



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✓	✗
Right Quality (RQ)	✓	✓	✗
Right Valuation (RV)	✓	✓	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✗
RQ	✓	↔	✓
RV	✓	↔	✓

Reco/View

	Change
Reco: Buy	↔
CMP: Rs. 364	
Price Target: Rs. 460	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

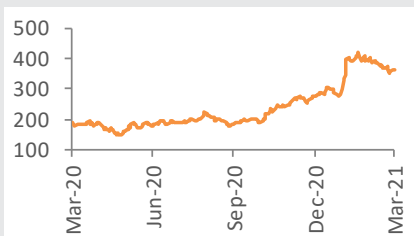
Company details

Market cap:	Rs. 3,25,168 cr
52-week high/low:	Rs. 426/150
NSE volume: (No of shares)	547.3 lakh
BSE code:	500112
NSE code:	SBIN
Free float: (No of shares)	384.5 cr

Shareholding (%)

Promoters	56.9
FII	11.2
DII	24.6
Others	7.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.6	31.4	89.7	93.2
Relative to Sensex	-9.2	26.4	60.1	16.9

Sharekhan Research, Bloomberg

Summary

- State Bank of India (SBI) is attractive (strong asset quality, well capitalised, underwriting strength, etc.); going forward, we expect NII and profitability to reflate in the next 2-3 years, helped by better profitability.
- The stock trades at attractive 1.6x/1.3x its FY2022E/FY2023E ABVPS; with overhang of moratorium gone, paving way for NPA recognition and recovery, supportive regulatory stance, resumption of IBC, extension of the ECLGS scheme, and GDP growth recovery in FY2022E augur well for SBI's growth.
- Asset quality is emerging from the shadows; we believe a strong balance sheet and market share gains can drive the re-rating of the stock; SBI's variance with reported versus proforma GNPA is at par with better-rated private banks.
- We maintain Buy on the stock with an unchanged SOTP-based price target (PT) of Rs. 460.

State Bank of India (SBI) is attractive (with respect to asset quality, capitalisation, underwriting strength, etc.); going forward, we expect NII and profitability to reflate in the next 2-3 years, helped by better profitability. Recovery trends indicate a gradual but sustained pickup in economic activity, and SBI, by virtue of being the largest bank, with strong business strengths (market maker in terms of deposit rates; margins protected) is attractively placed. Moreover, the bank's strong asset-quality position indicates better profitability in the medium term, which will help reflate NII and earnings. The Court's verdict dispelled the overhang of moratorium on banks, paving way to NPA recognition and recovery. SBI is well placed (in line with private bank peers) in terms of variance between reported and proforma NPAs. Moreover, as the IBC process has now resumed, we expect intermittent surprises in terms of recovery and resolutions to further support profitability. Supportive regulatory stance of pro-growth policies, extension of ECLGS scheme and GDP growth recovery in FY2022E augur well for SBI's growth outlook. Asset-quality wise, even on a proforma basis, GNPA/NNPA stood at 5.44% /1.81% against reported GNPA of 4.77% and NNPA of 1.23%, indicating well-contained book quality. Provision coverage ratio (PCR) has improved to whopping 90.21% and, notably, with collection efficiency at 96.5%, we expect full-year slippages to be well within management's guidance of Rs. 60,000 crore (so far only Rs. 41,216 crore done). SBI's retail asset quality has been robust (<50 bps credit costs) over the last decade and, with the end of the corporate credit cycle, SBI's asset quality is finally emerging from the shadows to deliver better asset-quality outcomes. We believe as the economy is expected to revert to strong growth in FY2022E and beyond, banks and industry leaders such as SBI are well placed to capitalise on the opportunity. We believe factors such as its encouraging performance, strong balance sheet, and market share gains, among others, can be drivers for re-rating of the stock. We maintain Buy on the stock with an unchanged SOTP-based price target (PT) of Rs. 460.

Our Call

SBI currently trades at 1.6x/1.3x its FY2022E/FY2023E ABVPS, which we believe are attractive considering the value of the franchise (along with its subsidiaries). SBI's stock has corrected by ~14% from its highs. We believe risk reward is favourable for investors. We find SBI better placed (with respect to asset quality, capitalisation, and underwriting strength, among others) and with business strengths (being the largest bank in India), and expect NII and profitability to reflate in the next 2-3 years, helped by higher margins. We expect ROEs of 12%-14% by FY2022E/FY2023E, helped by better profitability. We believe SBI presents a value opportunity as it benefits from turning of the benign corporate credit cycle, expected to gain market share, and improving ROAs of ~80 bps. In addition, SBI's stronger deposit franchise, downside support from subsidiaries, and low risk of dilution (as compared to PSU bank peers) provide further support to valuations. We believe SBI has less residual stress from the legacy book; and considering 9MFY2021 performance so far, we believe SBI is likely to undershoot its credit cost guidance for FY2021E. We maintain Buy on the stock with an unchanged SOTP-based PT of Rs. 460.

Key Risks

Slower-than-expected recovery in India's economic growth (due to the ongoing pandemic) and credit risk of higher slippages in the corporate segment may impact earnings and book value.

Valuation

	Rs cr				
Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net interest income (Rs. cr)	88,349	98,085	1,09,022	1,27,507	1,47,102
Net profit (Rs. cr)	862	14,488	23,573	32,909	40,208
EPS (Rs.)	1.0	16.2	26.4	36.9	45.1
PE (x)	377.8	22.5	13.8	9.9	8.1
Adj. book value	139.4	178.8	180.9	226.3	280.7
P/ABV (x)	2.6	2.0	2.0	1.6	1.3
RoE (%)	0.4	6.4	9.8	12.4	13.6
RoA (%)	0.0	0.4	0.6	0.7	0.8

Source: Company; Sharekhan estimates

Court verdict dispels overhang, SBI has low variance in reported versus proforma GNPA's – Well placed

The Supreme Court has now lifted the standstill on NPA classification and ended the uncertainty overhang regarding moratorium as well. Going forward, for Q4FY2021, banks will, therefore, declare actual and not proforma NPAs.

Since banks have already been declaring non-paying accounts under proforma slippages in any case, we do not expect material rise in slippages for most well-run players including SBI. Moreover, since accounts were not being recognised as well as due to the suspension of the IBC framework, the same had hindered recoveries as lenders could not initiate resolution proceedings. With the standstill coming to an end, GNPA's could potentially reduce in the coming quarters, the caveat being that the legal proceedings (including accounts under NCLT) may be long ended.

	Reported GNPA	Proforma GNPA	Variance
Axis Bank	3.4	4.6	1.2
ICICI Bank	4.4	5.4	1.0
SBI	4.8	5.4	0.6
PNB	13.0	14.7	1.7
Canara Bank	7.5	9.0	1.5
Union Bank of India	13.5	15.3	1.8

Source: Company; Sharekhan Research

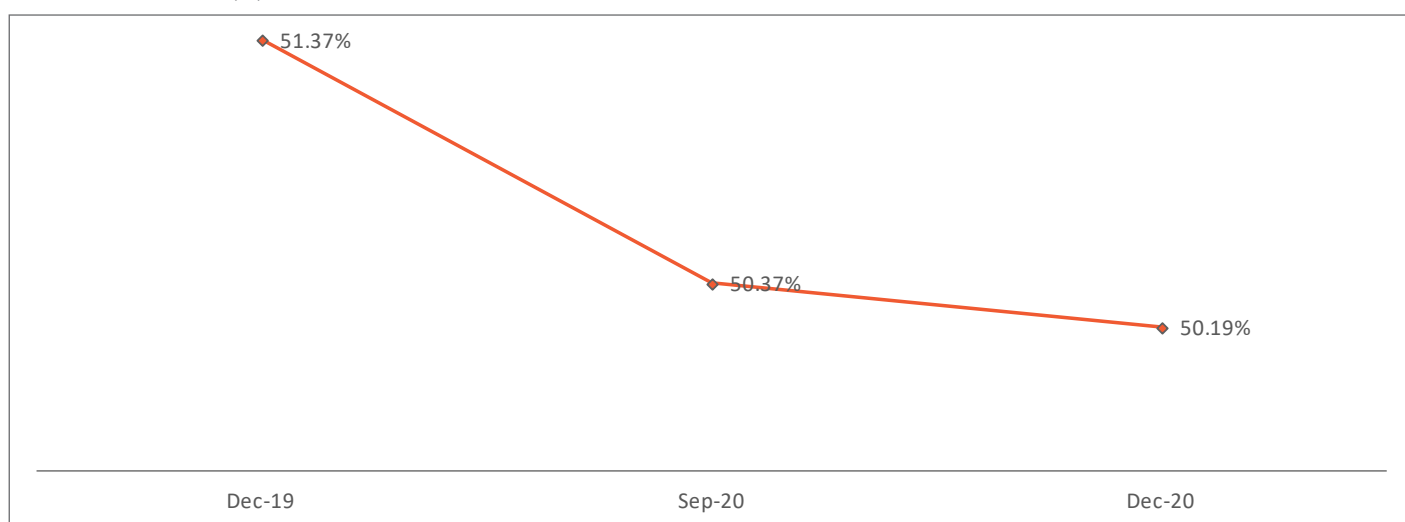
As seen above, SBI is comparatively in the league of higher-rated private banks in terms of variance of proforma versus reported GNPA %, which we believe indicates lesser stress on its asset-quality book.

SBI has adequate head room and risk appetite for credit growth

We believe unlike most PSU banks, asset quality of SBI sets it apart and underlines management's quality of the banking behemoth as compared to peer PSU banks as well as even several private banks as well.

As seen below, RWA to total assets indicates the overall de-risking of the loan book for the bank, which provides for lesser capital burn and provide headroom for growth.

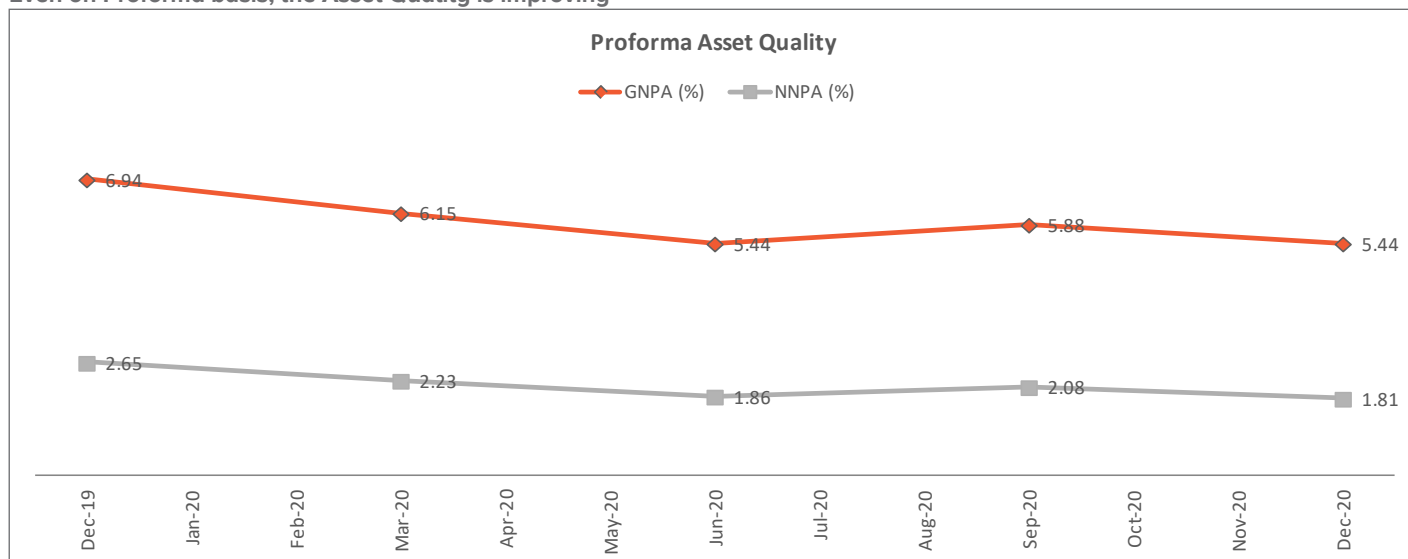
RWA to total Assets (%)



Source: Company; Sharekhan Research

Asset-quality wise gross NPA ratio at 4.77% is down 217 bps y-o-y and 51 bps q-o-q. Net NPA ratio at 1.23% is down 142 bps y-o-y and 36 bps q-o-q. Even on proforma basis, GNPA was at 5.44% and NNPA was at 1.81% against reported GNPA of 4.77% and NNPA of 1.23%, which was well contained. PCR has improved to 90.21%, up 848 bps y-o-y and 202 bps q-o-q. Slippages ratio has declined to 0.36% from 2.42% as at the end of 9MFY2020.

Even on Proforma basis, the Asset Quality is improving



Source: Company, Sharekhan Research

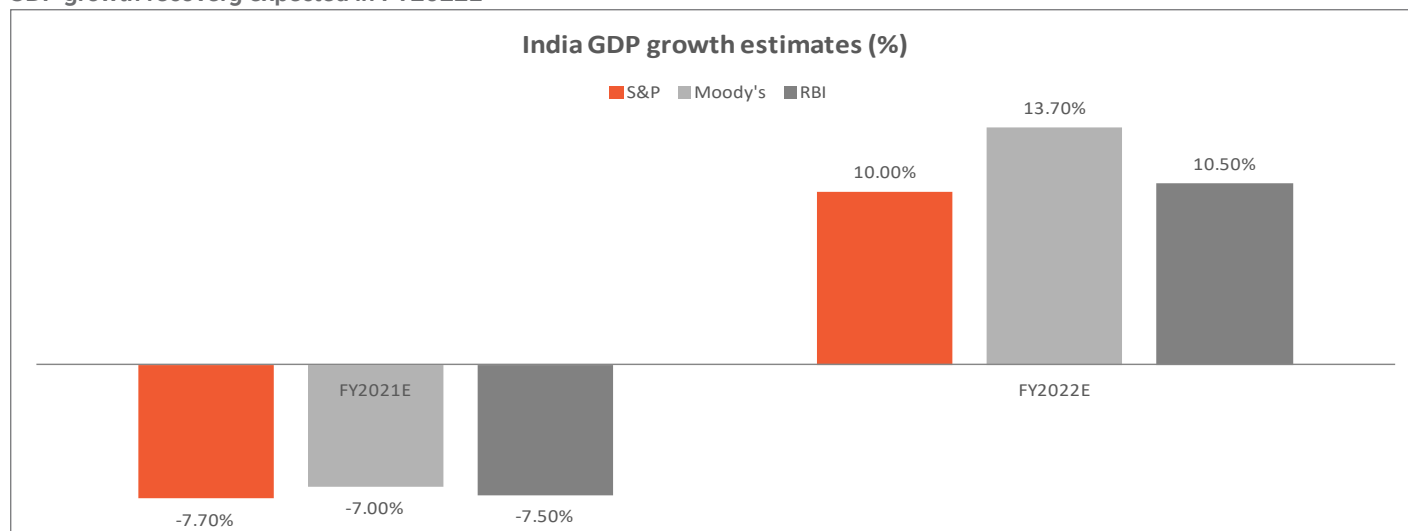
Credit cost at the end of 9MFY2021 has declined by 85 bps y-o-y to 0.38%. Notably, slippages for Q3FY2021 came in at only Rs. 237 crore. Slippage ratio was at 1.27% (including proforma slippages), while collection efficiency was at 96.5%. For 9MFY2021, considering Rs. 13,000 crore of recovery/ upgrades, net slippages is likely to be even lower at ~Rs. 10,000 crore. The bank has received Rs. 18,125 crore of restructuring requests, and we expect full-year slippages are expected to be well within management's guidance of Rs. 60,000 crore (so far Rs. 41,216 crore done).

Hence, SBI's unencumbered asset-quality book with high provision (upfront provisions taken) provides for lesser probability of stress on profitability as well as opportunity for growth. and adequate capitalisation provides headroom for growth.

GDP recovery in FY2022E and beyond to result in better growth outlook for SBI

India's GDP expected is likely to grow strongly in FY2022E and FY2023E, which augurs well for banks such as SBI. which can see improved credit growth and better fee income. Banking credit growth is a function of economic growth and, hence, we expect healthy credit pickup for the banking sector as a whole in FY2022E and beyond.

GDP growth recovery expected in FY2022E

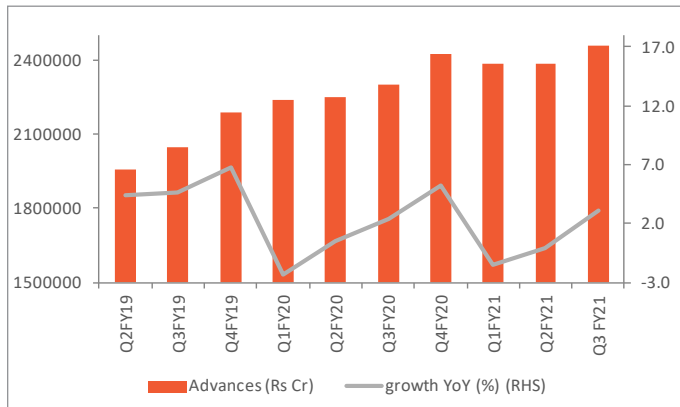


Source: Media reports, Sharekhan Research

Even for the recent Q3 quarter, credit growth for SBI came ahead of system credit growth at 6.73% y-o-y, mainly driven by retail (personal) advances (15.47% y-o-y), SME (5.62% y-o-y), and corporate advances (2.23% y-o-y). Unlike PSU peers, SBI has gained loan/deposit market share in the last decade. We expect the trend to continue. Going forward, as bank system wide credit growth picks up, we believe SBI is well placed to continue to gain market share (mostly at the expense of slower moving/low capitalised PSU bank peers). Strong retail deposit traction with CASA ratio at 45% (improving a tad north on a y-o-y and q-o-q basis) is positive. This is despite the bank paring the deposit SA rates over the last few years. This indicates the franchise value and strength.

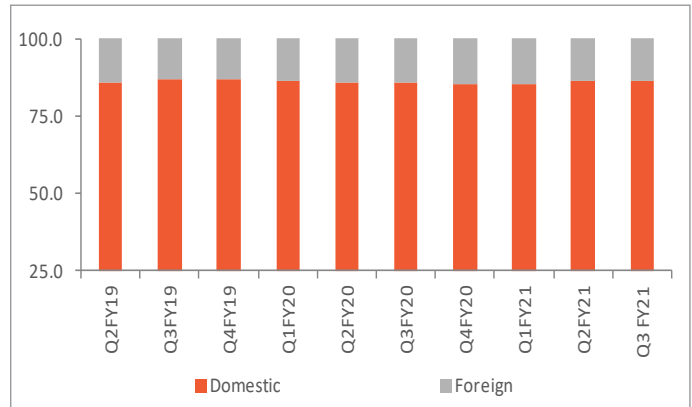
Financials in charts

Advances trend



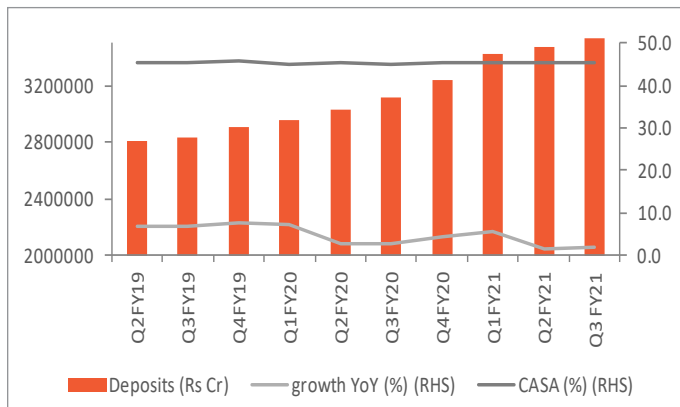
Source: Company, Sharekhan Research

Loan Mix



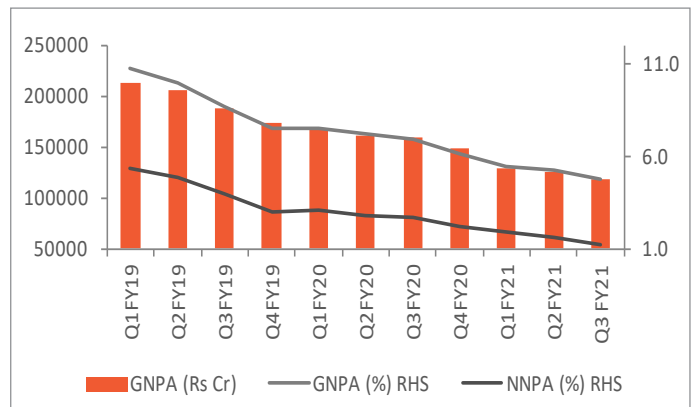
Source: Company, Sharekhan Research

Deposits trend



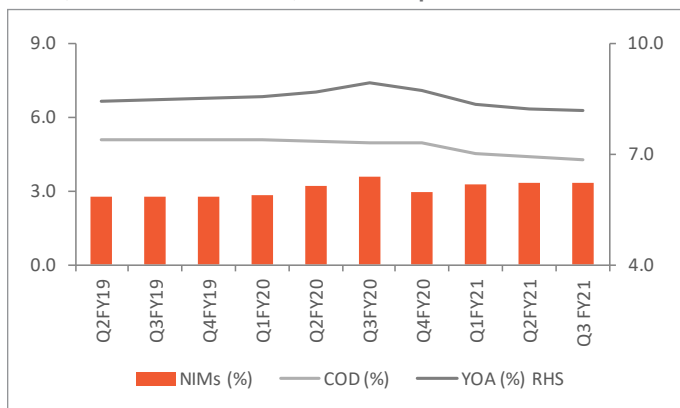
Source: Company, Sharekhan Research

Asset Quality Movement



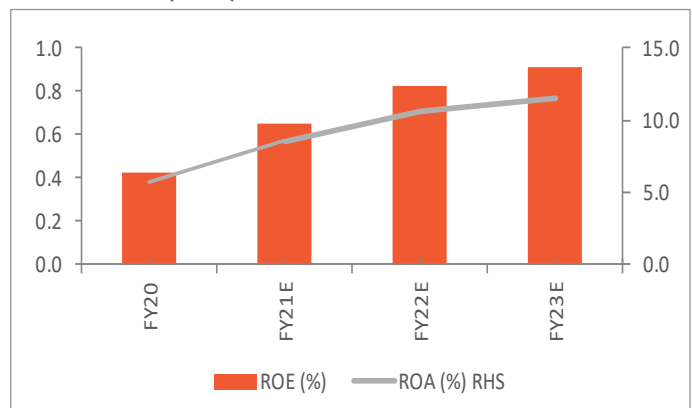
Source: Company, Sharekhan Research

NIMs, Yields on Advances, Cost of Deposits



Source: Company, Sharekhan Research

Return Ratios (Calc.)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Credit growth yet to pick up, Strong banks to gain

System-level credit offtake, which is still subdued, is now improving, with credit growth of 6.5% in the latest fortnight. Credit growth remains sluggish but is improving and there was strong deposit momentum. Advances were up 6.49% y-o-y with non-food credit up 6.44% y-o-y. The government has decided to extend ECLGS scheme, which will provide further fillip to credit growth. Healthy deposits growth of 12.12% y-o-y (which is the best growth in ~100 fortnight) indicates strength of the economy. Moreover, the Reserve Bank of India's (RBI) accommodative stance, resulting in surplus liquidity, provides succour in terms of easy availability of funds and lower cost of funds for banks and financial services companies. The end of the loan moratorium is a relief. Going forward, collection efficiency is likely to be a function of book quality, client profile, as well as economic pick-up. At present, we believe the banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well-placed players. While recent regulatory measures have cushioned earnings (especially on the asset-quality recognition part) and the gradual return to normalised business traction will be positive for BFSI companies, we believe capital-constrained PSU banks, which are still burdened with legacy NPAs, may take longer to recover; and hence, well-capitalised banks are well placed to gain market share from weaker PSU banks.

■ Company outlook - Attractive player with strong fundamentals

SBI is an attractive play on gradual recovery in the Indian economy, with healthy PCR of 90.2% (with AUCA), robust capitalisation (Tier 1 of ~11.7%), strong liability franchise, and improved core operating profitability. Q3 results indicate that business strength and the last few years' efforts on cleaning up the books have stood the bank in good stead for reducing slippages and supporting margins. Management commentary has exuded confidence about NIMs and asset-quality performance going forward; and a healthy provisioning cover on the balance sheet is a comfort factor. Management reiterated that it had taken most of the provisions for the legacy book of large stressed exposures into account; and going forward, the impact of residual provisions is likely to be manageable. 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 and its strong growth in mortgages and deposits book, which is proof to its market strength. SBI's pole position in terms of liability franchise and an enviable reach and business strength make it well placed to ride over medium-term challenges.

■ Valuation - Maintain Buy with a revised PT of Rs. 460

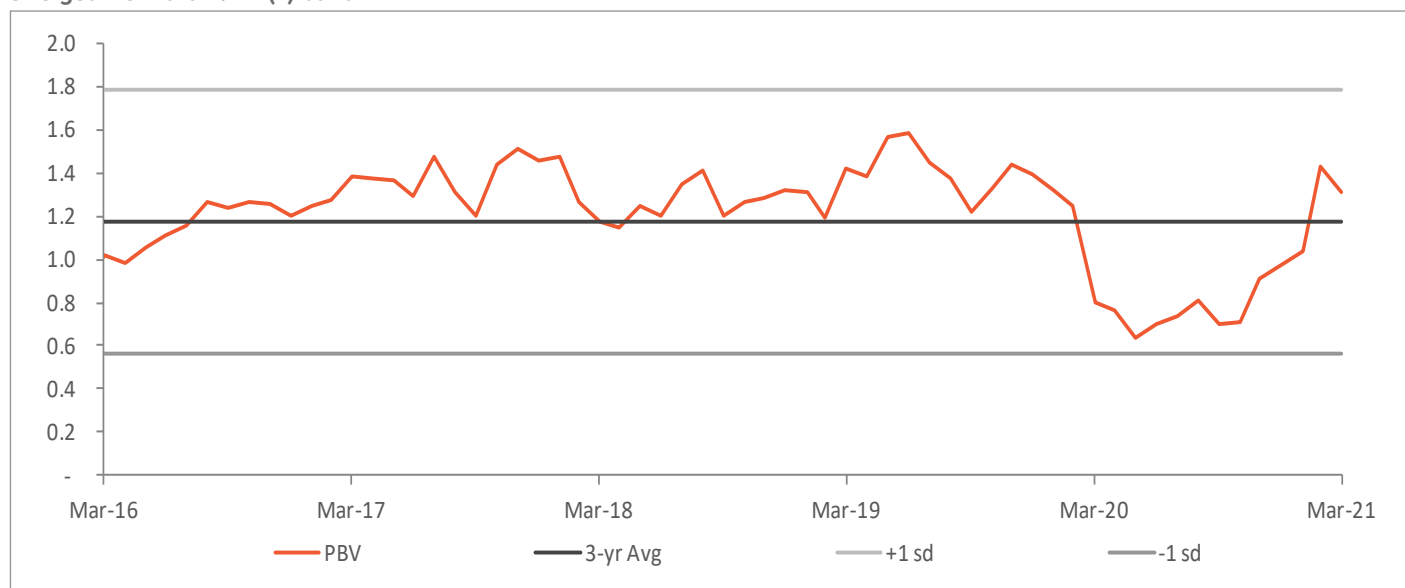
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SOTP Valuation

SBI Bank SOTP	Holding (%)	Valuation Methodology	Value per share	Contribution to TP (%)
SBI Bank - Parent	100%	1.2x FY2023E ABVPS	339	74%
Subsidiaries				
Life Insurance Subsidiary	55.5%	Market Cap post 20% Holdco Discount	44	10%
Cards Subsidiary	69.4%	Market Cap post 20% Holdco Discount	54	12%
AMC Subsidiary	63.0%	5% of AUM as on Feb 2021; 20% Holdco discount	13	3%
Others			10	2%
SOTP based Price Target			460	

Source: Company; Sharekhan Research

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP Rs/Share	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
State Bank of India	364	1.3	1.2	9.9	8.1	0.7	0.8	12.4	13.6
HDFC Bank	1494	3.6	3.1	21.0	18.8	2.0	1.9	18.2	17.8
Axis Bank	698	1.9	1.8	21.0	19.6	0.8	0.7	9.5	9.4
ICICI Bank	581	2.5	2.2	22.5	18.8	1.2	1.2	11.2	12.1

Source: Company, Sharekhan estimates

About company

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 capitalised than most PSU banks. The company is well placed to gain market share as well as key clients by virtue of lesser competitive pressures. SBI 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 peers.

Investment theme

SBI 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. Moreover, due to its size, SBI is the market maker for interest rates, which not only puts it in a dominant position, but also allows 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 and allows it to explore cross-sell opportunities. The bank's subsidiaries are strong players in their respective fields and provide further valuation support to the parent bank.

Key Risks

Slower-than-expected recovery in India's economic growth (due to the ongoing pandemic) and credit risk of higher slippages in the corporate segment may impact earnings and book value.

Additional Data

Key management personnel

Shri Dinesh Kumar Khara	Chairman
Shri Challa Sreenivasulu Setty	Managing Director
Shri Dhananjaya Tambe	Deputy MD/CIO
Shri Swaminathan Janakiraman	MD
Shri Ashwani Bhatia	MD

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	3.52
2	SBI Funds Management Pvt Ltd	2.2
3	Nippon Life India Asset Management Co Ltd	1.56
4	ICICI PRUDENTIAL ASSET MGMT CO	1.22
5	Franklin Resources Inc	0.76
6	Norges Bank	0.72
7	Mirae Asset Global Investments Co Ltd	0.67
8	Kotak Mahindra Asset Management Co	0.62
9	BlackRock Inc	0.59
10	UTI Asset Management Co Ltd	0.58

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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