

BUY

TP: Rs 475 | ▲ 34%

STATE BANK OF INDIA

Banking

04 February 2021

Asset quality outlook remains upbeat

State Bank of India's (SBIN) Q3FY21 PAT declined 7% YoY to Rs 52bn on a 5% dip in operating profit. Disclosures on stress levels were reassuring with slippages and restructured loans manageable. The SMA book inched up to 0.8% of loans (0.5% in Q2) owing to some overlap with the incremental stress, but management believes it will be contained in Q4. Credit cost guidance was maintained at <2% for FY21. We raise EPS estimates post Q3 and assign the stock a higher 1x core P/BV multiple – on rollover, we have a new Mar'22 TP of Rs 475 (vs. Rs 260).

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Stress levels remain reassuring: Slippages were contained at Rs 20.7bn in Q3. This coupled with higher reductions/upgrades and write-offs led to a decline in proforma GNPA ratio to 5.4% vs. 5.9% in Q2. SBIN has received Covid-related restructuring applications worth Rs 181bn from the retail (21%), SME (14%) and corporate (65%) segments. No abnormal spike in restructured accounts is expected in Q4. Fresh slippages and restructuring up to 9MFY21 was at Rs 412bn, well below earlier guided levels of Rs 600bn (2.5% of loans) for FY21. Management expects the resolution of two lumpy accounts going forward and the quality of its retail book also remains healthy.

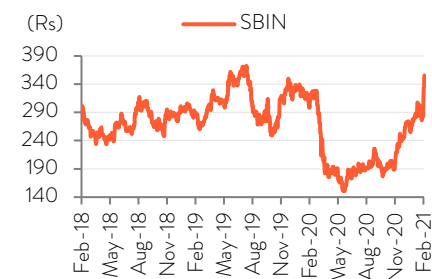
Retail credit holds strong: Credit growth at 8% YoY in Q3 was subdued but retail loans grew 15% backed by good traction in products such as home loans (+10% YoY), 'Xpress credit' (+36% YoY) and personal gold loans. Management highlighted that Xpress credit will continue to show strong momentum as the bank has tapped only 40-45% of its 16mn corporate salary package customers.

Maintain BUY: We raise our FY21-FY23 EPS estimates by 37-60% and increase our core P/BV multiple to 1x (0.5x earlier) to factor in SBIN's better growth and asset quality outlook. This yields a higher Mar'22 SOTP-based target price of Rs 475.

Ticker/Price	SBIN IN/Rs 355
Market cap	US\$ 43.4bn
Shares o/s	8,925mn
3M ADV	US\$ 203.2mn
52wk high/low	Rs 358/Rs 149
Promoter/FPI/DII	58%/8%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	883,489	980,848	1,132,746	1,331,670	1,518,850
NII growth (%)	18.0	11.0	15.5	17.6	14.1
Adj. net profit (Rs mn)	8,622	144,881	196,152	277,902	379,637
EPS (Rs)	1.0	16.2	22.0	31.1	42.5
P/E (x)	367.6	21.9	16.2	11.4	8.3
P/BV (x)	1.4	1.4	1.2	1.1	1.0
ROA (%)	0.0	0.4	0.5	0.6	0.7
ROE (%)	0.4	6.4	7.9	10.2	12.7

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Income Statement								
Interest income	667,345	676,920	668,141	(1.4)	(0.1)	2,000,490	1,946,422	2.8
Interest expense	379,146	399,132	386,326	(5.0)	(1.9)	1,164,060	1,193,243	(2.4)
Net interest income	288,199	277,788	281,815	3.7	2.3	836,430	753,179	11.1
Non-interest income	92,462	91,059	85,277	1.5	8.4	272,711	291,440	(6.4)
Net total income	380,661	368,847	367,092	3.2	3.7	1,109,141	1,044,619	6.2
Staff expenses	131,180	114,556	125,702	14.5	4.4	375,532	336,763	11.5
Other operating expenses	76,149	72,065	76,793	5.7	(0.8)	215,068	211,182	1.8
Operating expenses	207,329	186,622	202,494	11.1	2.4	590,601	547,945	7.8
Pre-provisioning profit	173,332	182,226	164,598	(4.9)	5.3	518,540	496,675	4.4
Total provisions	103,424	72,529	101,183	42.6	2.2	329,620	295,748	11.5
Profit before tax	69,908	109,697	63,415	(36.3)	10.2	188,920	200,927	(6.0)
Tax	17,946	53,863	17,673	(66.7)	1.5	49,323	91,854	(46.3)
Profit after tax	51,962	55,834	45,742	(6.9)	13.6	139,597	109,073	28.0
Balance Sheet								
Advances	23,681,391	21,999,169	22,939,012	7.6	3.2	23,681,391	21,999,169	7.6
Deposits	35,357,534	31,112,286	34,704,617	13.6	1.9	35,357,534	31,112,286	13.6
CASA ratio (%)	45.2	44.7	45.4	43bps	(24bps)	45.2	44.7	43bps
Yields and margins (%)								
Net interest margin	3.1	3.1	3.1	4bps	2bps	-	-	-
Yield on advances	7.5	8.8	7.6	(134bps)	(5bps)	-	-	-
Cost of funds	3.9	4.8	4.1	(85bps)	(19bps)	-	-	-
Key ratios (%)								
Cost/Income	54.5	50.6	55.2	387bps	(70bps)	53.2	52.5	79bps
Tax rate	25.7	49.1	27.9	(2,343bps)	(220bps)	26.1	45.7	(1,961bps)
Loan to Deposit ratio	67.0	70.7	66.1	(373bps)	88bps	67.0	70.7	(373bps)
Capital adequacy ratios (%)								
Tier 1	11.7	11.6	11.9	14bps	(17bps)	11.7	11.6	14bps
Total CAR Ratio	14.5	13.7	14.7	77bps	(22bps)	14.5	13.7	77bps
Asset quality								
Gross NPAs	1,172,442	1,596,612	1,258,630	(26.6)	(6.8)	1,172,442	1,596,612	(26.6)
Net NPAs	290,317	582,486	364,507	(50.2)	(20.4)	290,317	582,486	(50.2)
Gross NPA ratio (%)	4.8	6.9	5.3	(217bps)	(51bps)	4.8	6.9	(217bps)
Net NPA ratio (%)	1.2	2.7	1.6	(142bps)	(36bps)	1.2	2.7	(142bps)
Coverage Ratio (%)	75.2	63.5	71.0	1,172bps	420bps	75.2	63.5	1,172bps

Source: Company, BOBCAPS Research

Valuation methodology

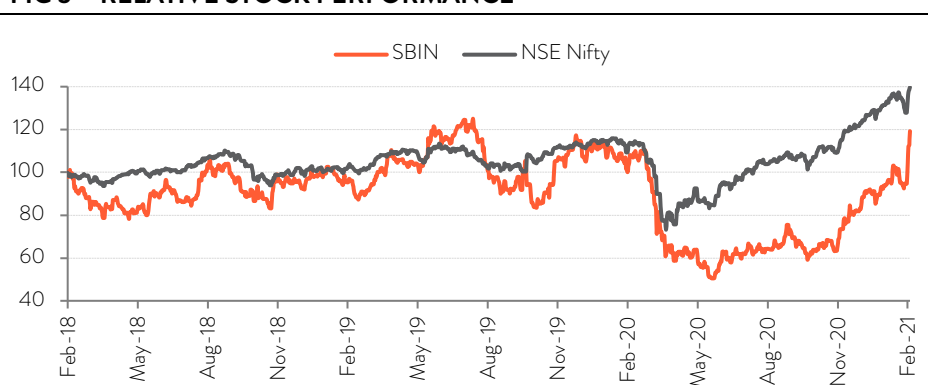
We raise our FY21-FY23 EPS estimates by 37-60% and increase our core P/BV multiple to 1x (0.5x earlier) to factor in SBIN's better growth and asset quality outlook. This yields a higher Mar'22 SOTP-based target price of Rs 475 (Rs 260 earlier). We now value the core business at Rs 328/sh (vs. Rs 141/sh) based on the Gordon Growth Model; subsidiaries are valued at Rs 147/sh (vs. Rs 118/sh). Maintain BUY.

FIG 2 – REVISED ESTIMATES

Particulars	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income (Rs mn)	1,132,746	1,331,670	1,518,850	1,043,570	1,159,147	1,325,372	8.5	14.9	14.6
Pre-provisioning profit	703,072	822,230	968,487	692,475	757,837	851,270	1.5	8.5	13.8
Net Profit (Rs mn)	196,152	277,902	379,637	143,287	188,655	238,325	36.9	47.3	59.3
EPS (Rs)	22	31	43	16	21	27	36.9	47.3	59.3

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Slower than expected pick-up in economic conditions could lead to below-expected growth.
- Above-expected slippages/restructuring can elongate the provisioning cycle.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	883,489	980,848	1,132,746	1,331,670	1,518,850
NII growth (%)	18.0	11.0	15.5	17.6	14.1
Non-interest income	367,749	452,215	375,411	384,630	439,497
Total income	1,251,238	1,433,063	1,508,157	1,716,300	1,958,347
Operating expenses	(696,877)	(751,737)	(805,085)	(894,070)	(989,860)
Operating profit	554,360	681,326	703,072	822,230	968,487
Operating profit growth (%)	(6.8)	22.9	3.2	16.9	17.8
Provisions	(538,286)	(430,698)	(439,427)	(448,705)	(458,222)
PBT	16,075	250,628	263,646	373,525	510,265
Tax	(7,453)	(105,747)	(67,493)	(95,622)	(130,628)
Reported net profit	8,622	144,881	196,152	277,902	379,637
Adjustments	0	0	0	0	0
Adjusted net profit	8,622	144,881	196,152	277,902	379,637

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	8,925	8,925	8,925	8,925	8,925
Reserves & surplus	2,200,214	2,311,150	2,614,285	2,826,659	3,117,878
Net worth	2,209,138	2,320,074	2,623,210	2,835,584	3,126,803
Deposits	29,113,860	32,416,207	36,954,476	43,236,737	51,884,085
Borrowings	4,525,008	3,701,981	4,861,315	5,344,174	5,875,155
Other liabilities & provisions	961,136	1,075,677	1,172,251	1,278,153	1,394,305
Total liabilities and equities	36,809,142	39,513,939	45,611,252	52,694,648	62,280,348
Cash & bank balance	2,224,901	2,510,970	3,521,831	3,627,570	3,738,000
Investments	9,670,219	10,469,545	13,766,859	15,054,743	16,471,899
Advances	21,858,769	23,252,896	25,113,127	28,880,09	33,789,713
Fixed & Other assets	3,055,253	3,280,528	3,209,435	5,132,238	8,280,737
Total assets	36,809,142	39,513,939	45,611,252	52,694,648	62,280,348
Deposit growth (%)	7.6	11.3	14.0	17.0	20.0
Advances growth (%)	13.0	6.4	8.0	15.0	17.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	1.0	16.2	22.0	31.1	42.5
Dividend per share	0.0	0.0	0.0	6.2	8.5
Book value per share	247.5	260.0	293.9	317.7	350.4

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	367.6	21.9	16.2	11.4	8.3
P/BV	1.4	1.4	1.2	1.1	1.0
Dividend yield (%)	0.0	0.0	0.0	1.8	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.5	2.6	2.7	2.7	2.6
Non-interest income	1.0	1.2	0.9	0.8	0.8
Operating expenses	2.0	2.0	1.9	1.8	1.7
Pre-provisioning profit	1.6	1.8	1.7	1.7	1.7
Provisions	1.5	1.1	1.0	0.9	0.8
PBT	0.0	0.7	0.6	0.8	0.9
Tax	0.0	0.3	0.2	0.2	0.2
ROA	0.0	0.4	0.5	0.6	0.7
Leverage (x)	16.2	16.9	17.2	18.0	19.3
ROE	0.4	6.4	7.9	10.2	12.7

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	18.0	11.0	15.5	17.6	14.1
Pre-provisioning profit	(6.8)	22.9	3.2	16.9	17.8
EPS	(112.5)	1580.3	35.4	41.7	36.6
Profitability & Return ratios (%)					
Net interest margin	2.7	2.8	2.9	3.0	3.0
Fees / Avg. assets	0.7	0.6	0.5	0.5	0.5
Cost-Income	55.7	52.5	53.4	52.1	50.5
ROE	0.4	6.4	7.9	10.2	12.7
ROA	0.0	0.4	0.5	0.6	0.7
Asset quality (%)					
GNPA	7.5	6.2	5.4	4.8	4.1
NNPA	3.0	2.2	1.9	1.6	1.3
Provision coverage	61.9	65.2	65.8	67.1	68.5
Ratios (%)					
Credit-Deposit	75.1	71.7	68.0	66.8	65.1
Investment-Deposit	33.2	32.3	37.3	34.8	31.7
CAR	12.7	13.1	13.5	13.0	12.3
Tier-1	10.7	11.0	11.2	10.7	9.9

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

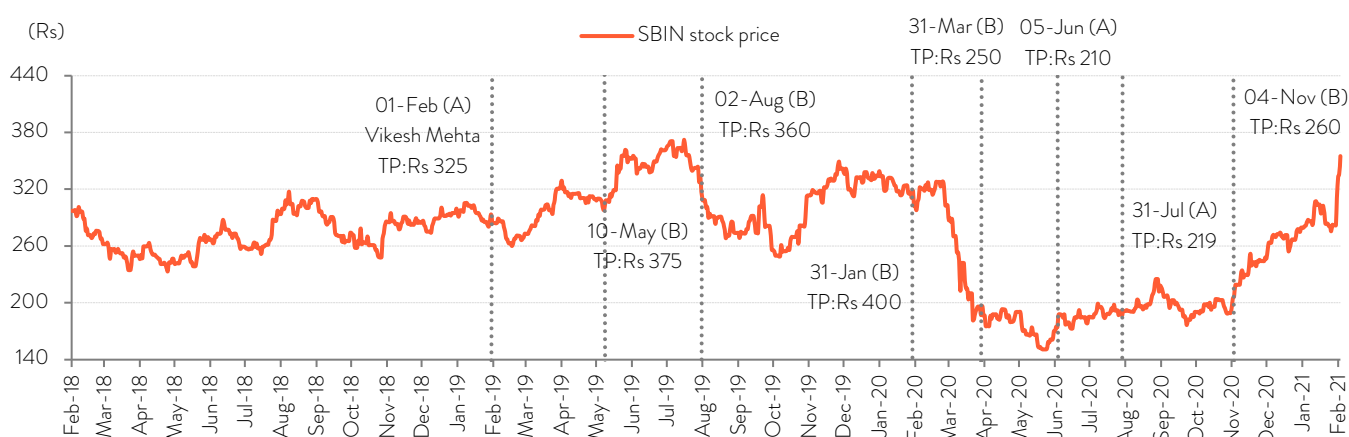
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): STATE BANK OF INDIA (SBIN IN)



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

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