

**RESEARCH**
**[Initiation] Escorts | Target: Rs 1,030 | -9% | SELL**

Growth levers priced in; initiate with SELL

**Laurus Labs | Target: Rs 1,200 | +29% | BUY**

All-round beat; multiple positives spur big upgrade – TP Rs 1,200

**Sun Pharma | Target: Rs 530 | -0% | REDUCE**

Mixed Q1; margin beat unlikely to sustain – REDUCE

**Cholamandalam Investment | Target: Rs 280 | +38% | BUY**

Business activity picking up in pockets

**UPL | Target: Rs 650 | +36% | BUY**

Mixed results; FY21 growth guidance healthy

**Mahindra Logistics | Target: Rs 345 | +16% | BUY**

Weak headline numbers mask encouraging underlying trends

**State Bank of India | Target: Rs 219 | +14% | ADD**

Stable on most fronts

**SUMMARY**
**Escorts**

Escorts (ESC) is the third largest tractor manufacturer in India, commanding ~11% market share in the ~800,000-unit p.a. tractor industry. A successful rabi harvest, expectations of a normal monsoon, signs of stronger kharif cultivation and aggressive tractor financing are harbingers of growth. This coupled with capacity expansion via the Kubota JV would augment volumes. That said, the 100% stock rally in the past four months prices in most of these positives, leading us to initiate with SELL. Our Sep'21 TP of Rs 1,030 is set at 19x one-year fwd EPS.

[Click here for the full report.](#)

**TOP PICKS**
**LARGE-CAP IDEAS**

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	4,000
<a href="#">Cipla</a>	Buy	690
<a href="#">GAIL</a>	Buy	150
<a href="#">Petronet LNG</a>	Buy	305
<a href="#">Tech Mahindra</a>	Buy	780

**MID-CAP IDEAS**

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,950
<a href="#">Chola Investment</a>	Buy	280
<a href="#">Laurus Labs</a>	Buy	1,200
<a href="#">Transport Corp</a>	Buy	240
<a href="#">Mahanagar Gas</a>	Sell	710

Source: BOBCAPS Research

**DAILY MACRO INDICATORS**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.55	(3bps)	(8bps)	(135bps)
India 10Y yield (%)	5.83	(1bps)	(8bps)	(60bps)
USD/INR	74.85	(0.1)	1.0	(8.4)
Brent Crude (US\$/bbl)	42.94	(1.9)	2.9	(29.0)
Dow	26,314	(0.9)	2.8	(1.0)
Shanghai	3,287	(0.2)	11.0	13.0
Sensex	37,736	(0.9)	7.9	1.9
India FII (US\$ mn)	29 Jul	MTD	CYTD	FYTD
FII-D	(24.4)	(234.4)	(14,516.4)	(4,756.9)
FII-E	(38.9)	1,085.8	(1,355.7)	5,247.3

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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## Laurus Labs

Laurus Labs reported a record Q1 beat with no major one-offs. Revenue/EBITDA surpassed estimates by 18%/59%. EBITDA grew 234% YoY/45% QoQ with margins at 28.6% (21.2% est.) aided by product mix, operating leverage and forex. PAT doubled our estimates. ARV sales grew 19% YoY, other API 47% QoQ, synthesis 37% YoY and formulations 32% QoQ. High order book visibility implies stronger growth and ROCE expansion. Q1 positives usher in a new normal, driving >80% EPS upgrade; TP raised to Rs 1,200 (12x Sep'22E EV/EBITDA) vs. Rs 630.

[Click here for the full report.](#)

## Sun Pharma

Sun Pharma (SUNP) posted an 11% EBITDA beat but an 8% miss on sales. Operating margin at 22% beat estimates on higher gross margins (+210 QoQ) and a temporary drop in SGA (-18% YoY) and R&D cost (5.6% of sales). US sales ex-Taro were a miss due to weak specialty sales, while India revenue was healthy (+3% YoY). Q1 global specialty sales stood at US\$ 78mn (-38% QoQ). SGA savings should ebb with business activity picking up from Q3. Cost matrix across divisions remains unchanged. We roll to a new Sep'21 TP of Rs 530 (vs. Rs 470).

[Click here for the full report.](#)

## Cholamandalam Investment

Cholamandalam Investment (CIFC) reported 10% YoY growth in AUM to Rs 635bn in Q1FY21, led by low repayment rates. Management expects the buoyant rural economy to keep disbursements upbeat in tractors and used vehicles. We believe opex levers have largely played out now that business activity is picking up. Stable spreads along with strong capital and liquidity buffers were other Q1 highlights. We increase FY21/FY22 earnings by 11%/10% and roll over to a revised Jun'21 TP of Rs 280 (earlier Rs 200). Maintain BUY.

[Click here for the full report.](#)

## UPL

UPL's Q1FY21 EBITDA was an 11% beat despite an 8% sales miss. EBITDA margin outperformed at 23.4% on higher gross margins, lower opex and forex gains. Adj. for forex benefit, EBITDA was a 3% beat. Order deferrals due to logistical disruptions should recover in Q2. UPL is also selectively hiking prices to counter LATAM currency headwinds. Revenue/EBITDA guidance of 6-8%/10-12% growth for FY21 is healthy and in line, while 23-24% margins for the next three years is positive. We roll to a new Sep'21 TP of Rs 650 (vs. Rs 600).

[Click here for the full report.](#)

## Mahindra Logistics

Though Mahindra Logistics' (MLL) headline numbers were expectedly weak – consolidated revenue fell 54% YoY with EBITDA loss at Rs 22mn – a closer look at the Q1FY21 print reveals several positives. Resilience in warehousing (-14% YoY), SCM gross margin expansion (+60bps), client addition, and an improved cash position are encouraging. Green shoots are visible in some end-user verticals (e.g. tractors) which can help cushion the topline. We trim our FY21/FY22 EPS by 7%/4%, but raise our TP to Rs 345 (vs. Rs 315) on rollover to Sep'22 valuations.

[Click here for the full report.](#)

## State Bank of India

SBIN's Q1FY21 PAT at Rs 42bn (+81% YoY) was backed by 16% NII growth and gains worth Rs 15bn from the SBI Life stake sale. Moratorium share stood at 9.5% of loans. The bank has ~Rs 30bn in outstanding Covid-related provisions (13bps of loans), lower than large private peers. Domestic NIM improved 5bps QoQ to 3.2% on a higher share of performing loans and lower drag from interest reversal. SBIN accelerated NPA provisions which raised PCR to 67% while NNPA dipped to 1.9%. Maintain ADD as we roll to a Sep'21 TP of Rs 219 (vs. Rs 210).

[Click here for the full report.](#)

**SELL**

TP: Rs 1,030 | ▼ 9%

**ESCORTS**

| Auto Components

| 31 July 2020

## Growth levers priced in; initiate with SELL

**Escorts (ESC) is the third largest tractor manufacturer in India, commanding ~11% market share in the ~800,000-unit p.a. tractor industry. A successful rabi harvest, expectations of a normal monsoon, signs of stronger kharif cultivation and aggressive tractor financing are harbingers of growth. This coupled with capacity expansion via the Kubota JV would augment volumes. That said, the 100% stock rally in the past four months prices in most of these positives, leading us to initiate with SELL. Our Sep'21 TP of Rs 1,030 is set at 19x one-year fwd EPS.**

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**Rural recovery, Kubota partnership to catalyse growth:** After a successful rabi (winter) crop harvest, there are early signs of stronger kharif (summer) cultivation as well. ESC, a key player in the agriculture belts of Central and North India (~18% market share), will be a direct beneficiary. This, along with its initial investment of Rs 1.2bn in the Rs 3bn JV with Kubota-Japan for 40% stake in a new 50,000-tractor capacity in Faridabad, will act as the next catalyst for growth.

Ticker/Price	ESC IN/Rs 1,130
Market cap	US\$ 1.8bn
Shares o/s	123mn
3M ADV	US\$ 39.9mn
52wk high/low	Rs 1,210/Rs 423
Promoter/FPI/DII	40%/20%/10%

Source: NSE

**Transformative strategy unfolding:** ESC is strategising to transform from a tractor manufacturer to an agri-service provider. The company intends to provide complete crop solutions by offering implements and knowhow to farmers, and has pilot projects running in Odisha and Andhra Pradesh. ESC also plans to introduce an Uber-like model for tractors that makes mechanised solutions more affordable for small-scale farmers, besides laying the groundwork for commercial production of its first electric tractor.

## STOCK PERFORMANCE



Source: NSE

**Valuations full:** We expect a revenue/EBITDA/PAT CAGR of 7%/9%/13% over FY20–FY23. Segment-wise, we pencil in a revenue CAGR of 8% for tractors (77% revenue share), –3% for construction equipment, and 13% for the railway business. The stock rally has taken valuations to ~23x FY22E EPS, pricing in most positives. Our TP of Rs 1,030 is set at 19x Sep'22E EPS. Initiate with SELL.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	62,620	57,610	54,885	62,442	70,207
EBITDA (Rs mn)	7,226	6,758	6,829	7,869	8,837
Adj. net profit (Rs mn)	4,789	4,948	5,174	6,135	7,089
Adj. EPS (Rs)	39.1	40.4	42.2	50.1	57.8
Adj. EPS growth (%)	38.0	3.3	4.6	18.6	15.5
Adj. ROAE (%)	17.9	14.2	12.2	12.7	12.9
Adj. P/E (x)	28.9	28.0	26.8	22.6	19.5
EV/EBITDA (x)	18.8	20.1	19.9	17.0	15.2

Source: Company, BOBCAPS Research



**BUY**

TP: Rs 1,200 | ▲ 29%

**LAURUS LABS**

Pharmaceuticals

31 July 2020

## All-round beat; multiple positives spur big upgrade – TP Rs 1,200

Laurus Labs reported a record Q1 beat with no major one-offs. Revenue/EBITDA surpassed estimates by 18%/59%. EBITDA grew 234% YoY/45% QoQ with margins at 28.6% (21.2% est.) aided by product mix, operating leverage and forex. PAT doubled our estimates. ARV sales grew 19% YoY, other API 47% QoQ, synthesis 37% YoY and formulations 32% QoQ. High order book visibility implies stronger growth and ROCE expansion. Q1 positives usher in a new normal, driving >80% EPS upgrade; TP raised to Rs 1,200 (12x Sep'22E EV/EBITDA) vs. Rs 630.

Vivek Kumar

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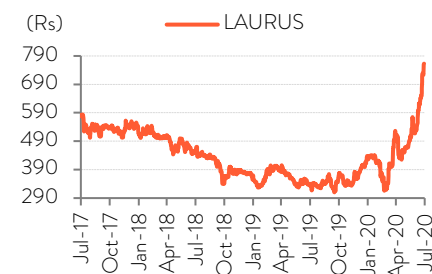
**Big EPS upgrade – Laurus our top pick:** Laurus's Q1 result has multiple positives on the core business that are emerging as the new normal – (1) start of structural volume uptrend in ARV portfolio, (2) strong uptick in order book across high-margin segments of formulations, synthesis (non-Aspen CDMO) and non-ARV APIs, led by global supply chain disruption, and (3) shift in GPM from 47-50% to 52-53%. Management expects most of these positives to sustain in coming years. This combined with 33% savings in annual interest cost drives our >80% FY22 EPS upgrade. With the execution track record gaining scale, Laurus remains our top midcap pick as we see further upside risk on EPS.

Ticker/Price	LAURUS IN/Rs 933
Market cap	US\$ 1.3bn
Shares o/s	106mn
3M ADV	US\$ 14.3mn
52wk high/low	Rs 945/Rs 295
Promoter/FPI/DII	32%/37%/5%

Source: NSE

**Adj. EBITDA margin and incremental GP/Sales solid QoQ:** A large part of the operating margin beat was led by higher gross margins. On incremental sales QoQ, gross margin was at 80% (>80% from product mix and operating leverage across segments). Excluding one-time HCQS sales of US\$ 5mn @ 30% margin and ~2ppt forex benefit, adj. EBITDA margin was strong at +25%.

### STOCK PERFORMANCE



Source: NSE

**Earnings call highlights:** (1) Q1 has no price increase benefit. (2) Capacity rise in formulations/non-ARV APIs on track (phase-1/2 by Sep'20/Dec'21). (3) TLE 400/600 launch in Q2. (4) On track to improve ARV sales, led by Efavirenz, Tenofovir, DTG, Lamivudine in FY21 and second-line ARV products in FY22.

### KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	22,919	28,317	35,791	40,610	45,117
EBITDA (Rs mn)	3,560	5,645	9,249	11,066	12,620
Adj. net profit (Rs mn)	937	2,553	5,339	6,760	7,982
Adj. EPS (Rs)	8.8	24.0	50.2	63.5	75.0
Adj. EPS growth (%)	(36.8)	172.3	109.2	26.6	18.1
Adj. ROAE (%)	6.2	15.3	26.3	25.9	24.0
Adj. P/E (x)	106.0	38.9	18.6	14.7	12.4
EV/EBITDA (x)	30.6	19.5	12.0	10.0	8.6

Source: Company, BOBCAPS Research



**REDUCE**

TP: Rs 530 | ▼ 0%

**SUN PHARMA**

Pharmaceuticals

01 August 2020

## Mixed Q1; margin beat unlikely to sustain – REDUCE

Sun Pharma (SUNP) posted an 11% EBITDA beat but an 8% miss on sales. Operating margin at 22% beat estimates on higher gross margins (+210 QoQ) and a temporary drop in SGA (-18% YoY) and R&D cost (5.6% of sales). US sales ex-Taro were a miss due to weak specialty sales, while India revenue was healthy (+3% YoY). Q1 global specialty sales stood at US\$ 78mn (-38% QoQ). SGA savings should ebb with business activity picking up from Q3. Cost matrix across divisions remains unchanged. We roll to a new Sep'21 TP of Rs 530 (vs. Rs 470).

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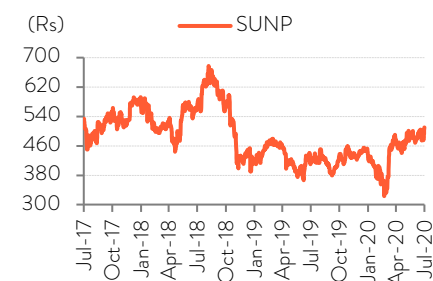
**EBITDA beat on temporary cost decline:** Q1 EBITDA stood at Rs 16.4bn, up 18% QoQ, with margins at 22% (est. 18%). SUNP's ex-Taro margins have increased 700bps QoQ to 21.6% due to better India chronic sales and lower SGA/R&D costs. With physical visits to doctors picking up (70% of normal levels now vs. 25% in Q1) and the likely restart of promotional spends on the US specialty business, the lower Q1 cost base would expand in coming quarters. Progress on clinical trials for new indications (Ilumya, Odomzo) have been affected, leading to lower R&D spends for Q1.

Ticker/Price	SUNP IN/Rs 532
Market cap	US\$ 17.1bn
Shares o/s	2,399mn
3M ADV	US\$ 69.3mn
52wk high/low	Rs 541/Rs 312
Promoter/FPI/DII	54%/17%/16%

Source: NSE

**India strong, US (ex-Taro) and EM a miss:** US sales ex-Taro declined 15% QoQ, mainly owing to weak specialty sales as doctors' clinics were shut. Ilumya and Levulan were the most impacted. Growth pick-up in specialty prescriptions was muted with some states in the US partly returning into lockdown after a spike in Covid cases. India sales growth was healthy on better chronic growth (+10% YoY) but the acute portfolio suffered (-22% YoY). EM sales declined 8% YoY.

### STOCK PERFORMANCE



Source: NSE

**Other takeaways:** (1) Q1 specialty R&D at US\$ 22mn (39% of R&D spends). (2) Halol OAI: Remediation plan submitted, awaiting FDA inspection. (3) PLI scheme for a few antibiotics being evaluated. (4) No greater clarity on the impact of Trump's executive order. (5) Debt reduction at US\$ 200mn QoQ.

### KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	286,906	323,880	339,330	387,082	434,390
EBITDA (Rs mn)	60,746	69,823	77,841	86,139	98,213
Adj. net profit (Rs mn)	36,484	40,453	50,260	56,852	66,359
Adj. EPS (Rs)	15.2	16.9	21.0	23.7	27.7
Adj. EPS growth (%)	8.4	10.9	24.2	13.1	16.7
Adj. ROAE (%)	8.4	8.7	10.0	10.4	11.1
Adj. P/E (x)	35.0	31.5	25.4	22.4	19.2
EV/EBITDA (x)	19.7	17.4	15.4	13.5	11.4

Source: Company, BOBCAPS Research



**BUY**

TP: Rs 280 | ▲ 38%

**CHOLAMANDALAM  
INVESTMENT**

| NBFC

| 31 July 2020

**Business activity picking up in pockets**

**Cholamandalam Investment (CIFIC) reported 10% YoY growth in AUM to Rs 635bn in Q1FY21, led by low repayment rates. Management expects the buoyant rural economy to keep disbursements upbeat in tractors and used vehicles. We believe opex levers have largely played out now that business activity is picking up. Stable spreads along with strong capital and liquidity buffers were other Q1 highlights. We increase FY21/FY22 earnings by 11%/10% and roll over to a revised Jun'21 TP of Rs 280 (earlier Rs 200). Maintain BUY.**

Shubhramshu Mishra

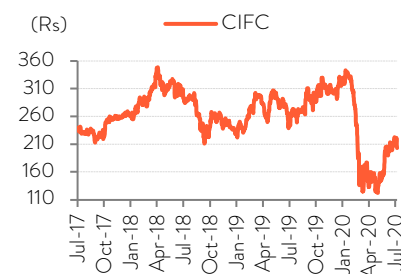
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**Low repayment rates, buoyant rural economy augur well:** AUM grew 10% YoY to Rs 635bn in Q1FY21, largely driven by lower repayments as ~76% of the loan book was still under moratorium (unchanged sequentially). Disbursements declined 58% YoY to Rs 36bn – the biggest slide in the last 38 quarters. Management expects improvement in tractor and used vehicle disbursements amid strong growth in the rural economy.

Ticker/Price	CIFIC IN/Rs 203
Market cap	US\$ 2.2bn
Shares o/s	820mn
3M ADV	US\$ 37.5mn
52wk high/low	Rs 264/Rs 117
Promoter/FPI/DII	52%/12%/28%

Source: NSE

**Spreads stable but opex levers played out:** Stable spreads (calc.) at 6.8% led to mild 4% YoY growth in NII to Rs 9.8bn. With lower business activity, opex declined by 1%, which aided ~8% YoY growth in operating profit to Rs 6.4bn. We believe opex levers are largely played out and expenses will rise given the uptick in business activity.

**STOCK PERFORMANCE**

Source: NSE

**Strong capital and liquidity buffers:** CIFIC made an additional provision of Rs 2.4bn for macro events, taking total provisioning for the quarter to Rs 5.6bn. PAT grew 37% YoY to Rs 4.3bn. The company has bolstered its balance sheet with a provision cover of ~42%. Equipped with strong capital adequacy of 20.4% and liquidity from undrawn bank lines of Rs 116bn, the company can comfortably counter future tail risks from asset quality.

**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	28,972	32,495	34,729	36,853	40,032
NII growth (%)	14.7	12.2	6.9	6.1	8.6
Adj. net profit (Rs mn)	11,862	10,524	10,374	13,414	17,592
EPS (Rs)	15.2	12.8	12.7	16.4	21.5
P/E (x)	13.4	15.8	16.0	12.4	9.4
P/BV (x)	2.6	2.0	1.8	1.6	1.4
ROA (%)	2.4	1.7	1.5	1.8	2.1
ROE (%)	21.3	14.7	12.0	13.8	15.7

Source: Company, BOBCAPS Research



**BUY**

TP: Rs 650 | ▲ 36%

**UPL**

| Agrochemicals

| 01 August 2020

## Mixed results; FY21 growth guidance healthy

**UPL's Q1FY21 EBITDA was an 11% beat despite an 8% sales miss. EBITDA margin outperformed at 23.4% on higher gross margins, lower opex and forex gains. Adj. for forex benefit, EBITDA was a 3% beat. Order deferrals due to logistical disruptions should recover in Q2. UPL is also selectively hiking prices to counter LATAM currency headwinds. Revenue/EBITDA guidance of 6-8%/10-12% growth for FY21 is healthy and in line, while 23-24% margins for the next three years is positive. We roll to a new Sep'21 TP of Rs 650 (vs. Rs 600).**

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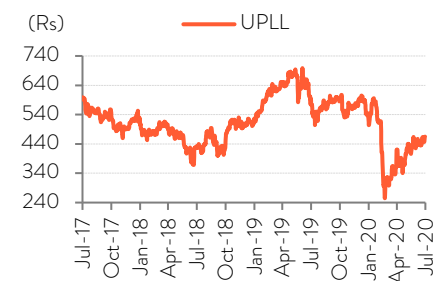
**Revenue miss (ex-India)...:** Q1 revenue was widely affected by shipment delays across regions. North America (-13% YoY) was hit by the pre-buying effect, whereas BRL devaluation in LATAM (-15% YoY) led to order postponement. Europe grew 1% YoY. UPL expects Q2 to offset the Q1 miss backed by healthy agronomic conditions, product price increase in LATAM, and a growing market shift from Dicamba/Glyphosate to Gluphosinate in the US. India (+27% YoY) was robust and ROW (+5% YoY) modest due to the forex impact in Africa.

Ticker/Price	UPLL IN/Rs 478
Market cap	US\$ 4.9bn
Shares o/s	765mn
3M ADV	US\$ 38.4mn
52wk high/low	Rs 618/Rs 240
Promoter/FPI/DII	28%/44%/10%

Source: NSE

**...but beat on margins:** Adjusted for 1.6ppt in forex gains, EBITDA margin was at 22% (18% est.) in Q1, led by a better product mix and reduction in staff cost (-10% QoQ) and SGA (-3% QoQ), with more room for cost savings.

## STOCK PERFORMANCE



Source: NSE

**Retains 2x net debt/EBITDA target by FY21:** Net working capital is under control at 84 days (from 80 days QoQ and 115 days YoY). Management sees an opportunity to raise payables by 15-20 days at least in FY21 and retains its commitment to achieving ~2x net debt/EBITDA by FY21 (from 2.7x in FY20).

**Earnings call takeaways:** (1) Q1 capex of US\$ 72mn should moderate. (2) In LATAM, expect late-FY21 launch for a soybean antirust fungicide – market size US\$ 1.5bn. (3) Cash level high at Rs 104bn due to global pandemic.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	218,350	357,560	381,968	421,409	459,804
EBITDA (Rs mn)	38,110	66,910	75,912	89,197	101,318
Adj. net profit (Rs mn)	18,140	23,782	26,082	33,809	41,750
Adj. EPS (Rs)	23.7	31.1	34.1	44.2	54.6
Adj. EPS growth (%)	0.6	31.1	9.7	29.6	23.5
Adj. ROAE (%)	13.5	13.1	13.4	15.8	17.4
Adj. P/E (x)	20.2	15.4	14.0	10.8	8.8
EV/EBITDA (x)	10.6	7.7	8.0	6.6	5.7

Source: Company, BOBCAPS Research





**BUY**

TP: Rs 345 | ▲ 16%

**MAHINDRA LOGISTICS**

Logistics

31 July 2020

## Weak headline numbers mask encouraging underlying trends

Though Mahindra Logistics' (MLL) headline numbers were expectedly weak – consolidated revenue fell 54% YoY with EBITDA loss at Rs 22mn – a closer look at the Q1FY21 print reveals several positives. Resilience in warehousing (-14% YoY), SCM gross margin expansion (+60bps), client addition, and an improved cash position are encouraging. Green shoots are visible in some end-user verticals (e.g. tractors) which can help cushion the topline. We trim our FY21/FY22 EPS by 7%/4%, but raise our TP to Rs 345 (vs. Rs 315) on rollover to Sep'22 valuations.

Sayan Das Sharma

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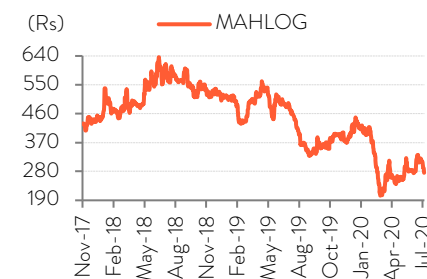
**Non-auto, warehousing relatively resilient:** SCM revenue declined by 51% YoY as client operations were severely disrupted in Q1. The auto vertical plunged 63% YoY, while non-auto fell by a lower 22% supported by ecommerce, pharma and FMCG. Transportation dropped 59% YoY, but warehousing was resilient (-14.5%; non-Mahindra warehousing fell by even lower 11.5%) as it continued to serve essential categories. Enterprise mobility slumped 80% YoY due to the higher incidence of work-from-home.

Ticker/Price	MAHLOG IN/Rs 298
Market cap	US\$ 284.5mn
Shares o/s	71mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 458/Rs 195
Promoter/FPI/DII	58%/19%/12%

Source: NSE

**Gross margin flat:** A larger share of high-margin warehousing together with cost-cutting measures negated the impact of lower volumes and Covid-related cost increases, yielding a flat YoY gross margin of 9.7%. Operating loss of Rs 22mn stemmed from lower absorption of fixed expenses.

## STOCK PERFORMANCE



Source: NSE

**Positive trends:** Notwithstanding tough macros, MLL acquired and started serving new client accounts in Q1, which should add to the topline in coming quarters. Plans for 1.5mn sq ft of warehouse space addition (0.3mn sq ft added in Q1) imply continued demand traction. Buoyancy in the tractor segment augurs well for the near term and will help cushion the topline till a broad-based recovery sets in from Q4FY21E. MLL's net cash position improved dramatically to Rs 1.9bn, representing ~Rs 1bn of cash accrual in Q1.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	38,513	34,711	31,173	37,589	43,285
EBITDA (Rs mn)	1,512	1,583	1,467	2,049	2,464
Adj. net profit (Rs mn)	856	551	449	833	1,059
Adj. EPS (Rs)	12.0	7.7	6.3	11.6	14.8
Adj. EPS growth (%)	33.2	(35.7)	(18.6)	85.6	27.2
Adj. ROAE (%)	18.7	10.6	7.9	13.4	15.3
Adj. P/E (x)	24.8	38.7	47.5	25.6	20.1
EV/EBITDA (x)	13.6	12.8	13.9	10.1	8.4

Source: Company, BOBCAPS Research



**ADD**

TP: Rs 219 | ▲ 14%

**STATE BANK OF INDIA**

| Banking

| 31 July 2020

**Stable on most fronts**

**SBIN's Q1FY21 PAT at Rs 42bn (+81% YoY) was backed by 16% NII growth and gains worth Rs 15bn from the SBI Life stake sale. Moratorium share stood at 9.5% of loans. The bank has ~Rs 30bn in outstanding Covid-related provisions (13bps of loans), lower than large private peers. Domestic NIM improved 5bps QoQ to 3.2% on a higher share of performing loans and lower drag from interest reversal. SBIN accelerated NPA provisions which raised PCR to 67% while NNPA dipped to 1.9%. Maintain ADD as we roll to a Sep'21 TP of Rs 219 (vs. Rs 210).**

**Vikesh Mehta**

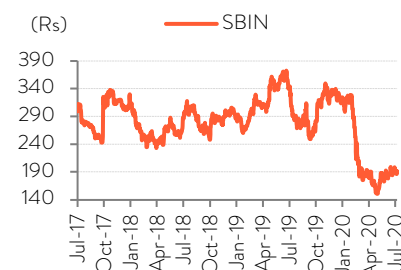
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**Need for higher Covid-linked provisions:** As per management, 9.5% of loans are under moratorium, which is defined as accounts that have paid zero or just one EMI. This 9.5% includes 4.2% retail and SME share, 3.3% for private corporates, and 2% for +AA-rated private corporates. Moreover, ~Rs 320bn of home loans, Rs 230bn of MSME and Rs 110bn of the personal loan portfolio are under moratorium. Of the Rs 420bn of overdue loans, accounts worth ~Rs 134bn have paid zero or one EMI.

Ticker/Price	SBIN IN/Rs 191
Market cap	US\$ 22.8bn
Shares o/s	8,925mn
3M ADV	US\$ 173.3mn
52wk high/low	Rs 351/Rs 149
Promoter/FPI/DII	58%/8%/34%

Source: NSE

**Net NPA at eight-year low:** Asset quality trends were stable with lower slippages at Rs 39bn (vs. Rs 83bn in Q4) and net NPA at a multi-year low of 1.9%. Guidance for fresh slippages under a base-case scenario (ex-Covid impact) is 1.6% of loans while legacy accounts are expected to carry 60bps of credit cost. The bank made accelerated provisions worth ~Rs 55bn in Q1 which includes Rs 35bn towards a fraud HFC account. Recoveries worth Rs 100bn-110bn are expected over the next couple of quarters given resolutions of a steel account and one-time settlement of power accounts.

**STOCK PERFORMANCE**

Source: NSE

**Other highlights:** SBIN has sanctioned Rs 210bn and disbursed Rs 150bn under the Emergency Credit Guarantee Scheme. Management believes NIM has scope to improve with surplus liquidity deployment and loan growth pick-up.

**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	883,489	980,848	979,661	1,055,180	1,168,436
NII growth (%)	18.0	11.0	(0.1)	7.7	10.7
Adj. net profit (Rs mn)	8,622	144,881	82,697	108,059	125,891
EPS (Rs)	1.0	16.2	9.3	12.1	14.1
P/E (x)	198.2	11.8	20.7	15.8	13.6
P/BV (x)	0.8	0.7	0.7	0.7	0.6
ROA (%)	0.0	0.4	0.2	0.2	0.3
ROE (%)	0.4	6.4	3.4	4.3	4.8

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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