

Getting better

We retain Buy on State Bank of India (SBIN) with SOTP-based TP unchanged at Rs350. Q2FY19 results were an extension of positive trends witnessed in recent past across key ratios – domestic margins, loan growth, slippages and asset recovery and return ratios. Commentaries across each of the above aspects remain positive (unchanged since last quarter). Watchlist portfolio stands reduced to 1.04% (vs 1.3% as at FY18); management has reiterated its stance on moderation in slippages / credit cost for FY19E. Capital position remains strong, subsidiaries profitable. Valuations at 1.4x FY20E core ABV continue to remain attractive. Retain BUY.

- **Q2FY19 results – Strong performance continues:** Q2'19 results beat our estimates on operating profit / earnings front and were an extension of positive trends witnessed across key financial ratios. Loan growth has seen an acceleration (domestic loans up 11.1% YoY); domestic NIM on a rise (2.76% up 5bps QoQ); improving core operating profit and reduced slippages (2.2% vs. 5%+ since Mar'17). From a P&L perspective - NII at Rs209.1bn grew 12.5% YoY; other income at Rs93.7bn included Rs10.8bn on sale of stake in Merchant Acquiring Business and Rs4.7bn on sale of stake in SBI General Insurance. Provisions for the quarter came in at Rs120.9bn. PCR (incl tech wo/ff) was at 70.7% (vs. 65.1% YoY). The bank reported net profit at Rs9.5bn (vs. our / street estimate of losses).
- **Slippages moderate; watchlist reduces further:** Q2'19 slippages at Rs108.9bn (lower to estimates) included ~70% of slippages from non-corporate portfolio, especially SME (35% of total slippages). Of the corporate slippages, 75% were from the watchlist portfolio. Consequently, the watchlist (i.e. watchlist + SMA accounts) is now down to 1.04% of loans (vs. 1.3% as at FY18). Exposure to NCLT 1 and 2 cases (combined) stood at Rs616.5bn; the bank carries 70% provisions against these assets. Management has reiterated their stance of reduced pace of new NPA addition (slippage run-rate at 2%) in ensuing quarters. We have left our slippage estimates unchanged; however given NPA ageing, provision on security receipt and power exposure (NPA in power sector at Rs326.8bn; bank carries 41% PCR thereon), we have increased our credit cost estimates for FY19E.
- **Growth outlook intact; subsidiaries remain profitable:** Loan growth at 9.3% YoY was led by strong 11.1% YoY growth in domestic portfolio (up from 7.2% YoY in Q1'19). Within domestic, corporate portfolio grew 14.3% YoY and was in nature of credit to high rated / PSU / Maha-ratna corporates. Management has guided for 12% CAGR in loans over FY19-20E. The bank has acquired ~Rs52bn of portfolio during Oct, 2018 and is planning to buyout another ~Rs150bn of the same in Nov, 2018. Subsidiaries continue to remain profitable; capital position remains strong (CAR / tier-I at 12.6% / 10.4% respectively).
- **Valuation, view and risk:** SBI Q2'19 results mirrored the improved performance as was seen in prior quarters. We have tweaked our estimates marginally on margin / provisioning front. We expect bank to report 0.6% RoA/ 10%+ RoE by end-FY20E. We continue to like SBIN for its franchise, improved operational performance and contained asset quality. Retain Buy, with SOTP-based TP at Rs350. Key risks: Margin pressure / slow pace of recoveries could impact earnings.

(Rs mn)	Q2FY19	Q2FY18	% YoY	Q1FY19	% QoQ	Q2FY19E	% Var
Net Interest Income	2,09,057	1,85,857	12.5	2,17,984	(4.1)	2,17,980	(4.1)
Other Income	93,751	1,60,161	(41.5)	66,795	40.4	77,342	21.2
Operating Profit	1,39,049	1,99,990	(30.5)	1,19,731	16.1	1,28,201	8.5
Provisions	1,20,922	1,91,374	(36.8)	1,92,283	(37.1)	1,46,799	(17.6)
Reported PAT	9,449	15,814	(40.3)	(48,759)	(119.4)	(12,499)	(175.6)
GNPA	20,58,641	18,61,146	10.6	21,28,399	(3.3)	21,63,415	(4.8)
NNPA	9,48,100	9,78,963	(3.2)	9,92,363	(4.5)	9,62,918	(1.5)
PCR (%) reported	70.7	65.1	564bps	69.3	149bps		

Source: Company, Centrum Research Estimates

Target Price	Rs350	Key Data	
CMP*	Rs296	Bloomberg Code	SBIN IN
Upside	18.2%	Curr Shares O/S (mn)	8,924.6
Previous Target	Rs350	Dil Shares O/S(mn)	8,924.6
Previous Rating	Buy	Mkt Cap(Rsbn/USDbn)	2632.3/36
Price Performance (%)*		52 Wk H / L (Rs)	346.7/232
	1M 6M 1Yr	5 Year H / L (Rs)	351.5/145.5
SBIN IN	14.2 21.9 (9.2)	Daily Vol (3M NSE Avg)	29609330
Nifty	2.0 (0.9) 0.7		

*as on 5 November 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sep-18	Jun-18	Mar-18	Dec-17
Promoter	58.5	58.5	58.9	57.5
FII's	10.2	10.4	11.2	12.3
DII's	23.7	23.4	22.1	21.8
Others	7.6	7.8	7.9	8.4

Source: BSE, *as on 5 November 2018

Earnings revision

Particulars (Rs bn)	FY19E			FY20E		
	New	Old	Var (%)	New	Old	Var (%)
NII + Oth. Inc	1,246.7	1,278.9	(2.5)	1,340.9	1,406.9	(4.7)
PPOP	573.8	631.4	(9.1)	624.2	707.9	(11.8)
PAT	81.2	121.9	(33.4)	215.8	210.4	2.6

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY19E			FY20E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
NII + Oth. Inc	1246.7	1,225.2	1.8	1340.9	1,434.3	(6.5)
PPOP	573.8	529.6	8.3	624.2	681.4	(8.4)
PAT	81.2	82.0	(1.0)	215.8	271.2	(20.4)

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
41	1	4	345	350	(1.4)

*as on 5 November 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#	1,246.7	573.8	81.2	(224.0)	9.0	30.1	111.5	2.4	0.2	4.2
FY20E#	1,340.9	624.2	215.8	165.9	23.8	12.4	146.3	2.0	0.6	10.5

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

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Concall takeaways

On the asset quality front

- Slippages came in at R108.9bn (vs. Rs143.5bn as at Q1'19) and included a) Rs31.9bn of corporate slippages b) SME slippages at Rs38.3bn (some of the SME accounts that had availed RBI dispensation slipped into NPA), c) retail NPA at Rs9.8bn and agriculture at Rs28.8bn. Recovery / up-gradation came in at Rs43.3bn / w-off was at Rs135.4bn. GNPA / NNPA was at 9.95% / 4.84% respectively and compares with 10.7% / 5.3% QoQ.
- Management has reiterated their stance of containing slippages at 2% for FY19E.
- Exposure to IL&FS group stood at Rs43.4bn; Rs38-40bn towards SPVs; Rs2.5bn to holding co and Rs900mn in form of investments.
- Watchlist exposure has reduced to Rs203.6bn (1.04% of loans) which is in the nature of exposure to Power sector (Rs99.7bn); Rs34.9bn (towards road); Rs30.5bn (Iron & Steel); Rs5.4bn (textile) and balance others.
- S/R outstanding at Rs100bn.

Exhibit 1: Key exposure : Axis Bank vs. peers

Rs mn	State Bank of India	Axis Bank	ICICI Bank	IndusInd Bank	Yes Bank
Exposure to IL&FS Group	Exposure of Rs43.4bn; Rs38-40bn towards SPVs; Rs2.5bn to holding co and Rs900mn in form of investments	Exposure of Rs8.3bn; Rs2.4bn is fund based; Rs5.9bn being non-fund based;	Part of Rs22.8bn downgraded to BB & below exposure	Rs30bn; Rs20bn is to holding / parent co; balance to operating entities	Rs26.2bn
Provisions created		Created 20% provision against funded exposure	NIL	Rs2.75bn	NIL
Exposure to					
- NBFC	8.4% (fund based) of domestic loans	1.99%^	5.4%##	4.2%*	2.6%; ~90% externally rated A or better
- Commercial real estate	1.7% (fund based) of domestic loans	2.86%^	3.4%	5.9%**	5.7%; none being SMA 2

Source: Companies, Centrum Research. *fund based; ** denotes including exposure to housing finance cos # media reports ## NBFC + HFC. ^both fund + non-fund based

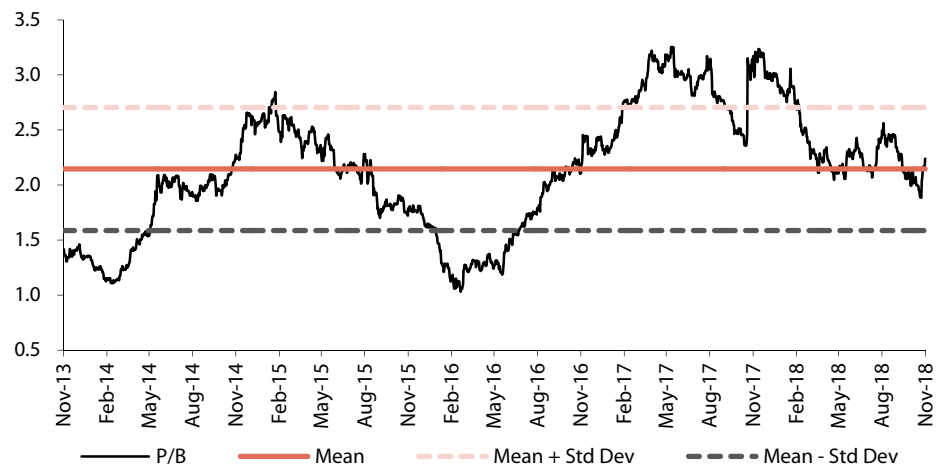
Sensitivity analysis and peer comparison

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

%	Credit cost				
	+ 10bps	+ 20bps	'Current levels	- 10bps	- 20bps
- 5bps	(32.1)	(50.6)	(13.6)	5.0	23.5
- 10bps	(45.7)	(64.2)	(27.1)	(8.6)	9.9
NIM Current levels	(18.5)	(37.1)	-	18.5	37.1
+ 5bps	(5.0)	(23.5)	13.6	32.1	50.6
+ 10bps	8.6	(9.9)	27.1	45.7	45.7

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*	26,32,307	6.0	2.4	NA	NA	30.1	12.4	(0.2)	0.2	0.6	(3.5)	4.2	10.5	1.4	1.2	1.2
PNB	2,16,379	2.4	(10.0)	NA	NA	NA	7.8	0.0	(0.6)	0.3	(0.8)	(11.4)	6.9	0.9	0.7	0.6
BOB	2,94,181	11.6	7.2	134.8	38.3	11.4	5.4	0.2	0.4	0.7	2.7	6.8	11.6	1.0	0.8	0.6
BOI	1,49,896	5.2	(9.5)	NA	NA	NA	7.6	(0.4)	(0.1)	0.3	(10.0)	(1.2)	5.2	0.8	0.6	0.5
Canara	1,80,378	3.9	6.1	105.5	36.7	22.4	6.3	0.2	0.2	0.5	2.1	2.6	8.9	0.8	0.6	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)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Income statement								
Interest earned	5,57,000	5,89,690	5,49,054	5,48,497	5,48,029	5,59,413	5,88,132	5,87,935
Interest expended	3,79,300	3,79,030	3,72,994	3,62,640	3,61,150	3,59,670	3,70,148	3,78,878
Net interest income	1,77,700	2,10,660	1,76,060	1,85,857	1,86,879	1,99,743	2,17,984	2,09,057
Non-interest income	1,15,070	1,22,220	80,060	1,60,161	80,842	1,24,948	66,795	93,751
Total income	2,92,770	3,32,880	2,56,120	3,46,018	2,67,721	3,24,691	2,84,779	3,02,807
Operating expenses	1,48,750	1,59,780	1,37,375	1,46,028	1,50,171	1,65,859	1,65,047	1,63,759
PPOP	1,44,020	1,73,100	1,18,745	1,99,990	1,17,549	1,58,832	1,19,731	1,39,049
Provisions	1,19,230	2,09,320	89,290	1,91,374	1,88,762	2,80,961	1,92,283	1,20,922
PBT	24,790	(36,220)	29,455	8,616	(71,213)	(1,22,129)	(72,551)	18,127
Tax	6,580	(1,810)	9,391	(7,198)	(47,053)	(44,950)	(23,793)	8,678
PAT	18,210	(34,410)	20,065	15,814	(24,160)	(77,179)	(48,759)	9,449
Balance sheet items								
Equity share capital	7,900	8,110	8,632	8,632	8,632	8,920	8,925	8,925
Reserves & surplus	21,22,260	21,10,020	22,81,616	23,04,283	21,60,755	21,82,360	21,41,965	21,71,092
Deposits	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	2,80,74,201
Borrowings	28,03,950	33,21,060	23,61,010	24,77,661	26,04,350	36,21,420	26,24,920	33,46,959
Other liabilities	12,16,050	17,56,230	12,58,966	13,32,754	12,65,802	16,71,380	11,95,042	12,54,546
Total liabilities	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	3,48,55,723
Cash & bank	13,43,890	16,07,410	13,73,839	12,94,097	12,87,286	15,03,970	12,85,312	12,99,634
Interbank & call	5,39,150	11,01,200	8,78,720	4,85,024	4,83,914	4,15,010	4,16,275	4,31,634
Investments	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	1,08,26,119
Advances	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	1,95,73,396
Other assets	19,49,380	23,21,110	21,19,530	23,20,825	21,14,118	26,69,860	23,54,921	27,24,940
Total assets	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	3,48,55,723
Ratios								
Growth YoY (%)								
<i>NII</i>			(3.5)	2.6	5.2	(5.2)	23.8	12.5
<i>Non-interest income</i>			(8.6)	57.9	(29.7)	2.2	(16.6)	(41.5)
<i>Opex</i>			3.7	2.3	1.0	3.8	20.1	12.1
<i>PPOP</i>			(13.7)	43.0	(18.4)	(8.2)	0.8	(30.5)
<i>PAT</i>			-	-	-	-	-	(40.3)
<i>Loans</i>			0.5	(0.1)	1.1	3.5	4.0	8.6
<i>Deposits</i>			13.3	10.3	1.9	4.7	5.6	7.0
Key drivers (%)								
<i>Cost-income</i>	50.8	48.0	53.6	42.2	56.1	51.1	58.0	54.1
<i>GNPA</i>	8.7	9.1	10.0	9.8	10.4	10.9	10.7	10.0
<i>NNPA</i>	5.3	5.2	6.0	5.4	5.6	5.7	5.3	4.8
<i>Provision coverage</i>	41.0	45.5	42.7	47.4	48.6	50.4	53.4	53.9
<i>Tier I CAR*</i>	10.7	10.1	10.7	10.9	10.3	10.4	10.5	10.4
<i>Tier II CAR*</i>	3.1	2.8	2.6	3.1	2.4	2.2	2.3	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	2,430.5	2,655.1
Interest Expense	1,068.0	1,487.8	1,456.5	1,567.6	1,731.2
Net Interest Income	571.9	752.0	748.5	862.9	924.0
Non-Interest Income	278.5	426.4	446.0	383.8	417.0
Total Net Income	850.4	1,178.4	1,194.5	1,246.7	1,340.9
Total Operating Expenses	417.8	583.8	599.4	672.9	716.7
Employee Expenses	251.1	339.8	331.8	389.7	440.2
Other Operating Expenses	166.7	244.0	267.6	283.2	276.5
Pre-provision Profit	432.6	594.6	595.1	573.8	624.2
Provisions & Contingencies	294.8	607.2	750.4	457.8	315.9
NPA Provisions	298.8	554.2	713.7	386.7	268.0
Profit Before Tax	137.7	(12.6)	(155.3)	115.9	308.3
Taxes	38.2	5.5	(89.8)	34.8	92.5
Profit after tax	99.5	(18.1)	(65.5)	81.2	215.8

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	1,925	2,105
Inter-bank borrowings	378	1,101	415	437	482
Loans & Advances	14,637	18,690	19,349	21,483	24,363
Investments	5,757	9,329	10,610	10,606	10,967
Total Int Earning Assets	22,068	30,728	31,878	34,451	37,916
Fixed Assets	104	499	400	632	613
Other Assets	1,404	1,822	2,270	1,725	1,563
Total Assets	23,576	33,049	34,548	36,808	40,092
Deposits	17,307	25,853	27,063	30,293	33,414
Other Int Bearing Liabilities	3,233	3,321	3,621	3,160	3,160
Interest Bearing Liabilities	20,541	29,174	30,685	33,453	36,574
Other non int bearing Liabilities	1,593	1,756	1,671	1,147	1,104
Total Liabilities	22,133	30,930	32,356	34,600	37,678
Equity	1,443	2,118	2,191	2,207	2,414
Total Liabilities	23,576	33,049	34,548	36,808	40,092

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	6.8	6.9
Interest expenses	4.8	5.3	4.3	4.4	4.5
NII	2.6	2.7	2.2	2.4	2.4
Other income	1.3	1.5	1.3	1.1	1.1
Total income	3.9	4.2	3.5	3.5	3.5
Operating expenses	1.9	2.1	1.8	1.9	1.9
PPOP	2.0	2.1	1.8	1.6	1.6
Provisions	1.3	2.1	2.2	1.3	0.8
PBT	0.6	0.0	(0.5)	0.3	0.8
Tax	0.2	0.0	(0.3)	0.1	0.2
RoA	0.5	(0.1)	(0.2)	0.2	0.6
Leverage	16.3	15.6	15.8	16.7	16.6
RoE	7.3	(1.1)	(3.5)	4.2	10.5

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	70.9	72.9
Incremental CD Ratio	106.3	47.4	54.5	66.1	92.3
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	11.9	10.3
NII	4.0	31.5	(0.5)	15.3	7.1
Opex	9.8	39.7	2.7	12.3	6.5
PPOP	9.4	37.5	0.1	(3.6)	8.8
Provisions	45.8	106.0	23.6	(39.0)	(31.0)
PAT	(24.0)	(118.2)	262.3	(224.0)	165.9
Operating Ratios (%)					
Yield on funds	8.4	9.0	7.4	7.7	7.8
Cost of funds	5.5	6.0	4.9	5.0	5.1
NIM	2.9	3.0	2.5	2.7	2.7
Non-int inc / Total income	32.7	36.2	37.3	30.8	31.1
Fee to avg assets	0.65	0.72	0.68	0.68	0.71
Cost/Income	49.1	49.5	50.2	54.0	53.4
Opex/ Avg assets	1.9	2.1	1.8	1.9	1.9
Provisioning cost (bps)	1.3	2.1	2.2	1.3	0.8
Effective tax rate	27.8	(43.2)	57.8	30.0	30.0
RoA	0.5	(0.1)	(0.2)	0.2	0.6
RoE	7.3	(1.1)	(3.5)	4.2	10.5
Credit Quality Ratios (%)					
Gross NPA	6.7	9.5	11.5	9.5	7.3
Net NPA	3.8	3.1	5.7	4.4	3.4
Slippage rate to op advances	4.4	6.2	5.2	2.2	1.7
NPA coverage ratio	43.2	30.4	50.4	53.4	53.0
Capital Adequacy Ratios (%)					
Total CAR	13.1	12.9	12.6	13.0	12.0
Tier I	9.9	10.1	10.4	10.7	10.0
Tier II	3.2	2.8	2.2	2.3	2.0
Assets/equity (x)	16.3	15.6	15.8	16.7	16.6
Per Share (Rs)					
BVPS	186	222	214	216	239
Adjusted BVPS	114	150	92	111	146
EPS - wt avg	12.8	(2.2)	(7.2)	9.0	23.8
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	2.4	2.0
P/E (x)	18.6	-	-	30.1	12.4

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 FY17 may be inaccurate). # denotes merged entity.

Appendix A

Disclaimer

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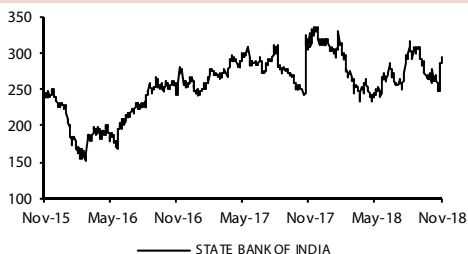
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State Bank of India price chart



Source: Bloomberg

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		State Bank of India
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