

CMP: INR 530

Rating: Buy

Target Price: INR 689

Stock Info

BSE	500112
NSE	SBIN
Bloomberg	SBIN IN
Reuter	SBI.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	892
Mkt Cap (INR Cr)	4,73,406
52w H/L (INR)	542 / 198
Avg Yearly Vol (in 000')	49574

Shareholding Pattern %

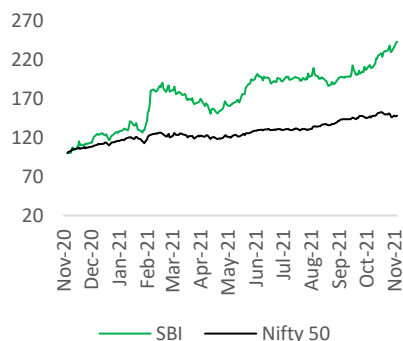
(As on September, 2021)

Promoters	57.6
FII	10.6
DII	24.1
Public & Others	7.7

Stock Performance (%)

	1m	3m	12m
SBI	14.5	16.1	156.3
Nifty 50	1.3	10.2	50.5

SBI Vs Nifty



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State Bank of India (SBI) reported good set of numbers during Q2FY22 with strong outcome on asset quality. Bank has reported profit growth of 67% YoY to INR 7,627 cr, on the back of lower provisions as bank has utilized specific covid provision. Despite covid challenges, asset quality performance has impressed as slippage ratio was lower at 0.7% vs. 2.6% QoQ. Reported gross slippages stood at INR 4,176 cr vs. INR 15,666 cr in the previous quarter. Restructured book of the bank increased from 0.8% to 1.2% QoQ. Headline NPA ratio of the bank improved with GNPA/NNPA reduction of 42bps/26bps respectively at 4.9%/1.5% on QoQ basis. Furthermore, SMA 1&2 book decreased considerably from 46bps to 27bps QoQ. The bank has reported exceptional loss of INR 7,418 cr for provision against change in employee pension rules, without taking deferment of 5 years as per RBI norm.

Operationally steady performance on the back of higher NIM: NII growth for the quarter was strong at 11% YoY to INR 31,184 cr benefitted from better margins. NIM for the quarter increased by 35bps QoQ to 3.5%. Operating profit of the bank increased by 10% YoY/-5% QoQ to INR 18,079 cr vs. our estimate of INR 18,096 cr. Provisions of INR 189 cr (Credit cost: 0.43% v/s 0.79% QoQ) was much lower as bank has utilized INR 2,884 cr specific covid provision made in earlier quarters.

Loan growth was in line with industry: Total advances of the bank grew by 6.5% YoY (vs. 5.8% YoY in Q1FY22), driven by retail loan growth of 15% YoY. Retail loan growth was driven by home loans, gold loan and Xpress credit. However, loan growth for Agri and SME segments were low at 2% YoY and 1% YoY respectively. Corporate book declined further by 4% YoY. Management guided for 10% loan growth in FY22E. Deposit growth was healthy at 10% YoY driven by CASA growth of 12% YoY. CASA ratio of the bank increased marginally by 20bps QoQ at 44.8%.

Asset quality fared better than top private sector banks: Bank has reported lower slippages of INR 4,176 cr (0.7% vs 2.6% QoQ), largely contributed by corporate and includes SREI exposure of INR 2,700 cr (Fully provided). This along with strong recovery/upgrades pushed GNPA down to 4.9% (vs. 5.3% in Q1FY22). Restructuring of INR 30,312 cr (1.2% of loans) is well below the earlier guidance and better than most private peers. SMA 1&2 book decreased sharply to INR 6,690 cr from INR 11,303 cr in Q1FY22. Despite drawing back of specific covid provision, bank holds a total non-specific provisions of INR 27,820 cr or 114bps of loans which comprises of INR 16,188 cr on standard assets, INR 6,181 cr of covid provisions and INR 5,451 cr of other provisions. Bank has provided 100% towards DHFL but not written-off and it has adjusted recovery amount against provisions and balance has been written-off.

Valuation & View; Upgrade to Buy: SBI has reported better outcome in terms of core performance and asset quality. Asset quality of the bank fared far better than other large private sector banks. We continue to maintain our positive outlook and expect SBI to deliver RoA/RoE of 0.8%/13% by FY24E driven by strong liability franchise, healthy balance sheet growth along with high PCR and improving asset quality metrics. SBI is currently trading at lower valuation of 1.4x FY24E P/ABV. We upgrade our rating on the stock to Buy from Accumulate with a revised target price of INR 689 (INR 533 earlier), valuing it on SOTP basis.

Financial Snapshot:

State Bank of India (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
NII	98,085	1,10,710	1,24,022	1,32,985	1,41,969
PPOP	61,917	70,014	76,728	84,059	87,902
PAT	14,488	20,411	32,715	40,670	47,992
BVPS (INR / Share)	260.0	284.5	320.6	365.7	419.0
RoA (%)	0.4%	0.5%	0.7%	0.7%	0.8%
RoE (%)	6.2%	8.0%	11.4%	12.5%	12.8%
P/ABV (x)	2.6	2.2	1.9	1.7	1.4

Q2FY22 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Cr)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Interest Income	69,481	65,564	66,814	6.0%	4.0%
Interest Expended	38,298	37,926	38,633	1.0%	-0.9%
Net Interest Income	31,184	27,638	28,182	12.8%	10.7%
Other Income	8,208	11,803	8,528	-30.5%	-3.8%
Operating Income	39,392	39,441	36,709	-0.1%	7.3%
Operating Expenses	21,312	20,466	20,249	4.1%	5.2%
Employee Expenses	12,578	12,538	12,570	0.3%	0.1%
Other Operating Expenses	8,735	7,928	7,679	10.2%	13.7%
PPOP	18,079	18,975	16,460	-4.7%	9.8%
Provisions	189	10,052	10,118	-98.1%	-98.1%
PBT	10,472	8,923	6,341	17.4%	65.1%
Tax Expenses	2,845	2,419	1,767	17.6%	61.0%
Net Income	7,627	6,504	4,574	17.3%	66.7%
Balance Sheet Analysis					
Advances	24,43,194	24,31,908	22,93,901	0.5%	6.5%
Deposits	38,09,630	37,20,987	34,70,462	2.4%	9.8%
Total Assets	46,91,917	45,57,006	41,57,856	3.0%	12.8%
CASA Deposits	17,06,387	16,59,234	15,27,007	2.8%	11.7%
CASA (%)	44.8%	44.6%	44.0%	20bps	79bps
CAR (%)	13.4%	13.7%	14.7%	-31bps	-137bps
Spreads					
NIMs (%)	3.50%	3.15%	3.34%	35bps	16bps
Cost of Funds	3.67%	3.69%	4.12%	-2bps	-45bps
Yield on Average Advances	6.94%	6.74%	7.56%	20bps	-61bps
Asset Quality					
GNPA	1,23,942	1,34,259	1,25,863	-7.7%	-1.5%
NNPA	37,119	43,153	36,451	-14.0%	1.8%
GNPA (%)	4.90%	5.32%	5.28%	-42bps	-38bps
NNPA (%)	1.52%	1.77%	1.59%	-26bps	-7bps
Credit Costs	0.43%	0.79%	1.24%	-36bps	-81bps
Provision Coverage Ratio	87.68%	85.93%	88.19%	175bps	-51bps
Returns & Expenses					
RoA	0.65%	0.57%	0.44%	8bps	21bps
RoE	11.37%	9.96%	7.45%	141bps	392bps
Cost / Income Ratio	54.10%	51.89%	55.16%	221bps	-106bps

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

Q2FY22 – Key Concall Highlights

On Asset quality front

- Bank has reduced its Covid provision buffer by INR 2,884 cr to INR 6,181 cr as bank was able to pull back major slippages seen in Q1FY22.
- SREI exposure of INR 2700 cr is fully provided.
- Bank has provided 100% against DHFL exposure but it has not written off. Hence, it has adjusted recovery amount against provisions and balance amount has written off.
- DHFL provision write-back of INR 4,000 cr and it was not routed through NII.
- Restructuring under 1.0 & 2.0 stood at INR 30,312 cr. Out of which, INR 15,000 cr is from Retail book (large part is towards home loans).
- Most of the restructuring cases are for extension of duration by 18-24 months.
- Current restructuring book is behaving very well compared to legacy book.

Other Highlights

- Current quarter results demonstrate the resilience of the bank on some metrics as bank leading the industry by wide margin.
- NIMs should be in the range of 3.2-3.3%.
- Management aims to consistently deliver RoE of 15% across the cycles. However, timeline has not been specified for the RoE target.
- Bank is looking for 10% credit growth in FY22.
- Capacity utilisation currently is at 60%. As far as corporate credit is concerned, this is a key metric to watch for.
- Bank has seen pick-up in corporate loans during Oct'21. Also, it has been witnessed higher utilisation levels during Oct'21.
- Among overseas, bank is having exposure to well rated corporates.
- On gold loan, leveraging digital in a big way wherein only physical delivery is to be done while rest is digital.
- Bank has absorbed liability of INR 7,418 cr due to family pension adjustment without availing RBI provision of providing it over a period of 5 years. The entire cost has been recognized in current quarter.
- 62% of SA accounts opened in H1FY22 were through YONO.

Sum of the Parts Valuation

Entity	Valuation methodology	Holding	Intrinsic Value per Share
SBI - Standalone banking business / Parent	1.4x FY24E ABV	100.0%	513
SBI Life Insurance	2.5x FY24E EV	55.5%	78
SBI General Insurance	20x FY24 PAT	70.0%	29
SBI Asset Management	5% of FY24E AUM	63.0%	19
SBI Cards & Payment	Based on current Mcap	69.4%	82
Others (Overseas subsidiaries)			8
Holding co. discount (%)			20.0%
Value of subs (INR per share)			176
Value of total (INR per share)			689

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

Key Financials

Profit & Loss Statement (in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Interest Income	2,57,324	2,65,151	2,89,019	3,18,203	3,42,683
Interest Expended	1,59,239	1,54,441	1,64,997	1,85,218	2,00,713
Net Interest Income	98,085	1,10,710	1,24,022	1,32,985	1,41,969
Other Income	39,006	41,957	39,566	42,776	49,468
Operating Income	1,37,091	1,52,667	1,63,588	1,75,762	1,91,438
Operating Expenses	75,174	82,652	86,859	91,703	1,03,536
Employee Expenses	45,715	50,936	55,864	63,249	71,611
Other Operating Expenses	29,459	31,716	30,995	28,454	31,925
PPOP	61,917	70,014	76,728	84,059	87,902
Provisions	43,070	44,013	33,010	29,709	23,767
PBT	18,847	26,001	43,719	54,350	64,135
Tax Expenses	10,575	7,131	11,004	13,680	16,143
Net Income	14,488	20,411	32,715	40,670	47,992

Balance Sheet (in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Equity & Liabilities					
Share Capital	892	892	892	892	892
Reserves & Surplus	2,31,115	2,52,983	2,85,251	3,25,475	3,73,021
Net Worth	2,32,007	2,53,875	2,86,144	3,26,367	3,73,913
Deposits	32,41,621	36,81,277	40,53,655	45,11,553	50,38,357
Borrowings	3,14,656	4,17,298	4,38,163	4,60,071	4,83,074
Other Liabilities and Provisions	1,63,110	1,81,980	1,88,249	1,93,334	2,00,935
Total Capital & Liabilities	39,51,394	45,34,430	49,66,211	54,91,325	60,96,280
Assets					
Cash & Balances with RBI	1,66,736	2,13,202	2,29,293	2,53,285	2,84,608
Balances with Other Banks & Call Money	84,361	1,29,837	1,51,600	1,93,996	2,48,482
Investments	10,46,955	13,51,705	14,19,290	14,61,869	14,76,488
Advances	23,25,290	24,49,498	26,94,448	29,63,892	32,60,282
Fixed Assets	38,439	38,419	42,261	46,487	51,136
Other Assets	2,89,614	3,51,769	4,29,318	5,71,796	7,75,285
Total Assets	39,51,394	45,34,430	49,66,211	54,91,325	60,96,280

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

Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
Growth rates					
Advances (%)	6.4%	5.3%	10.0%	10.0%	10.0%
Deposits (%)	11.3%	13.6%	10.1%	11.3%	11.7%
Total assets (%)	7.3%	14.8%	9.5%	10.6%	11.0%
NII (%)	11.0%	12.9%	12.0%	7.2%	6.8%
Pre-provisioning profit (%)	10.2%	13.1%	9.6%	9.6%	4.6%
PAT (%)	1580.3%	40.9%	60.3%	24.3%	18.0%
Balance sheet ratios					
Credit/Deposit (%)	71.7%	66.5%	66.5%	65.7%	64.7%
CASA (%)	43.5%	44.7%	45.4%	45.6%	45.9%
Advances/Total assets (%)	58.8%	54.0%	54.3%	54.0%	53.5%
Leverage (x) (Asset/Shareholder's Fund)	17.03	17.86	17.36	16.83	16.30
CAR (%)	13.3%	13.7%	14.5%	14.9%	15.6%
CAR - Tier I (%)	12.6%	11.4%	13.8%	14.2%	15.0%
Operating efficiency					
Cost/income (%)	54.8%	54.1%	53.1%	52.2%	54.1%
Opex/total assets (%)	1.9%	1.8%	1.7%	1.7%	1.7%
Opex/total interest earning assets	1.3%	1.3%	1.3%	1.4%	1.4%
Profitability					
NIM (%)	2.8%	2.9%	2.9%	2.8%	2.8%
RoA (%)	0.4%	0.5%	0.7%	0.7%	0.8%
RoE (%)	6.2%	8.0%	11.4%	12.5%	12.8%
Asset quality					
Gross NPA (%)	5.3%	4.9%	4.6%	4.3%	4.1%
Net NPA (%)	2.2%	1.5%	1.5%	1.4%	1.4%
PCR (%)	65.2%	70.9%	67.6%	66.7%	64.6%
Credit cost (%)	1.3%	1.2%	0.8%	0.7%	0.5%
Per share data / Valuation					
EPS (INR)	16	23	37	46	54
BVPS (INR)	260	284	321	366	419
ABVPS (INR)	202	243	275	318	366
P/E (x)	32.6	23.2	14.5	11.6	9.9
P/BV (x)	2.0	1.9	1.7	1.4	1.3
P/ABV (x)	2.6	2.2	1.9	1.7	1.4
Profitability					
Return on Equity	6.2%	8.0%	11.4%	12.5%	12.8%

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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