

Mixed Results – Remains underprovided on Essar Steel

Regulatory ageing under-provision in the Essar steel led to a better than expected profits. It did not provided provision of ₹ 52 bn - as in the previous quarter - in anticipation of its resolution visibility (though accelerated provision of ₹ 5bn was provided). We remain uncomfortable with this, as the resolution remains a thorn in the system. Another subtle giveaway is that it desires to take this account off its book by the end of the year – either by resolution or sale. Excluding this, its headline numbers improved with advance growth of 11% - domestic at 15% (on account of loan buyout), NIM expansion and improvement in GNPA. With RoA improving at 60 bps by FY21, we maintain accumulate. Underprovided credit costs remain a near term risk.

Favourable Slippages and recoveries, write-offs remain aggressive

While the slippages were a mere 120bps (lower 40% QoQ), recoveries were 130 bps. However, write-offs remain elevated at 340 bps. We believe the trend in additions is likely to remain sustainable, with recognition cycle tailing and derisking of incremental advance portfolio. In terms of disclosures, it has withdrawn the watch list – which was anyways annual, unaltered through the year and sometimes not current. SMA 1+2 stood at ₹ 170 bn. We have factored GNPA at a lower 6.2% By FY21. Our concern in the near term is under provision on large accounts.

Domestic advances at 15%, overall growth is 11% YoY; NIMs favourable:

Corporate grew at 20% YoY contributed by road, services and petroleum products – largely government. Within NBFC, it remained focused on government backed and institutions. For others, it has framed a co-lending platform – which is likely to be positive for it and the system. Retail grew 12% YoY driven by personal segment as growth in agriculture remained subdued. Higher earning assets and pricing power expanded by 7 bps QoQ. With CAGR 15% in advances over FY19-21E, optimizing of the deposit base is expected to improve NIMs to 3.9% by FY21.

Maintain Accumulate at 1.2x FY21 ABV:

Despite likely near-term risks to profits on account of legacy provisions, we believe it is poised to healthy improvement in other metrics. It is likely a beneficiary of the gradual improving times for Indian banking. We have factored an RoAs at 60 bps by FY21 on the back CAGR 27% in profits. Maintain Accumulate.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Interest earned	622,766	548,029	13.6	587,935	5.9
Interest expended	395,856	361,154	9.6	378,878	4.5
Net interest income	226,910	186,875	21.4	209,057	8.5
Other income	80,352	80,842	(0.6)	78,145	2.8
Total Net Income	307,262	267,717	14.8	287,202	7.0
Operating expenses	181,013	150,171	20.5	163,759	10.5
Pre-provision profits	126,250	117,546	7.4	123,443	2.3
Provisions	60,062	188,762	(68.2)	120,922	(50.3)
Tax expense	26,639	(47,053)	(156.6)	8,678	207.0
Extraordinary gains	0	0		0	(100.0)
Reported Net Profit	39,548	(24,164)		9,449	318.6
			(bps)		(bps)
Advances	12.1			8.6	355
NIM (%)	2.8	2.5	30	2.9	10
RoA	0.4	(0.3)	70	0.1	30
RoE	7.2	(4.3)	1150	1.7	550
Gross NPA (%)	8.7	10.4	(170)	10.0	(130)

CMP	₹ 284
Target / Upside	₹ 320 / 13%
BSE Sensex	36,469
NSE Nifty	10,831

Scrip Details

Equity / FV	₹ 8,925mn / ₹ 1
Market Cap	₹ 2,538bn
	US\$ 36bn
52-week High/Low	₹ 326/₹ 232
Avg. Volume (no)	18,547,600
NSE Symbol	SBIN
Bloomberg Code	SBIN IN

Shareholding Pattern Dec'18(%)

Promoters	58.5
MF/Banks/FIs	23.6
FIIIs	10.2
Public / Others	7.5

Valuation (x)

	FY19E	FY20E	FY21E
P/E	1.4	1.0	0.8
P/ABV	1.7	1.5	1.3
ROAA	0.5	0.6	0.7
ROAE	8.6	11.3	12.6

Estimates (₹ mn)

	FY19E	FY20E	FY21E
NII	901,958	1,053,085	1,241,461
PPOP	551,522	614,168	790,248
PAT	175,097	252,106	316,687
Adj BV	165.8	188.3	224.7

Analyst: Hemali Dhame

Tel: +91 22 40969724

E-mail: hemalid@dolatcapital.com

Associate: Pawan Rathore

Tel: +9122 40969714

E-mail: pawanr@dolatcapital.com

Exhibit 1: Quarterly Data

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Advances (₹ mn)	18,262,120	19,348,802	18,757,735	19,573,396	20,477,790
YoY(%)	26.1	23.2	4.0	8.6	12.1
QoQ(%)	1.3	6.0	(3.1)	4.3	4.6
Deposits (₹ mn)	26,512,400	27,063,433	27,478,132	28,074,201	28,305,377
YoY(%)	29.9	32.4	5.6	7.0	6.8
QoQ(%)	1.1	2.1	1.5	2.2	0.8
Advances mix (%)					
Foreign Offices	15.6	14.7	13.4	14.1	12.8
Domestic	84.4	85.3	86.6	85.9	87.2
- Corporates	33.4	36.2	35.2	36.0	35.9
- SME	13.9	13.2	13.8	12.8	13.6
- Agriculture	10.1	9.2	9.5	9.2	9.2
- Personal loans	27.1	26.7	28.1	27.9	28.4
Deposit mix (%)					
Current account	6.6	6.9	6.0	6.2	6.1
Saving account	36.7	36.9	37.5	37.5	37.6
Term deposit	56.7	56.1	56.5	56.3	56.3
CASA (YoY)	1.2	7.2	7.4	8.2	7.8
Contribution Margin (%)					
Yield on advances	8.4	8.3	8.6	8.4	8.5
Cost of deposits	5.3	5.3	5.1	5.1	5.1
NIMs	2.5	2.5	2.8	2.7	2.8
Asset quality and capital ratios (%)					
GNPA	10.4	10.9	10.7	10.0	8.7
NNPA	5.6	5.7	5.3	4.8	4.0
PCR	48.6	50.4	53.4	53.9	56.9
Slippages	2.7	4.9	(2.1)	(1.4)	(3.5)
Gross slippages	5.6	6.6	2.8	2.1	1.3
NNPA to NW	45.7	50.8	45.7	43.8	36.9
Net Slippages (₹ mn)	130,260	242,860	(105,870)	(69,760)	(181,000)
Gross slippages (₹ mn)	267,800	328,210	143,490	108,880	65,410
Tier 1	10.3	10.4	10.5	10.4	10.5
CAR	12.7	12.6	12.8	12.6	12.8
Credit - Deposit	68.9	71.5	68.3	69.7	72.3
DuPont as a percentage of average assets					
Interest income	6.8	6.7	6.9	6.9	7.1
Interest expenses	4.5	4.3	4.4	4.4	4.5
Net interest income	2.3	2.4	2.6	2.4	2.6
Non-interest Income	1.0	1.5	0.8	0.9	0.9
Total expenses	1.9	2.0	1.9	1.9	2.1
- Cost to income	56.1	51.1	58.0	57.0	58.9
Provisions	2.3	3.3	2.3	1.4	0.7
Tax	(0.6)	(0.5)	(0.3)	0.1	0.3
RoA	(0.3)	(0.9)	(0.6)	0.1	0.4
Leverage	14.5	15.4	15.7	15.8	16.0
RoE	(4.3)	(14.2)	(9.0)	1.7	7.2

Source: DART, Company

Concall Highlights

- The bank registered robust credit growth in line with industry and improved NIMs at 2.97%.
- Contribution in PAT has come from increase in loan portfolio, improved NIM and cost control.
- Rise in credit cost is mainly on account of accelerated provisions of ₹ 5 bn.
- The bank currently has 415mn saving bank account customers, where around 10mn customers are added every year.
- Guidance to bring cost to income ratio below 40% by FY20 due to reduction in distribution cost due to Yono.
- Loan book:
 - Agriculture segment has seen small improvement.
 - Decline in overseas book has occurred due to three main reasons: price movement in currency (rupee strengthening), transfer of \$2 bn in SBI, UK; and trade finance portfolio came down due to ban on letter of credit.
 - Market share as much as 20% has been gained in home and auto loans.
 - NBFCs have been classified into 4 categories: central government based, institution based, large corporate house and entrepreneur based. Growth in the last category is the slowest hence bank will not do direct lending rather opt for cautious portfolio buyouts and co-lending.
- Asset Quality:
 - The management is confident on the asset quality in retail loans.
 - Within power sector, resolutions from 8 accounts are in near completion stage, which may add ₹ 340 bn (recovery) in 2 months and contribute in bringing GNPA below 7%.
 - 5 out of 8 stressed power accounts are in NCLT while 3 are included in Samadhan. Total amount due into these 8 accounts is ₹ 340 bn.
 - Likely ₹ 60bn of provisions write back over 2 months.
 - Guidance on fresh slippages: ₹ 250-300bn for FY20
 - IL&FS exposure on holding company has been provided at 50%.
- Digital:
 - Yono poised to become the main distribution channel for customers. Everyday customers are inching up by 30,000 and the total number of customers have crossed 6 mn.
 - Pre-approved loans in this category are amounting to ₹ 500 mn with zero delinquency.
 - Around 40,000 fund transfers occur every day, 8000-10000 IRCTC tickets are booked.
 - Bank has observed aggressive growth in digital banking platform with over 87% of transactions happening online or through.
 - YONO platform is expected to expand reach within next 2 years to farmers, corporates and global clients.

Profit and Loss Account (₹ Mn)

Particulars	FY18A	FY19E	FY20E	FY21E
Interest Income	2,204,993	2,487,443	2,933,361	3,332,381
Interest expenses	1,456,456	1,585,485	1,880,277	2,090,920
Net interest income	748,537	901,958	1,053,085	1,241,461
Other incomes	446,007	329,393	362,985	425,717
Total expenses	599,434	679,829	801,902	876,929
- Employee cost	331,787	395,930	493,373	527,974
- Other	267,648	283,899	308,529	348,956
Pre provisioning profit	595,110	551,522	614,168	790,248
Provisions	750,392	282,141	226,312	303,036
Profit before taxes	(155,282)	269,380	387,856	487,211
Tax provision	(89,808)	94,283	135,749	170,524
Profit after tax	(65,475)	175,097	252,106	316,687
Adjusted profit	(65,475)	175,097	252,106	316,687

Balance Sheet (₹ Mn)

Particulars	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	8,925	8,925	8,925	8,925
Reserves & Surplus	1,933,881	2,108,978	2,350,375	2,656,353
Minority Interest	248,480	0	0	0
Net worth	2,191,286	2,117,903	2,359,300	2,665,278
Borrowings				
- Deposits	27,063,433	29,900,998	33,371,681	37,249,401
- Other interest bearing liabilities	3,621,421	4,599,719	5,864,008	7,500,083
Current liabilities & provisions	1,671,381	1,562,121	1,481,201	1,269,742
Total Liabilities	34,547,520	38,180,742	43,076,189	48,684,502
Application of Funds				
Cash and balances with RBI	1,918,986	1,725,036	2,157,963	2,461,222
Investments	10,609,867	12,090,613	13,767,575	15,716,857
Advances	19,348,802	21,391,304	23,912,102	26,905,669
Fixed assets	399,923	434,027	484,452	532,620
Other current assets, loans and advances	2,269,942	2,539,761	2,754,097	3,068,134
Total Assets	34,547,520	38,180,742	43,076,189	48,684,502

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Yield on advances	8.3	8.4	8.5	8.5
Yields on interest earning assets	7.9	7.6	8.0	8.0
Yield on investments	7.7	6.9	7.9	7.9
Costs of funds	5.4	4.9	5.1	5.0
Cost of deposits	5.7	5.1	5.5	5.4
NIMs	2.7	2.7	2.9	3.0
(B) Asset quality and capital ratios (%)				
GNPA	7.3	6.3	6.3	6.2
NNPA	3.6	2.7	2.5	2.2
PCR	50.4	58.0	60.0	65.0
Slippages	6.0	0.3	1.1	1.1
NNPA to NW	63.2	47.6	45.9	39.8
CASA	44.5	44.2	44.5	44.8
CAR	12.6	11.2	10.4	10.4
Tier 1	10.4	9.1	8.6	8.6
Credit - Deposit	71.5	71.5	71.7	72.2
(C) Dupont as a percentage of average assets				
Interest income	7.2	6.8	7.2	7.3
Interest expenses	4.7	4.4	4.6	4.6
Net interest income	2.4	2.5	2.6	2.7
Non-interest Income	1.4	0.9	0.9	0.9
Total expenses	1.9	1.9	2.0	1.9
- Cost to income	50.2	55.2	56.6	52.6
Provisions	2.4	0.8	0.6	0.7
Tax	(0.3)	0.3	0.3	0.4
RoA	(0.2)	0.5	0.6	0.7
Leverage	5.7	5.6	5.5	5.5
RoE	(3.7)	8.6	11.3	12.6
RoRwa	(0.3)	0.8	1.0	1.1
(D) Measures of Investments				
EPS - adjusted	(77.5)	196.2	282.5	354.8
BV	217.7	237.3	264.4	298.6
ABV	135.7	165.8	188.3	224.7
DPS	0.0	0.0	10.0	10.0
Dividend payout ratio	0.0	0.0	3.5	2.8
(E) Growth Ratios (%)				
Net interest income	21.0	20.5	16.8	17.9
PPoP	17.0	(7.3)	11.4	28.7
Adj PAT	(162.5)	(367.4)	44.0	25.6
Advances	23.2	10.6	11.8	12.5
Total borrowings	14.0	27.0	27.5	27.9
Total assets	27.7	10.5	12.8	13.0
(F) Valuation Ratios				
Market Cap (₹ mn)	2,538,156	2,538,156	2,538,156	2,538,156
CMP (₹)	284	284	284	284
P/E (x)	(3.7)	1.4	1.0	0.8
P/BV (x)	1.3	1.2	1.1	1.0
P/ABV (x)	2.1	1.7	1.5	1.3
Div Yield (%)	0.0	0.0	3.5	3.5

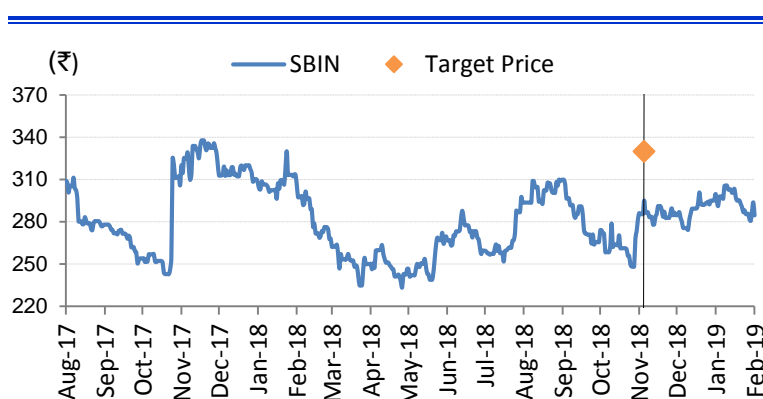
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Nov-18	Accumulate	330	295

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. 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. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
