

State Bank of India

Refer to important disclosures at the end of this report

Healthy profitability with reasonable asset quality

- Q1FY22 operating performance beat estimates on healthy fees/treasury gains, but high provisions led to a 5% miss on PAT at Rs65bn (est. Rs68.4bn). Asset quality performance was mixed, with GNPA up 34bps qoq to 5.3% (led by retail/SME), restructured pool rising moderately to 0.8% of loans (pipeline at 0.1%) and SMA pool flat qoq at 0.5%.
- Credit growth was moderate at 6% yoy, dragged down by corporate. However, retail remained healthy at 17% yoy, driven by mortgages/car/xpress credit (PL). The corporate proposal pipeline is strong at Rs1.3trn mainly from Infra/steel and should drive growth gradually. This, along with healthy retail growth, should drive up LDR, in turn increasing NIMs/core RoA.
- SBI has already seen decent NPA clawback of Rs48bn in July with a pickup in collections, while restructuring should reduce SME NPAs. This, along with the transfer of NPAs to NARCL (Rs200bn/0.8% of loans) and resolutions via NCLT, should meaningfully bring down NPAs. We trimmed earnings estimates for FY22-23 by 5/3%, but expect the bank to deliver 13-15% RoE over FY22-24E (seen before AQR).
- Retain Buy/OW in EAP with a TP of Rs600, valuing core bank at 1.4x Sep'23E ABV and subs/investments at Rs185, leading to a 32% upside. SBI is the second best pick after ICICI, and we believe that better-than-expected growth/asset quality movement could provide further upsides to earnings/valuations.

Better growth, lower funding cost to drive margins: Overall credit growth was moderate at 6% yoy/down 0.7% qoq due to corporate drag. However, retail growth was healthy at 16.5% yoy, in turn led by mortgages (up 11% yoy), xpress credit (up 34% yoy), and auto (up 6% yoy, where SBI intends to establish a leadership position). Margins slipped 12bps qoq to 2.9% mainly due to lower LDR and interest reversal (Rs8bn). However, we expect SBI's NIM to improve, led by better growth/LDR, higher portfolio orientation toward retail and sustained cost advantage.

NPAs inch up in Q1, but set to moderate led by better recoveries/NARCL transfer: Gross slippages were elevated at Rs163bn (retail Rs53bn, SME at Rs64bn). However, the bank has been able to claw back NPAs to the tune of Rs48bn (29% of slippages in Q1) already in July and should see more reversal in NPAs as collection trends improve. Fresh restructuring was contained at Rs53bn, taking the cumulative pool to Rs182bn (retail 40%, corporate 42%), 0.8% of loans, with an additional pipeline of Rs21bn, (0.1% of loans, retail 87% and SME 13%). Specific PCR slipped to 68% from 71% in Q4, but the Covid-related contingent buffer improved to Rs91bn, 0.4% of loans. SMA 1 & 2 (>Rs50bn a/cs) remained flat qoq at Rs113bn, 0.5% of loans, which is positive. SBI expects higher recoveries (Rs140bn)/transfer to NARCL (Rs200-220bn) during the year, which should further bring down corporate NPAs.

Outlook and valuation: We trim our earnings estimates for FY22-23 by 5-3% but expect SBI to deliver 13-15% RoE over FY22-24E (seen before AQR). We like SBI among PSBs for its strong liability profile, high retail orientation, reasonable capital position, and sharply improving RoA/RoRWA/RoE, given renewed focus on profitability while maintaining market dominance and portfolio quality. Retain Buy/OW in EAP with a revised TP of Rs600, valuing core bank at 1.4x Sep'23E ABV and subs/investments at Rs185. **Key risks:** macro-slowdown and delay in corporate/retail credit demand; sharp rise in G-sec yields hurting treasury; and delay in corporate resolutions.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22E	FY23E	FY24E	FY24E
Net income	1,542,064	1,641,644	1,827,837	2,087,863	2,116,010
Net profit	204,102	311,874	396,082	482,522	484,818
EPS (Rs)	22.9	34.9	44.4	54.1	54.3
ABV (Rs)	227.2	260.0	300.2	346.4	349.8
RoA (%)	0.5	0.7	0.8	0.9	0.9
RoE (%)	9.3	12.8	14.4	15.5	15.5
PE (x)	20.0	13.1	10.3	8.5	8.2
P/ABV	1.2	1.0	0.9	0.8	0.6

Source: Company, Emkay Research

CMP	Target Price
Rs 457 as of (August 4, 2021)	Rs 600 (■) 12 months
Rating	Upside
BUY (■)	31.3 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(5)/(3)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	34.9	44.4
Consensus	36.4	45.5
Mean Consensus TP (12M)	Rs 519	

Stock Details

Bloomberg Code	SBIN IN
Face Value (Rs)	1
Shares outstanding (mn)	8,925
52 Week H/L	467 / 176
M Cap (Rs bn/USD bn)	4,078 / 54.97
Daily Avg Volume (nos.)	38,546,810
Daily Avg Turnover (US\$ mn)	211.0

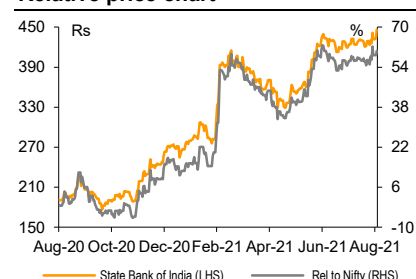
Shareholding Pattern Jun '21

Promoters	56.9%
FIIIs	10.2%
DIIIs	23.9%
Public and Others	9.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	30	29	138
Rel. to Nifty	4	16	18	63

Relative price chart



Source: Bloomberg

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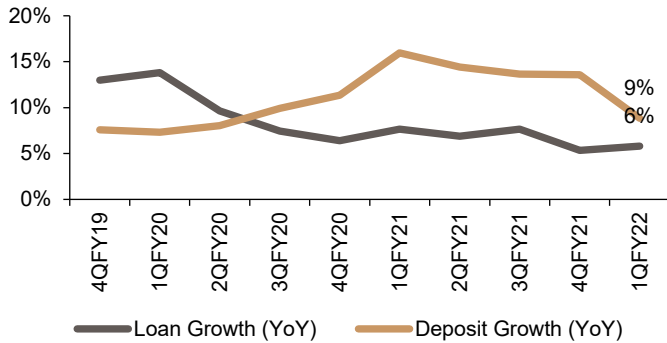
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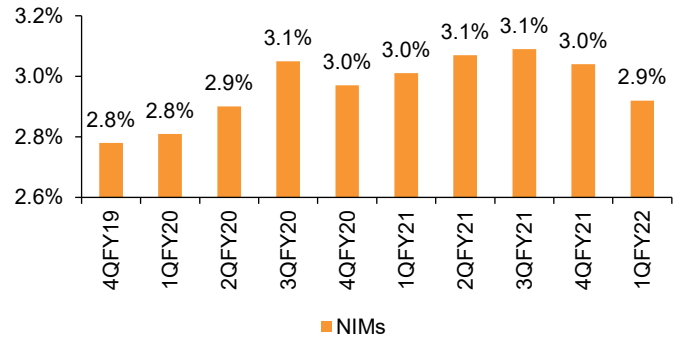
Story in charts

Exhibit 1: Growth remains subdued, but set to improve as economy opens up



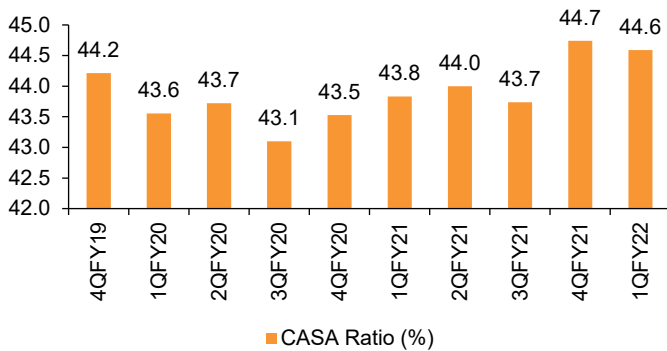
Source: Company, Emkay Research

Exhibit 2: Margins drop qoq to 2.9% impacted by lower LDR and interest reversal of Rs8bn



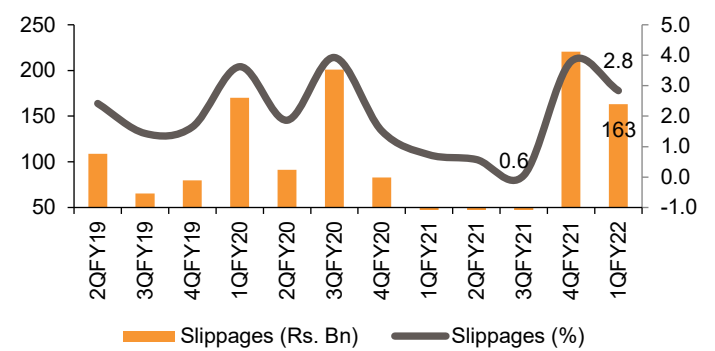
Source: Company, Emkay Research

Exhibit 3: Slow traction in CA due to seasonality



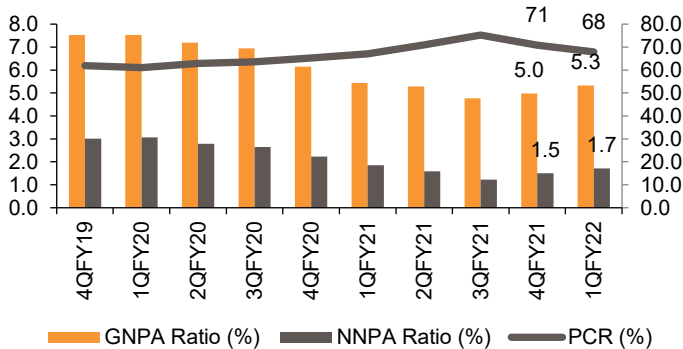
Source: Company, Emkay Research

Exhibit 4: Slippages remain elevated due to the impact of Covid on collections/recoveries



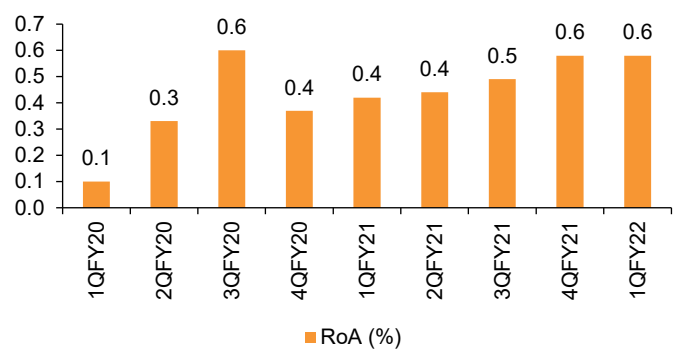
Source: Company, Emkay Research

Exhibit 5: Higher slippages lead to a ~30bps drop in GNPA ratio to 5.3%, but set to moderate led by NARCL transfer/NPA clawback



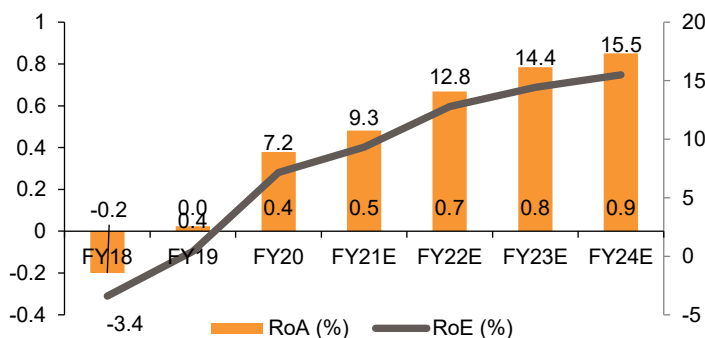
Source: Company, Emkay Research

Exhibit 6: RoA for the quarter supported by higher treasury/core fee income



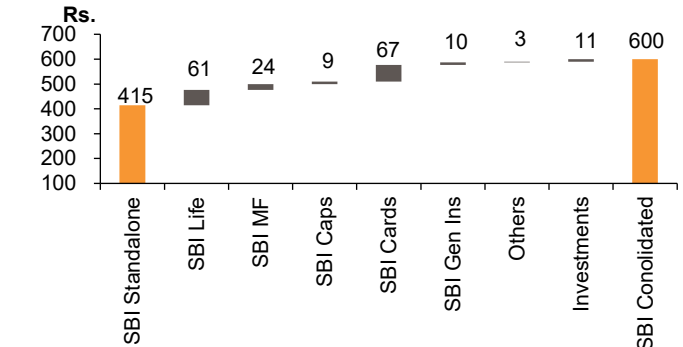
Source: Company, Emkay Research

Exhibit 7: Expect SBI to deliver healthy return ratios by FY23-24E

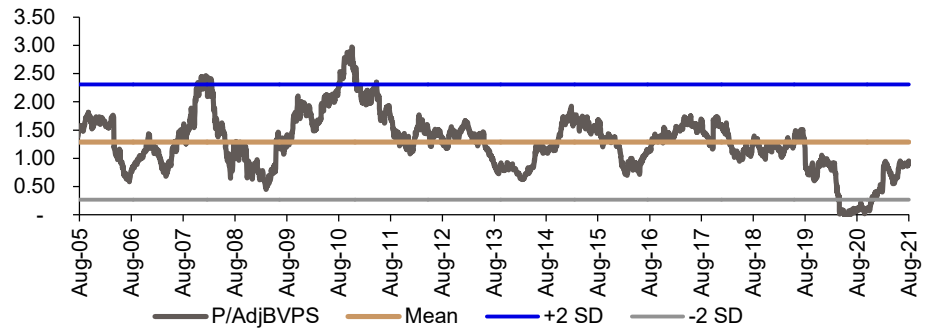


Source: Company, Emkay Research

Exhibit 8: Sum-of-the-Parts valuation (Rs. Per share)



Source: Company, Emkay Research

Exhibit 9: The stock currently trades at 1.0x – one-year forward ABV, adjusted for subsidiaries valuation

Source: Emkay Research

Exhibit 10: Actual vs. Estimates – Q1FY22

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	394,411	389,810	397,251	1%	-1%	Lower NIM offset higher other income
PPOP	189,747	181,916	189,357	4%	0%	Lower staff cost supported PPOP
PAT	65,038	68,406	53,986	-5%	20%	Higher LLP led to a miss

Source: Company, Emkay Research

Exhibit 11: Quarterly Summary

Rs (mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	665,004	668,141	667,345	651,016	655,644	-1	1	2,573,236	2,651,506	3
Interest Exp	398,588	386,326	379,146	380,346	379,260	-5	0	1,592,388	1,544,406	-3
Net Interest Income	266,416	281,815	288,199	270,670	276,384	4	2	980,848	1,107,101	13
Global NIMs (reported)	3.01	3.07	3.09	3.04	2.92	-9bps	-12bps	2.85	2.88	3bps
Non-interest Income	94,972	85,277	92,462	162,253	118,027	24	-27	452,215	434,964	-4
Operating Expenses	180,777	202,494	207,329	235,922	204,664	13	-13	751,737	826,522	10
Pre Provisioning Profit	180,611	164,598	173,332	197,002	189,747	5	-4	681,326	715,543	5
Provision & Contingencies	125,013	101,183	103,424	110,510	100,520	-20	-9	430,699	440,130	2
PBT	55,598	63,415	69,908	86,491	89,227	60	3	250,627	275,412	10
Income Tax Expense (Gain)	13,704	17,673	17,946	21,984	24,189	77	10	105,747	71,307	-33
Net Profit/(Loss)	41,894	45,742	51,962	64,507	65,038	55	1	144,881	204,105	41
Gross NPA (%)	5.44	5.28	4.77	4.98	5.32	-12bps	34bps	6.15	4.98	-118bps
Net NPA (%)	1.86	1.59	1.23	1.50	1.72	-14bps	22bps	2.23	1.50	-73bps
Deposits (Rs in bn)	34,194	34,705	35,358	36,813	37,210	9	1	32,416	36,813	14
Net Advances (Rs in bn)	22,983	22,939	23,681	24,495	24,319	6	-1	23,253	24,495	5

Source: Emkay Research, Company

Exhibit 12: Revision in estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	1,246,358	1,204,525	-3.4%	1,413,510	1,364,174	-3.5%	1,627,344	1,575,536	-3.2%
PPOP	767,358	763,289	-0.5%	869,107	875,171	0.7%	1,031,315	1,040,525	0.9%
PAT	327,820	311,877	-4.9%	406,751	396,085	-2.6%	484,822	482,525	-0.5%
EPS (Rs)	36.7	34.9	-4.9%	45.6	44.4	-2.6%	54.3	54.1	-0.5%
BV (Rs)	290.6	288.8	-0.6%	329.1	326.2	-0.9%	373.5	371.2	-0.6%

Source: Emkay Research

Exhibit 13: Key assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	5.3	9.7	13.7	16.5
Deposit Growth %	13.6	7.2	11.9	13.5
NIM %	2.9	2.9	3.0	3.0
GNPA %	5.0	4.1	3.3	2.7
Credit Cost %	1.3	1.2	1.1	1.1

Source: Emkay Research

Exhibit 14: Key ratios and trends

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Loans (Rs bn)	22,376	22,479	23,013	24,225	23,853	23,833	24,564	25,391	25,230
Loan growth (YoY)	12.5	8.7	6.8	5.7	6.6	6.0	6.7	4.8	5.8
Loan growth (QoQ)	-2.4	0.5	2.4	5.3	-1.5	-0.1	3.1	3.4	-0.6
Loan composition (%)									
Corporate	35.0	34.1	33.5	34.8	33.9	33.0	32.1	32.2	31.3
Retail	29.7	30.5	31.3	30.9	31.4	33.0	33.8	34.3	34.6
SME	12.6	12.2	12.1	11.0	11.7	11.6	12.0	11.0	11.3
Overseas	13.8	14.2	14.0	14.7	14.4	13.5	13.4	14.0	14.5
Agri	9.0	9.0	9.1	8.5	8.6	8.9	8.7	8.4	8.3
Liability Profile & Margins									
CASA %	43.6	43.7	43.1	43.5	43.8	44.0	43.7	44.7	44.6
CA %	6.1	6.4	6.1	6.7	6.0	6.1	6.0	7.5	6.1
SA %	37.4	37.3	37.0	36.8	37.9	37.9	37.8	37.2	38.5
Global NIM %	2.81	2.90	3.33	2.97	3.01	3.07	3.09	3.04	2.92
Domestic NIM %	3.01	3.22	3.59	2.94	3.24	3.34	3.34	3.11	3.15
Asset Quality									
GNPA (%)	7.5	7.2	6.9	6.2	5.4	5.3	4.8	5.0	5.3
NNPA (%)	3.1	2.8	2.7	2.2	1.9	1.6	1.2	1.5	1.7
PCR (%)	61.1	62.9	63.5	65.2	67.1	71.0	75.2	70.9	67.9
Slippages (Rs Bn)	170	91	201	83	39	31	3	221	163
Slippages (%)	3.4	1.8	3.7	1.4	0.7	0.5	0.0	3.6	2.7
Capital Adequacy									
CAR (%)	12.9	13.6	13.7	13.1	13.4	14.7	14.5	13.7	13.7
Tier I (%)	10.7	11.3	11.6	11.0	11.4	11.9	11.7	11.4	11.4
CET 1 (%)	9.6	10.1	10.2	9.8	10.1	10.5	10.3	10.0	9.9
ROE Decomposition % (on total assets)									
NII	2.5	2.7	3.0	2.4	2.6	2.7	2.7	2.4	2.4
Other Income (Ex Treasury)	0.8	0.9	0.9	1.3	0.4	0.7	0.8	1.5	0.9
Treasury	0.1	0.5	0.1	0.3	0.6	0.1	0.1	0.0	0.2
Opex	2.0	2.0	2.0	2.1	1.8	2.0	1.9	2.1	1.8
PPOP	1.5	2.0	2.0	1.9	1.8	1.6	1.6	1.8	1.7
Provisioning Cost	1.0	1.4	0.8	1.4	1.2	1.0	1.0	1.0	0.9
PBT	0.4	0.6	1.2	0.5	0.6	0.6	0.7	0.8	0.8
Tax	0.2	0.2	0.6	0.1	0.1	0.2	0.2	0.2	0.2
ROA	0.3	0.3	0.6	0.4	0.4	0.4	0.5	0.6	0.6
Leverage (x)	16.4	16.2	16.2	16.6	17.0	17.0	17.1	17.6	17.6
ROE	4.2	5.4	9.7	6.2	7.1	7.5	8.4	10.2	10.1

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22E	FY23E	FY24E	FY24E
Net interest income	1,107,101	1,204,525	1,364,174	1,575,536	1,627,344
Other income	434,964	437,119	463,663	512,328	488,666
Fee income	235,175	251,643	286,873	335,641	335,641
Net income	1,542,064	1,641,644	1,827,837	2,087,863	2,116,010
Operating expenses	826,522	878,355	952,666	1,047,338	1,084,696
Pre provision profit	715,543	763,289	875,171	1,040,525	1,031,315
PPP excl treasury	655,234	715,042	829,336	990,107	983,846
Provisions	440,130	346,341	345,646	395,439	383,158
Profit before tax	275,412	416,948	529,525	645,087	648,157
Tax	71,307	105,071	133,440	162,562	163,336
Tax rate	26	25	25	25	25
Profit after tax	204,105	311,877	396,085	482,525	484,821

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22E	FY23E	FY24E	FY24E
Equity	8,925	8,925	8,925	8,925	8,925
Reserves	2,529,827	2,804,152	3,137,764	3,539,967	3,561,802
Net worth	2,538,752	2,813,076	3,146,689	3,548,892	3,570,726
Deposits	36,812,770	39,476,896	44,179,712	50,164,937	50,164,937
Borrowings	3,511,721	3,222,944	3,384,091	3,553,296	3,553,296
Total liabilities	45,344,295	47,953,234	52,979,217	60,463,469	60,674,772
Cash and bank	2,132,015	2,238,616	2,350,547	2,468,074	2,468,074
Investments	13,517,052	13,647,052	14,880,838	16,665,119	16,720,977
Loans	24,494,978	26,875,933	30,552,322	35,585,611	35,618,417
Others	3,517,687	3,727,386	3,927,551	4,145,053	4,251,189
Total assets	45,344,295	47,953,234	52,979,217	60,463,469	60,674,772

Key Ratios (%)

Y/E Year End	FY21	FY22E	FY23E	FY24E	FY24E
NIM	2.9	2.9	3.0	3.0	3.1
Non-II/avg assets	1.0	0.9	0.9	0.9	0.9
Fee income/avg assets	0.6	0.5	0.6	0.6	0.6
Opex/avg assets	1.9	1.9	1.9	1.8	1.9
Provisions/avg assets	1.0	0.7	0.7	0.7	0.7
PBT/avg assets	0.6	0.9	1.0	1.1	1.1
Tax/avg assets	0.2	0.2	0.3	0.3	0.3
RoA	0.5	0.7	0.8	0.9	0.9
RoAE	9.3	12.8	14.4	15.5	15.5
GNPA (%)	5.0	4.1	3.3	2.7	2.6
NNPA (%)	1.5	1.3	1.0	0.8	0.8

Per Share Data (Rs)	FY21	FY22E	FY23E	FY24E	FY24E
EPS	22.9	34.9	44.4	54.1	54.3
BVPS	258.0	288.8	326.2	371.2	373.5
ABVPS	227.2	260.0	300.2	346.4	349.8
DPS	4.0	4.0	7.0	9.0	10.0

Valuations (x)	FY21	FY22E	FY23E	FY24E	FY24E
PER	20.0	13.1	10.3	8.5	8.2
P/BV	2.0	1.8	1.5	1.3	1.3
P/ABV	1.2	1.0	0.9	0.8	0.6
P/PPOP	3.4	3.2	2.8	2.3	1.9
Dividend Yield (%)	0.9	0.9	1.5	2.0	2.2

Source: Company, Emkay Research

Growth (%)	FY21	FY22E	FY23E	FY24E	FY24E
NII	12.9	8.8	13.3	15.5	15.1
PPOP	5.0	6.7	14.7	18.9	18.7
PAT	40.9	52.8	27.0	21.8	19.2
Loans	5.3	9.7	13.7	16.5	16.5

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
NII	266,416	281,815	288,199	270,670	276,384
NIM(%)	2.9	3.0	2.9	2.6	2.7
PPOP	180,611	164,598	173,332	197,002	189,747
PAT	41,894	45,742	51,962	64,507	65,038
EPS (Rs)	4.69	5.13	5.82	7.23	7.29

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	56.9	56.9	56.9	56.9	56.9
FIIIs	7.8	7.7	9.7	9.8	10.2
DIIIs	24.4	25.0	24.6	24.1	23.9
Public and Others	10.9	10.5	8.8	9.2	9.0

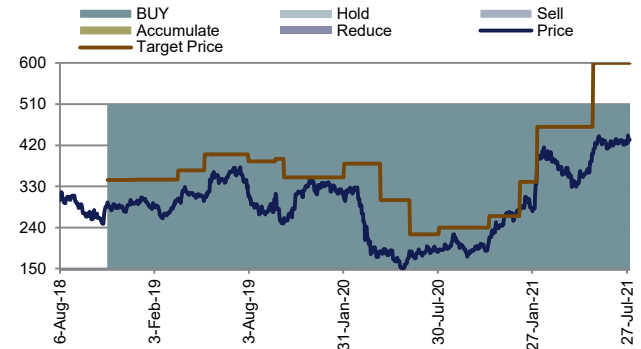
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-May-21	401	600	12m	Buy	Anand Dama
5-Feb-21	393	460	12m	Buy	Anand Dama
20-Jan-21	303	340	12m	Buy	Anand Dama
3-Jan-21	279	340	12m	Buy	Anand Dama
5-Nov-20	219	265	12m	Buy	Anand Dama
1-Aug-20	191	240	12m	Buy	Anand Dama
6-Jun-20	188	225	12m	Buy	Anand Dama
11-Apr-20	188	300	12m	Buy	Anand Dama
1-Feb-20	303	380	12m	Buy	Anand Dama
30-Oct-19	290	350	12m	Buy	Anand Dama
25-Oct-19	282	350	12m	Buy	Anand Dama
9-Oct-19	261	350	12m	Buy	Anand Dama
23-Sep-19	314	390	12m	Buy	Anand Dama
3-Sep-19	268	385	12m	Buy	Anand Dama
2-Aug-19	308	385	12m	Buy	Anand Dama
10-May-19	308	400	12m	Buy	Anand Dama
20-Mar-19	304	365	12m	Buy	Anand Dama
2-Feb-19	284	345	12m	Buy	Anand Dama
28-Dec-18	295	345	12m	Buy	Anand Dama
5-Nov-18	295	344	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	19.79	19.79	0.0%	0	100.00
Axis Bank	2.10	2.20	5%	10	11.12
AU Small Finance Bank	0.27	0.19	-30%	-8	0.97
Bandhan Bank	0.24	0.23	0%	0	1.19
Bank of Baroda	0.17	0.17	0%	0	0.84
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.12	0.12	0%	0	0.61
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.02	NA	2	0.10
Federal Bank	0.19	0.24	24%	5	1.20
HDFC Bank	6.32	6.40	1%	9	32.35
ICICI Bank	5.15	5.31	3%	16	26.84
Indian Bank	0.00	0.02	NA	2	0.10
Indusind Bank	0.64	0.76	18%	12	3.82
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.38	2.04	-14%	-34	10.32
Punjab National Bank	0.13	0.00	-100%	-13	0.00
RBL Bank	0.10	0.07	-27%	-3	0.37
State Bank of India	1.85	2.01	9%	16	10.17
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.05	0.00	-100%	-5	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	4-Aug-20	2-Feb-21	4-May-21	2-Jul-21	3-Aug-21
EAP - BFSI-Banks	100.0	74.2	117.8	110.5	119.0	120.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	73.3	115.6	108.4	116.5	117.6

*Performance measurement base date 1st April 2019

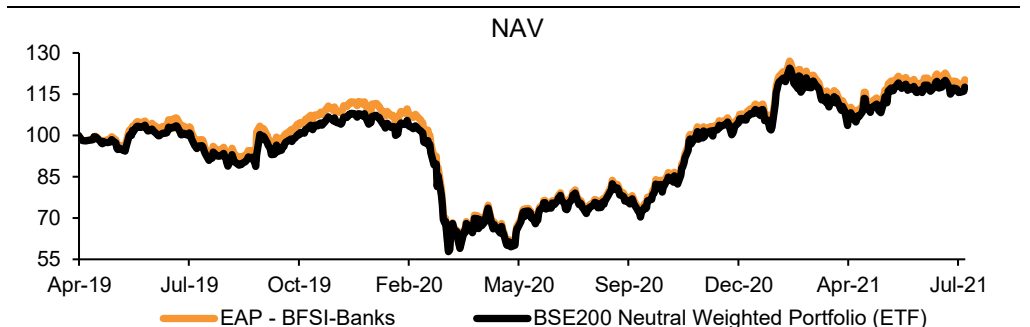
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	1.1%	8.8%	2.1%	62.1%
BSE200 Neutral Weighted Portfolio (ETF)	1.0%	8.5%	1.8%	60.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 05 Aug 2021 03:11:52 (SGT)

Dissemination Date: 05 Aug 2021 03:12:52 (SGT)

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