

**BUY**

TP: Rs 260 | ▲ 26%

**STATE BANK OF INDIA**

Banking

04 November 2020

## Stress disclosures reassuring – upgrade to BUY

**State Bank of India's (SBIN) Q2FY21 PAT at Rs 45.7bn grew 52% YoY on 15% NII growth while operating profit (ex-one offs) grew 12%. In a positive surprise, management guided for overall restructuring at ~0.8% of loans and expects to contain fresh slippages in H2 at Rs 200bn. The bank has adequately provided for legacy corporate stress with 88% PCR. Provisioning needs for incremental stress are likely to be manageable in H2. We hike FY21-FY23 EPS 70-90%, revise our Sep'21 TP to Rs 260 (vs. Rs 219) and upgrade from ADD to BUY.**

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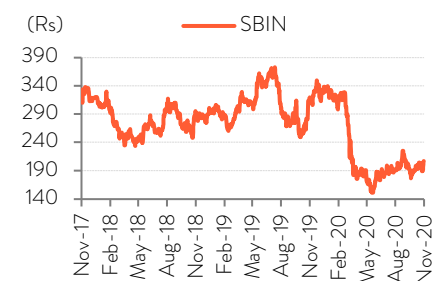
**Upbeat asset quality outlook:** SBIN's slippages (including proforma slippages worth Rs 144bn) increased to ~Rs 170bn in Q2 given lockdown restrictions, but the bank recovered ~Rs 60bn in Oct'20. Collection efficiency stood at 97.5% in October, with levels reaching their highest in the unsecured personal loan segment. The bank has received restructuring applications worth ~Rs 65bn and expects incremental restructuring worth Rs 130bn by Dec'20. Fresh slippages in H2 are guided at ~Rs 200bn (~Rs 208bn in H1), which in our view is manageable.

Ticker/Price	SBIN IN/Rs 207
Market cap	US\$ 24.7bn
Shares o/s	8,925mn
3M ADV	US\$ 148.3mn
52wk high/low	Rs 351/Rs 149
Promoter/FPI/DII	58%/8%/34%

Source: NSE

**Retail credit traction remains strong:** Overall credit growth at ~7% YoY in Q2 was subdued but retail loans grew 15% driven by good traction in products such as home loans, 'Xpress credit' and personal gold loans. SBIN's sanctions and disbursements in Q2 were significantly higher YoY across retail products. About 70%/94% of its home loan/Xpress credit customers are salaried. Going forward, credit growth is likely to be driven by the retail segment, capex by PSU entities, road construction and renewable energy.

## STOCK PERFORMANCE



Source: NSE

**Upgrade to BUY:** We raise our FY21-FY23 EPS estimates sharply and increase our core P/BV multiple to 0.5x (vs. 0.4x) to factor in the better growth and asset quality outlook. This yields a higher Sep'21 SOTP-based TP of Rs 260.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	883,489	980,848	1,043,570	1,159,147	1,325,372
NII growth (%)	18.0	11.0	6.4	11.1	14.3
Adj. net profit (Rs mn)	8,622	144,881	143,287	188,655	238,325
EPS (Rs)	1.0	16.2	16.1	21.1	26.7
P/E (x)	214.3	12.8	12.9	9.8	7.8
P/BV (x)	0.8	0.8	0.7	0.7	0.6
ROA (%)	0.0	0.4	0.3	0.4	0.5
ROE (%)	0.4	6.4	5.9	7.1	8.5

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	6MFY21	6MFY20	YoY (%)
<b>Income Statement</b>								
Interest income	668,141	643,124	665,004	3.9	0.5	1,333,145	1,269,502	5.0
Interest expense	386,326	397,121	398,588	(2.7)	(3.1)	784,914	794,111	(1.2)
<b>Net interest income</b>	<b>281,815</b>	<b>246,003</b>	<b>266,416</b>	<b>14.6</b>	<b>5.8</b>	<b>548,231</b>	<b>475,391</b>	<b>15.3</b>
Non-interest income	85,277	120,227	94,972	(29.1)	(10.2)	180,249	200,381	(10.0)
<b>Net total income</b>	<b>367,092</b>	<b>366,230</b>	<b>361,388</b>	<b>0.2</b>	<b>1.6</b>	<b>728,480</b>	<b>675,772</b>	<b>7.8</b>
Staff expenses	125,702	113,026	118,651	11.2	5.9	244,352	222,207	10.0
Other operating expenses	76,793	71,217	62,126	7.8	23.6	138,919	139,116	(0.1)
Operating expenses	202,494	184,243	180,777	9.9	12.0	383,271	361,323	6.1
<b>Pre-provisioning profit</b>	<b>164,598</b>	<b>181,988</b>	<b>180,611</b>	<b>(9.6)</b>	<b>(8.9)</b>	<b>345,208</b>	<b>314,449</b>	<b>9.8</b>
Total provisions	101,183	131,389	125,013	(23.0)	(19.1)	226,196	223,219	1.3
Profit before tax	63,415	50,598	55,598	25.3	14.1	119,012	91,231	30.5
Tax	17,673	20,481	13,704	(13.7)	29.0	31,377	37,991	(17.4)
<b>Profit after tax</b>	<b>45,742</b>	<b>30,117</b>	<b>41,893</b>	<b>51.9</b>	<b>9.2</b>	<b>87,635</b>	<b>53,239</b>	<b>64.6</b>
<b>Balance Sheet</b>								
Advances	22,939,012	21,461,598	22,983,462	6.9	(0.2)	22,939,012	21,461,598	6.9
Deposits	34,704,617	30,333,958	34,193,628	14.4	1.5	34,704,617	30,333,958	14.4
CASA ratio (%)	45.4	45.1	45.3	26bps	5bps	45.4	45.1	26bps
<b>Yields and margins (%)</b>								
Net interest margin	3.1	2.9	3.0	17bps	6bps			
Yield on advances	7.6	8.5	7.6	(90bps)	(7bps)			
Cost of funds	4.1	4.9	4.4	(74bps)	(25bps)			
<b>Key ratios (%)</b>								
Cost/Income	55.2	50.3	50.0	485bps	514bps	52.6	53.5	(86bps)
Tax rate	27.9	40.5	24.6	(1,261bps)	322bps	26.4	41.6	(1,528bps)
Loan to Deposit ratio	66.1	70.8	67.2	(465bps)	(112bps)	66.1	70.8	(465bps)
<b>Capital adequacy ratios (%)</b>								
Tier 1	11.9	11.3	11.4	59bps	55bps	11.9	11.3	59bps
Total CAR Ratio	14.7	13.6	13.4	113bps	132bps	14.7	13.6	113bps
<b>Asset quality</b>								
Gross NPAs	1,258,630	1,616,361	1,296,607	(22.1)	(2.9)	1,258,630	1,616,361	(22.1)
Net NPAs	364,507	599,392	427,036	(39.2)	(14.6)	364,507	599,392	(39.2)
Gross NPA ratio (%)	5.3	7.2	5.4	(191bps)	(16bps)	5.3	7.2	(191bps)
Net NPA ratio (%)	1.6	2.8	1.9	(120bps)	(27bps)	1.6	2.8	(120bps)
Coverage Ratio (%)	71.0	62.9	67.1	812bps	397bps	71.0	62.9	812bps

Source: Company, BOBCAPS Research

## Valuation methodology

We raise our FY21-FY23 EPS estimates by 70-90% and increase our core P/BV multiple to 0.5x (0.4x earlier) to factor in SBIN's better growth and asset quality outlook. This yields a higher Sep'21 SOTP-based target price of Rs 260 (Rs 219 earlier). We now value the core business at Rs 141/sh (vs. Rs 104/sh) based on the Gordon Growth Model; subsidiaries are valued at Rs 118/sh (vs. Rs 115/sh). Upgrade from ADD to BUY.

**FIG 2 – REVISED ESTIMATES**

Particulars	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income (Rs mn)	1,043,570	1,159,147	1,325,372	979,661	1,055,180	1,168,436	6.5	9.9	13.4
Pre-provisioning profit	692,475	757,837	851,270	617,024	661,217	720,569	12.2	14.6	18.1
Net Profit (Rs mn)	143,287	188,655	238,325	82,697	108,059	125,891	73.3	74.6	89.3
EPS (Rs)	16	21	27	9	12	14	73.3	74.6	89.3

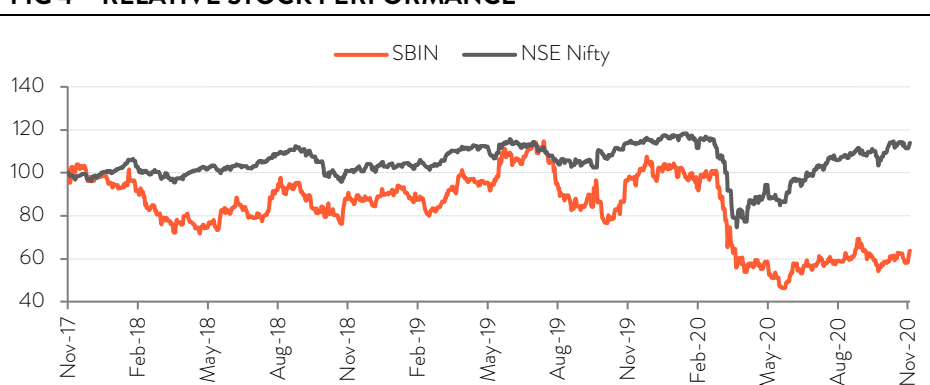
Source: BOBCAPS Research

**FIG 3 – SOTP SUMMARY**

Sum of Parts	Company Value (Rs bn)	Stake in Company (%)	Value for SBIN (Rs bn)	Per Share (Rs)	Contribution to TP (%)	Comments
Core Business	1,260	100	1,260	141	54	Valued at 0.5x Sep'22E P/BV on Gordon Growth Model
SBI Life	787	56	349	39	15	Valued at CMP; adjusted for 20% holdco discount
SBI AMC	253	63	159	18	7	6% of Q2FY21 AAUM
SBI General	129	70	90	10	4	Valued at 15x Sep'22E P/E
SBI Card	767	69	426	48	18	Valued at CMP; adjusted for 20% holdco discount
SBI Capital	33	100	33	4	1	Valued at 10x Sep'22E P/E
<b>Sum of Parts</b>			<b>2,318</b>	<b>260</b>		

Source: BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- A worsening of economic conditions could lead to below-expected growth.
- Above-expected slippages/restructuring can elongate the provisioning cycle.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>883,489</b>	<b>980,848</b>	<b>1,043,570</b>	<b>1,159,147</b>	<b>1,325,372</b>
NII growth (%)	18.0	11.0	6.4	11.1	14.3
Non-interest income	367,749	452,215	405,401	433,431	463,561
Total income	1,251,238	1,433,063	1,448,972	1,592,579	1,788,933
Operating expenses	(696,877)	(751,737)	(756,497)	(834,742)	(937,663)
Operating profit	554,360	681,326	692,475	757,837	851,270
Operating profit growth (%)	(6.8)	22.9	1.6	9.4	12.3
Provisions	(538,286)	(430,698)	(499,884)	(504,268)	(530,940)
PBT	16,075	250,628	192,591	253,569	320,330
Tax	(7,453)	(105,747)	(49,303)	(64,914)	(82,004)
<b>Reported net profit</b>	<b>8,622</b>	<b>144,881</b>	<b>143,287</b>	<b>188,655</b>	<b>238,325</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>8,622</b>	<b>144,881</b>	<b>143,287</b>	<b>188,655</b>	<b>238,325</b>

### 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	2,561,420	2,704,628	2,886,330
Net worth	2,209,138	2,320,074	2,570,345	2,713,552	2,895,255
Deposits	29,113,860	32,416,207	35,781,482	40,100,30	45,575,521
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
<b>Total liabilities and equities</b>	<b>36,809,142</b>	<b>39,513,939</b>	<b>43,510,559</b>	<b>48,473,861</b>	<b>54,681,687</b>
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	25,113,127	27,624,440	30,939,373
Fixed & Other assets	3,055,253	3,280,528	4,658,667	5,970,576	7,614,791
<b>Total assets</b>	<b>36,809,142</b>	<b>39,513,939</b>	<b>43,510,559</b>	<b>48,473,861</b>	<b>54,681,687</b>
Deposit growth (%)	7.6	11.3	10.4	12.1	13.7
Advances growth (%)	13.0	6.4	8.0	10.0	12.0

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	1.0	16.2	16.1	21.1	26.7
Dividend per share	0.0	0.0	0.0	4.2	5.3
Book value per share	247.5	260.0	288.0	304.1	324.4

Source: Company, BOBCAPS Research

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	214.3	12.8	12.9	9.8	7.8
P/BV	0.8	0.8	0.7	0.7	0.6
Dividend yield (%)	0.0	0.0	0.0	2.0	2.6

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.5	2.6	2.5	2.5	2.6
Non-interest income	1.0	1.2	1.0	0.9	0.9
Operating expenses	2.0	2.0	1.8	1.8	1.8
Pre-provisioning profit	1.6	1.8	1.7	1.6	1.7
Provisions	1.5	1.1	1.2	1.1	1.0
PBT	0.0	0.7	0.5	0.6	0.6
Tax	0.0	0.3	0.1	0.1	0.2
ROA	0.0	0.4	0.3	0.4	0.5
Leverage (x)	16.2	16.9	17.0	17.4	18.4
ROE	0.4	6.4	5.9	7.1	8.5

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Net interest income	18.0	11.0	6.4	11.1	14.3
Pre-provisioning profit	(6.8)	22.9	1.6	9.4	12.3
EPS	(112.5)	1580.3	(1.1)	31.7	26.3
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	2.7	2.8	2.8	2.8	3.0
Fees / Avg. assets	0.7	0.6	0.6	0.6	0.6
Cost-Income	55.7	52.5	52.2	52.4	52.4
ROE	0.4	6.4	5.9	7.1	8.5
ROA	0.0	0.4	0.3	0.4	0.5
<b>Asset quality (%)</b>					
GNPA	7.5	6.2	5.4	5.0	4.4
NNPA	3.0	2.2	1.7	1.5	1.4
Provision coverage	61.9	65.2	70.1	69.9	70.1
<b>Ratios (%)</b>					
Credit-Deposit	75.1	71.7	70.2	68.9	67.9
Investment-Deposit	33.2	32.3	31.1	30.3	29.1
CAR	12.7	13.1	13.9	13.7	13.2
Tier-1	10.7	11.0	11.5	11.1	10.5

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

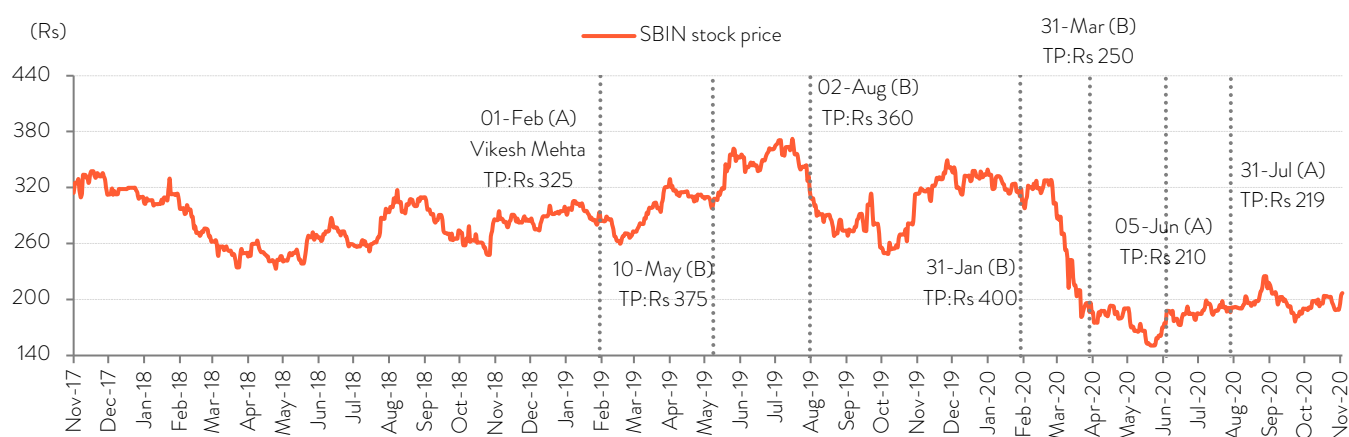
**ADD** – Expected return from >+5% to +15%

**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)

### 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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