

BUY

TP: Rs 515 | ▲ 28%

STATE BANK OF INDIA

Banking

21 May 2021

Strong show on asset quality – retain BUY

State Bank of India's (SBIN) Q4FY21 PAT of Rs 64.5bn was backed by 19% YoY NII growth and strong non-interest income from a lumpy NPA recovery worth Rs 40bn. FY21 slippages and restructured loans at Rs 464bn (1.9% of advances) were well within guided levels. Also, a low restructured book at 0.7% of loans and a manageable SMA 1&2 book at 0.5% reflect strong underwriting standards. Loan growth at 5% YoY was muted. Adjusting for the weaker growth and lower credit cost, we raise FY22-FY23 EPS 8-9%. Our Mar'22 TP rises to Rs 515 (vs. Rs 475).

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Overall stress remains in check: Fresh slippages (ex-proforma till Q3) were manageable at ~Rs 55bn or 1.2% of loans – this coupled with higher reductions led to a 40bps QoQ decline in GNPA ratio to 5%. The restructured book at 0.7% of loans and SMA 1&2 book at 0.5% remain well contained and a testament to SBIN's robust underwriting standards. Collection efficiency in Apr'21 was similar to Q4 levels at 95-96%. The bank does not expect any lumpy recoveries in FY22, barring a large HFC account. It remains cautious on the stress that could emerge from the agri and SME portfolios due to the second Covid wave.

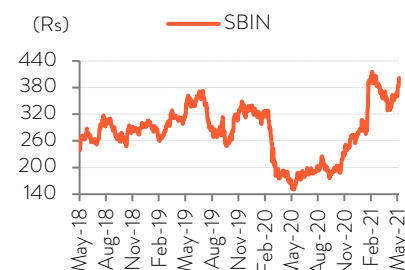
Corporate segment continues to weigh on loan growth: Q4 loan growth at 5% YoY was disappointing as the corporate loan book declined 3% owing to higher levels of unutilised sanctions. Retail growth remained strong at 16% YoY on the back of home loans (+10% YoY), 'Xpress' credit (+36% YoY) and personal gold loans. SBIN expects the SME and corporate segments coupled with continued traction in retail to bolster growth in FY22.

Maintain BUY: Factoring in the weaker loan growth and lower credit cost, we raise FY22-FY23 EPS by 8-9%. We retain BUY on SBIN with a new Mar'22 SOTP-based TP of Rs 515, which values the core business at an unchanged 1x FY23E P/BV. Subsidiaries continue to form ~30% of our target price.

Ticker/Price	SBIN IN/Rs 401
Market cap	US\$ 49.2bn
Shares o/s	8,925mn
3M ADV	US\$ 248.1mn
52wk high/low	Rs 428/Rs 149
Promoter/FPI/DII	58%/8%/34%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	883,489	980,848	1,107,104	1,298,979	1,497,711
NII growth (%)	18.0	11.0	12.9	17.3	15.3
Adj. net profit (Rs mn)	8,622	144,881	204,105	302,473	409,000
EPS (Rs)	1.0	16.2	22.9	33.9	45.8
P/E (x)	415.3	24.7	17.5	11.8	8.8
P/BV (x)	1.6	1.5	1.4	1.3	1.1
ROA (%)	0.0	0.4	0.5	0.6	0.7
ROE (%)	0.4	6.4	8.4	11.3	13.7

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Income Statement								
Interest income	651,016	626,814	667,345	3.9	(2.4)	2,651,506	2,573,236	3.0
Interest expense	380,346	399,145	379,146	(4.7)	0.3	1,544,406	1,592,388	(3.0)
Net interest income	270,670	227,669	288,199	18.9	(6.1)	1,107,100	980,848	12.9
Non-interest income	162,253	160,775	92,462	0.9	75.5	434,964	452,215	(3.8)
Net total income	432,923	388,444	380,661	11.5	13.7	1,542,064	1,433,063	7.6
Staff expenses	133,828	120,387	131,180	11.2	2.0	509,360	457,150	11.4
Other operating expenses	102,094	83,406	76,149	22.4	34.1	317,162	294,587	7.7
Operating expenses	235,922	203,793	207,329	15.8	13.8	826,522	751,737	9.9
Pre-provisioning profit	197,002	184,651	173,332	6.7	13.7	715,542	681,326	5.0
Total provisions	110,510	134,951	103,424	(18.1)	6.9	440,130	430,699	2.2
Profit before tax	86,491	49,700	69,908	74.0	23.7	275,411	250,628	9.9
Tax	21,984	13,892	17,946	58.2	22.5	71,307	105,747	(32.6)
Profit after tax	64,507	35,808	51,962	80.1	24.1	204,105	144,881	40.9
Balance Sheet								
Advances	24,494,978	23,252,896	23,681,391	5.3	3.4	24,494,978	23,252,896	5.3
Deposits	36,812,771	32,416,207	35,357,534	13.6	4.1	36,812,771	32,416,207	13.6
CASA ratio (%)	46.1	45.2	45.2	97bps	98bps	46.1	45.2	97bps
Yields and margins (%)								
Net interest margin	3.0	3.0	3.1	7bps	(5bps)			
Yield on advances	6.7	7.5	7.5	(85bps)	(83bps)			
Cost of funds	3.8	4.6	3.9	(83bps)	(15bps)			
Key ratios (%)								
Cost/Income	54.5	52.5	54.5	203bps	3bps	53.6	52.5	114bps
Tax rate	25.4	28.0	25.7	(253bps)	(25bps)	25.9	42.2	(1630bps)
Loan to Deposit ratio	66.5	71.7	67.0	(519bps)	(44bps)	66.5	71.7	(519bps)
Capital adequacy ratios (%)								
Tier 1	11.4	11.0	11.7	44bps	(29bps)	11.4	11.0	44bps
Total CAR Ratio	13.7	13.1	14.5	68bps	(76bps)	13.7	13.1	68bps
Asset quality								
Gross NPAs	1,263,890	1,490,919	1,172,442	(15.2)	7.8	1,263,890	1,490,919	(15.2)
Net NPAs	368,097	518,713	290,317	(29.0)	26.8	368,097	518,713	(29.0)
Gross NPA ratio (%)	5.0	6.2	4.8	(117bps)	21bps	5.0	6.2	(117bps)
Net NPA ratio (%)	1.5	2.2	1.2	(73bps)	27bps	1.5	2.2	(73bps)
Slippage ratio (%)	3.6	1.4	0.0	219bps	359bps	1.3	2.3	(102bps)
Credit costs (%)	1.1	2.1	0.4	(95bps)	74bps	1.1	1.9	(76bps)
Coverage Ratio (%)	70.9	65.2	75.2	567bps	(436bps)	70.9	65.2	567bps

Source: Company, BOBCAPS Research | Note: Proforma GNPA and NNPA ratio as on Q3FY21 stood at 5.44% and 1.81% respectively | Slippage ratio in Q4FY21 includes proforma slippages of 9MFY21.

Valuation methodology

SBIN has continued to do well on the asset quality front with slippage ratio contained at 1.2%, a 15% YoY decline in absolute GNPA, restructured book manageable at 0.7% of loans, and PCR including technical write-offs improving to 88% in FY21 despite the impact of Covid.

Moreover, the bank has fortified its balance sheet well with a non-NPA and pandemic-related provisioning buffer at 1.3% of loans. We have lowered our FY22/FY23 credit cost estimates by 40bps/35bps to 1.3%/1.1%. However, in light of the weakness in Q4FY21, we reduce our loan growth estimates for these years from 15%/17% to 10%/15%. Overall, our FY22/FY23 EPS moves up by 9%/8%.

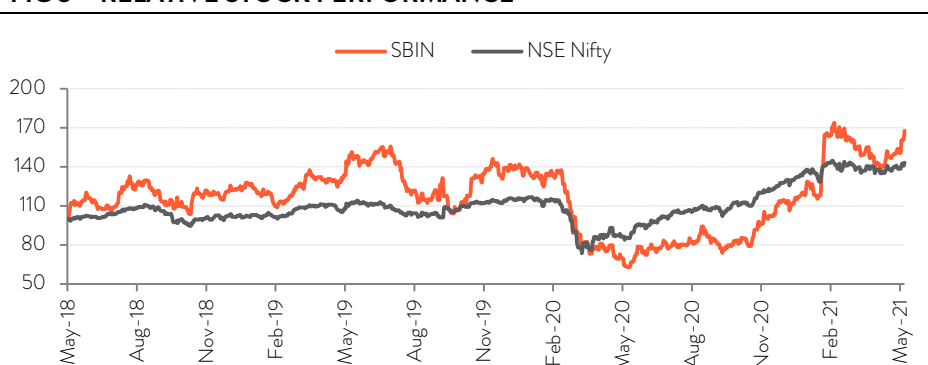
Estimate revision yields a higher Mar'22 SOTP-based target price of Rs 515 (Rs 475 earlier). Our core business valuation at Rs 353/sh (Rs 328/sh earlier) is based on an unchanged 1x FY23E core P/BV, arrived at using the Gordon Growth Model. Subsidiaries continue to drive ~30% (Rs 162/sh) of our target price. Maintain BUY.

FIG 2 – REVISED ESTIMATES

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net interest income	1,298,979	1,497,711	1,331,670	1,518,850	(2.5)	(1.4)
Pre-provisioning profit	812,234	940,868	822,230	968,487	(1.2)	(2.9)
Net Profit	302,473	409,000	277,902	379,637	8.8	7.7
EPS (Rs)	34	46	31	43	8.8	7.7

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Slower than expected pick-up in economic conditions could lead to below-expected growth.
- Above-expected slippages in the corporate and SME portfolio can elongate the provisioning cycle.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	883,489	980,848	1,107,104	1,298,979	1,497,711
NII growth (%)	18.0	11.0	12.9	17.3	15.3
Non-interest income	367,749	452,215	434,964	437,933	484,244
Total income	1,251,238	1,433,063	1,542,068	1,736,913	1,981,955
Operating expenses	(696,877)	(751,737)	(826,522)	(924,678)	(1,041,087)
Operating profit	554,360	681,326	715,546	812,234	940,868
Operating profit growth (%)	(6.8)	22.9	5.0	13.5	15.8
Provisions	(538,286)	(430,698)	(440,134)	(405,685)	(391,137)
PBT	16,075	250,628	275,412	406,550	549,731
Tax	(7,453)	(105,747)	(71,308)	(104,077)	(140,731)
Reported net profit	8,622	144,881	204,105	302,473	409,000
Adjustments	0	0	0	0	0
Adjusted net profit	8,622	144,881	204,105	302,473	409,000

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Equity capital	8,925	8,925	8,925	8,925	8,925
Reserves & surplus	2,200,214	2,311,150	2,529,827	2,810,667	3,124,641
Net worth	2,209,138	2,320,074	2,538,752	2,819,591	3,133,566
Deposits	29,113,860	32,416,20	36,812,771	42,334,68	49,531,58
Borrowings	4,525,008	3,701,981	4,783,944	5,259,065	5,781,536
Other liabilities & provisions	961,136	1,075,677	1,208,830	1,318,390	1,438,566
Total liabilities and equities	36,809,14	39,513,939	45,344,29	51,731,732	59,885,25
Cash & bank balance	2,224,901	2,510,970	3,430,387	3,570,911	3,718,258
Investments	9,670,219	10,469,54	13,517,052	14,779,956	16,169,633
Advances	21,858,769	23,252,89	24,494,97	26,944,47	30,986,14
Fixed & Other assets	3,055,253	3,280,528	3,901,879	6,436,389	9,011,212
Total assets	36,809,14	39,513,939	45,344,29	51,731,732	59,885,25
Deposit growth (%)	7.6	11.3	13.6	15.0	17.0
Advances growth (%)	13.0	6.4	5.3	10.0	15.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
EPS	1.0	16.2	22.9	33.9	45.8
Dividend per share	0.0	0.0	4.3	6.8	9.2
Book value per share	247.5	260.0	284.5	315.9	351.1

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
P/E	415.3	24.7	17.5	11.8	8.8
P/BV	1.6	1.5	1.4	1.3	1.1
Dividend yield (%)	0.0	0.0	1.1	1.7	2.3

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	2.5	2.6	2.6	2.7	2.7
Non-interest income	1.0	1.2	1.0	0.9	0.9
Operating expenses	2.0	2.0	1.9	1.9	1.9
Pre-provisioning profit	1.6	1.8	1.7	1.7	1.7
Provisions	1.5	1.1	1.0	0.8	0.7
PBT	0.0	0.7	0.6	0.8	1.0
Tax	0.0	0.3	0.2	0.2	0.3
ROA	0.0	0.4	0.5	0.6	0.7
Leverage (x)	16.2	16.9	17.5	18.1	18.7
ROE	0.4	6.4	8.4	11.3	13.7

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Net interest income	18.0	11.0	12.9	17.3	15.3
Pre-provisioning profit	(6.8)	22.9	5.0	13.5	15.8
EPS	(112.5)	1580.3	40.9	48.2	35.2
Profitability & Return ratios (%)					
Net interest margin	2.7	2.8	2.9	3.0	3.1
Fees / Avg. assets	0.7	0.6	0.6	0.5	0.5
Cost-Income	55.7	52.5	53.6	53.2	52.5
ROE	0.4	6.4	8.4	11.3	13.7
ROA	0.0	0.4	0.5	0.6	0.7
Asset quality (%)					
GNPA	7.5	6.2	5.0	4.2	3.6
NNPA	3.0	2.2	1.5	1.1	0.9
Credit cost	2.6	1.9	1.1	1.3	1.1
Provision coverage	61.9	65.2	70.9	73.8	75.5
Ratios (%)					
Credit-Deposit	75.1	71.7	66.5	63.6	62.6
Investment-Deposit	33.2	32.3	36.7	34.9	32.6
CAR	12.7	13.1	13.9	14.0	13.8
Tier-1	10.7	11.0	11.5	11.5	11.2

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

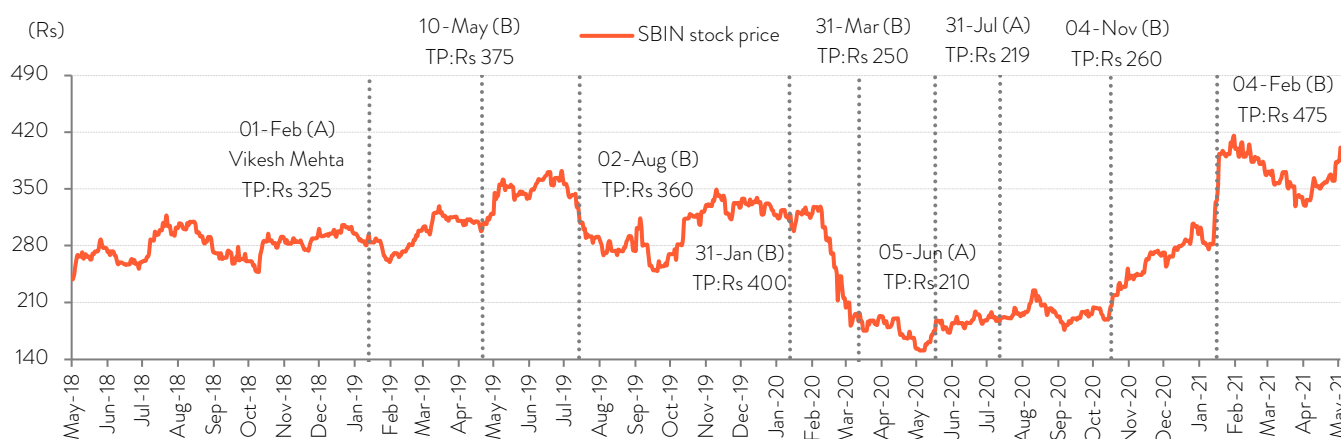
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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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