

RETAIL EQUITY RESEARCH

State Bank of India (SBI)

Banking

BSE CODE: 500112

NSE CODE: SBIN

Bloomberg CODE: SBIN:IN

SENSEX: 38,243

BUY

Rating as per Large Cap

12 month investment period

CMP Rs. 297 TARGET Rs. 345 RETURN 14% ↑

07th September, 2018

On a firm footing...

SBI is the largest commercial bank in India with over 1/5th market share of the Indian banking sector. It has a strong domestic presence with more than 22,413 branches and international presence with 198 branches across 37 countries.

- Though advances growth was muted (↓4% YoY) dragged by overseas loan book (↓4% YoY), retail loans showed strong traction with ↑14% YoY growth.
- NII increased at a strong pace of 24% YoY as it included one-off interest recovery of Rs1,930cr from one large corporate stressed account.
- SBI reported loss of Rs4,876cr led by MTM provisions (fully absorbed) of Rs5,890cr. However, strong provision coverage indicates worst is behind in terms of provisioning and the bank will return to profitability from Q2FY19E.
- We expect Gross/Net NPA ratios to improve to 8.0%/4.1%% by FY20E led by better resolution in stressed corporates along with declining slippages.
- With a healthy decline in stressed assets and moderation in credit cost, we expect RoE and RoA to improve to 10.0% and 0.6%, respectively by FY20E. Hence, we maintain BUY rating on the stock with a TP of Rs345. (SOTP)

Advances growth led by traction in retail loans

Advances growth was muted (+4% YoY) as overseas loan book contracted (↓4% YoY). Domestic loans growth was restricted to 7% YoY as strong growth in retail loans (↑14% YoY) was offset by lower growth in SME (↑7% YoY) and corporate (↑4% YoY) loans. While retail loan growth was healthy across segments, growth in the corporate loan book continued to be low as the bank remains cautious in lending to the mid corporate portfolio after witnessing high levels of stress from this segment. There was 1% YoY decline in the agriculture portfolio. Going forward, we expect advances to grow at a moderate CAGR of 9% over FY18-20E led by healthy momentum in retail loan growth. On liabilities side, deposits grew by 6% YoY supported by the higher growth in savings deposits (↑9% YoY). As a result, CASA ratio improved by 69 bps YoY to 45.1%.

Treasury losses dragged the profitability in the red

Net interest income (NII) surprised positively as it increased by 24% YoY (above our expectation) as it included one-off interest recovery of Rs1,930cr from resolution of one large corporate account. As a result, net interest margin also improved by 17 bps YoY to 2.9%. We expect NIM to improve to 3% by FY20E on the back of improving share of better yielding retail loan book. Other income declined by 17% YoY due to lower trading income. Operating expenses increased by 20% YoY owing to wage revisions provision and increase in gratuity ceiling. Provisions increased by 115% YoY as the bank provided aggressively to boost its coverage against stressed assets coupled with mark to market (MTM) losses on investments of Rs5,890cr. Notably, SBI didn't utilise RBI dispensation to amortise the mark to market (MTM) losses over the four quarters. As a result, SBI reported loss of Rs4,876cr. However, we believe that worst is behind in terms of provisioning and the bank will return to profitability from the next quarter.

Asset quality pressure to ease

SBI's asset quality improved on the back of moderation in fresh slippages and resolution of two NCLT cases (Bhushan Steel and Electrosteel Steels). While slippages moderated to 3.0% as compared to 7.0% QoQ and 6.5% YoY, recoveries jumped 3x QoQ. Consequently, Gross non-performing asset (NPA) ratio dipped by 22 bps QoQ to 10.7%. Net NPA ratio declined at a faster pace of 44 bps QoQ to 5.3% as the bank improved its provision coverage ratio (PCR) by 308 bps QoQ to 69.3%. SBI disclosed a watch-list of Rs24,600cr which will be a potential source of incremental slippages from the corporate book. We project slippages of 3.0% in FY19E and expect it to decline to 2.0% by FY20E. As a result, Gross/Net NPA ratios will moderate to 8.0%/4.1% by FY20E. Further, SBI holds provision buffer of 71% on total outstanding of Rs63,000cr in NCLT cases (NCLT I: 65% & NCLT II: 79%). Hence, recoveries in NCLT cases would result in significant write-back of provisions.

Outlook and Valuation

Though SBIN reported a third consecutive quarterly loss, it reported a healthy decline in stressed assets due to resolution of a couple of NCLT cases. We believe that the stage is now set for an uptick in loan growth and lower stress accretion. With moderation in credit cost, we expect RoE and RoA to improve to 10.0% and 0.6%, respectively by FY20E. Overall, within PSU banks, SBI remains the best play on recovery in Indian economy. Hence, we continue to maintain our BUY rating on the stock with a revised upward target price (TP) of Rs345 using the sum of the part (SOTP) methodology, where we value its standalone business at Rs267 (P/ABV of 1.5x for FY20E) and subsidiaries at Rs78 (Previous TP of Rs325).

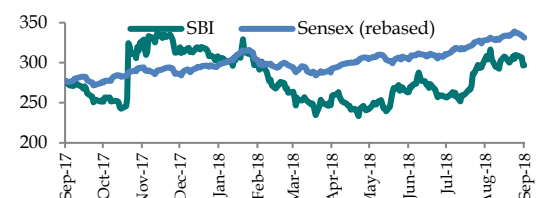
Company Data

Market Cap (cr)	Rs. 264,748
Outstanding Shares (cr)	892.5
Free Float	43%
Dividend Yield	-
52 week high	Rs. 351
52 week low	Rs. 232
6m average volume (cr)	2.3
Beta	1.8
Face value	Rs. 1

Shareholding (%)	Q3FY18	Q4FY18	Q1FY19
Promoters	57.5	58.9	58.5
FII's	12.3	11.2	10.4
MFs/Insti	22.0	22.3	23.5
Public	8.2	7.7	7.7
Others	-	-	-
Total	100.0	100.0	100.0

Price Performance	3 month	6 month	1 Year
Absolute Return	9.9%	15.7%	8.2%
Absolute Sensex	8.7%	14.8%	20.8%
Relative Return*	1.2%	0.9%	-12.6%

*over or under performance to benchmark index



Standalone (Rs.cr)	FY18A	FY19E	FY20E
Net Interest Income	74,854	85,156	98,359
Growth (%)	21%	14%	16%
NIM (%)	2.8	2.8	3.0
Pre Pro Profit	59,511	59,171	70,691
Growth (%)	17%	-1%	19%
Net Profit	(6,547)	6,205	23,672
Growth (%)	-	-	282%
EPS	(7.7)	7.0	26.5
Growth (%)	-	-	282%
P/E	-38.7	42.7	11.2
P/BV	1.2	1.2	1.1
P/ABV	2.4	2.2	1.7
RoE (%)	(3.2)	2.8	10.0
RoA (%)	(0.2)	0.2	0.6

Quarterly Financials (Standalone)

Profit & Loss Account

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Interest Income	58,813	54,905	7.1	55,941	5.1
Interest on advances	38,865	36,142	7.5	34,235	13.5
Income on Investments	18,588	16,598	12.0	18,278	1.7
Others	1,360	2,166	(37.2)	3,428	(60.3)
Interest Expense	37,015	37,299	(0.8)	35,967	2.9
Net Interest Income	21,798	17,606	23.8	19,974	9.1
Non-Interest Income	6,679	8,006	(16.6)	12,495	(46.5)
Total Net Income	28,478	25,612	11.2	32,469	(12.3)
Operating Expenses	16,505	13,738	20.1	16,586	(0.5)
Employee Cost	9,708	7,724	25.7	9,254	4.9
Other Operating Exp.	6,796	6,013	13.0	7,332	(7.3)
Total Income	65,493	62,911	4.1	68,436	(4.3)
Total Expenditure	53,520	51,037	4.9	52,553	1.8
Pre-Provisioning profit	11,973	11,874	0.8	15,883	(24.6)
Provisions	19,228	8,929	115.3	28,096	(31.6)
Profit Before Tax	(7,255)	2,945	-	(12,213)	-
Tax	(2,379)	939	-	(4,495)	-
Net Profit	(4,876)	2,006	-	(7,718)	-
EPS - Diluted (Rs)	(5.5)	2.4	-	(8.9)	-

Business Performance (Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Advances	1,875,773	1,804,219	4.0	1,934,880	(3.1)
Deposits	2,747,813	2,602,534	5.6	2,706,343	1.5
Business	4,623,587	4,406,753	4.9	4,641,223	(0.4)
Gross NPA	212,840	188,068	13.2	223,427	(4.7)
Net NPA	99,236	107,760	(7.9)	110,855	(10.5)

Key Ratios (%)	Q1FY19	Q1FY18	YoY bps	Q4FY18	QoQ bps
Net Interest Margin	2.9	2.8	17	2.7	21
Cost of Funds	4.9	5.7	(87)	4.8	6
Yield on Advances	8.2	8.6	(41)	7.3	88
Yield on Investments	7.0	7.7	(73)	7.0	4
Yield on Funds	7.9	8.6	(70)	7.6	29
Cost to Income	58.0	53.6	432	51.1	687
Credit to Deposit	68.3	69.3	(106)	71.5	(323)
CASA	45.1	44.4	69	44.5	58
Capital Adequacy	12.8	13.3	(48)	12.6	23
Tier I Capital	10.5	10.7	(14)	10.4	17
Gross NPA	10.7	10.0	72	10.9	(22)
Net NPA	5.3	6.0	(68)	5.7	(44)
Provision Coverage	69.3	60.8	846	66.2	308
Credit Cost	4.1	2.0	212	5.8	(171)
RoE (Ann.)	(9.0)	3.8	-	(14.2)	-
RoA (Ann.)	(0.6)	0.3	-	(0.9)	-

Source: Company, Geojit Research

Particulars	Basis	Multiple	Year	Value/Share
Bank	ABV	1.5	FY20E	267
Life Insurance	Current Market Cap			47
AMC	5% of AUM		FY18	8
Others			FY20E	43
Total Value of Subsidiaries				98
(20% holding discount)				(20)
Total Value				345

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Interest Income	163,998	175,518	220,499	254,108	286,818
Interest Expense	106,803	113,659	145,646	168,952	188,459
Net Interest Income	57,195	61,860	74,854	85,156	98,359
% Change	4.0	8.2	21.0	13.8	15.5
Non-Interest Income	27,845	35,461	44,601	38,116	43,023
Net Income	85,040	97,321	119,454	123,273	141,382
Operating Expenses	41,782	46,473	59,943	64,102	70,691
Total Income	191,844	210,979	265,100	292,225	329,841
Total Expenditure	148,586	160,131	205,589	233,054	259,150
Pre-Provisioning Profit	43,258	50,848	59,511	59,171	70,691
% Change	9.4	17.5	17.0	(0.6)	19.5
Provisions	29,484	35,993	75,039	50,307	35,360
Profit Before Tax	13,774	14,855	(15,528)	8,864	35,331
Tax	3,823	4,371	(8,981)	2,659	11,659
<i>Tax Rate (%)</i>	28	29	-	30	33
Net Profit	9,951	10,484	(6,547)	6,205	23,672
% Change	(24.0)	5.4	-	-	281.5
No. of Shares (cr)	776	797	892	892	892
EPS (Rs)	13.0	13.4	(7.7)	7.0	26.5
% Change	(26.0)	3.5	-	-	281.5

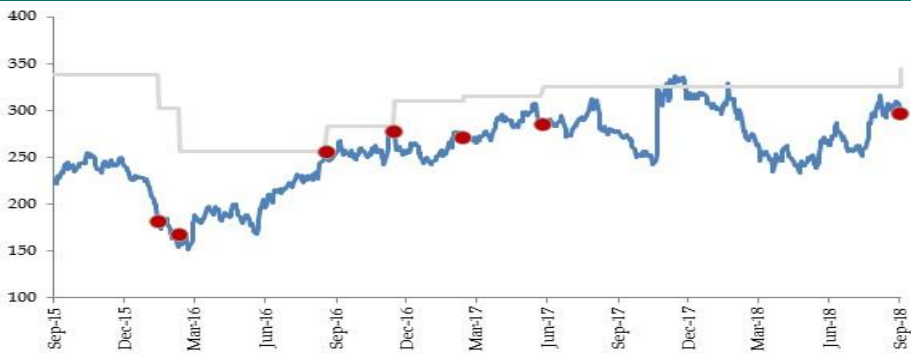
Balance Sheet

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Liabilities					
Capital	776	797	892	892	892
Reserves & Surplus	143,498	187,489	218,236	224,441	248,113
Deposits	1,730,722	2,044,751	2,706,343	2,929,909	3,212,916
Borrowings	323,345	317,694	362,142	301,599	269,984
Other Liabilities & Provisions	159,276	155,235	167,138	176,688	190,383
Total Liabilities	2,357,618	2,705,966	3,454,752	3,633,530	3,922,287
Assets					
Cash & Balances	167,468	171,972	191,899	202,094	217,815
Investments	575,652	765,990	1,060,987	1,087,050	1,124,521
Advances	1,463,700	1,571,078	1,934,880	2,079,996	2,287,996
Fixed Assets	10,389	42,919	39,992	39,992	39,992
Other Assets	140,408	154,008	226,994	224,397	251,963
Total Assets	2,357,618	2,705,966	3,454,752	3,633,530	3,922,287

Ratios

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
EPS	13.0	13.4	(7.7)	7.0	26.5
DPS	2.6	2.6	0.0	0.0	0.0
BV	185.9	236.1	245.5	252.5	279.0
ABV	114.0	163.1	121.3	133.6	175.1
Valuation (%)					
P/E	22.9	22.1	(38.7)	42.7	11.2
P/BV	1.6	1.3	1.2	1.2	1.1
P/ABV	2.6	1.8	2.4	2.2	1.7
Div. Yield	0.9	0.9	0.0	0.0	0.0
Spreads (%)					
Yield on Advances	15.8	7.9	8.1	8.1	8.6
Yield on Investments	14.7	7.2	7.7	7.7	8.2
Yield on Funds	14.9	7.4	7.7	7.8	8.2
Cost of Funds	10.4	5.1	5.4	5.4	5.6
Capital (%)					
CAR	13.1	13.1	12.6	12.4	12.6
Tier I	9.9	10.4	10.4	10.1	10.4
Tier II	3.2	2.8	2.2	2.2	2.2
Asset (%)					
GNPA	6.5	6.9	10.9	9.1	8.0
NNPA	3.8	3.7	5.7	5.1	4.1
PCR	60.7	66.0	66.2	65.0	70.0
Management (%)					
Credit/ Deposit	84.6	76.8	71.5	71.0	71.2
Cost/ Income	49.1	47.8	50.2	52.0	50.0
CASA	42.6	44.6	44.5	44.9	44.7
Earnings (%)					
NIM	5.6	2.8	2.8	2.8	3.0
ROE	13.8	6.3	(3.2)	2.8	10.0
ROA	0.8	0.4	(0.2)	0.2	0.6

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
04 July 2015	BUY	338
18 January 2016	BUY	302
15 February 2016	BUY	256
22 August 2016	BUY	284
17 November 2016	BUY	310
16 February 2017	BUY	315
29 May 2017	BUY	325
07 September 2018	BUY	345

*Initiating Coverage

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;	
Buy	-	Buy	-
Hold	-	Accumulate	-
Reduce	-	Reduce/Sell	-
Neutral	-	Neutral	-
	Upside is above 10%.		Upside is above 15%.
	Upside is between 0%-10%.		Upside is between 10% - 15%.
	Downside is more than 10%.		Absolute is between 0% - 10%.
	Not Applicable		Downside is more than 0%.
			Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL. Neutral - The analyst has no investment opinion on the stock under review.

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