

# State Bank of India

Estimate change



TP change



Rating change



Bloomberg	SBIN IN
Equity Shares (m)	8,925
M.Cap.(INRb)/(USDb)	1847.8 / 24.4
52-Week Range (INR)	351 / 150
1, 6, 12 Rel. Per (%)	4/-12/-35
12M Avg Val (INR M)	13246

## Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
NII	980.8	1,117.8	1,232.8
OP	681.3	749.8	815.9
NP	144.9	216.5	302.3
NIM (%)	3.0	3.1	3.0
EPS (INR)	16.2	24.3	33.9
EPS Gr. (%)	NM	49.4	39.7
ABV (INR)	186.7	215.9	242.5
Cons. BV (INR)	266.7	294.6	332.9

## Ratios

RoE (%)	7.2	9.9	12.4
RoA (%)	0.4	0.5	0.7

## Valuations

P/BV (x) (Cons.)	0.8	0.7	0.6
P/ABV (x)	0.4	0.4	0.3
P/E (x)	4.8	3.2	2.3

\*Adjusted for subsidiaries

## Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	56.9	56.9	57.1
DII	25.2	24.6	24.1
FII	8.9	9.1	12.0
Others	9.0	9.4	6.8

FII Includes depository receipts

CMP: INR207

TP: INR300 (+45%)

Buy

## Asset quality outlook encouraging; valuations extremely compelling

### Earnings normalization begins – sharply raise FY21/FY22E by 45%/24%

- State Bank of India (SBIN) reported a decent quarter, with healthy NII growth, led by margin expansion, and retail credit growth recovering to pre-COVID levels. On the asset quality front, potential slippages (without the SC order) increased to INR171b, led by the Agri and SME segments. Management indicated total restructuring of INR200b (~0.9% of loans) and a total asset quality impact of INR600b (including restructuring) in FY21E, corresponding to 2.6% of loans. Collection efficiency (CE) recovered sharply to 97%, in line with other large private lenders.
- We believe the earnings normalization cycle for SBIN has begun as the uncertainty brought about by the pandemic is receding significantly. We sharply raise our FY21/FY22 estimates by 45%/24%, led by healthy NII and moderation in credit cost. The core bank is trading at a cheap valuation of 1x FY22E core PPOp and 2.3x FY22E P/E; we thus **reiterate Buy, with TP of INR300**.

## Strong operating performance; CE at ~97% comparable with best-in-class private peers

- SBIN reported 2QFY21 PAT of INR45.7b, led by strong NII (5% beat), aided by a 10bp QoQ expansion in domestic margins and lower provisions. Total additional provisions in 2Q (including COVID, potential restructuring, and estimated slippages without the SC order) stood at INR40.8b, taking the total additional provision buffer to INR70.9b. For 1HFY21, NII/PPoP grew 15%/10% and PAT grew 65% YoY to INR87.6b.
- Other income (excluding treasury gains and stake sale) declined 5% YoY. However, it picked up sequentially (36% QoQ) as retail disbursements returned to pre-COVID levels. Opex grew 10% YoY, led by a one-off of INR16b in employee expenses due to wage-related negotiations. Thus, the C/I ratio stood at 55.2% v/s 50.3% in 2QFY20. Overall, core PPoP grew 9.5% YoY.
- Advances grew ~7% YoY, with higher retail loans (+14.5% YoY), led by home loans (10% YoY). On the other hand, corporate loan growth was muted at 2.8% YoY. Overall, retail credit trends are back at pre-COVID levels, with disbursements seen in home loans (12% YoY), auto loans (27% YoY), and personal loans (61% YoY) in Sep'20. Deposit growth remains strong at ~14% YoY, with domestic CASA deposits up 15% YoY. On the other hand, the CASA mix improved 5bp QoQ to ~45.4%.
- Total slippages stood at INR30.8b. If not for the SC order, potential slippages would have been INR171b (of this, ~INR59.6b was recovered in Oct'20). Thus, the proforma GNPA/NNPA ratio would have been 5.88%/2.08% (v/s 5.28%/1.59% currently). The increase in slippages was primarily led by the Agri and SME segments, while corporate slippages declined sharply. Overall, PCR improved by ~400bp QoQ to ~71%, with the corporate portfolio PCR improving to 88%.

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- Total restructuring requests received in Oct'20 stood at ~INR65b. Expect additional restructuring of INR130b up to Dec'20. Overall, expect an asset quality impact of INR600b (including slippages and restructuring) in FY21, accounting for 2.6% of loans. Furthermore, total SMA overdue (above INR50m) currently stands at ~INR120b (~0.5% of loans).
- **Collection efficiency:** CE in the domestic loan book (excluding the Agri segment) stood at 97% as of Sep'20.
- **Subs' performances remain robust:** Performances of subsidiaries remained strong, with PAT for SBI Life, SBI AMC, and SBI General Insurance coming in at INR3.0b (+131% YoY), INR2.0b (+21% YoY), and INR1.7b (+36% YoY), respectively. SBI Cards, on the other hand, saw moderation in PAT by 46% YoY to INR2.1b (INR6.0b over 1HFY21).

#### Highlights from management commentary

- Total disbursements under the credit guarantee scheme stood at INR220b (sanctions of INR250b).
- Collection efficiency in the unsecured portfolio was the highest as 94% of the customer base comprises the employees of PSU entities.
- Overall, expect recovery of INR70b over the next two quarters from stressed assets.

#### Valuation and view

SBIN reported a healthy performance in a challenging environment. Deposit growth stood strong and the cut in SA/TD rates enabled margin improvement. On the asset quality front, CE improved sharply to 97%, in line with large private peers. On the other hand, the bank expects a total asset quality impact of INR600b (2.6% of net advances), including restructuring of <1%. SBIN has prudently improved PCR over the last few years, with corporate PCR at 88%. It awaits healthy write-backs from the resolution of stressed assets. We sharply upgrade our earnings estimate for FY21/FY22 by 45%/24% as we factor in higher NII growth and moderation in credit cost. We thus project RoA/RoE of 0.7%/12.4% by FY22. The core bank trades at a cheap valuation of 1x FY22E core PPOP and 2.3x FY22E P/E. **Reiterate BUY**, with TP of INR300 (0.7x Sep'22e ABV).

#### Quarterly performance

Y/E March									(INR b)			
	FY20				FY21E				FY20	FY21E	FY21	V/s
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Est
<b>Net Interest Income</b>	229.4	246.0	277.8	227.7	266.4	281.8	282.8	286.8	980.8	1,117.8	268.9	5%
% Change (YoY)	5.2	17.7	22.4	-0.8	16.1	14.6	1.8	26.0	11.0	14.0	9.3	
Other Income	80.2	120.2	91.1	160.8	95.0	85.3	108.2	127.6	452.2	416.0	88.3	-3%
<b>Total Income</b>	<b>309.5</b>	<b>366.2</b>	<b>368.8</b>	<b>388.4</b>	<b>361.4</b>	<b>367.1</b>	<b>391.0</b>	<b>414.4</b>	<b>1,433.1</b>	<b>1,533.9</b>	<b>357.3</b>	<b>3%</b>
Operating Expenses	177.1	184.2	186.6	203.8	180.8	202.5	199.4	201.5	751.7	784.1	188.2	8%
<b>Operating Profit</b>	<b>132.5</b>	<b>182.0</b>	<b>182.2</b>	<b>184.7</b>	<b>180.6</b>	<b>164.6</b>	<b>191.6</b>	<b>212.9</b>	<b>681.3</b>	<b>749.8</b>	<b>169.1</b>	<b>-3%</b>
% Change (YoY)	10.6	30.9	44.3	9.0	36.3	-9.6	5.2	15.3	22.9	10.0	-7.1	
Other Provisions	91.8	131.4	72.5	135.0	125.0	101.2	118.6	112.5	430.7	457.2	126.7	-20%
<b>Profit before Tax</b>	<b>40.6</b>	<b>50.6</b>	<b>109.7</b>	<b>49.7</b>	<b>55.6</b>	<b>63.4</b>	<b>73.1</b>	<b>100.5</b>	<b>250.6</b>	<b>292.5</b>	<b>42.3</b>	<b>50%</b>
Tax Provisions	17.5	20.5	53.9	13.9	13.7	17.7	18.6	26.1	105.7	76.1	10.8	64%
<b>Net Profit</b>	<b>23.1</b>	<b>30.1</b>	<b>55.8</b>	<b>35.8</b>	<b>41.9</b>	<b>45.7</b>	<b>54.5</b>	<b>74.4</b>	<b>144.9</b>	<b>216.5</b>	<b>31.5</b>	<b>45%</b>
% Change (YoY)	NM	218.7	41.2	327.1	81.2	51.9	-2.4	107.7	NM	49.4	4.7	
<b>Operating Parameters</b>												
Deposits (INR t)	29.5	30.3	31.1	32.4	34.2	34.7	35.6	36.4	32.4	36.4	35.1	-1.2%
Loans (INR t)	21.3	21.5	22.0	23.3	23.0	22.9	23.7	24.4	23.3	24.4	23.1	-0.8%
Deposit Growth (%)	7.3	8.0	9.9	11.3	16.0	14.4	14.5	12.4	11.3	12.4	15.8	(143)
Loan Growth (%)	13.8	9.6	7.4	6.4	7.7	6.9	7.7	5.0	6.4	5.0	7.7	(81)
<b>Asset Quality</b>												
Gross NPA (%)	7.5	7.2	6.9	6.2	5.4	5.3	5.8	6.0	6.2	6.0	5.2	12
Net NPA (%)	3.1	2.8	2.7	2.2	1.9	1.6	2.0	1.9	2.2	1.9	1.7	(10)
PCR (%)	61.1	62.9	63.5	65.2	67.1	71.0	67.0	70.4	65.2	70.4	68.4	264

## Quarterly snapshot

INR b	FY19				FY20				FY21		Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY	QoQ
<b>Profit and Loss</b>												
<b>Interest Income</b>	<b>588.1</b>	<b>587.9</b>	<b>622.8</b>	<b>629.9</b>	<b>626.4</b>	<b>643.1</b>	<b>676.9</b>	<b>626.8</b>	<b>665.0</b>	<b>668.1</b>	<b>4</b>	<b>0</b>
Loans	388.7	383.3	418.2	426.3	438.6	452.4	480.6	425.8	441.0	433.8	-4	-2
Investment	185.9	190.8	188.2	179.1	169.6	167.0	172.3	173.2	187.1	202.5	21	8
<b>Interest Expenses</b>	<b>370.1</b>	<b>378.9</b>	<b>395.9</b>	<b>400.3</b>	<b>397.0</b>	<b>397.1</b>	<b>399.1</b>	<b>399.1</b>	<b>398.6</b>	<b>386.3</b>	<b>-3</b>	<b>-3</b>
<b>Net Interest Income</b>	<b>218.0</b>	<b>209.1</b>	<b>226.9</b>	<b>229.5</b>	<b>229.4</b>	<b>246.0</b>	<b>277.8</b>	<b>227.7</b>	<b>266.4</b>	<b>281.8</b>	<b>15</b>	<b>6</b>
<b>Other Income</b>	<b>66.8</b>	<b>93.8</b>	<b>80.4</b>	<b>126.9</b>	<b>80.2</b>	<b>120.2</b>	<b>91.1</b>	<b>160.8</b>	<b>95.0</b>	<b>85.3</b>	<b>-29</b>	<b>-10</b>
Trading profits	-12.6	13.3	4.3	5.3	4.9	41.6	7.0	32.4	40.3	10.8	-74	-73
Fee Income	49.8	50.2	47.2	85.9	51.8	50.4	56.4	78.7	44.7	52.4	4	17
Forex Income	4.3	4.9	5.6	6.7	5.2	6.7	6.4	6.9	4.7	5.3	-22	13
Others	25.4	25.4	23.2	28.9	18.4	21.5	21.4	42.8	5.3	16.7	-22	214
<b>Total Income</b>	<b>284.8</b>	<b>302.8</b>	<b>307.3</b>	<b>356.4</b>	<b>309.5</b>	<b>366.2</b>	<b>368.8</b>	<b>388.4</b>	<b>361.4</b>	<b>367.1</b>	<b>0</b>	<b>2</b>
<b>Operating Expenses</b>	<b>165.0</b>	<b>163.8</b>	<b>181.0</b>	<b>187.1</b>	<b>177.1</b>	<b>184.2</b>	<b>186.6</b>	<b>203.8</b>	<b>180.8</b>	<b>202.5</b>	<b>10</b>	<b>12</b>
Employee	97.1	97.0	111.7	104.8	109.2	113.0	114.6	120.4	118.7	125.7	11	6
Others	68.0	66.8	69.3	82.3	67.9	71.2	72.1	83.4	62.1	76.8	8	24
<b>Operating Profits</b>	<b>119.7</b>	<b>139.0</b>	<b>126.2</b>	<b>169.3</b>	<b>132.5</b>	<b>182.0</b>	<b>182.2</b>	<b>184.7</b>	<b>180.6</b>	<b>164.6</b>	<b>-10</b>	<b>-9</b>
<b>Core Operating Profits</b>	<b>113.1</b>	<b>125.8</b>	<b>122.0</b>	<b>164.0</b>	<b>108.3</b>	<b>140.4</b>	<b>175.3</b>	<b>152.3</b>	<b>121.1</b>	<b>153.8</b>	<b>10</b>	<b>27</b>
<b>Provisions</b>	<b>192.3</b>	<b>120.9</b>	<b>60.1</b>	<b>165.0</b>	<b>91.8</b>	<b>131.4</b>	<b>72.5</b>	<b>135.0</b>	<b>125.0</b>	<b>101.2</b>	<b>-23</b>	<b>-19</b>
<b>PBT</b>	<b>-72.6</b>	<b>18.1</b>	<b>66.2</b>	<b>4.3</b>	<b>40.6</b>	<b>50.6</b>	<b>109.7</b>	<b>49.7</b>	<b>55.6</b>	<b>63.4</b>	<b>25</b>	<b>14</b>
Taxes	-23.8	8.7	26.6	-4.1	17.5	20.5	53.9	13.9	13.7	17.7	-14	29
<b>PAT</b>	<b>-48.8</b>	<b>9.4</b>	<b>39.5</b>	<b>8.4</b>	<b>23.1</b>	<b>30.1</b>	<b>55.8</b>	<b>35.8</b>	<b>41.9</b>	<b>45.7</b>	<b>52</b>	<b>9</b>
<b>Balance Sheet (INR t)</b>												
Deposits	27.5	28.1	28.3	29.1	29.5	30.3	31.1	32.4	34.2	34.7	14	1
Loans	18.8	19.6	20.5	21.9	21.3	21.5	22.0	23.3	23.0	22.9	7	0
<b>Asset Quality (INR b)</b>												
GNPA	2,128.4	2,058.6	1,877.6	1,727.5	1,684.9	1,616.4	1,596.6	1,490.9	1,296.6	1,258.6	-22	-3
NNPA	992.4	948.1	809.4	658.9	656.2	599.4	582.5	518.7	427.0	364.5	-39	-15
Slippages	143.5	108.9	65.4	79.6	170.0	91.3	201.0	82.9	39.1	30.9	-66	-21
<b>Ratios</b>	FY19				FY20				FY21		Change (bps)	
<b>Asset Quality Ratio (%)</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>YoY</b>	<b>QoQ</b>
GNPA	10.7	10.0	8.7	7.5	7.5	7.2	6.9	6.2	5.4	5.3	(191)	(16)
NNPA	5.3	4.8	4.0	3.0	3.1	2.8	2.7	2.2	1.9	1.6	(120)	(27)
PCR (Cal.)	53.4	53.9	56.9	61.9	61.1	62.9	63.5	65.2	67.1	71.0	812	397
PCR (Rep.)	69.3	70.7	74.6	78.7	79.3	81.2	81.7	83.6	86.3	88.2	696	187
<b>Business Ratios (%)</b>												
Fees to Total Income	17.5	16.6	15.4	24.1	16.7	13.8	15.3	20.3	12.4	14.3	52	191
Cost to Core Income	55.5	56.6	59.7	53.3	58.1	56.8	51.6	57.2	56.3	56.8	9	55
Tax Rate	32.8	47.9	40.2	-94.4	43.1	40.5	49.1	28.0	24.6	27.9	(1,261)	322
Loan/Deposit	68.3	69.7	72.3	75.1	72.4	70.8	70.7	71.7	67.2	66.1	(465)	(112)
CAR	12.8	12.6	12.8	12.7	12.9	13.6	13.7	13.1	13.4	14.7	113	132
Tier I	10.5	10.4	10.5	10.7	10.7	11.3	11.6	11.0	11.4	11.9	59	55
<b>Profitability Ratios (%)</b>												
Yield on Advances	8.6	8.4	8.5	8.5	8.6	8.7	8.9	8.7	8.4	8.2	(47)	(13)
Yield on Investments	7.0	7.1	7.1	7.2	7.1	6.9	6.9	6.7	6.6	6.3	(58)	(24)
Yield On Funds	7.8	7.8	8.0	8.0	7.9	8.1	8.3	7.4	7.5	7.3	(77)	(17)
Cost of Deposits	5.1	5.1	5.1	5.1	5.1	5.0	5.0	4.9	4.5	4.4	(67)	(13)
Margins	2.8	2.7	2.8	2.8	2.8	3.0	3.1	3.0	3.0	3.1	13	11
RoA	-0.6	0.1	0.5	0.1	0.3	0.3	0.6	0.4	0.4	0.4	11	2



## Highlights from management commentary

### Balance sheet related

- Upward movement is seen in economic activity, with activity levels at 70–80% of pre-COVID levels.
- The spike in operating expenses was due to the renegotiation of salary hikes to 15% (v/s 10% earlier) and related hikes in long-term benefits.
- A run-rate increase of INR2b would be seen on a monthly basis in salary bills on an ongoing basis.
- Interest reversal for potential slippages stands at INR8.68b on NII, which will have an impact of 5bp on margins. Post the pullback in October, this would reduce by ~50%.
- Total sanctions under the ECLG scheme stood at INR350b, with disbursements of INR320b.
- The loan book of PSU banks is expected to pick up over the next two quarters. Corporate demand is also seeing some uptick.
- More than two-thirds of the personal loan book (~70%) is toward government employees and penetration is ~19%. See an opportunity of INR300b over the next two quarters.
- 94% of the express credit book is toward government and defense employees, while 100% of the book is toward salaried customers.
- The bank is undertaking steps to increasing the productivity of employees and increase revenue per employee. 17–20% of employees have been transferred from administration loans to customer-facing loans.

### Asset quality related

- CE for October improved to 97.5%.
- Of the potential slippages of INR144b, ~INR60b was pulled back in October.
- ~INR30b slippages from the SME book were pulled back in October, while ~INR11b were pulled back from Agri book. For corporate, the same was INR8b.
- Much of the increase in the Agri/SME book was due to the restricted movement of collection agents, which is likely to improve in the coming quarters.
- CE in home loans was slightly lower v/s unsecured personal loans as much of the unsecured personal loans are toward corporate salaried employees.
- PCR on the corporate book stands at ~88%; thus, the legacy book has been well provided.
- **Restructuring:** It received a restructuring request of INR25b on the retail book and INR40b on the corporate book. Thus, total requests stand at ~INR65b.
- Recoveries/Resolution saw an uptick in 2Q. Expect the NCLT resolution to pick up post-Dec. The bank expects to double recoveries (INR60–70b) over 2HFY21, excluding the steel account and the HFC account.
- 70% of home loans are toward salaried customers, with ~50% being PSU employees and ~20% being employees of well-rated private entities. Furthermore, most of the borrowers are first-time home owners.

### Guidance/Others

- The bank has channelized loans of INR250b and deposits of INR600b through YONO and is registering ~6k customers on a daily basis.
- At some stage, the bank would consider unlocking value through YONO.
- The bank is confident of achieving growth opportunities through its internal accrual and is not looking for a capital raise in the near term.

## Key exhibits

Reported slippages moderated, aided by the SC order. If not for the SC order, slippages would have been higher, led by Agri and SME.

### Slippages under control, aided by SC order; SMA pool increases sequentially

- Total slippages for the quarter stood at INR30.9b, aided by the SC order. If not for the SC order, slippages would have been higher by INR144b to INR171b. The slippages were led by the Agri (INR9.1b) and SME (INR5.1b) segments, while corporate and retail slippages stood at INR1.0b and INR828m, respectively.
- Recoveries/Upgrades picked up to INR40.4b, while write-offs for the quarter stood at INR68.8b. As a result, absolute GNPA/NNPA declined 3%/15% QoQ to INR1.26t/INR365b. The GNPL/NNPL ratio thus declined to 5.28% (-16bp QoQ) / 1.59% (-27bp QoQ). The bank's reported PCR increased 187bp QoQ to 88.2%. If not for the SC order, GNPA/NNPA would have been higher at 5.88%/2.08%.
- GNPA in the Agriculture segment declined to 14.8% (v/s 15.4% in 1Q); the SME segment declined to 8.2% (v/s 9.1% in 1Q). GNPA in retail moderated to 0.8%, while for the corporate segment, it increased to 7.9%.
- Total SMA-1 and SMA-2 increased sharply to INR119.9b (0.5% of advances) v/s INR17.5b in 1QFY21.

#### Exhibit 1: SMA 1 and SMA 2 increased sharply in 2QFY21

INR b	4QFY19	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
SMA 1	49.96	106.81	44.24	35.94	14.71	85.97
SMA 2	27.66	76.32	36.77	36.72	2.79	33.89
<b>Total</b>	<b>77.62</b>	<b>183.13</b>	<b>81.01</b>	<b>72.66</b>	<b>17.50</b>	<b>119.86</b>

Source: Company, MOFSL

Retail loans grew 14.6% YoY, led by growth in home loans.

### Corporate book de-grows ~2.7% QoQ; retail growth remains strong

- The Retail segment continued to exhibit strong growth (+14.6% YoY), led by healthy growth in home loans (+10.3%). Auto loans grew 1.3% YoY (2.1% QoQ). The retail:wholesale mix now stands at 62:38.
- The corporate book, on the other hand, posted sequential decline of 2.7% QoQ (+2.8% YoY), along with the international book de-growing 6.4% QoQ (+0.7% YoY). The SME book grew by 1.1% YoY (-0.5% YoY) and the Agri book by 4.2% YoY.

#### Exhibit 2: Loan book remains well-diversified – retail: wholesale mix stands at 62:38

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	YoY (%)	QoQ (%)
Large corporate	7,453	7,747	8,516	7,826	7,660	7,710	8,442	8,093	7,876	2.8%	-2.7%
International	2,909	2,763	3,027	3,099	3,202	3,229	3,574	3,445	3,225	0.7%	-6.4%
SME	2,657	2,931	2,886	2,812	2,741	2,780	2,676	2,787	2,772	1.1%	-0.5%
Retail	5,766	6,126	6,478	6,636	6,856	7,198	7,476	7,488	7,853	14.6%	4.9%
Agri	1,907	1,987	2,027	2,011	2,025	2,100	2,061	2,043	2,109	4.2%	3.3%

### Margins expand 10bp QoQ; subs' performances remain strong

- Domestic NIM expanded 10bp QoQ to 3.34%.
- The CET1 ratio stood at 10.5%, with the Tier 1 ratio at 11.9% (CAR of 14.7%).
- **Subsidiaries' performances remain strong:** Performances of subsidiaries remained strong, with PAT for SBI Life, SBI AMC, and SBI General Insurance coming in at INR3.0b (+131% YoY), INR2.0b (+21% YoY), and INR1.7b (+36% YoY), respectively. SBI Cards, on the other hand, witnessed moderation in PAT by 46% YoY to INR2.1b (INR6.0b over 1HFY21).



## Valuation and view

- SBIN is strengthening its balance sheet by creating higher provisions toward stressed accounts. The bank increased its PCR (including TWO) to ~88% in 1QFY21 from ~65% in 1QFY18. SBIN holds higher provision coverage on power NPAs (~73% PCR) v/s peers.
- SBIN does not have exposure to any large-ticket corporate accounts; thus, it has guided that slippage + restructuring would remain at ~2.5% for the duration of the COVID-19 crisis. Also, CE in the domestic book, at ~97%, is in line with other large banks. Furthermore, total COVID-19 provisions of INR71b, including INR32b toward potential slippages, provide comfort.
- Among the PSU banks, SBIN remains the best play on gradual recovery in the Indian economy, with a healthy PCR of 71% (88% including TWO), robust capitalization (Tier 1 of ~11.9%), a strong liability franchise, and improved core operating profitability.
- **Buy, with Target Price of INR300:** SBIN reported a healthy performance in a challenging environment. Deposit growth stood strong and the cut in SA/TD rates enabled margin improvement. On the asset quality front, CE improved sharply to 97%, in line with large private peers. On the other hand, the bank expects a total asset quality impact of INR600b (2.6% of net advances), including restructuring of <1%. SBIN has prudently improved PCR in the last few years, and corporate PCR stands at 88%, while it awaits healthy write-backs from the resolution of stressed assets. We sharply upgrade our earnings estimate for FY21/FY22 by 45%/24% as we factor in higher NII growth and moderation in credit cost. We thus project RoA/RoE of 0.7%/12.4% by FY22. Core bank trades at a cheap valuation of 1x FY22E core PPoP and 2.3x FY22E P/E. **Reiterate BUY**, with TP of INR300 (0.7x Sep'22e ABV).

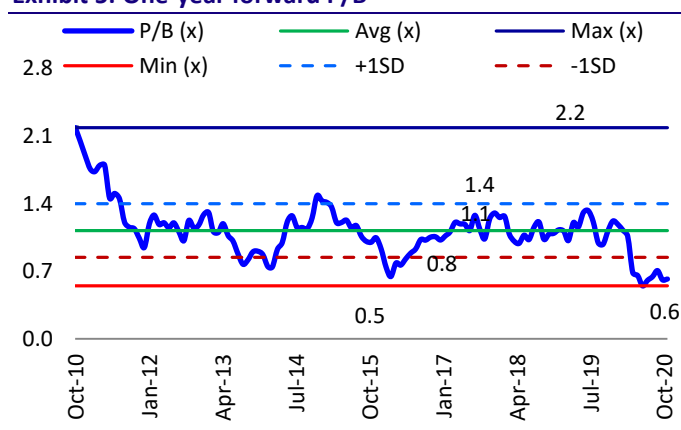
Core bank trades at a cheap valuation of 1x FY22E core PPoP and 2.3x FY22E P/E.

### Exhibit 3: SOTP-based pricing

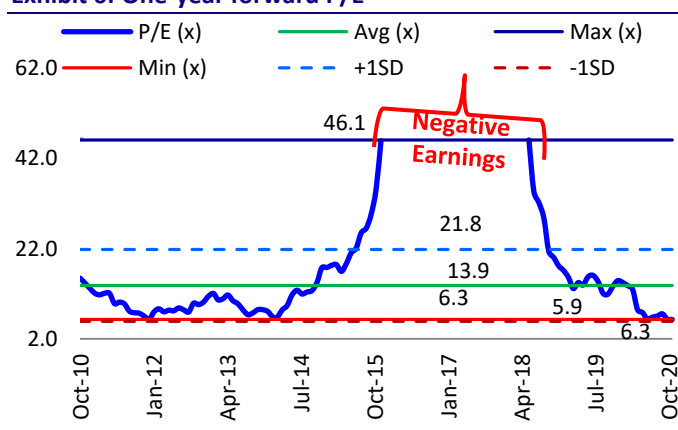
Name	Stake (%)	Value for SBIN (INRb)	Value per Share- (at our PT)	% of total value	Rationale	Value per Share- (at CMP)	% of total value
<b>SBI Bank</b>	<b>100</b>	<b>1,517</b>	<b>170</b>	<b>57</b>	<b>0.7x Sep-22E ABV</b>	<b>78</b>	<b>38</b>
Life insurance	56	577	65	22	2.6x Sep-22E EV	49	24
Cards	69	406	46	15	25x Sep-22E PAT	60	29
Asset management	63	217	24	8	5.5% of Sep-22E AUM	24	12
General insurance	70	171	19	6	25x Sep-22E PAT	19	9
Capital Market/DFHI/Others		75	8	3		8	4
<b>Total Value of Subs</b>		<b>1,446</b>	<b>162</b>	<b>54</b>		<b>161</b>	<b>78</b>
Less: 20% holding disc		289	32	11		32	16
<b>Value of Subs (Post Holding Disc)</b>		<b>1,157</b>	<b>130</b>	<b>43</b>		<b>129</b>	<b>62</b>
<b>Target Price</b>		<b>2,677</b>	<b>300</b>			<b>207</b>	

**Exhibit 4: We increase our estimates for FY21/FY22 by 45%/24% as we build in higher NII and moderation in credit cost**

INR B	Old Estimates		Revised Estimates		Change (%) /bps	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income	1,095.9	1,228.5	1,117.8	1,232.8	2.0	0.3
Other Income	420.6	445.8	416.0	411.9	-1.1	-7.6
<b>Total Income</b>	<b>1,516.5</b>	<b>1,674.3</b>	<b>1,533.9</b>	<b>1,644.6</b>	<b>1.1</b>	<b>-1.8</b>
Operating Expenses	784.1	828.7	784.1	828.7	0.0	0.0
<b>Operating Profits</b>	<b>732.3</b>	<b>845.6</b>	<b>749.8</b>	<b>815.9</b>	<b>2.4</b>	<b>-3.5</b>
Provisions	532.4	517.8	457.2	407.4	-14.1	-21.3
<b>PBT</b>	<b>199.9</b>	<b>327.8</b>	<b>292.5</b>	<b>408.6</b>	<b>46.3</b>	<b>24.6</b>
Tax	51.0	83.6	76.1	106.2	49.2	27.1
<b>PAT</b>	<b>148.9</b>	<b>244.2</b>	<b>216.5</b>	<b>302.3</b>	<b>45.4</b>	<b>23.8</b>
<b>Cons. PAT</b>	<b>208.1</b>	<b>310.4</b>	<b>275.6</b>	<b>368.6</b>	<b>32.5</b>	<b>18.7</b>
Loans (INRt)	24.6	27.1	24.4	26.6	-0.9	-1.8
Deposits (INRt)	36.3	41.0	36.4	41.2	0.4	0.4
Margins (%)	3.1	3.1	3.1	3.0	3	-7
Credit Cost (%)	2.4	2.0	2.1	1.6	-30	-40
<b>RoA (%)</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>	<b>16</b>	<b>12</b>
<b>RoE (%)</b>	<b>6.9</b>	<b>10.4</b>	<b>9.9</b>	<b>12.4</b>	<b>298</b>	<b>197</b>
Standalone ABV	198.3	223.1	215.9	242.5	8.9	8.7
Consol BV	287.0	318.8	294.6	332.9	2.6	4.4
Consol EPS	23.3	34.8	30.9	41.3	32.5	18.7
Consol PAT post MI	208.1	310.4	275.6	368.6	32.5	18.7

**Exhibit 5: One-year forward P/B**

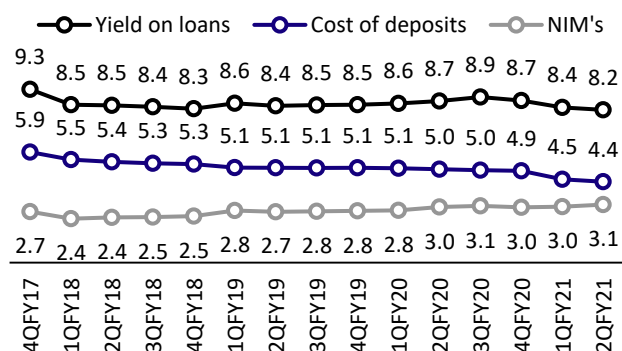
Source: MOFSL, Company

**Exhibit 6: One-year forward P/E**

Source: MOFSL, Company

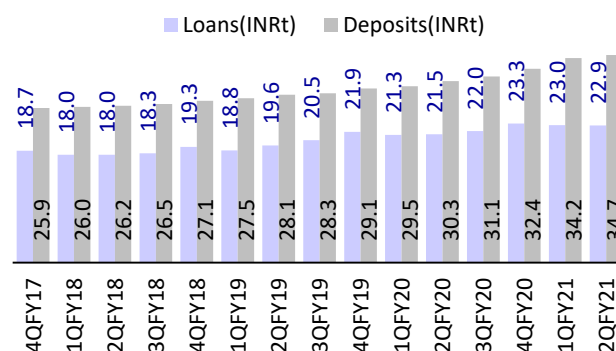
## Story in charts

**Exhibit 7: NIM expanded 11bp QoQ to 3.12%**



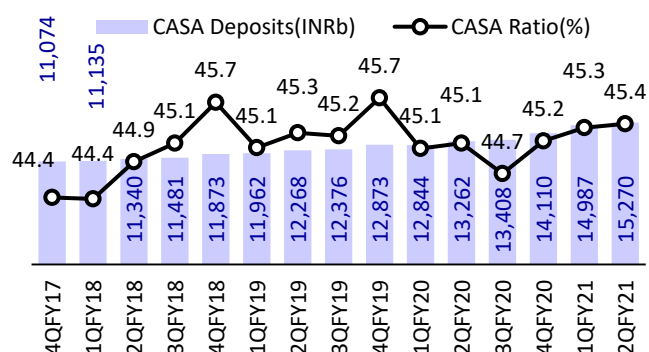
Source: MOFSL, Company

**Exhibit 8: Loans grew 7% YoY and deposits 14% YoY**



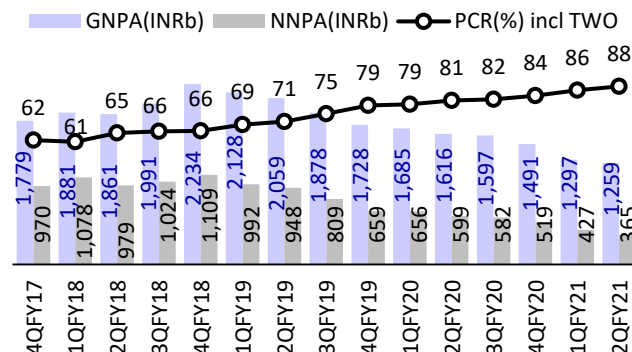
Source: MOFSL, Company

**Exhibit 9: CASA ratio improved to 45.4%**



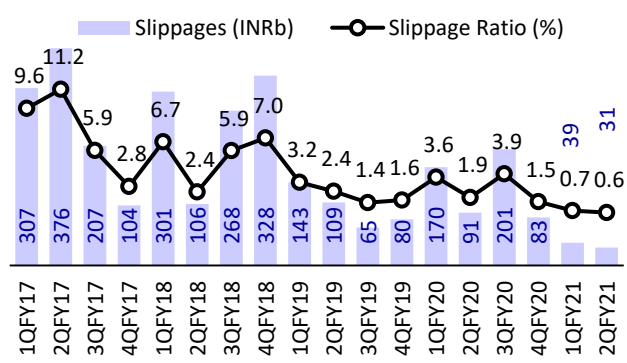
Source: MOFSL, Company

**Exhibit 10: PCR (incl. TWO) improved 190bp QoQ to 88.2%**



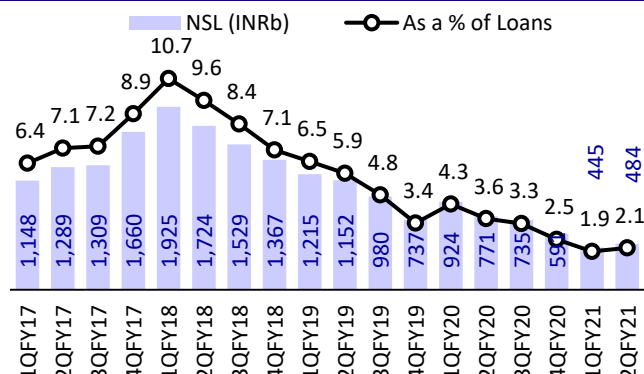
Source: MOFSL, Company

**Exhibit 11: Slippage ratio stood at 0.6%, aided by the SC order**



Source: MOFSL, Company

**Exhibit 12: Net stressed loans stand at 2.1% of total loans**



Source: MOFSL, Company



**Exhibit 13: DuPont Analysis: Return ratios to remain subdued in the near term**

<b>Y/E MARCH</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Interest Income	7.89	7.28	6.52	6.81	6.74	6.43	6.34	6.27
Interest Expense	5.23	4.83	4.31	4.33	4.17	3.74	3.66	3.61
<b>Net Interest Income</b>	<b>2.66</b>	<b>2.44</b>	<b>2.21</b>	<b>2.48</b>	<b>2.57</b>	<b>2.70</b>	<b>2.68</b>	<b>2.66</b>
Fee income	0.74	0.94	0.92	0.94	0.96	0.78	0.67	0.62
Trading and others	0.49	0.44	0.40	0.09	0.22	0.23	0.23	0.22
<b>Non Interest income</b>	<b>1.23</b>	<b>1.39</b>	<b>1.32</b>	<b>1.03</b>	<b>1.19</b>	<b>1.00</b>	<b>0.89</b>	<b>0.84</b>
<b>Total Income</b>	<b>3.88</b>	<b>3.83</b>	<b>3.53</b>	<b>3.51</b>	<b>3.76</b>	<b>3.70</b>	<b>3.57</b>	<b>3.51</b>
<b>Operating Expenses</b>	<b>1.91</b>	<b>1.90</b>	<b>1.77</b>	<b>1.95</b>	<b>1.97</b>	<b>1.89</b>	<b>1.80</b>	<b>1.72</b>
Employee cost	1.08	1.10	0.98	1.15	1.20	1.17	1.11	1.06
Others	0.83	0.79	0.79	0.80	0.77	0.72	0.69	0.66
<b>Operating Profit</b>	<b>1.97</b>	<b>1.93</b>	<b>1.76</b>	<b>1.55</b>	<b>1.79</b>	<b>1.81</b>	<b>1.77</b>	<b>1.78</b>
<b>Core Operating Profit</b>	<b>1.48</b>	<b>1.49</b>	<b>1.36</b>	<b>1.47</b>	<b>1.56</b>	<b>1.58</b>	<b>1.55</b>	<b>1.56</b>
<b>Provisions</b>	<b>1.37</b>	<b>1.97</b>	<b>2.22</b>	<b>1.49</b>	<b>1.13</b>	<b>1.10</b>	<b>0.88</b>	<b>0.76</b>
NPA	1.29	1.80	2.11	1.53	1.13	1.21	0.89	0.74
Others	0.08	0.17	0.11	-0.04	0.00	-0.10	0.00	0.02
<b>PBT</b>	<b>0.60</b>	<b>-0.04</b>	<b>-0.46</b>	<b>0.06</b>	<b>0.66</b>	<b>0.71</b>	<b>0.89</b>	<b>1.03</b>
Tax	0.17	0.02	-0.27	0.04	0.28	0.18	0.23	0.27
<b>RoA</b>	<b>0.43</b>	<b>-0.06</b>	<b>-0.19</b>	<b>0.02</b>	<b>0.38</b>	<b>0.52</b>	<b>0.66</b>	<b>0.76</b>
Leverage (x)	17.0	17.6	18.0	18.3	18.9	19.0	18.9	18.6
<b>RoE</b>	<b>7.2</b>	<b>-1.0</b>	<b>-3.5</b>	<b>0.4</b>	<b>7.2</b>	<b>9.9</b>	<b>12.4</b>	<b>14.2</b>

## Financials and valuations

### Income Statement

(INRb)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	2,239.8	2,205.0	2,428.7	2,573.2	2,667.7	2,918.0	3,244.7
Interest Expense	1,487.8	1,456.5	1,545.2	1,592.4	1,549.9	1,685.2	1,867.6
<b>Net Interest Income</b>	<b>752.0</b>	<b>748.5</b>	<b>883.5</b>	<b>980.8</b>	<b>1,117.8</b>	<b>1,232.8</b>	<b>1,377.0</b>
Change (%)	3.9	-0.5	18.0	11.0	14.0	10.3	11.7
<b>Non-Interest Income</b>	<b>426.4</b>	<b>446.0</b>	<b>367.7</b>	<b>452.2</b>	<b>416.0</b>	<b>411.9</b>	<b>436.6</b>
<b>Total Income</b>	<b>1,178.4</b>	<b>1,194.5</b>	<b>1,251.2</b>	<b>1,433.1</b>	<b>1,533.9</b>	<b>1,644.6</b>	<b>1,813.6</b>
Change (%)	11.4	1.4	4.7	14.5	7.0	7.2	10.3
Operating Expenses	583.8	599.4	696.9	751.7	784.1	828.7	890.7
<b>Pre Provision Profits</b>	<b>594.6</b>	<b>595.1</b>	<b>554.4</b>	<b>681.3</b>	<b>749.8</b>	<b>815.9</b>	<b>922.9</b>
Change (%)	10.7	0.1	-6.8	22.9	10.0	8.8	13.1
<b>Core Provision Profits</b>	<b>458.5</b>	<b>460.9</b>	<b>522.9</b>	<b>595.6</b>	<b>655.4</b>	<b>712.2</b>	<b>808.8</b>
Change (%)	-4.3	0.5	13.5	13.9	10.0	8.7	13.6
Provisions (excl tax)	607.2	750.4	531.3	430.7	457.2	407.4	391.7
<b>PBT</b>	<b>-12.6</b>	<b>-155.3</b>	<b>23.1</b>	<b>250.6</b>	<b>292.5</b>	<b>408.6</b>	<b>531.3</b>
Tax	5.5	-89.8	14.5	105.7	76.1	106.2	138.1
Tax Rate (%)	-43.3	57.8	62.6	42.2	26.0	26.0	26.0
<b>PAT</b>	<b>-18.0</b>	<b>-65.5</b>	<b>8.6</b>	<b>144.9</b>	<b>216.5</b>	<b>302.3</b>	<b>393.1</b>
Change (%)	NA	NA	-113.2	1,580.3	49.4	39.7	30.0
<b>Cons. PAT post MI</b>	<b>2.4</b>	<b>-45.6</b>	<b>23.0</b>	<b>197.7</b>	<b>275.6</b>	<b>368.6</b>	<b>469.3</b>
Change (%)	-98.0	-1,988.8	-150.5	759.6	39.4	33.7	27.3

### Balance Sheet

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	8	9	9	9	9	9	9
Reserves & Surplus	2,110	2,182	2,200	2,311	2,520	2,812	3,192
<b>Net Worth</b>	<b>2,118</b>	<b>2,191</b>	<b>2,209</b>	<b>2,320</b>	<b>2,529</b>	<b>2,821</b>	<b>3,201</b>
<b>Deposits</b>	<b>25,853</b>	<b>27,063</b>	<b>29,114</b>	<b>32,416</b>	<b>36,436</b>	<b>41,172</b>	<b>46,525</b>
Change (%)	15.4	4.7	7.6	11.3	12.4	13.0	13.0
<b>of which CASA Dep</b>	<b>11,988</b>	<b>12,039</b>	<b>12,976</b>	<b>14,337</b>	<b>16,833</b>	<b>19,310</b>	<b>22,285</b>
Change (%)	39.3	0.4	7.8	10.5	17.4	14.7	15.4
Borrowings	3,321	3,621	4,030	3,147	2,888	3,003	3,238
Other Liab. & Prov.	1,756	1,671	1,456	1,631	1,566	1,675	1,810
<b>Total Liabilities</b>	<b>33,049</b>	<b>34,548</b>	<b>36,809</b>	<b>39,514</b>	<b>43,418</b>	<b>48,672</b>	<b>54,774</b>
Current Assets	2,709	1,919	2,225	2,511	2,234	2,293	2,438
<b>Investments</b>	<b>9,329</b>	<b>10,610</b>	<b>9,670</b>	<b>10,470</b>	<b>13,401</b>	<b>16,014</b>	<b>18,416</b>
Change (%)	51.6	13.7	-8.9	8.3	28.0	19.5	15.0
<b>Loans</b>	<b>18,690</b>	<b>19,349</b>	<b>21,859</b>	<b>23,253</b>	<b>24,416</b>	<b>26,613</b>	<b>29,806</b>
Change (%)	1.1	3.5	13.0	6.4	5.0	9.0	12.0
Other Assets	1,822	2,270	2,663	2,896	2,979	3,344	3,685
<b>Total Assets</b>	<b>33,049</b>	<b>34,548</b>	<b>36,809</b>	<b>39,514</b>	<b>43,418</b>	<b>48,672</b>	<b>54,774</b>

### Asset Quality

GNPA	1,779	2,234	1,728	1,491	1,538	1,746	1,967
NNPA	970	1,109	659	519	456	545	640
GNPA Ratio	9.12	10.91	7.53	6.15	6.03	6.28	6.32
NNPA Ratio	5.19	5.73	3.01	2.23	1.87	2.05	2.15
Slippage Ratio	7.0	8.4	1.6	2.2	2.70	2.20	1.90
Credit Cost	3.3	3.8	2.7	1.9	2.1	1.6	1.4
PCR (Excl Tech. W/O)	45.5	50.4	61.9	65.2	70.4	68.8	67.5

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Yield and Cost Ratios (%)</b>							
<b>Avg. Yield-Earning Assets</b>	<b>9.0</b>	<b>7.4</b>	<b>7.8</b>	<b>7.7</b>	<b>7.3</b>	<b>7.2</b>	<b>7.1</b>
Avg. Yield on loans	9.3	7.4	7.8	8.0	7.8	7.7	7.6
Avg. Yield on Investments	8.5	7.2	7.5	6.9	6.7	6.5	6.4
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>6.0</b>	<b>4.9</b>	<b>4.8</b>	<b>4.6</b>	<b>4.1</b>	<b>4.0</b>	<b>4.0</b>
Avg. Cost of Deposits	6.4	5.1	5.0	4.8	4.2	4.1	4.0
<b>Interest Spread</b>	<b>3.0</b>	<b>2.5</b>	<b>2.9</b>	<b>3.1</b>	<b>3.2</b>	<b>3.1</b>	<b>3.1</b>
<b>Net Interest Margin</b>	<b>3.0</b>	<b>2.5</b>	<b>2.8</b>	<b>3.0</b>	<b>3.1</b>	<b>3.0</b>	<b>3.0</b>

### Capitalization Ratios (%)

CAR	13.0	12.7	12.7	13.1	13.3	13.2	12.9
Tier I	10.4	10.5	10.7	11.0	11.4	11.4	11.4
Tier II	2.6	2.2	2.1	2.1	2.0	1.8	1.6

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	72.3	71.5	75.1	71.7	67.0	64.6	64.1
CASA Ratio	46.4	44.5	44.6	44.2	46.2	46.9	47.9
Cost/Assets	1.8	1.7	1.9	1.9	1.8	1.7	1.6
Cost/Total Income	49.5	50.2	55.7	52.5	51.1	50.4	49.1
Cost/Core Income	56.0	56.5	57.1	55.8	54.5	53.8	52.4
Int. Expense./Int. Income	66.4	66.1	63.6	61.9	58.1	57.8	57.6
Fee Income/Total Income	24.6	26.1	26.9	25.6	21.0	18.7	17.8
Non Int. Inc./Total Income	36.2	37.3	29.4	31.6	27.1	25.0	24.1
Empl. Cost/Total Expense	58.2	55.3	58.9	60.8	61.8	61.7	61.7
Investment/Deposit Ratio	36.1	39.2	33.2	32.3	36.8	38.9	39.6

### Profitability Ratios and Valuation

RoE	-1.1	-3.5	0.4	7.2	9.9	12.4	14.2
RoA	-0.1	-0.2	0.0	0.4	0.5	0.7	0.8
RoRWA	-0.1	-0.3	0.0	0.7	1.0	1.2	1.4
Consolidated RoE	0.1	-2.0	1.0	7.9	10.3	12.6	14.1
Consolidated RoA	0.0	-0.1	0.1	0.5	0.6	0.8	0.9
Book Value (INR)	240	230	232	245	269	301	344
Change (%)	15.7	-4.0	0.9	5.6	9.5	12.2	14.1
<b>Price-BV (x)</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>
Consol BV (INR)	248	243	248	267	295	333	383
Change (%)	11.6	-2.0	2.0	7.7	10.5	13.0	14.9
<b>Price-Consol BV (x)</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>
Adjusted BV (INR)	139	135	170	187	216	242	278
<b>Price-ABV (x)</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>
Adjusted Consol BV	159	152	192	212	244	275	317
<b>Price-Consol ABV (x)</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>
EPS (INR)	-2.3	-7.7	1.0	16.2	24.3	33.9	44.1
Change (%)	-115.2	238.0	-112.6	1,580.3	49.4	39.7	30.0
<b>Price-Earnings (x)</b>	<b>-34.1</b>	<b>-10.1</b>	<b>80.2</b>	<b>4.8</b>	<b>3.2</b>	<b>2.3</b>	<b>1.8</b>
Consol EPS (INR)	0.3	-5.3	2.6	22.1	30.9	41.3	52.6
Change (%)	-98.1	-1,859.9	-148.2	759.6	39.4	33.7	27.3
<b>Price-Consol EPS (x)</b>	<b>574.6</b>	<b>-32.6</b>	<b>80.4</b>	<b>9.3</b>	<b>6.7</b>	<b>5.0</b>	<b>3.9</b>
Dividend Per Share (INR)	3.0	0.0	0.0	0.0	0.9	1.1	1.4
<b>Dividend Yield (%)</b>	<b>1.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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