

**Better Lending Practices to drive Growth and Profitability**

**CMP: Rs 334**

**Rating: BUY**

**Target Price: Rs 456**

**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)	3,00,982
52w H/L (Rs)	373 / 244
Avg Yearly Vol (in 000')	29,647

**Shareholding Pattern %**

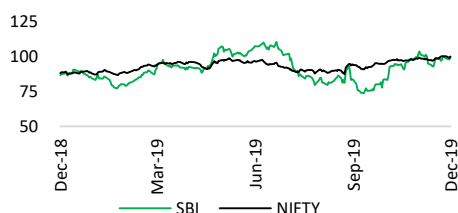
(As on September, 2019)

Promoters	57.9
FII	10.8
DII	24.4
Public & Others	6.9

**Stock Performance (%)**

	3m	6m	12m
State Bank of India	19.9	-6.7	14.4
SENSEX	7.1	4.8	15.2

**SBI Vs Nifty**



**State Bank of India realizing its mammoth size, trims operational inefficiencies and competes aggressively with private peers to boost its returns.** The bank has been growing its retail portfolio, which comprises of more than 60% advances towards home loans. The bank is known as the banker to every Indian with the largest deposits and advances books, total assets, number of customers & accounts and number of branches in the South Asian region. The bank's categorization by RBI as systemically important banks (SIBs) makes it the most reliable consumer-servicing bank among masses. The bank will make the most among all lenders from the recoveries after resolution of insolvent companies under the NCLAT's resolution programme under IBC filings. Foreseeing the bank's vast recoveries going ahead, increasing home loans, xpress credit and personal loan growth along with the corporate tax rate cuts and significant liquidity in hand for core business growth, we are initiating coverage on State Bank of India with a **BUY** recommendation.

**Investment Rationale:**

**Gradual Improvement in Asset Quality:** SBI has been able to contain the gross NPA levels and bring down to 7.2% by end of Sept 2019 from 10.9% at the end of FY18, i.e. improvement of more than 270 basis points within 6 quarters. This improvement trend will continue as the bank maintains higher provisioning and disciplined sanctioning of fresh corporate loans, thereby limiting the scope of fresh slippages.

**Falling interest rates on savings accounts to make cost cheaper for the bank:** SBI has the largest number of salaried savings accounts mostly comprising of the PSU employees which has helped maintain strong CASA levels for the bank in all its past. With the interest rates linked with the falling repo rates and abundant liquidity available with the bank, we expect the deposit rates to go below 3% in the future.

**Credit costs to remain below 2% as slippages reduce in future:** The bank's credit costs to remain below 2% in the future ahead with lesser incidents of fresh big-ticket slippages along with already low NPA levels from the retail lending business.

**Healthy Recoveries in line from NPA kitty:** The bank is the largest lender to most of the distressed assets stuck in the NPA cycle and will also be the biggest beneficiary from resolution of insolvent and bankrupt companies. Successful resolution of such distressed assets will lead to the recovery and writing down of earlier accounted NPAs, which will boost the bottom-line for the bank, e.g. Essar Steel resolution, will fetch around INR 12,161 Cr to SBI after significant haircuts.

**Valuation & View**

SBI is competing well with other private banking peers chasing the fruits of higher retail mix in its loan-book with its vast branch network, digital app-based & net banking accessibility for its consumers and an array of various other group company products to cater to its loyal customers. The bank has a total of 21,929 branches with more than 66 million internet banking users and is marching through its various new digital initiatives. The bank's subsidiaries are performing even better than the core parent bank with the life insurance subsidiary and the credit cards subsidiary gaining market share. SBI is currently trading at a P/adj. BV of 1.7 for FY19. We assign a P/adj. BV of 1.0x for FY22E ABVPS of INR 299 per share to arrive at a **Target Price of INR 456 per share with an upside of 37% over CMP using SOTP approach for the subsidiaries.**

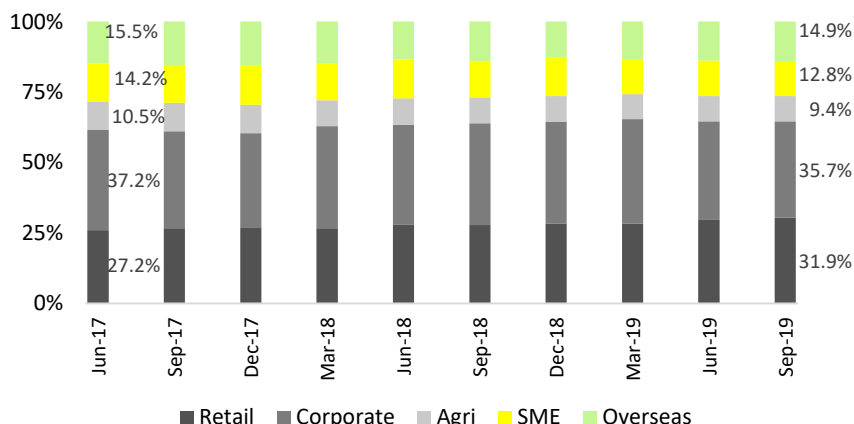
Key Financials (INR Cr)	FY19A	FY20E	FY21E
NII	88,349	1,00,419	1,25,211
NIM (%)	2.7%	2.9%	3.3%
Net Profit	862	14,869	36,195
Advances	23,77,277	26,86,323	31,42,998
Deposits	31,52,712	34,25,077	38,36,087
GNPA (%)	7.9%	7.5%	6.8%

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### Overview: State Bank of India

State Bank of India’s origins go back to 1806 AD with the establishment of Bank of Calcutta (three years later as Bank of Bengal) as one of the 3 presidency banks, the other two being Bank of Madras and Bank of Bombay. The three banks were then amalgamated to form the Imperial Bank of India in 1921. The Imperial bank in its short tenure of three & a half decades, grew to 172 branches before its significant controlling stakes were passed on from the RBI to the Government of India. The bank’s total revenue (interest income) stood at INR 2,42,869 Cr and had a net income interest of INR 88,349 Cr for FY19. The bank has an employee strength of 2,57,252 at the end of March 2019 and is categorized by RBI as a domestic systemically important banks (D-SIBs). The bank has numerous subsidiaries operating in the businesses of insurance, AMC, securities, investment banking, home financing, overseas banking & financing operations and benefits from the cross selling of several products to its large customer base. State Bank of India has been known as the banker to every Indian with a customer base of 435 million plus by end of March 2019.

Loan Book Mix (% of advances)

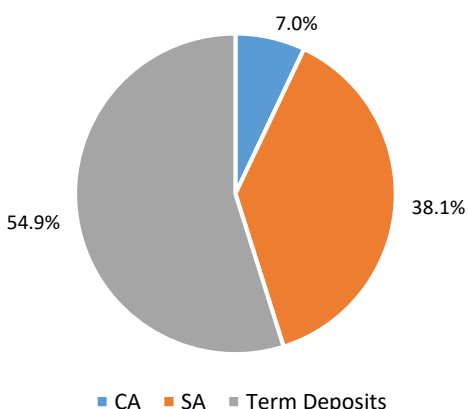


Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

### Standalone Banking Business:

**Credit Growth:** The bank’s loan book growth remained flat for the H1 FY20 owing to the fall in sequential growth of corporate and SME portfolio. The robust growth of 18.9% YoY/3.3% QoQ for the retail segment signifies the bank’s ability to grow at a rate of higher double-digit numbers. However, with the retail comprising of only 32% of the overall loan book mix, the decrease in advances towards corporates and SMEs in H1 FY20 could not be compensated.

Deposits Profile



**Deposit Profile:** SBI has a deposit base of 30.3 lakh Cr as of Sept 2019, with a CASA ratio of 43.7%. The CASA is majorly dominated by the healthy amounts of saving account deposits from its large customer base and term deposits of mostly same customers due to the higher interest rates offered by the bank. Both the term deposits as well as the savings deposits grew between 8-9% in the H1 FY20 as the bank faces stiff competition during falling interest rate cycle.

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

## Q2 FY20 - Quarterly Performance (Standalone)

(in INR Cr)

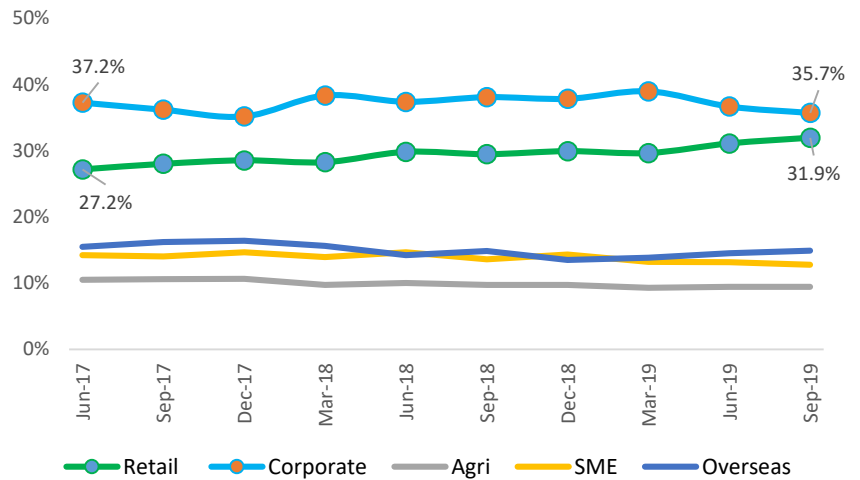
Quarterly Result Update	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y
Interest Income	64,312	62,638	58,793	2.7%	9.4%
Interest Expended	39,712	39,699	37,888	0.0%	4.8%
<b>Net Interest Income</b>	24,600	22,939	20,906	7.2%	17.7%
Other Income	8,538	8,015	7,815	6.5%	9.3%
Operating Income	33,139	30,954	28,720	7.1%	15.4%
Operating Expenses	18,424	17,708	16,376	4.0%	12.5%
Employee Expenses	11,303	10,918	9,696	3.5%	16.6%
Other Operating Expenses	7,122	6,790	6,680	4.9%	6.6%
PPOP	14,714	13,246	12,344	11.1%	19.2%
Provisions	13,139	9,183	12,092	43.1%	8.7%
PBT	5,060	4,063	1,813	24.5%	179.1%
Tax Expenses	2,048	1,751	868	17.0%	136.0%
<b>Net Income</b>	3,012	2,312	945	30.3%	218.7%
<b>Balance Sheet Analysis</b>					
Advances	21,46,160	21,34,774	19,57,340	0.5%	9.6%
Deposits	30,33,396	29,48,821	28,07,420	2.9%	8.0%
Total Assets	36,78,001	35,81,997	34,85,572	2.7%	5.5%
CASA Deposits	13,26,171	12,84,401	12,26,804	3.3%	8.1%
CASA (%)	43.72%	43.56%	43.70%	16bps	2bps
CAR (%)	13.59%	12.89%	12.61%	70bps	98bps
<b>Spreads</b>					
NIMs (%)	2.96%	2.75%	2.65%	21bps	32bps
Cost of Funds	4.86%	4.85%	4.93%	1bps	-7bps
Yield on Average Advances	8.45%	8.12%	8.00%	33bps	46bps
<b>Asset Quality</b>					
GNPA	1,61,636	1,68,494	2,05,864	-4.1%	-21.5%
NNPA	59,939	65,624	94,810	-8.7%	-36.8%
GNPA (%)	7.19%	7.53%	9.95%	-34bps	-276bps
NNPA (%)	2.79%	3.07%	4.84%	-28bps	-205bps
Credit Costs	2.45%	1.72%	2.47%	73bps	-2bps
Provision Coverage Ratio	62.92%	61.05%	53.95%	186bps	897bps
<b>Returns &amp; Expenses</b>					
RoA	0.33%	0.26%	0.11%	7bps	22bps
RoE	5.33%	4.16%	1.73%	117bps	360bps
Cost / Income Ratio	55.60%	57.21%	57.02%	-161bps	-142bps

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

### State Bank of India: Calculated shift towards retail business

SBI like most other banks is gradually increasing its retail mix in its credit book on a sequential basis with the personal retail loans making 31.9% (at Q2FY20) of the overall loan book of the bank against 29.5% and 28.0% at the end of Q2 FY19 and Q2 FY18 respectively. The bank has increased its retail mix of the credit book from 27% in June 2017 to 32% by Sept 2019. This increase has come against moderate growth in the SME and Agri portfolios while the corporate lending has remained muted below 10% annual growth. This gradual shift in the loan book mix is attributed to the lesser NPA levels for the personal retail loans (1.04%) segment against the high NPA levels for the corporate (13.03%), SME (9.19%) and Agri (13.62%) segment.

#### Rising Retail lending segment



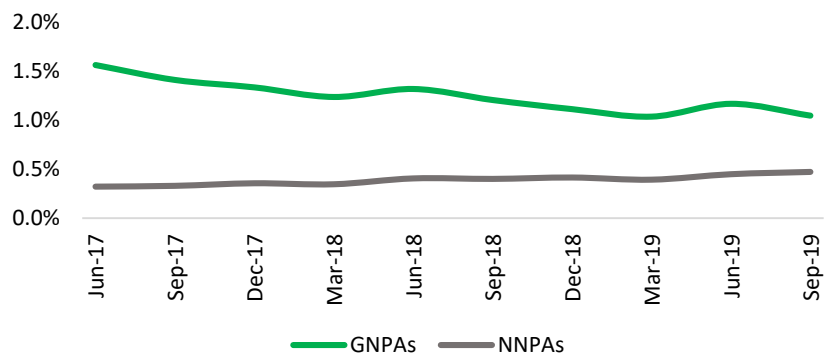
Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

#### Retail portfolio NPAs to remain low

State Bank’s retail loan portfolio has had a historically low level of NPAs and the bank has been able to contain it at less than 1.5% for most of the recent past. With the bank’s primary growth coming from the retail segment’s personal/individual loan portfolio, SBI will have to keep checking the NPA levels of retail loans.

With the composition mix of the overall loan portfolio shifting from high exposed towards corporate side to a more retail servicing bank, the gradual increase of retail book is helping the bank maintain a cleaner book.

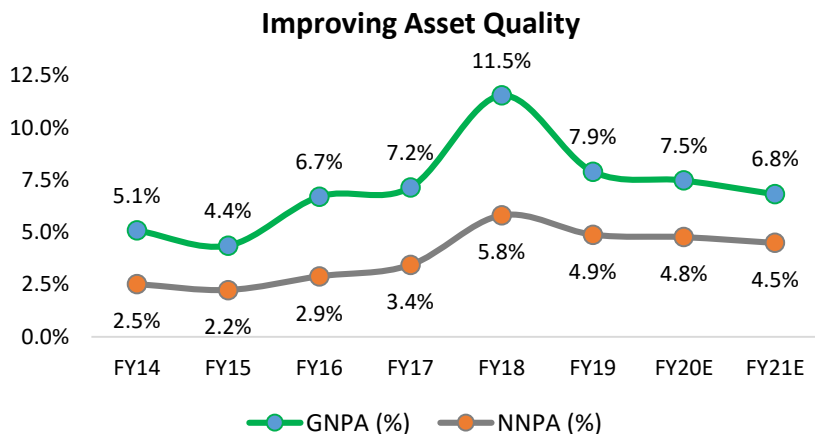
#### Retail NPAs



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

### Improving Asset Quality

State Bank’s asset quality has been improving with every passing quarter and gradually polishing the valuations of the bank. In less than 2 years, the bank has been able to contain the NPA levels from double-digit peaks to around 7% and with the way, the new disbursements and growth of lending book towards other sectors, we expect the GNPA levels to come down to ~5% by FY21 and NNPA levels to come down below 2%.

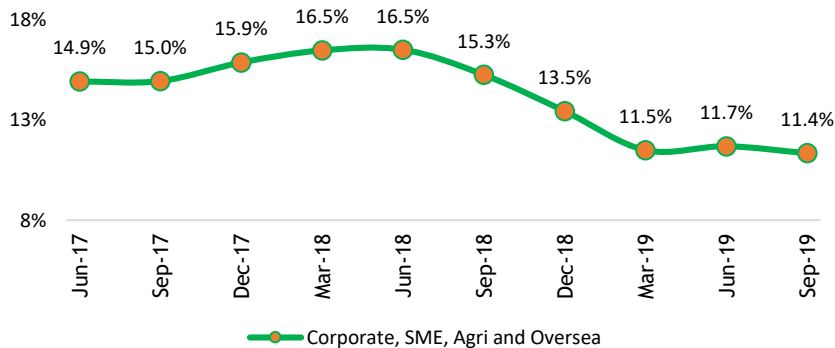


Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

### Historic high levels of Corporate, Agri, SME and Overseas Portfolio NPAs finally coming down gradually

The NPA levels of from corporate, agricultural, SME and overseas portfolio of SBI remained high throughout the last several years and are expected to ease slowly in the future as well. This is due to the tough macro environment for trade and business in the domestic economy leading to fall in demand.

### High NPA levels of Corporate, Agri, SME and Overseas Book



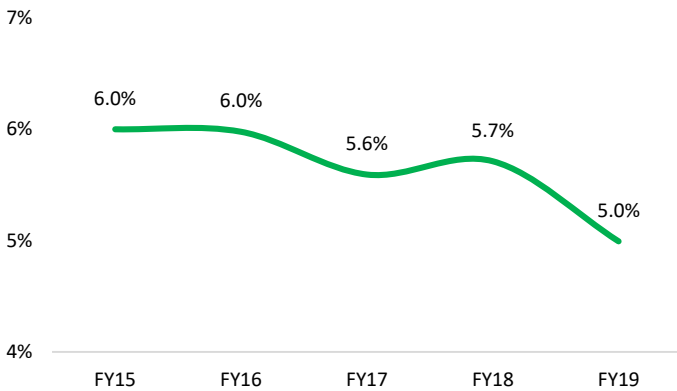
Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

### Decreasing Cost of Funds

SBI's cost of funds (deposits & borrowings) have been improving over last several years to come down to around 5% from 6% back in FY15. Also, with the bank having such large customer base of 43 Cr customers, the savings account deposits comprising 37% of the total deposits, helps bring down the bank's cost of funds SBI has one of the lowest savings deposit rates at 3.0%.

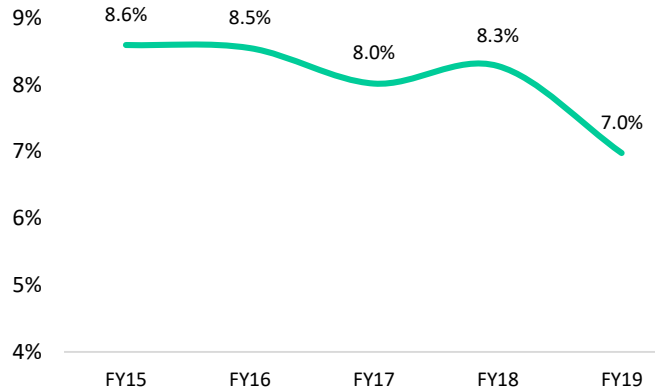
The bank's cost of term deposits stood at ~7% for FY19 coming down from ~8.6% in FY15, after several repo rate cuts by the Reserve Bank of India. This mix of moderate rate of term deposits and low savings rate by SBI will keep the bank's overall cost of deposits at 5% levels for the next couple of years.

**Cost of Overall Deposits**



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

**Cost of Term Deposits**

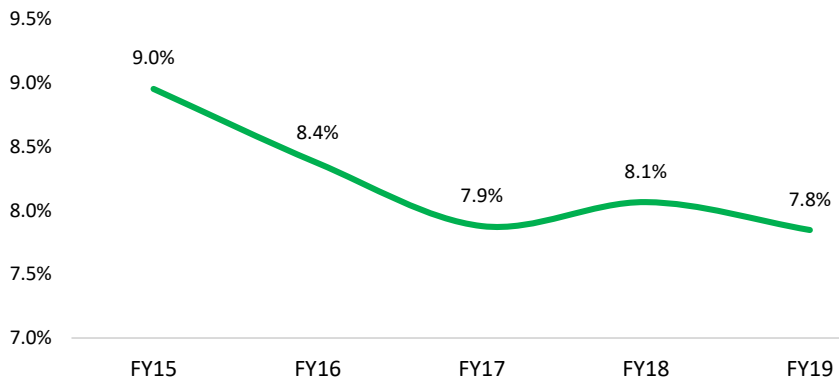


Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

### Higher yields from a rapidly growing retail portfolio

SBI like all other banks will be witnessing an increase in yields on loans as the retail portfolio of the bank keeps on growing. Since all banks charge a very high interest rate on its personal loan product, varying between 11.5-22.0% as effective annual interest rates as customers of these small ticket loans bear the high interest charges for availing unsecured loans.

**Average Yield on advances**

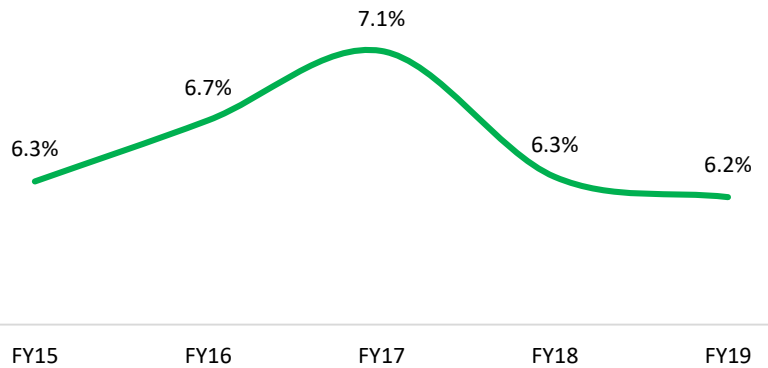


Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

### Decreasing Yield for Investments

SBI's yield on Investments have been falling since the last couple of years as the government bond yields have fallen following repo-rate cuts by RBI in the last 1 year. The decreasing yield on Investments have overall impact on bank as it is itself driven to lend for higher yields on its interest earning assets as they look to make most out of the surplus liquidity they possess.

#### Average Yield on Investments



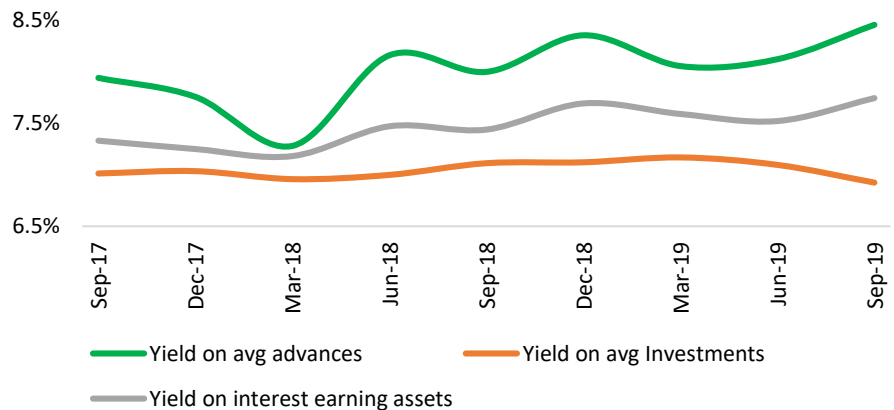
Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

### Increasing spreads for the bank

For the banks, even after decrease in repo rates by RBI of 135 basis points in the last several meetings of the Monetary Policy Committee, the banks have not decreased its interest rates on loans to the tune intended by the central bank until the H1 FY20.

However, even after the loan rate were linked with the repo-rates, the 2 year MCLR as stated by the banks provided an incrementally increasing spread in interest rates for SBI taking the spread for the year FY19 to around 1.7% from 0.5% in FY18. Going forward, SBI's expected spread for FY21 and ahead will hover above 2-2.5%.

#### Quarterly Yield on increasing path



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

### Composition of Loan Mix

SBI's retail loan portfolio has been driving growth of core lending business with growth rates in higher double digits on annual basis and is increasing the contribution in the overall portfolio. As of Sept 2019, the retail personal segment reflected annual growth of 18% YoY while the domestic advances grew by 8% YoY.

Loan Book Mix (INR bn)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Retail	4,900	5,048	5,210	5,466	5,591	5,766	6,126	6,478	6,636	6,856
% of total advances	27.2%	28.0%	28.5%	28.2%	29.8%	29.5%	29.9%	29.6%	31.1%	31.9%
Corporate	6,719	6,521	6,420	7,417	7,011	7,453	7,747	8,516	7,826	7,660
% of total advances	37.2%	36.2%	35.2%	38.3%	37.4%	38.1%	37.8%	39.0%	36.7%	35.7%
Agri	1,891	1,912	1,941	1,883	1,881	1,907	1,987	2,027	2,011	2,025
% of total advances	10.5%	10.6%	10.6%	9.7%	10.0%	9.7%	9.7%	9.3%	9.4%	9.4%
SME	2,565	2,525	2,677	2,699	2,751	2,657	2,931	2,886	2,812	2,741
% of total advances	14.2%	14.0%	14.7%	13.9%	14.7%	13.6%	14.3%	13.2%	13.2%	12.8%
Overseas	2,791	2,919	2,998	3,020	2,667	2,909	2,763	3,027	3,099	3,202
% of total advances	15.5%	16.2%	16.4%	15.6%	14.2%	14.9%	13.5%	13.8%	14.5%	14.9%

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

### Robust retail loan growth driven by Home loans and Xpress Credit (Salaried PSU employee customers)

SBI is benefitting from the massive customer base of 43 Cr built across the nation with the majority of them coming from PSU employees and their relatives. As per SBI chairman, more than 90% of the housing loans are borrowed by customers who have savings account with SBI. With the customers hailing from PSU organizations, the credit worthiness remains very high over a long period of time along with limited banking accessibility in tier-2/3 cities & semi-urban regions, the customers of SBI rely heavily on SBI for all their banking requirements. The entire banking relationship of SBI with its customers provides them with adequate opportunity to cross-sell different products.

Retail Personal Portfolio (in Rs bn)	Outstanding Book	YoY Growth (%)	Market Share (%)	GNPA %
Home Loans	4,245	18.0%	35.0%	0.93%
Auto Finance	707	5.6%	35.0%	1.03%
Xpress Credit	1,207	42.1%	NA	0.56%
Personal Loans	697	7.2%	NA	2.54%
<b>Total</b>	<b>6,856</b>	<b>18.9%</b>	<b>NA</b>	<b>1.04%</b>

Mix within Retail Loans (%)	Sep-18	Mar-19	Sep-19
Home Loans	62.4%	61.8%	61.9%
Auto Finance	11.6%	11.1%	10.3%
Xpress Credit	14.7%	16.2%	17.6%
Personal Loans	11.3%	10.9%	10.2%

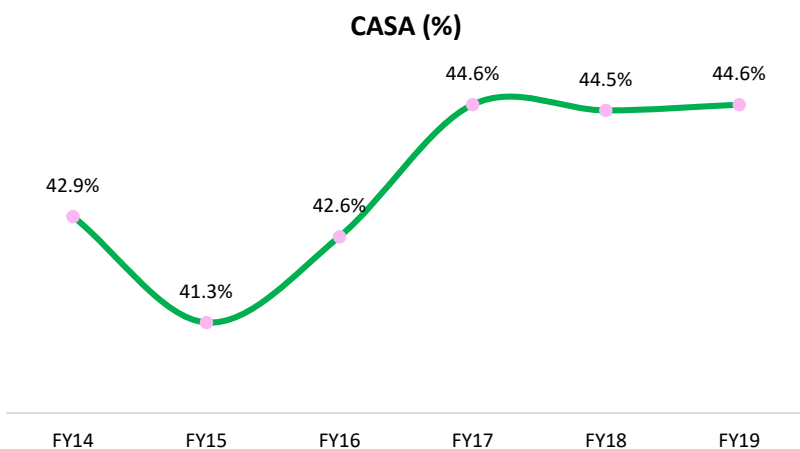
Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Looking at the bank's product portfolio, the Xpress Credit portfolio grew by a staggering 42% YoY consisting of customers who have salaried accounts with SBI will be the growth propeller for the bank while the home loans segment will witness a high double digit growth which will grow by itself over time.



**Healthy CASA levels can fluctuate as suitable for the bank**

SBI's CASA levels at mid 40% levels are mainly supported by the savings deposits of its large customer base providing adequate liquidity to the bank. The bank has the ability to control its interest costs as per its deposit requirement since they have the largest and probably most loyal customer base. The bank is expected to bring down its saving account interest rate in the future from present 3.0% considering the low interest rates in domestic economy.



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

Peers						
Particulars(in INR)	Axis Bank	ICICI Bank	HDFC Bank	Kotak Mahindra Bank	State Bank of India	
Recommendation	HOLD	BUY	HOLD	UR	BUY	
CMP	755	513	1276	1605	334	
TP	797	618	1370	-	456	
GNPA (%)	5.0%	6.4%	1.4%	2.3%	7.2%	
RoA (%) (FY21E)	1.3%	1.3%	1.9%	2.3%	0.9%	
RoE (%) (FY21E)	15.4%	12.0%	16.6%	15.2%	13.4%	
P/BV (FY21E)	2.8	2.5	3.8	4.0	1.1	
NIM FY21E (%)	3.50%	3.70%	4.30%	4.45%	3.34%	

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

## Subsidiaries

SBI Life Insurance  
SBI General Insurance  
SBI Asset Management  
SBI Cards & Payment  
SBI Caps  
Others

### SBI Life Insurance

SBI Life Insurance was incorporated in Oct 2000 as a JV between BNP Paribas Cardiff (26%) and SBI (74%) with initial equity capital of INR 125 Cr and received approval for commencement of business from IRDAI in March 2001. As of Sept 2019, SBI has reduced its stake to 57.6% in the life insurer while BNP Paribas stake is reduced to a meagre 5.2%.

The private life insurer has the maximum potential among the private life insurers owing to its 57% of premium distribution coming from Bancassurance channel (cross-selling through SBI bank branches). The insurer has grown the fastest among all private life insurers in FY20 with a market share of 23.4% among Private Life Insurers.

The insurer's gross premium written grew by 36% YoY with the New Business Premium growing by 40% YoY in the H1 FY20. With most of the private life insurers focussing on growing its high margin protection business, SBI Life has been able to increase it up to 12% in the overall mix for NBP in H1 FY20.

The insurers individual unit linked product has the highest share in the mix at 43% while group protection product keeps growing rapidly with life insurers chasing corporate partnerships.

Particulars (H1FY20)	HDFC Life	SBI Life	ICICI Pru
<b>NBP Product Mix</b>			
Unit Linked	10%	43%	69%
Par	4%	7%	11%
Protection	43%	12%	15%
Non-Par/Others	18%	9%	6%
Group	25%	29%	NA
<b>Total Premium (in INR bn):</b>	<b>141</b>	<b>169</b>	<b>145</b>
New Business Premium %	56%	46%	31%
Renewal Premium %	44%	54%	69%
<b>New business channel mix</b>			
Bancassurance	54%	57%	53%
Agency channel	15%	18%	20%
Direct/Others	31%	25%	27%

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

SBI Life has reported the fastest growth among all the other private insurers using parent bank's +22,000 bank branches and customer base of 43 Cr. Also, the parent being a public sector bank categorised as systemically important bank by the RBI, bolsters the insurers image among the masses as the most reliable insurer since LIC.

Renewed traction for life insurance companies came from the government's tax slab changes and increase in the standard deductions available to all taxpayers which saw the entire life insurance industry boom in FY20.

SBI will be benefitting from life insurance subsidiary for a long time in the future as it emerges as the country's insurance penetration catches up with advanced nations. The private insurer has a large AUM of INR 1,54,760 Cr as of Sept 2019.

SBI Life Insurance (in INR Cr)	FY17	FY18	FY19	H1 FY20
Gross Written Premium (GWP)	21,015	25,354	31,640	16,940
New Business Premium (NBP)	10,144	10,966	12,443	7,820
Growth YoY%	9.7%	20.6%	24.8%	36.0%
Renewal Premium/GWP	51.7%	56.7%	60.7%	54.0%
PAT	955	1,150	1,327	502

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

### SBI General Insurance Company

The general insurance business of SBI commenced business in 2010 when SBI (70% stake) went into joint venture with Insurance Australia Group (IAG with 30% stake).

The company offers a complete suite of products ranging from motor, health, personal accident, travel and home Insurance in the retail space and products like aviation, fire, marine, package, construction & engineering and liability insurance in the commercial space.

The general insurer has its own 113 branches as of FY19 across the nation. It has vast +21,000 employees strength and +10,000 agents network selling the products from +22,000 SBI branches and 5,500 partner regional rural banks (RRBs). The AUM size of the general insurer stood at INR 6,357 Cr.

Key Financials (in INR Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross Written Premium	3,544	4,707	6,250	8,300	11,022
Combined Ratio	98.0%	97.0%	97.5%	97.3%	97.4%
Profit After Tax	396	334	444	589	782
Return on Equity	22.1%	20.1%	20.6%	23.3%	26.2%
Solvency ratio	2.54x	2.34x	2.34x	2.34x	2.34x
Book Value/Net Worth	1,548	1,824	2,149	2,532	2,983
Book Value per Share	71.8	84.6	99.7	117.5	138.4
Basic Earnings Per Share	18.4	15.5	20.6	27.3	36.3
Number of Outstanding Shares	21.6	21.6	21.6	21.6	21.6

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

SBI General Insurance's business is expected to grow exponentially as the economic growth picks up and industry sees large capex projects getting completed. However, the company is already witnessing huge traction from its motor vehicle insurance premium growth alongside falling combined ratio which will increase the profitability of the company.

SBI GI	FY15	FY16	FY17	FY18	FY19
Combined Operating Ratio	133.5%	131.3%	113.3%	98.3%	96.6%

**SBI Cards: Value Unlocking through IPO**

SBI has the fastest growing major credit card business in the domestic market with market share of 18% by Sept 2019 and 9.5 million active subscribers (behind HDFC Bank). SBI Cards was launched in Oct 1998 by SBI and GE Capital. In Dec 2017, SBI and Carlyle Group acquired GE Capital's stake with currently SBI holding 74% and Carlyle Group 26% of the stakes. The bank is coming up with the IPO of the cards business by separately listing the entity. SBI will be decreasing its stake in the cards business by 4% while Carlyle Group will be divesting around 10% of stake along with fresh issue shares worth approximately INR 500 Cr.

**Top 10 Credit Card Companies/Banks (by number of subscribers in millions)**

Credit Card Company/Bank	Sep-19	Sep-18	Sep-17	Sep-16	Sep-15	Sep-14	Sep-13	Sep-12	Sep-11
HDFC Bank Ltd	13.3	11.8	9.6	8.1	6.6	5.5	5.0	6.0	5.4
State Bank Of India	9.5	7.0	5.3	4.0	3.4	2.9	2.7	2.4	2.1
ICICI Bank Ltd	7.9	5.6	4.5	4.0	3.4	3.3	3.0	2.8	3.0
Axis Bank Ltd	6.6	5.0	3.8	2.8	2.0	1.5	1.2	0.9	0.7
Citi Bank	2.7	2.7	2.6	2.4	2.4	2.4	2.4	2.3	2.3
Ratnakar Bank Limited	2.3	1.2	0.5	0.2	0.1	0.1	0.0	0.0	0.0
Kotak Mahindra Bank Ltd	2.1	1.7	1.2	0.9	0.6	0.5	0.4	0.3	0.2
American Express	1.6	1.3	1.1	0.9	0.8	0.7	0.6	0.6	0.6
Standard Chartered Bank Ltd	1.3	1.3	1.2	1.0	1.0	1.1	1.4	1.3	1.1
Indusind Bank Ltd	1.2	0.9	0.7	0.5	0.4	0.3	0.3	0.2	0.2
All Others	4.0	3.2	2.9	2.0	1.9	1.6	1.6	1.5	2.1
Total (in Mn)	52.6	41.8	33.3	26.9	22.6	19.9	18.6	18.4	17.6

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

**Top 10 Credit Card Companies/Banks (by market share)**

Credit Card Company/Bank (Market Share in %)	Sep-19	Sep-18	Sep-17	Sep-16	Sep-15	Sep-14	Sep-13	Sep-12	Sep-11
HDFC Bank Ltd	25.3%	28.2%	28.9%	30.2%	29.2%	27.6%	27.1%	32.7%	30.5%
State Bank Of India	18.0%	16.8%	15.8%	14.9%	15.1%	14.5%	14.6%	13.2%	12.0%
ICICI Bank Ltd	15.0%	13.4%	13.5%	14.9%	15.1%	16.7%	16.3%	15.2%	17.2%
Axis Bank Ltd	12.6%	11.9%	11.5%	10.5%	8.8%	7.7%	6.3%	4.9%	3.9%
Citi Bank	5.2%	6.4%	7.8%	9.0%	10.5%	12.1%	12.9%	12.7%	13.0%
Ratnakar Bank Limited	4.4%	2.8%	1.4%	0.8%	0.5%	0.4%	0	0	0
Kotak Mahindra Bank Ltd	4.1%	4.2%	3.7%	3.3%	2.8%	2.3%	2.1%	1.4%	1.0%
American Express	3.1%	3.1%	3.3%	3.4%	3.5%	3.4%	3.4%	3.4%	3.4%
Standard Chartered Bank Ltd	2.5%	3.2%	3.6%	3.9%	4.6%	5.7%	7.4%	7.0%	6.1%
Indusind Bank Ltd	2.3%	2.2%	2.1%	1.8%	1.7%	1.5%	1.4%	1.2%	1.1%
All Others	7.6%	7.7%	8.7%	7.4%	8.3%	8.0%	8.4%	8.2%	11.9%
Total (in Mn)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

### Targeting the newer generation to propel growth

SBI Cards has been growing its subscriber base by more than 30% annually over the last 3 years while other banks are also competing in the same space. However, with a customer base of 43 Cr, benefits of balance payments of other banks credit cards and tie-ups with merchant banking partners, SBI Cards will witness the fastest growth among other credit card companies in the coming years.

Credit Card penetration in India stands at ~3.8% as of Sept 2019, which is very low compared penetration in other advanced economies. With over 1.3 billion population and one of the lowest median age of the country, this industry will witness robust long term growth.

Also, as the industry of Credit Cards grows in the Indian economy further, the securitization of CC loan book will be much easier and rightly priced, considering the parent bank's sheer size. Hence, we expect the credit card business of SBI to outpace HDFC Bank's card business in the future to become the largest Credit Card player in the domestic economy.

#### Top 5 Credit Card Companies/Banks (% YoY)

Growth in Number of Active Credit Card Users (%)	Sep-19	Sep-18	Sep-17	Sep-16	Sep-15	Sep-14	Sep-13	Sep-12
SBI Cards	34.5%	33.8%	31.1%	17.7%	17.9%	6.3%	12.4%	14.9%
HDFC Bank	13.1%	22.3%	18.7%	22.9%	20.2%	8.9%	-16.1%	11.8%
ICICI Bank	41.0%	24.8%	12.4%	17.2%	2.7%	9.6%	8.3%	-7.7%
Axis Bank	33.6%	30.0%	35.6%	42.4%	28.7%	31.0%	30.2%	32.1%
RBL Bank	92.8%	159.8%	121.9%	90.2%	30.5%	0.0%	0.0%	0.0%

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

### SBI Mutual Fund

SBI MF is one of the largest Asset Management companies in India with Quarterly Average AUM of INR 2,83,807 Cr as of Q4 FY19 and INR 3,21,000 Cr as of Sept 2019. The company's market share in the mutual fund business stood at 12.48% as of Q2 FY20 and grew by 4.27% YoY for the quarter.

The company has been paying the parent bank from its high profit margins and with the SEBI ruling on the charges for management of MF assets, smaller investors are expected to keep pouring in significant amount of money into the MF industry.

SBI MF - AMC	FY15	FY16	FY17	FY18	FY19
Average QAUM (in Mn)	11,88,690	10,67,810	15,70,250	21,76,490	28,38,070
Growth (%)		-10.2%	47.1%	38.6%	30.4%

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

## Valuation

State Bank of India has been the benchmark of public sector banks in India with the largest branch network, number of customers, total book size and providing all banking services possible. We expect the bank to become more profitable going ahead rather than aggressively growing its book size. With +22,000 plus branches across the nation, robust growth in retail personal segment, adequate liquidity available, stable CASA levels and high level of provisioning already done, we expect the NIMs and profits for SBI standalone to improve further.

Taking into account the bank's several subsidiaries in insurance, credit cards, mutual fund and other smaller subsidiaries, SBI is currently trading at a P/adj. BV of 1.7 for FY19. We assign a P/adj. BV of 1.0x for FY22E ABVPS of INR 299 per share to arrive at a **Target Price of INR 456 per share with an upside of 37% over CMP using SOTP approach for the subsidiaries.**

## SOTP Valuation

Entity	Valuation methodology	Holding	Intrinsic Value per Share
SBI - Standalone Banking business / Parent	1.0x FY22E ABV	100.0%	299
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	51.0%	20
SBI Cards & Payment	25x FY22E PAT	74.0%	72
SBI Caps Consolidated	10x FY19 PAT	100.0%	3
SBI DFHI	10x FY19 PAT	69.0%	1
Others			5
Holding co. discount (%)			15.0%
<b>Value of subs (INR per share)</b>			157
<b>Value of total (INR per share)</b>			456

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

## Key Risks to Investment

State Bank of India has been covered by RBI as one of the 3 D-SIBs (domestic systemically important bank), thereby providing enough security for the bank's business. However, considering the macro environment being difficult for trade & business to prosper, the key risks to investment in SBI are as follows:

- Macro economic slowdown dragging consumption demand to never before lows.
- Heavy fresh slippages from big-ticket corporate portfolio
- Highly unfavourable economic development, e.g. GDP growth not picking up, multi decadal deflation, etc.
- Fall in repo & bank rates to such levels that affect the spreads of the bank.
- Any large ticket fraud/default.

## Key Financials

Profit & Loss Statement (in INR Cr)	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Interest Income	1,75,518	2,20,499	2,42,869	2,60,040	2,92,027	3,26,365
Interest Expended	1,13,659	1,45,646	1,54,520	1,59,621	1,66,816	1,81,332
<b>Net Interest Income</b>	<b>61,860</b>	<b>74,854</b>	<b>88,349</b>	<b>1,00,419</b>	<b>1,25,211</b>	<b>1,45,033</b>
Other Income	35,461	44,601	36,775	42,130	46,343	50,977
Operating Income	97,321	1,19,454	1,25,124	1,42,549	1,71,553	1,96,010
Operating Expenses	42,102	68,924	68,942	75,883	84,085	94,215
Employee Expenses	26,489	33,179	41,055	45,259	49,893	56,040
Other Operating Expenses	15,612	35,746	27,888	30,624	34,192	38,175
<b>PPOP</b>	<b>55,219</b>	<b>50,530</b>	<b>56,181</b>	<b>66,666</b>	<b>87,468</b>	<b>1,01,795</b>
Provisions	40,364	66,058	54,574	41,156	39,098	37,143
PBT	14,855	-15,528	1,607	25,510	48,370	64,651
Tax Expenses	4,371	-8,981	745	10,641	12,175	16,273
<b>Net Income</b>	<b>10,484</b>	<b>-6,547</b>	<b>862</b>	<b>14,869</b>	<b>36,195</b>	<b>48,379</b>

Balance Sheet (in INR Cr)	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Equity &amp; Liabilities</b>						
Share Capital	892	892	892	892	892	892
Reserves & Surplus	2,18,236	2,20,021	2,32,655	2,68,404	3,16,336	3,75,419
Net Worth	2,19,129	2,20,914	2,33,547	2,69,296	3,17,229	3,76,311
Deposits	27,06,343	29,11,386	31,52,712	34,25,077	38,36,087	42,96,417
Borrowings	3,62,142	4,03,017	3,02,290	2,99,538	3,14,515	3,30,241
Other Liabilities and Provisions	1,67,138	1,45,597	1,71,967	1,86,546	1,95,025	2,01,288
<b>Total Capital &amp; Liabilities</b>	<b>34,54,752</b>	<b>36,80,914</b>	<b>38,60,516</b>	<b>41,80,458</b>	<b>46,62,856</b>	<b>52,04,257</b>
<b>Assets</b>						
Cash & Balances with RBI	1,50,397	1,76,932	1,36,799	1,58,418	1,63,764	1,70,466
Balances with Other Banks & Call Money	41,501	45,558	78,003	77,324	88,881	1,02,538
Investments	10,60,987	9,67,022	9,63,844	10,12,036	9,91,796	9,42,206
Advances	19,34,880	21,85,877	23,77,277	26,86,323	31,42,998	36,77,308
Fixed Assets	39,992	39,198	40,163	44,179	48,597	53,457
Other Assets	2,26,994	2,66,328	2,64,429	2,02,177	2,26,820	2,58,283
<b>Total Assets</b>	<b>34,54,752</b>	<b>36,80,914</b>	<b>38,60,516</b>	<b>41,80,458</b>	<b>46,62,856</b>	<b>52,04,257</b>

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

Ratios	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Growth rates</b>						
Advances (%)	7.3%	23.2%	13.0%	8.8%	13.0%	17.0%
Deposits (%)	18.1%	32.4%	7.6%	8.3%	8.6%	12.0%
Total assets (%)	14.8%	27.7%	6.5%	4.9%	8.3%	11.5%
NII (%)	8.2%	21.0%	18.0%	13.7%	24.7%	15.8%
Pre-provisioning profit (%)	17.3%	-8.5%	11.2%	18.7%	31.2%	16.4%
PAT (%)	5.4%	-162.5%	-113.2%	1624.5%	143.4%	33.7%
<b>Balance sheet ratios</b>						
Credit/Deposit (%)	76.8%	71.5%	75.1%	75.4%	78.4%	81.9%
CASA (%)	44.6%	44.5%	44.6%	43.8%	45.1%	45.1%
Advances/Total assets (%)	58.1%	56.0%	59.4%	61.6%	64.3%	67.4%
Leverage (x) (Asset/Shareholder's Fund)	14.37	15.77	16.66	16.53	15.52	14.70
CAR (%)	13.1%	12.6%	12.7%	13.1%	13.3%	13.7%
CAR - Tier I (%)	10.4%	10.4%	10.7%	12.5%	12.7%	13.1%
<b>Operating efficiency</b>						
Cost/income (%)	43.3%	57.7%	55.1%	53.2%	49.0%	48.1%
Opex/total assets (%)	1.6%	2.0%	1.9%	2.0%	2.0%	2.0%
Opex/total interest earning assets	1.1%	1.2%	1.3%	1.3%	1.3%	1.3%
<b>Profitability</b>						
NIM (%)	2.6%	2.6%	2.7%	2.9%	3.3%	3.5%
RoA (%)	0.4%	-0.2%	0.0%	0.4%	0.9%	1.0%
RoE (%)	5.6%	-3.0%	0.4%	6.4%	13.4%	15.3%
<b>Asset quality</b>						
Gross NPA (%)	7.2%	11.5%	7.9%	7.5%	6.8%	6.0%
Net NPA (%)	3.7%	5.7%	3.0%	3.1%	3.0%	2.8%
PCR (%)	48.1%	50.4%	61.9%	59.2%	56.4%	53.4%
Credit cost (%)	1.8%	2.5%	1.8%	1.3%	1.1%	0.9%
<b>Per share data / Valuation</b>						
EPS (INR)	13.15	-7.34	0.97	16.66	40.56	54.21
BVPS (INR)	236.14	245.53	247.53	261.69	301.75	355.46
ABVPS (INR)	163.05	121.32	173.70	193.84	239.59	298.70
P/E (x)	25.38	-45.49	345.45	20.03	8.23	6.16
P/BV (x)	1.4	1.4	1.3	1.3	1.1	0.9
P/ABV (x)	2.0	2.8	1.9	1.7	1.4	1.1
<b>Profitability</b>						
Return on Capital	2.2%	-1.2%	0.1%	2.6%	6.6%	8.1%
Return on Equity	5.6%	-3.0%	0.4%	6.4%	13.4%	15.3%

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



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