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CMP: INR 457

Rating: Accumulate

Target Price: INR 533

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)	3,98,930
52w H/L (INR)	467 / 175
Avg Yearly Vol (in 000')	49574

Shareholding Pattern %

(As on June, 2021)

Promoters	57.6
FII	10.3
DII	24.2
Public & Others	7.9

Stock Performance (%)	1m	3m	12m
SBI	3.5	26.0	133.9
Nifty 50	2.5	11.0	46.2

SBI Vs Nifty



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State Bank of India (SBI) has reported 55% YoY growth in its net profit at INR 6,504 cr. NII growth for the quarter was low at 3.7% YoY, impacted due to high NII reversal. Operating profit for the quarter was healthy at 15% YoY supported by 48% YoY growth in non interest income and steady NIM (domestic) at 3.15%, +4bps QoQ. Slippages were higher at INR 15,666 cr, of which majorly was from INR 6,416 cr in SME, INR 2,920 cr in Agri and INR 5,268 cr in retail banking including home loans. However, Management has stated that July month has seen good recovery with recovery of INR 4,790 cr. GNPA's/NNPA's inched up to 5.3%/1.8% (+34bps/+27bps QoQ), with restructuring quantum at 0.8%. Overall, advances growth was at ~6% YoY (~5% YoY in Q4FY21), while deposit growth was strong at 9% YoY.

Operationally steady performance: NII growth for the quarter was low at 4% YoY/2% QoQ to INR 27,638 cr, impacted due to interest reversal of INR 800 cr. NIM (Whole bank) of the bank stood flat at 2.92% (+2bps QoQ). Other income of the bank increased by 48% YoY to INR 11,803 cr, supported by higher miscellaneous income and fee income growth of 21% YoY. Operating profit of the bank increased by 15% YoY/-4% QoQ to INR 18,975 cr vs. our estimate of INR 18,415 cr.

Loan growth improved marginally as compared to previous quarter: Total advances of the bank grew by 5.8% YoY (vs. 5.3% YoY in Q4FY21), 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 Agri and SME segments were low at 2.5% YoY and 2% YoY respectively. Corporate book declined further by 2% YoY. Deposit growth was healthy at 9% YoY driven by CASA growth of 11% YoY. CASA ratio of the bank decreased marginally by 15bps QoQ at 44.6%.

Asset quality managing well: Bank has reported sharp jump in slippages at INR 15,666 cr (2.47%) vs. INR 5,473 cr in Q4FY21. Slippages break-up: Corporate- INR 1,008 cr, SME at INR 6,416 cr and INR 2,920 cr from Retail Agri and INR 5,268 cr from personal banking including home loans. SME slippages were elevated as cashflow was disrupted due to restricted economic activity. Bank expect faster recovery in slippages once circumstances trend towards normalcy. SMA 1&2 book decreased to INR 11,303 cr from INR 11,519 cr in Q4FY21. Total non-specific provisions stood at INR 29,816 cr or 120bps of loans for the bank which comprises of INR 15,700 cr on standard assets, INR 9,065 cr of covid provisions and INR 5,051 cr of other provisions.

Valuation & View: Asset quality of SBI has deteriorated due to lower economic activity and covid restrictions which has led to higher slippages. However, Management has stated that July month has seen good recovery and will continue. We cut our estimate by 5%/3% for FY22/23E to factor in increase in NPA. We expect SBI to deliver RoA/RoE of 0.8%/13% by FY23E driven by strong liability franchise, attractive valuation and improving return ratios. We revise our rating on the stock from Buy to Accumulate with a revised target price of INR 533 (INR 486 earlier), valuing it on SOTP basis.

State Bank of India (Rs 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	32,715	41,455
BVPS (INR / Share)	247.5	260.0	284.5	320.6	366.6
RoA (%)	0.0%	0.4%	0.5%	0.7%	0.8%
RoE (%)	0.4%	6.2%	8.0%	11.4%	12.7%
P/ABV (x)	2.6	2.3	1.9	1.7	1.4

Q1FY22 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Cr)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Interest Income	65,564	65,102	66,500	0.7%	-1.4%
Interest Expended	37,926	38,035	39,859	-0.3%	-4.8%
Net Interest Income	27,638	27,067	26,642	2.1%	3.7%
Other Income	11,803	16,225	7,957	-27.3%	48.3%
Operating Income	39,441	43,292	34,599	-8.9%	14.0%
Operating Expenses	20,466	23,592	18,078	-13.2%	13.2%
Employee Expenses	12,538	13,383	11,865	-6.3%	5.7%
Other Operating Expenses	7,928	10,209	6,213	-22.3%	27.6%
PPOP	18,975	19,700	16,521	-3.7%	14.9%
Provisions	10,052	11,051	12,501	-9.0%	-19.6%
PBT	8,923	8,649	5,560	3.2%	60.5%
Tax Expenses	2,419	2,198	1,370	10.0%	76.5%
Net Income	6,504	6,451	4,189	0.8%	55.3%
Balance Sheet Analysis					
Advances	24,31,908	24,49,498	22,98,346	-0.7%	5.8%
Deposits	37,20,987	36,81,277	34,19,363	1.1%	8.8%
Total Assets	45,57,006	45,34,430	41,17,932	0.5%	10.7%
CASA Deposits	16,59,234	16,46,974	14,98,718	0.7%	10.7%
CASA (%)	44.6%	44.7%	43.8%	-15bps	76bps
CAR (%)	13.7%	13.7%	13.4%	-8bps	26bps
Spreads					
NIMs (%)	3.15%	3.11%	3.24%	4bps	-9bps
Cost of Funds	3.69%	3.78%	4.37%	-9bps	-68bps
Yield on Average Advances	6.74%	6.68%	7.63%	7bps	-89bps
Asset Quality					
GNPA	1,34,259	1,26,389	1,29,661	6.2%	3.5%
NNPA	43,153	36,810	42,704	17.2%	1.1%
GNPA (%)	5.32%	4.98%	5.44%	34bps	-12bps
NNPA (%)	1.77%	1.50%	1.86%	27bps	-8bps
Credit Costs	0.79%	1.12%	1.56%	-33bps	-77bps
Provision Coverage Ratio	85.93%	87.75%	86.32%	-182bps	-39bps
Returns & Expenses					
RoA	0.57%	0.57%	0.41%	0bps	16bps
RoE	9.96%	10.16%	6.93%	-21bps	302bps
Cost / Income Ratio	51.89%	54.49%	52.25%	-260bps	-36bps

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

Q1FY22 – Key Concall Highlights

On Asset quality front

- Slippages for the quarter came in at INR 15,666 cr (2.47%) – INR 6,416 cr from SME, INR 2,920 cr from Agri, INR 5,268 cr from retail segment.
- Pull back of INR 4,790 cr in July itself coming in from home loan, agri, SME etc. Within SME it has already recovered INR 2,200 cr.
- Collection efficiency stood at 92% in June and 93.5% in July.
- SME slippages are due to cash flows disruption of customers on account of restricted economic activity and will recover faster when it comes to normalcy.
- Restructured application of INR 5,246 cr approved. This is over and above restructuring of INR 12,900 under OTR 1.0.
- Bank has guided for annual recovery target of INR 14,000 cr from AUCA for FY22.

Other Highlights

- Bank has undergone under 2 stress test and delivered well.
- The bank has disbursed INR 270 bn under ECLGS and outstanding is INR 220 bn.
- Corporate credit growth – unutilized limit to the extent of 60% in working capital and 30% term loans not disbursed. As demand picks up, it will see better growth.
- Underutilized sanction limit (not availed) is INR 3 tn and proposals in pipeline of INR 1.3 tn. Bank have sufficient capital and liquidity available to support growth.
- Xpress credit has not seen much of a slippage and 25-27% growth is possible in FY22.
- There is a very good opportunity in international markets (UK, US and Hong Kong).
- Bank has refrain from giving forward guidance. However, 15% RoE target is sustainable in long term.

Sum of the Parts Valuation

Entity	Valuation methodology	Holding	Intrinsic Value per Share
SBI - Standalone banking business / Parent	1.3x FY23E ABV	100.0%	408
SBI Life Insurance	2.5x FY23E EV	55.5%	67
SBI General Insurance	20x FY23 PAT	70.0%	25
SBI Asset Management	5% of FY23E AUM	63.0%	17
SBI Cards & Payment	25x FY23E P/E	69.4%	39
Others			9
Holding co. discount (%)			20.0%
Value of subs (INR per share)			141
Value of total (INR per share)			533

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

SBI's holding in SBI Life Insurance and SBI Cards and payment is as on Jun'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	33,010	29,709
PBT	1,607	18,847	26,001	43,719	55,399
Tax Expenses	745	10,575	7,131	11,004	13,944
Net Income	862	14,488	20,411	32,715	41,455

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	2,85,251	3,26,260
Net Worth	2,20,914	2,32,007	2,53,875	2,86,144	3,27,152
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	49,66,211	54,92,110
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	4,29,318	5,45,636
Total Assets	36,80,914	39,51,394	45,34,430	49,66,211	54,92,110

Source: Arihant 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%	9.5%	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%	60.3%	26.7%
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%	54.3%	54.5%
Leverage (x) (Asset/Shareholder's Fund)	16.66	17.03	17.86	17.36	16.79
CAR (%)	12.7%	13.3%	13.7%	14.5%	14.8%
CAR - Tier I (%)	10.7%	12.6%	11.4%	13.8%	14.1%
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%	11.4%	12.7%
Asset quality					
Gross NPA (%)	7.9%	5.4%	5.3%	5.0%	4.6%
Net NPA (%)	3.0%	2.2%	1.5%	1.5%	1.4%
PCR (%)	61.9%	65.2%	70.9%	70.2%	69.3%
Credit cost (%)	1.8%	1.3%	1.2%	0.8%	0.7%
Per share data / Valuation					
EPS (INR)	0.97	16.23	22.87	36.66	46.45
BVPS (INR)	247.53	259.96	284.47	320.62	366.57
ABVPS (INR)	173.70	201.84	243.22	275.22	318.87
P/E (x)	473.02	28.15	19.98	12.47	9.84
P/BV (x)	1.85	1.76	1.61	1.43	1.25
P/ABV (x)	2.63	2.26	1.88	1.66	1.43
Profitability					
Return on Equity	0.4%	6.2%	8.0%	11.4%	12.7%

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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