

CMP: Rs 219

Rating: BUY

Target Price: Rs 295

Stock Info

BSE	500112
NSE	SBIN
Bloomberg	SBIN IN
Reuters	SBI.BO
Sector	Banks
Face Value (Rs)	1
Equity Capital (Rs Cr)	892
Mkt Cap (Rs Cr)	1,95,137
52w H/L (Rs)	351 / 149
Avg Yearly Vol (in 000')	57,119

Shareholding Pattern %

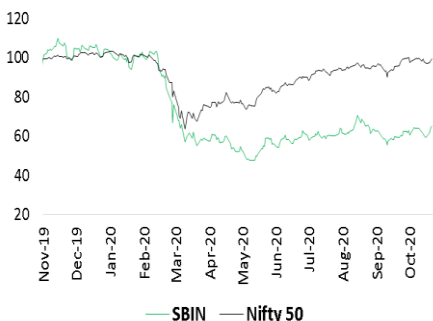
(As on September, 2020)

Promoters	57.6
FII	7.8
DII	25.2
Public & Others	9.4

Stock Performance (%)

	3m	6m	12m
SBI	12.8	32.1	-31.5
Nifty	7.6	31.2	1.7

SBI Vs Nifty



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State Bank of India (SBI) posted Q2FY21 earnings better than our expectation with improvement in collection efficiency. Collection efficiency of the bank (ex-Agri) stood at 97% for Q2FY21 which has further improved to 97.5% in Oct'20. GNPA/NNPA ratio declined by 16bps/27bps to 5.28% and 1.59% respectively, due to SC interim order on asset classification. However, proforma GNPA stood higher at 5.88%. Bank expects (slippages + restructuring) to be at 2.5% of advances, which looks optimistic guidance on asset quality front. Advances growth was muted at -0.2% QoQ while deposit growth was strong at 1.5% QoQ. Profit for the quarter grew by 52% YoY/9% QoQ to Rs 4,574 cr, on the back of strong NII growth (+15% YoY) and lower provision at -23% YoY/-19% QoQ.

Steady operating performance: NII for the quarter increased by 15% YoY/6% QoQ to Rs 28,182 cr, driven by NIM improvement of 10bps QoQ. The bank's NIMs increased to 3.34% (up 12 bps YoY/10 bps QoQ) as cost of deposits fell by 13bps QoQ to 4.35%. Management has guided that the NIMs are likely to remain stable or moderate further because of interest reversal from fresh slippages. Core fee income of the bank picked up and grew sharply by 17% QoQ. Operating profit for the quarter grew by 12% YoY to Rs 16,460 cr.

Retail loan growth was strong: Total advances growth of the bank was lower at 7% YoY/flat QoQ while retail loan book growth was strong and it has reached to pre-Covid levels. Retail loan growth for the quarter was at 15% YoY/5% QoQ while Corporate loan was down by 3% QoQ. Within retail, home loan segment grew by 10% YoY/3% QoQ. Deposits continue to grow at a faster pace at +14% YoY despite cut in deposit rates. CASA ratio of the bank increased by 17bps QoQ to 44.0%.

Asset quality improves on account of SC order: Gross slippages for the quarter came in at Rs 3,085 cr (-21% QoQ) due to SC dispensation. However, proforma slippages were relatively higher at Rs 14,388 cr, primarily coming from Agri (Rs 9,045 cr) and SME portfolio (Rs 5,078 cr). SBI estimates fresh slippages of Rs 20,000 cr and additional restructuring estimates of Rs 13000 cr for H2FY21. The bank has made total Covid provision of Rs 7,091 cr, including Rs 3,121 cr on proforma slippages and Rs 650 cr on restructuring book. The PCR ratio of the bank strengthened further to 88.2% from 86.3% QoQ. GNPA/NNPA ratio of the bank declined from 5.44%/1.86% to 5.28%/1.59% QoQ.

Valuation & View: Among PSBs, we like SBI due to its strong liability franchise, reasonable capital position of the bank and lower valuation. SBI is highly retail oriented bank and customer profile of its retail customers is largely government employees and salaried people, which gives comfort. We have increased our NPA estimates marginally, factoring asset quality guidance given by management. SBI is currently trading at a 1.02x/0.9x P/adj. BV FY21/22E which is fairly inexpensive for a bank of this size. We assign an exit P/adj. BV multiple of 0.8x on FY22E adj. BV of INR 245 for standalone bank and use a SOTP approach to value its subsidiaries, to arrive at a revised target Price of INR 295 (earlier Rs 245) and maintain our BUY rating.

State Bank of India (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
NII	74,854	88,349	98,085	1,02,549	1,14,288
PPOP	50,530	56,181	61,917	69,571	78,867
PAT	-6,547	862	14,488	17,740	23,628
EPS (INR / Share)	-7.3	1.0	16.2	19.9	26.5
BVPS (INR / Share)	245.5	247.5	260.0	279.3	305.3
NIM (%)	2.6%	2.7%	2.8%	2.8%	2.9%
Advances Growth YoY (%)	23.2%	13.0%	6.4%	7.0%	10.0%
Deposits Growth	32.4%	7.6%	11.3%	8.6%	13.6%
P/ABV (x)	1.8	1.3	1.1	1.0	0.9

Q2FY21 - Quarterly Performance (Standalone)

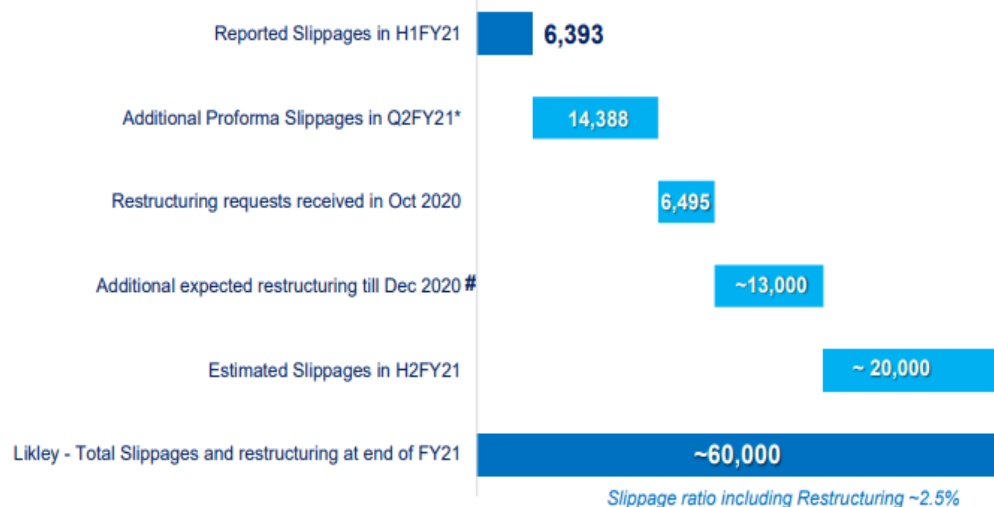
Quarterly Result Update (Rs Cr)	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
Interest Income	66,814	66,500	64,312	0.5%	3.9%
Interest Expended	38,633	39,859	39,712	-3.1%	-2.7%
Net Interest Income	28,182	26,642	24,600	5.8%	14.6%
Other Income	8,528	7,957	8,538	7.2%	-0.1%
Operating Income	36,709	34,599	33,139	6.1%	10.8%
Operating Expenses	20,249	18,078	18,424	12.0%	9.9%
Employee Expenses	12,570	11,865	11,303	5.9%	11.2%
Other Operating Expenses	7,679	6,213	7,122	23.6%	7.8%
PPOP	16,460	16,521	14,714	-0.4%	11.9%
Provisions	10,118	12,501	13,139	-19.1%	-23.0%
PBT	6,341	5,560	5,060	14.1%	25.3%
Tax Expenses	1,767	1,370	2,048	29.0%	-13.7%
Net Income	4,574	4,189	3,012	9.2%	51.9%
Balance Sheet Analysis					
Advances	22,93,901	22,98,346	21,46,160	-0.2%	6.9%
Deposits	34,70,462	34,19,363	30,33,396	1.5%	14.4%
Total Assets	41,57,856	41,17,932	36,78,001	1.0%	13.0%
CASA Deposits	15,27,007	14,98,718	13,26,171	1.9%	15.1%
CASA (%)	44.00%	43.83%	45.13%	17bps	-113bps
CAR (%)	13.59%	13.40%	13.59%	19bps	0bps
Spreads					
NIMs (%)	3.34%	3.24%	3.22%	10bps	12bps
Cost of Funds	4.12%	4.37%	4.86%	-25bps	-74bps
Yield on Average Advances	7.56%	7.63%	8.45%	-7bps	-90bps
Asset Quality					
GNPA	1,25,863	1,29,661	1,61,636	-2.9%	-22.1%
NNPA	36,451	42,704	59,939	-14.6%	-39.2%
GNPA (%)	5.28%	5.44%	7.19%	-16bps	-191bps
NNPA (%)	1.59%	1.86%	2.79%	-27bps	-120bps
Credit Costs	1.24%	1.56%	1.97%	-32bps	-73bps
Provision Coverage Ratio	88.19%	86.32%	62.92%	187bps	2527bps
Returns & Expenses					
RoA	0.44%	0.41%	0.33%	3bps	11bps
RoE	7.45%	6.93%	5.33%	51bps	212bps
Cost / Income Ratio	55.16%	52.25%	55.60%	291bps	-44bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q2FY21 – Key Concall Highlights

- Collection efficiency in domestic loan book (excluding agri segment) was at 97% in Q2FY21 which has further improved to 97.5% in Oct'20.
- Disbursement in retail portfolio picking up well with home loan at 12% YoY, Auto loan at 27% YoY and Personal loan at 61% YoY in September.
- Employee expense was up by 6% QoQ because earlier the bank has made the provision for the hike at the rate of 10% vs. revised expectation of 15%. The bank has made Rs 1,000 cr provision for revised wage hikes and Rs 600 cr for retirement provision.
- The bank has sanctioned Rs 25,000 cr under ECLGS and disbursed Rs 22,000 cr.
- 94% of the personal loan book is towards Government employees.
- Exposure to Tourism and hotel industry is just around 0.47% and Aviation also at 0.47%.
- 38% of the retail loan assets and 60% of deposit customers' onboarding has been done via digital channels in H1FY21.

SBI's guidance on slippages and restructuring



Sum of the Parts Valuation

Entity	Valuation methodology	Holding	Intrinsic Value per Share
SBI - Standalone banking business / Parent	0.8x FY22E ABV	100.0%	190
SBI Life Insurance	2.5x FY22E EV	57.6%	59
SBI General Insurance	20x FY22 PAT	70.0%	14
SBI Asset Management	5% of FY22E AUM	63.0%	15
SBI Cards & Payment	25x FY22E P/E	69.5%	34
SBI Caps Consolidated	10x FY19 PAT	100.0%	3
SBI DFHI	10x FY19 PAT	69.0%	1
Others (Overseas subsidiaries)			5
Holding co. discount (%)			20.0%
Value of subs (INR per share)			105
Value of total (INR per share)			295

* Excludes investments into subsidiaries comprising Rs 6.3 per share intrinsic value

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Profit & Loss Statement (in INR Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	2,20,499	2,42,869	2,57,324	2,64,316	2,96,684
Interest Expended	1,45,646	1,54,520	1,59,239	1,61,767	1,82,396
Net Interest Income	74,854	88,349	98,085	1,02,549	1,14,288
Other Income	44,601	36,775	39,006	45,656	50,222
Operating Income	1,19,454	1,25,124	1,37,091	1,48,205	1,64,510
Operating Expenses	68,924	68,942	75,174	78,634	85,644
Employee Expenses	33,179	41,055	45,715	45,036	48,693
Other Operating Expenses	35,746	27,888	29,459	33,598	36,950
PPOP	50,530	56,181	61,917	69,571	78,867
Provisions	66,058	54,574	43,070	52,545	47,291
PBT	-15,528	1,607	18,847	17,026	31,576
Tax Expenses	-8,981	745	10,575	4,285	7,948
Net Income	-6,547	862	14,488	17,740	23,628

Balance Sheet (in INR Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Equity & Liabilities					
Share Capital	892	892	892	892	892
Reserves & Surplus	2,18,236	2,20,021	2,31,115	2,48,409	2,71,591
Net Worth	2,19,129	2,20,914	2,32,007	2,49,302	2,72,484
Deposits	27,06,343	29,11,386	32,41,621	35,20,158	39,98,382
Borrowings	3,62,142	4,03,017	3,14,656	3,01,305	3,16,370
Other Liabilities and Provisions	1,67,138	1,45,597	1,63,110	1,76,939	1,83,035
Total Capital & Liabilities	34,54,752	36,80,914	39,51,394	42,47,703	47,70,271
Assets					
Cash & Balances with RBI	1,50,397	1,76,932	1,66,736	1,83,409	1,97,253
Balances with Other Banks & Call Money	41,501	45,558	84,361	83,627	97,644
Investments	10,60,987	9,67,022	10,46,955	10,67,894	11,21,288
Advances	19,34,880	21,85,877	23,25,290	24,88,060	27,36,866
Fixed Assets	39,992	39,198	38,439	42,283	46,512
Other Assets	2,26,994	2,66,328	2,89,614	3,82,430	5,70,708
Total Assets	34,54,752	36,80,914	39,51,394	42,47,703	47,70,271

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Ratios	FY18A	FY19A	FY20A	FY21E	FY22E
Growth rates					
Advances (%)	23.2%	13.0%	6.4%	7.0%	10.0%
Deposits (%)	32.4%	7.6%	11.3%	8.6%	13.6%
Total assets (%)	27.7%	6.5%	7.3%	7.5%	12.3%
NII (%)	21.0%	18.0%	11.0%	4.6%	11.4%
Pre-provisioning profit (%)	-8.5%	11.2%	10.2%	12.4%	13.4%
PAT (%)	-162.5%	-113.2%	1580.3%	22.4%	33.2%
Balance sheet ratios					
Credit/Deposit (%)	71.5%	75.1%	71.7%	70.7%	68.4%
CASA (%)	44.5%	44.6%	43.5%	45.5%	45.8%
Advances/Total assets (%)	56.0%	59.4%	58.8%	58.6%	57.4%
Leverage (x) (Asset/Shareholder's Fund)	15.77	16.66	17.03	17.04	17.51
CAR (%)	12.6%	12.7%	13.3%	13.2%	13.4%
CAR - Tier I (%)	10.4%	10.7%	12.6%	12.6%	12.7%
Operating efficiency					
Cost/income (%)	57.7%	55.1%	54.8%	53.1%	52.1%
Opex/total assets (%)	2.0%	1.9%	1.9%	1.9%	1.8%
Opex/total interest earning assets	1.2%	1.3%	1.3%	1.2%	1.2%
Profitability					
NIM (%)	2.6%	2.7%	2.8%	2.8%	2.9%
RoA (%)	-0.2%	0.0%	0.4%	0.4%	0.5%
RoE (%)	-3.0%	0.4%	6.2%	7.1%	8.7%
Asset quality					
Gross NPA (%)	11.5%	7.9%	5.3%	7.4%	6.9%
Net NPA (%)	5.7%	3.0%	1.6%	3.1%	2.9%
PCR (%)	50.4%	61.9%	59.2%	58.7%	57.7%
Credit cost (%)	2.5%	1.8%	1.3%	1.5%	1.3%
Per share data / Valuation					
EPS (INR)	-7.34	0.97	16.23	19.88	26.48
BVPS (INR)	245.53	247.53	259.96	279.34	305.32
ABVPS (INR)	121.32	173.70	192.12	213.77	245.32
P/E (x)	-29.85	226.68	13.49	11.02	8.27
P/BV (x)	0.89	0.88	0.84	0.78	0.72
P/ABV (x)	1.81	1.26	1.14	1.02	0.89
Profitability					
Return on Capital	-1.2%	0.1%	2.5%	3.2%	4.1%
Return on Equity	-3.0%	0.4%	6.2%	7.1%	8.7%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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