

Sector: Banks & Finance
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 188	
Price Target: Rs. 262	↓
↑ Upgrade ↔ No change ↓ Downgrade	

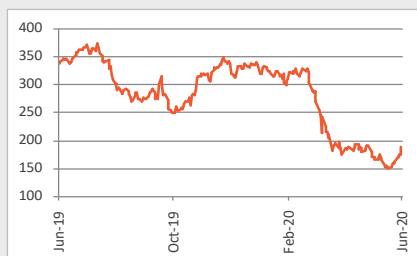
Company details

Market cap:	Rs. 167,604 cr
52-week high/low:	Rs. 374/150
NSE volume: (No of shares)	562.4 lakh
BSE code:	500112
NSE code:	SBIN
Sharekhan code:	SBIN
Free float: (No of shares)	384.5 cr

Shareholding (%)

Promoters	57.6
FII	9.6
DII	24.6
Others	8.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.1	-30.5	-41.1	-44.2
Relative to Sensex	-3.1	-21.7	-25.4	-30.9

Sharekhan Research, Bloomberg

State Bank of India (SBI) posted mixed results, wherein, on one hand, operational performance came below expectations, but reasonable moratorium book and sequentially improved asset quality were positives. The bank has stated that there are around 23% customers who have opted for moratorium and have missed two or more instalment payments. This is reasonable, given the size and the nature of the bank's customer profile. Net interest income (NII) came in at Rs. 22,767 crore, down 18% q-o-q and flat y-o-y. There was an exceptional nature of gain of Rs. 2,731 crore (due to stake sale benefit from SBI Cards), which added to the bottom line. Provisions came at a high of Rs. 13,495 crore, up 18.2% y-o-y and 86% q-o-q, even as the provision for NPA was at Rs. 11,894 crore, which was up on a q-o-q basis, but was much lesser on a y-o-y basis. For COVID-19 related provisions, the bank has taken provision of Rs. 938 crore (15% for loans outstanding of Rs. 6,250 crore) and Rs. 234 crore for standard assets. Provision coverage stood at healthy 83.62% (81.7% in Q3FY2020), which is a positive. Notably, asset quality improved on a sequential basis, with GNPA at 6.2% (6.9% in Q3FY2020) and NNPA at 2.2% (2.6% in Q3FY2020) and lower fresh slippages, which we believe is a positive indicator. The bank has been maintaining its trend of declining NNPA% over the past several quarters, which is a positive. Management's tone remains cautious in terms of loan growth, but it indicated that it would be willing to take opportunities backed by better review mechanism and risk assessment framework. SBI is likely to benefit from the expected consolidation in the banking sector in terms of customers and liability franchise. Moreover, its healthy provision coverage ratio indicates less residual stress from the legacy book. However, considering the tough conditions, we have revised our growth and credit cost estimates for FY2021E and FY2022E and the target multiple. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 262.

Key positives

- Asset-quality performance was encouraging, with gross NPA ratio dropping by 70 bps q-o-q to 6.2%, while net NPA ratio fell by 40 bps q-o-q to 2.2%. Corporate PCR of 78.37% is significantly higher than Loss given Defaults (LGDs, expected) in the segment.
- Domestic net interest margin (DNIM) for FY2020 improved to 3.19% (up by 24 bps y-o-y), helped by interest income due to recoveries.

Key negatives

- Total domestic advances book growth was tepid at 3.75% y-o-y mainly as the corporate and the SME segment's credit offtake remains muted.

Our Call

Valuation: SBI currently trades at <1x its FY2022E book value, which we believe is factoring in the tough conditions on growth and uncertainty on credit costs. However, high coverage and strong market position of the bank are positive cushions. Moreover, its healthy PCR of 83.7% indicates less residual stress from the legacy book. However, considering the tough conditions, we have revised our growth and credit cost estimates for FY2021E and FY2022E and the target multiple. We maintain our Buy rating on the stock with a revised PT of Rs. 262.

Valuation	Rs cr			
Particulars	FY19	FY20	FY21E	FY22E
Net interest income (Rs. cr)	88,349	98,085	1,08,125	1,15,788
Net profit (Rs. cr)	862	14,488	21,031	21,942
EPS (Rs.)	1.0	16.2	23.6	24.6
PE (x)	194.6	11.6	8.0	7.6
Book value (Rs./share)	213.3	225.7	243.8	262.6
P/BV (x)	0.9	0.8	0.8	0.7
RoE (%)	0.4	7.4	8.8	8.6
RoA (%)	0.0	0.4	0.5	0.5

Source: Company; Sharekhan estimates

Concall Key Highlights

- ♦ **Current scenario:** SBI management believes that the bank is much better-placed as compared to peers in dealing with the situation. Core pre-provision operating profit (PPOP) is now more than NNPA's, indicating that legacy accounts pose less of a challenge going forward. Base case guidance was that slippages will be 1.6% of book, which is likely to be up for FY2021E. During the quarter, there was rise in credit costs due to three large accounts (one HFC account, one company in power restructuring and one large account in the agriculture book). Performance in FY2020 indicates that slippages (net of chunky accounts) have been consistently coming down.
- ♦ **Going forward:** SBI will be prudent in lending but will look to cash in on the opportunity. The pace of retail growth will continue. Bank is using advanced analytics on loan disbursements. Management will also create a large platform for SME lending.
- ♦ **Guidance:** Base case scenario is that PPOP may be repeated in FY2021E, with slightly better net earnings. Moreover, bank has moved to new tax rate that will also add to PAT. The legacy book is currently Rs. 510 billion, which is likely to be fully provided for. Subsidiaries' value too is performing well. Even if some problem of the real economy persists, corporate book credit cost is manageable. The D3 and loss book can also give potential recovery going forward. NIM is at 3.19%, which will not improve any further but should be able to maintain core PPOP for FY2021E.
- ♦ **Moratorium:** Nearly 82% of customers who have paid two or more instalments during the period are considered to have not taken moratorium. Of the borrowers, 8% have not paid any instalment and further 9% have not paid one EMI, while the rest all have paid. In case of NBFCs, only 15-17 so far have taken moratorium (that form 5% of book). Around 18% of retail loans are under moratorium in May. Most corporates are also keeping money in reserve even though they have taken a moratorium. Moratorium proportion is Lesser due to exposure to the salaried class and conservative lending profile. Even personal loans etc. have been disbursed mostly to salaried, which is why the moratorium share is at 18%. SME will form ~23% of loans under moratorium, while the corporate book will form around 13% under moratorium. Around 20% by value of customers has taken moratorium under working capital loans. For personal loans around 5% customers have taken moratorium.
- ♦ **Strong online presence:** Strong liability (granular), distribution and branches, and online channel together are now 84,000 touch points.
- ♦ **Guidance:** PPOP will be able to maintain in FY2021E, investment stake sale will be positive.
- ♦ **Staff cost:** SBI will look to reduce branch costs etc. However, salary cuts etc. are not expected.
- ♦ **Corporate sector lending:** Most corporates had sufficient liquidity before COVID-19 outbreak. Hence, there were sanctioned lines but they were not utilised fully.
- ♦ **Levers on the cost front:** For FY2021E, in absolute numbers (not considering the retirement expense), the cost will not increase.
- ♦ **Agriculture slippages:** There would be slippages in the normal run rate (similar to FY2018 or FY2019 agriculture slippages) in FY2021E. SBI had seen extra slippages of ~Rs. 8,000 crore that SBI in FY2020E due to agri slippage, which is not likely to be from FY2021E. Interest reversals on agri NPAs resulted in lower interest income.
- ♦ **Profit from sale of subsidiaries:** SBI was earlier planning to do some stake sale (in SBI AMC) in FY2021 but this looks uncertain now. Hence, there may be some pressure on other income in FY2021E but may be compensated partly by improvement in NIMs.
- ♦ **NBFCs and TLTRO:** The bank had proposals of Rs. 18,000 crore financing for NBFCs, of which 20% would have been sanctions. SBI has given Rs. 3,000 crore as Targeted Long-Term Repo Operations (TLTRO) amount.
- ♦ **Power sector NPAs:** Power sector NPAs have a 70% PCR.
- ♦ **Capital raising:** SBI does not plan to raise Tier-1 capital as of now.
- ♦ **Commercial real estate:** The exposure is primarily to Lease Rental Discounting (LRD).

Results
Rs cr

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Interest earned	62,681.4	62,985.4	-0.5	67,692.0	-7.4
Interest expended	39,914.5	40,031.6	-0.3	39,913.2	0.0
Net interest income	22,766.9	22,953.8	-0.8	27,778.8	-18.0
Non-interest income	13,346.1	12,685.1	5.2	9,105.0	46.6
Net total Income	36,113.0	35,639.0	1.3	36,883.8	-2.1
Operating expenses	20,379.3	18,705.9	8.9	18,661.6	9.2
- Employee cost	12,038.7	10,478.0	14.9	11,455.0	5.1
- Other Costs	8,340.6	8,227.9	1.4	7,206.6	15.7
Pre-provisioning profit	15,733.8	16,933.1	-7.1	18,222.2	-13.7
Provisions	13,495.1	16,501.9	-18.2	7,252.9	86.1
Exceptional Items	2,731.3	-	NA	-	NA
Profit before tax	4,970.0	431.2	1,052.6	10,969.3	-54.7
Tax	1,389.2	-407.2	-441.2	5,386.0	-74.2
Profit after tax	3,580.8	838.4	327.1	5,583.3	-35.9
Gross NPA%	6.2	7.5	-138 BPS	6.9	-79 BPS
Net NPA (%)	2.2	3.0	-78 BPS	2.6	-40 BPS

Source: Company; Sharekhan Research

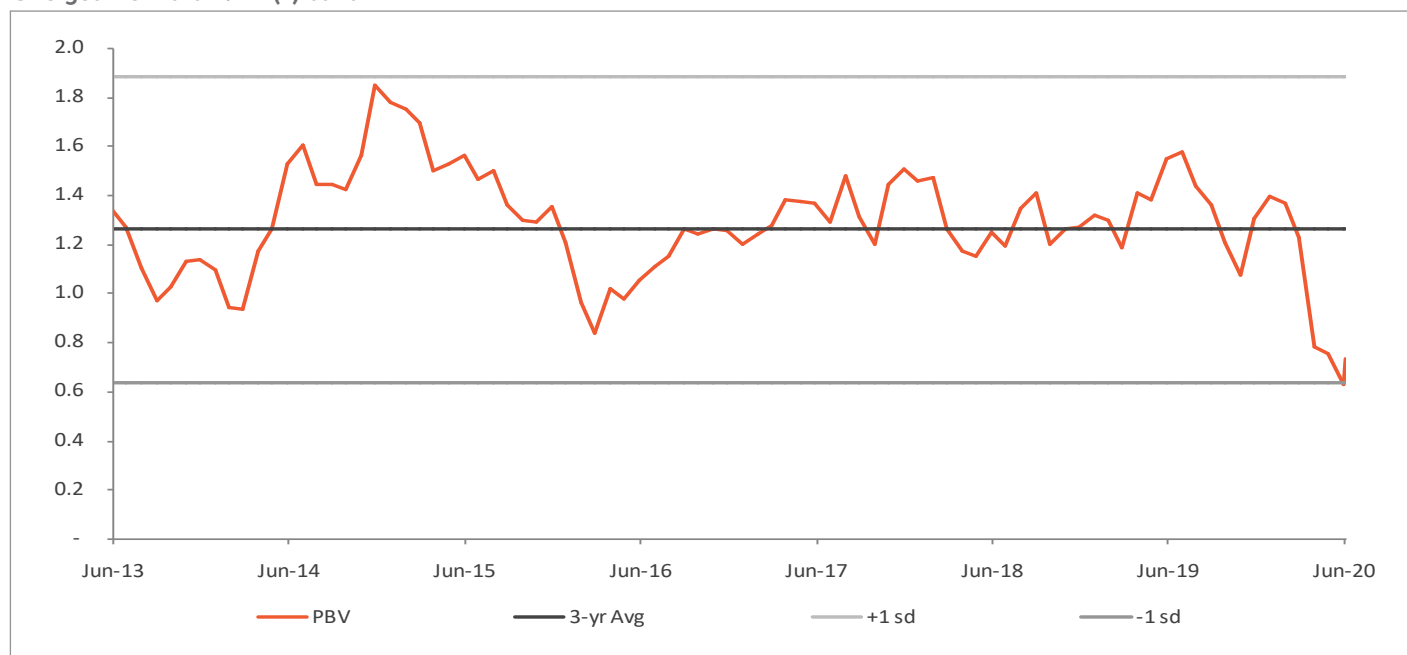
Outlook

SBI's Q4FY2020 results indicate that business strengths and the last few years' efforts of book clean-up have stood in good stead in terms of reducing slippages and supporting margins. However, due to the lockdown, uncertainties on the business on ground, clouded still more by the moratorium, make asset quality to be a key monitorable going forward as well. Management has exuded confidence about NIM and asset-quality performance going forward; and a healthy provisioning cover on the balance sheet is a comfort factor. Management stated that it had taken full effect of FY2019 divergences and most of the large stressed exposures have already been taken into account. SBI's status as the market maker in terms of domestic interest rates places it at an advantage to other PSU bank peers, providing a cushion to margins. SBI's pole position in terms of liability franchise, coupled with an enviable reach and business strength make it well-placed to ride over medium-term challenges.

Valuation

SBI currently trades at <1x its FY2022E book value, which we believe is factoring in the tough conditions on growth and uncertainty on credit costs. However, high coverage and strong market position of the bank are positive cushions. Moreover, its healthy PCR of 83.7% indicates less residual stress from the legacy book. However, considering the tough conditions, we have revised our growth and credit cost estimates for FY2021E and FY2022E and the target multiple. We maintain our Buy rating on the stock with a revised PT of Rs. 262.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
State Bank of India	188	0.8	0.7	8.0	7.6	0.5	0.5	8.8	8.6
Punjab National Bank	34	0.4	0.4	15.9	6.4	0.3	0.5	3.4	5.4
HDFC Bank	1035	2.9	2.6	21.1	16.4	1.7	1.8	15.1	16.5
ICICI Bank	357	1.9	1.7	18.5	13.5	1.1	1.3	10.1	12.7

Source: Company, Sharekhan Estimates

About company

State Bank of India (SBI) is the largest public sector bank in terms of assets, deposits, branches, number of customers and employees 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. 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.

Additional Data

Key management personnel

Shri Rajnish Kumar	Chairman
Shri Dinesh Kumar Khara	Managing Director (Global Banking & Subsidiaries)
Shri Arijit Basu	Managing Director (Commercial Clients Group & IT)
Sanjay M Abhyankar	Vice President - Compliance (Company Secretary)
Prashant Kumar	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	9.1
2	HDFC Asset Management Co Ltd	3.7
3	SBI Funds Management Pvt Ltd	3.0
4	Reliance Capital Trustee Co Ltd	1.5
5	ICICI Prudential Asset Management	1.3
6	ICICI PRUDENTIAL ASSET MGMT CO	1.2
7	GIC Pte Ltd	1.2
8	Kotak Mahindra Asset Management Co	0.9
9	Franklin Resources Inc	0.8
10	Norges Bank	0.7

Source: Bloomberg

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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