

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

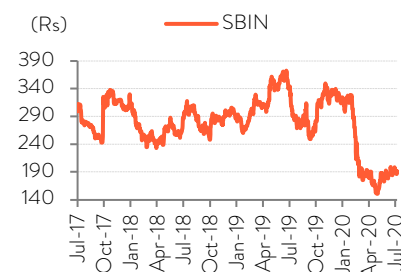
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Need for higher Covid-linked provisions: As per management, 9.5% of loans are under moratorium, which is defined as accounts that have paid zero or just one EMI. This 9.5% includes 4.2% retail and SME share, 3.3% for private corporates, and 2% for +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

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FIG 1 – QUARTERLY PERFORMANCE

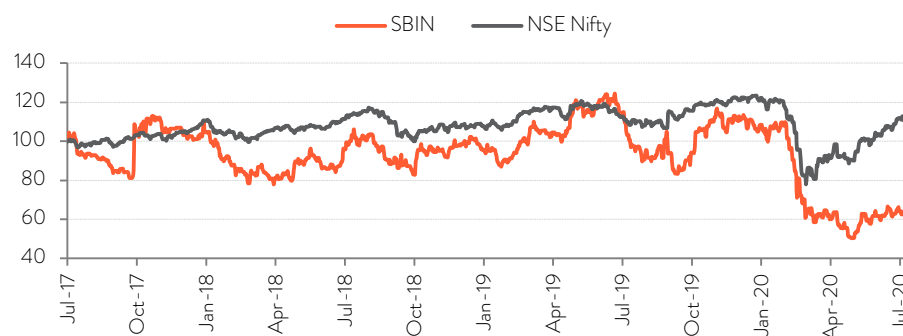
(Rs mn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
Income Statement					
Interest income	665,004	626,378	626,814	6.2	6.1
Interest expense	398,588	396,990	399,145	0.4	(0.1)
Net interest income	266,416	229,388	227,669	16.1	17.0
Non-interest income	94,972	80,154	160,775	18.5	(40.9)
Net total income	361,388	309,542	388,444	16.7	(7.0)
Staff expenses	118,651	109,181	120,387	8.7	(1.4)
Other operating expenses	62,126	67,900	83,406	(8.5)	(25.5)
Operating expenses	180,777	177,081	203,793	2.1	(11.3)
Pre-provisioning profit	180,611	132,462	184,651	36.3	(2.2)
Total provisions	125,013	91,829	134,951	36.1	(7.4)
Profit before tax	55,598	40,632	49,700	36.8	11.9
Tax	13,704	17,510	13,892	(21.7)	(1.4)
Profit after tax	41,893	23,122	35,808	81.2	17.0
Balance Sheet					
Advances	22,983,462	21,347,737	23,252,896	7.7	(1.2)
Deposits	34,193,628	29,488,207	32,416,207	16.0	5.5
CASA ratio (%)	45.3	45.1	45.2	28bps	18bps
Yields and margins (%)					
Net interest margin	3.0	2.8	3.0	20bps	4bps
Yield on advances	46.8	8.6	8.2	3,826bps	3,866bps
Cost of funds	4.4	4.9	4.6	(48bps)	(23bps)
Key ratios (%)					
Cost/Income	50.0	57.2	52.5	(718bps)	(244bps)
Tax rate	24.6	43.1	28.0	(1,845bps)	(330bps)
Loan to Deposit ratio	67.2	72.4	71.7	(518bps)	(452bps)
Capital adequacy ratios (%)					
Tier 1	11.4	10.7	11.0	70bps	35bps
Total CAR Ratio	13.4	12.9	13.1	51bps	34bps
Asset quality					
Gross NPAs	1,296,607	1,684,939	1,490,919	(23.0)	(13.0)
Net NPAs	427,036	656,239	518,713	(34.9)	(17.7)
Gross NPA ratio (%)	5.4	7.5	6.2	(209bps)	(71bps)
Net NPA ratio (%)	1.9	3.1	2.2	(121bps)	(37bps)
Coverage Ratio (%)	67.1	61.1	65.2	601bps	186bps

Source: Company, BOBCAPS Research

Valuation methodology

We continue to value SBIN using the SOTP methodology and roll forward to a Sep'21 target price of Rs 219 (Rs 210 earlier). Our target price increase is driven by a higher value for subsidiaries (Rs 115/sh vs. Rs 106/sh earlier), whereas our core business valuation remains at Rs 104/sh – this is based on an unchanged one-year forward P/BV multiple of 0.4x arrived at using the Gordon Growth Model. Maintain ADD.

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- A worsening of economic conditions could lead to an elongated provisioning cycle.
- Potential moral pressure towards directed lending (as a national service) and impending management change as the current Chairman retires in Oct'20 are key risks.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	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
Non-interest income	367,749	452,215	400,291	428,066	457,927
Total income	1,251,238	1,433,063	1,379,952	1,483,246	1,626,363
Operating expenses	(696,877)	(751,737)	(762,928)	(822,029)	(905,794)
Operating profit	554,360	681,326	617,024	661,217	720,569
Operating profit growth (%)	(6.8)	22.9	(9.4)	7.2	9.0
Provisions	(538,286)	(430,698)	(505,872)	(515,976)	(551,360)
PBT	16,075	250,628	111,153	145,241	169,209
Tax	(7,453)	(105,747)	(28,455)	(37,182)	(43,317)
Reported net profit	8,622	144,881	82,697	108,059	125,891
Adjustments	0	0	0	0	0
Adjusted net profit	8,622	144,881	82,697	108,059	125,891

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	8,925	8,925	8,925	8,925	8,925
Reserves & surplus	2,200,214	2,311,150	2,482,223	2,562,969	2,657,535
Net worth	2,209,138	2,320,074	2,491,148	2,571,894	2,666,459
Deposits	29,113,860	32,416,207	34,870,345	38,650,130	42,842,856
Borrowings	4,525,008	3,701,981	3,986,481	4,381,856	4,816,606
Other liabilities & provisions	961,136	1,075,677	1,172,251	1,278,153	1,394,305
Total liabilities and equities	36,809,142	39,513,939	42,520,225	46,882,032	51,720,226
Cash & bank balance	2,224,901	2,510,970	2,622,697	2,739,973	2,863,081
Investments	9,670,219	10,469,545	11,116,067	12,138,872	13,264,441
Advances	21,858,769	23,252,896	24,531,805	26,739,667	29,413,634
Fixed & Other assets	3,055,253	3,280,528	4,249,655	5,263,519	6,179,070
Total assets	36,809,142	39,513,939	42,520,225	46,882,032	51,720,226
Deposit growth (%)	7.6	11.3	7.6	10.8	10.8
Advances growth (%)	13.0	6.4	5.5	9.0	10.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	1.0	16.2	9.3	12.1	14.1
Dividend per share	0.0	0.0	1.9	2.4	2.8
Book value per share	247.5	260.0	279.1	288.2	298.8

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	198.2	11.8	20.7	15.8	13.6
P/BV	0.8	0.7	0.7	0.7	0.6
Dividend yield (%)	0.0	0.0	1.0	1.3	1.5

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.5	2.6	2.4	2.4	2.4
Non-interest income	1.0	1.2	1.0	1.0	0.9
Operating expenses	2.0	2.0	1.9	1.8	1.8
Pre-provisioning profit	1.6	1.8	1.5	1.5	1.5
Provisions	1.5	1.1	1.2	1.2	1.1
PBT	0.0	0.7	0.3	0.3	0.3
Tax	0.0	0.3	0.1	0.1	0.1
ROA	0.0	0.4	0.2	0.2	0.3
Leverage (x)	16.2	16.9	17.1	17.7	18.8
ROE	0.4	6.4	3.4	4.3	4.8

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	18.0	11.0	(0.1)	7.7	10.7
Pre-provisioning profit	(6.8)	22.9	(9.4)	7.2	9.0
EPS	(112.5)	1580.3	(42.9)	30.7	16.5
Profitability & Return ratios (%)					
Net interest margin	2.7	2.8	2.6	2.6	2.7
Fees / Avg. assets	0.7	0.6	0.6	0.6	0.6
Cost-Income	55.7	52.5	55.3	55.4	55.7
ROE	0.4	6.4	3.4	4.3	4.8
ROA	0.0	0.4	0.2	0.2	0.3
Asset quality (%)					
GNPA	7.5	6.2	5.5	5.1	4.5
NNPA	3.0	2.2	1.7	1.5	1.2
Provision coverage	61.9	65.2	70.5	71.6	73.3
Ratios (%)					
Credit-Deposit	75.1	71.7	70.4	69.2	68.7
Investment-Deposit	33.2	32.3	31.9	31.4	31.0
CAR	12.7	13.1	13.9	13.6	13.1
Tier-1	10.7	11.0	11.4	10.9	10.3

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

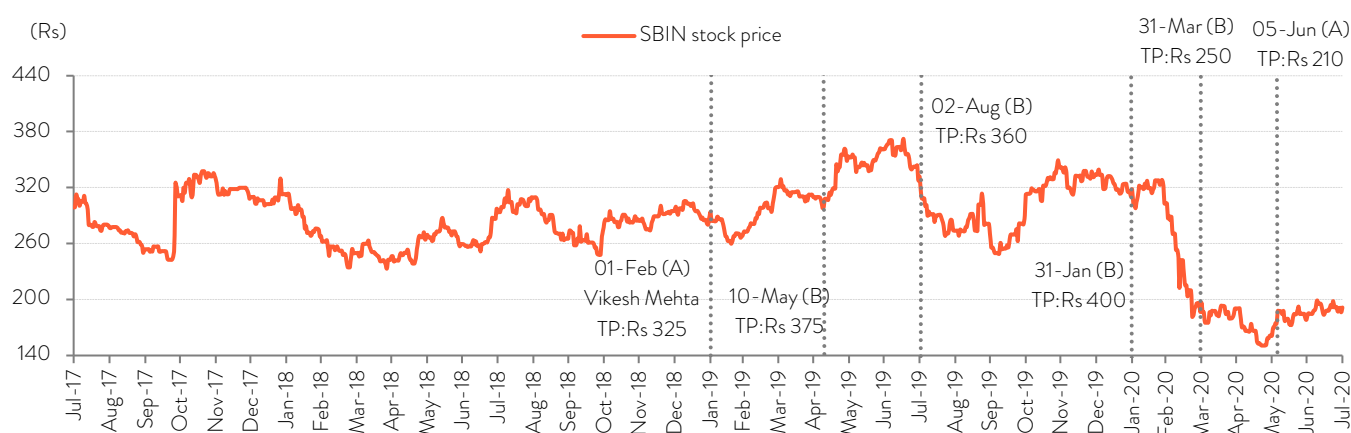
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): STATE BANK OF INDIA (SBIN IN)



B – Buy, A – Add, R – Reduce, S – Sell

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