

# State Bank of India Ltd.



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**Stress on asset quality in near term; Positive long-term outlook**

CMP <b>INR 442</b>	Target <b>INR 532</b>	Potential Upside <b>20.4%</b>	Market Cap (INR Cr) <b>INR 394,423</b>	Recommendation <b>BUY</b>	Sector <b>Banking</b>
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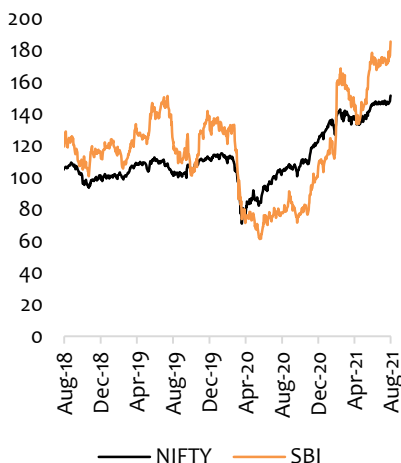
## Result Highlights of Q1FY22:

- In Q1FY22, Net Interest Income increased by 3.74% YoY at INR 27,638 Cr. Domestic NIM for Q1FY22 at 3.15%, has declined by 9 bps YoY.
- Operating Profit increased by 5.06% YoY to INR 18,975 Cr in Q1FY22 from INR 18,061 Cr in Q1FY21. The operating profit excluding exceptional item increased by 14.85% YoY. Non-Interest Income for Q1FY22 at INR 11,803 Cr grew by 24.28% YoY.
- Net Profit of INR 6,504 Cr in Q1FY22. This represents increase of 55.25% YoY.
- Deposits grew at 8.82% YoY at INR 37,20,987 Cr. Credit Growth stood at 5.64% YoY at INR 25,23,793 Cr in Q1FY22.
- Net NPA ratio at 1.77% is down 9 bps YoY. Gross NPA ratio at 5.32% is down 12 bps YoY in Q1FY22.
- Capital Adequacy Ratio (CAR) has improved by 26 bps YoY to 13.66% as of June 2021.

## MARKET DATA

Shares outs (Cr)	892
Equity Cap (INR Cr)	2,61,280
Mkt Cap (INR Cr)	394,423
52 Wk H/L (INR)	467/176
Volume Avg (3m K)	37,764
Face Value (INR)	1.0
Bloomberg Code	SBIN IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	54,493
NIFTY	16,295

## KEY FINANCIALS

Particulars (INR Crores)	FY19	FY 20	FY21	FY 22E	FY 22E
NII	88,349	98,085	1,10,710	1,23,499	1,38,241
PPOP	53,875	61,917	69,915	79,632	95,390
PAT	862	14,488	20,311	31,039	44,432
EPS	0.97	16.23	22.76	34.78	49.79
NIM	2.8%	2.9%	3.0%	2.9%	2.9%
Advances Growth	13.0%	6.4%	5.3%	8.0%	10.0%

Source: Company, KRChoksey Research

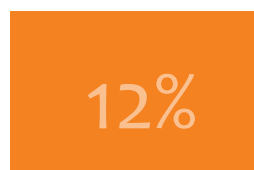
**Modest growth in loan book:** In Q1FY22, advances grew by 5.8% YoY (domestic grew 5.64% YoY), mainly driven by Retail (Personal) Advances (16.47% YoY), Agri Advances (2.48% YoY) and SME (2.01% YoY). Home loan, which constitutes 23% of Bank's domestic advances, has grown by 10.98% YoY in Q1FY22. Apart from home loans, auto loans grew 5.8% YoY, Xpress credit grew 34.3% YoY, gold loans grew 338.8% YoY and other personal loans grew 3.8% YoY. Overall, advances were down sequentially by 0.61% QoQ due to lower business activities in Q1FY22 during the lockdown period. The corporate loan book growth was muted in Q1FY22 mainly due to lower utilisation. The unutilised limit stood at INR 3 trn with proposed pipeline at INR 1.3 trn for infrastructure segment. The bank expects the Xpress credit to show 25-26% growth YoY in coming quarters with an average yield of 11%.

**Healthy operating performance:** NII for Q1FY22 grew 3.7% YoY with a 9-bps dip YoY in NIMs due to some pressure seen on the yields and decline in the domestic CD ratio by 2% YoY. The bank expects to see improvement in NIMs with healthy growth in the loan book going forward. Other income saw a jump of 24% YoY on the back of forex gains and one-off income related to recovery. This resulted in a strong growth on PPOP of 15% YoY at INR 18,975 Cr. The C/I ratio improvement at 51.9% in Q1FY22 from 52.3% in Q1FY21 and 54.5% in Q4FY21. PAT for Q1FY22 stood at INR 6,504 Cr, a growth of 55% YoY on the back of higher operating profits and lower provision by 20% YoY.

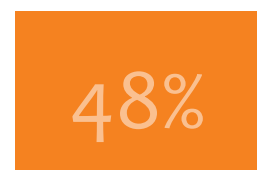
**Asset Quality takes a hit:** The GNPA stood at 5.3%, an increase of 34 bps QoQ and NNPA at 1.8% (increase of 27 bps QoQ). The slippages for Q1FY22 stood at INR 15,666 Cr. The slippage ratio increased from 1.18% to 2.47%. The bank reported a deterioration in asset quality across segments of retail credit as collections were hit by the second wave of Covid-19. The PCR saw a dip by 302 bps QoQ at 67.86%. The collection efficiency for the month of June-21 was ~92%. The bank has seen an improvement in this in the month of July-21 with collection efficiency standing at 93.5%. The slippages may remain higher in Q2FY22 as well due to stress seen in retail segment. We could expect some improvement from H2FY22E with normalcy in economic activities.

## SHARE HOLDING PATTERN (%)

Particulars	Jun-21	Mar-21	Dec-20
Promoters	57.6	57.6	57.6
FIIIs	10.3	9.9	9.8
DIIIs	24.4	24.6	25.1
Others	7.7	7.9	7.5
Total	100	100	100



NII CAGR between FY21 and FY23E



PAT CAGR between FY21 and FY23E

# State Bank of India Ltd.

## Concall Highlights:

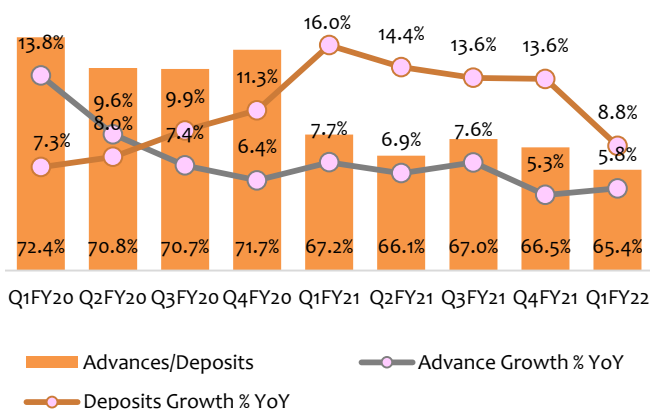
- The business activities impacted due to the lockdown in majority of states due to the second wave pf Covid-19.
- The bank has seen a pullback in slippages in the month of July-21 across the retail segment which includes home loan, Personal retail loan and SME loans.
- The interest reversal for Q1FY22 stood at INR 8 bn.
- State Bank of India has given a target of INR 140 bn as annual income from the recoveries.
- The ECLGS disbursement stood at INR 270 bn from a sanctioned amount of INR 300 bn. Thus as of 30<sup>th</sup> June,2021 the total outstanding ECLGS loan stands at INR 220 bn.
- SBI expects ROE to each 15% in next two-three years.
- Xpress credit portfolio is expected to grow at 25-26% YoY in coming quarters. The average yields are expected to be at 11% for this portfolio.
- The Bank expects further improvement in the C/I ratio on the back of strong growth in the fee income.

## Valuation and view

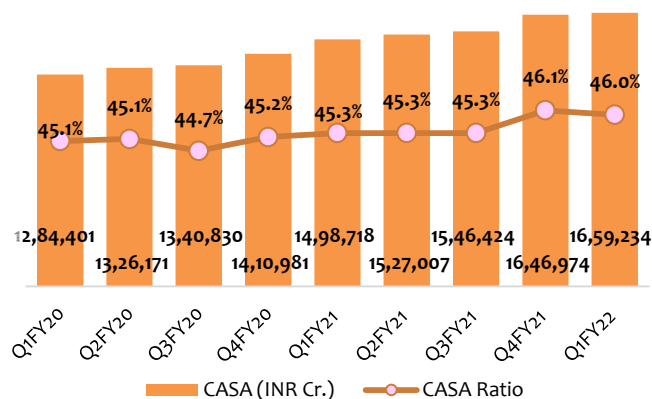
Q1FY22 was a stable quarter on operating terms for State Bank of India (SBI). Loan book growth for the quarter was modest YoY and down sequentially. Asset quality was hit by the second wave of Covid in line with the peer performance. The Bank's performance is showing a gradual improvement quarter by quarter. The restructuring of book is underway. The strong deposit franchise, large customer size and loan book mix augurs well for the bank. It is, therefore, better placed than its PSU peers to weather further crisis especially related to the pandemic.

We have factored CAGR of 48% in profits over an advance CAGR of 9% over FY21-23E. We expect its RoA to improve to 0.8% by FY23E and RoE to improve to ~14.5% by FY23E. We value the bank at 1.4x FY23E P/ABV (earlier 1.2x) on an ABV of INR 325, taking the SOTP value to INR 532 per share (earlier INR 450 per share), implying a potential upside of 20.4% over the CMP. Accordingly, we upgrade the rating on the shares of SBI Ltd. to a "BUY".

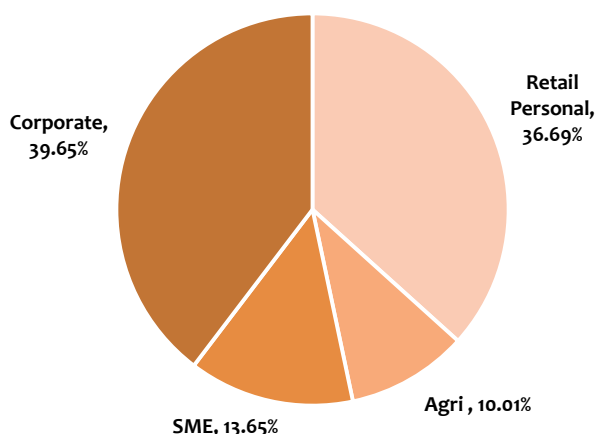
Deposit moderated



CASA Ratio stable

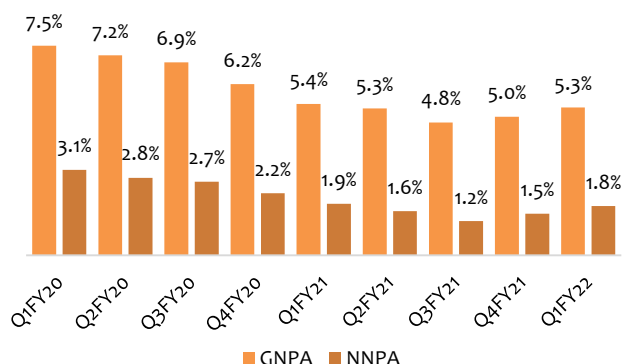


Domestic Advances mix (as a % of the book)



Source: Company, KRChoksey Research

Asset quality worsens



# State Bank of India Ltd.

## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement (Standalone)

INR Crores	FY 19	FY 20	FY 21	FY 22E	FY 23E
Interest Income	2,42,869	2,57,324	2,65,150	2,83,710	3,17,938
Interest Expense	1,54,520	1,59,239	1,54,441	1,60,212	1,79,696
<b>Net Interest Income</b>	<b>88,349</b>	<b>98,085</b>	<b>1,10,710</b>	<b>1,23,499</b>	<b>1,38,241</b>
Non interest income	35,214	39,006	41,957	43,341	48,716
Operating income	1,23,563	1,37,091	1,52,666	1,66,839	1,86,957
- Employee expense	41,055	45,715	50,936	53,483	56,157
- Other operating expense	28,633	29,459	31,815	33,724	35,411
Operating Expense	69,688	75,174	82,751	87,207	91,567
<b>PPOP</b>	<b>53,875</b>	<b>61,917</b>	<b>69,915</b>	<b>79,632</b>	<b>95,390</b>
Provisions	53,829	43,070	44,013	38,212	36,110
PBT	47	18,847	25,902	41,420	59,279
Exceptional Items	1,561	6216	1540	0	0
Tax Expense	745	10,575	7,131	10,381	14,847
<b>PAT</b>	<b>862</b>	<b>14,488</b>	<b>20,311</b>	<b>31,039</b>	<b>44,432</b>
Diluted EPS (IN1R)	0.97	16.23	22.76	34.78	49.79

Source: Company, KRChoksey Research

# State Bank of India Ltd.

## Exhibit 2: Balance Sheet (Standalone)

INR Crores	FY19	FY20	FY21	FY22E	FY23E
<b>Source of Funds</b>					
Share capital	892	892	892	892	892
Reserves & Surplus	2,20,021	2,31,115	2,52,983	2,84,021	3,28,453
Networth	2,20,914	2,32,007	2,53,875	2,84,914	3,29,346
Borrowings	4,03,017	3,14,656	4,17,298	5,21,622	6,25,947
Deposits	29,11,386	32,41,621	36,81,227	39,41,026	42,78,032
Other liabilities & provisions	1,45,597	1,63,110	1,82,030	3,49,256	4,95,687
<b>Total Equity &amp; Liabilities</b>	36,80,914	39,51,394	45,34,430	50,96,818	57,29,011
<b>Uses of Funds</b>					
Cash & Balance with RBI	45,558	84,361	1,29,837	1,32,434	1,35,083
Other Bank and Call Money	1,76,932	1,66,736	2,13,202	2,19,598	2,26,186
Net investments	9,67,022	10,46,955	13,51,705	16,89,632	20,27,558
Loans & advances	21,85,877	23,25,290	24,49,498	26,45,458	29,10,003
Fixed assets	39,198	38,439	38,419	40,340	42,357
Other assets	2,66,328	2,89,614	3,51,769	3,69,357	3,87,825
<b>Total Assets</b>	36,80,914	39,51,394	45,34,430	50,96,818	57,29,011

Source: Company, KRChoksey Research

# State Bank of India Ltd.

## Exhibit 3: Ratio Analysis

Key Ratio	FY19	FY 20	FY21	FY 22E	FY 23E
<b>Growth Rates</b>					
Advances (%)	13.0%	6.4%	5.3%	8.0%	10.0%
Deposits (%)	7.6%	11.3%	13.6%	7.1%	8.6%
Total assets (%)	6.5%	7.3%	14.8%	12.4%	12.4%
NII (%)	18.0%	11.0%	12.9%	11.6%	11.9%
Pre-provisioning profit (%)	-0.4%	14.9%	12.9%	13.9%	19.8%
PAT (%)	113.2%	1580.3%	40.2%	52.8%	43.2%
<b>B/S Ratios</b>					
Credit/Deposit (%)	75.1%	71.7%	66.5%	67.1%	68.0%
CASA (%)	44.6%	43.5%	44.7%	46.3%	47.1%
Advances/Total assets (%)	59.4%	58.8%	54.0%	51.9%	50.8%
Leverage - Total Assets to Equity	16.66	17.03	17.86	17.89	17.40
<b>Operating efficiency</b>					
Cost/income (%)	56.4%	54.8%	54.2%	52.3%	49.0%
Opex/total assets (%)	1.9%	1.9%	1.8%	1.7%	1.6%
Opex/total interest earning assets	2.2%	2.2%	2.1%	2.0%	1.8%
<b>Profitability</b>					
NIM (%)	2.8%	2.9%	3.0%	2.9%	2.9%
RoA (%)	0.0%	0.4%	0.5%	0.6%	0.8%
RoE (%)	0.4%	6.4%	8.4%	11.5%	14.5%
<b>Asset quality</b>					
Gross NPA (%)	7.5%	6.2%	4.7%	4.5%	4.3%
Net NPA (%)	3.0%	2.2%	1.2%	1.1%	1.1%
PCR (%) (excl. AUCA)	61.9%	65.2%	75.0%	75.0%	75.0%
Slippage (%)	3.2%	2.1%	2.5%	2.0%	2.0%
Credit cost (%)	1.7%	1.2%	1.1%	0.9%	0.7%
<b>Per share data / Valuation</b>					
EPS (INR)	0.97	16.23	22.76	34.78	49.79
BVPS (INR)	247.53	259.96	284.47	319.25	369.03
ABVPS (INR)	173.71	201.84	243.22	279.64	325.22
P/E (x)	194.40	27.23	19.42	12.71	8.88
P/BV (x)	1.79	1.70	1.55	1.38	1.20
P/ABV (x)	2.54	2.19	1.82	1.58	1.36

Source: Company, KRChoksey Research

# State Bank of India Ltd.

State Bank of India Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
05-Aug-21	442	532	BUY		
30-Jun-21	422	450	ACCUMULATE		
26-May-21	412	450	ACCUMULATE		
17-Mar-21	379	450	BUY		
15-Dec-20	272	300	ACCUMULATE		
24-Sep-20	184	262	BUY		
8-Jun-20	187	262	BUY		
18-Apr-20	192	262	BUY		
3-Feb-20	299	344	BUY		
30-Oct-19	281	335	BUY		
6-Aug-19	300	335	ACCUMULATE		
				<b>Buy</b>	More than 15%
				<b>Accumulate</b>	5% – 15%
				<b>Hold</b>	0 – 5%
				<b>Reduce</b>	-5% – 0
				<b>Sell</b>	Less than – 5%

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