

INDUSTRY	BANKS
CMP (as on 22 May 2018)	Rs 254
Target Price	Rs 328
Nifty	10,537
Sensex	34,651
KEY STOCK DATA	
Bloomberg	SBIN IN
No. of Shares (mn)	8,925
MCap (Rs bn) / (\$ mn)	2,266/33,289
6m avg traded value (Rs mn)	6,159
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 352/232
	3M 6M 12M
Absolute (%)	(6.9) (24.3) (13.7)
Relative (%)	(9.3) (27.5) (27.1)
SHAREHOLDING PATTERN (%)	
Promoters	57.96
FIs & Local MFs	22.34
FPIs	10.87
Public & Others	8.83
Source : BSE	

Darpin Shah
darpin.shah@hdfcsec.com
+91-22-6171-7328

Pranav Gupta
pranav.gupta@hdfcsec.com
+91-22-6171-7337

Kaushik Utpat
kaushik.Utpat@hdfcsec.com
+91-22-6639-3037

Pain taken, gain likely

SBIN posted a second consecutive quarterly loss in 4QFY18 (Rs 77.2bn), driven by NPA provisioning (+36% QoQ to ~Rs 241bn). Asset quality worsened as fresh slippages shot up to ~7.2% in line with the RBI circular mandating accelerated recognition. The decision to take MTM provisions at one go added to the pressure. An uptick in loan growth (+6% QoQ), steady NIMs (2.50%), the seasonal spike in fee income and controlled opex (+4% YoY, despite additional gratuity ~Rs 9bn) drove sequential PPOP growth.

Despite the PBT loss, asset quality deterioration is actually better than feared. With a breakthrough in one NCLT case and a few more nearing finalization, SBIN can be one of the biggest beneficiaries. This provides upsides to our elevated assumptions on slippage (and credit costs) over FY19-20E. SBIN may be close to the end of a long NPA cycle. Maintain BUY. Our SOTP is Rs 328 (1.3x Mar-20E core ABV of Rs 175 + Rs 100 subs value).

Financial Summary

(Rs bn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY17	FY18P	FY19E	FY20E
Net Interest Income	199.7	210.7	-5.2%	186.9	6.9%	618.6	748.5	843.2	935.9
PPOP	158.8	173.1	-8.2%	117.5	35.1%	508.5	595.1	604.3	674.8
PAT	-77.2	-34.4	NA	-24.2	NA	104.8	-65.5	104.2	226.4
EPS (Rs)	-8.6	-4.2	NA	-2.8	NA	13.1	-7.3	11.7	25.4
ROAE (%)						6.8	-3.4	5.0	10.2
ROAA (%)						0.42	-0.21	0.29	0.60
Adj. BVPS (Core, ex-subs, Rs)						109.2	93.5	137.2	174.6
P/ABV (x)#						1.49	1.65	1.12	0.88
P/E (x)#						12.4	NA	13.2	6.04

Source: Bank, HDFC sec Inst Research; # Adjusted for subsidiaries' value;

FY18E, FY19E and FY20E metrics include the erstwhile Associate Banks and BMB, now merged into SBIN.

Highlights of the quarter

- Asset quality deteriorated as GNPA's shot up to Rs 2.23tn (10.9%) while NNPA's jumped to Rs 1.11tn (5.73%). The worsening was owing to a spike in fresh slippages (~Rs 337bn, 7.16% vs. 5.69% QoQ) as all restructuring dispensations were revoked. Corp slippages formed ~88% of total slippages. With stress from restructured pool completely recognized and increased visibility on NCLT resolutions, we expect asset quality to improve hereon. However, we factor higher slippages/LLP of 2.9/1.9% over FY19-20E. Resolutions in NCLT cases (Rs 776bn i.e. ~35% of GNPA) will further provide cushion to our earnings.
- Despite high interest reversals during the quarter (Rs 74bn for FY18), NIMs improved 5bps QoQ to 2.50% while domestic NIMs also inched up 6bps to 2.67%. With robust growth in higher yielding retail loans, receding stress (hence lower interest reversals) and a vast scope of improvement in CD ratio, we believe NIMs have largely bottomed out. We have factored in NIMs of 2.7% over FY18-20E.

RBL Circular Dents Asset Quality

- Overall fresh slippages stood at ~Rs 336.7bn of which ~Rs290.4bn were from the corporate book. Within these, Rs 174.4bn were from the previous pool of stressed assets. Hence corporate (large + mid) GNPA's jumped ~15% sequentially to ~Rs 1.63tn. Retail and SME slippages remained under control.
- After recognizing most of the restructuring dispensations as NPA, SBIN has a residual watchlist of ~Rs 258bn (1.33% of loans). This also includes all SMA-II corporate accounts and some SMA-I accounts. Total SMA-I pool is at merely Rs 30bn.
- SBIN has an aggregate exposure of ~Rs 776.3bn (35% of the O/s GNPA) to both the NCLT lists combined. The bank holds 56% and 75% coverage on the two lists respectively. The bank will be a major beneficiary as resolutions in these accounts materialize.
- The management has guided at reducing GNPA's below 6% by the end of FY20E. Slippages are expected to be below 2% and 1.3% for FY19/20E. However, we have conservatively factored in slippages of 2.9% over FY19-20E.

Growth revival across segments

- After three dull quarters, loan growth resumed as total advances grew ~6% sequentially led by Domestic loans growth of ~8% QoQ, while the overseas book remained flat sequentially. Growth in domestic loans was driven by the corporate segment as large and mid corporate grew 16% and 15% respectively. The uptick in SME loans was slower at 1% QoQ.

- Retail loans clocked a robust growth of ~14/5% YoY. This was largely driven by broad based growth as Auto loans (+15/2% YoY/QoQ), home loans (+13/4% YoY/QoQ) and other personal loans (+13/8% YoY/QoQ) grew evenly. With strong growth, the share of retail loans grew to ~26.7% of total loans vs 24.6% YoY.
- With a revival in corporate demand and the retail loans growing well, the management has targeted a loan growth of 10-12% with a faster growth in retail loans (18-19%). We have factored in a loan CAGR of 9% over FY18-20E.

Opex Growth Curtailed; Fees Jump Sequentially

- Aggregate opex growth was controlled at ~3% YoY (10% QoQ) as other opex jumped ~12% sequentially. Staff costs also grew ~9% QoQ as SBIN made additional provisions of Rs 9bn due to increased gratuity liability and Rs 16.6b towards wage arrears. With the rationalization of manpower over FY19, staff cost growth is expected to remain under control. We have factored in a C-I improvement of 340bps over FY18-20E.
- Despite being a 4Q phenomenon, core fees jumped ~70% sequentially to ~Rs 84.3bn. Growth was driven by other fees (commission on collection, locker rent, etc) which grew ~96% QoQ. Commission on Govt business and cross-sell income also grew ~20% and ~37% respectively. Loan processing fees more than doubled sequentially to ~Rs 13.6bn as loan growth revived. Incrementally, the management is focused on increasing income from distribution and cross-selling of products.

Power Exposure of Rs 106bn is largely tilted towards two large a/cs

Watchlist

Industry	4QFY17		1QFY18		2QFY18		3QFY18		4QFY18	
	Balance (Rs bn)	% of loans	Balance (Rs bn)	% of loans	Balance (Rs bn)	% of loans	Balance (Rs bn)	% of loans	Balance (Rs bn)	% of loans
Power	110.8	0.7	105.3	0.6	104.7	0.6	37.4	0.20	105.8	0.55
Iron & steel	35.0	0.2	29.4	0.2	18.8	0.1	15.8	0.09	34.5	0.18
Construction	31.4	0.2	24.7	0.1	20.5	0.1	13.7	0.08	43.9*	0.23
Textiles	8.2	0.1	6.0	0.0	3.1	0.0	3.1	0.02	26.6	0.14
Others	138.9	0.9	79.0	0.4	65.7	0.4	33.4	0.18	47.2	0.24
Total	324.3	1.7	244.4	1.3	212.9	1.2	103.4	0.57	258.0	1.33

Source: Bank, HDFC sec Inst Research; *Roads and EPC.

SOTP

Particulars	Rs bn	Per Share	Rationale
State Bank (Bank consol)	2,026	227	1.3x Mar-20E Core ABV of Rs 175
SBI Life	503	56	FY20 EV+ 25x FY20E VNB
SBI AMC	84	9	5% FY20E AUM
Others	312	35	Stakes in NSE, UTI MF, SBI Caps and others
Total Value	2,925	328	
CMP	2,267	254	
Upside (%)	29	29	

Source: HDFC sec Inst Research

Change In Estimates

(Rs mn)	FY19E			FY20E		
	Old	Old	Change	Old	Old	Change
NII	834.6	843.2	1.0%	936.9	935.9	-0.1%
PPOP	591.5	604.3	2.2%	670.6	674.8	0.6%
PAT	120.8	104.2	-13.8%	237.5	226.4	-4.7%
Adj. BVPS (Rs)	137.2	137.2	0.0%	175.3	174.6	-0.4%

Source: HDFC sec Inst Research

Comparable Quarters At A Glance

(Rs bn)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY Growth	QoQ Growth
Net Interest Income	210.7	176.1	185.9	186.9	199.7	(5.2)	6.9
Non-interest Income	122.2	80.1	160.2	80.8	124.9	2.2	54.6
Treasury Income	20.0	17.7	85.7	10.3	9.4	(52.9)	(8.3)
Operating Income	332.9	256.1	346.0	267.7	324.7	(2.5)	21.3
Operating Expenses	159.8	137.4	146.0	150.2	165.9	3.8	10.4
Pre Provision Profits	173.1	118.7	200.0	117.5	158.8	(8.2)	35.1
Provisions	209.3	89.3	191.4	188.8	281.0	34.2	48.8
NPA Provisions	193.2	121.3	167.2	177.6	240.8	24.6	35.6
PBT	(36.2)	29.4	8.6	(71.2)	(122.1)	NA	NA
Provision For Tax	(1.8)	9.4	(7.2)	(47.1)	(44.9)	NA	NA
PAT	(34.4)	20.1	15.8	(24.2)	(77.2)	NA	NA
Balance Sheet items/ratios							
Deposits	25,853	26,025	26,232	26,512	27,063	4.7	2.1
CASA Deposits	11,074	11,135	11,340	11,481	11,873	7.2	3.4
Advances	19,525	18,867	18,924	19,246	20,484	4.9	6.4
CD ratio (%)	75.5	72.5	72.1	72.6	80.8	525 bps	818 bps
CAR (%)	12.9	13.3	13.9	12.7	12.6	-25 bps	-8 bps
Tier I (%)	10.1	10.7	10.9	10.3	10.4	31 bps	6 bps
Other ratios							
Yield On Advances (%)	9.32	8.49	8.46	8.38	8.28	-104 bps	-10 bps
Cost Of Deposits (%)	5.84	5.54	5.42	5.34	5.30	-54 bps	-4 bps
NIM (%)	2.74	2.36	2.43	2.45	2.50	-24 bps	5 bps
Cost-Income Ratio (%)	48.0	53.6	42.2	56.1	51.1	308 bps	-501 bps
Tax rate (%)	NA	31.89	NA	NA	NA	NA	NA
Asset quality							
Gross NPA	1,779	1,881	1,861	1,991	2,234	25.6	12.2
Net NPA	970	1,078	979	1,024	1,109	14.3	8.3
Gross NPAs (%)	9.11	9.97	9.83	10.35	10.91	180 bps	56 bps
Net NPAs (%)	5.19	5.97	5.43	5.61	5.73	54 bps	12 bps
Slippages (% Ann.)	NA	6.55	2.36	5.69	6.98	NA	129 bps
Std Restructured Book (%)	NA	2.09	1.80	1.09	NA	NA	-109 bps
Coverage Ratio (%) Calc.	45.48	42.70	47.40	48.59	50.38	491 bps	179 bps
Coverage Ratio (%) Reported	61.53	60.79	65.13	65.92	66.17	464 bps	25 bps
Watchlist (%)	2.06	1.35	1.18	0.57	1.33	-73 bps	77 bps

Source: HDFC sec Inst Research;

Inline with estimates led by higher loan growth and NIM improvement

Core fees grew 13/69% YoY/QoQ led by processing fees

SBIN provided Rs 9bn towards gratuity (amortised Rs 27bn) and made adhoc provisions of Rs 16.6bn (Rs 7bn in 3Q) towards wage arrears

CASA ratio stood at ~44% (+60bps QoQ); Avg daily basis, CASA stood at ~44%

Loan growth was driven by retail (+13/5% YoY/QoQ), large (~2/16%) and mid corporate (4/15%); Domestic CD ratio stood at 67% (+330bps QoQ)

Interest reversals of ~Rs 74bn (vs. Rs 64bn in 9MFY18) for FY18

Corp slippages stood at Rs 290bn (w/w Rs 174bn is from stressed assets); Power and Telecom sector contribute ~38/23% of the corp slippages; The management expects slippages to be below 2% for FY19

Power (41%), Roads (17%) and Iron & Steel (13%) are major contributors to the watchlist

Advances growth picked up to ~6% QoQ

Within domestic loans, Large Corp grew 2/16% YoY/QoQ and Retail loans grew ~14/5%

Auto and Home loans jumped ~15% and ~13% respectively

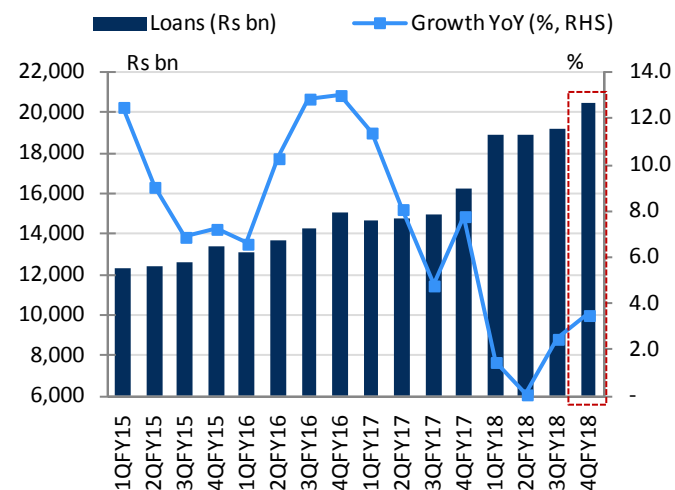
We have factored in loan CAGR of 9% over FY19-20E

Total deposits grew ~5/2% YoY/QoQ

Deposit growth was driven by CASA growth of ~7/3% YoY/QoQ

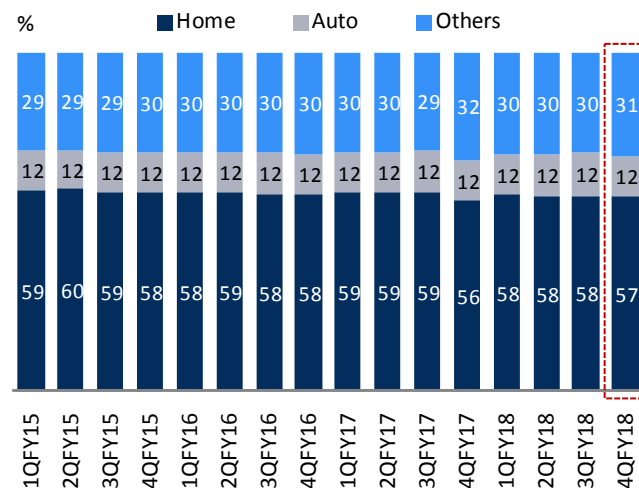
The CASA ratio stood at ~43.9% (+60bps QoQ)

Loans Grew 4/6% YoY/QoQ



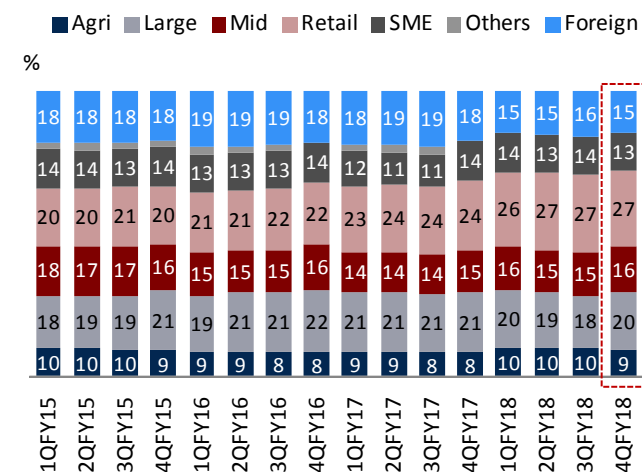
Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

Home Loans Share Remains Stable in Retail Book



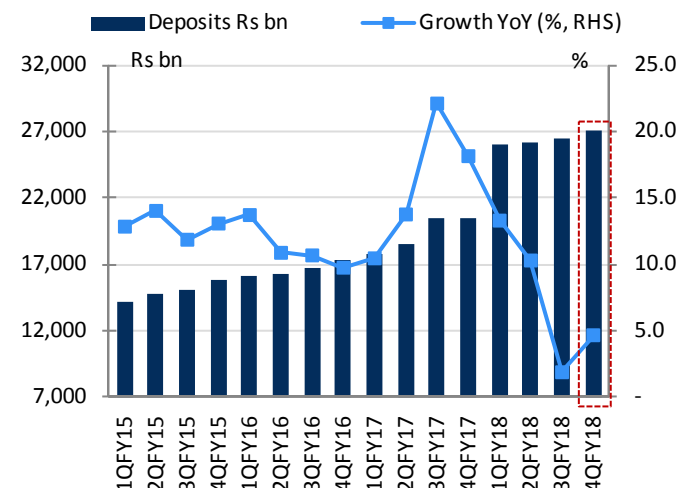
Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

Large Corp Gains Share QoQ



Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

Deposits Up 5/2% YoY/QoQ



Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

SA grew a mere 8/3% YoY/QoQ; while CA grew ~4/7% YoY/QoQ

The CASA ratio on an avg basis was at ~44.3% vs. 44.1% QoQ

Domestic CD ratio jumped ~330bps QoQ to 67%

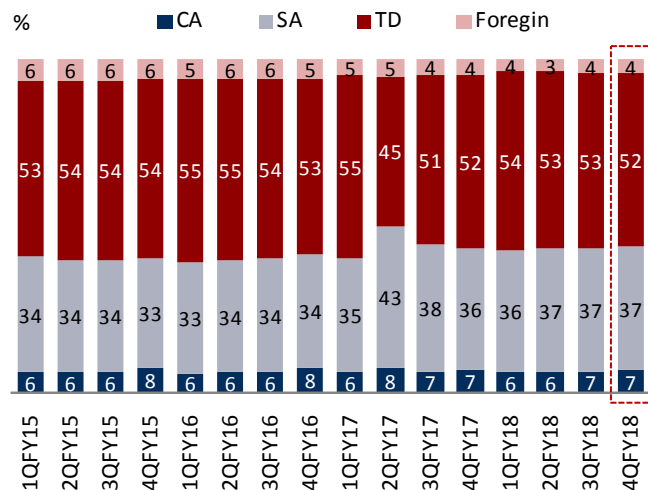
Overall NIM (2.5%) was up 5bps QoQ, as domestic margins rose 6bps to 2.67%

Interest reversals stood at Rs 74bn (FY18) vs. Rs 63.7bn (9M)

Despite pressure on yields, NIMs saw an uptick owing to a 4bps drop in CoF

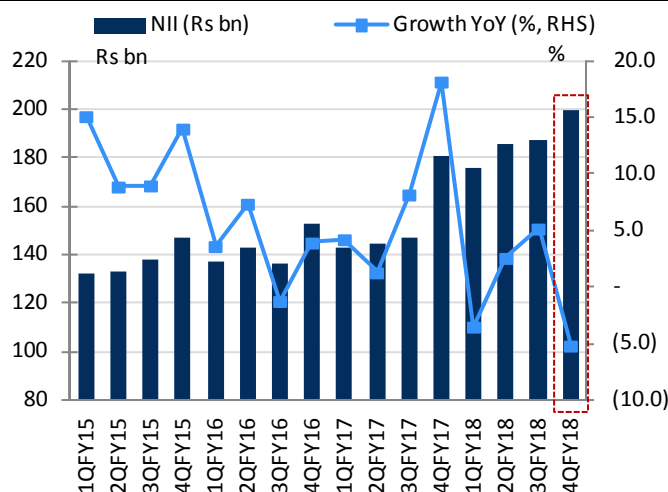
We expect NIMs of 2.70% over FY19-20E

CASA Ratio Up +60bps QoQ To 43.9%



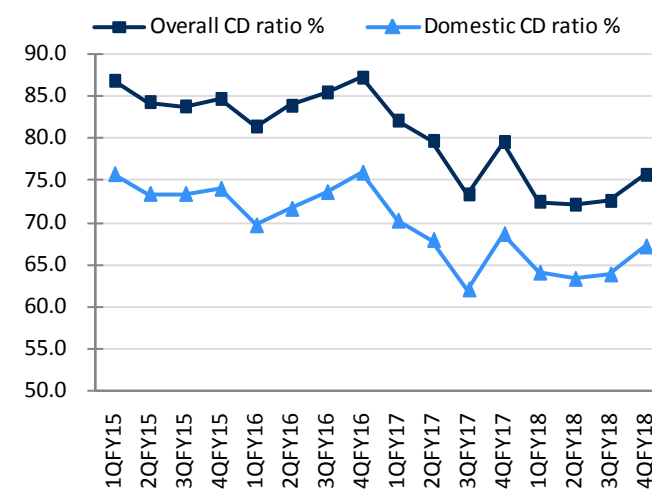
Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

NII Jumped ~7% QoQ



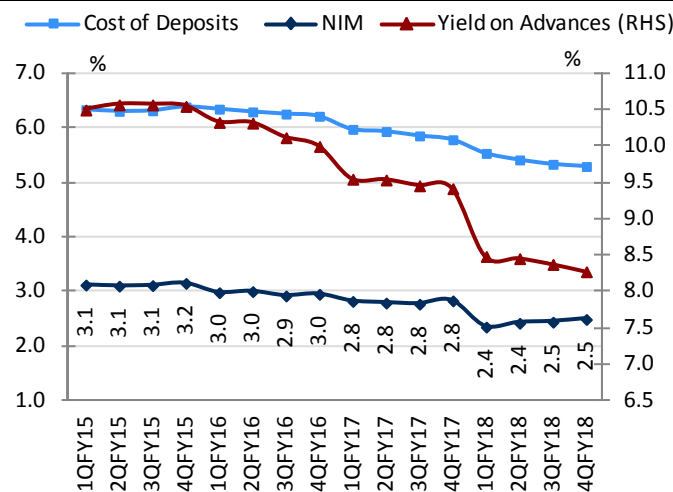
Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

Domestic CD Ratio Moved ~67% (+330bps QoQ)



Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

NIMs Rose 5bps To 2.50%, A Positive Surprise



Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

Fees grew ~39/69% YoY/QoQ led by processing fees (+2.16x QoQ)

Overall opex grew ~4/10% YoY/QoQ with staff cost growth of 4/9% and other opex growth of 4/12%

SBIN provided Rs 9bn towards gratuity and amortised Rs 27.1bn over the next three qtrs

SBIN provided ~Rs 16.6bn (Rs 7bn in 3Q) towards wage negotiation

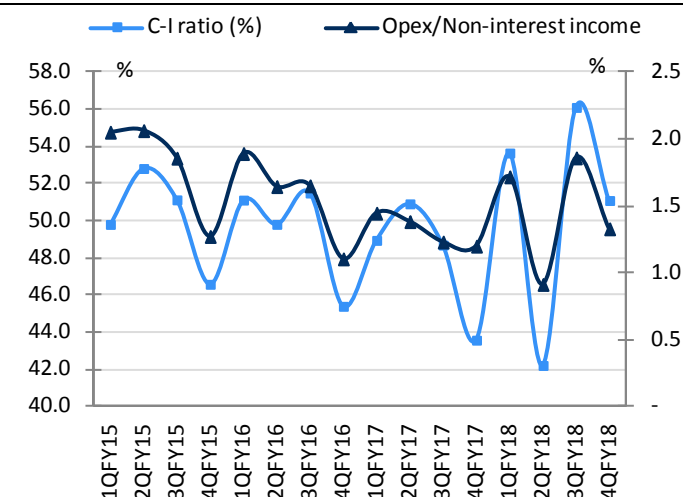
Ex-treasury the C-I ratio stood at 52.6%, down 570bps QoQ

Non-interest Income

Rs bn	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18
CEB	32.0	31.5	35.1	57.9	34.0	43.2	41.1	60.8	48.7	53.6	49.8	84.3
% Loan (Ann.)	0.99	0.96	1.03	1.62	0.94	1.21	1.14	1.61	1.06	1.19	1.10	1.79
Treasury	8.7	14.9	12.4	14.2	27.2	22.9	39.7	17.7	17.7	85.7	10.3	9.4
Forex	4.9	4.7	5.5	6.0	6.0	9.0	5.9	5.9	6.7	6.8	5.9	5.5
Dividend	0.3	0.5	-	4.0	1.6	1.4	-	3.9	0.2	0.9	0	3.3
Misc. inc.	8.7	8.7	8.8	25.0	4.6	7.8	10.9	15.0	6.8	13.3	14.8	22.5
Total	50.9	62.0	61.8	107.0	73.4	84.2	96.6	103.3	80.1	160.2	80.8	124.9
(YoY %)	20%	36%	18%	26%	44%	36%	56%	-3%	-9%	58%	-30%	2%

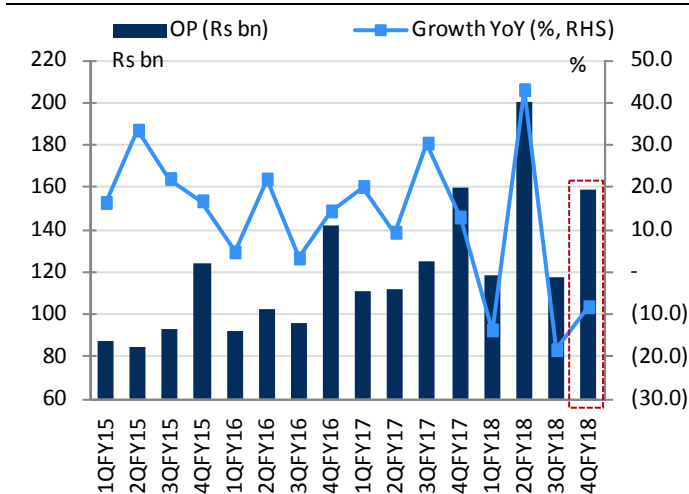
Source: Bank, HDFC sec Inst Research; 1QFY18 onwards incl. SBIN + ABs + BMB

C-I Ratio Improves To ~51% (Down 500bps QoQ)



Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

PPOP Jumped 35% QoQ



Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

LLP jumped ~36% QoQ i.e. 5.1% annu.; PCR was up 25bps QoQ to 66.2%

SBIN has not utilised RBI dispensation to amortise the MTM over the next three qtrs

Fresh slippages stood at Rs 336.7bn i.e. 7.2% of loans

Corp slippages (Rs 290bn vs. Rs 218bn QoQ) were largely from the stressed pool (Rs 174bn)

Amongst the corp slippages, power/ telecom contributed 38/23%

Slippages from the normal std book stood at Rs 116bn (w/w Rs 66.8bn is from one telecom a/c)

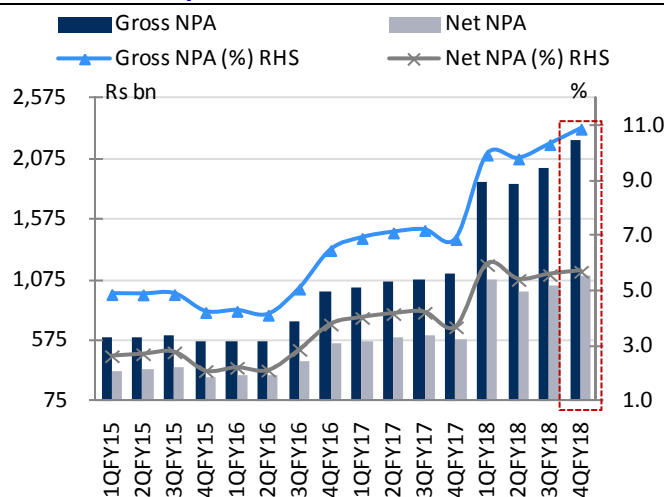
The bank has a combined exposure of ~Rs 776.3bn to both the NCLT lists on which total coverage is at ~63%; SBIN has provided ~56/75% of required provisions on both the NCLT lists

Provisions Break-up

Rs bn	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2QFY18	3QFY18	4QFY18
LLP	33.6	38.4	76.4	121.4	63.4	76.7	72.4	109.9	121.3	167.2	177.6	240.7
% Ann.	1.04	1.17	2.24	3.40	1.76	2.15	2.01	2.91	2.64	3.71	3.92	5.12
MTM	1.8	(0.5)	0.3	(0.1)	0.1	1.1	1.0	0.8	(7.6)	0.4	40.4	47.6
SA	4.0	5.9	1.8	10.0	9.2	(0.7)	13.6	2.9	(20.4)	22.8	(29.9)	(8.5)
Others	0.6	(0.2)	1.0	0.4	1.5	1.9	2.3	3.8	(4.0)	1.1	0.6	1.1
Total (A)	40.0	43.6	79.5	131.7	74.1	79.0	89.4	117.4	89.3	191.4	188.8	281.0
YoY %	14%	2%	52%	100%	85%	81%	12%	-11%	-32%	29%	58%	34%
As % PPOP*	43%	42%	83%	93%	67%	70%	71%	73%	75%	96%	161%	177%
Tax	15.1	20.3	5.3	(2.5)	11.2	7.9	9.9	14.7	9.4	(7.2)	(47.1)	(44.9)
(% PBT)	29%	34%	32%	-24%	31%	24%	28%	34%	32%	-84%	66%	37%

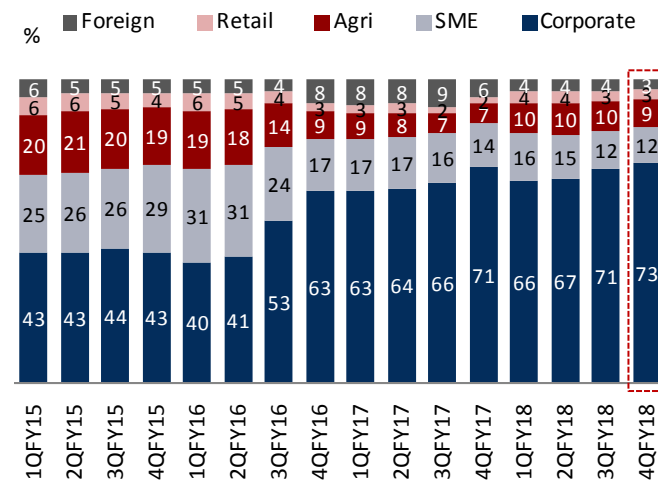
Source: Bank, HDFC sec Inst Research, * PPOP: Pre-provisioning operating profits; 1QFY18 onwards incl. SBIN + ABs + BMB

G/NNPAs Jump 12/8% QoQ



Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

Segment-Wise GNPA Contribution



Source : Bank; 1QFY18 onwards incl. SBIN + ABs + BMB

Watchlist stood at Rs 258bn i.e.1.33% bps vs. Rs 103bn i.e. 0.57% QoQ

Power exposure (Rs 106bn) in the watchlist is largely towards two exposures; All BBB and below power exposure are a part of watchlist

Asset Quality Movement

Rs bn	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2QFY18	3QFY18	4QFY18
Opening	567	564	568	728	982	1,015	1,058	1,082	1,779	1,881	1,861	1,991
Slippages	73	59	207	303	108	119	104	104	301	106	268	328
% Ann.	2.27	1.80	6.07	8.49	3.00	3.33	2.88	2.75	6.55	2.36	5.90	6.98
Upgrades	15	6	4	1	12	2	11	10	20	11	22	85
Recoveries	12	9	7	16	16	13	10	12	46	22	22	-
Write-Offs	49	39	37	32	46	61	59	39	132	93	93	-
Closing	564	568	728	982	1,015	1,058	1,082	1,124	1,881	1,861	1,991	2,234
QoQ %	-1%	1%	28%	35%	3%	4%	2%	4%	37%	-1%	7%	12%

Source: Bank, HDFC sec Inst Research; 1QFY18 onwards incl. SBIN + ABs + BMB

Peer Valuations

BANK	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
KMB #	2409	1264	BUY	1371	183	207	238	47.2	35.8	27.8	5.52	4.78	4.05	12.9	13.5	14.9	1.71	1.81	1.87
ICICIBC #	1866	290	BUY	377	105	126	150	19.2	12.8	8.9	1.91	1.49	1.14	7.3	9.5	9.8	0.81	1.00	1.17
AXSB	1364	523	NEU	538	183	225	269	487.3	26.6	14.4	2.87	2.32	1.95	0.5	7.7	12.8	0.04	0.70	1.13
IIB	1133	1904	BUY	1,966	379	443	524	31.7	25.5	20.3	5.03	4.30	3.63	16.5	17.6	19.0	1.80	1.79	1.82
RBL	209	501	BUY	582	152	170	194	30.0	23.7	17.7	3.30	2.94	2.58	12.7	12.6	15.1	1.27	1.26	1.33
FB	162	82	NEU	102	54	60	68	18.5	14.7	10.8	1.53	1.37	1.22	8.3	8.7	11.0	0.69	0.73	0.85
CUB	122	185	BUY	231	56	66	77	20.0	17.5	15.2	3.30	2.80	2.39	15.8	15.5	15.5	1.64	1.63	1.58
KVB	71	98	BUY	157	63	71	79	19.1	14.3	8.1	1.56	1.39	1.25	6.6	7.8	13.3	0.57	0.68	1.08
DCBB	57	185	BUY	216	78	88	98	23.2	17.9	14.5	2.36	2.11	1.88	9.8	10.8	12.0	0.90	0.95	0.97
SBIN#	2,266	254	BUY	328	93	137	175	-21.0	13.2	6.0	1.65	1.12	0.88	-3.4	5.0	10.2	-0.21	0.29	0.60
BOB	307	133	BUY	192	65	109	148	45.6	16.2	8.6	2.06	1.22	0.90	2.0	5.0	8.9	0.11	0.29	0.51

Source: Company, HDFC sec Inst Research, # Adjusted for subsidiaries value; *- FY18P, FY19E and FY20E metrics include the erstwhile Associate Banks and BMB, now merged into SBIN.

Standalone Income Statement

(Rs bn)	FY16	FY17	FY18P	FY19E	FY20E
Interest Earned	1,640.0	1,755.2	2,205.0	2,410.4	2,625.6
Interest Expended	1,068.0	1,136.6	1,456.5	1,567.2	1,689.7
Net Interest Income	571.9	618.6	748.5	843.2	935.9
Other Income	278.4	354.6	446.0	394.3	420.5
Fee Income (CEB)	156.6	162.8	236.4	230.9	251.2
Treasury Income	50.2	107.5	123.0	65.0	60.0
Total Income	850.4	973.2	1,194.5	1,237.5	1,356.4
Total Operating Exp	417.8	464.7	599.4	633.2	681.6
Employee Expense	251.1	264.9	331.8	366.4	407.3
PPOP	432.6	508.5	595.1	604.3	674.8
Provisions & Contingencies	294.8	359.9	750.4	469.9	381.0
Prov. for NPAs (incl. std prov.)	291.4	354.1	670.8	444.9	356.0
PBT	137.7	148.6	-155.3	134.4	293.9
Provision for Tax	38.2	43.7	- 89.8	30.2	67.5
PAT	99.5	104.8	-65.5	104.2	226.4

Source: Bank, HDFC sec Inst Research; **FY18P, FY19E and FY20E metrics include the erstwhile Associate Banks and BMB, now merged into SBIN.**

Standalone Balance Sheet

(Rs bn)	FY16	FY17	FY18P	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	7.8	8.0	8.9	8.9	8.9
Reserves	1,435.0	1,874.9	2,182.4	2,266.0	2,453.4
Shareholders' Funds	1,442.7	1,882.9	2,191.3	2,275.0	2,462.3
Savings	5,977.5	7,432.9	9,993.9	10,993.3	12,312.4
Current	1,398.1	1,471.2	1,879.1	2,001.2	2,151.3
Term Deposit	9,931.7	11,543.4	15,190.5	15,950.0	17,146.3
Total Deposits	17,307.2	20,447.5	27,063.4	28,944.5	31,610.0
Borrowings	2,241.9	3,176.9	3,621.4	3,621.4	3,639.5
Other Liabilities & Provs	1,598.8	1,552.4	1,671.4	1,721.5	1,773.2
Total Liabilities	22,590.6	27,059.7	34,547.5	36,562.4	39,485.0
APPLICATION OF FUNDS					
Cash & Bank Balance	1,674.7	1,719.7	1,919.0	1,784.2	1,961.2
Investments	4,771.0	7,659.9	10,609.9	11,458.7	12,260.8
G-Secs	3,703.7	5,752.4	6,901.2	7,091.4	7,112.3
Advances	14,637.0	15,710.8	19,348.8	20,800.0	22,880.0
Fixed Assets	103.9	429.2	399.9	419.9	440.9
Other Assets	1,404.1	1,540.1	2,269.9	2,099.7	1,942.2
Total Assets	22,590.6	27,059.7	34,547.5	36,562.4	39,485.0

Source: Bank, HDFC sec Inst Research; **FY18P, FY19E and FY20E metrics include the erstwhile Associate Banks and BMB, now merged into SBIN.**

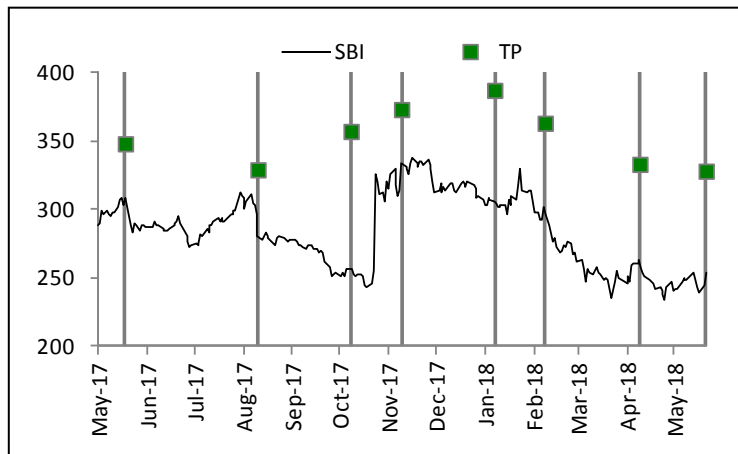
Standalone Key Ratios

	FY16	FY17	FY18P	FY19E	FY20E
VALUATION RATIOS					
EPS (Rs)	12.8	13.1	(7.3)	11.7	25.4
Earnings Growth (%)	(24.1)	5.4	(162.5)	NA	117.3
BVPS (Rs)	171.2	182.3	217.7	227.1	259.0
Core Adj. BVPS (Rs)	99.3	109.2	93.5	137.2	174.6
DPS (Rs)	2.6	2.6	-	2.0	3.8
ROAA (%)	0.46	0.42	(0.21)	0.29	0.60
ROAE (%) (Core)	7.91	6.77	(3.42)	4.96	10.2
P/E (x)	13.1	12.4	(21.0)	13.2	6.0
P/ABV (x)	1.69	1.49	1.65	1.12	0.88
P/PPOP (x)	4.6	4.0	3.8	3.8	3.4
Dividend Yield (%)	1.0	1.0	-	0.8	1.5
PROFITABILITY					
Yield On Advances (%)	8.37	7.88	7.43	7.77	7.83
Yield On Investment (%)	8.82	7.76	7.06	7.00	7.00
Cost Of Funds (%)	5.72	5.27	4.87	4.96	4.98
Cost Of Deposits (%)	5.98	5.59	5.13	5.19	5.19
Core Spread (%)	2.65	2.61	2.57	2.81	2.84
NIM (%)	3.01	2.84	2.52	2.67	2.73
OPERATING EFFICIENCY					
Cost/Avg. Asset Ratio (%)	1.94	1.87	1.95	1.78	1.79
Core Cost-Income Ratio (%)	52.21	53.68	55.94	54.00	52.57
BALANCE SHEET STRUCTURE					
Loan Growth (%)	12.6	7.3	3.5	7.5	10.0
Deposit Growth (%)	9.8	18.1	4.7	7.0	9.2
C/D Ratio (%)	84.6	76.8	71.5	71.9	72.4
Equity/Assets (%)	6.4	7.0	6.3	6.2	6.2
Equity/Advances (%)	9.9	12.0	11.3	10.9	10.8
CASA (%)	42.6	43.5	43.9	44.9	45.8
Capital Adequacy Ratio (CAR, %)	13.1	13.1	12.6	11.5	11.3
W/w Tier I CAR (%)	9.9	10.4	10.4	9.1	9.1

	FY16	FY17	FY18P	FY19E	FY20E
ASSET QUALITY					
Gross NPLs (Rs bn)	981.8	1,123.4	2,234.3	1,694.8	1,364.4
Net NPLs (Rs bn)	558.1	582.8	1,108.5	802.5	655.7
Gross NPLs (%)	6.50	6.90	11.55	8.15	5.96
Net NPLs (%)	3.81	3.71	5.73	3.86	2.87
Slippages (%)	4.65%	2.57%	5.27%	3.10%	2.60%
Coverage Ratio (%)	43.2	48.13	50.38	52.65	51.94
Provision/Avg. Loans (%)	1.95	2.17	3.72	2.20	1.61
ROAA TREE					
Net Interest Income	2.66%	2.49%	2.43%	2.37%	2.46%
Non Interest Income	1.29%	1.43%	1.45%	1.11%	1.11%
<i>Treasury Income</i>	<i>0.23%</i>	<i>0.43%</i>	<i>0.40%</i>	<i>0.18%</i>	<i>0.16%</i>
Operating Cost	1.94%	1.87%	1.95%	1.78%	1.79%
Provisions	1.37%	1.45%	2.44%	1.32%	1.00%
<i>Provisions For NPAs</i>	<i>1.25%</i>	<i>1.33%</i>	<i>2.29%</i>	<i>1.24%</i>	<i>0.93%</i>
Tax	0.18%	0.18%	-0.29%	0.08%	0.18%
ROAA	0.46%	0.42%	-0.21%	0.29%	0.60%
Leverage (x)	15.79	14.93	15.12	15.92	16.05
ROAE	7.30%	6.31%	-3.21%	4.67%	9.56%

Source: Bank, HDFC sec Inst Research; **FY18P, FY19E and FY20E metrics include the erstwhile Associate Banks and BMB, now merged into SBIN.**

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
20-May-17	308	BUY	348
13-Aug-17	281	BUY	329
9-Oct-17	257	BUY	357
11-Nov-17	334	BUY	373
8-Jan-18	306	BUY	387
11-Feb-18	296	BUY	363
10-Apr-18	263	BUY	333
23-May-18	254	BUY	328

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, **Darpin Shah, MBA, Pranav Gupta, ACA & Kaushik Utpat, ACA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

