

Retail Equity Research

State Bank of India (SBI)

Banking

BSE CODE: 500112

NSE CODE: SBIN

Bloomberg CODE: SBIN:IN

SENSEX: 38,025

BUY

12M Investment period Rating as per Large cap
CMP Rs.191 TARGET Rs. 246 RETURN 29% ↑
(Closing: 06-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Decent performance; Outlook promising

State Bank of India is India's largest bank. The bank operates 21,959 branches globally and has a vast network of 58,599 ATMs/CDMs. It provides a wide range of financial services, such as insurance, credit cards and asset management, through its subsidiaries.

- Operating profit came in at Rs. 18,061cr (+36.35% YoY) primarily on higher interest income; PAT rose 81.2% YoY to Rs. 4,189cr.
- GNPA/NNPA ratio improved to 5.44%/1.86% (vs. 6.15%/2.23% in Q4FY20); Slippages down to 0.60% (vs. 1.41% in Q4FY20).
- Share of alternate channels in total transactions has increased from 90% in Q1FY20 to 93% in Q1FY21. The bank saw a 33.0% increase in loan processing fee indicated an uptick in the loan disbursements.
- Backed by a well-diversified loan portfolio and strong balance sheet with lower exposure to high risk sectors, we believe that the bank's valuation remains attractive. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 246 (SOTP).

Solid operating metrics along with a one-off profit boosts PAT

Interest income rose 6.2% YoY to Rs. 66,500cr this quarter, mainly boosted by other interest income (+32.9% YoY) and Interest on resources (+18.2% YoY). With cost of deposits continuing to come down for the straight fourth quarter (4.5% in Q1FY21), NII registered healthy growth of 16.1% YoY and domestic NIM improving 30bps YoY to 3.3% at the end of this quarter. Cost to income ratio also improved 719bps YoY which reduced to 50.0%, as a result of which the operating profit increased to Rs. 18,061cr. (+36.4% YoY). The bank made a COVID-19 related provision of Rs. 3,000cr and a loan loss provision of Rs. 9,420cr (-19% YoY) this quarter. With the sale of a small stake in SBI Life yielding a one-off gain of Rs. 1,540cr, the PAT stood at Rs. 4,190cr this quarter, recording a jump of 81.2% as compared to Q1FY20.

Asset quality improves further

Although gross advances saw a slight dip to Rs. 2,385,639cr (-1.5% QoQ), while there was robust growth in deposits at Rs. 3,419,363cr (+5.5% QoQ) as the domestic CASA rose 6.2% QoQ. As a result the CASA ratio improved 18bps QoQ to 45.3% this quarter. Fresh slippages was well controlled at Rs. 3,637cr (vs. 16,212cr in Q1FY20) and the overall slippage ratio declined to 0.6% from 2.8% in Q1FY20. With credit cost declining 51bps QoQ, the asset quality continues to improve this quarter, as GNPA declines 71bps QoQ to 5.4% and NNPA comes down 37bps QoQ to 1.9%. At the end of this quarter PCR had improved 270bps QoQ to 86.3% and the bank remains well capitalized with capital adequacy at 13.4% (+34bps QoQ).

Key con-call highlights

- About 9.5% of the total loan book (Rs. 1.55tn) is under moratorium with Rs. 320bn from housing loan are backed by securities.
- Although having provided fully for any fraud account the Bank expects around Rs. 10,000-11,000cr to be recovered from a steel account and a power sector account resolution in the next 2 quarters.

Outlook & Valuation

Backed by a well-diversified loan portfolio and a strong balance sheet with lower exposure to high risk sectors, we believe that the bank's valuation remains attractive. Hence, we reiterate our BUY rating with a target price of Rs. 246 using the SOTP methodology, valuing the standalone bank at 0.57x FY22E BVPS at Rs. 173 and subsidiaries at Rs. 73.

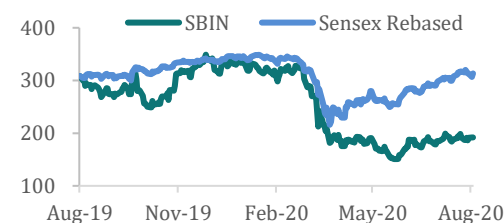
Company Data

Market Cap (cr)	Rs. 171,906
Outstanding Shares (cr)	892.7
Free Float	43.0%
Dividend Yield	0.0%
52 week high	Rs. 351
52 week low	Rs. 150
6m average volume (cr)	0.4
Beta	1.1
Face value	Rs. 1.0

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	57.7	57.6	57.6
FII's	11.0	9.6	7.9
MFs/Insti	24.6	24.7	24.9
Public	6.8	8.1	9.6
Others	1.6	2.1	2.2
Total	100.0	100.0	100.0
Promoters' Pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	12.3%	-38.4%	-36.2%
Absolute Sensex	19.7%	-8.5%	2.6%
Relative Return*	-7.4%	-30.0%	-38.8%

*over- or underperformance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Net Interest Income	98,085	105,778	116,750
Growth (%)	11.0	7.8	10.4
NIM (%)	3.0	2.9	3.1
Pre-provision Profit	68,133	71,061	87,147
Net Profit	14,488	12,162	21,552
Growth (%)	n.m.	(16.1)	77.2
Adj. EPS	16.2	13.6	24.1
Growth (%)	119.3	(16.1)	77.2
BVPS	270.7	278.6	302.7
Adj. BVPS	212.6	219.2	242.1
P/E	12.1	14.1	7.9
P/B	0.7	0.7	0.6
P/ABV	0.9	0.9	0.8
ROE (%)	7.7	5.0	8.3
ROA (%)	0.4	0.3	0.5

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Interest Income	66,500	62,637	6.2	62,681	6.1
Interest Expense	39,858	39,699	0.4	39,914	(0.1)
Net Interest Income (NII)	26,642	22,938	16.1	22,767	17.0
Non-Interest Income	7,957	8,015	(0.7)	13,346	(40.4)
Total Net Income	34,600	30,954	11.8	36,113	(4.2)
Total Income	74,458	70,653	5.4	76,027	(2.1)
Operating Expenses	18,078	17,708	2.1	20,380	(11.3)
Total Expenditure	57,936	57,407	0.9	60,294	(3.9)
Pre-Provision profit	16,522	13,246	24.7	15,733	5.0
Provisions	12,501	9,183	36.1	13,495	(7.4)
Profit Before Tax	4,021	4,063	(1.0)	2,238	79.7
Adj.	1,540	-	n.m.	2,731	n.m.
Adj. PBT	5,561	4,063	36.9	4,969	11.9
Tax	1,370	1,751	(21.7)	1,389	(1.3)
Adj. Profit	4,190	2,312	81.3	3,580	17.0
Adj. EPS - Diluted (Rs.)	4.7	2.6	81.1	4.0	16.8

Change in Estimates

(Rs. cr)	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	104,450	119,947	105,778	116,750	1.3	(2.7)
Net Interest Margin (%)	3.0	3.2	2.9	3.1	(6bps)	(11bps)
Pre-Provision Profit	70,161	86,555	71,061	87,147	1.3	0.7
Net Profit	14,030	24,344	12,162	21,552	(13.3)	(11.5)
Adj. EPS (Rs.)	16.2	15.7	16.2	13.6	0.2	(13.3)

Business Performance

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Advances	2,179,285	2,134,774	2.1	2,298,346	(5.2)
Deposits	2,978,835	2,948,821	1.0	3,419,363	(12.9)
Business	5,158,120	5,083,595	1.5	5,717,709	(9.8)
Gross NPA	129,661	168,494	(23.0)	149,092	(13.0)
Net NPA	42,704	65,624	(34.9)	51,871	(17.7)

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr)	Value/share (Rs.)
Bank	FY22E P/BV	0.6x	100.0%	154,153	173
Life Insurance	Current Market cap		57.6%	51,051	57
AMC	5% of Current AUM		100.0%	18,200	20
Others	FY22E P/BV	1.0x	100.0%	12,406	14
Total Value of subsidiaries				81,656	91
(20% holding discount)					(18)
Target Price					246

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	220,500	242,868	257,324	276,139	293,382
Interest Expense	145,645	154,519	159,239	170,361	176,631
Net Int. Income	74,855	88,349	98,085	105,778	116,750
% Change	(0.5)	18.0	11.0	7.8	10.4
Non-Int. Income	44,601	36,775	45,221	47,483	49,857
Net Income	119,456	125,124	143,306	153,261	166,607
Total Income	265,101	279,643	302,545	323,622	343,238
Operating Exp.	59,944	69,688	75,174	82,200	79,460
Total Exp.	205,589	224,207	234,412	252,561	256,091
Pre-Prov. Profit	59,512	55,436	68,133	71,061	87,147
Provisions	75,039	53,829	43,070	54,286	57,421
PBT	(15,527)	1,607	25,063	16,775	29,727
Tax	(8,981)	745	10,575	4,613	8,175
Tax Rate (%)	57.8	46.4	42.2	27.5	27.5
Net Profit	(6,546)	862	14,488	12,162	21,552
% Change	n.m.	n.m.	1,580.8	(16.1)	77.2
No. of Shares (cr)	853	889	893	893	893
Adj. EPS (Rs.)	(7.7)	7.4	16.2	13.6	24.1
% Change	n.m.	n.m.	119.3	(16.1)	77.2
DPS (Rs.)	0.0	0.0	0.0	0.0	0.0

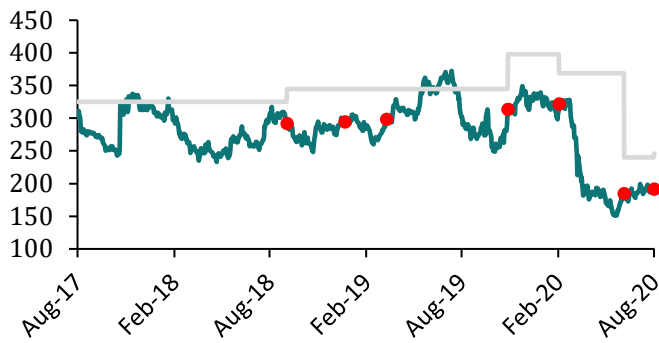
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	191,898	222,490	260,395	263,372	281,804
Investments	1,060,987	967,022	1,225,228	1,261,985	1,299,844
Advances	1,934,880	2,185,877	2,298,346	2,422,134	2,570,962
Fixed Assets	39,992	39,198	38,245	37,480	36,730
Other Assets	226,994	266,328	295,717	298,674	310,621
Total Assets	3,454,751	3,680,914	4,117,931	4,283,645	4,499,962
Capital	892	892	892	892	892
Reserves & Surplus	218,236	220,021	240,763	248,000	269,552
Deposits	2,706,343	2,911,386	3,419,363	3,511,868	3,806,740
Borrowings	362,142	403,017	312,996	325,516	332,026
Other Liabilities	167,138	145,597	143,917	197,369	90,752
Total Liabilities	3,454,751	3,680,914	4,117,931	4,283,645	4,499,962
BVPS (Rs.)	256.8	248.6	270.7	278.6	302.7
Adj. BVPS (Rs.)	126.9	174.4	212.6	219.2	242.1
% Change	(10.6)	37.5	21.9	3.1	10.4

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Valuation					
P/E (x)	n.m.	43.3	12.1	14.1	7.9
P/BV (x)	1.0	1.3	0.7	0.7	0.6
P/ABV (x)	2.0	1.8	0.9	0.9	0.8
Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
Profitab. & Return (%)					
Yield on Advances	8.3	8.5	8.0	7.5	8.0
Cost of Deposits	5.3	5.1	5.0	4.9	4.8
Spread	3.0	3.4	3.0	2.6	3.1
NIM	2.5	2.8	3.0	2.9	3.1
ROE	(3.8)	0.5	7.7	5.0	8.3
ROA	(0.2)	0.0	0.4	0.3	0.5
Capital Adequacy (%)					
CAR	12.6	12.7	13.1	12.8	13.5
Tier I	10.4	10.7	11.0	10.8	11.3
Tier II	2.2	2.1	2.1	2.0	2.1
Asset Quality (%)					
GNPA	10.9	7.5	6.2	6.3	6.1
NNPA	5.7	3.0	2.2	2.2	2.1
Operating Ratios (%)					
Credit/ Deposit	71.5	75.1	67.2	69.0	67.5
Cost/ Income	50.2	55.7	52.5	53.6	47.7
CASA	45.7	45.7	45.2	44.3	45.0

Recommendation Summary



Dates	Rating	Target
29-May-17	BUY	325
7-Sep-18	BUY	345
26-Dec-18	BUY	345
15-Mar-19	BUY	345
1-Nov-19	BUY	398
6-Feb-20	BUY	369
9-Jun-20	BUY	240
6-Aug-20	BUY	246

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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