

A Good Quarter; Valuations Inexpensive

- SBI reported a healthy NII growth of 16% YoY mainly driven by a sharp decline in cost of funds (44 bps QoQ) and increased share of performing loans.
- Core PPOP grew at 10% YoY against an elevated overall PPOP growth of 36% YoY, which benefitted from high treasury gains and SBI life stake sale.
- SBI provided ~Rs20bn of COVID related provisions during the quarter, with total standard asset provision cover at 0.2% of loans.
- Moratorium ratio for term loans declined to 9.5% from 23% earlier, where borrowers paying less than 2 EMIs over Mar-June are considered to be under moratorium. Given the difference of approach vs other banks, we believe the number remains less comparable.
- Limited earning cushion (PPOP/assets at 1.7%) along with low provision buffers remain profitability risks. The bank will also need to shore up its equity capital, though improving risk intensity is helping.
- Valuations are nonetheless attractive. **We maintain our BUY rating with a TP of Rs245 based on 0.7x FY22E ABV for standalone bank and the value of its subsidiaries, implying a FY22E P/ABV of 1.4x.**

Lower CoF cushion asset side risks; Provisioning buffers remain weak

Though moratorium numbers are low at 9.5% (7.5% excluding AAA/AA rated exposures), they remain less comparable to peers in our view. Nonetheless, lower CoF and high exposure to government employees & PSUs is comforting and ensures lower asset side risks. However, low standard provisioning buffers at 0.2% provides limited cushion to future earnings. The decline in GNPA's by 70 bps QoQ was mainly driven by higher write-offs. We factor in credit costs of 225 bps for FY21E against 200 bps in FY20.

CASA growth remains healthy; Significant NIM improvement unlikely

CASA growth at 17% YoY and 6% QoQ remains above industry average, despite a significant reduction in SA rates over the last few months (~30-55 bps in 6 mths). The same, along with lower TD rates (80-100 bps decline) has significantly benefitted CoF and NIM. However, decline in MCLR rates (~90 bps) have been higher (~and would impact NIM once resetting materializes over time. NIM would however benefit from higher loan-deposit ratio as growth improves.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net interest income	266,416	229,388	16.1	227,674	17.0
Other income	79,575	80,154	(0.7)	133,461	(40.4)
Total Net Income	345,990	309,542	11.8	361,135	(4.2)
Operating expenses	180,777	177,081	2.1	203,793	(11.3)
Pre-provision profits	165,214	132,462	24.7	157,343	5.0
Provisions	125,013	91,829	36.1	134,951	(7.4)
Tax expense	13,704	17,510	(21.7)	13,892	(1.4)
Reported Net Profit	26,496	23,122	14.6	8,499	211.7
			(bps)		(bps)
Advances Growth (%)	7.7	13.8	(615)	6.4	128
NIM (%)	3.0	2.8	20	3.0	4
RoA (%)	0.1	0.2	(6)	0.1	(1)
RoE (%)	17.0	16.1	95	17.0	1
Gross NPA (%)	5.4	7.5	(209)	6.2	(71)

CMP	Rs 191
Target / Upside	Rs 245 / 28%
BSE Sensex	37,660
NSE Nifty	11,074

Script Details

Equity / FV	Rs 8,925mn / Rs 1
Market Cap	Rs 1,709bn
	USD 23bn
52-week High/Low	Rs 351/Rs 149
Avg. Volume (no)	72,182,300
NSE Symbol	SBIN
Bloomberg Code	SBIN IN

Shareholding Pattern Jun'20(%)

Promoters	57.6
MF/Banks/FIs	24.9
FII's	7.9
Public / Others	9.6

Valuation (x)

	FY20A	FY21E	FY22E
P/E	11.8	13.5	8.6
P/ABV	1.1	1.2	1.1
ROAA	0.4	0.3	0.4
ROAE	6.4	5.3	7.9

Estimates (Rs mn)

	FY20A	FY21E	FY22E
NII	980,848	1,122,563	1,232,226
PPOP	619,170	691,225	750,263
PAT	82,725	111,215	198,901
Adj BV	174.6	160.0	176.7

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Other Important Highlights:

- Under MSME guarantee scheme the bank has sanctioned Rs 210bn, of which Rs 150bn has been disbursed
- Rs 100-110bn of recoveries expected in next 2 quarters including an HFC exposure. These accounts are full provided.
- Higher slippages in retail during the quarter were due to non-payment by customers that were not eligible for moratorium. Some of these have started paying and should be upgraded by next quarter
- Post the conclusion of bipartite agreement with a 15% wage hike, the bank has provided Rs 16bn on an ad-hoc basis during 1QFY21. Additional provisions over the next two quarters against this are likely to be ~Rs10bn per quarter.
- Subsidiaries reported a healthy performance with market share gains for SBI MF, improving VNB margin for SBI Life (YoY). Subsidiaries now have a substantial share in overall valuations.

Risks to the View: Higher than expected impact on asset quality from COVID-19, weaker recoveries, overhang of change in Chairman & MD.

Exhibit 1: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance	Comments
NII	2,66,416	2,52,431	5.5	Lower CoF aid NII
Operating Profit	1,65,214	1,53,210	7.8	
PAT	41,893	59,994	(30.2)	High specific provisions, 100% provisions against an HFC account

Source: Company, DART

Exhibit 2: Change in estimates

Particulars	Previous		Revised		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Operating Revenue	14,95,639	16,14,024	14,97,514	16,25,998	0.1	0.7
Pre-Provisio Profits	6,89,349	7,38,288	6,91,225	7,50,263	0.3	1.6
PAT	1,18,614	1,94,335	1,26,215	1,98,901	6.4	2.3

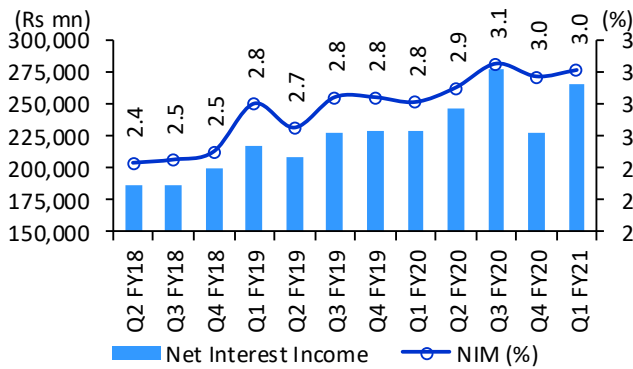
Source: Company, DART

Exhibit 3: SOTP Valuation

Entity	Stake	Per Share Value	Methodology
Standalone Entity (A)	100%	124	P/ABV
Lending Business			
SBI Card	70%	54	Mcap
Insurance Business			
SBI Life Insurance	56%	57	Mcap
SBI General Insurance	70%	11	P/E
Capital Market			
SBI Funds Management	57%	23	% of AUM
Value of Subsidiaries (B)		144	
Holdco. Discount	15%		
Value of the bank (A+B)		245	
Contribution of subs to total (%)		50.0	

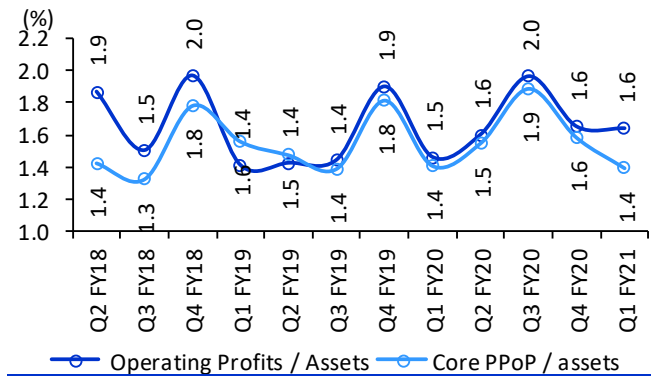
Source: Company, DART

Exhibit 4: Lower cost of deposits keeps NIM stable



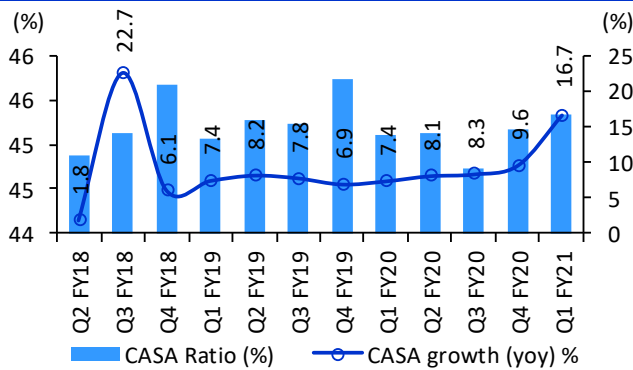
Source: Company, DART

Exhibit 5: Weak Core PPOP driven by low fee income



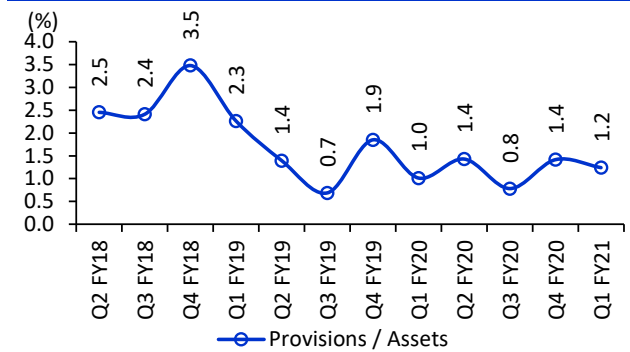
Source: Company, DART

Exhibit 6: CASA growth above industry average



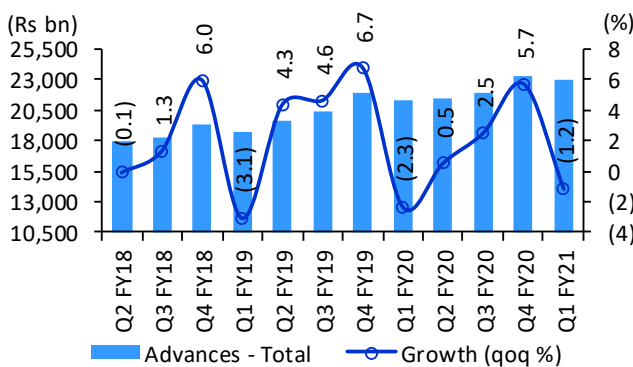
Source: Company, DART

Exhibit 7: High specific provisions keep provisions elevated



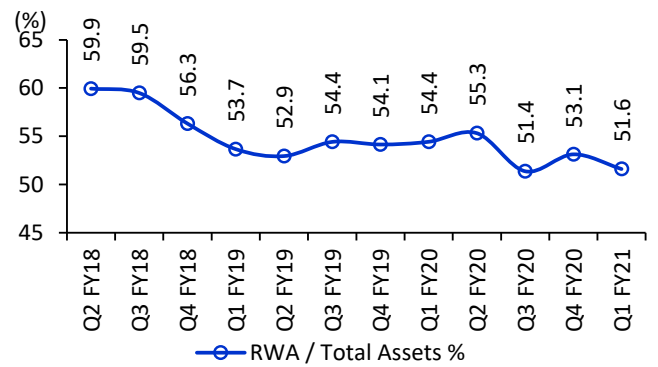
Source: Company, DART

Exhibit 8: Loan growth (yoy) driven by retail and overseas loans



Source: Company, DART

Exhibit 9: Capital consumption improves aiding CET-I ratio



Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q1FY21	Q1FY20	% yoy / bps	Q4FY20	% qoq / bps
Interest Inc.	6,65,004	6,26,378	6.2	6,26,814	6.1
<i>Yield on Advances (%)</i>	8.4	8.6	(21)	8.7	(37)
Interest Expenses	3,98,588	3,96,990	0.4	3,99,145	(0.1)
<i>Cost of Dep. (%)</i>	4.5	5.1	(59)	4.9	(46)
Net Interest Income	2,66,416	2,29,388	16.1	2,27,674	17.0
<i>NII to Net Operative Income</i>	77.0	74.1	290	63.0	1,396
<i>NIM (%)</i>	3.0	2.8	20	3.0	4
<i>Dom. NIM (%)</i>	3.2	3.0	23	3.2	5
<i>Int. NIM (%)</i>	1.1	1.2	(5)	1.2	(5)
Core Fee Income	44,710	51,760	(13.6)	78,730	(43.2)
Forex Income	4,680	5,180	(9.7)	6,910	(32.3)
Profit on Sale / Rev of Investments	24,853	4,850	412.4	5,057	391.5
Recovery in w/o accounts	4,480	13,580	(67.0)	39,410	(88.6)
Non-Core Other Income	34,005	28,394	19.8	54,737	(37.9)
Other Income - Total	79,575	80,154	(0.7)	1,33,461	(40.4)
<i>Other Inc to Net Oper. Income (%)</i>	23.0	25.9	(290)	37.0	(1,396)
Net Operating Revenue	3,45,990	3,09,542	11.8	3,61,135	(4.2)
Employee Expenses	1,18,651	1,09,181	8.7	1,20,387	(1.4)
<i>Empl. Cost/Oper. Exps. (%)</i>	34.3	35.3	(98)	33.3	96
Other Opex	62,126	67,900	(8.5)	83,406	(25.5)
<i>Other Opex/ Assets (%)</i>	0.2	0.2	(3)	0.2	(6)
Total Opex	1,80,777	1,77,081	2.1	2,03,793	(11.3)
<i>Cost to Income Ratio (%)</i>	52.2	57.2	(496)	56.4	(418)
Pre-Provision Profits	1,65,214	1,32,462	24.7	1,57,343	5.0
Exceptional Profit (Loss)	15,397	-	-	27,313	(43.6)
PPP (inc Except. Items)	1,80,611	1,32,462	36.3	1,84,656	(2.2)
Provision towards NPAs	94,205	1,16,480	(19.1)	1,18,937	(20.8)
Standard Assets Provision	2,820	(12,880)	(121.9)	18,660	(84.9)
Provision for investments	12,310	(12,250)	(200.5)	(6,040)	(303.8)
Other Provisions	15,680	480	3,166.7	3,390	362.5
Provisions & Contingencies - Total	1,25,013	91,829	36.1	1,34,951	(7.4)
<i>Credit Cost (%)</i>	1.64	2.18	(54)	2.0	(41)
<i>NPA Provisions as % PPP</i>	69.2	69.3	(11)	73.1	(387)
Profit Before Tax	55,598	40,632	36.8	49,705	11.9
Tax	13,704	17,510	(21.7)	13,892	(1.4)
<i>Effective Tax Rate (%)</i>	24.6	43.1	(1,845)	27.9	(330.0)
Reported Profits	41,893	23,122	81.2	35,813	17.0
<i>RoA (%)</i>	0.4	0.3	17	0.4	5.0
<i>Adj. RoE (%)</i>	7.1	4.2	290	6.3	75
Basic EPS (Rs)	4.7	2.6	81.2	4.0	17.1

Balance Sheet Analysis	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ % / bps	YoY % / bps
Net Worth	22,25,578	22,60,753	23,25,207	23,20,074	24,16,557	4.2	8.6
CET1 (%)	9.6	10.1	10.2	9.8	10.1	37	53
Tier 1 (%)	10.7	11.3	11.6	11.0	10.3	(74)	(39)
Total CAR (%)	12.9	13.6	13.7	13.1	13.4	34	51
RWA - Total	1,94,93,227	2,03,43,021	1,92,59,600	2,09,89,805	1,89,78,483	(9.6)	(2.6)
Advances - Total	2,13,47,737	2,14,61,598	2,19,99,169	2,32,52,896	2,29,83,462	(1.2)	7.7
Investments	94,43,548	98,50,222	1,01,21,007	1,04,69,545	1,22,52,284	17.0	29.7
Total Assets	3,58,19,969	3,67,80,006	3,74,91,922	3,95,13,939	4,11,79,316	4.2	15.0
RoA (%)	0.25	0.33	0.60	0.37	0.42	5	17
Deposits	2,94,88,207	3,03,33,958	3,11,12,286	3,24,16,207	3,41,93,628	5.5	16.0
Saving Deposit	1,10,35,370	1,13,08,220	1,15,17,010	1,19,35,660	1,29,43,840	8.4	17.3
Current Deposit	18,08,640	19,53,490	18,91,290	21,74,150	20,43,340	(6.0)	13.0
CASA Deposits	1,28,44,010	1,32,61,710	1,34,08,300	1,41,09,810	1,49,87,180	6.2	16.7
CASA Ratio (%)	45.1	45.1	44.7	45.2	45.3	18	24
Dom. Term Deposits	1,56,62,277	1,61,25,838	1,65,73,670	1,71,36,350	1,80,68,400	5.4	15.4
Interest Bearing Liabilities - Total	3,23,21,331	3,30,75,816	3,37,37,772	3,55,62,764	3,73,23,587	5.0	15.5

Source: Company, DART

Asset Quality (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ % / bps	YoY % / bps
Gross Advances	2,23,76,353	2,24,80,675	2,30,05,935	2,42,42,577	2,38,34,686	(1.7)	6.5
Gross NPA	16,84,939	16,16,361	15,96,612	14,90,919	12,96,607	(13.0)	(23.0)
Gross NPA Ratio (%)	7.53	7.19	6.94	6.15	5.44	(71)	(209)
PCR - Calculated (%)	61.1	62.9	63.5	65.2	67.1	186	601
PCR - Inc. Tech w/o (%)	79.34	81.23	81.73	83.62	86.32	270	698
Net Advances	2,13,75,850	2,14,83,591	2,19,80,608	2,32,60,673	2,29,58,941	(1.3)	7.4
Net NPA	6,56,239	5,99,392	5,82,486	5,18,713	4,27,036	(17.7)	(34.9)
Net NPAs Ratio (%)	3.07	2.79	2.65	2.23	1.86	(37)	(121)

Loan Book Analysis (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ % / bps	YoY % / bps
Home Loans	41,13,600	42,44,870	44,04,480	45,58,650	45,54,430	(0.1)	10.7
Auto Loans	7,17,270	7,07,260	7,34,620	7,26,620	7,01,510	(3.5)	(2.2)
Other Per Segment Loans	18,04,720	19,03,570	20,58,560	21,90,620	22,32,060	1.9	23.7
Personal Loan	66,35,590	68,55,700	71,97,660	74,75,890	74,88,000	0.2	12.8
Agriculture	20,10,540	20,24,620	20,99,970	20,60,670	20,42,880	(0.9)	1.6
Domestic Corporate	78,26,030	76,59,860	77,10,000	84,42,150	80,93,220	(4.1)	3.4
MSME	28,12,230	27,41,410	27,80,350	26,76,140	27,87,110	4.1	(0.9)
Total Domestic Advances	1,92,84,390	1,92,81,580	1,97,87,990	2,06,54,840	2,04,11,200	(1.2)	5.8
Foreign Offices	30,98,540	32,01,550	32,28,700	35,73,600	34,45,190	(3.6)	11.2
Loan Book	2,13,47,737	2,14,61,598	2,19,99,169	2,32,52,896	2,29,83,462	(1.2)	7.7
Investments	94,43,548	98,50,222	1,01,21,007	1,04,69,545	1,22,52,284	17.0	29.7
Total Assets	3,58,19,969	3,67,80,006	3,74,91,922	3,95,13,939	4,11,79,316	4.2	15.0

Source: Company, DART;

Conference Call Highlights

- The bank does not expect much stress to come once moratorium gets over and has sufficient cushion on account of moratorium balances.
- Overheads were lower during the quarter due to productivity gains
- CASA growth driven by the huge network and flight to safety. YONO has seen a lot of traction. Quality of service, digital capabilities and higher liquidity in system is contributing to deposit growth
- **Margin improvement:**
 - While further NIM improvement may not be possible, improved Cost of Deposits and lower interest reversals have helped NIM.
 - MCLR is reset every 6 months for the bank vs 1 year earlier
 - As credit growth resumes, the bank expects better margins as money parked in repos, etc will be deployed
- **Moratorium and Asset Quality**
 - For arriving at the 9.5% moratorium figure, the bank has considered accounts which have paid less than 2 EMIs over last 4 months (Mar-June).
 - Home Loans ~Rs 320bn under moratorium (7%)
 - SME ~Rs 230bn under moratorium (8%)
 - 11% of interest income was accrued and deferred, which includes TL and WC loans.
 - Rs 100-110bn of recoveries expected in next 2 quarters including an HFC exposure. These are accounts where bank holds full provisions.
 - Higher slippages in retail during the quarter were due to non-payment by customers that were not eligible for moratorium. Some of these have started paying and should be upgraded by next quarter
 - Base case scenario of 1.5-1.6% slippages during the year remains unchanged
 - The bank made accelerated provisioning of Rs 550bn, including additional Rs 500bn provisioning on HFC exposure during this quarter.
 - The bank does not expect further provisioning on account of ageing. On Rs 420bn of legacy NPA accounts, the bank will provide ~50bps per quarter so that coverage becomes 100% by FY22
- **Housing loans:**
 - No pool purchases in the current quarter.
 - Sanctions where disbursements had not taken place due to lockdown have been processed and disbursed.
 - Processing fees can be taken as a factor of how new loans have moved during the quarter
- **Wage revision:**
 - For the expected impact of salary hikes bank has provided Rs 1000crs on an ad-hoc basis. The bank was earlier providing 400crs per quarter and will now provide 600crs in coming 2 quarters.

- The bank had provided ~Rs 13kcrs in FY20 towards the wage hike as well as retirals. Last year, higher requirements were also due to drop in the yields. 270bn actual requirements vs 130bn of provisions
- Gold loans – giving top ups on gold kept with bank. Available for Agri, Personal and SMEs. SME segment has received good response for the product.
- Under MSME guarantee scheme the bank has sanctioned Rs 21k crs, of which 15kcrs has been disbursed
- RWAs have been reduced as bank has made conscious efforts to improve credit underwriting quality and higher proportion of lending to better rated entities.
- **Subsidiaries –**
 - Performance is good and ample opportunities for the bank to capitalise upon them. The bank is constantly assessing value creation opportunities
 - ~12 subs of which 2 are into retail business which can be leveraged for growth using the bank’s distribution network

Profit and Loss Account (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E
Interest Income	2,428,687	2,573,236	2,749,710	3,023,861
Interest expenses	1,545,198	1,592,388	1,627,147	1,791,636
Net interest income	883,489	980,848	1,122,563	1,232,226
Other incomes	352,143	390,058	374,951	393,773
Total expenses	696,877	751,737	806,289	875,736
- Employee cost	410,547	457,150	502,865	563,208
- Other	286,330	294,587	303,425	312,528
Pre provisioning profit	538,755	619,170	691,225	750,263
Provisions	538,286	430,699	537,556	484,459
Profit before taxes	469	188,471	153,669	265,803
Tax provision	7,452	105,747	42,454	66,903
Profit after tax	(6,983)	82,725	111,215	198,901
Adjusted profit	(6,983)	82,725	111,215	198,901

Balance Sheet (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	8,925	8,925	8,925	8,925
Reserves & Surplus	2,200,213	2,311,150	2,416,194	2,595,521
Minority Interest	0	0	0	0
Net worth	2,209,138	2,320,074	2,425,118	2,604,446
Borrowings	4,030,171	3,146,557	3,645,167	4,162,507
- Deposits	29,113,860	32,416,207	34,725,015	37,462,560
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	1,455,973	1,631,101	1,768,090	1,943,319
Total Liabilities	36,809,142	39,513,939	42,563,391	46,172,832
Application of Funds				
Cash and balances with RBI	2,224,901	2,510,970	2,793,247	2,771,015
Investments	9,670,219	10,469,545	11,860,400	12,728,840
Advances	21,858,769	23,252,896	24,415,540	26,857,094
Fixed assets	398,862	384,393	395,339	407,131
Other current assets, loans and advances	2,663,277	2,896,136	3,098,865	3,408,751
Total Assets	36,816,029	39,513,939	42,563,391	46,172,832

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Yield on advances	7.8	8.0	8.0	8.1
Yields on interest earning assets	7.4	7.4	7.3	7.4
Yield on investments	7.3	6.8	6.6	6.8
Costs of funds	4.8	4.6	4.5	4.6
Cost of deposits	5.0	4.8	4.5	4.6
NIMs	2.7	2.8	3.0	3.0
(B) Asset quality and capital ratios (%)				
GNPA	7.5	6.2	7.4	6.7
NNPA	3.0	2.2	3.1	2.9
PCR	62.1	65.2	60.0	59.0
Slippages	2.1	2.5	4.0	3.2
NNPA to NW	33.4	24.9	34.2	32.6
CASA	46.1	45.2	46.0	46.0
CAR	12.7	13.1	11.5	11.2
Tier 1	10.7	11.0	9.9	9.9
Credit - Deposit	75.1	71.7	70.3	71.7
(C) Dupont as a percentage of average assets				
Interest income	6.8	6.7	6.7	6.8
Interest expenses	4.3	4.2	4.0	4.0
Net interest income	2.5	2.6	2.7	2.8
Non interest Income	1.0	1.0	0.9	0.9
Total expenses	2.0	2.0	2.0	2.0
- cost to income	56.4	54.8	53.8	53.9
Provisions	1.5	1.1	1.3	1.1
Tax	0.0	0.3	0.1	0.2
RoA	0.0	0.4	0.3	0.4
Leverage	18.8	19.0	19.5	19.6
RoE	0.4	6.4	5.3	7.9
RoRwa	0.0	0.7	0.5	0.8
(D) Measures of Investments				
EPS - adjusted	1.0	16.2	14.1	22.3
BV	219.9	233.3	244.3	263.6
ABV	144.8	174.6	160.0	176.7
DPS	2.0	2.6	2.5	2.5
(E) Growth Ratios (%)				
Net interest income	18.0	11.0	14.4	9.8
PPoP	(0.4)	14.9	11.6	8.5
Adj PAT	(94.2)	(1284.7)	34.4	78.8
Advances	13.0	6.4	5.0	10.0
Total borrowings	11.3	(21.9)	15.8	14.2
Total assets	6.6	7.3	7.7	8.5
(F) Valuation Ratios				
Market Cap (Rs. mn)	1,708,615	1,708,615	1,708,615	1,708,615
CMP (Rs.)	191	191	191	191
P/E (x)	198.2	11.8	13.5	8.6
P/BV (x)	0.9	0.8	0.8	0.7
P/ABV (x)	1.3	1.1	1.2	1.1

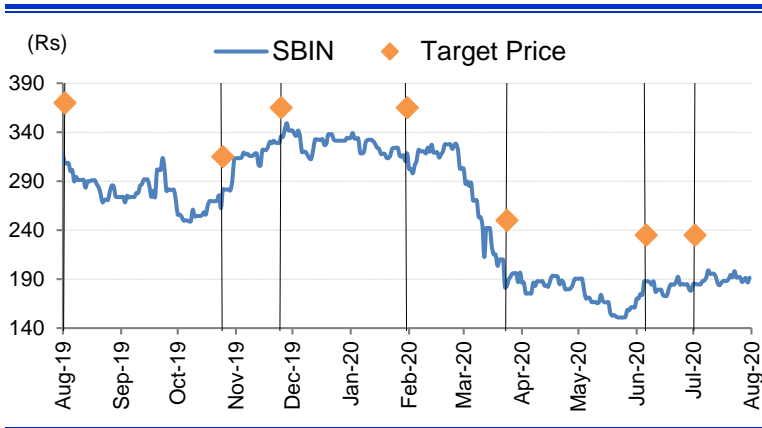
E – Estimates

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 (Rs.)	Price (Rs.)
Aug-19	Accumulate	370	308
Oct-19	Accumulate	315	282
Nov-19	Accumulate	365	336
Jan-20	Accumulate	365	318
Mar-20	Accumulate	250	183
Apr-20	Buy	235	188
Jul-20	Buy	235	185

*Price as on recommendation date

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