increased



Source: Company Data, PL Research

Exhibit 3: Subs still contribute much lower in overall profitability for SBI group

Profit after tax (Rs. in Mn)	9MFY18	9MFY17	FY17
SBI	11,710	77,023	104,840
SBI Life	7,690	6,190	9,547
SBI Caps	2,260	1,340	2,520
SBI Funds Mgmt	2,430	1,630	2,240
SBI Cards	4,170	2,800	3,900
SBI DFHI	340	1,450	
SBI Gen Insurance	3,590	250	1,530
Total Subs	**20,140**	**12,210**	**19,737**
% of Bank PAT	***172%***	***16%***	***19%***

Source: Company Data, PL Research
SBI Bank PAT for 9MFY17 & FY17 is not adjusted with merger of associate banks
9MFY18 – Bank profits have been under pressure on high credit cost on NPA & Bonds losses

Exhibit 4: Strong partnerships across subsidiaries has helped get best in class technical knowhow and expertise

	JV Partner	JV Partner Stake	SBI stake
SBI Life	BNP Paribas Cardif	22%	62%
SBI Funds	Amundi	26%	74%
SBI GI	IAG Group, Australia	26%	74%
SBI Cards	Carlyle Group	37%	63%
SBI Capital Market	-	-	100%

Source: Company Data, PL Research

Exhibit 5: SBIN's: SOTP valuation table

SOTP valuation, FY19E	Multiple	Stake (%)	Revised PT	Method
Standalone	1.6	100%	261	Avg. of P/ABV & EVA
Life insurance venture	3.1x & 23x	62%	48	3.1x EV & 23x New Biz multiple
Asset management	5%	63%	9	5% of AUMs
Capital Market/DFHI/Others		100%	24	P/E model
Total			**341**	
Subs as % of SOTP			25%	

Source: Company Data, PL Research

Exhibit 6: We revise our TP for SBIN to Rs341 (from Rs350) based on Sep-19 ABV and SOTP

PT calculation and upside	
Fair price – EVA	260
Fair price - P/ABV	262
Average of the two	**261**
Value of subs/associates	80
Fair value of consol. entity	**341**
P/ABV – Standalone bank	**1.5**
P/E - Standalone bank	**18.0**
Current price, Rs	248
Upside (%)	**38%**
Dividend Yield (%)	2%
Total Return	**39%**

Source: Company Data, PL Research

Exhibit 7: Return ratios uptick to be gradual

RoAE decomposition (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Interest income	8.3	8.2	8.1	7.9	7.6	6.9	7.2	7.0	7.1
Interest expenses	4.9	5.2	5.2	5.1	5.0	4.5	4.8	4.6	4.7
Net interest income	**3.4**	**3.1**	**2.9**	**2.9**	**2.6**	**2.4**	**2.5**	**2.4**	**2.4**
Treasury income	0.0	0.2	0.2	0.3	0.3	0.5	0.5	0.3	0.3
Other Inc. from operations	1.1	0.9	0.9	0.9	1.0	0.9	0.9	0.8	0.8
Total income	**4.5**	**4.2**	**4.0**	**4.0**	**3.9**	**3.8**	**3.8**	**3.5**	**3.5**
Employee expenses	1.3	1.3	1.3	1.2	1.2	1.0	1.1	1.0	1.0
Other operating expenses	0.7	0.8	0.8	0.8	0.8	0.8	0.9	0.8	0.9
Operating profit	**2.5**	**2.1**	**1.9**	**2.0**	**2.0**	**2.0**	**1.9**	**1.7**	**1.6**
Tax	0.5	0.4	0.3	0.3	0.2	0.2	(0.0)	0.1	0.2
Loan loss provisions	1.0	0.8	0.9	1.0	1.4	1.4	1.9	1.2	1.0
RoAA	**0.9**	**1.0**	**0.6**	**0.7**	**0.5**	**0.4**	**0.1**	**0.3**	**0.4**
RoAE	**15.7**	**15.4**	**10.0**	**10.6**	**7.3**	**7.0**	**0.9**	**4.7**	**7.3**

Source: Company Data, PL Research *FY18E onwards ratios incl merged bank associates*

Exhibit 8: Change in earnings estimates – We have tweaked credit cost estimates on NPA & bond losses and revised guidelines on stressed assets resolution

(Rs mn)	Old			Revised			% Change		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	*FY18E*	*FY19E*	FY20E
Net interest income	749,195	837,886	960,282	749,570	836,506	938,630	*0.0*	*(0.2)*	*(2.3)*
Operating profit	587,212	599,685	668,773	582,716	588,134	634,966	*(0.8)*	*(1.9)*	*(5.1)*
Net profit	18,201	134,183	197,162	16,932	99,151	151,558	*(7.0)*	*(26.1)*	*(23.1)*
EPS (Rs)	2.2	15.5	22.8	2.0	11.5	17.6	*(7.0)*	*(26.1)*	*(23.1)*
ABVPS (Rs)	138	160	195	138	159	190	*(0.1)*	*(0.6)*	*(2.4)*
Price target (Rs)	**351**			**341**			***(2.6)***		
Recommendation	**BUY**			**BUY**					

Source: Company Data, PL Research

Exhibit 9: SBIN - one year forward P/ABV trends – Lowe than average levels

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018E	2019E	2020E
Int. Earned from Adv.	1,195,100	1,429,996	1,613,875	1,822,779
Int. Earned from Invt.	482,053	702,384	795,298	871,038
Others	78,029	69,086	69,408	78,888
Total Interest Income	1,755,182	2,201,465	2,478,580	2,772,704
Interest expense	1,136,585	1,451,895	1,642,075	1,833,784
NII	**618,597**	**749,570**	**836,506**	**938,920**
Growth (%)	*8.2*	*21.2*	*11.6*	*12.2*
Treasury Income	107,496	126,846	88,792	95,895
NTNII	247,113	288,047	321,952	347,708
Non Interest Income	354,609	414,893	410,744	443,603
Total Income	2,109,792	2,616,358	2,889,324	3,216,308
Growth (%)	*10.0*	*24.0*	*10.4*	*11.3*
Operating Expense	464,728	581,747	659,116	747,267
Operating Profit	**508,479**	**582,716**	**588,134**	**635,256**
Growth (%)	*17.5*	*14.6*	*0.9*	*8.0*
NPA Provisions	329,056	566,767	403,469	360,055
Investment Provisions	2,984	29,839	26,855	24,170
Total Provisions	359,927	577,878	441,243	399,184
PBT	**148,552**	**4,838**	**146,891**	**236,071**
Tax Provisions	43,711	(12,094)	47,741	76,724
Effective Tax Rate (%)	*29.4*	*(250.0)*	*32.5*	*32.5*
PAT	**104,841**	**16,932**	**99,150**	**159,347**
Growth (%)	*5.4*	*(83.9)*	*485.6*	*60.7*

Balance Sheet (Rs m)

Y/e March	2017	2018E	2019E	2020E
Par Value	1	1	1	1
No. of equity shares	7,974	8,632	8,632	8,632
Equity	7,974	8,632	8,632	8,632
Networth	1,882,861	2,270,898	2,335,447	2,450,307
Adj. Networth	1,300,091	1,222,060	1,462,772	1,811,368
Deposits	20,447,514	26,990,718	29,824,744	33,254,589
Growth (%)	*18.1*	*32.0*	*10.5*	*11.5*
Low Cost deposits	9,113,825	12,199,805	13,495,697	15,080,956
% of total deposits	*44.6*	*45.2*	*45.3*	*45.4*
Total Liabilities	**27,059,663**	**33,779,470**	**37,096,033**	**41,085,914**
Net Advances	15,710,784	19,167,156	21,179,708	23,827,171
Growth (%)	*7.3*	*22.0*	*10.5*	*12.5*
Investments	7,659,896	10,536,473	11,409,221	12,292,105
Total Assets	**27,059,663**	**33,779,470**	**37,096,033**	**41,085,914**

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Interest Income	589,690	549,054	548,497	548,029
Interest Expense	379,030	372,994	362,638	361,154
Net Interest Income	**210,660**	**176,060**	**185,859**	**186,875**
Non Interest Income	122,220	80,057	160,161	80,842
CEB	74,340	48,700	53,570	49,790
Treasury	19,970	17,700	85,660	10,260
Net Total Income	**332,880**	**256,117**	**346,020**	**267,717**
Operating Expenses	159,780	137,376	146,028	150,171
Employee Expenses	89,140	77,245	77,032	84,968
Other Expenses	70,640	60,131	68,996	65,203
Operating Profit	**173,100**	**118,741**	**199,991**	**117,546**
Core Operating Profit	153,130	101,041	114,331	107,286
Provisions	209,320	89,295	191,374	188,762
Loan loss provisions	201,750	100,863	189,910	147,697
Investment Depreciation	2,710	(7,550)	370	40,440
Profit before tax	**(36,220)**	**29,446**	**8,617**	**(71,216)**
Tax	(1,810)	9,391	(7,198)	(47,053)
PAT before EO	**(34,410)**	**20,055**	**15,816**	**(24,164)**
Extraordinary item	—	—	—	—
PAT	**(34,410)**	**20,055**	**15,816**	**(24,164)**

Key Ratios

Y/e March	2017	2018E	2019E	2020E
CMP (Rs)	248	248	248	248
Equity Shrs. Os. (m)	7,974	8,632	8,632	8,632
Market Cap (Rs m)	1,978,226	2,141,624	2,141,624	2,141,624
M/Cap to AUM (%)	*7.3*	*6.3*	*5.8*	*5.2*
EPS (Rs)	13.3	2.0	11.5	18.5
Book Value (Rs)	197	239	247	260
Adj. BV (100%) (Rs)	128	138	159	190
P/E (x)	18.6	121.7	21.6	13.4
P/BV (x)	1.3	1.0	1.0	1.0
P/ABV (x)	1.9	1.8	1.6	1.3
DPS (Rs)	2.6	0.5	3.5	4.5
Dividend Yield (%)	*1.1*	*0.2*	*1.4*	*1.8*

Profitability (%)

Y/e March	2017	2018E	2019E	2020E
NIM	2.4	2.5	2.4	2.4
RoAA	0.4	0.1	0.3	0.4
RoAE	6.3	0.8	4.3	6.7

Efficiency

Y/e March	2017	2018E	2019E	2020E
Cost-Income Ratio (%)	*47.8*	*50.0*	*52.8*	*54.1*
C-D Ratio (%)	*76.8*	*71.0*	*71.0*	*71.7*
Business per Emp. (Rs m)	151	183	193	206
Profit per Emp. (Rs lacs)	4.4	0.7	3.7	5.7
Business per Branch (Rs m)	1,681	1,951	1,960	1,994
Profit per Branch (Rs m)	5	1	4	6

Asset Quality

Y/e March	2017	2018E	2019E	2020E
Gross NPAs (Rs m)	1,123,425	2,021,096	1,878,944	1,622,881
Net NPAs (Rs m)	582,770	1,048,838	872,675	638,939
Gr. NPAs to Gross Adv. (%)	*7.2*	*10.5*	*8.9*	*6.8*
Net NPAs to Net Adv. (%)	*3.7*	*5.5*	*4.1*	*2.7*
NPA Coverage (%)	*48.1*	*48.1*	*53.6*	*60.6*

Source: Company Data, PL Research.

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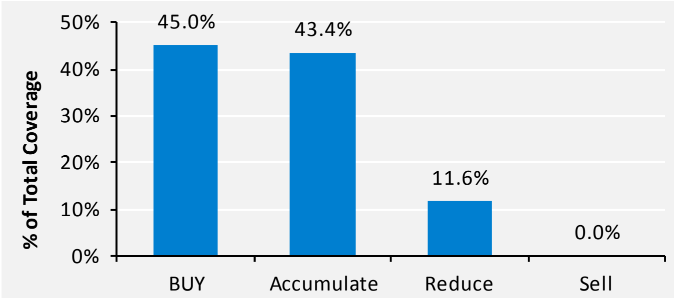

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BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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