

ADD

TP: Rs 210 | ▲ 12%

STATE BANK OF INDIA

Banking

05 June 2020

Core operating profitability remains weak – cut to ADD

SBIN's Q4 PAT at Rs 36bn disappointed on weak NII growth and high provisions. The bank reversed ~Rs 15bn of interest income on agri slippages worth ~Rs 50bn, which hit NII as well as NIM. Excluding gains worth Rs 27bn from the stake sale in SBI Cards, core operating profit remained weak. Apart from providing 15% (~Rs 9.4bn) on standstill accounts, SBIN did not build added buffers for Covid unlike other large peers. We slash FY21/FY22 EPS by 70% each on higher credit costs. Cut from BUY to ADD with a reduced Mar'21 TP of Rs 210 (vs. Rs 250).

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18% of loans under moratorium (ex-agri): Management highlighted that ~22% of customers by number availed of the moratorium. However, 82%/92% of borrowers have paid either two or more, or one or more of their monthly installments post opting for the scheme. In value terms, 18% of overall loans (ex-agriculture) and 35%/~8%/5% of SME/corporate/unsecured personal loans are under moratorium, as well as 16 entities totaling 2-3% of the bank's NBFC portfolio.

| | |
|------------------|----------------|
| Ticker/Price | SBIN IN/Rs 188 |
| Market cap | US\$ 22.2bn |
| Shares o/s | 8,925mn |
| 3M ADV | US\$ 189.2mn |
| 52wk high/low | Rs 374/Rs 149 |
| Promoter/FPI/DII | 59%/9%/32% |

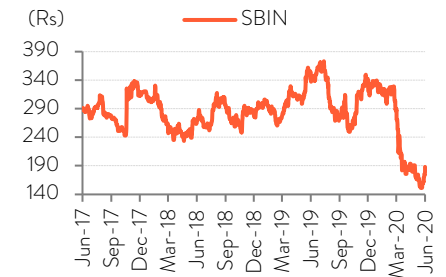
Source: NSE

Asset quality improves on standstill benefit: SBIN's headline GNPA/NNPA ratios declined to 6.2%/2.2% as fresh slippages dropped to Rs 81bn (vs. Rs 165bn in Q3) on extension of the asset classification benefit to loans worth Rs 62.5bn for retail, agri and SME customers. Slippages were lower across segments barring agriculture (Rs 52bn in Q4 vs. Rs 30bn in Q3).

NIM appears to have peaked; no plans to raise capital: Domestic NIM declined by 8bps QoQ to ~3.2% as (1) Q3 had income booked on Essar Steel recovery, and (2) Q4 had interest reversals worth ~Rs 15bn owing to agri slippages. Management does not intend to raise capital.

Cut to ADD: We slash FY21/FY22 EPS by ~70% each on higher credit costs and sustained weak profitability. Downgrade to ADD; Mar'21 TP cut to Rs 210.

STOCK PERFORMANCE



KEY FINANCIALS

| Y/E 31 Mar | FY18A | FY19A | FY20P | FY21E | FY22E |
|-------------------------|----------|---------|---------|---------|-----------|
| Net interest income | 748,537 | 883,489 | 980,848 | 978,634 | 1,054,954 |
| NII growth (%) | 21.0 | 18.0 | 11.0 | (0.2) | 7.8 |
| Adj. net profit (Rs mn) | (65,474) | 8,622 | 144,881 | 82,755 | 108,219 |
| EPS (Rs) | (7.7) | 1.0 | 16.2 | 9.3 | 12.1 |
| P/E (x) | (24.2) | 194.4 | 11.6 | 20.3 | 15.5 |
| P/BV (x) | 0.8 | 0.8 | 0.7 | 0.7 | 0.6 |
| ROA (%) | (0.2) | 0.0 | 0.4 | 0.2 | 0.2 |
| ROE (%) | (3.2) | 0.4 | 6.4 | 3.4 | 4.1 |

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

| (Rs mn) | Q4FY20 | Q4FY19 | Q3FY20 | YoY (%) | QoQ (%) | FY20 | FY19 | YoY (%) |
|------------------------------------|----------------|----------------|----------------|--------------|---------------|------------------|------------------|----------------|
| Income Statement | | | | | | | | |
| Interest income | 626,814 | 629,854 | 676,920 | (0.5) | (7.4) | 2,573,236 | 2,428,686 | 6.0 |
| Interest expense | 399,145 | 400,316 | 399,132 | (0.3) | 0.0 | 1,592,388 | 1,545,202 | 3.1 |
| Net interest income | 227,669 | 229,538 | 277,788 | (0.8) | (18.0) | 980,848 | 883,484 | 11.0 |
| Non-interest income | 160,775 | 126,851 | 91,059 | 26.7 | 76.6 | 452,215 | 367,749 | 23.0 |
| Net total income | 388,444 | 356,390 | 368,847 | 9.0 | 5.3 | 1,433,063 | 1,251,233 | 14.5 |
| Staff expenses | 120,387 | 104,780 | 114,556 | 14.9 | 5.1 | 457,150 | 410,547 | 11.4 |
| Other operating expenses | 83,406 | 82,279 | 72,065 | 1.4 | 15.7 | 294,587 | 286,330 | 2.9 |
| Operating expenses | 203,793 | 187,059 | 186,622 | 8.9 | 9.2 | 751,737 | 696,877 | 7.9 |
| Pre-provisioning profit | 184,651 | 169,331 | 182,226 | 9.0 | 1.3 | 681,326 | 554,356 | 22.9 |
| Total provisions | 134,951 | 165,019 | 72,529 | (18.2) | 86.1 | 430,699 | 538,283 | (20.0) |
| Profit before tax | 49,700 | 4,312 | 109,697 | 1,052.6 | (54.7) | 250,628 | 16,073 | 1,459.3 |
| Tax | 13,892 | (4,072) | 53,863 | NM | (74.2) | 105,747 | 7,453 | 1,318.9 |
| Profit after tax | 35,808 | 8,384 | 55,834 | 327.1 | (35.9) | 144,881 | 8,620 | 1,580.7 |
| Balance Sheet | | | | | | | | |
| Advances | 23,252,896 | 21,858,769 | 21,999,169 | 6.4 | 5.7 | 23,252,896 | 21,858,769 | 6.4 |
| Deposits | 32,416,207 | 29,113,860 | 31,112,286 | 11.3 | 4.2 | 32,416,207 | 29,113,860 | 11.3 |
| CASA ratio (%) | 45.2 | 45.7 | 44.7 | (58bps) | 44bps | 45.2 | 45.7 | (58bps) |
| Yields and margins (%) | | | | | | | | |
| Net interest margin | 3.0 | 2.8 | 3.1 | 19bps | (8bps) | - | - | - |
| Yield on advances | 8.2 | 8.5 | 9.3 | (36bps) | (119bps) | - | - | - |
| Cost of funds | 4.6 | 4.9 | 4.8 | (31bps) | (17bps) | - | - | - |
| Key ratios (%) | | | | | | | | |
| Cost/Income | 52.5 | 52.5 | 50.6 | (2bps) | 187bps | 52.5 | 55.7 | (324bps) |
| Tax rate | 28.0 | (94.4) | 49.1 | 12,239bps | (2,115bps) | 42.2 | 46.4 | (417bps) |
| Loan to Deposit ratio | 71.7 | 75.1 | 70.7 | (335bps) | 102bps | 71.7 | 75.1 | (335bps) |
| Capital adequacy ratios (%) | | | | | | | | |
| Tier 1 | 11.0 | 10.7 | 11.6 | 35bps | (59bps) | 11.0 | 10.7 | 35bps |
| Total CAR Ratio | 13.1 | 12.7 | 13.7 | 34bps | (67bps) | 13.1 | 12.7 | 34bps |
| Asset quality | | | | | | | | |
| Gross NPAs | 1,490,919 | 1,727,504 | 1,596,612 | (13.7) | (6.6) | 1,490,919 | 1,727,504 | (13.7) |
| Net NPAs | 518,713 | 658,947 | 582,486 | (21.3) | (10.9) | 518,713 | 658,947 | (21.3) |
| Gross NPA ratio (%) | 6.2 | 7.5 | 6.9 | (138bps) | (79bps) | 6.2 | 7.5 | (138bps) |
| Net NPA ratio (%) | 2.2 | 3.0 | 2.7 | (78bps) | (42bps) | 2.2 | 3.0 | (78bps) |
| Coverage Ratio (%) | 65.2 | 61.9 | 63.5 | 335bps | 169bps | 65.2 | 61.9 | 335bps |

Source: Company, BOBCAPS Research

Valuation methodology

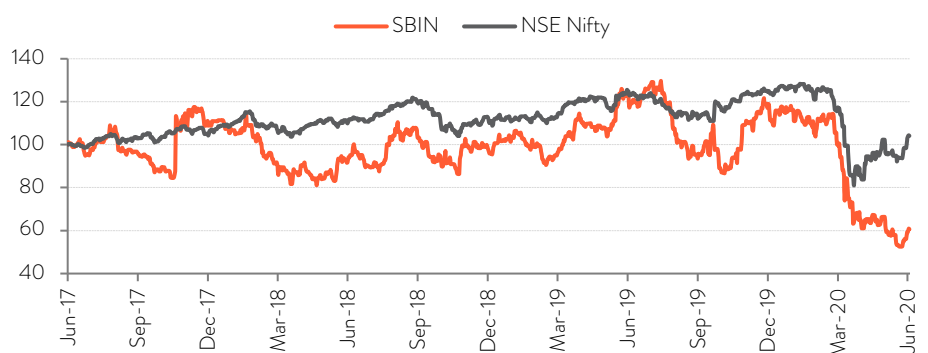
We sharply reduce our FY21-FY22 EPS estimates by ~70% each on higher credit costs. Valuing SBIN using the SOTP methodology, we lower our Mar'21 target price to Rs 210 (Rs 250 earlier). Our target price values the core business on the Gordon Growth Model while subsidiaries are valued at Rs 106/sh. Downgrade from BUY to ADD.

FIG 2 – REVISED ESTIMATES

| Particulars | New | | Old | | Change (%) | |
|---------------------------------|---------|-----------|-----------|-----------|------------|--------|
| | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E |
| Net interest income (Rs mn) | 978,634 | 1,054,954 | 1,071,324 | 1,208,473 | (8.7) | (12.7) |
| Pre-provisioning profit (Rs mn) | 615,874 | 661,033 | 719,375 | 820,671 | (14.4) | (19.5) |
| Net Profit (Rs mn) | 82,755 | 108,219 | 291,069 | 349,389 | (71.6) | (69.0) |
| EPS (Rs) | 9 | 12 | 33 | 39 | (71.6) | (69.0) |

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- A worsening of economic conditions could lead to an elongated provisioning cycle.
- Potential moral pressure toward directed lending (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) | FY18A | FY19A | FY20P | FY21E | FY22E |
|-----------------------------|-----------------|----------------|----------------|----------------|------------------|
| Net interest income | 748,537 | 883,489 | 980,848 | 978,634 | 1,054,954 |
| NII growth (%) | 21.0 | 18.0 | 11.0 | (0.2) | 7.8 |
| Non-interest income | 446,007 | 367,749 | 452,215 | 400,167 | 428,108 |
| Total income | 1,194,544 | 1,251,238 | 1,433,063 | 1,378,801 | 1,483,062 |
| Operating expenses | (599,434) | (696,877) | (751,737) | (762,928) | (822,029) |
| Operating profit | 595,110 | 554,360 | 681,326 | 615,874 | 661,033 |
| Operating profit growth (%) | 17.0 | (6.8) | 22.9 | (9.6) | 7.3 |
| Provisions | (750,392) | (538,286) | (430,699) | (504,643) | (515,578) |
| PBT | (155,282) | 16,075 | 250,628 | 111,230 | 145,455 |
| Tax | 89,808 | (7,453) | (105,747) | (28,475) | (37,236) |
| Reported net profit | (65,474) | 8,622 | 144,881 | 82,755 | 108,219 |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | (65,474) | 8,622 | 144,881 | 82,755 | 108,219 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY18A | FY19A | FY20P | FY21E | FY22E |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Equity capital | 8,925 | 8,925 | 8,925 | 8,925 | 8,925 |
| Reserves & surplus | 2,182,360 | 2,200,214 | 2,311,150 | 2,560,491 | 2,641,360 |
| Net worth | 2,191,285 | 2,209,138 | 2,320,074 | 2,569,415 | 2,650,284 |
| Deposits | 27,063,433 | 29,113,860 | 32,416,207 | 34,866,235 | 38,643,292 |
| Borrowings | 4,084,732 | 4,525,008 | 3,690,877 | 3,955,518 | 4,335,477 |
| Other liabilities & provisions | 1,208,070 | 961,136 | 1,086,781 | 1,167,280 | 1,255,162 |
| Total liabilities and equities | 34,547,519 | 36,809,142 | 39,513,939 | 42,558,448 | 46,884,214 |
| Cash & bank balance | 1,918,986 | 2,224,901 | 2,510,970 | 2,610,351 | 2,714,540 |
| Investments | 10,609,867 | 9,670,219 | 10,469,545 | 11,135,859 | 12,172,665 |
| Advances | 19,348,802 | 21,858,769 | 23,252,896 | 24,531,805 | 26,739,667 |
| Fixed & Other assets | 2,669,865 | 3,055,253 | 3,280,528 | 4,280,433 | 5,257,341 |
| Total assets | 34,547,520 | 36,809,142 | 39,513,939 | 42,558,448 | 46,884,214 |
| Deposit growth (%) | 32.4 | 7.6 | 11.3 | 7.6 | 10.8 |
| Advances growth (%) | 23.2 | 13.0 | 6.4 | 5.5 | 9.0 |

Per Share

| Y/E 31 Mar (Rs) | FY18A | FY19A | FY20P | FY21E | FY22E |
|----------------------|-------|-------|-------|-------|-------|
| EPS | (7.7) | 1.0 | 16.2 | 9.3 | 12.1 |
| Dividend per share | 0.0 | 0.0 | 0.0 | 1.9 | 2.4 |
| Book value per share | 245.5 | 247.5 | 260.0 | 287.9 | 297.0 |

Source: Company, BOBCAPS Research

Valuations Ratios

| Y/E 31 Mar (x) | FY18A | FY19A | FY20P | FY21E | FY22E |
|--------------------|--------|-------|-------|-------|-------|
| P/E | (24.2) | 194.4 | 11.6 | 20.3 | 15.5 |
| P/BV | 0.8 | 0.8 | 0.7 | 0.7 | 0.6 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 1.0 | 1.3 |

DuPont Analysis

| Y/E 31 Mar (%) | FY18A | FY19A | FY20P | FY21E | FY22E |
|-------------------------|-------|-------|-------|-------|-------|
| Net interest income | 2.4 | 2.5 | 2.6 | 2.4 | 2.4 |
| Non-interest income | 1.4 | 1.0 | 1.2 | 1.0 | 1.0 |
| Operating expenses | 1.9 | 2.0 | 2.0 | 1.9 | 1.8 |
| Pre-provisioning profit | 1.9 | 1.6 | 1.8 | 1.5 | 1.5 |
| Provisions | 2.4 | 1.5 | 1.1 | 1.2 | 1.2 |
| PBT | (0.5) | 0.0 | 0.7 | 0.3 | 0.3 |
| Tax | (0.3) | 0.0 | 0.3 | 0.1 | 0.1 |
| ROA | (0.2) | 0.0 | 0.4 | 0.2 | 0.2 |
| Leverage (x) | 15.1 | 16.2 | 16.9 | 16.8 | 17.1 |
| ROE | (3.2) | 0.4 | 6.4 | 3.4 | 4.1 |

Ratio Analysis

| Y/E 31 Mar | FY18A | FY19A | FY20P | FY21E | FY22E |
|--|---------|---------|--------|--------|-------|
| YoY growth (%) | | | | | |
| Net interest income | 21.0 | 18.0 | 11.0 | (0.2) | 7.8 |
| Pre-provisioning profit | 17.0 | (6.8) | 22.9 | (9.6) | 7.3 |
| EPS | (158.2) | (112.5) | 1580.3 | (42.9) | 30.8 |
| Profitability & Return ratios (%) | | | | | |
| Net interest margin | 2.6 | 2.7 | 2.8 | 2.6 | 2.6 |
| Fees / Avg. assets | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| Cost-Income | 50.2 | 55.7 | 52.5 | 55.3 | 55.4 |
| ROE | (3.2) | 0.4 | 6.4 | 3.4 | 4.1 |
| ROA | (0.2) | 0.0 | 0.4 | 0.2 | 0.2 |
| Asset quality (%) | | | | | |
| GNPA | 10.9 | 7.5 | 6.2 | 5.5 | 5.0 |
| NNPA | 5.7 | 3.0 | 2.2 | 1.7 | 1.1 |
| Provision coverage | 50.4 | 61.9 | 65.2 | 70.5 | 78.7 |
| Ratios (%) | | | | | |
| Credit-Deposit | 71.5 | 75.1 | 71.7 | 70.4 | 69.2 |
| Investment-Deposit | 39.2 | 33.2 | 32.3 | 31.9 | 31.5 |
| CAR | 12.6 | 12.7 | 13.1 | 13.6 | 13.3 |
| Tier-1 | 10.4 | 10.7 | 11.0 | 11.3 | 10.8 |

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

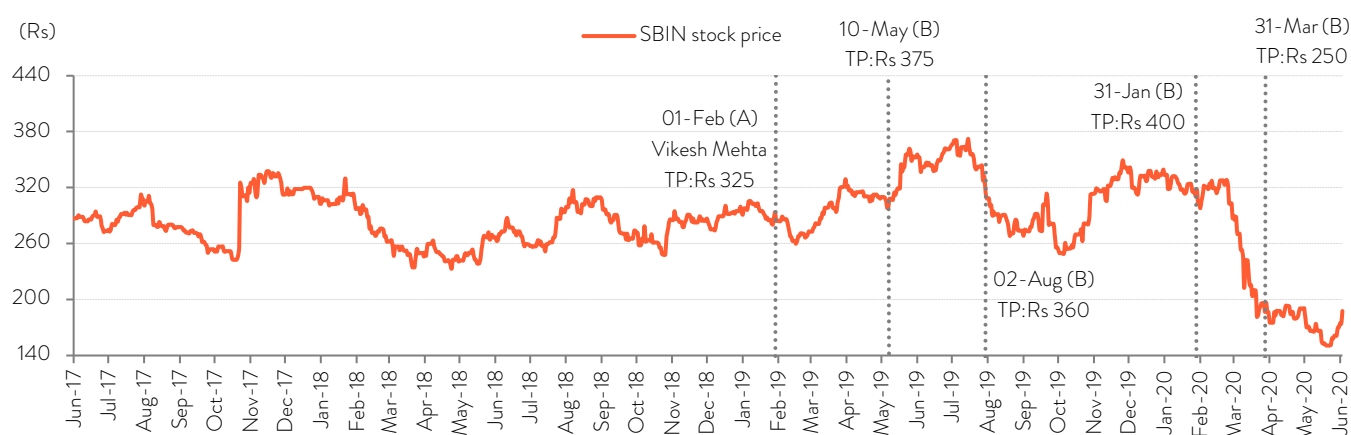
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: STATE BANK OF INDIA (SBIN IN)



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

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