Stock Update

Asset quality performance enthuses

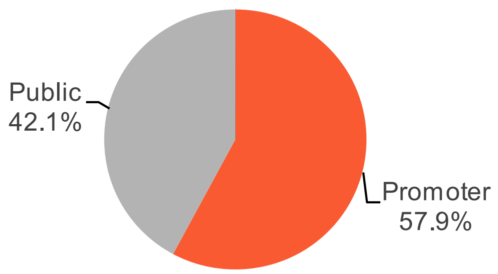
State Bank of India

Reco: Buy | CMP: Rs308

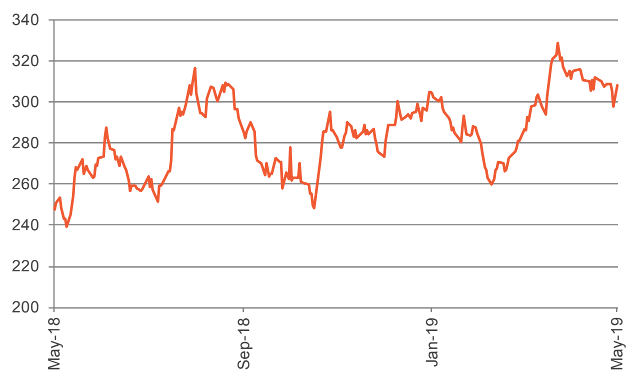
Company details

Price target:	Rs390
Market cap:	Rs274,923 cr
52-week high/low:	Rs333 / 238
NSE volume: (No of shares)	192.1 lakh
BSE code:	500112
NSE code:	SBIN
Sharekhan code:	SBIN
Free float: (No of shares)	382.57 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.9	4.7	5.7	20.7
Relative to Sensex	-1.4	1.7	-1.3	12.1

Key points

- **Strong operational performance:** State Bank of India (SBI) posted strong results for Q4 FY19 where while its topline and operational performance was in line with expectations and there was a sharp improvement in asset quality (by way of faster write-offs, provisions and recoveries) which was the key notable, and puts the Net profit miss in perspective. Also, due to the asset quality improvement, it was able to maintain margins too on sequential basis. Net interest income (NII) during the quarter rose by 14.9% y-o-y to Rs. 22,954 crore on the back of healthy loan growth and stable margins. Even non-interest income growth was strong at Rs 12,685 crore, up by 57.6% QoQ basis, but flat y-o-y, primarily because sharp 81.8% q-o-q growth in fee incomes to Rs 8589 crores (67.7% of Other Income). Net interest margin (NIM) improved by 28 bps sequentially to 2.95% as cost of deposits remained steady at 5.10% (against 5.09% in Q3 FY19) while the yield on advances increased to 8.49% (up 6BPS QoQ) and also due to the strong domestic Advances growth of 5.9% q-o-q.

  The cost-to-income (C/I) ratio declined significantly on a q-o-qbasis to 52.5% (Calc) as compared to 58.9% in Q3FY19, helped by the strong earnings performance. Management has guided to bringing down C/I ratio below 50% by FY20E and below 45% by FY21E which we believe is difficult. Notably, during the quarter, Provisions jumped by 174.7% q-o-q to Rs 16,502 crore which was due to balance sheet strengthening and clean up. Hence, PCR now stands at 78% (up by 340 BPS QoQ) which is a positive cushion. Due to higher provisions, the bank reported a net profit of Rs. 838 crore which was below expectations.

- **Outlook:** The State Bank of India Q4 results validates our view that the worst in terms of asset quality stress is behind for the bank. SBI opted for a cleanup (and thereby strengthening) of the balance Sheet this Q4 and thus the trend of declining incremental slippages ratio, improving PCR are further positives, and explain the higher than expected provisions cost. Also, SBI's up-fronting of provisions for several individual large exposures, helps improve the medium term comfort factors. The bank is better capitalized (Tier-1 10.65% and CET-1 at 9.62%) and coupled with an enviable reach and business strength is well placed to gain market share as well as quality clients in present scenario.

- **Valuation:** SBI trades at 1.2x its FY2021E book value, which we believe is reasonable considering it to have better operating metrics in PSU space. We thus maintain our Buy rating on the stock with revised PT of 390.

- **Calibrated but healthy business growth:** SBI posted healthy loan book growth of 11.96% y-o-y, in which domestic advances growth outpaced overall loan growth, rising 14.0% y-o-y. However, it was the growth in retail and corporate segments, which were strong at 18.52% y-o-y and 14.83%, y-o-y respectively, while the SME loan portfolio posted a sluggish growth of 6.93% y-o-y.

  Retail segment growth was driven by 17.41% uptick in home loans (20.11% of total loan book) and 40.79% rise in express credit (aided by digital platform). Deposits grew 7.58% y-o-y, where the low cost deposits increased faster by 8.42% y-o-y, especially notable in the present competitive scenario for retail liabilities.

  Domestic CASA ratio remained stable y-o-y and improved by 51 bps sequentially to 45.74%. The management has guided for an overall growth of ~12% for FY20, which is not too difficult for the bank to achieve. Also the management is confident of achieving ROA target of 1% by FY20E (earlier FY21E) and we believe there are fair chances of the bank achieving it.

- **Sharp improvement in Asset quality highlight of the quarter:** Notably, SBI posted a sharp improvement in the overall asset quality during Q4FY19 as the gross non-performing (GNPA) ratio declined by 118 bps q-o-q to 7.53% while net NPA declined by 94 bps sequentially to 3.01%.

The slippage ratio declined 4 bps q-o-q to 1.6% and the credit cost to 2.65% (up by 24 bps QoQ) due to the conservative reduction in GNPAs. This led to the Provision Coverage Ratio (PCR) improving to in industry best levels of 78.73%, up by 410 bps QoQ which is strong positive.

The bank's fresh NPAs addition increased to Rs. 7,505 crore (as against Rs. 4,523 crore in the Q3FY19) largely from corporate slippages of Rs. 2,284 crore (which included Rs 1,220 crore from aviation, Rs 176 crore from iron & steel, Rs. 638 crore from roads & EPC and Rs. 70 crore from the power segment). Recoveries and upgrades stood at Rs. 5,712 crore as compared to Rs 6,617 crore in Q3FY19.

SBI has an exposure of Rs. 24,277 crore towards accounts in the NCLT list 1 and has a provision coverage ratio (PCR) of 99% against it, while exposure of Rs. 14,263 crore towards List 2 accounts in NCLT with a PCR of 87%. Total NCLT exposure during the quarter came down as four accounts were resolved with a haircut of <33% and two accounts were sold to ARC. Due to the conservative recognition and reduction in stressed assets and NPAs, we find that the asset quality outlook for SBI has improved considerably. There was a significant reduction in SMA 1 and SMA 2 assets during the quarter, which stood at Rs 7,762 crore (down by ~55% q-o-q).

Results Rs cr

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Interest earned	62,985	55,941	12.6	62,277	1.1
Interest expended	40,032	35,967	11.3	39,586	1.1
Net interest income	22,954	19,974	14.9	22,691	1.2
Non-interest income	12,685	12,495	1.5	8,035	57.9
Net total Income	35,639	32,469	9.8	30,726	16.0
Operating expenses	18,706	16,586	12.8	18,101	3.3
- Employee cost	10,478	9,254	13.2	11,172	-6.2
- Other Costs	8,228	7,332	12.2	6,929	18.7
Pre-provisioning profit	16,933	15,883	6.6	12,625	34.1
Provisions	16,502	28,096	-41.3	6,006	174.7
Profit before tax	431	-12,213	NA	6,619	-93.5
Tax	-407	-4,495	NA	2,664	NA
Profit after tax	838	-7,718	NA	3,955	-78.8
Gross NPA%	7.53	10.91	-338 bps	8.71	-118 bps
Net NPA (%)	3.01	5.73	-272 bps	3.95	-94 bps

Profit and loss statement Rs cr

Particulars	FY17	FY18	FY19	FY20E	FY21E
Net interest income	61,860	74,854	88,349	106,970	120,382
Non-interest income	35,461	44,601	35,214	48,763	56,717
Net total income	97,321	119,454	123,563	155,733	177,099
Operating expenses	46,473	59,943	69,688	79,855	91,506
Pre-provisioning profit	50,849	59,511	53,875	75,879	85,592
Provisions	35,993	75,039	53,829	42,715	43,566
Profit before tax	14,856	-15,528	1,607	33,164	42,026
Tax	4,371	-8,981	745	10,944	13,869
Profit after tax	10,485	-6,547	862	22,220	28,158

Balance sheet Rs cr

Particulars	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Networth	188,286	220,369	220,914	238,251	259,819
Deposits	2,044,751	2,830,533	2,911,386	3,215,136	3,633,103
Borrowings	317,694	372,352	403,017	353,665	399,641
Other liabilities & provisions	155,235	126,408	145,597	147,442	159,238
Total liabilities	2,705,966	3,549,662	3,680,914	3,954,494	4,451,802
Assets					
Cash & balances with RBI	127,998	145,677	146,143	160,757	181,655
Balances with banks & money at call	43,974	36,551	38,452	40,452	42,555
Investments	765,990	1,032,067	980,763	958,913	1,082,062
Advances	1,571,078	2,047,780	2,273,036	2,591,261	2,979,950
Fixed assets	42,919	39,332	45,232	52,017	59,819
Other assets	154,008	248,254	197,289	151,095	105,760
Total assets	2,705,966	3,549,662	3,680,914	3,954,494	4,451,802

Key Ratios

Particulars	FY17	FY18	FY19	FY20E	FY21E
Per share data (Rs)					
Earnings	13.1	-7.3	1.0	24.9	31.6
Dividend	2.6	0.0	0.0	5.0	6.3
Book value	191.0	212.7	213.3	232.7	256.9
Spreads (%)					
Yield on Advances	7.9	7.8	7.2	7.7	7.8
Cost of Deposits	5.6	5.6	5.1	5.3	5.3
Net interest margins	2.8	2.7	2.8	3.1	3.1
Operating ratios (%)					
Credit to Deposit	76.8	72.3	78.1	80.6	82.0
Cost to income	47.8	50.2	56.4	51.3	51.7
CASA	44.6	44.5	44.1	42.9	40.6
Return ratios (%)					
RoE	6.3	-3.2	0.4	9.7	11.3
RoA	0.4	-0.2	0.0	0.6	0.7
Asset Quality ratios (%)					
Gross NPA	6.9	10.6	7.4	6.8	6.2
Net NPA	3.7	7.8	4.4	3.2	2.2
Growth Ratios (%)					
Net interest income	8.8	21.0	18.0	21.1	12.5
Pre-provisioning profit	17.5	17.0	NM	40.8	12.8
Profit after tax	5.4	NA	NA	2,477.0	26.7
Advances	7.3	30.3	11.0	14.0	15.0
Deposits	18.1	38.4	2.9	10.4	13.0
Valuation ratios (%)					
P/E	23.4	NM	319.1	12.4	9.8
P/BV	1.6	1.4	1.4	1.3	1.2

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