

Sector: Banks & Finance
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 308	
Price Target: Rs. 380	↓

↑ Upgrade ↔ No change ↓ Downgrade

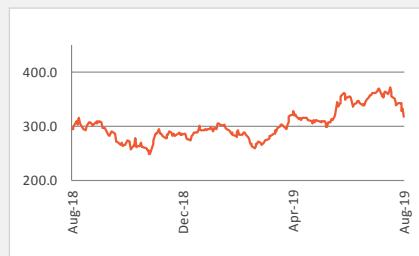
Company details

Market cap:	Rs. 2,80,411 cr
52-week high/low:	Rs. 374/248
NSE volume: (No of shares)	224.2 lakh
BSE code:	500112
NSE code:	SBIN
Sharekhan code:	SBIN
Free float: (No of shares)	382.6 cr

Shareholding (%)

Promoters	57.9
FII	10.9
DII	23.6
Others	7.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.3	2.3	11.5	7.5
Relative to Sensex	-6.2	7.2	8.9	7.6

Sharekhan Research, Bloomberg

State Bank of India (SBI) posted weak results for Q1FY2020, where its topline and operational performance were below expectations; and headline asset quality stood stable in percentage terms and improved marginally in absolute terms sequentially. Net interest income (NII) growth was at a multi-quarter low. However, stable net interest margin (NIM) stood at 2.81% (up 3 BPS q-o-q) due to favourable YOA/COF movement underscores the strength of the franchise. SBI witnessed an overall stable asset quality. GNPA ratio stood stable at 7.53% q-o-q, while net NPA increased by 6 BPS q-o-q. Fresh slippages increased to Rs. 16,212 crore, mainly due to the agri segment and a large corporate exposure which caused concern. We have been conservative in our estimates and, so, while the bank has revised its credit cost/ROA outlook, we maintain our FY2020E/FY2021E earnings. Therefore, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 380.

Key positives

- ◆ The bank's NIM at 2.81% increased by 3 BPS q-o-q due to favourable YOA/COF movement, which also underscores the franchise strength.
- ◆ PCR now stands at 79.34% (up 60 BPS q-o-q), which provides investor comfort.

Key negatives

- ◆ Rise in fresh slippages to Rs. 16,212 crore (2.83% slippage ratio) is a concern.

Our Call

Valuation – SBI trades at 1.3x its FY2021E book value, which we believe is reasonable considering it to have better operating metrics in the PSU space. We have been conservative in our estimates, and, so, while the bank has revised its credit cost/ROA outlook, we maintain our FY2020E/FY2021E earnings. Thus, we maintain our Buy rating on the stock with a revised PT of Rs. 380.

Key Risks

Risk of further NPAs cropping up, especially in the corporate, agri and/or retail segments due to the overall macroeconomic slowdown in recent times.

Valuation

Particulars	FY18	FY19	FY20E	FY21E
Net interest income (Rs cr)	74,854	88,349	92,843	104,858
Net profit (Rs cr)	-6,547	862	15,759	20,043
EPS (Rs)	-7.3	1.0	17.7	22.5
PE (x)	NA	319.27	17.47	13.73
BVPS (Rs)	211.3	213.3	226.8	244.0
P/BV (x)	1.5	1.4	1.4	1.3
RoE (%)	-3.2	0.4	6.9	8.3
RoA (%)	-0.2	0.0	0.4	0.5

Source: Company, Sharekhan Research

Weak operating performance: SBI posted weak results for Q1FY2020, where its topline and operational performance was below expectations; asset quality stood stable in percentage terms and improved marginally in absolute terms sequentially, but the continuing high slippages were seen as a concern. NII during the quarter rose by 5.2% y-o-y to Rs. 22,938 crore, which was the lowest in the past many quarters due to stable margins. Non-interest income growth was healthy at Rs. 8,015 crore, up by 20% y-o-y, primarily due to a sharp increase in treasury gains, which grew by 138.36% y-o-y, whereas fee income was largely flat y-o-y at Rs. 5,177 crore.

NIM was flat q-o-q/y-o-y at 2.81% (up 3 BPS q-o-q) as cost of deposits declined to 5.07% from 5.10% q-o-q, while yield on advances increased to 8.56% (up 7 BPS q-o-q) due to healthy domestic advances growth of 11.9% y-o-y. Cost-to-income (C/I) ratio increased by 470 BPS q-o-q to 57.2% (Calculated) as compared to 52.5% in Q4FY2019 due to weaker earnings performance. Management has guided to bring down C/I ratio below 50% by FY2020E and below 45% by FY2021E, which we believe is difficult. Notably, during the quarter, provisions declined by 44.4% q-o-q and 52.2% y-o-y to Rs. 9,183 crore due to lower NPA provisions. PCR now stands at 79.34% (up 60 BPS q-o-q), which is a positive cushion. Due to lower provisions, the bank reported net profit of Rs. 2,312 crore in Q1FY2020 as compared to loss of Rs. 4,876 crore in Q1FY2019.

Calibrated but healthy business growth: SBI posted healthy loan book growth of 13.8% y-o-y, in which domestic advances grew by 11.8% y-o-y, whereas overseas advances grew healthy by 16.2% y-o-y and outpaced overall loan growth. However, it was growth in the retail and corporate segments that was strong at 18.68% y-o-y and 11.62%, y-o-y, respectively, while the SME loan portfolio posted muted growth of 2.24% y-o-y. The retail segment's growth was driven by 17.62% uptick in home loans and 42.77% rise in express credit (aided by digital platform). Deposits grew by 7.32% y-o-y, where low-cost deposits also grew by 7.37% y-o-y, especially notable in the present competitive scenario for retail liabilities. Domestic CASA ratio remained stable y-o-y and declined by 64 BPS q-o-q to 45.1%. Management has guided for overall growth of ~12% for FY2020, which is not too difficult for the bank to achieve. Moreover, management has revised its ROA target to be <1% by FY2020E.

Asset quality largely stable, but slippages were a concern: SBI witnessed an overall stable asset quality during Q1FY2020 as gross non-performing (GNPA) ratio stood stable at 7.53% q-o-q and improved by 30 BPS y-o-y, while net NPA increased by 6 BPS q-o-q to 3.07% and improved by 42 BPS y-o-y. Slippage ratio improved by 123 BPS q-o-q to 2.8% due to agri slippages in one state of Rs. 2,000 crore during Q1FY2020. Provision Coverage Ratio (PCR) improved to the industry's best levels of 79.3%, up 62 BPS q-o-q, which is a strong positive. The bank's fresh NPA addition increased to Rs. 16,212 crore (as against Rs. 7,505 crore in the Q4FY2019), largely from agri slippages of Rs. 4,239 crore, which includes exposure of Rs. 2,000 crore in one state during Q1FY2020. Recoveries and upgrades stood at Rs. 5,769 crore as compared to Rs. 5,712 crore in Q4FY2019.

SBI has total fund based exposure under List 1 and List 2 of Rs. 38,741 crore. There are three accounts in an advanced stage of resolution with expected recovery of ~62%. Post June 7, 2019, RBI Circular, 46 accounts (24 NPA and 22 Std.) were eligible for signing ICA, of which six NPAs filed/admitted in NCLT and two are standard accounts that have since been regularised. Due to conservative recognition and reduction in stressed assets and NPAs, we are more confident about the bank's asset quality, compared to other peers in the PSU banking space.

Results

Particulars	Rs cr				
	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Interest earned	62,637	58,813	6.5	62,985	-0.6
Interest expended	39,699	37,015	7.3	40,032	-0.8
Net interest income	22,938	21,798	5.2	22,954	-0.1
Non-interest income	8,015	6,679	20.0	12,685	-36.8
Net total Income	30,954	28,478	8.7	35,639	-13.1
Operating expenses	17,708	16,505	7.3	18,706	-5.3
Pre-provisioning profit	13,246	11,973	10.6	16,933	-21.8
Provisions	9,183	19,228	-52.2	16,502	-44.4
Profit before tax	4,063	-7,255	NA	431	842.2
Tax	1,751	-2,379	NA	-407	NA
Profit after tax	2,312	-4,876	NA	838	175.7

Source: Company; Sharekhan Research

Loan Mix

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Domestic	86.1	84.6	84.4	85.3	84.2	85.9	87.2	86.8	86.2
- Large Corporate Advances	18.8	34.5	33.4	36.2	34.2	36.0	35.9	37.1	35.0
- SME Advances	12.8	13.3	13.9	13.2	13.4	12.8	13.6	12.6	12.6
- Agriculture Advances	9.4	10.1	10.1	9.2	9.2	9.2	9.2	8.8	9.0
- Retail Advances	24.5	26.7	27.1	26.7	27.3	27.9	28.4	28.2	29.6
Foreign	13.9	15.4	15.6	14.7	15.8	14.1	12.8	13.2	13.8

Source: Company; Sharekhan Research

Reported Margins, Cost of deposits and Yields on advances

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
NIMs (%)	2.4%	2.4%	2.5%	2.5%	2.8%	2.7%	2.8%	2.8%	2.8%
COD (%)	5.5%	5.4%	5.3%	5.3%	5.1%	5.1%	5.1%	5.1%	5.1%
YOA (%)	8.5%	8.5%	8.4%	8.3%	8.6%	8.4%	8.5%	8.5%	8.6%

Source: Company; Sharekhan Research

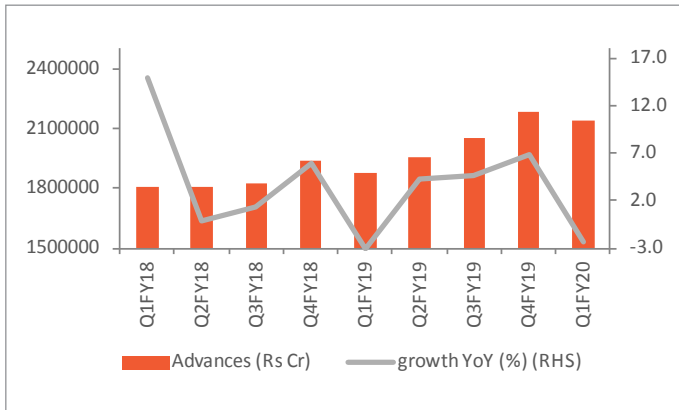
Movement of NPLs

Particulars	Rs cr				
	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Op balance	223,462	212,875	205,898	187,798	172,783
Additions	9,984	10,725	4,523	7,505	16,212
increase in O/S	4,365	163	2,018	456	783
Upgradation and Recovery	14,856	4,327	6,617	5,712	5,769
Write off	10,080	13,538	18,024	17,264	15,482
Closing gross	212,875	205,898	187,798	172,783	168,527

Source: Company; Sharekhan Research

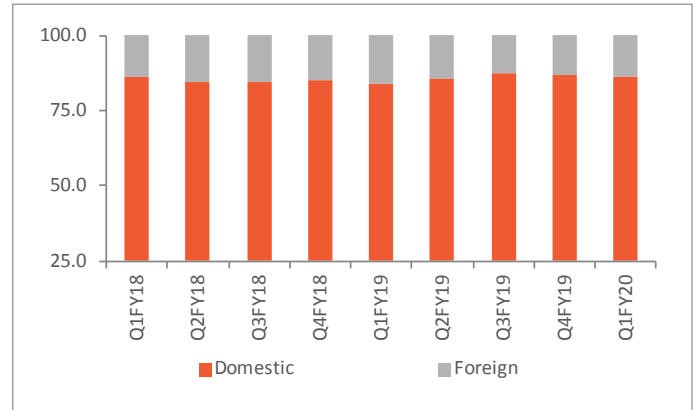
Financials in charts

Advances trend



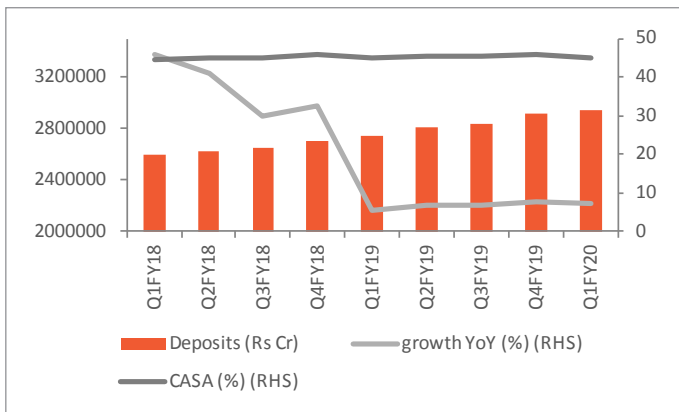
Source: Company, Sharekhan Research

Loan Mix



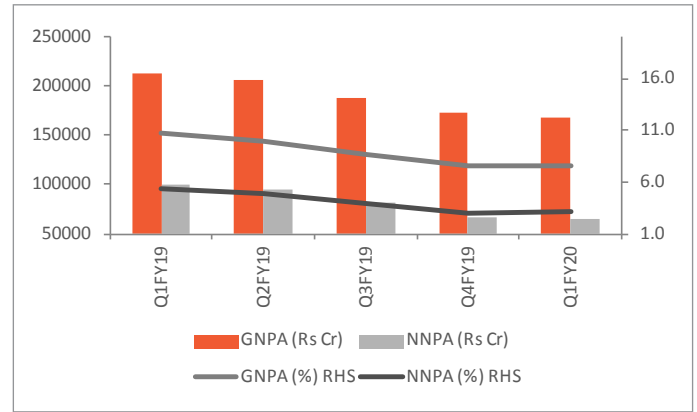
Source: Company, Sharekhan Research

Deposits trend



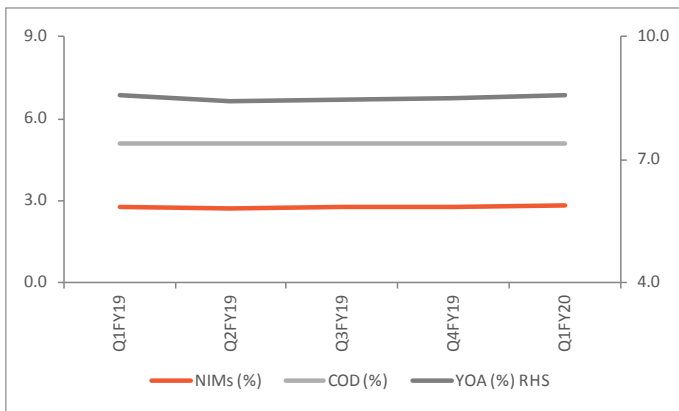
Source: Company, Sharekhan Research

Asset Quality Movement



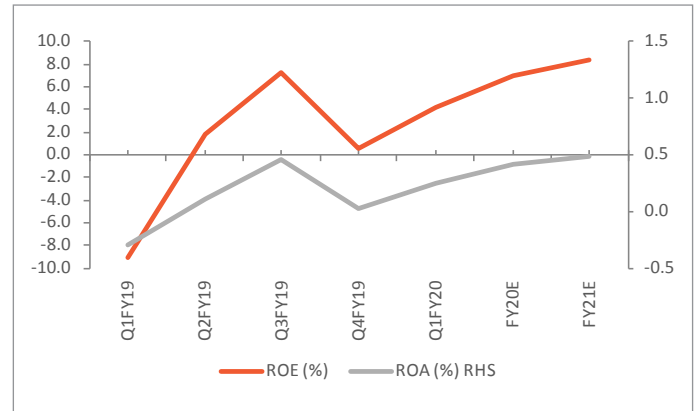
Source: Company, Sharekhan Research

NIMs, Yields on Advances, Cost of Deposits



Source: Company, Sharekhan Research

Return Ratios (Calc.)



Source: Company, Sharekhan Estimates

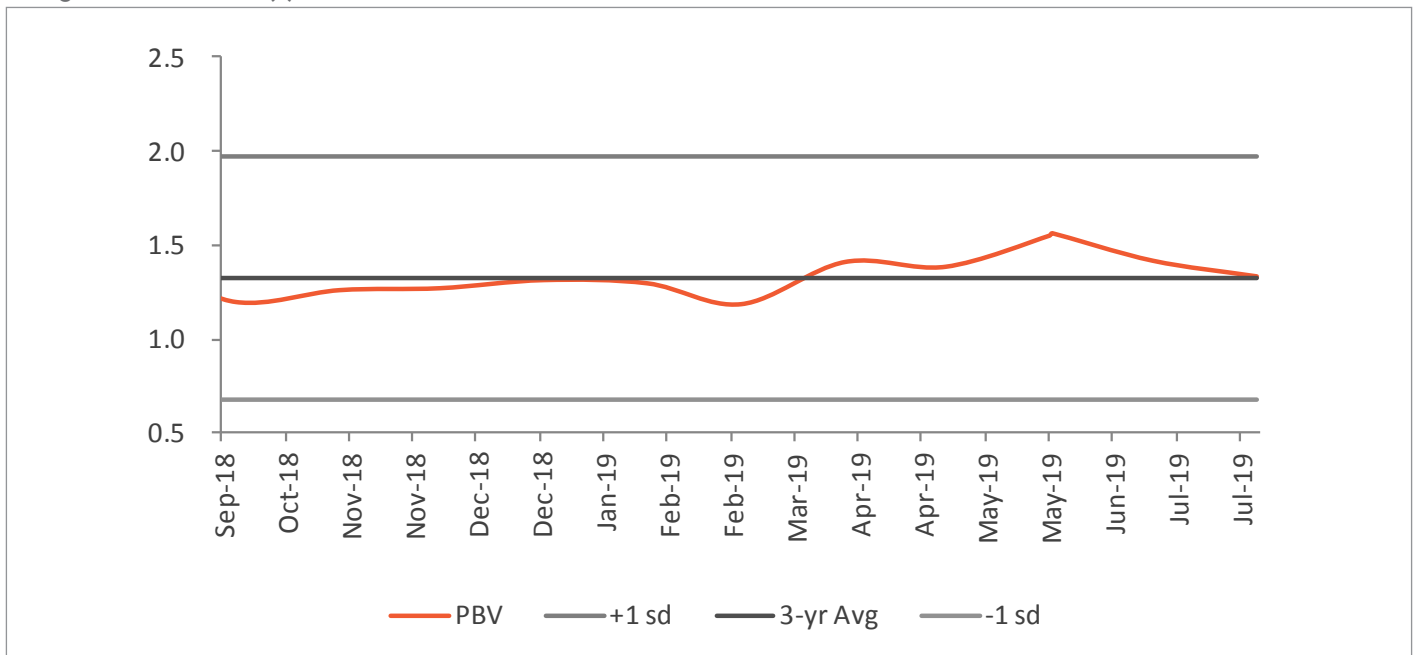
Outlook

SBI's Q1 results indicate that while the worst in terms of asset-quality stress is behind for the bank, credit cycle improvement will albeit be at a slow pace and in a non-linear manner. This is indicated by the rise in size of SMA-1 and 2 accounts of SBI, which stood at Rs. 10,289 crore (Rs. 7,760 crore in Q4FY2019) and is down y-o-y. However, the sequential rise was due to a large state government entity Rs. 2,014 crore (a Maha Ratna division) and, thus, may be considered a one-off. Going forward, steady trends in the core portfolio, along with healthy recoveries/write-backs via NCLT resolutions, will likely drive a further improvement in asset quality over FY2020/ FY2021. So far, SBI has opted for strengthening of the balance sheet and, thus, the trend of improving provision coverage in NCLT accounts and improving PCR ratios is positive. However, we will have to build in a non-linear credit cost movement, which is likely to keep asset-quality performance a key monitorable for the bank. SBI is well capitalised (Tier-1 10.65% and CET-1 at 9.61%) and, coupled with an enviable reach and business strength, is well placed to gain market share as well as quality clients in the present scenario as well as has maintained its margins, which makes it an attractive franchise.

Valuation

SBI trades at 1.3x its FY2021E book value, which we believe is reasonable considering it to have better operating metrics in the PSU space. We have been conservative in our estimates and, so, while the bank has revised its credit cost/ROA outlook, we maintain our FY2020E/FY2021E earnings. Thus, we maintain our Buy rating on the stock with a revised PT of Rs. 380.

One year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
State Bank of India	308	1.4	1.3	17.5	13.7	0.4	0.5	6.9	8.3
Punjab National Bank	68	0.6	0.5	4.1	3.4	0.4	0.4	9.7	14.6
Bank of India	70	0.8	0.7	13.1	8.9	0.3	0.4	4.5	7.6
Bank of Baroda	106	0.8	0.7	7.1	5.8	0.6	0.7	9.6	11.5

Source: Company, Sharekhan research

About company

State Bank of India (SBI) is a largest public sector bank in terms of assets, deposits, branches, number of customers and employees (>22000 branches as of June 2019) having pan-India presence. The bank has been designated by the RBI as a Domestic Systemically Important Bank (D-SIB), which means that its continued functioning is critical for the economy. The bank is better capitalized than most PSU banks, it is well placed to gain market share as well as key clients by virtue of lesser competitive pressures.. The bank is well placed to secure growth capital from the government, not only by virtue of being the largest bank, but also with operating parameters that have improved greatly as compared to its peers.

Investment theme

State Bank of India enjoys a dominant position and market share in the Indian banking space, which we expect to be maintained in the foreseeable future as well, by virtue of its deep penetration and superior systems. SBI has a strong presence in both retail liabilities as well as retail asset side along with its Corporate relationships (due to size, history and market knowledge) which are key differentiators for it. Also, due to its size, SBI is the market maker for Interest rates which not only puts it in a dominant position but also will allow it with margin cushion. We believe that the banking system NPAs have peaked with the stressed assets for Indian banks at ~15% of loans. Going forward, as NCLT / IBC etc work to resolve / recover tangled NPAs, with crucial Govt support leading to faster resolutions, and better loan discipline. We expect a gradual normalization NPA recognition from here. SBI has the largest customer base in the country, by virtue of its largest and pan-India network which enables it to be the banker of preference across India but also allows it to explore cross sell opportunities.

Key Risks

Risk of further NPAs cropping up, especially in the corporate, agri and/or retail segments due to the overall macroeconomic slowdown in recent times.

Additional Data

Key management personnel

Shri Rajnish Kumar	Chairman
Shri P. K. Gupta	Managing Director (Retail & Digital Banking)
Shri Dinesh Kumar Khara	Managing Director (Global Banking & Subsidiaries)
Shri Arijit Basu	Managing Director (Commercial Clients Group & IT)
Shri Anil Kishora	Deputy Managing Director & Chief Risk Officer
Shri B. Ramesh Babu	Deputy Managing Director & Chief Operating Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	57.1
2	Life Insurance Corp of India	10.0
3	HDFC Asset Management Co Ltd	3.3
4	ICICI Prudential Asset Management	2.2
5	SBI Funds Management Pvt Ltd	2.1
6	Reliance Capital Trustee Co Ltd	2.0
7	Aditya Birla Sun Life Asset Manage	0.8
8	BlackRock Inc	0.7
9	Vanguard Group Inc/The	0.7
10	Kotak Mahindra Asset Management Co	0.7

Source: Bloomberg

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