

Asset quality outcome has surprised positively

CMP: INR 355

Rating: BUY

Target Price: INR 463

Stock Info

BSE	500112
NSE	SBIN
Bloomberg	SBIN IN
ReutersINR	SBI.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	892
Mkt Cap (INR Cr)	3,16,912
52w H/L (INR)	358 / 149
Avg Yearly Vol (in 000')	57,119

Shareholding Pattern %

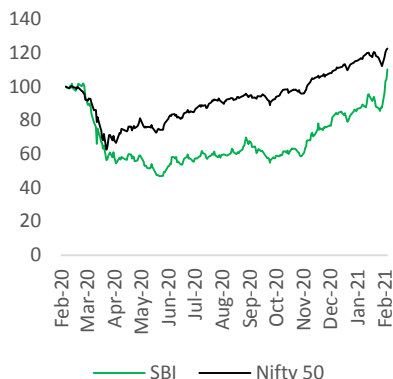
(As on December, 2020)

PromoteeINR	57.6
FII	9.8
DII	24.9
Public & OtherINR	7.7

Stock Performance (%)

	3m	6m	12m
SBI	71.6	85.3	16.0
Nifty	25.1	34.3	24.3

SBI Vs Nifty



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State Bank of India (SBI) posted very impressive performance during Q3FY21 with encouraging asset quality outcome. The bank has reported 7% decline in its net profit at INR 5,196 cr, higher than our estimate of Rs 4,488 cr. Proforma GNPA of the bank has reduced by 44bps QoQ at 5.44% with proforma slippages at INR 2,346 cr. Proforma slippages for 9MFY21 was INR 16,461 cr (1.3% of loans), taking the cumulative new stress flow (including expected restructuring) at INR 41,216 cr and management commentary is leading to better outlook on asset quality. Overall, Advances growth was modest at ~7% YoY, while deposit growth was strong at 14% QoQ. SBI is our preferred pick in PSU space. We maintain our Buy rating on the stock with a revised TP of INR 463.

Higher staff cost has pulled back operating performance: NII for the quarter increased by 4% YoY to INR 28,820 cr. The bank's NIM stood at 3.34% flat QoQ while cost of funds declined by 19bps QoQ. Staff cost for the quarter was higher at 14.5% YoY on account of wage revision. Bank has now fully provided for wage related provisions and expect any higher jump in employee cost to normalize. Consequently, PPOP of the bank decreased by 5% YoY to INR 17,333 cr. Other income of the bank grew marginally by 1.5% YoY, largely due to 5% decline in core fee income.

Loan growth driven by Retail: Total advances growth of the bank grew by 7% YoY, driven by retail loan growth of 15.5% YoY. SME portfolio growth was strong at 6% QoQ and corporate advances grew 2% YoY. Within retail, home loan segment (~58% of the retail book) grew by 10% YoY/3% QoQ and Auto loans registered 6% sequential growth. Xpress credit growth (~21% of retail book) was very strong at 36% YoY. Deposits continue to grow at a faster pace at +14% YoY driven by CASA growth of 15% YoY and term deposit growth of 13% YoY. CASA ratio for the quarter stood at 43.7% vs. 44% QoQ.

Asset quality outcome was strong: Reported GNPA/NNPA for the quarter declined by 51bps/36bps qoq to 4.8%/1.2% on account of the asset classification standstill. Proforma GNPA/NNPA for the quarter decreased by 44bps/27bps QoQ at 5.4%/1.8%. Proforma slippages for the quarter came in at 2,346 cr (including slippages from foreign book of INR 237 cr). The management indicated that it had received restructuring requests for INR 18,125 cr so far (up from INR 6,495 cr in Q2FY21), of which INR 4500 cr has been implemented. PCR (ex. technical write-offs) on reported GNPA stands healthy at 68%.

Valuation & View: With better asset quality outlook and expectation of normalisation in credit cost, we upgrade our earnings by 25%/43% respectively for FY21/22E and introduce FY23E. We continue to maintain our positive stance on SBI due to its strong liability franchise, reasonable capital position of the bank and attractive valuation. SBI is highly retail oriented bank and asset quality of its retail book is strong given the nature of customers like government employees and salaried people. SBI is currently trading at a 1.6x/1.4x/1.1x P/ABV to its FY21/22E/FY23E which is fairly inexpensive for a bank of this size. We increase our target multiple and assign an exit P/ABV multiple of 1.3x to its FY23E ABV of INR 312 for standalone bank and use a SOTP approach to value its subsidiaries, to arrive at a revised TP of INR 463 (earlier INR 295) and maintain our BUY rating.

State Bank of India (INR Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
NII	88,349	98,085	114,867	117,656	129,938
PPOP	56,181	61,917	68,137	76,869	79,155
PAT	862	14,488	22,147	33,832	40,281
EPS (INR / Share)	1.0	16.2	24.8	37.9	45.1
BVPS (INR / Share)	247.5	260.0	284.3	321.7	366.3
NIM (%)	2.7%	2.8%	3.1%	2.9%	3.0%
RoA (%)	0.0%	0.4%	0.5%	0.7%	0.8%
RoE (%)	0.4%	6.2%	8.7%	11.8%	12.3%
P/ABV (x)	2.0	1.8	1.6	1.4	1.1

Q3FY21 - Quarterly Performance (Standalone)

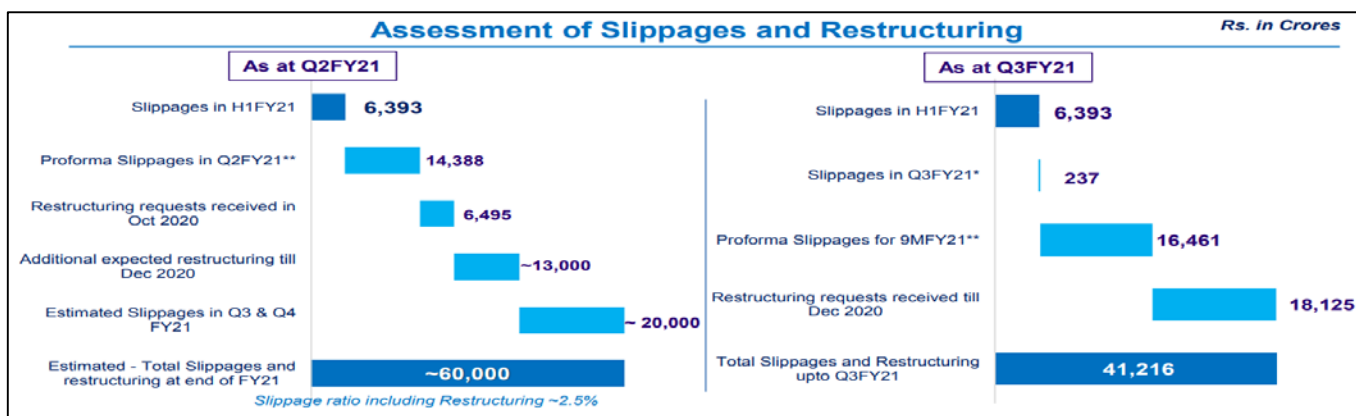
Quarterly Result Update (INR Cr)	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y
Interest Income	66,735	66,814	67,692	-0.1%	-1.4%
Interest Expended	37,915	38,633	39,913	-1.9%	-5.0%
Net Interest Income	28,820	28,182	27,779	2.3%	3.7%
Other Income	9,246	8,528	9,106	8.4%	1.5%
Operating Income	38,066	36,709	36,885	3.7%	3.2%
Operating Expenses	20,733	20,249	18,662	2.4%	11.1%
Employee Expenses	13,118	12,570	11,456	4.4%	14.5%
Other Operating Expenses	7,615	7,679	7,207	-0.8%	5.7%
PPOP	17,333	16,460	18,223	5.3%	-4.9%
Provisions	10,342	10,118	7,253	2.2%	42.6%
PBT	6,991	6,341	10,970	10.2%	-36.3%
Tax Expenses	1,795	1,767	5,386	1.5%	-66.7%
Net Income	5,196	4,574	5,583	13.6%	-6.9%
Balance Sheet Analysis					
Advances	2,368,139	2,293,901	2,199,917	3.2%	7.6%
Deposits	3,535,753	3,470,462	3,111,229	1.9%	13.6%
Total Assets	4,356,987	4,157,856	3,749,192	4.8%	16.2%
CASA Deposits	1,546,424	1,527,007	1,340,830	1.3%	15.3%
CASA (%)	43.74%	44.00%	44.72%	-26bps	-98bps
CAR (%)	14.50%	14.72%	13.73%	-22bps	77bps
Spreads					
NIMs (%)	3.34%	3.34%	3.59%	0bps	-25bps
Cost of Funds	3.93%	4.12%	4.78%	-19bps	-85bps
Yield on Average Advances	7.51%	7.56%	8.85%	-5bps	-134bps
Asset Quality					
GNPA	117,244	125,863	159,661	-6.8%	-26.6%
NNPA	29,032	36,451	58,249	-20.4%	-50.2%
GNPA (%)	4.77%	5.28%	6.94%	-51bps	-217bps
NNPA (%)	1.23%	1.59%	2.65%	-36bps	-142bps
Credit Costs	0.38%	0.94%	1.46%	-56bps	-108bps
Provision Coverage Ratio	90.21%	88.19%	63.52%	202bps	2669bps
Returns & Expenses					
RoA	0.48%	0.44%	0.60%	4bps	-12bps
RoE	8.27%	7.45%	9.60%	83bps	-133bps
Cost / Income Ratio	54.47%	55.16%	50.60%	-70bps	387bps

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

Q3FY21 – Key Concall Highlights

- The bank has not revised its previous guidance of INR 60,000 cr slippages and restructuring. This number as of Q3FY21 stood at INR 41,216 cr. So far, The bank has received INR 18,125 cr overall restructuring requests, out of which, INR 4500 cr have been implemented. Bank do not expect any further spike in Q4FY21
- Restructuring book break up: Total INR 18,125 cr (INR 11707 cr from Corporates, INR 3865 from Retail and INR 2553 cr from SME). Within retail, large proportion of request come from home loan segment. In corporate, there is one large corporate a/c.
- Credit cost of the bank will be within 2% as per management expectation.
- Loan growth for the quarter was healthy at 7% YoY and including credit substitutes like bonds, CPs it was ahead of the system at 8% YoY.
- Retail credit growth has picked up to pre-covid level at 16% YoY, within which gold loans grew by ~4x in the 6 months to INR 17492 cr while home loans growth remained strong at 10%
- Within Retail, Xpress credit has reported 36% YoY growth and momentum on this is expected to remain strong as the current penetration in high quality corporate salary customer INR has been much lower.
- Corporate growth was muted during the quarter at 2% YoY. However, the bank is seeing gradual uptick in credit/overdraft utilization and expect overall corporate growth momentum to pick up with broader economic recovery.
- MCLR linked book stands at 75% while external benchmark linked book stood at 15%.
- The bank has sanctioned INR 26000 cr under ECLGS and it has disbursed INR 23000 cr (INR 488 cr toward ECLGS 2.0) as of Q3FY21.
- Domestic NIMs could have got impacted by ~10bps due to proforma slippages. Bank has booked interest revenue in provisioning line.
- Reported CET – I ratio of 10.3% includes 9MFY21 profit.

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	1.3x FY23E ABV	100.0%	334
SBI Life Insurance	2.5x FY23E EV	57.6%	69
SBI General Insurance	20x FY23 PAT	70.0%	14
SBI Asset Management	5% of FY23E AUM	63.0%	17
SBI Cards & Payment	25x FY23E P/E	69.5%	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)			129
Value of total (INR per share)			463

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

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

Key Financials

Profit & Loss Statement (in INR Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Interest Income	242,869	257,324	270,554	292,635	321,625
Interest Expended	154,520	159,239	155,687	174,979	191,688
Net Interest Income	88,349	98,085	114,867	117,656	129,938
Other Income	36,775	39,006	32,739	40,995	41,850
Operating Income	125,124	137,091	147,607	158,651	171,788
Operating Expenses	68,942	75,174	79,469	81,782	92,633
Employee Expenses	41,055	45,715	48,468	53,886	59,911
Other Operating Expenses	27,888	29,459	31,002	27,896	32,722
PPOP	56,181	61,917	68,137	76,869	79,155
Provisions	54,574	43,070	45,223	31,656	25,325
PBT	1,607	18,847	22,914	45,212	53,830
Tax Expenses	745	10,575	5,767	11,380	13,549
Net Income	862	14,488	22,147	33,832	40,281

Balance Sheet (in INR Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity & Liabilities					
Share Capital	892	892	892	892	892
Reserves & Surplus	220,021	231,115	252,815	286,201	326,036
Net Worth	220,914	232,007	253,708	287,094	326,929
Deposits	2,911,386	3,241,621	3,618,032	3,967,551	4,325,245
Borrowings	403,017	314,656	301,305	316,370	332,189
Other Liabilities and Provisions	145,597	163,110	176,939	183,035	186,925
Total Capital & Liabilities	3,680,914	3,951,394	4,349,984	4,754,050	5,171,288
Assets					
Cash & Balances with RBI	176,932	166,736	183,409	197,253	211,430
Balances with Other Banks & Call Money	45,558	84,361	83,627	97,644	114,427
Investments	967,022	1,046,955	1,067,894	1,121,288	1,154,927
Advances	2,185,877	2,325,290	2,511,313	2,762,444	3,066,313
Fixed Assets	39,198	38,439	42,283	46,512	51,163
Other Assets	266,328	289,614	461,458	528,910	573,029
Total Assets	3,680,914	3,951,394	4,349,984	4,754,050	5,171,288

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

Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
Growth rates					
Advances (%)	13.0%	6.4%	8.0%	10.0%	11.0%
Deposits (%)	7.6%	11.3%	11.6%	9.7%	9.0%
Total assets (%)	6.5%	7.3%	10.1%	9.3%	8.8%
NII (%)	18.0%	11.0%	17.1%	2.4%	10.4%
Pre-provisioning profit (%)	11.2%	10.2%	10.0%	12.8%	3.0%
PAT (%)	-113.2%	1580.3%	52.9%	52.8%	19.1%
Balance sheet ratios					
Credit/Deposit (%)	75.1%	71.7%	69.4%	69.6%	70.9%
CASA (%)	44.6%	43.5%	45.1%	44.9%	44.6%
Advances/Total assets (%)	59.4%	58.8%	57.7%	58.1%	59.3%
Leverage (x) (Asset/Shareholder's Fund)	16.66	17.03	17.15	16.56	15.82
CAR (%)	12.7%	13.3%	13.3%	13.9%	14.5%
CAR - Tier I (%)	10.7%	12.6%	12.7%	13.3%	13.8%
Operating efficiency					
Cost/income (%)	55.1%	54.8%	53.8%	51.5%	53.9%
Opex/total assets (%)	1.9%	1.9%	1.8%	1.7%	1.8%
Opex/total interest earning assets	1.3%	1.3%	1.3%	1.3%	1.4%
Profitability					
NIM (%)	2.7%	2.8%	3.1%	2.9%	3.0%
RoA (%)	0.0%	0.4%	0.5%	0.7%	0.8%
RoE (%)	0.4%	6.2%	8.7%	11.8%	12.3%
Asset quality					
Gross NPA (%)	7.9%	4.8%	5.4%	4.9%	4.6%
Net NPA (%)	3.0%	1.2%	2.2%	2.0%	2.0%
Credit cost (%)	1.8%	1.3%	1.3%	0.8%	0.6%
Per share data / Valuation					
EPS (INR)	0.97	16.23	24.82	37.91	45.14
BVPS (INR)	247.53	259.96	284.28	321.69	366.32
ABVPS (INR)	173.70	192.12	218.71	261.69	311.62
P/E (x)	367.45	21.87	14.31	9.36	7.87
P/BV (x)	1.43	1.37	1.25	1.10	0.97
P/ABV (x)	2.04	1.85	1.62	1.36	1.14
Profitability					
Return on Equity	0.4%	6.2%	8.7%	11.8%	12.3%

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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