

Heavy Provisioning amid foreseeable rise of NPAs, public sector backing to help business

CMP: Rs 189

Rating: BUY

Target Price: Rs 252

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)	1,67,604
52w H/L (Rs)	373 / 149
Avg Yearly Vol (in 000')	45,061

Shareholding Pattern %

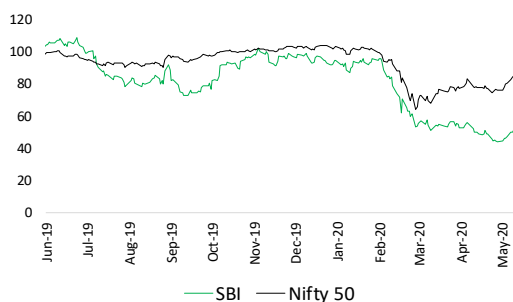
(As on March, 2020)

Promoters	57.63
FII	9.59
DII	24.66
Public & Others	8.12

Stock Performance (%)

	3m	6m	12m
SBI	-30.0	-40.9	-43.8
Nifty	-10.9	-16.7	-16.6

SBI Vs Nifty



Anmol Das

Email: anmol.das@arihantcapital.com
Ph- 022 67114865

Raju Barnawal

Email: raju.b@arihantcapital.com
Ph- 022 67114870

State Bank of India posted Q4FY20 earnings almost in line with expectations for quarterly and annual profits. The bank's NII for Q4FY20 stood flat due to a combination of factors like fall in interest rates along with only part recoveries from resolved IBC cases. PPOP fell by 7.1% YoY/13.7% QoQ and Net Income stood at Rs 3,581 Cr. Advances growth (+6.4% YoY/5.7% QoQ) was driven primarily by corporate disbursements which grew by 9.5% QoQ while retail loans grew by 3.9% QoQ and the agri & SME portfolio de-grew sequentially. The deposits grew by 11.3% YoY/4.2% QoQ in Q4FY20, and was driven by both term and savings deposits after consumers began shift to PSBs.

Key Highlights of Q4 FY20:

NIMs came down marginally, costs of funds also to remain low: The bank's NIMs fell to 2.94% (down 8bps YoY/65 bps QoQ) as Cost of Funds also fell to 4.61% (down 31bps YoY/17bps QoQ) for Q4FY20 as the bank passed on the fallen interest rates to the customers. The bank's CASA fell to 43.5% (44.7% in Q3FY20), as the falling interest rates saw a spike in term deposits.

Abundantly leveraged to grow book-size: The bank has one of the highest leverage ratios with Asset/Net Worth ratio for SBI standing at 17.03x (highest in the industry).

Asset Quality improves on account of moratorium: SBI's GNPA/NNPA stood at 6.15%/2.23% at the end of Q4FY20. The bank provided Rs 13,495 Cr, which was much beyond anybody's expectation. Fresh slippages stood at Rs 8,105 Cr.

Annual Performance: For the full year, SBI's profits increased to Rs 14,488 Cr for FY20 against Rs 862 Cr in FY19, which included the proceeds from IPO of SBI Cards and stake sale in SBI Life corresponding to Rs 6,216 Cr of exceptional gains. We also expect the bank to gain another Rs ~5,000 Cr in FY21 from further stake sale in SBI Life, and listing AMC and General Insurance subsidiaries.

Performance of subsidiaries: Like across the economy, SBI's insurance subsidiaries were also hit hard due to the timing of the lockdown at the end of Q4FY20. The IPO and subscription of SBI Cards went successfully, but since then, the shrink in overall consumption has been impacting the growth of business.

Valuation & View

SBI has a vast branch chain of 22,141 branches across the nation along with 49 crore customer accounts, making it the largest bank in entire South Asia. 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 0.9x/0.7x P/adj. BV FY21/22E which is fairly inexpensive for a bank of this size. We assign an exit P/adj. BV multiple of 0.6x on FY22E adj. BV of INR 259 for standalone bank and use a SOTP approach to value its subsidiaries, to arrive at a revised **Target Price of INR 252 and maintain our BUY rating.**

State Bank of India (Rs Cr)	FY19A	FY20A	FY21E	FY22E
NII	88,349	98,085	103,123	117,298
PPOP	56,181	61,917	70,146	81,876
PAT	862	14,488	18,815	32,262
NIM (%)	2.7%	2.8%	2.8%	2.9%
Advances Growth (%)	13.0%	6.4%	7.0%	10.0%
Deposits Growth (%)	7.6%	11.3%	7.3%	12.3%
P/ABV (x)	1.1	1.0	0.9	0.7

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

Q4 FY20 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Cr)	Q4FY20	Q3FY20	Q4FY19	Q-o-Q	Y-o-Y
Interest Income	62,681	67,692	62,985	-7.4%	-0.5%
Interest Expended	39,914	39,913	40,032	0.0%	-0.3%
Net Interest Income	22,767	27,779	22,954	-18.0%	-0.8%
Other Income	13,346	9,106	12,685	46.6%	5.2%
Operating Income	36,113	36,885	35,639	-2.1%	1.3%
Operating Expenses	20,379	18,662	18,706	9.2%	8.9%
Employee Expenses	12,039	11,456	10,478	5.1%	14.9%
Other Operating Expenses	8,341	7,207	8,228	15.7%	1.4%
PPOP	15,734	18,223	16,933	-13.7%	-7.1%
Provisions	13,495	7,253	16,502	86.1%	-18.2%
PBT	4,970	10,970	431	-54.7%	1052.6%
Tax Expenses	1,389	5,386	-407	-74.2%	-441.2%
Net Income	3,581	5,583	838	-35.9%	327.1%
Balance Sheet Analysis					
Advances	2,325,290	2,199,917	2,185,877	5.7%	6.4%
Deposits	3,241,621	3,111,229	2,911,386	4.2%	11.3%
Total Assets	3,951,394	3,749,192	3,680,914	5.4%	7.3%
CASA Deposits	1,410,981	1,340,830	1,287,285	5.2%	9.6%
CASA (%)	43.53%	44.72%	44.22%	-119bps	-69bps
CAR (%)	13.06%	13.73%	12.72%	-67bps	34bps
Spreads					
NIMs (%)	2.94%	3.59%	3.02%	-65bps	-8bps
Cost of Funds	4.61%	4.78%	4.91%	-17bps	-31bps
Yield on Average Advances	7.53%	8.85%	8.06%	-132bps	-53bps
Asset Quality					
GNPA	149,092	159,661	172,750	-6.6%	-13.7%
NNPA	51,871	58,249	65,895	-10.9%	-21.3%
GNPA (%)	6.15%	6.94%	7.53%	-79bps	-138bps
NNPA (%)	2.23%	2.65%	3.01%	-42bps	-78bps
Credit Costs	2.07%	1.46%	3.22%	61bps	-115bps
Provision Coverage Ratio	65.21%	63.52%	61.86%	169bps	335bps
Returns & Expenses					
RoA	0.36%	0.60%	0.09%	-23bps	27bps
RoE	6.17%	9.60%	1.52%	-343bps	466bps
Cost / Income Ratio	56.43%	50.60%	52.49%	584bps	394bps

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

Q4 FY20 – Key Concall Highlights

- Regarding the availing of moratorium by customers, of the total 94 lakh term loan accounts of the bank, 9 lakh customers have not paid any EMI for the 3 months moratorium, 7 lakh customers have paid 1 EMI, and rest have paid 2 or more EMIs during the moratorium. The management attributes the high composition of salaried and of that too, majorly Public sector undertakings employees as customers has kept the bank's position better than several private banks.
- Overall, around 83% of the customers have continued repayment during the moratorium period, with only 5% of the unsecured portfolio availing the moratorium. Among home loan customers, 20% have availed moratorium.
- The bank is offering moratorium to NBFCs on a case by case basis, i.e. out of 117 NBFCs, 16 are availing moratorium from SBI.
- The NIM for the full year stood at 3.19% and the management provided guidance on maintaining at same levels and not look for further increase in the NIMs.
- The bank will be cutting down staffing in the future by 15-20% as it aims to extend its services to customers through its digital platform Yono. It also aims to double all business transactions through Yono in the next 6 months.
- Fresh slippage during this quarter was at Rs 8,105 Cr, which included 1 housing finance company, 1 Power company and elevation of NPAs from agri sector.
- Going ahead, the bank targets NIMs to stabilize around 3.2%. Also, on the subsidiaries side, the bank will sell stakes of 2.11% of SBI Life in FY21 (Rs ~2,000 Cr), along with possible listing of SBI's GI and AMC subsidiaries (around minimum Rs 1,500 Cr from each subsidiary listing).
- Other Income to fall in FY21 due to Forex remittances expected to remain low.

Sum of the Parts Valuation

Entity	Valuation methodology	Holding	Intrinsic Value per Share
SBI - Standalone banking business / Parent	0.6x FY22E ABV	100.0%	149
SBI Life Insurance	2x FY22E EV	57.6%	49
SBI General Insurance	20x FY22 PAT	70.0%	12
SBI Asset Management	5% of FY22E AUM	63.0%	15
SBI Cards & Payment	25x FY22E P/E	69.5%	44
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)			103
Value of total (INR per share)			252

* 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 Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	220,499	242,869	257,324	264,316	296,684
Interest Expended	145,646	154,520	159,239	161,192	179,386
Net Interest Income	74,854	88,349	98,085	103,123	117,298
Other Income	44,601	36,775	39,006	45,656	50,222
Operating Income	119,454	125,124	137,091	148,780	167,520
Operating Expenses	68,924	68,942	75,174	78,634	85,644
Employee Expenses	33,179	41,055	45,715	45,036	48,693
Other Operating Expenses	35,746	27,888	29,459	33,598	36,950
PPOP	50,530	56,181	61,917	70,146	81,876
Provisions	66,058	54,574	43,070	51,684	38,763
PBT	-15,528	1,607	18,847	18,462	43,114
Tax Expenses	-8,981	745	10,575	4,647	10,852
Exceptional Items	0	0	6,216	5,000	0
Net Income	-6,547	862	14,488	18,815	32,262

Balance Sheet (in Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Equity & Liabilities					
Share Capital	892	892	892	892	892
Reserves & Surplus	218,236	220,021	231,115	249,484	281,299
Net Worth	219,129	220,914	232,007	250,376	282,192
Deposits	2,706,343	2,911,386	3,241,621	3,479,363	3,908,126
Borrowings	362,142	403,017	314,656	301,305	316,370
Other Liabilities and Provisions	167,138	145,597	163,110	176,939	183,035
Total Capital & Liabilities	3,454,752	3,680,914	3,951,394	4,207,983	4,689,723
Assets					
Cash & Balances with RBI	150,397	176,932	166,736	183,409	197,253
Balances with Other Banks & Call Money	41,501	45,558	84,361	83,627	97,644
Investments	1,060,987	967,022	1,046,955	1,067,894	1,121,288
Advances	1,934,880	2,185,877	2,325,290	2,488,060	2,736,866
Fixed Assets	39,992	39,198	38,439	42,283	46,512
Other Assets	226,994	266,328	289,614	342,710	490,160
Total Assets	3,454,752	3,680,914	3,951,394	4,207,983	4,689,723

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

Ratios	FY18A	FY19A	FY20A	FY21E	FY22E
Growth rates					
Advances (%)	23.2%	13.0%	6.4%	7.0%	10.0%
Deposits (%)	32.4%	7.6%	11.3%	7.3%	12.3%
Total assets (%)	27.7%	6.5%	7.3%	6.5%	11.4%
NII (%)	21.0%	18.0%	11.0%	5.1%	13.7%
Pre-provisioning profit (%)	-8.5%	11.2%	10.2%	13.3%	16.7%
PAT (%)	-162.5%	-113.2%	1580.3%	29.9%	71.5%
Balance sheet ratios					
Credit/Deposit (%)	71.5%	75.1%	71.7%	71.5%	70.0%
CASA (%)	44.5%	44.6%	43.5%	45.8%	46.5%
Advances/Total assets (%)	56.0%	59.4%	58.8%	59.1%	58.4%
Leverage (x) (Asset/Shareholder's Fund)	15.77	16.66	17.03	16.81	16.62
CAR (%)	12.6%	12.7%	13.3%	13.3%	13.8%
CAR - Tier I (%)	10.4%	10.7%	12.6%	12.6%	13.2%
Operating efficiency					
Cost/income (%)	57.7%	55.1%	54.8%	52.9%	51.1%
Opex/total assets (%)	2.0%	1.9%	1.9%	1.9%	1.8%
Opex/total interest earning assets	1.2%	1.3%	1.3%	1.2%	1.2%
Profitability					
NIM (%)	2.6%	2.7%	2.8%	2.8%	2.9%
RoA (%)	-0.2%	0.0%	0.4%	0.4%	0.7%
RoE (%)	-3.0%	0.4%	6.2%	7.5%	11.4%
Asset quality					
Gross NPA (%)	11.5%	7.9%	6.2%	7.3%	6.9%
Net NPA (%)	5.7%	3.0%	2.2%	3.2%	3.2%
PCR (%)	50.4%	61.9%	59.2%	56.3%	53.1%
Credit cost (%)	2.5%	1.8%	1.3%	1.5%	1.0%
Per share data / Valuation					
EPS (INR)	-7.34	0.97	16.23	21.08	36.15
BVPS (INR)	245.53	247.53	259.96	280.55	316.20
ABVPS (INR)	121.32	173.70	192.12	218.39	259.44
P/E (x)	-25.80	195.89	11.66	8.98	5.24
P/BV (x)	0.8	0.8	0.7	0.7	0.6
P/ABV (x)	1.6	1.1	1.0	0.9	0.7
Profitability					
Return on Capital	-1.2%	0.1%	2.5%	3.4%	5.6%
Return on Equity	-3.0%	0.4%	6.2%	7.5%	11.4%

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

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880