

BUY

TP: Rs 400 | ▲ 26%

STATE BANK OF INDIA

Banking

31 January 2020

Recoveries aid earnings growth

State Bank of India's (SBIN) Q3FY20 PAT at Rs 56bn was driven by strong NII growth and lower provisions, but a one-time DTA charge shaved Rs 13bn off earnings. Asset quality improved despite higher slippages, with GNPA/NNPA declining 25bps/14bps QoQ to 6.9%/2.7%. The SMA book declined to Rs 81bn vs. Rs 183bn in Q2 due to upgrades and recoveries. Fresh slippages were higher at Rs 165bn largely due to DHFL exposure. We broadly maintain estimates and roll forward to a revised Mar'21 TP of Rs 400 (vs. Rs 360).

Vikesh Mehta

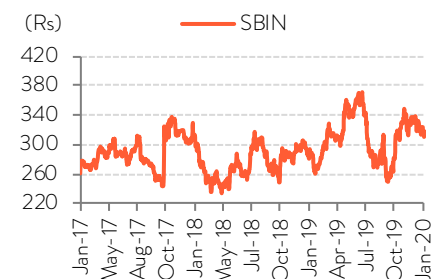
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Asset quality improving directionally: Fresh slippages were higher at Rs 165bn in Q3 (vs. Rs 88bn in Q2) due to DHFL exposure totalling ~Rs 100bn. SBIN has provided 20%/50% on its ~Rs 71bn/~Rs 30bn funded/bond exposure to DHFL (overall PCR of ~30%). Retail/agri/SME slippages were largely steady QoQ. The bank had interest income/provision reversals worth Rs 40bn/Rs 78bn on recovery of stressed assets. Recoveries are expected from three accounts via resolution in Q4 – Bhushan Power (Rs 40bn), the textile sector (Rs 20bn) and power sector (Rs 10bn). SBIN has restructured ~70k eligible accounts worth Rs 36bn under the RBI's MSME scheme (~50% restructured in Q3).

Ticker/Price	SBIN IN/Rs 318
Market cap	US\$ 39.8bn
Shares o/s	8,925mn
3M ADV	US\$ 159.7mn
52wk high/low	Rs 374/Rs 244
Promoter/FPI/DII	59%/9%/32%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Corporate book drags down loan growth: Loan growth at 7% YoY was marred by weak corporate account growth due to low working capital utilisation levels. Retail loan growth remained strong at 17% while the international book grew 16% YoY. Domestic NIM at 3.27% has largely peaked as there is no large recovery in sight, while interest rates on deposits have bottomed. Improvement, if any, should come from a better portfolio mix and increase in loans accruing interest.

Maintain BUY: We view SBIN as one of the prime beneficiaries of the revival in corporate loan cycle. Maintain BUY with our TP revised to Rs 400 on rollover.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	748,537	883,489	1,004,362	1,176,621	1,401,398
NII growth (%)	21.0	18.0	13.7	17.2	19.1
Adj. net profit (Rs mn)	(65,474)	8,622	303,684	359,511	424,900
EPS (Rs)	(7.7)	1.0	34.0	40.3	47.6
P/E (x)	(41.1)	329.6	9.4	7.9	6.7
P/BV (x)	1.3	1.3	1.1	1.0	0.9
ROA (%)	(0.2)	0.0	0.8	0.8	0.9
ROE (%)	(3.2)	0.4	12.6	13.1	14.0

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Income Statement								
Interest income	676,920	622,766	8.7	643,124	5.3	1,946,422	1,798,832	8.2
Interest expense	399,132	395,856	0.8	397,121	0.5	1,193,243	1,144,886	4.2
Net interest income	277,788	226,910	22.4	246,003	12.9	753,179	653,946	15.2
Non-interest income	91,059	80,352	13.3	120,227	(24.3)	291,440	240,898	21.0
Net total income	368,847	307,262	20.0	366,230	0.7	1,044,619	894,843	16.7
Staff Expenses	114,556	111,719	2.5	113,026	1.4	336,763	305,767	10.1
Other operating expenses	72,065	69,293	4.0	71,217	1.2	211,182	204,052	3.5
Total operating expenses	186,622	181,013	3.1	184,243	1.3	547,945	509,819	7.5
Pre-provisioning profit	182,226	126,250	44.3	181,988	0.1	496,675	385,025	29.0
Total provisions	72,529	60,062	20.8	131,389	(44.8)	295,748	373,264	(20.8)
Profit before tax	109,697	66,187	65.7	50,598	116.8	200,927	11,761	1608.5
Tax	53,863	26,639	102.2	20,481	163.0	91,854	11,525	697.0
Profit after tax	55,834	39,548	41.2	30,117	85.4	109,073	236	46078.2
Balance Sheet								
Loans	21,999,169	20,477,790	7.4	21,461,598	2.5	21,999,169	20,477,790	7.4
Deposits	31,112,286	28,305,377	9.9	30,333,958	2.6	31,112,286	28,305,377	9.9
Yield and margin (%)								
Yield on advances*	9.1	8.6	42bps	8.8	23bps	8.9	8.5	43bps
Cost of deposits*	5.0	5.2	(17bps)	5.0	(3bps)	5.0	5.1	(12bps)
Global NIM*	3.5	3.0	45bps	3.1	33bps	3.1	2.8	29bps
Asset quality								
Gross NPAs	1,596,612	1,877,646	(15.0)	1,616,361	(1.2)	1,596,612	1,877,646	(15.0)
Net NPAs	582,486	809,435	(28.0)	599,392	(2.8)	582,486	809,435	(28.0)
Gross NPA ratio (%)	6.9	8.7	(177bps)	7.2	(25bps)	6.9	8.7	(177bps)
Net NPA ratio (%)	2.7	4.0	(130bps)	2.8	(14bps)	2.7	4.0	(130bps)
Coverage ratio (%)	63.5	56.9	663bps	62.9	60bps	63.5	56.9	663bps
Capital adequacy ratios (%)								
Tier-1	11.6	10.5	105bps	11.3	28bps	11.6	10.5	105bps
Tier-2	2.1	2.2	(9bps)	2.3	(14bps)	2.1	2.2	(9bps)
Total CAR	13.7	12.8	96bps	13.6	14bps	13.7	12.8	96bps

Source: Company, BOBCAPS Research | * Quarterly numbers are calculated

Valuation methodology

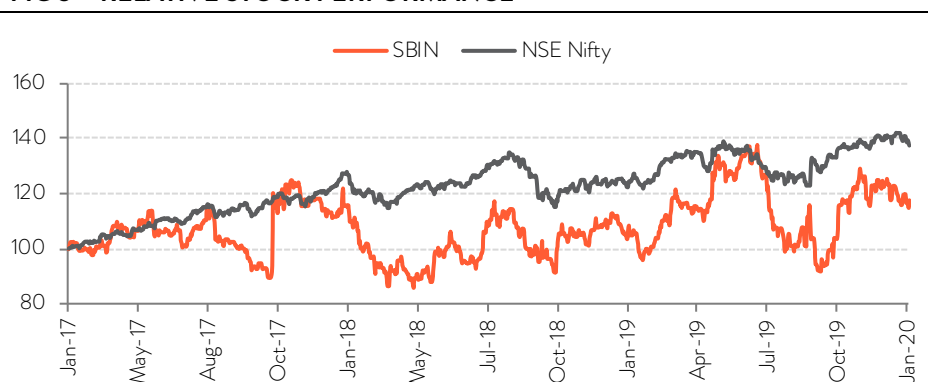
We broadly maintain our FY20-FY22 estimates. Valuing SBIN using the SOTP methodology, we roll forward to a Mar'21 target price of Rs 400 from Rs 360 earlier. Our target price values the core business at 1x FY22E P/ABV, based on the Gordon Growth Model. Maintain BUY.

FIG 2 – SOTP VALUATION

Sum of Parts	Company value (Rs bn)	Stake in company (%)	Value for SBIN (Rs bn)	Per Share (Rs)	Contribution to TP (%)	Comments
Core Business	2,706	100	2,706	303	76	Valued at 1x Mar'22E P/ABV on Gordon Growth Model
SBI Life	994	58	458	51	13	Valued at CMP; adjusted for 20% holdco discount
SBI AMC	247	63	156	17	4	7% of Q3FY20 AAUM
SBI General	146	70	102	11	3	Valued at 15x Mar'22E P/E
SBI Card	155	74	115	13	3	Valued at 2.5x Mar'22E P/B
SBI Capital	38	100	38	4	1	Valued at 12x Mar'22E P/E
Sum of Parts			3,574	400		

Source: 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	1,004,362	1,176,621	1,401,398
NII growth (%)	21.0	18.0	13.7	17.2	19.1
Non-interest income	446,007	367,749	529,847	418,411	449,228
Total income	1,194,544	1,251,238	1,534,209	1,595,032	1,850,626
Operating expenses	(599,434)	(696,877)	(729,218)	(820,819)	(952,471)
Operating profit	595,110	554,360	804,991	774,213	898,155
Operating profit growth (%)	17.0	(6.8)	45.2	(3.8)	16.0
Provisions	(750,392)	(538,286)	(356,621)	(290,999)	(327,052)
PBT	(155,282)	16,075	448,370	483,214	571,103
Tax	89,808	(7,453)	(144,686)	(123,703)	(146,202)
Reported net profit	(65,474)	8,622	303,684	359,511	424,900
Adjustments	0	0	0	0	0
Adjusted net profit	(65,474)	8,622	303,684	359,511	424,900

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	2,589,829	2,865,451	3,191,748
Net worth	2,191,285	2,209,138	2,598,754	2,874,375	3,200,673
Deposits	27,063,433	29,113,860	32,025,246	36,383,353	42,151,332
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	40,663,291	46,008,077	52,905,018
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	23,607,471	26,440,367	30,142,019
Fixed & Other assets	2,669,865	3,055,253	3,718,638	4,314,071	5,261,799
Total assets	34,547,520	36,809,142	40,663,291	46,008,077	52,905,018
Deposit growth (%)	32.4	7.6	10.0	13.6	15.9
Advances growth (%)	23.2	13.0	8.0	12.0	14.0

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	(7.7)	1.0	34.0	40.3	47.6
Dividend per share	0.0	0.0	6.8	8.1	9.5
Book value per share	245.5	247.5	291.2	322.1	358.6

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	(41.1)	329.6	9.4	7.9	6.7
P/BV	1.3	1.3	1.1	1.0	0.9
Dividend yield (%)	0.0	0.0	2.1	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	2.8
Non-interest income	1.4	1.0	1.4	1.0	0.9
Operating expenses	1.9	2.0	1.9	1.9	1.9
Pre-provisioning profit	1.9	1.6	2.1	1.8	1.8
Provisions	2.4	1.5	0.9	0.7	0.7
PBT	(0.5)	0.0	1.2	1.1	1.2
Tax	(0.3)	0.0	0.4	0.3	0.3
ROA	(0.2)	0.0	0.8	0.8	0.9
Leverage (x)	15.1	16.2	16.1	15.8	16.3
ROE	(3.2)	0.4	12.6	13.1	14.0

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Net interest income	21.0	18.0	13.7	17.2	19.1
Pre-provisioning profit	17.0	(6.8)	45.2	(3.8)	16.0
EPS	(158.2)	(112.5)	3422.1	18.4	18.2
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	47.5	51.5	51.5
ROE	(3.2)	0.4	12.6	13.1	14.0
ROA	(0.2)	0.0	0.8	0.8	0.9
Asset quality (%)					
GNPA	10.9	7.5	6.4	5.1	3.9
NNPA	5.7	3.0	2.3	1.7	1.0
Provision coverage	50.4	61.9	65.4	68.2	75.8
Ratios (%)					
Credit-Deposit	71.5	75.1	73.7	72.7	71.5
Investment-Deposit	39.2	33.2	34.4	35.3	35.5
CAR	12.6	12.7	12.1	12.2	12.2
Tier-1	10.4	10.7	10.2	10.1	10.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

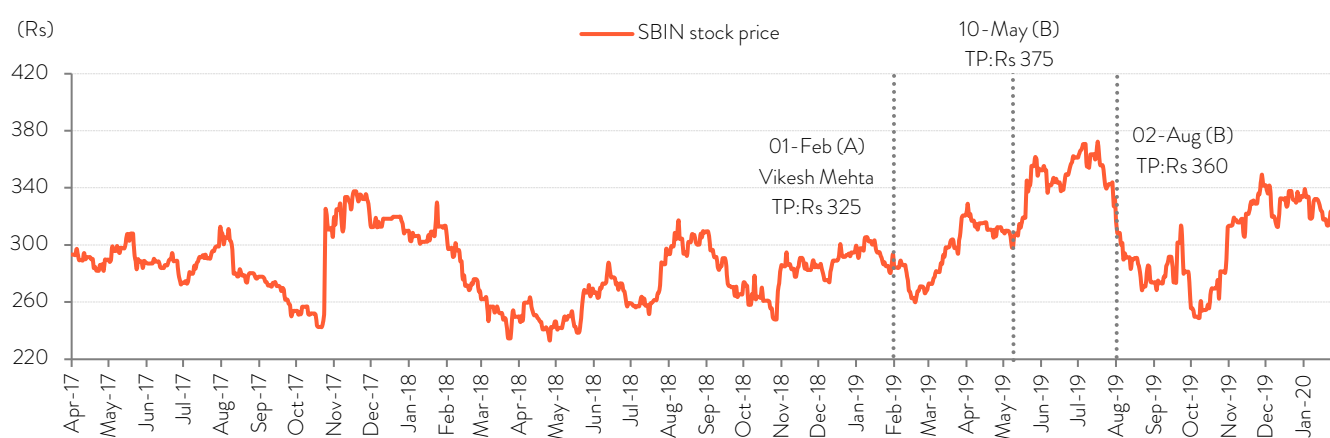
ADD – Expected return from >+5% to +15%

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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