

RETAIL EQUITY RESEARCH

State Bank of India (SBI)

Banking

BSE CODE: 500112

NSE CODE: SBIN

Bloomberg CODE: SBIN:IN

SENSEX: 35,470

BUY

Rating as per Large Cap

12 month investment period

CMP Rs. 293 TARGET Rs. 345 RETURN 18% 26th December, 2018

Recovery playing out as asset quality pressure eases...

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.

- Advances growth improved to 9% YoY driven by robust growth in retail loans (↑14% YoY).
- NII increased at a healthy pace of 12% YoY as net interest margin (NIM) improved by 13 bps YoY to 2.8%.
- Gross/Net NPA ratios improved by 74/45 bps QoQ to 10.0%/4.8% as slippages declined to 2.4% (6 quarter low) as compared to 3.2% in Q1FY19.
- With heavy NCLT resolutions lined up, we believe asset quality improvement is imminent and project Gross/Net NPA ratios to moderate to 8.0%/4.1% by FY20E.
- As asset quality pressure abates and revenue growth momentum remains strong, 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)

Retail loans continued to drive growth

Advances growth improved to 9% YoY driven by robust growth in retail loans (↑14% YoY). Retail loan growth was primarily driven by strong growth in home (↑14% YoY) and personal loans (↑33% YoY). Retail segment constitutes ~28% of the loan book (↑120 bps YoY). SME and Corporate loans growth were muted at 5% YoY each as the bank remains cautious in lending to SME and the mid-corporate portfolio after witnessing high levels of stress from these segments. International loans and agriculture loans remained flat YoY. Going forward, we expect advances to grow at a moderate CAGR of 9% over FY18-20E led by healthy momentum in retail loan growth.

Core operations remain healthy

Net interest income (NII) increased at a healthy pace of 12% YoY (in line with our expectation) as net interest margin (NIM) improved by 13 bps YoY to 2.8%. We expect NIM to improve to 3% by FY20E on the back of NCLT resolutions, asset re-pricing and the improving credit to deposit (C-D) ratio. However, cost to income (C/I) ratio deteriorated sharply (↓695 bps YoY) mainly due to elevated operating expenses along with sharp decline in other income. Other income declined by 26% YoY as treasury income of the bank plummeted by 84% YoY. Provisions declined by 37% YoY as the bank deferred making higher provisions on one NCLT case due to the resolution visibility. Net profit declined by 40% YoY as there was a huge one-off gain in Q2FY18. While we maintain FY20E earnings, we cut FY19E earnings by 22% given the uncertainty surrounding resolution of NCLT cases. However, SBI will be one of the largest beneficiaries of the ensuing NCLT resolutions (few resolutions expected in Q3FY19). Any breakthrough will provide an upside to our earnings assumption.

Asset quality healing on track

On asset quality front, the bank's performance was encouraging with fresh slippages at 6 quarter low. Slippages moderated significantly to 2.4% of loans as compared to 3.2% in Q1FY19. Of total slippages, 29% were from corporate accounts and 35% from SME accounts. About 75% of the corporate slippages were from the watch list. Consequently, Gross and Net non-performing asset (NPA) ratios dipped by 74 bps and 45 bps QoQ to 10.0% and 4.8%, respectively. Provision coverage ratio also improved by 149 bps sequentially to 70.7%. The stressed asset portfolio (watch list and SMA 1 & 2) declined to 1.0% of loans as compared to 1.4% as of FY18. Besides, the bank's exposure to the beleaguered IL&FS holdco stands at Rs250cr and SPV exposure at Rs3,800cr, of which, IL&FS is a minority stake holder for an exposure of Rs2,700cr. Notably, management has provided a positive outlook on asset quality on the back of big NCLT resolutions cases lined up. Hence, we believe asset quality improvement is imminent and project Gross/Net NPA ratios will moderate to 8.0%/4.1% by FY20E.

Outlook and Valuation

We remain positive on SBI and expect it to outperform within PSBs given slowdown in slippages, stable management and adequate capitalization. Further, we expect RoE and RoA to improve to 10.0% and 0.6%, respectively by FY20E as asset quality pressure abates and revenue growth momentum remains strong. Overall, the long-term structural value of the bank remains intact and it remains the biggest beneficiary of current NBFC liquidity stress. Hence, we continue to maintain BUY rating on the stock with a similar target price (TP) of Rs345 using the sum of the parts (SOTP) methodology, where we value its standalone business at Rs267 (P/ABV of 1.5x for FY20E) and subsidiaries at Rs78.

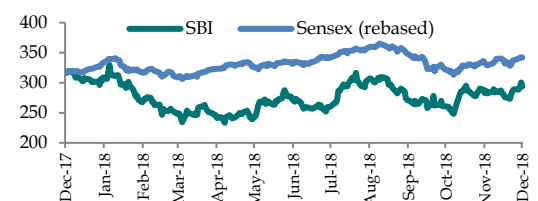
Company Data

Market Cap (cr)	Rs. 261,312
Outstanding Shares (cr)	892.5
Free Float	43%
Dividend Yield	-
52 week high	Rs. 335
52 week low	Rs. 232
6m average volume (cr)	2.5
Beta	1.5
Face value	Rs. 1

Shareholding (%)	Q4FY18	Q1FY19	Q2FY19
Promoters	58.9	58.5	58.5
FII's	11.2	10.4	10.2
MFs/Insti	22.3	23.5	23.7
Public	7.7	7.7	7.5
Others	-	-	-
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	10.7%	7.2%	-8.5%
Absolute Sensex	-2.3%	-0.6%	4.5%
Relative Return*	13.0%	7.8%	-13.0%

*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)	4,850	23,672
Growth (%)	-	-	282%
EPS	(7.7)	5.4	26.5
Growth (%)	-	-	282%
P/E	-	53.9	11.0
P/BV	1.2	1.2	1.1
P/ABV	2.4	2.0	1.7
RoE (%)	-	2.2	10.0
RoA (%)	-	0.1	0.6

Quarterly Financials (Standalone)

Profit & Loss Account

(Rs cr)	Q2FY19	Q2FY18	YoY Growth %	Q1FY19	QoQ Growth %
Interest Income	58,793	54,850	7.2	58,813	(0.0)
Interest on advances	38,327	35,801	7.1	38,865	(1.4)
Income on Investments	19,080	17,315	10.2	18,588	2.7
Others	1,387	1,734	(20.0)	1,360	1.9
Interest Expense	37,888	36,264	4.5	37,015	2.4
Net Interest Income	20,906	18,586	12.5	21,798	(4.1)
Non-Interest Income	7,815	10,580	(26.1)	6,679	17.0
Total Net Income	28,720	29,166	(1.5)	28,478	0.9
Operating Expenses	16,376	14,603	12.1	16,505	(0.8)
Employee Cost	9,696	7,703	25.9	9,708	(0.1)
Other Operating Exp.	6,680	6,900	(3.2)	6,796	(1.7)
Total Income	66,608	65,430	1.8	65,493	1.7
Total Expenditure	54,264	50,867	6.7	53,520	1.4
Pre-Provisioning profit	12,344	14,563	(15.2)	11,973	3.1
Provisions	12,092	19,137	(36.8)	19,228	(37.1)
Profit Before Tax	1,813	862	110.4	(7,255)	-
Tax	868	(720)	-	(2,379)	-
Net Profit	945	1,582	(40.3)	(4,876)	-
EPS - Diluted (Rs)	1.1	1.8	(42.1)	(5.5)	-

Business Performance (Rs cr)	Q2FY19	Q2FY18	YoY Growth %	Q1FY19	QoQ Growth %
Advances	1,957,340	1,802,609	8.6	1,875,773	4.3
Deposits	2,807,420	2,623,180	7.0	2,747,813	2.2
Business	4,764,760	4,425,788	7.7	4,623,587	3.1
Gross NPA	205,864	186,115	10.6	212,840	(3.3)
Net NPA	94,810	97,896	(3.2)	99,236	(4.5)

Key Ratios (%)	Q2FY19	Q2FY18	YoY bps	Q1FY19	QoQ bps
Net Interest Margin	2.8	2.7	13	2.9	(14)
Cost of Funds	4.9	5.1	(15)	4.9	6
Yield on Advances	8.0	7.9	6	8.2	(16)
Yield on Investments	7.1	7.0	10	7.0	11
Yield on Funds	7.9	7.9	1	7.9	(6)
Cost to Income	57.0	50.1	695	58.0	(94)
Credit to Deposit	69.7	68.7	100	68.3	146
CASA	23.7	23.7	0	22.1	160
Capital Adequacy	12.6	13.6	(95)	12.8	(22)
Tier I Capital	10.4	11.0	(60)	10.5	(17)
Gross NPA	10.0	9.8	12	10.7	(74)
Net NPA	4.8	5.4	(59)	5.3	(45)
Provision Coverage	70.7	65.1	564	69.3	149
Credit Cost	2.5	4.2	(178)	4.1	(163)
RoE (Ann.)	1.7	2.7	(100)	(9.0)	-
RoA (Ann.)	0.1	0.2	(9)	(0.6)	-

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	52,242	35,360
Profit Before Tax	13,774	14,855	(15,528)	6,929	35,331
Tax	3,823	4,371	(8,981)	2,079	11,659
Tax Rate (%)	28	29	-	30	33
Net Profit	9,951	10,484	(6,547)	4,850	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)	5.4	26.5
% Change	(26.0)	3.5	-	-	281.5

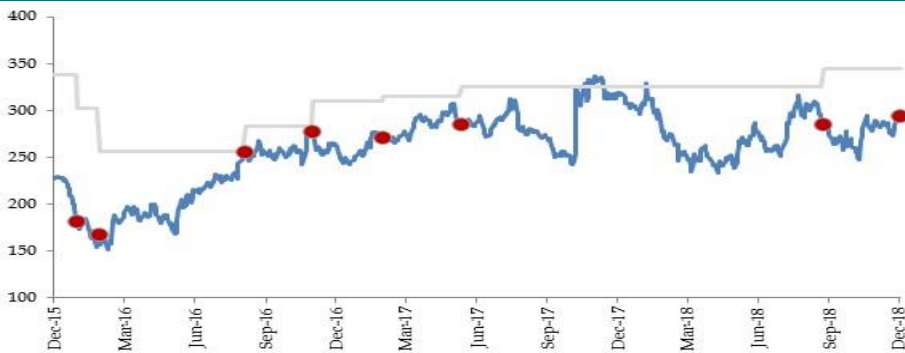
Balance Sheet

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	223,086	246,758
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	3,632,176	3,920,933
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	223,043	250,609
Total Assets	2,357,618	2,705,966	3,454,752	3,632,176	3,920,933

Ratios

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
EPS	13.0	13.4	(7.7)	5.4	26.5
DPS	2.6	2.6	0.0	0.0	0.0
BV	185.9	236.1	245.5	251.0	277.5
ABV	114.0	163.1	121.3	143.1	173.6
Valuation (%)					
P/E	22.6	21.8	-	53.9	11.0
P/BV	1.6	1.2	1.2	1.2	1.1
P/ABV	2.6	1.8	2.4	2.0	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	12.3	12.6
Tier I	9.9	10.4	10.4	10.1	10.3
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	4.6	4.1
PCR	60.7	66.0	66.2	70.0	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)	2.2	10.0
ROA	0.8	0.4	(0.2)	0.1	0.6

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
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
26 December 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.

Geojit Financial Services Limited has outsourced the preparation of this research report to DION Global Solutions Limited whose relevant disclosures are available hereunder. However, Geojit's research desk has reviewed this report for any untrue statement of material fact or any false or misleading information.

General Disclosures and Disclaimers

CERTIFICATION

I, Kaushal Patel, employee of Dion Global Solutions Limited (Dion) is engaged in preparation of this report and hereby certify that all the views expressed in this research report (report) reflect my personal views about any or all of the subject issuer or securities.

Disclaimer

This report has been prepared by Dion and the report & its contents are the exclusive property of the Dion and the client cannot tamper with the report or its contents in any manner and the said report, shall in no case, be further distributed to any third party for commercial use, with or without consideration.

Geojit Financial Services Limited has outsourced the assignment of preparation of this report to Dion.

Recipient shall not further distribute the report to a third party for a commercial consideration as this report is being furnished to the recipient solely for the purpose of information.

Dion has taken steps to ensure that facts in this report are based on reliable information but cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this report. It is hereby confirmed that wherever Dion has employed a rating system in this report, the rating system has been clearly defined including the time horizon and benchmarks on which the rating is based.

Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this report is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. Dion has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. This report is not to be relied upon in substitution for the exercise of independent judgment. Opinions or estimates expressed are current opinions as of the original publication date appearing on this report and the information, including the opinions and estimates contained herein, are subject to change without notice. Dion is under no duty to update this report from time to time.

Dion or its associates including employees engaged in preparation of this report and its directors do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of securities, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

The investments or services contained or referred to in this report may not be suitable for all equally and it is recommended that an independent investment advisor be consulted. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to individual circumstances or otherwise constitutes a personal recommendation of Dion.

REGULATORY DISCLOSURES:

Dion is engaged in the business of developing software solutions for the global financial services industry across the entire transaction lifecycle and inter-alia provides research and information services essential for business intelligence to global companies and financial institutions. Dion is listed on BSE Limited (BSE) and is also registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH100002771. Dion's activities were neither suspended nor has it defaulted with requirements under the Listing Agreement and / or SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with the BSE in the last five years. Dion has not been debarred from doing business by BSE / SEBI or any other authority.

In the context of the SEBI Regulations, we affirm that we are a SEBI registered Research Analyst and in the course of our business, we issue research reports / research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership

Dion confirms that:

- (i) It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein at the time of publication of this report.
- (ii) It/its associates have no actual / beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

Further, the Research Analyst confirms that:

- (i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company at the time of publication of this report.
- (ii) He, his associates and his relatives have no actual/beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

2. Disclosures regarding Compensation:

During the past 12 months, Dion or its Associates:

(a) Have not managed or co-managed public offering of securities for the subject company (b) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (c) Have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject (d) Have not received any compensation or other benefits from the subject company or third party in connection with this report.

3. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Kaushal Patel, employed as Research Analyst by Dion and engaged in the preparation of this report have not served as an officer, director or employee of the subject company

4. Disclosure regarding Market Making activity:

Neither Dion / its Research Analysts have engaged in market making activities for the subject company.

Copyright in this report vests exclusively with Dion.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.