INDIA

BUY

State Bank of India

CENTRUM

Financials

Result Update 13 August 2018

On the recovery path

We retain Buy on State Bank of India (SBIN) with revised SOTP-based TP at Rs350. Q1FY19 results saw several hits – healthy NII, improved margins, strong core operating profit and lower slippages; and few misses – feeble other income growth, elevated provisions and thus yet another quarter of losses. Watchlist portfolio stands reduced to 1.24%; management has reiterated its stance on moderation in slippages / credit cost for FY19E. Focus shifts towards recoveries and balance sheet growth. Capital position remains strong, subsidiaries profitable. Valuations continue to remain attractive. Retain BUY.

- **Q1FY19 results – Strong operational quarter:** Q1'19 results were strong on several counts - NII at Rs217.9bn grew 24% YoY, improved margins (calc NIM at 2.56% +40bps YoY / +18bps QoQ), strong core operating profit growth (+17.5% YoY) and lower than expected slippages (3.1% annualised). Some of the negatives included – lower other income (down 16.6% YoY); modest 2.2% YoY growth in fee income. Provisions came in at Rs192.3bn; the bank up-fronted entire of its investment depreciation of Rs70.9bn during the quarter (which otherwise would been amortised over the next few quarters). Resultantly, the quarter saw bank report net losses to the tune of Rs48.8bn.
- **Commentaries on asset quality retained; healthy coverage ratio – added comfort:** Q1'19 slippages at Rs143.5bn (lower to estimates) included a) Rs33.8bn of slippages from watchlist portfolio and b) devolvement of one large NPA account. The stock of watchlist portfolio (ie watchlist + SMA1 + SMA2) has reduced to Rs246.3bn or 1.2% of loans. Management has reiterated its stance on reduced pace of new NPA addition (slippage run-rate at 2%) for FY19E. Exposure to NCLT 1 and 2 cases (combined) stood at Rs630.4bn; the bank carries 71% provisions against these assets. It expects recovery from these assets in FY19E with limited incremental haircut (expects 52% haircut for its NCLT 1 cases vs. 65% provisions against the same). The bank has guided for loss given default (LGD) at 54-55% levels; provision coverage ratio at 53.4% will see thus see credit cost remain contained. We continue to build in elevated estimates on slippages / credit cost unchanged as we await signs of reversals / accelerated pace of recoveries.
- **Growth outlook intact:** Q1'19 loans grew 5.5% YoY and was led by strong 7.2% YoY growth in domestic loans. Management has guided for 12% CAGR in loans over FY19-20E. The bank is on the path to recovery on several counts – successive quarters of improved margin performance, healthy core operating profit and reduced NPAs. Subsidiaries continue to remain profitable; capital position strong (CAR / tier-I at 12.8% / 10.5% respectively**).** We expect bank to report 0.6% RoA/ 11%+ RoE by end-FY20E.
- **Valuation, view and risk:** Q1'19 results were strong on several counts. We have tweaked our estimates on margin / other income front. Focus shifts to asset recovery and balance sheet growth. We continue to like SBIN for its improved operational performance and contained asset quality. Retain Buy, with revised SOTP-based TP at Rs350 (vs. Rs330 earlier). Key risks: Lower than expected loan growth / slow pace of recoveries.

(Rs mn)	Q1FY19	Q1FY18	% YoY	Q4FY18	% QoQ	Q1FY19E	% Var
Net Interest Income	**2,17,984**	**1,76,060**	***23.8***	**1,99,743**	***9.1***	**2,01,143**	***8.4***
Other Income	66,795	80,060	*(16.6)*	1,24,948	*(46.5)*	90,699	*(26.4)*
Net Income	**2,84,779**	**2,56,120**	***11.2***	**3,24,691**	***(12.3)***	**2,91,842**	***(2.4)***
Operating Profit	**1,19,731**	**1,18,745**	***0.8***	**1,58,832**	***(24.6)***	**1,44,592**	***(17.2)***
Provisions	1,92,283	89,290	*115.3*	2,80,961	*(31.6)*	1,51,714	*26.7*
Reported PAT	**(48,759)**	**20,065**	-	**(77,179)**	-	**(4,852)**	-
GNPA (Rs bn)	21,28,399	18,80,685	*13.2*	22,34,275	*(4.7)*	22,56,853	*(5.7)*
NNPA (Rs bn)	9,92,363	10,77,600	*(7.9)*	11,08,547	*(10.5)*	9,79,412	*1.3*
PCR (%) reported	***69.3***	***60.8***	***846bps***	***66.2***	***308bps***	-	

Source: Company, Centrum Research.

Target Price	Rs350
CMP*	Rs304
Upside	*15.1%*
Previous Target	Rs330
Previous Rating	Buy

Price Performance (%)*

	1M	6M	1Yr
SBIN IN	*15.4*	*2.7*	*2.6*
Nifty	*4.4*	*9.3*	*16.4*

Key Data	
Bloomberg Code	SBIN IN
Curr Shares O/S (mn)	8,924.6
Dil Shares O/S(mn)	8,924.6
Mkt Cap(Rsbn/USDbn)	2717.1/39.5
52 Wk H / L (Rs)	351.5/232
5 Year H / L (Rs)	351.5/145.3
Daily Vol (3M NSE Avg)	21852480

**as on 10 August 2018; Source: Bloomberg, Centrum Research*

Shareholding pattern *(%)**

	Jun-18	Mar-18	Dec-17	Sep-17
Promoter	*58.5*	*58.9*	*57.5*	*58.0*
FIIs	*10.4*	*11.2*	*12.3*	*10.9*
DIIs	*23.4*	*22.1*	*21.8*	*22.2*
Others	*7.8*	*7.9*	*8.4*	*9.0*

*Source: BSE, *as on 10 August 2018*

Earnings revision

Particulars (Rs bn)	FY19E			FY20E		
	New	Old	Var (%)	New	Old	Var (%)
NII + Oth. Inc	1,278.9	1,287.5	*(0.7)*	1,406.9	1,408.4	*(0.1)*
PPOP	631.4	651.6	*(3.1)*	707.9	717.4	*(1.3)*
PAT	121.9	144.1	*(15.4)*	210.4	220.9	*(4.8)*

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY19E			FY20E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
NII + Oth. Inc	1,278.9	1,350.8	*(5.3)*	1,406.9	1,514.2	*(7.1)*
PPOP	631.4	545.0	*15.9*	707.9	669.8	*5.7*
PAT	121.9	125.5	*(2.9)*	210.4	269.4	*(21.9)*

Bloomberg Consensus*				Centrum Target Price (Rs)	*Variance (%)*
BUY	SELL	*HOLD*	Target Price (Rs)		
42	1	6	336	350	*4.2*

**as on 10 August 2018; Source: Bloomberg, Centrum Research Estimates*

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Y/E Mar (Rs bn)	Net income*	PPOP	Adj PAT	*YoY (%)*	EPS (Rs)	P/E (x)	Adj BV(Rs)	P/Adj BV (x)	*RoA (%)*	*RoE (%)*
FY16	850.4	432.6	99.5	*(24.0)*	12.8	18.6	114.0	2.1	*0.5*	*7.3*
FY17	1,178.4	594.6	(18.1)	*(118.2)*	(2.2)	-	150.4	1.6	*(0.1)*	*(1.1)*
FY18#	1,194.5	595.1	(65.5)	*262.3*	(7.2)	-	92.1	3.1	*(0.2)*	*(3.5)*
FY19E#	1,278.9	631.4	121.9	*(286.2)*	13.5	19.6	120.6	2.2	*0.4*	*6.2*
FY20E#	1,406.9	707.9	210.4	*72.6*	23.2	13.1	167.3	1.8	*0.6*	*10.0*

*Source: Company, Centrum Research Estimates. * net income denotes NII + other income . # merged entities. FY16-19E have been valued on average market cap basis.*

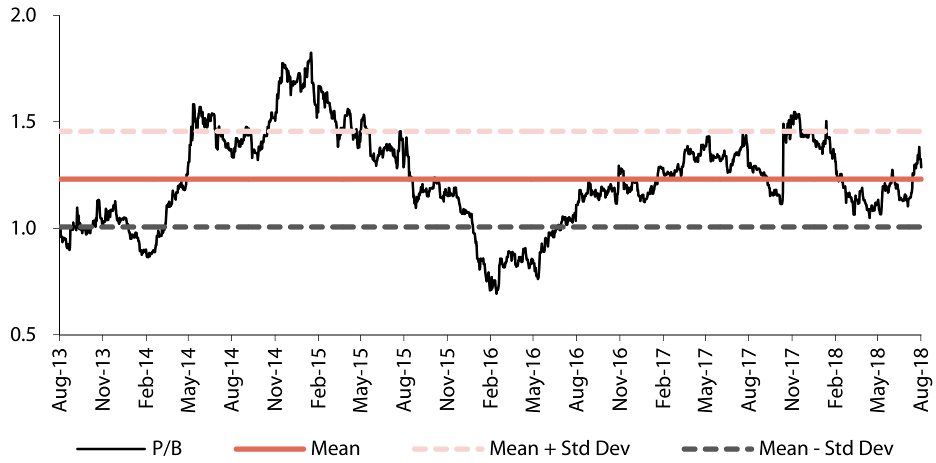
Sensitivity analysis and peer comparison

Exhibit 1: Sensitivity Analysis – impact of change in NIM and credit cost on FY19PBT

%		Credit cost				
		+ 10bps	*+ 20bps*	*'Current levels*	*- 10bps*	*- 20bps*
NIM	**- 5bps**	*(21.1)*	*(33.4)*	*(8.7)*	*3.6*	*16.0*
	- 10bps	*(29.8)*	*(42.1)*	*(17.4)*	*(5.1)*	*7.2*
	Current levels	*(12.3)*	*(24.7)*	*-*	*12.3*	*24.7*
	+ 5bps	*(3.6)*	*(16.0)*	*8.7*	*21.1*	*33.4*
	+ 10bps	*5.1*	*(7.2)*	*17.4*	*29.8*	*29.8*

Source: Centrum Research Estimates

Exhibit 2: Rolling forward P/B chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: Comparative Valuations

	Mkt Cap (Rs mn)	CAGR (FY18-FY20E) %			PE (x)			*ROA (%)*			*RoE (%)*			P/BVPS (x)		
		NII + Oth inc	*PPOP*	*PAT*	FY18	FY19E	FY20E	*FY18*	*FY19E*	*FY20E*	*FY18*	*FY19E*	*FY20E*	FY18	FY19E	FY20E
SBIN*	**27,17,091**	***8.5***	***9.1***	**-**	**-**	**19.6**	**13.1**	***(0.2)***	***0.4***	***0.6***	***(3.5)***	***6.2***	***10.0***	**1.4**	**1.2**	**1.2**
PNB	2,29,818	*2.7*	*(11.7)*	-	(15.1)	(7.1)	8.5	*0.0*	*(0.4)*	*0.4*	*(0.8)*	*(8.4)*	*7.2*	0.9	0.7	0.7
BOB	3,92,330	*11.2*	*5.7*	*135.8*	38.3	10.9	7.1	*0.2*	*0.5*	*0.7*	*2.7*	*7.5*	*11.7*	1.0	0.8	0.8
BOI	1,63,143	*5.4*	*(9.7)*	-	(6.9)	1,595.0	8.5	*(0.4)*	*(0.1)*	*0.3*	*(10.0)*	*(0.2)*	*5.3*	0.8	0.6	0.5
Canara	2,07,032	*3.4*	*5.9*	*107.3*	36.7	20.3	6.7	*0.2*	*0.2*	*0.4*	*2.1*	*2.6*	*8.8*	0.8	0.7	0.6

*Source: Bloomberg consensus, *Centrum Research Estimates. FY18-19E have been valued on average market cap basis*

Quarterly financials

Exhibit 4: Quarterly Financials

(Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Income statement								
Interest earned	5,48,200	5,57,000	5,89,690	5,49,054	5,48,497	5,48,029	5,59,413	5,88,132
Interest expended	3,67,010	3,79,300	3,79,030	3,72,994	3,62,640	3,61,150	3,59,670	3,70,148
Net interest income	**1,81,190**	**1,77,700**	**2,10,660**	**1,76,060**	**1,85,857**	**1,86,879**	**1,99,743**	**2,17,984**
Non-interest income	1,01,460	1,15,070	1,22,220	80,060	1,60,161	80,842	1,24,948	66,795
Total income	**2,82,650**	**2,92,770**	**3,32,880**	**2,56,120**	**3,46,018**	**2,67,721**	**3,24,691**	**2,84,779**
Operating expenses	1,42,760	1,48,750	1,59,780	1,37,375	1,46,028	1,50,171	1,65,859	1,65,047
PPOP	**1,39,890**	**1,44,020**	**1,73,100**	**1,18,745**	**1,99,990**	**1,17,549**	**1,58,832**	**1,19,731**
Provisions	1,48,300	1,19,230	2,09,320	89,290	1,91,374	1,88,762	2,80,961	1,92,283
PBT	**(8,410)**	**24,790**	**(36,220)**	**29,455**	**8,616**	**(71,213)**	**(1,22,129)**	**(72,551)**
Tax	(2,840)	6,580	(1,810)	9,391	(7,198)	(47,053)	(44,950)	(23,793)
PAT	**(5,570)**	**18,210**	**(34,410)**	**20,065**	**15,814**	**(24,160)**	**(77,179)**	**(48,759)**
Balance sheet items								
Equity share capital	7,900	7,900	8,110	8,632	8,632	8,632	8,920	8,925
Reserves & surplus	21,00,530	21,22,260	21,10,020	22,81,616	23,04,283	21,60,755	21,82,360	21,41,965
Deposits	2,37,89,560	2,60,27,570	2,58,53,200	2,60,25,342	2,62,31,796	2,65,12,399	2,70,63,430	2,74,78,132
Borrowings	25,94,370	28,03,950	33,21,060	23,61,010	24,77,661	26,04,350	36,21,420	26,24,920
Other liabilities	12,73,300	12,16,050	17,56,230	12,58,966	13,32,754	12,65,802	16,71,380	11,95,042
Total liabilities	**2,97,65,660**	**3,21,77,730**	**3,30,48,620**	**3,19,35,565**	**3,23,55,125**	**3,25,51,938**	**3,45,47,510**	**3,34,48,985**
Cash & bank	11,23,120	13,43,890	16,07,410	13,73,839	12,94,097	12,87,286	15,03,970	12,85,312
Interbank & call	7,23,010	5,39,150	11,01,200	8,78,720	4,85,024	4,83,914	4,15,010	4,16,275
Investments	79,36,620	1,02,76,620	93,29,270	95,21,284	1,02,29,091	1,04,04,502	1,06,09,870	1,06,34,743
Advances	1,80,39,330	1,80,68,670	1,86,89,630	1,80,42,189	1,80,26,089	1,82,62,119	1,93,48,800	1,87,57,735
Other assets	19,43,580	19,49,380	23,21,110	21,19,530	23,20,825	21,14,118	26,69,860	23,54,921
Total assets	**2,97,65,660**	**3,21,77,710**	**3,30,48,620**	**3,19,35,563**	**3,23,55,125**	**3,25,51,938**	**3,45,47,510**	**3,34,48,985**
Ratios								
Growth YoY (%)								
NII				*(3.5)*	*2.6*	*5.2*	*(5.2)*	*23.8*
Non-interest income				*(8.6)*	*57.9*	*(29.7)*	*2.2*	*(16.6)*
Opex				*3.7*	*2.3*	*1.0*	*3.8*	*20.1*
PPOP				*(13.7)*	*43.0*	*(18.4)*	*(8.2)*	*0.8*
PAT				-	-	-	-	-
Loans				*0.5*	*-0.1*	*1.1*	*3.5*	*4.0*
Deposits				*13.3*	*10.3*	*1.9*	*4.7*	*5.6*
Key drivers (%)								
Cost-income	*50.5*	*50.8*	*48.0*	*53.6*	*42.2*	*56.1*	*51.1*	*58.0*
GNPA	*8.5*	*8.7*	*9.1*	*10.0*	*9.8*	*10.4*	*10.9*	*10.7*
NNPA	*5.1*	*5.3*	*5.2*	*6.0*	*5.4*	*5.6*	*5.7*	*5.3*
Provision coverage	*42.2*	*41.0*	*45.5*	*42.7*	*47.4*	*48.6*	*50.4*	*53.4*
*Tier I CAR**	*11.0*	*10.7*	*10.1*	*10.7*	*10.9*	*10.3*	*10.4*	*10.5*
*Tier II CAR**	*2.6*	*3.1*	*2.8*	*2.6*	*3.1*	*2.4*	*2.2*	*2.3*

Source: Company, Centrum Research.

Financials

Exhibit 5: Income Statement

Y/E March (Rs bn)	FY16	FY17	FY18#	FY19E#	FY20E#
Interest Income	1,640.0	2,239.8	2,205.0	2,367.7	2,515.4
Interest Expense	1,068.0	1,487.8	1,456.5	1,473.2	1,541.0
Net Interest Income	**571.9**	**752.0**	**748.5**	**894.4**	**974.4**
Non-Interest Income	278.5	426.4	446.0	384.4	432.5
Total Net Income	**850.4**	**1,178.4**	**1,194.5**	**1,278.9**	**1,406.9**
Total Operating Expenses	**417.8**	**583.8**	**599.4**	**647.5**	**699.0**
Employee Expenses	251.1	339.8	331.8	372.4	418.7
Other Operating Expenses	166.7	244.0	267.6	275.1	280.3
Pre-provision Profit	**432.6**	**594.6**	**595.1**	**631.4**	**707.9**
Provisions & Contingencies	**294.8**	**607.2**	**750.4**	**457.3**	**407.3**
NPA Provisions	298.8	554.2	713.7	429.7	389.8
Profit Before Tax	**137.7**	**(12.6)**	**(155.3)**	**174.1**	**300.6**
Taxes	38.2	5.5	(89.8)	52.2	90.2
Profit after tax	**99.5**	**(18.1)**	**(65.5)**	**121.9**	**210.4**

Source: Company, Centrum Research Estimates

Exhibit 6: Balance Sheet

Y/E March (Rs bn)	FY16	FY17	FY18#	FY19E#	FY20E#
Cash and balance with RBI	1,296	1,607	1,504	1,721	1,889
Inter-bank borrowings	378	1,101	415	386	428
Loans & Advances	**14,637**	**18,690**	**19,349**	**21,483**	**24,363**
Investments	5,757	9,329	10,610	8,462	9,061
Total Int Earning Assets	**22,068**	**30,728**	**31,878**	**32,052**	**35,740**
Fixed Assets	104	499	400	632	613
Other Assets	1,404	1,822	2,270	1,742	1,560
Total Assets	**23,576**	**33,049**	**34,548**	**34,425**	**37,914**
Deposits	17,307	25,853	27,063	26,746	29,657
Other Int Bearing Liabilities	3,233	3,321	3,621	3,433	3,282
Interest Bearing Liabilities	**20,541**	**29,174**	**30,685**	**30,179**	**32,939**
Other non int bearing Liabilities	1,593	1,756	1,671	1,999	2,496
Total Liabilities	22,133	30,930	32,356	32,178	35,436
Equity	1,443	2,118	2,191	2,248	2,478
Total Liabilities	**23,576**	**33,049**	**34,548**	**34,425**	**37,914**

Source: Company, Centrum Research Estimates

Exhibit 7: DuPont analysis

(% of avg assets)	FY16	FY17	FY18#	FY19E#	FY20E#
Interest income	*7.4*	*7.9*	*6.5*	*6.9*	*7.0*
Interest expenses	*4.8*	*5.3*	*4.3*	*4.3*	*4.3*
NII	***2.6***	***2.7***	***2.2***	***2.6***	***2.7***
Other income	*1.3*	*1.5*	*1.3*	*1.1*	*1.2*
Total income	***3.9***	***4.2***	***3.5***	***3.7***	***3.9***
Operating expenses	*1.9*	*2.1*	*1.8*	*1.9*	*1.9*
PPOP	***2.0***	***2.1***	***1.8***	***1.8***	***2.0***
Provisions	*1.3*	*2.1*	*2.2*	*1.3*	*1.1*
PBT	***0.6***	***0.0***	***(0.5)***	***0.5***	***0.8***
Tax	*0.2*	*0.0*	*(0.3)*	*0.2*	*0.2*
RoA	***0.5***	***(0.1)***	***(0.2)***	***0.4***	***0.6***
Leverage	*16.3*	*15.6*	*15.8*	*15.3*	*15.3*
RoE	***7.3***	***(1.1)***	***(3.5)***	***6.2***	***10.0***

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

Y/E March	FY16	FY17	FY18#	FY19E#	FY20E#
B/S Structure Ratios (%)					
CD Ratio	*84.6*	*72.3*	*71.5*	*80.3*	*82.1*
Incremental CD Ratio	*106.3*	*47.4*	*54.5*	*-*	*98.9*
CASA Ratio	*42.6*	*42.8*	*44.5*	*44.9*	*45.9*
Growth Ratios (%)					
Loans	*12.6*	*27.7*	*3.5*	*11.0*	*13.4*
Deposits	*9.8*	*49.4*	*4.7*	*(1.2)*	*10.9*
NII	*4.0*	*31.5*	*(0.5)*	*19.5*	*8.9*
Opex	*9.8*	*39.7*	*2.7*	*8.0*	*8.0*
PPOP	*9.4*	*37.5*	*0.1*	*6.1*	*12.1*
Provisions	*45.8*	*106.0*	*23.6*	*(39.1)*	*(10.9)*
PAT	*(24.0)*	*(118.2)*	*262.3*	*-*	*72.6*
Operating Ratios (%)					
Yield on funds	*8.4*	*9.0*	*7.4*	*7.8*	*7.8*
Cost of funds	*5.5*	*6.0*	*4.9*	*4.9*	*4.8*
NIM	*2.9*	*3.0*	*2.5*	*2.9*	*3.0*
Non-int inc / Total income	*32.7*	*36.2*	*37.3*	*30.1*	*30.7*
Fee to avg assets	*0.65*	*0.72*	*0.68*	*0.70*	*0.80*
Cost/Income	*49.1*	*49.5*	*50.2*	*50.6*	*49.7*
Opex/ Avg assets	*1.9*	*2.1*	*1.8*	*1.9*	*1.9*
Provisioning cost (bps)	*1.3*	*2.1*	*2.2*	*1.3*	*1.1*
Effective tax rate	*27.8*	*(43.2)*	*57.8*	*30.0*	*30.0*
RoA	*0.5*	*(0.1)*	*(0.2)*	*0.4*	*0.6*
RoE	*7.3*	*(1.1)*	*(3.5)*	*6.2*	*10.0*
Credit Quality Ratios (%)					
Gross NPA	*6.7*	*9.5*	*11.5*	*9.4*	*7.6*
Net NPA	*3.8*	*3.1*	*5.7*	*4.2*	*2.9*
Slippage rate to op advances	*4.4*	*6.2*	*5.2*	*2.1*	*1.8*
NPA coverage ratio	*43.2*	*30.4*	*50.4*	*55.0*	*61.4*
Capital Adequacy Ratios (%)					
Total CAR	*13.1*	*12.9*	*12.6*	*13.3*	*13.1*
Tier I	*9.9*	*10.1*	*10.4*	*11.1*	*11.1*
Tier II	*3.2*	*2.8*	*2.2*	*2.3*	*2.1*
Assets/equity (x)	16.3	15.6	15.8	15.3	15.3
Per Share (Rs)					
BVPS	186	222	214	221	246
Adjusted BVPS	114	150	92	121	167
EPS - wt avg	12.8	(2.2)	(7.2)	13.5	23.2
Valuations Ratios					
Price/BV (x)	1.3	1.1	1.4	1.2	1.2
Price/Adj. BV (x)	2.1	1.6	3.1	2.2	1.8
P/E (x)	18.6	-	-	19.6	13.1

Source: Company, Centrum Research Estimates. FY16-19E have been valued on average market cap basis. We have introduced figures for merged entity from FY18E onwards and hence YoY comparison (FY18E over FY17may be inaccurate). # denotes merged entity.

Appendix A

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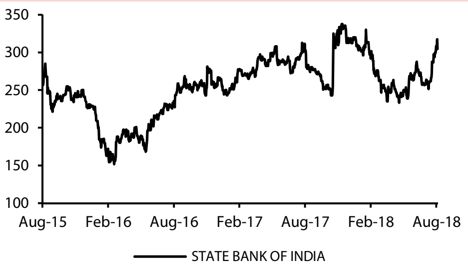
State Bank of India price chart



Source: Bloomberg, Centrum Research

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		State Bank of India
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