

# State Bank Of India Ltd.



**RESULT UPDATE**

23<sup>rd</sup> May, 2018

# State Bank Of India Ltd

**Stress recognition addressed meaningfully; focus on resolutions now**

CMP <b>INR 265</b>	Target <b>INR 363</b>	Potential Upside <b>37%</b>	Market Cap (INR Mn) <b>2,268,184</b>	Recommendation <b>BUY</b>	Sector <b>BFSI</b>
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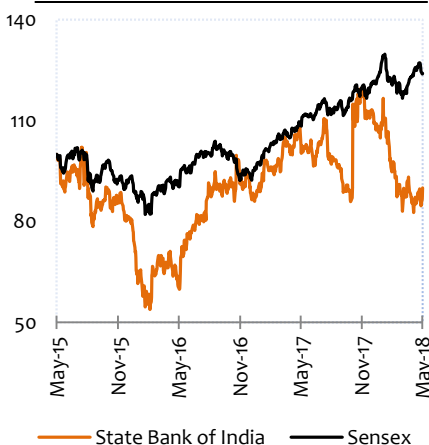
## Result highlights

SBI reported net loss of INR 77 bn during Q4FY18 vs. a loss of INR 34 bn during Q4FY17, primarily driven by high provisioning. At INR 281 bn, provisioning is up 34.2% yoy / 48.8% qoq, translating into credit costs of 3.8% versus 3% for Q4FY17 and 2.6% for Q3FY18. Asset quality saw deterioration with >60% corporate slippages from the identified stress baggage which stands at INR 258 bn (down from >INR 500 bn in Q3). GNPA's at 10.91% are up 56 bps qoq while NNPA's at 5.73% are up 12 bps qoq. Part of the higher provisioning has gone towards scaling up the PCR to >50% (+179 bps qoq). The bank is aiming for 60% PCR by FY19 (we are building in 65% by FY20). At INR 330 bn worth of slippages during the quarter, slippage ratio works out to be 6.9% (4.9% for FY18). However, with most of the stress now being recognized and classified at NPA, the management has guided for gross slippages of 2% over FY19/20. Power sector continues to be the major pain point for the bank, comprising of 41% of the current watch list. On the growth front, advances grew by 4% to INR 19348 bn. Going forward, the management has guided for 12% annual growth 9we are building in 11% average annual growth over FY19/20) and RoA of 0.9-1% on back of reducing credit costs and improvement in income metrics (NIMs + non-interest revenue).

## MARKET DATA

Shares outs (Mn)	8924
EquityCap (INR Mn)	8925
Mkt Cap (INR Mn)	2268184
52 Wk H/L (INR)	352/232
Volume Avg (3m K)	22704
Face Value (INR)	1
Bloomberg Code	SBIN IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	34651
NIFTY	10537

## KEY FINANCIALS

Particulars (INR Bn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	550	572	752	749	852	970
Pre-provision profits	389	433	595	595	690	802
Net Profit	131	100	-18	-65	69	224
EPS (INR)	18	13	-2	-7	8	25
BVPS (INR)	172	186	266	246	252	271
ABVPS (INR)	135	114	144	121	132	185

Source: Company, KRChoksey Research

## Meaningful NPA recognition and watch-list reduction puts focus on recoveries /resolutions

Total stressed pool / watch list now stands at INR 258 bn (down from INR 500 bn as of Q3FY18). During the quarter, slippages from the watch-list were INR 174 bn. The remaining ~70 bn of identified stress pool is now considered as regular/safe and has been removed from the watch-list. Of the total fresh slippages of INR 337 bn during the quarter, INR 290.4 bn (86%) were corporate in nature. Within the corporate slippages, >60% came from the identified stress baggage of INR 500 bn (as of Q3FY18). Power and telecom formed bulk of the slippages, contributing 38% and 23% to the total, respectively.

The watch-list of INR 258 bn comprises of all the potential and existing stress, including SMA accounts. During the quarter, all SDR accounts slipped. Total slippages from SDR and S4A were INR 56.6 bn.

Power continues to be the main source of pain point from an asset quality perspective with 41% contribution to the current o/s watchlist (power exposure under watch list at INR 105.8 bn). The bank is focusing on resolving the power sector stress where there are PPAs and linkages. Power sector GNPA's stand at 19%.

Though slippage for FY18 is 4.9%, the bank has guided for a lower accretion rate going forward – 2% slippage in FY19/20. Meaningful reduction in the watch-list coupled with more simplicity in terms of identifying and classifying stress (scrapping of various restructuring schemes in Feb'18) is a positive from asset quality perspective.

Overall GNPA's stood at 10.91%, +56 bps qoq / NNPA's stood at 5.73%, +12 bps qoq. PCR ex-AUCA stands at 50.4% / including AUCA, it stands at 66.2%. Bank intends to shore up provisioning to 60% by FY19.

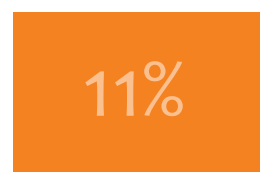
NCLT L1 exposure stands INR 491.2 bn (PCR: 56%) and L2 exposure stands at INR 285.1 bn (PCR: 75%). Overall PCR on total NCLT exposure is at 63%. Bank expects 52% haircut on NCLT L1 along with bulk of the resolutions coming through by H1FY19. List 2 is expected to be resolved by FY19 end. Complete resolution of NCLT cases should lead to lower NPAs in FY19.

## SHARE HOLDING PATTERN (%)

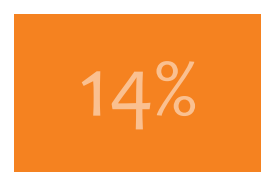
Particulars	Mar 18	Dec 17	Sep-17
Promoters	58.03	56.61	57.07
FII's	11.44	12.16	10.7
DII's	21.53	21.65	22
Others	9.01	9.59	10.23
Total	100	100	100

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Advances CAGR FY18-20E



NII CAGR FY18-20E

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Segmental asset quality (%)	Q2FY18	Q3FY18	Q4FY18
Agri	9.9%	10.0%	11.3%
Retail	1.4%	1.3%	1.2%
SME	10.9%	9.2%	9.5%
Corporate	19.2%	21.9%	21.9%
Large corp	13.6%	17.4%	19.9%
Mid corp	26.1%	27.5%	24.4%
International	2.6%	2.5%	2.4%

Source: Company, KRChoksey Research

NCLT exposure (INR Bn)	O/s	PCR (%)	
List 1	491.2	56%	bulk of resolutions expected by H1FY19
List 2	285.1	75%	likely to be resolved by end of FY19
<b>Total</b>	<b>776.3</b>	<b>63%</b>	

Source: Company, KRChoksey Research

Sector wise corp slippages	INR Bn	% of total
Power	110.7	38%
Telecom	66.8	23%
Iron/steel	8.7	3%
Roads/EPC	26.5	9%
Others	77.7	27%

Source: Company, KRChoksey Research

The bank does not expect more than 60% of the watch list to go absolutely bad.

## Muted advances growth, but should pick up going forward

Advances at INR 19348 bn grew 3.5%, led by robust growth in retail. LC/MC/SME continued to be muted. Going forward the bank is guiding for a 12% growth in advances led by a higher growth rate in retail. With respect to corporate, the credit may not grow significantly but the bank would be targeting corporate bonds and CPs market. Besides being a banker of first choice for several large corporate in India, aim now would be to increase wallet share per customer. The bank also expects a lot of large corporates to move to bonds/CPs.

Asset quality metrics	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Slippage (%)	5.38%	1.85%	5.29%	6.90%
Credit costs (%)	2.48%	3.42%	3.64%	4.93%
GNPA (%)	9.97%	9.83%	10.35%	10.91%
NNPA (%)	5.97%	5.43%	5.61%	5.73%

Source: Company, KRChoksey Research

86% slippages from corp book	Q4FY18 (INR Bn)
Total fresh slippages	336.7
of which, corp	290.4
of which, corp (%)	86%
Corp slippages	290.4
of which from stressed std pool	174.4
of which from stressed std pool (%)	60%

Source: Company, KRChoksey Research

Watchlist for FY19	Amt (INR Bn)	% of total
Power	105.8	41%
Roads/EPC	43.9	17%
Iron/steel	34.5	13%
Textile	26.6	10%
Others	47.2	18%
<b>Total</b>	<b>258.0</b>	<b>100%</b>

Source: Company, KRChoksey Research

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## Subsidiaries performance:

**PAT performance:** SBI Life reported a PAT of INR 11.5 bn vs. INR 9.6 bn for FY18. For the same period, SBI Capital Markets has reported a PAT of INR 3.3 bn, +30% yoy. SBI Funds Management has reported a PAT of INR 3.3 bn, +48% yoy, SBI Cards has reported a PAT of INR 3.6 bn, -7% yoy, SBI GI reported a PAT of INR 4 bn, +159% yoy.

### SBI Life Insurance:

- GWP stands at INR 253.5 bn, +21% yoy. NBP at INR 109.7 bn is up 8% yoy. The company has witnessed 31% yoy growth in individual rated premium at INR 77.9 bn for FY18.
- Individual rated premium private market share has increased from 20.7% as of FY17 to 21.8% in FY18.
- Total AUM stands at INR 1162.6 bn, +19% yoy.
- 13<sup>th</sup> month persistency stands at 83.03% versus 81.07% last year. Expense ratio has improved from 7.8% in FY17 to 6.8% in FY18.
- Total PAT of INR 11.5 bn for FY18 is up 20% yoy.

### SBI Cards:

- Total assets at INR 147 bn, up 38% yoy.
- ROE at 22.5% vs. 29.5% as of FY17.
- Spends market share at 17% vs. 13% last year. CIF market share at 16% vs. 15% last year.

### SBI Funds Management:

- AUM at INR 2176.5 bn, up 39% yoy.
- SBI MF market share at 9.4%, vs. 8.6% last year.
- PAT/ROE at INR 3.31 bn/32.8% vs. 2.24 bn/29.6% last year.

### SBI Capital Markets:

- PAT at INR 3.3 bn, up 30% yoy.
- ROE at 23%, up 280 bps yoy.

### SBI General Insurance:

- GWP at INR 35.5 bn for FY18, up 36% yoy. Company grew much ahead of the industry growth of 17.5%.
- PAT at INR 4 bn vs. 1.5 bn for FY17.
- ROE at 26.5% vs. 13.9% for FY17.
- Overall market share at 2.35% against 2.03% last year. AUM at INR 52.9 bn (+21% yoy)

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# State Bank Of India Ltd

## Valuation

We expect earnings to recover FY19 onwards as resolutions materialize and provisioning reverts to normalcy. The bank has guided for lower slippages and credit costs going forward. Considerable reduction in the standard stressed assets pool should shift focus on resolutions now. NIM recovery through asset quality betterment coupled with focus on generating non-interest revenue should support on the income front. **We value the standalone banking entity at INR 265 per share based on 1.5x FY20E P/ABV and add INR 85 per share for the subs, arriving at a target price of INR 363 per share. We maintain BUY.**

SBI Ltd & Subsidiaries - SOTP Valuation	Valuation methodology	Stake (%)	MV of the business (INR Bn)	Attributable to SBI Ltd. (INR Bn)	Value per share (INR)
SBI Ltd. (standalone)	1.5x FY20E ABV	100.0%	2,482	2,482	278
<b>Subsidiaries:</b>					
SBI Life Insurance	3x FY20E EV	62.1%	825	512	57
SBI Cards	20x FY20E PAT	74.0%	141	105	12
SBI General Insurance	20x FY20E PAT	74.0%	99	73	8
SBI Capital Markets	20x FY20E PAT	100.0%	75	75	8
SBI Funds Management	5% FY20E AAUM	63.0%	198	125	14
<b>Value per share of subs (INR) (post 15% hold co. discount)</b>					<b>85</b>
<b>SoTP value per share (INR)</b>					<b>363</b>

Source: Company, KRChoksey Research

# State Bank Of India Ltd

Particulars (INR Mn)					
Income Statement	Q4FY18	Q4FY17	Q3FY18	Y-o-Y	Q-o-Q
Interest income	5,59,413	5,89,680	5,48,029	-5.1%	2.1%
Interest expense	3,59,670	3,79,030	3,61,154	-5.1%	-0.4%
<b>Net interest income</b>	<b>1,99,743</b>	<b>2,10,650</b>	<b>1,86,875</b>	<b>-5.2%</b>	<b>6.9%</b>
Noninterest income	1,24,948	1,22,220	80,842	2.2%	54.6%
<b>Total income</b>	<b>3,24,691</b>	<b>3,32,870</b>	<b>2,67,717</b>	<b>-2.5%</b>	<b>21.3%</b>
<b>Operating expenses</b>	<b>1,65,859</b>	<b>1,59,780</b>	<b>1,50,171</b>	<b>3.8%</b>	<b>10.4%</b>
<b>Pre-provision profit</b>	<b>1,58,832</b>	<b>1,73,090</b>	<b>1,17,546</b>	<b>-8.2%</b>	<b>35.1%</b>
Provisions	2,80,961	2,09,320	1,88,762	34.2%	48.8%
<b>Profit before tax</b>	<b>-1,22,129</b>	<b>-36,230</b>	<b>-71,216</b>	<b>237.1%</b>	<b>71.5%</b>
Tax expense	-44,947	-1,810	-47,053	2383.3%	-4.5%
<b>Net profit</b>	<b>-77,182</b>	<b>-34,420</b>	<b>-24,164</b>	<b>124.2%</b>	<b>219.4%</b>
Balance Sheet items	Q4FY18	Q4FY17	Q3FY18	Y-o-Y	Q-o-Q
Deposits	2,70,63,433	2,58,53,200	2,65,12,399	4.7%	2.1%
Borrowings	36,21,421	33,21,060	26,04,350	9.0%	39.1%
Investments	1,06,09,867	93,29,270	1,04,04,502	13.7%	2.0%
Advances	1,93,48,802	1,86,89,630	1,82,62,119	3.5%	6.0%
Total Assets	3,45,47,520	3,30,48,620	3,25,51,938	4.5%	6.1%
Spread Analysis	Q4FY18	Q4FY17	Q3FY18	Y-o-Y	Q-o-Q
Yield on avg advances (%)	7.1%	8.0%	7.7%	-95 bps	-63 bps
Yield on avg interest earning assets (%)	7.0%	7.7%	7.2%	-66 bps	-18 bps
Cost of funds (%)	4.7%	5.2%	5.0%	-51 bps	-27 bps
NIM (%)	2.5%	2.7%	2.5%	-24 bps	5 bps
Asset quality	Q4FY18	Q4FY17	Q3FY18	Y-o-Y	Q-o-Q
Gross NPA	22,34,275	17,78,660	19,91,413	25.6%	12.2%
Net NPA	11,08,547	9,69,780	10,23,701	14.3%	8.3%
GNPA (%)	10.91%	9.11%	10.35%	180 bps	56 bps
NNPA (%)	5.73%	5.19%	5.61%	54 bps	12 bps
Provision coverage (%)	50%	45%	49%	491 bps	179 bps
Credit cost (%)	3.8%	3.0%	2.6%	76 bps	112 bps
Key ratios	Q4FY18	Q4FY17	Q3FY18	Y-o-Y	Q-o-Q
Cost/income (%)	51.1%	48.0%	56.1%	308 bps	-501 bps
C/D ratio (%)	71%	72%	69%	-80 bps	261 bps
RoA (%)	-0.9%	-0.4%	-0.3%	-48 bps	-60 bps
Leverage (x)	15.8	15.6	15.0	-	-
RoE (%)	-14.1%	-6.5%	-4.5%	-759 bps	-963 bps

Source: Company, KRChoksey Research

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## FINANCIALS (INR Bn)

PROFIT & LOSS ACCOUNT	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	1,524	1,640	2,240	2,205	2,492	2,748
Interest expense	974	1,068	1,488	1,456	1,640	1,778
Net interest income	550	572	752	749	852	970
Non interest income	226	278	426	446	475	516
Total income	776	850	1,178	1,195	1,327	1,486
Operating expenses	387	418	584	599	637	684
Pre-provision profit	389	433	595	595	690	802
Provisions	196	295	607	750	588	473
Profit before tax	193	138	-13	-155	102	330
Tax expense	62	38	5	-90	33	105
Net profit	131	100	-18	-65	69	224

Source: Company, KRChoksey Research

BALANCE SHEET	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>SOURCES OF FUNDS</b>						
Share capital	7	8	8	9	9	9
Reserves & surplus	1,277	1,435	2,110	2,182	2,236	2,408
<b>Shareholders' funds</b>	<b>1,284</b>	<b>1,443</b>	<b>2,118</b>	<b>2,191</b>	<b>2,245</b>	<b>2,417</b>
Borrowings	2,052	3,233	3,321	3,621	3,802	3,993
Deposits	15,768	17,307	25,853	27,063	29,499	32,154
Other liabilities & provisions	1,377	1,593	1,756	1,671	1,936	2,160
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>20,481</b>	<b>23,576</b>	<b>33,049</b>	<b>34,548</b>	<b>37,483</b>	<b>40,724</b>
<b>USES OF FUNDS</b>						
Cash and cash equivalent	1,749	1,675	2,709	1,919	2,497	2,722
Investments	4,950	5,757	9,329	10,610	10,915	11,254
Advances	13,000	14,637	18,690	19,349	21,284	23,838
Fixed & other assets	782	1,508	2,321	2,670	2,787	2,911
<b>TOTAL ASSETS</b>	<b>20,481</b>	<b>23,576</b>	<b>33,049</b>	<b>34,548</b>	<b>37,483</b>	<b>40,724</b>

Source: Company, KRChoksey Research

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KEY RATIOS	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Growth rates</b>						
Advances (%)	7.5%	12.6%	27.7%	3.5%	10.0%	12.0%
Deposits (%)	13.1%	9.8%	49.4%	4.7%	9.0%	9.0%
Total assets (%)	14.2%	15.1%	40.2%	4.5%	8.5%	8.6%
NII (%)	11.6%	4.0%	31.5%	-0.5%	13.8%	13.8%
Pre-provisioning profit (%)	21.2%	11.2%	37.5%	0.1%	16.0%	16.3%
PAT (%)	20.3%	-24.0%	-118.2%	262.1%	-206.1%	222.8%
<b>Balance sheet ratios</b>						
Credit/Deposit (%)	82.4%	84.6%	72.3%	71.5%	72.2%	74.1%
CASA (%)	41.3%	42.6%	42.8%	43.9%	44.1%	44.4%
Advances/Total assets (%)	63.5%	62.1%	56.6%	56.0%	56.8%	58.5%
Leverage (x)	15.9	16.3	15.6	15.8	16.7	16.8
CAR (%)	12.0%	12.9%	13.0%	12.6%	11.9%	11.6%
CAR - Tier I (%)	9.5%	9.9%	10.4%	10.4%	9.6%	9.4%
<b>Operating efficiency</b>						
Cost/income (%)	49.8%	49.1%	49.5%	50.2%	48.0%	46.0%
Opex/total assets (%)	1.9%	1.8%	1.8%	1.7%	1.7%	1.7%
Opex/total interest earning assets (%)	2.1%	2.0%	2.2%	1.9%	1.9%	1.9%
<b>Profitability</b>						
NIM (%)	3.0%	2.7%	2.8%	2.4%	2.6%	2.7%
RoA (%)	0.7%	0.5%	-0.1%	-0.2%	0.2%	0.6%
RoE (%)	10.6%	7.3%	-1.0%	-3.0%	3.1%	9.6%
<b>Asset quality</b>						
Gross NPA (%)	4.4%	6.7%	9.5%	10.9%	10.5%	8.6%
Net NPA (%)	2.1%	3.8%	5.2%	5.7%	5.0%	3.2%
PCR (%)	51.4%	43.2%	45.5%	50.4%	55.0%	65.0%
Slippage (%)	-0.4%	3.3%	4.0%	2.6%	0.8%	-1.0%
Credit cost (%)	1.3%	2.2%	3.3%	3.7%	2.8%	2.0%
<b>Per share data / Valuation</b>						
EPS (INR)	17.5	12.8	-2.3	-7.3	7.8	25.1
BV (INR)	172.0	185.9	265.6	245.5	251.5	270.9
ABV (INR)	135.1	114.0	144.0	121.3	131.5	185.4
P/E (x)	15.2	15.2	-129.5	-36.1	34.1	10.6
P/BV (x)	1.6	1.0	1.1	1.1	1.1	1.0
P/ABV (x)	2.0	1.7	2.0	2.2	2.0	1.4

Source: Company, KRChoksey Research

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Date	CMP (INR)	TP (INR)	Recommendation
23-May-18	265	363	BUY
12-Feb-18	290	379	BUY
13-Nov-17	339	360	ACCUMULATE
14-Aug-17	278	333	BUY
13-Feb-16	273	334	BUY
14-Nov-16	273	334	BUY
30-May-16	199	250	BUY
12-Feb-16	149	211	BUY
09-Nov-15	246	352	BUY
8-July-15	283	350	BUY
25-May-15	282	350	BUY
13-Apr-15	286	345	BUY
18-Feb-15	306	345	ACCUMULATE
7-Jan-15	300	325	ACCUMULATE
17-Nov-14	279	325	BUY
8-Oct-14	237	317	BUY
11-Aug-14	242	319	BUY

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than -5%

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