

## Management guidance offers comfort...

State Bank of India (SBI) reported a stable operational performance though higher provisions dented PAT that was at ₹ 838 crore. NII grew 14% YoY to ₹ 22953 crore on the back of a marginal improvement in margins of 2 bps QoQ to 2.78% & credit growth of 13% YoY at 21.93 lakh crore. However, interest reversal for aviation account & IL&FS impacted NII. Ageing provisions for NCLT 1 & NCLT 2 companies led to a surge in provisions for NPA to ₹ 17336 crore vs. ₹ 13971 in Q3FY19. However, a reversal in investment depreciation of ₹ 1615 crore kept provisions marginally lower at ₹ 16502 crore. Accordingly, PAT came in lower at ₹ 838 crore vs. ₹ 3594 crore in Q3FY19. Overall PCR ratio increased to 78.73% from 74.6% QoQ.

Asset quality witnessed a significant improvement on the back of contained fresh slippages of ₹ 7505 crore and higher write off & recoveries of ₹ 22976 crore. Corporate slippages came in at ₹ 2284 crore (partial exposure of ₹ 1220 crore of Jet Airways as NPA. Bank exposure to IL&FS is at ₹ 3487 crore out of which ₹ 1125 crore) has been classified as NPA. Accordingly, absolute GNPA declined sharply to ₹ 172750 crore vs. ₹ 187765 crore QoQ. GNPA ratio declined ~118 bps QoQ to 7.53% (8.71% in Q3FY19) while NNPA ratio declined ~94 bps QoQ to 3.01%.

Domestic credit growth continues to remain healthy at ~13.2% YoY largely led by growth in retail & corporate segments. Retail grew at a healthy pace of 18.5% YoY to ₹ 6.48 lakh crore. Corporate book grew at 14.8% YoY to ₹ 8.51 lakh crore. Accordingly, overall credit growth came in at 13% YoY at 22.93 lakh crore. Deposit growth came in at 7.5% YoY to ₹ 29.1 lakh crore. CASA ratio improved 50 bps QoQ to 45.74% on the back of healthy current account growth 16% QoQ.

## Pick-up in growth, operational performance

Higher provisions for legacy stress coupled with slow credit growth in the past two years impacted operational performance in past. With expected resolution of major NCLT and high credit growth banks, the operational performance is set to improve. Moderation in slippages with higher recoveries may keep credit cost lower (as guided by management) and thereby improve return ratios. We expect loan CAGR at 12.3% & deposit CAGR of 9.1% in FY19-21E to ₹ 27.6 lakh crore & ₹ 34.7 lakh crore, respectively. We expect FY20E & FY21E PAT at ₹ 25981 crore & ₹ 32122 crore, respectively, from ₹ 900 crore in FY19.

## Valuation & Outlook

The management is confident that balance sheet has been repaired and has guided for strong recovery (~₹ 17000 crore) in the coming year with modest target of 12% credit growth. We factor in fresh fund raising of ₹ 20000 crore in H2FY20E. We upgrade the target price to ₹ 400 from ₹ 385, valuing at 1.5x FY21E ABV, factoring in higher profit estimates and improved (0.8%) RoE (12-13%) guidance. We reiterate **BUY** on dwindling asset quality woes.

### Key Financial Summary

₹ Bn	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	752	749	883	1036	1197	16%
PPP	595	595	539	706	847	25%
PAT	(19)	(65)	9	260	321	510%
ABV (₹)	141.6	121.4	140.4	189.2	220.1	
P/E	(135)	(43)	325	11	9	
P/ABV	2.2	2.6	2.2	2.2	2.2	
RoA	(0.1)	(0.2)	0.02	0.7	0.8	
RoE	(1.1)	(3.0)	0.5	12.3	13.0	

Source: Company, ICICI Direct Research



### Particulars

Particulars	Amount
Market Capitalisation	₹ 276216 Crore
GNPA (Q4FY19)	₹ 172750 Crore
NNPA (Q4FY19)	₹ 65895 Crore
NIM (Q4FY19)	2.8%
52 week H/L	333/238
Networth	₹ 220021 Crore
Face value	₹ 1
DII Holding (%)	24.5
FII Holding (%)	9.9

### Key Highlights

- Strong coverage on stressed asset and entirely provided on NCLT 1 with 87% for NCLT 2
- Credit growth to remain healthy with double digit growth of 12-13%, going ahead
- Maintain **BUY** with a revised target price of ₹ 400 (earlier ₹ 385)

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**Exhibit 1: Variance Analysis**

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
NII	22,954	24,493	19,974	14.9	22,691	1.2	Interest reversal with respect to Jet Airways & ILFS impacted NII growth
NIM (%)	2.8	2.7	2.5	28 bps	2.8	2 bps	A marginal improvement in margin was witnessed on the back of an improvement in domestic margins
Other Income	12,685	9,200	12,495	1.5	8,035	57.9	Muted fee income & lower treasury growth kept other income growth flat on a YoY basis
Net Total Income	35,639	33,693	32,469	9.8	30,726	16.0	
Operating expense	18,706	18,482	16,585	12.8	18,101	3.3	
PPP	16,933	15,211	15,884	6.6	12,625	34.1	
Provision	16,502	10,894	28,096	-41.3	6,007	174.7	Fresh slippages of ₹ 7505 crore and higher provisions for NCLT (Essar Steel, Bhushan Power) led to higher overall provisions. The ₹ 1615 crore writeback on investment depreciation marginally kept provisions lower
PBT	431	4,317	-12,212	NA	6,618	-93.5	
Tax Outgo	-407	1,381	-4,495	NA	2,664	-115.3	
PAT	838	2,935	-7,717	NA	3,954	-78.8	Higher provisions impacted PAT, NCLT provisions reversible in future on resolutions
<b>Key Metrics</b>							
GNPA	172,750	188,765	223,427	-22.7	187,765	-8.0	Gross slippages declined sharply on the back of lower slippages & higher write off. Partial exposure of ₹ 1220 crore to Jet Airways has been classified as NPA
NNPA	65,895	81,944	110,855	-40.6	80,944	-18.6	
Advances	2185876.92	2198422.3	1934880.2	13.0	2155316	1.4	On the back of strong growth in corporate & retail segment (home loans) credit growth came in healthy
Deposits	2911386.01	2920144.4	2706343.3	7.6	2830538	2.9	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in Assumption**

	Current			Earlier	
	FY19	FY20E	FY21E	FY20E	FY21E
Credit growth (%)	13.0	12.3	12.3	11.0	11.0
Deposit Growth (%)	7.5	9.2	9.2	9.2	9.2
Cost to income ratio (%)	55.7	51.0	48.6	56.3	50.7
GNPA ratio (%)	7.5	5.5	5.0	6.4	6.3
NNPA ratio (%)	3.0	2.1	1.8	3.0	2.8
Credit cost (%)	2.5	1.3	1.3	1.8	1.8

Source: Company, ICICI Direct Research

## Outlook & Valuation

The management is confident that balance sheet has been repaired and has guided for a strong recovery (~₹ 17000 crore) in the coming year with a modest target of 12% credit growth. We factor in fresh fund raising of ₹ 20000 crore in H2FY20E. We upgrade the target price to ₹ 400 from ₹ 385, valuing at 1.5x FY21E ABV, factoring in higher profit estimates and improved (0.8%) RoE guidance of 12-13%. We reiterate **BUY** on dwindling asset quality woes.

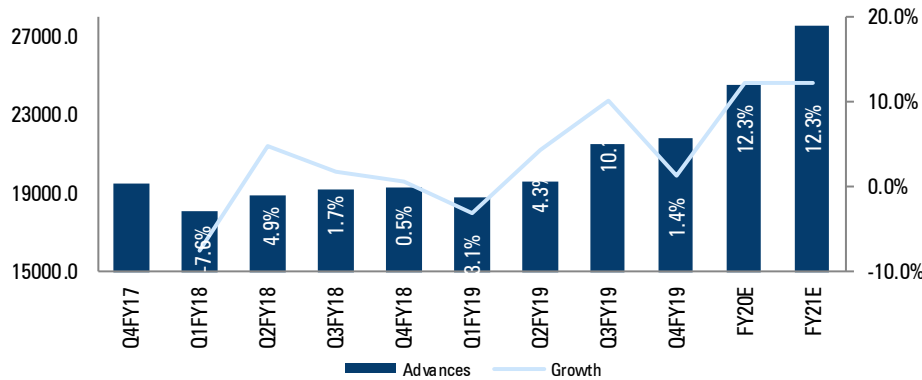
### Exhibit 3: SoTP valuation

	FY21E ₹/share
SBI (merged banks)	309
SBI AMC	10
SBI Life	61
SBI capital markets	4
SBI cards	9
SBI General Insurance	17
<b>Value per share</b>	<b>410</b>
Holding company discount for subsidiaries @10%	-10
<b>Value per share post discount</b>	<b>400</b>

Source: Company, ICICI Direct Research

Story in Charts

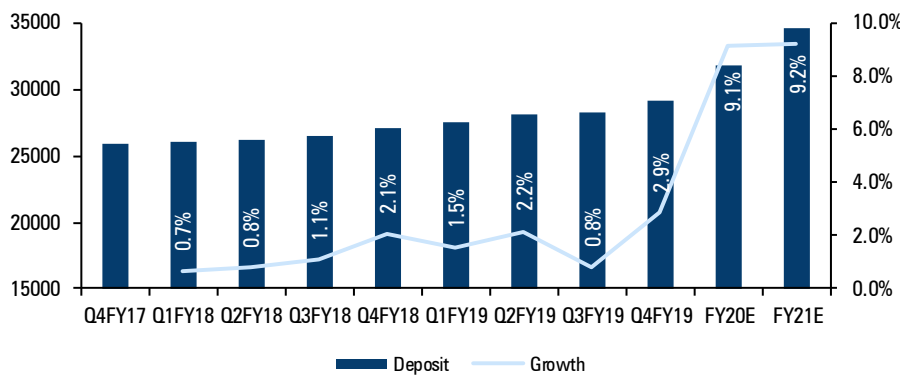
Exhibit 4: Advances growth to improve, going ahead



Retail grew at a healthy pace of 18.5% YoY to | 6.48 lakh crore on the back of robust home loan (forms ~61% of retail book), growth of 27.9% YoY to | 4 lakh crore

Source: Company, ICICI Direct Research

Exhibit 5: Deposit growth



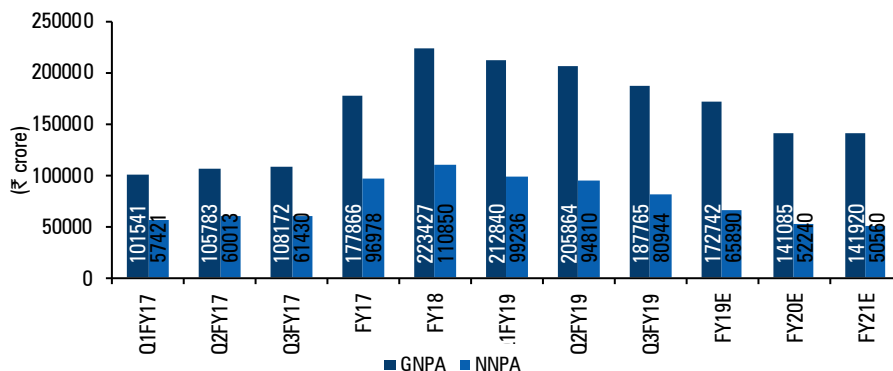
Source: Company, ICICI Direct Research

Exhibit 6: CASA remains steady at 44%

Break-up of deposit	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Saving deposit	9,698	9,727	9,994	10,300	10,527	10,645	10,852
Current deposit	1,641	1,754	1,879	1,662	1,741	1,731	2,021
Term deposit	13,930	13,960	14,121	14,578	14,831	14,987	15,270
International	962	1,071	1,070	938	975	942	971
<b>Total Deposits</b>	<b>26,232</b>	<b>26,512</b>	<b>27,063</b>	<b>27,478</b>	<b>28,074</b>	<b>28,305</b>	<b>29,114</b>

Source: Company, ICICI Direct Research

Exhibit 7: Asset quality to improve on the back of recoveries from NCLT



Source: Company, ICICI Direct Research

**Exhibit 8: GNPA + stressed asset declining sharply ( SMA1 & 2 lower QoQ)**

Break-up of stressed assets	Q4FY19		Q3FY19	
	Absolute	% of advances	Absolute	% of advances
GNPA	1,728	7.67	1,878	8.40
NNPA	659	2.93	809	3.62
a. Standard restructured	-	-	-	-
b. Watchlist	-	-	-	-
c. SMA1 & SMA2	78	0.34	171	0.76
Stressed assets (a+b+c)	78	0.34	171	0.76
Total stressed assets incl GNPA	1,805	8.02	2,048	9.16

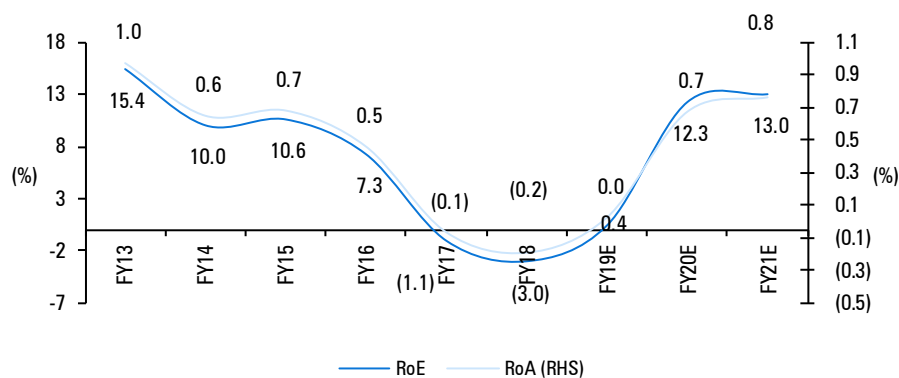
Source: Company, ICICI Direct Research

**Exhibit 9: Sector wise NPA**

Sector-wise NPA	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Corporate	61627	82004	154828	146334	130862	116009
Mid Corp & SME	103841	106320	25059	27124	25821	24688
Agri	19344	21169	21830	21796	21869	23431
Retail	6929	6735	7345	6925	6788	6685
International	7400	7199	3778	3685	2425	1937
Total	199141	223427	212840	205864	187765	172750

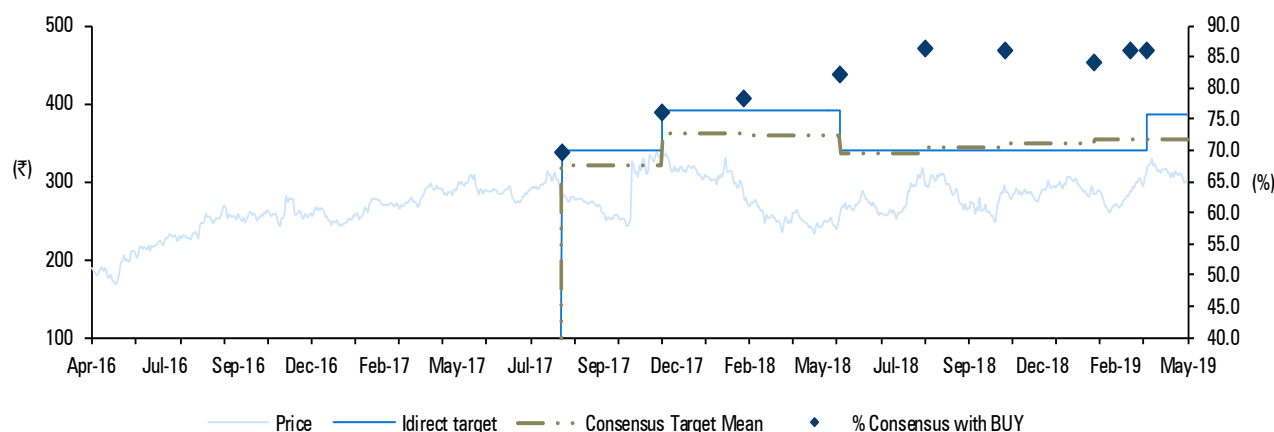
Source: Company, ICICI Direct Research

**Exhibit 10: Return ratio to improve, going ahead**



Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Name	est Filing Date	% O/S	osition (m)	hange (m)
1	Government of India	31-03-2019	57.13%	5,098.88M	0
2	Life Insurance Corporation of India	31-03-2019	9.21%	821.61M	-69.51M
3	HDFC Asset Management Co., Ltd.	31-03-2019	3.41%	304.03M	+2.33M
4	ICICI Prudential Asset Management Co. Ltd.	30-09-2018	2.31%	206.25M	-23.47M
5	Reliance Nippon Life Asset Management Limited	31-03-2019	2.06%	184.11M	+8.20M
6	SBI Funds Management Pvt. Ltd.	31-03-2019	1.87%	166.91M	+4.89M
7	Capital International, Inc.	31-12-2018	1.15%	103.07M	0
8	Aditya Birla Sun Life AMC Limited	31-03-2019	0.94%	84.18M	+7.72M
9	BlackRock Institutional Trust Company, N.A.	30-04-2019	0.63%	56.06M	-0.21M
10	Kotak Mahindra Asset Management Company Lt	31-03-2019	0.61%	54.66M	-2.00M

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

Buys				Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)	
Reliance Nippon Life Asset Management Limited	+38.0M	+8.20M	Capital Research Global Investors	-505.16M	-118.75M	
Aditya Birla Sun Life AMC Limited	+35.79M	+7.72M	Life Insurance Corporation of India	-322.29M	-69.51M	
Caisse de Depot et Placement du Quebec	+29.59M	+6.96M	Kotak Mahindra Asset Management Company Ltd.	-9.28M	-2.00M	
SBI Funds Management Pvt. Ltd.	+22.68M	+4.89M	DWS Investment GmbH	-8.56M	-1.85M	
Norges Bank Investment Management (NBIM)	+19.38M	+4.56M	Stewart Investors	-8.43M	-1.82M	

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	58.9	58.5	58.5	58.5	57.9
FII	11.2	10.4	10.2	9.4	9.9
DII	22.3	23.5	23.7	24.5	24.5
Others	7.7	7.7	7.5	7.6	7.7

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 15: Profit and loss statement				
	₹ Bn			
(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	2,205	2,429	2,729	3,008
Interest Expended	1,456	1,545	1,693	1,811
Net Interest Income	749	883	1,036	1,197
% growth	-0.5	18.0	17.4	15.5
Non Interest Income	446	352	404	451
Net Income	1195	1236	1441	1648
Employee cost	332	411	420	454
Other operating Exp.	268	286	314	347
Operating Income	595	539	706	847
Provisions	750	538	316	364
PBT	-156	0	391	483
Exceptional Items	0	16	0	0
Taxes	-91	7	131	162
Net Profit	-65	9	260	321
% growth	247	-119	1967	24
EPS	(7.3)	1.0	27.2	33.7

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares (Crore)	892.0	892.0	954.5	954.5
EPS (₹)	-7.3	1.0	27.2	33.7
BV (₹)	245.7	214.3	243.9	273.1
ABV (₹)	121.4	140.4	189.2	220.1
P/E	-42.7	324.6	11.5	9.3
P/BV	1.3	1.5	1.3	1.1
P/ABV	2.6	2.2	1.6	1.4
Yields & Margins (%)				
Net Interest Margins (calculated)	2.5	2.9	2.9	3.0
Yield on avg earning assets	7.4	7.3	7.5	7.6
Avg. cost on funds	4.9	4.8	4.8	4.8
Avg. cost of Deposits	5.2	5.0	5.2	5.1
Yield on average advances	7.4	7.8	8.0	8.0
Quality and Efficiency (%)				
Cost / Total net income	50.2	55.7	51.0	48.6
Credit/Deposit ratio	71.5	75.1	77.3	79.5
GNPA	10.9	7.5	5.5	5.0
NNPA	5.7	3.0	2.1	1.8
RoE	-3.0	0.5	12.3	13.0
ROA	(0.2)	0.0	0.7	0.8

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ Bn			
(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	9	9	10	10
Reserves and Surplus	2182	2200	2319	2597
Networth	2191	2209	2328	2606
Deposits	27062	29114	31766	34689
Borrowings	3621	4030	4268	4565
Other Liabilities & Provisions	1671	1456	1954	2126
Total	34546	36809	40317	43987
Application of Funds				
Fixed Assets	400	392	549	626
Investments	10610	9670	11094	11546
Advances	19349	21859	24551	27581
Other Assets	2269	2663	1613	1426
Cash with RBI & call money	1919	2225	2510	2807
Total	34546	36809	40317	43987

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total assets				
	4.5	6.7	9.4	9.1
Advances				
	3.5	13.0	12.3	12.3
Deposits				
	4.7	7.5	9.2	9.2
Total Income				
	-0.6	4.9	12.7	10.4
Net interest income				
	-0.5	17.9	17.4	15.5
Operating expenses				
	0.3	1.6	0.5	0.9
Operating profit				
	0.0	-6.8	27.5	19.9
Net profit				
	246.9	-113.2	2932.8	23.6
Book value				
	3.5	-12.8	21.8	12.0
EPS				
	215.4	(113.2)	2,734	23.6

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E		
Bank of Baroda (BANBAR)	111	140	Buy	37,976	-9.2	7.7	19.6	-12.1	14.5	5.7	0.9	0.8	0.7	-0.3	0.3	0.6	-5.8	4.7	11.4		
State Bank of India (STABAN)	312	400	Buy	278,180	-7.3	1.0	27.2	-42.7	##	11.5	2.6	2.2	1.6	-0.2	0.0	0.7	-3.0	0.5	12.3		
Indian Bank (INDIBA)	241	300	Buy	11,568	26.2	15.6	29.1	9.2	15.4	8.3	1.0	1.2	1.0	0.5	0.3	0.5	7.1	4.1	7.4		
Axis Bank (AXIBAN)	739	880	Buy	190,096	-1.0	22.2	37.5	-721.9	33.4	19.7	4.0	3.4	2.9	0.0	0.8	1.1	0.0	0.8	1.1		
City Union Bank (CITUNI)	198	225	Buy	14,554	8.9	9.3	10.4	22.2	21.3	19.1	3.6	3.4	2.9	1.6	1.6	1.6	15.5	15.4	14.8		
DCB Bank (DCB)	215	250	Buy	6,653	7.8	10.5	13.5	27.4	20.4	15.9	2.7	2.5	2.1	0.9	1.0	1.1	10.9	12.1	13.8		
Federal Bank (FEDBAN)	98	125	Buy	19,368	4.5	6.3	7.7	21.8	15.6	12.6	1.8	1.7	1.5	0.7	0.8	0.9	8.2	9.8	11.0		
HDFC Bank (HDFBAN)	2,301	2,700	Buy	627,005	67.4	77.4	97.9	34.1	29.7	23.5	5.8	4.3	3.8	1.8	1.8	2.0	17.9	16.5	16.7		
IndusInd Bank (INDBA)	1,435	1,860	Buy	86,524	60.1	67.5	89.8	23.9	21.3	16.0	3.7	3.2	2.8	1.8	1.6	1.8	16.2	15.8	18.2		
Jammu & Kashmir Bk(JAMKAS)	55	52	Buy	3,035	3.6	9.0	9.8	15.0	6.1	5.5	0.9	0.9	0.8	0.2	0.5	0.5	3.4	7.9	8.1		
Kotak Mahindra Bank (KOTMAH)	1,390	1,500	Hold	265,300	21.4	25.5	30.4	64.8	54.5	45.7	7.4	6.4	5.7	1.7	1.7	1.7	12.5	12.1	12.7		
Yes Bank (YESBAN)	161	180	Hold	37,353	18.3	8.4	13.3	8.8	19.2	12.2	2.1	1.7	7.8	1.6	0.6	1.0	17.6	7.3	18.4		
Bandhan Bank (BANBAN)	561	725	Buy	66,962	11.3	16.4	22.0	14.3	9.9	7.3	2.1	1.8	1.5	3.6	3.9	4.0	19.5	19.0	21.1		

Source: Company, ICICI Direct Research



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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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