

CMP: INR 401

Rating: BUY

Target Price: INR 486

Stock Info

BSE	500112
NSE	SBIN
Bloomberg	SBIN IN
Reuters	SBI.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	892
Mkt Cap (INR Cr)	3,57,966
52w H/L (INR)	426 / 149
Avg Yearly Vol (in 000')	58,785

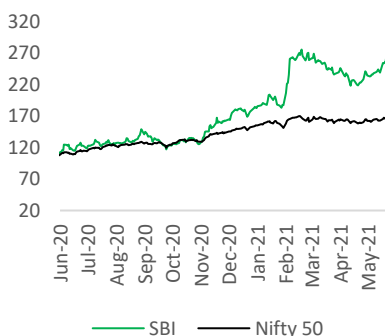
Shareholding Pattern %

(As on March, 2021)

Promoter	57.6
FII	9.9
DII	24.4
Public & Other	8.1

Stock Performance (%)	3m	6m	12m
SBI	0.4	65.3	164.0
Nifty	1.3	18.0	66.7

SBI Vs Nifty



State Bank of India (SBI) posted another quarter of strong performance on asset quality front during Q4FY21. The bank has reported 80% YoY increase in its net profit at INR 6,451 cr, lower than our estimate of INR 7,368 cr was impacted due to lower NII on account of interest reversal. Despite being a pandemic year, slippage ratio for FY21 came in at multi-year low at 1.2% (better than the leading private sector banks) and a restructured portfolio (0.73%) well within management guidance. GNPA of the bank reduced by 46bps QoQ at 4.98% vs. proforma GNPA of 5.44% in Q3FY21. Collection efficiency trends for Apr'21 at 95-96% (20bps lower than Mar'21 level) is heartening and provides further confidence on management's stance on asset quality. Overall, advances growth was modest at ~5% YoY, while deposit growth was strong at 14% YoY. SBI is our preferred pick in PSU space.

Operationally good performance: NII for the quarter increased by 19% YoY and de-grew by 6% QoQ to INR 27,067 cr, impacted due to interest reversal of INR 2,957 cr. Consequently, NIM of the bank decreased by 23bps QoQ at 3.1%. OPEX growth was higher at 16% YoY. Other income of the bank increased by 22% YoY/76% QoQ to INR 16,225 cr driven by higher recovery in written off accounts and miscellaneous income. Operating profit of the bank increased by 25% YoY/14% QoQ to INR 19,700 cr vs. our estimate of INR 17,823 cr.

Loan growth driven by Retail: Total advances growth of the bank grew by 5% YoY, driven by retail loan growth of 16.5% YoY. Retail loan growth was driven by home loans, gold loan and unsecured loans. However, loan growth for corporate, agri and SME segments were muted at -3% YoY, 3.9% YoY and 4.2% YoY respectively. Management expects loan growth to bounce back and provided a guidance of 10% YoY growth for FY22E. Deposit growth was strong at 14% YoY driven by CASA growth of 17% YoY. CASA ratio of the bank increased by 100bps QoQ at 44.7%.

Strong asset quality performance: Reported GNPA/NNPA for the quarter declined further by 46bps/31bps QoQ to 5%/1.5% vs. proforma GNPA/NNPA of 5.4%/1.8%. Slippages for the quarter came in at INR 5,473 cr (net of Q3FY21 proforma slippages) with majority coming from corporate book. Overall slippages and restructuring during FY21 of INR 46,164 cr was much lower than management guidance of INR 60,000 cr. SMA 1&2 book decreased to INR 11,519 cr from INR 17,946 cr in Q3FY21. Total non-specific provisions stood at INR 25,376 cr or 104bps of loans for the bank which comprises of INR 14,122 cr on standard assets, INR 6,346 cr of covid provisions and INR 4,908 cr of other provisions. SBI provision buffer (excl. standard) of 0.46% of loans is tad lower than other large private sector peers.

Valuation & View: Asset quality outcome of the bank has been significantly better than expectations. We raise our earnings estimates by 2%/7% for FY22/FY23E, and expect SBI to deliver RoA/RoE of 0.8%/13% by FY23E. We continue to maintain our positive stance on SBI due to its strong liability franchise, improving asset quality and attractive valuation. SBI is currently trading at a 1.4x/1.2x P/ABV to its FY22/FY23E which is fairly inexpensive considering its leadership position and strong outcome on asset quality. We maintain our Buy rating on the stock with a revised target price of INR 486 (INR 463 earlier), valuing it on SOTP basis.

State Bank of India (INR Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
NII	88,349	98,085	1,10,710	1,24,022	1,34,034
PPOP	56,181	61,917	70,014	76,728	85,107
PAT	862	14,488	20,411	34,361	42,937
BVPS (INR / Share)	247.5	260.0	284.5	322.5	370.1
RoA (%)	0.0%	0.4%	0.5%	0.7%	0.8%
RoE (%)	0.4%	6.2%	8.0%	11.9%	13.0%
P/ABV (x)	2.3	2.0	1.6	1.4	1.2

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Q4FY21 - Quarterly Performance (Standalone)

Quarterly Result Update (INR Cr)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Interest Income	65,102	66,735	62,681	-2.4%	3.9%
Interest Expended	38,035	37,915	39,914	0.3%	-4.7%
Net Interest Income	27,067	28,820	22,767	-6.1%	18.9%
Other Income	16,225	9,246	13,346	75.5%	21.6%
Operating Income	43,292	38,066	36,113	13.7%	19.9%
Operating Expenses	23,592	20,733	20,379	13.8%	15.8%
Employee Expenses	13,383	13,118	12,039	2.0%	11.2%
Other Operating Expenses	10,209	7,615	8,341	34.1%	22.4%
PPOP	19,700	17,333	15,734	13.7%	25.2%
Provisions	11,051	10,342	13,495	6.9%	-18.1%
PBT	8,649	6,991	4,970	23.7%	74.0%
Tax Expenses	2,198	1,795	1,389	22.5%	58.2%
Net Income	6,451	5,196	3,581	24.1%	80.2%
Balance Sheet Analysis					
Advances	24,49,498	23,68,139	23,25,290	3.4%	5.3%
Deposits	36,81,277	35,35,753	32,41,621	4.1%	13.6%
Total Assets	45,34,430	43,56,987	39,51,394	4.1%	14.8%
CASA Deposits	16,46,974	15,46,424	14,10,981	6.5%	16.7%
CASA (%)	44.7%	43.7%	43.5%	100bps	121bps
CAR (%)	13.7%	14.5%	13.1%	-76bps	68bps
Spreads					
NIMs (%)	3.11%	3.34%	2.94%	-23bps	17bps
Cost of Funds	3.78%	3.93%	4.61%	-15bps	-83bps
Yield on Average Advances	6.68%	7.51%	7.53%	-83bps	-85bps
Asset Quality					
GNPA	1,26,389	1,17,244	1,49,092	7.8%	-15.2%
NNPA	36,810	29,032	51,871	26.8%	-29.0%
GNPA (%)	4.98%	4.77%	6.15%	21bps	-117bps
NNPA (%)	1.50%	1.23%	2.23%	28bps	-73bps
Credit Costs	1.12%	0.95%	2.07%	17bps	-95bps
Provision Coverage Ratio	87.75%	90.21%	83.62%	-246bps	413bps
Returns & Expenses					
RoA	0.57%	0.48%	0.36%	9bps	21bps
RoE	10.16%	8.27%	6.17%	189bps	399bps
Cost / Income Ratio	54.49%	54.47%	56.43%	3bps	-194bps

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

Q4FY21 – Key Concall Highlights

On Asset quality front

- The bank has received restructuring requests for INR 17,852 cr vs. INR 18,125 cr in Q3FY21 (0.73% of standalone loans). Restructuring break up: Retail - INR 4,027 cr, Corporate – INR 11,706 cr and SME – INR 2,118 cr.
- ~60% of retail loan restructuring is from home loans.
- Collection efficiency in Mar'21 stood at ~96.2%. Collection efficiency in Apr/May'21 (still 95-96%) has not been impacted much by the second wave of covid. However, management stated that the impact could be seen with some bit of lag.
- Retail/Personal loans are to government/PSUs and well rated corporate employee which has helped to maintain better retail loan book asset quality of the bank.
- Credit cost expected to be <2%.

Other Highlights

- The bank has disbursed INR 250 bn under ECLGS (sanctioned INR 260 bn). ECLGS 2.0 accounts for INR 20 bn of disbursements.
- Management stated that deposits rates has bottomed out and it is unlikely to decline further after the cuts witnessed in FY21, noting that interest on deposits is a large source of income, especially for retired persons.
- Other operating expenses has increased 22% YoY. This was driven by higher deposit insurance costs (paid half-yearly) and higher costs on the business correspondent network. Staff costs increased by 11% YoY, driven by wage-revision arrears paid out in the quarter.
- Management aim is to bring down the Cost-to-income ratio to below 50%.
- On a sustainable basis, management is targeting a RoE of 15%.

Sum of the Parts Valuation

Entity	Valuation methodology	Holding	Intrinsic Value per Share
SBI - Standalone banking business / Parent	1.3x FY23E ABV	100.0%	359
SBI Life Insurance	2.5x FY23E EV	55.5%	67
SBI General Insurance	20x FY23 PAT	70.0%	20
SBI Asset Management	5% of FY23E AUM	63.0%	17
SBI Cards & Payment	25x FY23E P/E	69.4%	46
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)			127
Value of total (INR per share)			486

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

SBI's holding in SBI Life Insurance and SBI Cards and payment is as on Mar'21.

Key Financials

Profit & Loss Statement (in INR Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	2,42,869	2,57,324	2,65,151	2,89,019	3,19,252
Interest Expended	1,54,520	1,59,239	1,54,441	1,64,997	1,85,218
Net Interest Income	88,349	98,085	1,10,710	1,24,022	1,34,034
Other Income	36,775	39,006	41,957	39,566	42,776
Operating Income	1,25,124	1,37,091	1,52,667	1,63,588	1,76,810
Operating Expenses	68,942	75,174	82,652	86,859	91,703
Employee Expenses	41,055	45,715	50,936	55,864	63,249
Other Operating Expenses	27,888	29,459	31,716	30,995	28,454
PPOP	56,181	61,917	70,014	76,728	85,107
Provisions	54,574	43,070	44,013	30,809	27,728
PBT	1,607	18,847	26,001	45,919	57,379
Tax Expenses	745	10,575	7,131	11,558	14,442
Net Income	862	14,488	20,411	34,361	42,937

Balance Sheet (in INR Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity & Liabilities					
Share Capital	892	892	892	892	892
Reserves & Surplus	2,20,021	2,31,115	2,52,983	2,86,898	3,29,389
Net Worth	2,20,914	2,32,007	2,53,875	2,87,790	3,30,281
Deposits	29,11,386	32,41,621	36,81,277	40,53,655	45,11,553
Borrowings	4,03,017	3,14,656	4,17,298	4,38,163	4,60,071
Other Liabilities and Provisions	1,45,597	1,63,110	1,81,980	1,88,249	1,93,334
Total Capital & Liabilities	36,80,914	39,51,394	45,34,430	49,67,858	54,95,239
Assets					
Cash & Balances with RBI	1,76,932	1,66,736	2,13,202	2,29,293	2,53,285
Balances with Other Banks & Call Money	45,558	84,361	1,29,837	1,51,600	1,93,996
Investments	9,67,022	10,46,955	13,51,705	14,19,290	14,61,869
Advances	21,85,877	23,25,290	24,49,498	26,94,448	29,90,837
Fixed Assets	39,198	38,439	38,419	42,261	46,487
Other Assets	2,66,328	2,89,614	3,51,769	4,30,965	5,48,765
Total Assets	36,80,914	39,51,394	45,34,430	49,67,858	54,95,239

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

Ratios	FY19A	FY20A	FY21A	FY22E	FY23E
Growth rates					
Advances (%)	13.0%	6.4%	5.3%	10.0%	11.0%
Deposits (%)	7.6%	11.3%	13.6%	10.1%	11.3%
Total assets (%)	6.5%	7.3%	14.8%	9.6%	10.6%
NII (%)	18.0%	11.0%	12.9%	12.0%	8.1%
Pre-provisioning profit (%)	11.2%	10.2%	13.1%	9.6%	10.9%
PAT (%)	-113.2%	1580.3%	40.9%	68.4%	25.0%
Balance sheet ratios					
Credit/Deposit (%)	75.1%	71.7%	66.5%	66.5%	66.3%
CASA (%)	44.6%	43.5%	44.7%	45.4%	45.6%
Advances/Total assets (%)	59.4%	58.8%	54.0%	54.2%	54.4%
Leverage (x) (Asset/Shareholder's Fund)	16.66	17.03	17.86	17.26	16.64
CAR (%)	12.7%	13.3%	13.7%	14.6%	14.9%
CAR - Tier I (%)	10.7%	12.6%	11.4%	13.9%	14.3%
Operating efficiency					
Cost/income (%)	55.1%	54.8%	54.1%	53.1%	51.9%
Opex/total assets (%)	1.9%	1.9%	1.8%	1.7%	1.7%
Opex/total interest earning assets	1.3%	1.3%	1.3%	1.3%	1.3%
Profitability					
NIM (%)	2.7%	2.8%	2.9%	2.9%	2.9%
RoA (%)	0.0%	0.4%	0.5%	0.7%	0.8%
RoE (%)	0.4%	6.2%	8.0%	11.9%	13.0%
Asset quality					
Gross NPA (%)	7.9%	6.2%	5.0%	4.7%	4.3%
Net NPA (%)	3.0%	2.2%	1.5%	1.4%	1.2%
Per share data / Valuation					
EPS (INR)	0.97	16.23	22.87	38.50	48.11
BVPS (INR)	247.53	259.96	284.47	322.47	370.08
ABVPS (INR)	173.70	201.84	243.22	281.19	328.77
P/E (x)	415.06	24.70	17.53	10.42	8.33
P/BV (x)	1.62	1.54	1.41	1.24	1.08
P/ABV (x)	2.31	1.99	1.65	1.43	1.22
Profitability					
Return on Equity	0.4%	6.2%	8.0%	11.9%	13.0%

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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