

Yet another impressive quarter; core business sounding better

CMP: Rs 302

Rating: BUY

Target Price: Rs 458

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)	2,84,293
52w H/L (Rs)	373 / 244
Avg Yearly Vol (in 000')	29,969

Shareholding Pattern %

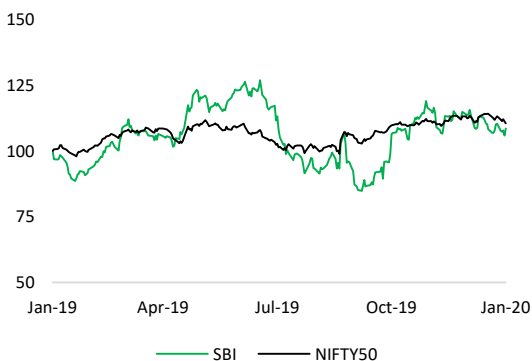
(As on Dec, 2019)

Promoters	57.68
FII	10.98
DII	24.56
Public & Others	6.78

Stock Performance (%)

	3m	6m	12m
SBI	1.9	-4.1	8.5
Nifty	0.7	7.6	10.4

SBI Vs Nifty



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State Bank of India posted the best quarterly profits over last several years. The bank's NII increased by 22.4% YoY/12.9% QoQ, Operating Profit increased by 44.3% YoY/23.8% QoQ and Net Income increased to Rs 5,583 Cr up 41.2% YoY/85.4% QoQ. Advances growth (+7.4% YoY/2.5% QoQ) was driven primarily by retail advances which grew by 17.5% YoY/5.0% QoQ while the corporate & SME portfolio de-grew annually and the agricultural book grew modestly. The deposits grew by 9.9% YoY/2.6% QoQ in Q3FY20, and was primarily driven by term deposits which grew by 10.6% YoY, to benefit the customers.

Key Highlights of Q3 FY20:

NIMs at fresh highs, costs coming down: The bank's NIMs increased to 3.59% (up +62bps YoY/+37 bps QoQ) while the Cost of Funds stood at 4.78% (down -21bps YoY/-8bps QoQ) for Q3FY20 reflecting improvement in the bank's core business. The bank's CASA fell to 44.72% (45.13% in Q2FY20), still the falling interest rates till early previous quarter helped bring down the cost of funds for the bank below 5%.

Abundantly leveraged to grow book-size: The bank has one of the highest leverage ratios with Asset/Net Worth ratio for SBI standing at 16.1x (highest in the industry). On the other front, the bank's term deposits stood at 53.3% which provides enough capital to lend.

Asset Quality keeps on improving: SBI's GNPA/NNPA stood at 6.94%/2.65% at the end of Q3FY20 while the provisions for the quarter stood at Rs 7,253 Cr, (up 20.8% YoY/down 44.8% QoQ). Fresh slippages stood at Rs 16,525 Cr (incl. exposure to one Housing Finance company for Rs 7,000 Cr).

Performance of subsidiaries: SBI's subsidiaries are clearly outperforming their peers in respective fields of business. The Life Insurance subsidiary SBI Life's new business premium grew 2nd fastest among the life insurers, the credit card business is the fastest growing major credit card player with 9.5 million active credit card users, general insurance GWP 9M FY20 grew by 46% (way higher than the industry).

Valuation & View

SBI has taken the one-time hit on deferred tax assets in the Q3FY20 earnings by Rs 1,333 Cr re-measurement of DTA, which implies that going ahead, the reduced tax rates will boost profitability of the bank. The bank's vast branch chain of 21,959 branches across the nation along with customer preference for better web-based services for the customers to benefit the bank. The bank's insurance subsidiaries are competing well in respective field of business, besides the credit card and AMC subsidiaries. SBI is currently trading at a 1.2x/1.0x P/adj. BV FY21/22E which is fairly inexpensive for the largest lender in South Asia. We assign an exit P/adj. BV multiple of 1.0x on FY22E adj. BV of INR 307 for standalone bank and use a SOTP approach to value its subsidiaries, we arrive at a **Target Price of INR 458 and maintain our BUY rating.**

Key Financials (Rs Cr)	FY19A	FY20E	FY21E	FY22E
NII	88,349	1,07,866	1,23,277	1,41,038
NIM (%)	2.7%	3.1%	3.3%	3.4%
Net Profit	862	22,518	36,359	46,915
Advances	21,85,877	22,55,553	25,48,775	29,82,067
Deposits	29,11,386	31,61,660	34,12,177	38,21,639
GNPA (%)	7.9%	7.9%	7.2%	6.3%

Q3 FY20 - Quarterly Performance (Standalone)

Particulars (Rs Cr)	Q3FY20	Q2FY20	Q3FY19	Q-o-Q	Y-o-Y
Interest Income	67,692	64,312	62,277	5.3%	8.7%
Interest Expended	39,913	39,712	39,586	0.5%	0.8%
Net Interest Income	27,779	24,600	22,691	12.9%	22.4%
Other Income	9,106	8,538	8,035	6.6%	13.3%
Operating Income	36,885	33,139	30,726	11.3%	20.0%
Operating Expenses	18,662	18,424	18,101	1.3%	3.1%
Employee Expenses	11,456	11,303	11,172	1.4%	2.5%
Other Operating Expenses	7,207	7,122	6,929	1.2%	4.0%
PPOP	18,223	14,714	12,625	23.8%	44.3%
Provisions	7,253	13,139	6,006	-44.8%	20.8%
PBT	10,970	5,060	6,619	116.8%	65.7%
Tax Expenses	5,386	2,048	2,664	163.0%	102.2%
Net Income	5,583	3,012	3,955	85.4%	41.2%
Balance Sheet Analysis					
Advances	21,99,917	21,46,160	20,47,779	2.5%	7.4%
Deposits	31,11,229	30,33,396	28,30,538	2.6%	9.9%
Total Assets	37,49,192	36,78,001	35,49,662	1.9%	5.6%
CASA Deposits	13,40,830	13,26,171	12,37,578	1.1%	8.3%
CASA (%)	44.72%	45.13%	45.23%	-41bps	-51bps
CAR (%)	13.73%	13.59%	12.77%	14bps	96bps
Spreads					
NIMs (%)	3.59%	3.22%	2.97%	37bps	62bps
Cost of Funds	4.78%	4.86%	4.99%	-8bps	-21bps
Yield on Average Advances	8.85%	8.45%	8.35%	39bps	49bps
Asset Quality					
GNPA	1,59,661	1,61,636	1,87,765	-1.2%	-15.0%
NNPA	58,249	59,939	80,944	-2.8%	-28.0%
GNPA (%)	6.94%	7.19%	8.71%	-25bps	-177bps
NNPA (%)	2.65%	2.79%	3.95%	-14bps	-130bps
Credit Costs	1.46%	1.97%	2.70%	-51bps	-124bps
Provision Coverage Ratio	63.52%	62.92%	56.89%	60bps	663bps
Returns & Expenses					
RoA	0.60%	0.33%	0.45%	27bps	15bps
RoE	9.60%	5.33%	7.18%	428bps	243bps
Cost / Income Ratio	50.60%	55.60%	58.91%	-500bps	-832bps

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

Q3 FY20 – Key Concall Highlights

- The total exposure to the HFC (DHFL) stood at ~100bn, against which ~Rs 30 bn has been provisioned during the quarter. The bank expects ~Rs 20 bn additional provision will be adequate for the account, which will be done during Q4FY20. The management expects the account likely to conclude by Q2FY21.
- On recovery side, Bhushan power & Steel, One textile account and one power account amounted to ~Rs 40 bn, ~Rs 18 bn and ~Rs 10 bn are likely to conclude soon.
- In the beginning of FY20, the total DTA was at ~Rs 100 bn. Due to tax calculation for 9 month at higher rate, the bank will get one off benefit of Rs 20.59 bn because of moving towards the lower tax rate. So the net one off impact amounted to Rs 13.33 bn has been taken by the bank during this quarter.
- Fresh slippage during this quarter was at Rs 165.3 bn. Out of which, Corporate, SME, Agri, PER and IBG were at Rs 94.7 bn, Rs 15.8 bn, Rs 29.7 bn, Rs 8.2 bn and Rs 17 bn respectively.
- The HFC account (DHFL amount ~Rs 70bn), which slipped during this quarter, the exposure towards domestic corporate and international book were at ~Rs 55bn and ~Rs 15bn respectively.
- As per going ahead guidance, overall loan growth to be at 10% YoY during FY20.
- SBI card's GNPA and Net NPA stood at 2.67% and 0.83% respectively at the end of Q3FY20.

Sum of the Parts Valuation

Entity (in Rs)	Valuation methodology	Holding	Intrinsic Value per Share
SBI - Standalone banking business / Parent	1.0x FY22E ABV	100.0%	301
SBI Life Insurance	3.0x FY22E EV	57.6%	73
SBI General Insurance	20x FY22 PAT	70.0%	12
SBI Asset Management	5% of FY22E AUM	63.0%	20
SBI Cards & Payment	25x FY22E P/E	74.0%	72
SBI Caps Consolidated	10x FY19 PAT	100.0%	3
SBI DFHI	10x FY19 PAT	69.0%	1
Others (Overseas subsidiaries)			5
Holding co. discount (%)			15.0%
Value of subs (INR per share)			157
Value of total (INR per share)			458

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

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

Key Financials

Profit & Loss Statement (in INR Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest Income	2,20,499	2,42,869	2,64,777	2,87,356	3,20,178
Interest Expended	1,45,646	1,54,520	1,56,911	1,64,079	1,79,141
Net Interest Income	74,854	88,349	1,07,866	1,23,277	1,41,038
Other Income	44,601	36,775	42,095	46,304	50,935
Operating Income	1,19,454	1,25,124	1,49,961	1,69,581	1,91,973
Operating Expenses	68,924	68,942	75,883	84,085	94,215
Employee Expenses	33,179	41,055	45,259	49,893	56,040
Other Operating Expenses	35,746	27,888	30,624	34,192	38,175
PPOP	50,530	56,181	74,078	85,496	97,757
Provisions	66,058	54,574	38,850	36,908	35,062
PBT	-15,528	1,607	35,228	48,589	62,695
Tax Expenses	-8,981	745	12,710	12,230	15,780
Net Income	-6,547	862	22,518	36,359	46,915

Balance Sheet (in INR Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Equity & Liabilities					
Share Capital	892	892	892	892	892
Reserves & Surplus	2,18,236	2,20,021	2,41,660	2,77,573	3,24,041
Net Worth	2,19,129	2,20,914	2,42,552	2,78,465	3,24,933
Deposits	27,06,343	29,11,386	31,61,660	34,12,177	38,21,639
Borrowings	3,62,142	4,03,017	2,75,676	2,95,736	3,10,523
Other Liabilities and Provisions	1,67,138	1,45,597	1,60,193	1,73,775	1,79,114
Total Capital & Liabilities	34,54,752	36,80,914	38,40,082	41,60,153	46,36,209
Assets					
Cash & Balances with RBI	1,50,397	1,76,932	1,40,984	1,63,265	1,69,794
Balances with Other Banks & Call Money	41,501	45,558	98,338	97,482	1,17,365
Investments	10,60,987	9,67,022	10,42,464	10,94,587	10,72,695
Advances	19,34,880	21,85,877	22,55,553	25,48,775	29,82,067
Fixed Assets	39,992	39,198	39,345	43,280	47,608
Other Assets	2,26,994	2,66,328	2,63,398	2,12,765	2,46,680
Total Assets	34,54,752	36,80,914	38,40,082	41,60,153	46,36,209

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

Ratios	FY18A	FY19A	FY20E	FY21E	FY22E
Growth rates					
Advances (%)	23.2%	13.0%	3.2%	13.0%	17.0%
Deposits (%)	32.4%	7.6%	8.6%	7.9%	12.0%
Total assets (%)	27.7%	6.5%	4.3%	8.3%	11.4%
NII (%)	21.0%	18.0%	22.1%	14.3%	14.4%
Pre-provisioning profit (%)	-8.5%	11.2%	31.9%	15.4%	14.3%
PAT (%)	-162.5%	-113.2%	2511.6%	61.5%	29.0%
Balance sheet ratios					
Credit/Deposit (%)	71.5%	75.1%	71.3%	74.7%	78.0%
CASA (%)	44.5%	44.6%	42.9%	44.5%	44.5%
Advances/Total assets (%)	56.0%	59.4%	58.7%	61.3%	64.3%
Leverage (x) (Asset/Shareholder's Fund)	15.77	16.66	15.83	14.94	14.27
CAR (%)	12.6%	12.7%	14.2%	14.4%	14.6%
CAR - Tier I (%)	10.4%	10.7%	13.5%	13.7%	14.0%
Operating efficiency					
Cost/income (%)	57.7%	55.1%	50.6%	49.6%	49.1%
Opex/total assets (%)	2.0%	1.9%	2.0%	2.0%	2.0%
Opex/total interest earning assets	1.2%	1.3%	1.3%	1.3%	1.4%
Profitability					
NIM (%)	2.6%	2.7%	3.1%	3.3%	3.4%
RoA (%)	-0.2%	0.0%	0.6%	0.9%	1.0%
RoE (%)	-3.0%	0.4%	9.3%	13.1%	14.4%
Asset quality					
Gross NPA (%)	11.5%	7.9%	7.9%	7.2%	6.3%
Net NPA (%)	5.7%	3.0%	3.2%	3.1%	2.9%
PCR (%)	50.4%	61.9%	59.1%	56.3%	53.2%
Credit cost (%)	2.5%	1.8%	1.2%	1.1%	0.9%
Per share data / Valuation					
EPS (INR)	-7.34	0.97	25.23	40.74	52.57
BVPS (INR)	245.53	247.53	271.78	312.02	364.09
ABVPS (INR)	121.32	173.70	203.93	249.86	307.33
P/E (x)	-41.25	313.21	11.99	7.43	5.76
P/BV (x)	1.2	1.2	1.1	1.0	0.8
P/ABV (x)	2.5	1.7	1.5	1.2	1.0
Profitability					
Return on Capital	-1.2%	0.1%	3.9%	6.7%	7.8%
Return on Equity	-3.0%	0.4%	9.3%	13.1%	14.4%

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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