

May 22, 2018

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Rating	BUY
Price	Rs254
Target Price	Rs349
Implied Upside	37.4%
Sensex	34,651
Nifty	10,537

(Prices as on May 22, 2018)

Trading data

Market Cap. (Rs bn)	2,268.2
Shares o/s (m)	8,924.6
3M Avg. Daily value (Rs m)	5524.1

Major shareholders

Promoters	58.86%
Foreign	11.16%
Domestic Inst.	22.26%
Public & Other	7.72%

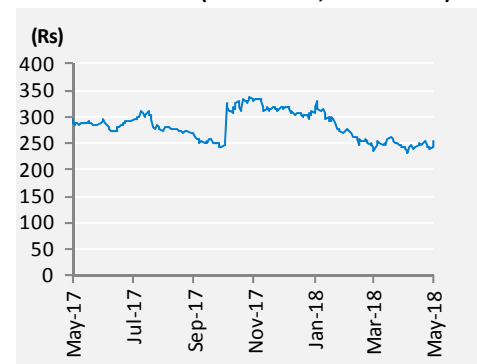
Stock Performance

(%)	1M	6M	12M
Absolute	5.3	(24.2)	(13.7)
Relative	4.6	(27.4)	(27.0)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	12.0	3.5	241.7
2020	18.6	17.0	9.5

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



Source: Bloomberg

SBI reported higher loss on back of high slippages of Rs336.7bn, leading to interest income reversals & provisioning. Bulk of the slippages were from corporate and with 60% coming from the stressed pool (5/25, SDR, S4A & Restructured). Key positives were (i) NIMs held up despite interest reversals and (ii) despite taking RBI dispensation of 40% provisioning on NCLT List-1, overall PCR & NCLT List-1 PCR was at +50%. Bank's stressed asset pool is now 1.3% of loans (down from 2.8% in Q3) and some large recoveries from NCLT a/c will help improve asset quality but keep provisioning high based on ageing leading to improving PCR. Retain BUY with revised TP of Rs349 based on 1.5x Mar-20 ABV & SOTP.

■ **Lower Cost of funds & other income help top line:** NII de-grew by 5% YoY, though loan growth was slightly better and margins improved by 5bps QoQ to 2.5% despite interest reversals, as cost of funds saw decline. Also, traction in fee income grew by 13% YoY and recovery from written off NPA helped better other income. Fee income was better from annual rentals/commissions, and cross selling of TPP. Management has targeted a NIM of +3.0% by FY20 on back of 10-12% loans growth & interest income from recoveries.

■ **Asset quality issues yet to be over:** With large slippages of Rs336.7bn in Q4FY18 (Rs1.0tn in FY18 – 5.3% of loans), stressed assets pool like SDR/S4A/Restructured has largely been recognized. Although, stressed assets pool has reduced from 2.8% or Rs504.8bn of loans in Q3FY18 to now 1.3% or Rs258bn, still remains unrecognized, despite Rs174.3bn slipping in Q4. The watch list now clearly includes all stressed pool assets, SMA1&2 stressed corporate accounts and as per management, all should not slip to NPAs. Also, credit cost will remain slightly high (200bps in FY19E & 150bps in FY20E) as recent NPAs will attract ageing/push to NCLT provisions and improving PCR to 60% (w/o technical).

Contd...2

Key financials (Y/e March)	2017	2018	2019E	2020E
Net interest income	751,990	748,543	828,284	914,137
Growth (%)	31.5	(0.5)	10.7	10.4
Operating profit	594,590	595,119	602,073	628,826
PAT	(18,060)	(65,454)	107,372	166,161
EPS (Rs)	(2.3)	(7.7)	12.0	18.6
Growth (%)	(117.4)	237.7	(256.6)	54.8
Net DPS (Rs)	2.6	0.5	—	2.5

Profitability & Valuation	2017	2018	2019E	2020E
NIM (%)	2.66	2.21	2.32	2.37
RoAE (%)	(1.0)	(3.0)	4.8	7.0
RoAA (%)	(0.06)	(0.19)	0.30	0.43
P / BV (x)	1.1	1.1	1.1	1.0
P / ABV (x)	2.1	2.1	1.8	1.5
PE (x)	(111.7)	(33.1)	21.1	13.7
Net dividend yield (%)	1.0	0.2	—	1.0

Source: Company Data; PL Research

- **Watch list remains dominated by power sector:** Q4FY18 slippages were mainly from corporate book with one-third slippage from power sector which was in the stressed pool. Also bank saw one telecom a/c slip to NPA which was not in the stressed pool or dispensations but has created a provision of +50%. The revised watch list of Rs258.0bn remains one-third dominated by power (2 large a/c) and rest in steel/roads/textiles.
- **Overall PCR adequate on the NCLT list but need to provide more:** Bank has exposure of Rs776.2bn in NCLT-1 & NCLT-2 (35% of GNPA) where it has 63% PCR with List-1 PCR at 56% & List-2 PCR at 75%. Bank believes, LGDs will be not higher than 52% in list-1 & PCR in list-2 is adequate and hence has taken RBI dispensation of 40% in some assets in list-1 and hence may have to provide incrementally, but recent resolution will help mitigate large provisioning.
- **Loan growth muted:** Overall loan book grew by muted 3.5% YoY led by retail which grew by 13.5% YoY (31% of domestic loans), while agri/overseas/large corporate book growth was slower. Bank targets recovery in loan growth of 10-12% in next 2 years but we believe, given the repayments from resolution a/c and muted capex will keep corporate book growth slow and will continue to remain from non-corporate domestic book especially retail making it challenging to retain loan market share.

Exhibit 1: Miss on earnings on higher provisions on back of high recognition of slippages

	(Rs m)	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	QoQ gr. (%)
<i>NII de-growth was on back of interest reversals and lower yields from MCLR reductions but was held up by lower cost of funds</i>	Interest income	5,59,413	5,89,690	(5.1)	5,48,029	2.1
	Interest Expenses	3,59,670	3,79,030	(5.1)	3,61,154	(0.4)
	Net interest income (NII)	1,99,743	2,10,660	(5.2)	1,86,875	6.9
	- Treasury income	9,410	19,970	(52.9)	10,260	(8.3)
	Other income	1,24,948	1,22,220	2.2	80,842	54.6
<i>Other income was good on better core fees and recoveries from NPA</i>	Total income	3,24,691	3,32,880	(2.5)	2,67,717	21.3
	Operating expenses	1,65,859	1,59,780	3.8	1,50,171	10.4
	-Staff expenses	92,542	89,140	3.8	84,968	8.9
<i>Opex remained under control with gratuity impact spread over four quarters and higher retirees</i>	-Other expenses	73,317	70,640	3.8	65,203	12.4
	Operating profit	1,58,832	1,73,100	(8.2)	1,17,546	35.1
	Core operating profit	1,49,422	1,53,130	(2.4)	1,07,286	39.3
	Total provisions	2,80,961	2,09,320	34.2	1,88,762	48.8
<i>Provisions were high on massive slippages from corporate and fallout from S4A (investment provisions)</i>	Profit before tax	(1,22,129)	(36,220)	NA	(71,216)	NA
	Tax	(44,947)	(1,810)	NA	(47,053)	NA
	Profit after tax	(77,182)	(34,410)	NA	(24,164)	NA
	Balance Sheet					
	Deposits	2,70,63,433	2,58,53,200	4.7	2,65,12,399	2.1
<i>Advances growth was slow on muted growth in segments except retail</i>	Advances	1,93,48,802	1,86,89,630	3.5	1,82,62,119	6.0
	Ratios (%)					
<i>Margins saw marginal improvement sequentially mainly from lowered cost of funds</i>	RoaA	(0.9)	(0.2)	NA	(0.3)	NA
	NIM	2.5	2.7	(24)	2.5	5
	Yield on Advances	8.3	9.3	(104)	8.4	(10)
	Asset Quality					
<i>Asset quality deteriorated on substantially high slippages mainly from corporate, both stressed and non-stressed pools</i>	Gross NPL (Rs m)	22,34,275	17,78,660	25.6	19,91,413	12.2
	Net NPL (Rs m)	11,08,547	9,69,780	14.3	10,23,701	8.3
	Gross NPL ratio	10.9	9.1	180	10.4	56
	Net NPL ratio	5.7	5.2	54	5.6	12
<i>But bank improved PCR which was positive</i>	Coverage ratio	50.4	45.5	491	48.6	179
	Business & Other Ratios					
	Low-cost deposit mix	45.7	44.4	128	45.1	55
	Cost-income ratio	51.1	48.0	308	56.1	(501)
	Non int. inc / total income	38.5	36.7	177	30.2	829
	Credit deposit ratio	71.5	72.3	(80)	68.9	261
	CAR	12.6	13.1	(51)	12.7	(8)
	Tier-I	10.4	10.4	1	10.3	6

Source: Company Data, PL Research

Q4FY18 Analyst Meet Highlights:

Balance Sheet outlook:

- **Advances** – Gross advances growth was decent at 5.5% YoY with retail growing at 13.0% YoY but other segments remaining muted. **Outlook** – Bank expects advances to grow at 10-12% CAGR till FY20 with retail growing at 18-19% of which housing, auto and personal (salaried) will grow at 14-15%, 16-17% and 25-30% YoY respectively. Bank targets non-corporate domestic mix (incl. SME and Agri) to increase to 60% from 57% in FY18. Corporate growth will continue to be slow while SME shall be in focus post GST.

Margins:

- Margins were up by 5bps QoQ to 2.5% on benefit from decline in cost of funds despite weak yields on advances impacted from reduction in base rate/MCLR and high interest reversals. **Outlook:** Bank expects margins to improve to 3.0% by FY20.

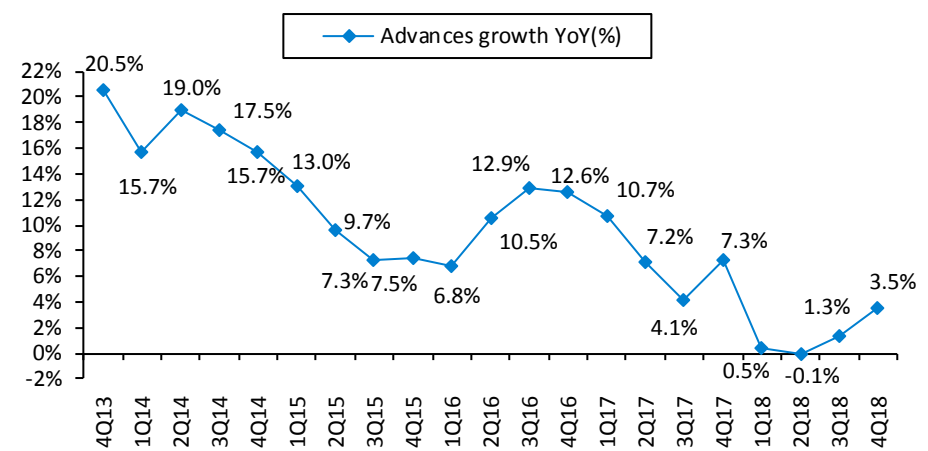
Opex:

- Staff expenses saw de-growth of 2.3% YoY as 19,000 employees have retired. 1000 employees retire each month whereas bank is keen on hiring some 7,000-8,000 associates and 2,000 probationary officers, but additions won't be more than retirees keeping overall staff expenses under control. Bank has provided Rs7.0bn of gratuity charge in Q4FY18 and rest is spread over next 3 quarter upto Dec'18

Asset quality:

- **Slippages and Recoveries** – Bank witnessed fresh slippages of Rs336bn of which Rs290bn constitute corporate slippages. Within corporate, Rs174bn came from stressed pool i.e. SDR, S4A, restructured, watch list amounting to Rs45.2bn, Rs11.4bn, Rs67.3bn and Rs50.4bn respectively. From non-stressed corporate pool of Rs116bn, one large account from telecom slipped this quarter amounting to Rs66.8bn. GNPA/NNPA for overseas book are 2.3%/1.2% and see stress reducing as resolutions start kicking in. **Outlook** – Bank expect slippages to be around 2% and 1.3% in FY19 and FY20 respectively with GNPA and NNPA reducing to less than 6% and 2.3% respectively by FY20.
- **Credit Cost** – Credit cost was high despite taking NCLT related dispensation laid by RBI as bank strengthened its balance sheet and improved PCR to 50.4% (48.6% in 3Q18) and has counter cyclical provisions of Rs12.5bn. Also, M2M related provisions on Gsec were Rs25.9bn of the Rs40.0bn in Q4FY18.
- **Stress Book** – Watch list of Rs250bn constitutes 41% power of which 80-85% pertains to 2 large A/cs. Of total exposure in Power, 19% is GNPA and another 6.5% is part of watch list. Management expects to restrict 60% fallout of the watch list and has a provision of Rs45bn i.e. 18% PCR. Watch list included all dispensation a/c, stressed SMA-1&2 from corporate

- **NCLT Cases** – Bank has written back provisions on 4 A/cs from NCLT List-1 taking RBI dispensation to provide 40% and as bank expects higher recoveries on these accounts. Bank expects all NCLT cases to get resolved by FY19 with List 1 to be resolved by H1FY19 and List 2 by H2FY19.

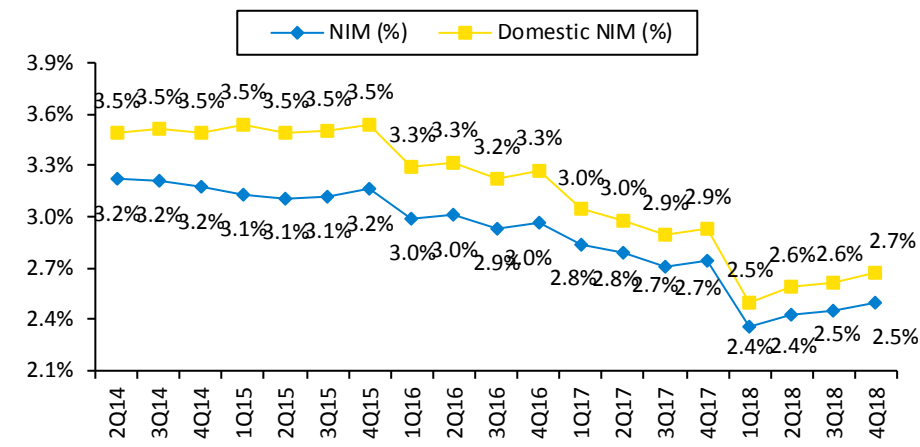
Exhibit 2: Advances growth was slow but retail grew at 13% YoY


Source: Company Data, PL Research **Note** – Adjusted growth on merger

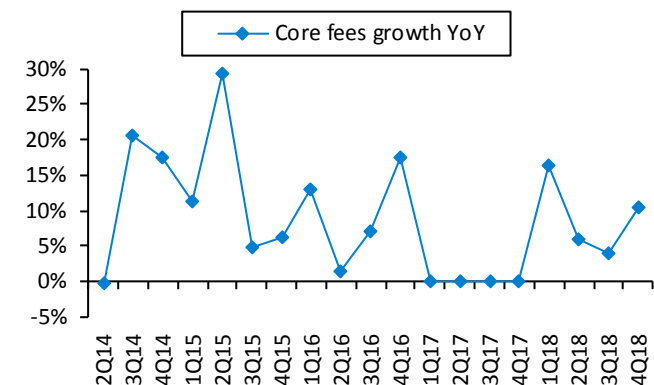
Exhibit 3: Business growth slightly picks up yet muted

Loan break up (Rs mn)	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	QoQ gr. (%)
Gross Advances	2,04,83,870	1,95,25,070	4.9	1,92,45,578	6.4
Total Corporate and SME	1,01,15,440	99,36,370	1.8	90,97,230	11.2
Large Corporate	41,18,970	-	NA	35,39,230	16.4
Mid Corporate	32,97,720	-	NA	28,81,120	14.5
SME	30,19,980	28,62,190	5.5	29,97,740	0.7
Agri	18,82,510	19,12,650	(1.6)	19,40,550	(3.0)
International	30,19,980	28,62,190	5.5	29,97,740	0.7
Retail	54,65,940	48,13,860	13.5	52,10,260	4.9
Home	31,31,060	27,64,540	13.3	30,10,870	4.0
Auto	6,63,620	5,76,090	15.2	6,50,500	2.0

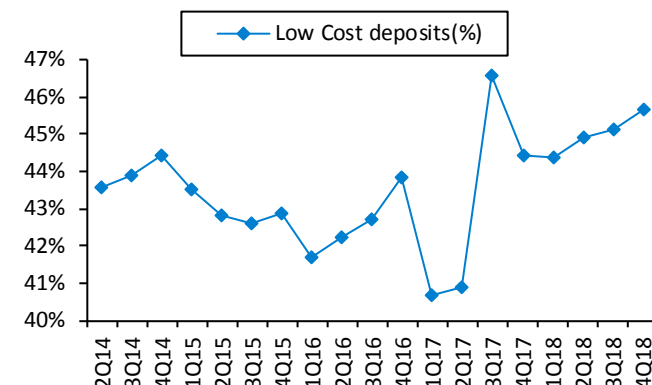
Source: Company Data, PL Research **Note** – Above table as restated by bank on merger

Exhibit 4: Margins improved marginally QoQ on back of lowered cost of funding


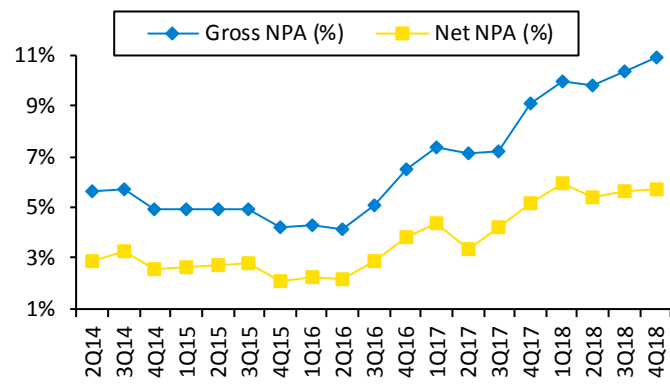
Source: Company Data, PL Research

Exhibit 5: Core fee growth was better led by locker rent/cross-sell/commission fees


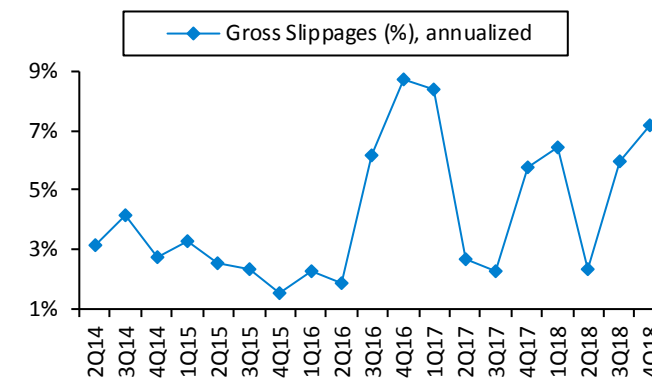
Source: Company Data, PL Research

Exhibit 6: CASA mix was decent and mix improved marginally to 45.68%


Source: Company Data, PL Research

Exhibit 7: Asset quality saw deterioration on high slippages


Source: Company Data, PL Research

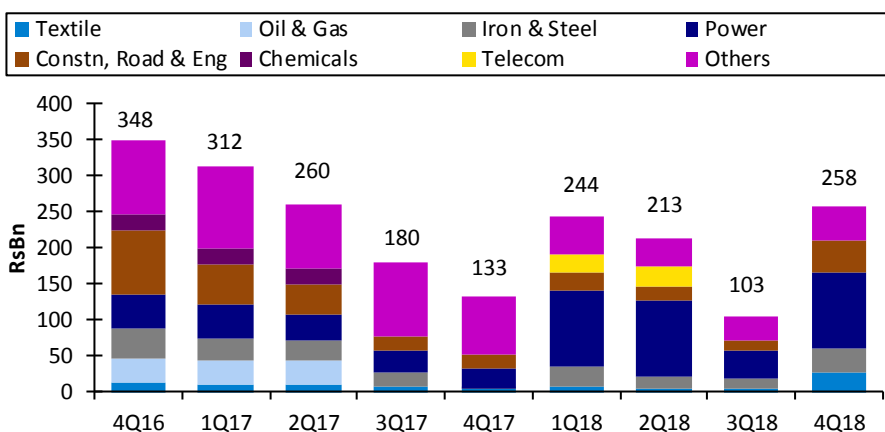
Exhibit 8: ... mainly from corporate including outside stressed pool


Source: Company Data, PL Research

Exhibit 9: Slippages remain high on RBI guidelines but hereon recognition from stress pool seems to be coming down

Figures Rs million	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Additions	58,750	206,920	303,130	107,970	118,520	103,570	103,680	300,590	106,270	267,800	328,210
Upgradation + Recovery	15,210	10,370	17,240	28,160	15,500	31,210	22,050	66,800	33,230	44,420	NA
Write offs	39,140	36,970	32,080	46,130	60,600	59,060	39,920	131,760	92,580	93,120	NA
Gross NPAs	568,360	727,940	981,750	1,105,430	1,057,850	1,081,723	1,123,430	1,778,660	1,861,146	1,991,413	2,234,260
Gross NPA Ratio	4.15%	5.10%	6.50%	6.94%	7.14%	7.23%	6.90%	9.97%	9.83%	10.35%	10.91%
Slippages (%) - annualized	1.84%	6.19%	8.72%	2.95%	3.35%	2.89%	2.86%	6.43%	2.36%	5.94%	7.19%
O/s Std Restructured	5,34,520	4,85,970	3,90,550	365,510	365,700	346,280	366,340	393,370	340,240	208,840	NA
Restructured (% of loans)	4.00%	3.49%	2.67%	2.58%	2.55%	2.39%	2.33%	2.18%	1.89%	1.14%	NA
Watchlist			3,47,760	3,12,300	2,59,510	1,79,920	133,100	244,440	212,850	103,420	258,020
Watchlist (% of loans)			2.30%	2.13%	1.75%	1.20%	0.85%	1.35%	1.18%	0.57%	1.33%
Stressed assets (% of loans incl. watchlist)	8.2%	8.6%	11.5%	11.7%	11.4%	10.8%	10.1%	13.5%	12.9%	12.1%	12.2%
Net Std. Stressed Assets										504,820	258,020
% of loans										2.8%	1.3%

Source: Company Data, PL Research

Exhibit 10: Watch list for FY19 includes O/s SMA 1&2; hence the increase


Source: Company Data, PL Research

Exhibit 11: Return ratios uptick to be gradual

RoAE decomposition (%)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net interest income	3.1	2.9	2.9	2.6	2.7	2.2	2.3	2.4
Treasury income	0.2	0.2	0.3	0.3	0.6	0.4	0.3	0.3
Other Inc. from operations	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.8
Total income	4.2	4.0	4.0	3.9	4.2	3.5	3.5	3.5
Employee expenses	1.3	1.3	1.2	1.1	1.2	1.0	1.0	1.0
Other operating expenses	0.8	0.8	0.8	0.8	0.9	0.8	0.9	0.9
Operating profit	2.1	1.9	2.0	2.0	2.1	1.8	1.7	1.6
Tax	0.4	0.3	0.3	0.2	0.0	(0.3)	0.1	0.2
Loan loss provisions	0.8	0.9	1.0	1.3	2.1	2.2	1.2	1.0
RoAA	1.0	0.6	0.7	0.5	(0.1)	(0.2)	0.3	0.4
RoAE	15.4	10.0	10.6	7.3	(1.1)	(3.5)	5.3	7.7

Source: Company Data, PL Research

Exhibit 12: Change in estimates – We adjust earnings to factor in business growth and lower yields and lower opex and adjust credit cost for FY20

(Rs mn)	Old		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net interest income	8,35,350	9,37,996	8,28,284	9,14,137	(0.8)	(2.5)
Operating profit	5,79,957	6,26,749	6,02,073	6,28,826	3.8	0.3
Net profit	1,03,058	1,62,090	1,07,373	1,66,162	4.2	2.5
EPS (Rs)	11.9	18.8	12.0	18.6	0.8	(0.8)
ABVPS (Rs)	142	168	141	171	(0.6)	2.0
Price target (Rs)	321		349		8.8	
Recommendation	BUY		BUY			

Source: Company Data, PL Research

Exhibit 13: We revise our TP for SBIN to Rs349 (from Rs321) based on Mar-20 ABV and SOTP on rollover

PT calculation and upside	
Fair price – EVA	269
Fair price - P/ABV	256
Average of the two	263
Value of subs/associates	87
Fair value of consol. entity	349
P/ABV – Standalone bank	1.5
P/E - Standalone bank	14.1
Current price, Rs	254
Upside (%)	38%
Dividend Yield (%)	1%
Total Return	39%

Source: Company Data, PL Research

Exhibit 14: SBIN's: SOTP valuation table

SOTP valuation, FY19E	Stake (%)	Revised PT	Method
Standalone	100	263	Avg. of P/ABV 1.5x & EVA
Life insurance venture	62%	54	3.1x EV; 23x new biz multiple
Asset management	74%	8	5% of AUMs
Capital Market/DFHI/Others	100%	24	P/E model
Total		349	

Source: Company Data, PL Research

Exhibit 15: SBIN - one year forward P/ABV trends


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Int. Earned from Adv.	1,541,710	1,413,632	1,543,091	1,749,405
Int. Earned from Inv.	629,550	703,376	777,817	818,030
Others	68,560	87,985	75,423	81,415
Total Interest Income	2,239,820	2,204,993	2,396,332	2,648,850
Interest expense	1,487,830	1,456,450	1,568,047	1,734,714
NII	751,990	748,543	828,284	914,137
Growth (%)	31.5	(0.5)	10.7	10.4
Treasury Income	136,100	123,030	86,121	90,427
NTNII	290,250	322,980	342,049	350,588
Non Interest Income	426,350	446,010	428,170	441,015
Total Income	2,666,170	2,651,003	2,824,501	3,089,865
Growth (%)	39.0	(0.6)	6.5	9.4
Operating Expense	583,750	599,435	654,381	726,325
Operating Profit	594,590	595,119	602,073	628,826
Growth (%)	37.5	0.1	1.2	4.4
NPA Provisions	554,200	706,800	403,423	355,209
Investment Provisions	11,570	80,870	32,348	16,174
Total Provisions	607,210	750,380	443,002	382,661
PBT	(12,620)	(155,262)	159,072	246,165
Tax Provisions	5,440	(89,808)	51,699	80,005
Effective Tax Rate (%)	(43.1)	57.8	32.5	32.5
PAT	(18,060)	(65,454)	107,372	166,161
Growth (%)	(118.1)	262.4	(264.0)	54.8

Balance Sheet (Rs m)

Y/e March	2017	2018	2019E	2020E
Par Value	1	1	1	1
No. of equity shares	8,110	8,925	8,925	8,925
Equity	8,110	8,925	8,925	8,925
Networth	2,118,130	2,191,286	2,298,659	2,437,913
Adj. Networth	1,148,350	1,082,739	1,323,767	1,648,247
Deposits	25,853,200	27,063,433	28,822,556	31,704,812
Growth (%)	49.4	4.7	6.5	10.0
Low Cost deposits	11,074,340	11,872,940	12,681,925	14,013,527
% of total deposits	42.8	43.9	44.0	44.2
Total Liabilities	33,048,620	34,547,520	36,860,666	40,355,992
Net Advances	18,689,630	19,348,802	20,993,450	23,407,697
Growth (%)	27.7	3.5	8.5	11.5
Investments	9,329,270	10,609,867	10,832,530	11,416,624
Total Assets	33,048,610	34,547,520	36,860,666	40,355,992

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Interest Income	549,054	548,497	548,029	559,413
Interest Expense	372,994	362,638	361,154	359,670
Net Interest Income	176,060	185,859	186,875	199,743
Non Interest Income	80,057	160,161	80,842	124,948
CEB	48,700	53,570	49,790	84,300
Treasury	17,700	85,660	10,260	9,410
Net Total Income	256,117	346,020	267,717	324,691
Operating Expenses	137,376	146,028	150,171	165,859
Employee Expenses	77,245	77,032	84,968	92,542
Other Expenses	60,131	68,996	65,203	73,317
Operating Profit	118,741	199,991	117,546	158,832
Core Operating Profit	101,041	114,331	107,286	149,422
Provisions	89,295	191,374	188,762	280,961
Loan loss provisions	100,863	189,910	147,697	232,281
Investment Depreciation	(7,550)	370	40,440	47,610
Profit before tax	29,446	8,617	(71,216)	(122,129)
Tax	9,391	(7,198)	(47,053)	(44,947)
PAT before EO	20,055	15,816	(24,164)	(77,182)
Extraordinary item	—	—	—	—
PAT	20,055	15,816	(24,164)	(77,182)

Key Ratios

Y/e March	2017	2018	2019E	2020E
CMP (Rs)	254	254	254	254
Equity Shrs. Os. (m)	8,110	8,925	8,925	8,925
Market Cap (Rs m)	2,061,157	2,268,187	2,268,187	2,268,187
M/Cap to AUM (%)	6.2	6.6	6.2	5.6
EPS (Rs)	(2.3)	(7.7)	12.0	18.6
Book Value (Rs)	222	223	235	250
Adj. BV (100%) (Rs)	121	119	141	171
P/E (x)	(111.7)	(33.1)	21.1	13.7
P/BV (x)	1.1	1.1	1.1	1.0
P/ABV (x)	2.1	2.1	1.8	1.5
DPS (Rs)	2.6	0.5	—	2.5
Dividend Yield (%)	1.0	0.2	—	1.0

Profitability (%)

Y/e March	2017	2018	2019E	2020E
NIM	2.7	2.2	2.3	2.4
RoAA	(0.1)	(0.2)	0.3	0.4
RoAE	(1.0)	(3.0)	4.8	7.0

Efficiency

Y/e March	2017	2018	2019E	2020E
Cost-Income Ratio (%)	49.5	50.2	52.1	53.6
C-D Ratio (%)	72.3	71.5	72.8	73.8
Business per Emp. (Rs m)	186	184	188	198
Profit per Emp. (Rs lacs)	(0.8)	(2.6)	4.1	6.0
Business per Branch (Rs m)	2,071	1,962	1,914	1,925
Profit per Branch (Rs m)	(1)	(3)	4	6

Asset Quality

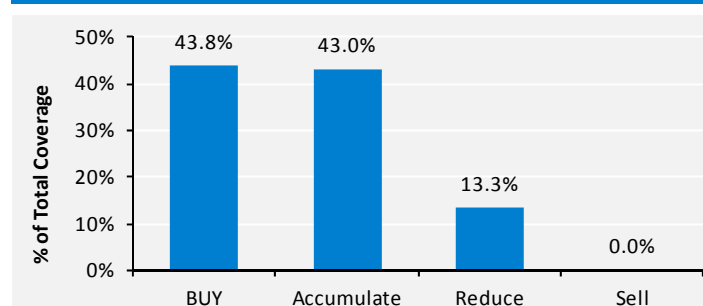
Y/e March	2017	2018	2019E	2020E
Gross NPAs (Rs m)	1,778,650	2,234,270	2,166,324	1,978,878
Net NPAs (Rs m)	969,780	1,108,547	974,892	789,666
Gr. NPAs to Gross Adv. (%)	9.5	11.5	10.3	8.5
Net NPAs to Net Adv. (%)	5.2	5.7	4.6	3.4
NPA Coverage (%)	45.5	50.4	55.0	60.1

Source: Company Data, PL Research.

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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
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