

BUY

TP: Rs 360 | ▲ 17%

STATE BANK OF INDIA

Banking

02 August 2019

Dismal quarter

State Bank of India's (SBIN) Q1FY20 PAT of Rs 23bn was in line with our estimate. Asset quality was a miss with the stressed book swelling to Rs 274bn (vs. Rs 77.6bn in Q4) as SBIN is resolving standard accounts worth Rs 191.4bn post RBI's 7 June circular. Fresh slippages more than doubled QoQ to Rs 162bn, and additional provisions of Rs 23bn were made towards DHFL and a renewable energy project. Management expects DHFL resolution in Q2. We cut FY20-FY21 EPS by 8-20% and revise our Mar'20 TP to Rs 360 (vs. Rs 375).

Vikesh Mehta

research@bobcaps.in

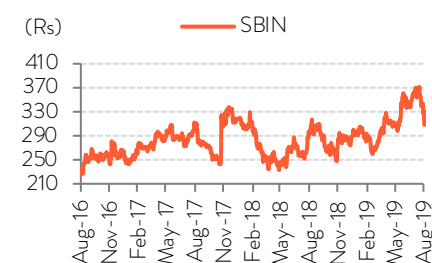
Asset quality deteriorates: Fresh slippages at Rs 162bn (vs. Rs 75bn in Q4FY19) included (1) a Maharatna PSU account worth Rs 20bn that saw a delays in signing the inter-creditor agreement, (2) agri slippages worth Rs 20bn from one state in the wake of the farm loan waiver, and (c) SME slippages of Rs 40bn (Rs 70bn in Q1FY19) as RBI's restructuring dispensation was withdrawn.

Ticker/Price	SBIN IN/Rs 308
Market cap	US\$ 39.6bn
Shares o/s	8,925mn
3M ADV	US\$ 119.4mn
52wk high/low	Rs 374/Rs 247
Promoter/FPI/DII	59%/9%/32%

Source: NSE

SBIN's stressed book (incl. SMA) swelled to Rs 274bn (vs Rs 77.6bn in Q4) as the bank is resolving standard accounts worth Rs 191.4bn, including DHFL and a renewable energy project together worth ~Rs 140bn, post RBI's 7 June circular. Credit cost guidance is intact at 1.4% for FY20 while PCR on SBIN's corporate book stands at 71%.

STOCK PERFORMANCE



Source: NSE

Loan growth stable; NIM set to improve: Loan growth at 14% YoY was steady, underpinned by a ~12%/19% increase in corporate/retail credit. Retail loan growth was fuelled by a ~28% rise in home loans. Domestic NIM increased 6bps QoQ to 3% (FY20 guidance at 3.15%). Interest reversals stood at Rs 27.9bn as interest accrued was reversed on agriculture loan slippage in Q1.

Maintain BUY: We cut FY20-FY21 EPS by 8-20% following the spike in SBIN's stressed book, but continue to value the core business at 1.1x FY21E P/ABV.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	(65,474)	8,622	326,988	340,757	409,881
EPS (Rs)	(7.7)	1.0	36.6	38.2	45.9
P/E (x)	(39.8)	319.3	8.4	8.1	6.7
P/BV (x)	1.3	1.2	1.1	1.0	0.9
ROA (%)	(0.2)	0.0	0.8	0.8	0.8
ROE (%)	(3.2)	0.4	13.6	12.4	13.5

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY20	Q4FY19	Q1FY19	YoY (%)	QoQ (%)
Income Statement					
Interest income	626,378	629,854	588,131	6.5	(0.6)
Interest expense	396,990	400,316	370,150	7.3	(0.8)
Net interest income	229,388	229,538	217,981	5.2	(0.1)
Non-interest income	80,154	126,851	66,795	20.0	(36.8)
Net total income	309,542	356,390	284,776	8.7	(13.1)
Staff Expenses	109,181	104,780	97,084	12.5	4.2
Other operating expenses	67,900	82,279	67,963	(0.1)	(17.5)
Total operating expenses	177,081	187,059	165,047	7.3	(5.3)
Pre-provisioning profit	132,462	169,331	119,729	10.6	(21.8)
Total provisions	91,829	165,019	192,280	(52.2)	(44.4)
Profit before tax	40,632	4,312	(72,551)	NM	842.3
Tax	17,510	(4,072)	(23,793)	NM	(530.0)
Profit after tax	23,122	8,384	(48,759)	NM	175.8
Balance Sheet					
Loans	21,347,737	21,858,769	18,757,735	13.8	(2.3)
Deposits	29,488,207	29,113,860	27,478,132	7.3	1.3
Yield and margin (%)					
Yield on advances	8.6	8.5	8.6	(1bps)	7bps
Cost of deposits	5.1	5.1	5.1	(4bps)	(3bps)
Global NIM	2.8	2.8	2.8	1bps	3bps
Asset quality					
Gross NPAs	1,684,939	1,727,504	2,128,399	(20.8)	(2.5)
Net NPAs	656,239	658,947	992,363	(33.9)	(0.4)
Gross NPA ratio (%)	7.5	7.5	10.7	(316bps)	0bps
Net NPA ratio (%)	3.1	3.0	5.3	(222bps)	6bps
Coverage ratio (%)	61.1	61.9	53.4	768bps	(80bps)
Capital adequacy ratios (%)					
Tier-1	10.7	10.7	10.5	12bps	0bps
Tier-2	2.2	2.1	2.6	(40bps)	17bps
Total CAR	12.9	12.7	13.2	(28bps)	17bps

Source: Company, BOBCAPS Research

Valuation methodology

We lower our FY20-FY21 EPS projections by 8-20% following the spike in SBIN's stressed book, but continue to value the core business at 1.1x FY21E P/ABV (based on the Gordon growth model) as we believe SBIN is well placed to play the turning asset quality cycle. Our Mar'20 SOTP-based target price thus stands revised to Rs 360 from Rs 375 earlier. Maintain BUY.

FIG 2 – REVISED ESTIMATES

Particulars	Old		New		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net interest income (Rs mn)	1,091,867	1,345,492	1,026,587	1,229,730	(6.0)	(8.6)
Pre-provisioning profit (Rs mn)	843,916	862,871	777,092	751,604	(7.9)	(12.9)
Profit after tax (Rs mn)	357,234	428,146	326,988	340,757	(8.5)	(20.4)
EPS (Rs)	40.0	48.0	36.6	38.2	(8.5)	(20.4)

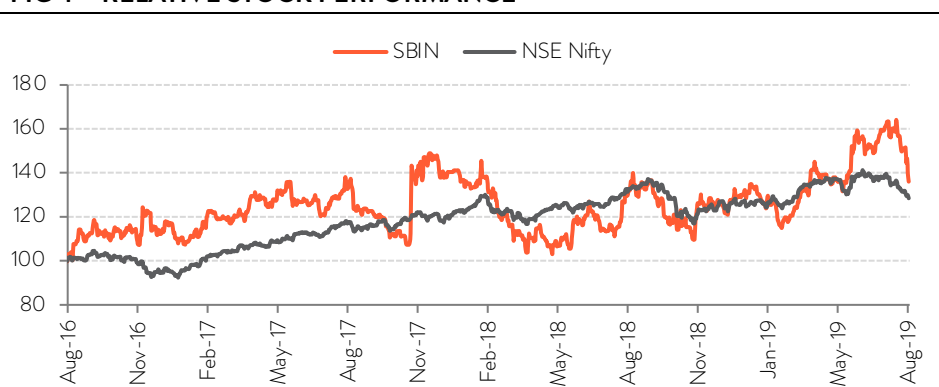
Source: BOBCAPS Research

FIG 3 – SOTP VALUATION SUMMARY

Business	Company Value (Rs bn)	Stake in Company (%)	Value for SBIN (Rs bn)	Per Share (Rs)	Contribution to TP (%)	Comments
Core Business	2,484	100	2,484	278	77	Valued at 1.1x FY21E P/ABV on Gordon Growth Model
SBI Life	791	62	393	44	12	Valued at CMP; adjusted for 20% holdco discount
SBI AMC	215	63	136	15	4	7% of Q1FY20 AAUM
SBI General	108	70	76	8	2	Valued at 15x FY21E P/E
SBI Card	126	74	93	10	3	Valued at 2.5x FY21E P/B
SBI Capital	34	100	34	4	1	Valued at 12x FY21E P/E
Sum-of-the-Parts			3,216	360		

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- We are building lower provisions into our estimates assuming resolution of stressed assets. Any delays in this process or a worsening of economic conditions could lead to an elongated provisioning cycle.
- The risk of moral hazard arising from farm loan waivers could lead to higher slippages in the agriculture sector.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	748,537	883,489	1,026,587	1,229,730	1,493,796
NII growth (%)	21.0	18.0	16.2	19.8	21.5
Non-interest income	446,007	367,749	529,847	418,411	446,728
Total income	1,194,544	1,251,238	1,556,434	1,648,141	1,940,524
Operating expenses	(599,434)	(696,877)	(779,342)	(896,536)	(1,074,907)
Operating profit	595,110	554,360	777,092	751,604	865,618
Operating profit growth (%)	17.0	(6.8)	40.2	(3.3)	15.2
Provisions	(750,392)	(538,286)	(309,967)	(264,809)	(280,073)
PBT	(155,282)	16,075	467,126	486,795	585,544
Tax	89,808	(7,453)	(140,138)	(146,039)	(175,663)
Reported net profit	(65,474)	8,622	326,988	340,757	409,881
Adjustments	0	0	0	0	0
Adjusted net profit	(65,474)	8,622	326,988	340,757	409,881

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Equity capital	8,925	8,925	8,925	8,925	8,925
Reserves & surplus	2,182,360	2,200,214	2,607,890	2,868,976	3,183,634
Net worth	2,191,285	2,209,138	2,616,814	2,877,901	3,192,559
Deposits	27,063,433	29,113,860	33,042,372	38,323,592	44,452,999
Borrowings	4,084,732	4,525,008	5,009,568	5,645,832	6,366,891
Other liabilities & provisions	1,208,070	961,136	1,029,723	1,104,517	1,186,122
Total liabilities and equities	34,547,519	36,809,142	41,698,477	47,951,841	55,198,571
Cash & bank balance	1,918,986	2,224,901	2,321,697	2,423,282	2,529,903
Investments	10,609,867	9,670,219	11,015,486	12,830,357	14,971,297
Advances	19,348,802	21,858,769	25,098,753	29,240,047	34,503,256
Fixed & Other assets	2,669,865	3,055,253	3,262,542	3,458,155	3,194,114
Total assets	34,547,520	36,809,142	41,698,477	47,951,841	55,198,571
Deposit growth (%)	32.4	7.6	13.5	16.0	16.0
Advances growth (%)	23.2	13.0	14.8	16.5	18.0

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	(7.7)	1.0	36.6	38.2	45.9
Dividend per share	0.0	0.0	7.3	7.6	9.2
Book value per share	245.5	247.5	293.2	322.5	357.7

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	(39.8)	319.3	8.4	8.1	6.7
P/BV	1.3	1.2	1.1	1.0	0.9
Dividend yield (%)	0.0	0.0	2.4	2.5	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	2.4	2.5	2.6	2.7	2.9
Non-interest income	1.4	1.0	1.3	0.9	0.9
Operating expenses	1.9	2.0	2.0	2.0	2.1
Pre-provisioning profit	1.9	1.6	2.0	1.7	1.7
Provisions	2.4	1.5	0.8	0.6	0.5
PBT	(0.5)	0.0	1.2	1.1	1.1
Tax	(0.3)	0.0	0.4	0.3	0.3
ROA	(0.2)	0.0	0.8	0.8	0.8
Leverage (x)	15.1	16.2	16.3	16.3	17.0
ROE	(3.2)	0.4	13.6	12.4	13.5

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Net interest income	21.0	18.0	16.2	19.8	21.5
Pre-provisioning profit	17.0	(6.8)	40.2	(3.3)	15.2
EPS	(158.2)	(112.5)	3692.4	4.2	20.3
Profitability & Return ratios (%)					
Net interest margin	2.6	2.7	2.8	3.0	3.1
Fees / Avg. assets	0.7	0.7	0.6	0.6	0.6
Cost-Income	50.2	55.7	50.1	54.4	55.4
ROE	(3.2)	0.4	13.6	12.4	13.5
ROA	(0.2)	0.0	0.8	0.8	0.8
Asset quality (%)					
GNPA	10.9	7.5	6.1	4.7	3.7
NNPA	5.7	3.0	2.3	1.7	1.2
Provision coverage	50.4	61.9	63.9	65.3	68.7
Ratios (%)					
Credit-Deposit	71.5	75.1	76.0	76.3	77.6
Investment-Deposit	39.2	33.2	33.3	33.5	33.7
CAR	12.6	12.7	11.9	11.7	11.7
Tier-1	10.4	10.7	10.0	9.7	9.6

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

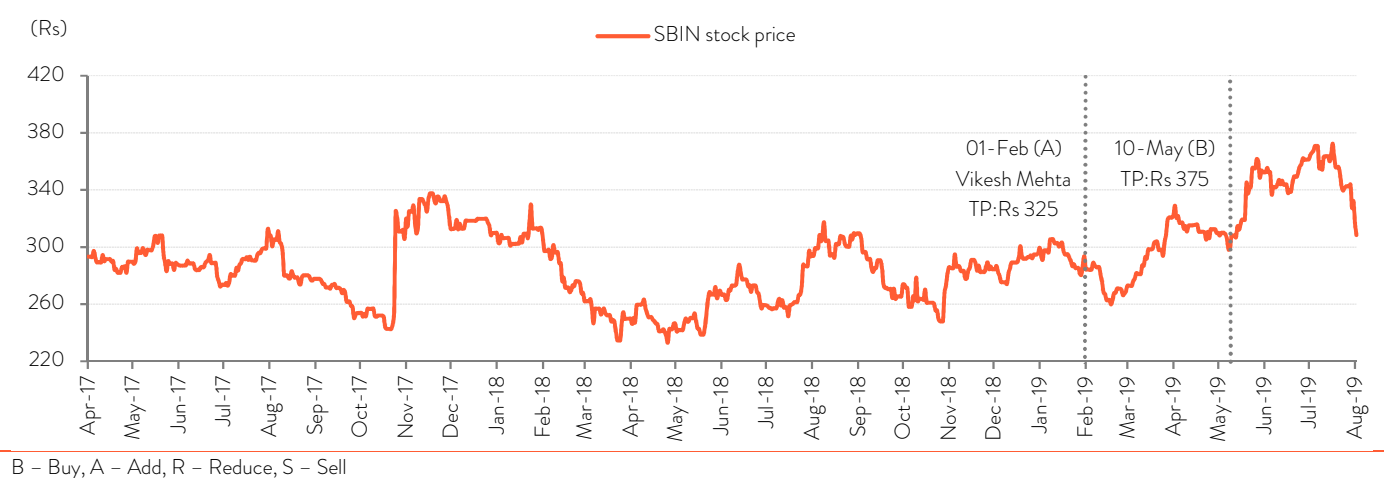
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: STATE BANK OF INDIA (SBIN IN)



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