

BUY

TP: Rs 360 | ▲ 28%

STATE BANK OF INDIA

Banking

25 October 2019

Slippages abate but stressed book remains high

State Bank of India's (SBIN) Q2FY20 PAT of Rs 30bn beat consensus estimates due to 17% YoY NII growth. Fresh slippages dropped materially to Rs 88bn but stressed assets stayed high at ~Rs 260bn. The bank used a ~Rs 35bn one-time gain from the SBI Life stake sale to make upfront provisions for a failed restructured account and to raise coverage on DHFL exposure to 20%. Its tax rate was high at ~40% as SBIN will decide on migrating to a lower rate in Q4. CET-1 improved 47bps QoQ to 10.1%.

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Slippages abate: SBIN's fresh slippages declined to Rs 88bn vs. Rs 162bn in Q1 with improvement across segments. The stressed book remained elevated at Rs 261bn (vs. Rs 274bn in Q1). Management expects a worst-case slippage ratio of ~2% and 1.4-1.5% to be maintained in the base case. Agri slippages at Rs 30.8bn largely flowed from two states due to debt waivers; SBIN indicated that these accounts have been dealt with and should see lower stress ahead. PCR improved to 63% vs. 61% in Q1; management believes it carries excess provisions on a portfolio level.

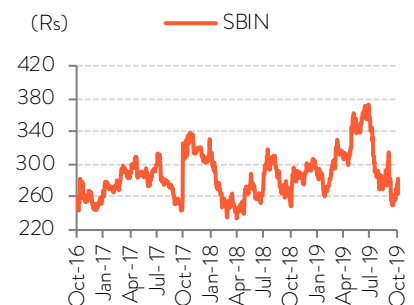
Loan growth moderates: Overall loan growth slipped to 9.6% YoY given the rundown in corporate and SME portfolios. Retail loan growth remained strong at ~19% YoY. Corporate credit growth was weak given that utilisation of working capital limits remains low at 30-31%. Domestic NIM increased 21bps QoQ to 3.2% due to lower interest reversal on slippages and reduced cost of deposits. We do not see much room for NIM to expand from current levels.

Maintain BUY: We view SBIN as one of the prime beneficiaries of the ongoing/anticipated revival in corporate loan cycle, but a lot hinges upon the resolution of stressed assets. We stay positive on the stock; Sep'20 TP retained at Rs 360.

Ticker/Price	SBIN IN/Rs 282
Market cap	US\$ 35.4bn
Shares o/s	8,925mn
3M ADV	US\$ 146.5mn
52wk high/low	Rs 374/Rs 244
Promoter/FPI/DII	59%/9%/32%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	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
Adj. net profit (Rs mn)	(65,474)	8,622	317,639	348,833	419,751
EPS (Rs)	(7.7)	1.0	35.6	39.1	47.0
P/E (x)	(36.3)	291.4	7.9	7.2	6.0
P/BV (x)	1.1	1.1	1.0	0.9	0.8
ROA (%)	(0.2)	0.0	0.8	0.8	0.8
ROE (%)	(3.2)	0.4	13.2	12.7	13.8

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY20	Q1FY20	Q2FY19	YoY (%)	QoQ (%)
Income Statement					
Interest income	643,124	626,378	587,935	9.4	2.7
Interest expense	397,121	396,990	378,880	4.8	0.0
Net interest income	246,003	229,388	209,055	17.7	7.2
Non-interest income	120,227	80,154	93,751	28.2	50.0
Net total income	366,230	309,542	302,805	20.9	18.3
Staff Expenses	113,026	109,181	96,964	16.6	3.5
Other operating expenses	71,217	67,900	66,795	6.6	4.9
Total operating expenses	184,243	177,081	163,759	12.5	4.0
Pre-provisioning profit	181,988	132,462	139,046	30.9	37.4
Total provisions	131,389	91,829	120,922	8.7	43.1
Profit before tax	50,598	40,632	18,125	179.2	24.5
Tax	20,481	17,510	8,678	136.0	17.0
Profit after tax	30,117	23,122	9,447	218.8	30.3
Balance Sheet					
Loans	21,461,598	21,347,737	19,573,396	9.6	0.5
Deposits	30,333,958	29,488,207	28,074,201	8.0	2.9
Yield and margin (%)					
Yield on advances	8.7	8.6	8.4	26bps	13bps
Cost of deposits	5.0	5.1	5.1	(8bps)	(5bps)
Global NIM	2.9	2.8	2.7	17bps	9bps
Asset quality					
Gross NPAs	1,616,361	1,684,939	2,058,641	(21.5)	(4.1)
Net NPAs	599,392	656,239	948,100	(36.8)	(8.7)
Gross NPA ratio (%)	7.2	7.5	10.0	(276bps)	(34bps)
Net NPA ratio (%)	2.8	3.1	4.8	(205bps)	(28bps)
Coverage ratio (%)	62.9	61.1	53.9	897bps	186bps
Capital adequacy ratios (%)					
Tier-1	11.3	10.7	10.4	95bps	66bps
Tier-2	2.3	2.2	2.3	3bps	4bps
Total CAR	13.6	12.9	12.6	98bps	70bps

Source: Company, BOBCAPS Research

Valuation methodology

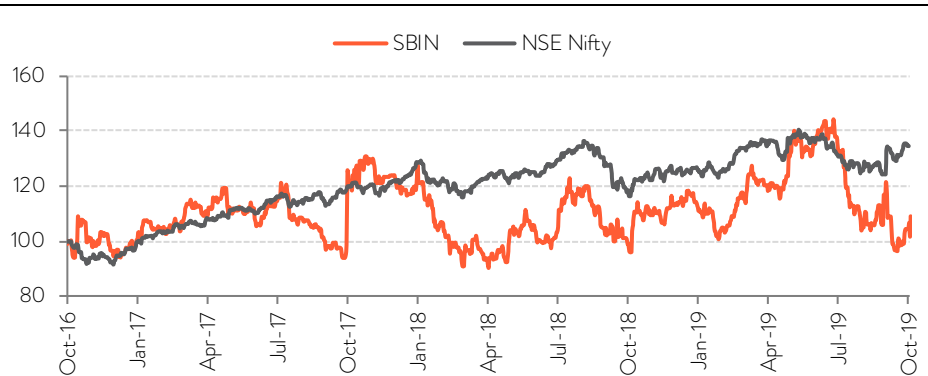
We retain our Sep'20 target price of Rs 360, arrived at using the SOTP method. The core book has been adjusted for investment in subsidiaries and valued at 1x Sep'21E P/ABV – this is based on a two-stage Gordon growth model as we expect SBIN to continue growing much faster than other public sector banks for the next few years. In our view, SBIN is one of the prime beneficiaries of the revival in corporate loan cycle. Maintain BUY.

FIG 2 – SOTP VALUATION SUMMARY

Sum of Parts	Company Value (Rs bn)	Stake in Company (%)	Value for SBIN (Rs bn)	Per Share (Rs)	Contribution to TP (%)	Comments
Core Business	2,389	100	2,389	268	74	Valued at 1x Sep'21 P/ABV on Gordon Growth Model
SBI Life	983	58	453	51	14	Valued at CMP; adjusted for 20% holdco discount
SBI AMC	224	63	141	16	4	7% of Q1FY20 AAUM
SBI General	127	70	89	10	3	Valued at 15x Sep'19 P/E
SBI Card	141	74	104	12	3	Valued at 2.5x Sep'19 P/B
SBI Capital	36	100	36	4	1	Valued at 12x Sep'19 P/E
Sum of Parts			3,212	360		

Source: Company, BOBCAPS Research

FIG 3 – 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)	(887,301)	(1,064,398)
Operating profit	595,110	554,360	777,092	760,839	876,126
Operating profit growth (%)	17.0	(6.8)	40.2	(2.1)	15.2
Provisions	(750,392)	(538,286)	(309,967)	(291,978)	(311,945)
PBT	(155,282)	16,075	467,126	468,861	564,181
Tax	89,808	(7,453)	(149,487)	(120,028)	(144,430)
Reported net profit	(65,474)	8,622	317,639	348,833	419,751
Adjustments	0	0	0	0	0
Adjusted net profit	(65,474)	8,622	317,639	348,833	419,751

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	2,600,644	2,867,989	3,190,296
Net worth	2,191,285	2,209,138	2,609,569	2,876,914	3,199,221
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	41,691,231	47,950,854	55,205,233
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	3,255,296	3,457,168	3,200,777
Total assets	34,547,520	36,809,142	41,691,231	47,950,854	55,205,233
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	35.6	39.1	47.0
Dividend per share	0.0	0.0	7.1	7.8	9.4
Book value per share	245.5	247.5	292.4	322.4	358.5

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	(36.3)	291.4	7.9	7.2	6.0
P/BV	1.1	1.1	1.0	0.9	0.8
Dividend yield (%)	0.0	0.0	2.5	2.8	3.3

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	0.7	0.6
PBT	(0.5)	0.0	1.2	1.0	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	13.2	12.7	13.8

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	(2.1)	15.2
EPS	(158.2)	(112.5)	3583.9	9.8	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	53.8	54.9
ROE	(3.2)	0.4	13.2	12.7	13.8
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	1.6	1.0
Provision coverage	50.4	61.9	63.9	67.2	72.5
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%

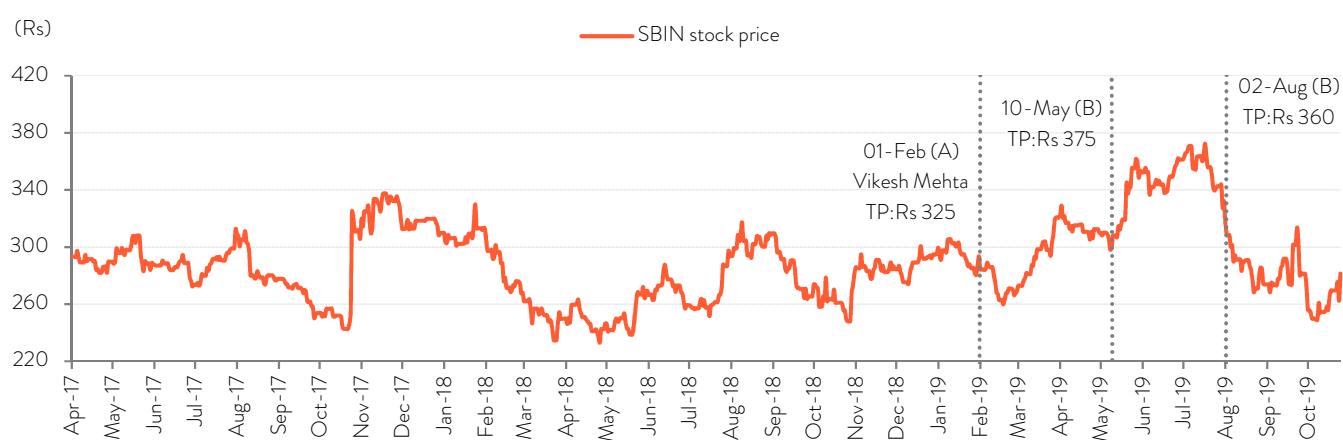
ADD – Expected return from >+5% to +15%

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)



B – Buy, A – Add, R – Reduce, S – Sell

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