

State Bank of India

6 November 2018

Reuters: SBI.BO; Bloomberg: SBIN IN

Domestic Credit Growth Improves Materially

State Bank of India (SBI) reported its 2QFY19 results with the key strategic pointers being: (1) For the second consecutive quarter, NPA addition at Rs 108.88bn was lower than past run rate till 4QFY18 (2) Domestic NIM improved 5 bps to 2.76%, when adjusted for interest income booked on NCLT resolutions (3) Domestic credit growth improved to 11.1% YoY (4) Core opex growth was kept on a tight leash with Salary expenses growth at just 3.9% YoY. (See *comprehensive analyst meet takeaways* for incremental insights). Per se, on the results front, SBI posted NII growth of 13% YoY at Rs209bn, PPOP decline of 15% YoY at Rs123bn and PAT decline of 40% YoY at Rs9bn. We have revised our estimates for FY19/FY20/FY21 and retained Buy rating on SBI, revising our target price to Rs347 (from Rs329 earlier) and valuing the stock at 1.3x 1HFY21E P/ABV and Rs70 for subsidiaries.

For the second consecutive quarter, NPA addition at Rs 108.88bn was lower than past run rate till 4QFY18: Gross NPA addition was Rs 108.88bn compared with a past-10 quarter average of Rs 204.42bn till 4QFY18. Management re-iterated slippage ratio and credit costs would each be contained within 2% for FY19. Non-fund exposure to all NPA is about Rs 130bn and do not have significant devolvement risk. 75% of corporate slippages (Rs31.89bn) were from pre-stated watchlist. Watchlist, SMA2 and stressed SMA1 taken together, fell QoQ from Rs246.33bn to Rs203.59bn or 0.98% of advances. Management stated that they expected a writeback of ~Rs60bn from a single NCLT 1 account and on NCLT 2 list, they are expecting and overall recovery of ~30% (PCR on NCLT 2 is 78%). Overall PCR stood at 70.7% including AUCA and 53.95% without AUCA. Provision on power sector NPA stood at 41% with management indicating that an incremental 10% points would be sufficient from an LGD perspective amounting to an incremental provision quantum of Rs 3.2-3.5bn on this book.

Domestic NIM improved 5 bps to 2.76%, when adjusted for interest income booked on NCLT resolutions: There was no benefit to interest income due recovery on any key NCLT account, a benefit that had accrued during 1QFY19. Adjusted for the 'one-off' in 1QFY19, NIM improved QoQ. Management guided that a domestic NIM of 2.85% could be achieved whereas overseas NIM could be 1.5%. CASA ratio inched up to 45.3%, up 39 bps YoY.

Domestic credit growth improved to 11.1% YoY: Domestic loan growth was driven by corporate advances growth of 14.3% YoY, taking the share of corporate advances to 41.9% of domestic advances. Core retail (personal segment) also grew at a similar pace of 14.2% YoY taking the share of core retail to 32.4% of domestic advances. Overseas advances de-grew -0.3% YoY dragging whole bank loan growth down to 9.3%. Share of overseas advances in whole bank advances stood at 14.1% as of 1HFY19.

Core opex growth was kept on a tight leash with Salary expenses growth at just 3.9% YoY: Salary expenses, the indicator of structural opex, grew just 3.9% YoY to Rs 65.41bn. A key reason for this is the process of digitization ongoing within SBI, which is reflected in the share of branch channel in transactions declining to 13.1% in 2QFY19 compared with 16.8% in 2QFY18.

Valuation and outlook: We have retained our NII and PPOP estimates, and revised our PAT estimates by -11.5%/-2.1%/0.8% for FY19/FY20/FY21, respectively. We have valued SBI at 1.3x 1HFY21E P/ABV and Rs70 for subsidiaries, revising our target price on it to Rs347 (from Rs329 earlier).

BUY

Sector: Banking

CMP: Rs295

Target Price: Rs347

Upside: 18%

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Key Data

Current Shares O/S (mn)	8,924.6
Mkt Cap (Rsbn/US\$bn)	2,642.6/36.2
52 Wk H / L (Rs)	347/232
Daily Vol. (3M NSE Avg.)	29,609,330

Price Performance (%)

	1 M	6 M	1 Yr
SBI	14.6	22.4	(8.9)
Nifty Index	2.1	(0.8)	0.7

Source: Bloomberg

Y/E March (Rsmn)	2QFY19	2QFY18	1QFY19	YoY (%)	QoQ (%)
Interest income	5,87,935	5,48,497	5,88,132	7.2	(0.0)
Interest expenses	3,78,878	3,62,638	3,70,148	4.5	2.4
Net interest income	2,09,057	1,85,859	2,17,984	12.5	(4.1)
NIM (%)	2.7	2.4	2.8	30bps	(7bps)
Non-interest income	78,145	1,05,799	66,795	(26.1)	17.0
Operating income	2,87,202	2,91,658	2,84,779	(1.5)	0.9
Staff costs	96,964	77,032	97,084	25.9	(0.1)
Other operating expenses	66,795	68,996	67,963	(3.2)	(1.7)
Total operating expenses	1,63,759	1,46,028	1,65,047	12.1	(0.8)
Cost to income (%)	57.0	50.1	58.0	695bps	(94bps)
Operating profit	1,23,443	1,45,630	1,19,731	(15.2)	3.1
Provisions	1,20,922	1,91,374	1,92,283	(36.8)	(37.1)
Exceptional Items	15,606	54,362	-	(71.3)	NA
PBT	18,127	8,617	(72,551)	110.4	NA
Tax	8,678	(7,198)	(23,793)	NA	NA
-Effective tax rate (%)	47.9	NA	NA	NA	NA
Net profit	9,449	15,816	(48,759)	(40.3)	NA
EPS (Rs)	1.1	1.8	(5.5)	(42.2)	NA
BV (Rs)	244.3	280.3	241.0	(12.9)	1.4
Deposits	2,80,74,201	2,64,00,325	2,74,78,132	6.3	2.2
Advances	1,95,73,396	1,83,47,614	1,87,57,735	6.7	4.3

Source: Company, Nirmal Bang Institutional Equities Research

Comprehensive Analyst Meet Takeaways

Asset Quality

- Credit costs stood at 1.99% for the quarter. Management expects an improvement of few bps due to size of portfolio increasing for the rest of the year.
- The management stated that they have witnessed most NBFCs successfully rolling over CPs and NCDs. SBI has made portfolio purchases worth Rs52bn in October and another ~Rs152bn amount of portfolio purchases are in pipeline.
- On the power sector exposure, the management stated that resolution is in sight for some assets. The bank will continue to provide as per requirement of ageing provisions, and currently they have a provision of 41% on NPAs from this sector, i.e. Rs32-35bn of incremental provision on this book.
- The management stated that IL&FS is not much of a concern for them. Total exposure as stated by them is as follows: 1) Exposure to holding company- Rs2500mn 2) Exposure to SPVs Rs38-40bn, of which Rs27bn exposure is to a single SPV where a large PSU is the majority shareholder 3) Other- Rs900mn. All are ring-fenced cash flows.
- On the stressed power assets, the management stated that the idea is to resolve them outside NCLT. The country cannot afford the power sector going under.
- The management stated that there was no interest income from NCLT recoveries in this quarter.
- On exposure to accounts under NCLT List 1, the management stated that they are sitting on provision writeback of Rs60bn on one account and on the rest of the NCLT List 1 exposure, provisions equal LGD.
- On exposure to accounts under NCLT List 2, the management stated that they are expecting a recovery of above 30% and provision on these accounts is ~80%.
- Overall, corporate loan book PCR stood at ~58% as of this quarter end.
- Breakup of total slippages during this quarter stood as: Rs38,840mn SME, Rs27,000mn Agri, Rs9,820mn Retail and the rest is Corporate.
- On the Samadhan cases, the management stated that PFC and SBI are on the same page as far as resolution of cases is concerned. 100% approval is required on all of them. The management is hopeful on 4-5 cases.
- BB and below rated book rose from 9% to 19% sequentially. The management stated that some downgrades to BB and below rated book came from the power sector. They clarified that no large account was downgraded to BB and below rated book.
- Outstanding balance of SR book stood at ~Rs100bn as of this quarter end.
- The management stated that they do not expect any significant slippage from the sub-investment grade power sector book not in the watchlist.
- The management stated that the total non-fund exposure to all NPAs stood at less than Rs130bn.

Loan and Business Growth

- The management stated that they do not foresee any major change in loan book composition going forward.
- The management stated that a large part of their corporate loan book growth is coming from PSU companies including from Maharatnas, Navratnas, etc.
- The management maintained their overall credit growth guidance of 10-12% YoY.
- The management stated that the growth in personal loans is heavily focused on salary accounts and pensioner accounts, in which pre-approved loans are based on internal data. They have launched this product on mobile app YONO, through which they have sanctioned credit worth Rs5,000mn in 2 months.

Margin, Liabilities and Liquidity

- The management guided for domestic NIM to be around 2.85% and overseas NIM to be around 1.5% going forward.
- There was no interest income due to recovery on any key NCLT account.

Capital

- The management stated that they are sitting on an enabling resolution worth Rs200bn to issue fresh capital if required.

Subsidiaries

- The management stated that SBI General Insurance, it's subsidiary, is currently valued at Rs120bn based on value unlocking transaction.
- The management stated that the merchant acquisition business has been hived off, and has been transferred to an existing subsidiary. Hitachi is buying a stake of 26% in this subsidiary at a valuation of Rs60bn for the total entity.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net interest income	6,18,597	7,48,537	8,56,544	9,30,570	10,72,695
Pre-provision profit	5,08,479	5,95,110	6,71,553	7,99,551	9,46,735
PAT	1,04,841	(65,475)	1,85,052	3,16,515	4,18,476
EPS (Rs)	13.1	(7.3)	20.0	34.2	45.3
BV (Rs)	236.2	245.5	267.8	299.1	341.5
P/E	17.5	(31.3)	11.5	6.7	5.1
P/BV	1.0	1.0	0.9	0.8	0.7
Gross NPAs (%)	6.9	10.9	9.9	8.7	7.6
Net NPAs (%)	3.7	5.7	4.5	3.3	2.6
RoA (%)	0.4	(0.2)	0.5	0.8	1.0
RoE (%)	6.3	(3.2)	7.9	12.1	14.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimates

(Rsmn)	2QFY19	2QFY18	1QFY19	YoY (%)	QoQ (%)	2QFY19E	Devi. (%)
Net interest income	2,09,057	1,85,859	2,17,984	12.5	(4.1)	2,16,362	(3.4)
Pre-provision profit	1,23,443	1,45,630	1,19,731	(15.2)	3.1	1,55,760	(20.7)
PAT	9,449	15,816	(48,759)	(40.3)	NA	54,769	(82.7)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

	Revised estimate			Earlier estimate			% Revision		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net interest income (Rsmn)	8,56,544	9,30,570	10,72,695	8,56,544	9,30,570	10,72,695	-	-	-
NIM (%)	2.6	2.7	2.8	2.6	2.7	2.8	-	-	-
Operating profit (Rsmn)	6,71,553	7,99,551	9,46,735	6,71,553	7,99,551	9,46,735	-	-	-
Profit after tax (Rsmn)	1,85,052	3,16,515	4,18,476	2,09,168	3,23,176	4,15,122	(11.5)	(2.1)	0.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: One-year forward P/BV (adjusting for subsidiaries)



Source: Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 5: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Interest income	17,55,182	22,04,993	25,70,207	27,94,299	31,54,861
Interest expenses	11,36,585	14,56,456	17,13,663	18,63,729	20,82,166
Net interest income	6,18,597	7,48,537	8,56,544	9,30,570	10,72,695
Fee income	1,62,766	2,29,968	2,94,586	3,38,411	3,93,871
Other income	1,91,843	2,16,039	1,81,663	2,22,773	2,49,496
Net revenues	9,73,206	11,94,544	13,32,793	14,91,754	17,16,061
Operating expenses	4,64,728	5,99,434	6,61,239	6,92,203	7,69,326
-Employee expenses	2,64,893	3,31,787	3,56,496	3,92,145	4,31,360
-Other expenses	1,99,835	2,67,648	3,04,744	3,00,057	3,37,966
Pre-provision profit	5,08,479	5,95,110	6,71,553	7,99,551	9,46,735
Provisions	3,59,927	7,50,392	3,91,172	3,19,983	3,12,679
-Loan loss provision	3,29,056	7,13,742	3,04,744	2,93,289	2,92,227
-Investment depreciation	2,984	80,876	73,079	10,092	-
-Other provisions	27,887	(44,226)	13,349	16,601	20,453
PBT	1,48,552	(1,55,282)	2,80,381	4,79,568	6,34,055
Tax	43,711	(89,808)	95,330	1,63,053	2,15,579
PAT	1,04,841	(65,475)	1,85,052	3,16,515	4,18,476

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Equity capital	7,973	8,925	9,247	9,247	9,247
Reserves & surplus	18,74,887	21,82,361	24,67,090	27,57,020	31,48,910
Shareholders' funds	18,82,860	21,91,286	24,76,337	27,66,267	31,58,158
Deposits	2,04,47,514	2,70,63,433	2,94,82,033	3,26,74,585	3,66,07,810
-Current deposits	15,24,211	19,01,739	20,63,742	22,87,221	26,35,762
-Saving deposits	75,89,614	1,01,37,745	1,12,03,173	1,25,79,715	1,42,77,046
-Term deposit	1,13,33,689	1,50,23,949	1,62,15,118	1,78,07,649	1,96,95,002
Borrowings	31,76,937	36,21,421	25,60,083	33,30,035	42,25,779
Other liabilities	15,52,352	16,71,381	17,24,654	17,15,887	16,53,589
Total liabilities	2,70,59,662	3,45,47,520	3,62,43,108	4,04,86,774	4,56,45,336
Cash/equivalent	17,19,716	19,18,986	24,47,623	27,41,338	31,03,195
Advances	1,57,10,780	1,93,48,802	2,12,83,682	2,38,37,724	2,69,84,303
Investments	76,59,896	1,06,09,867	95,74,951	1,06,77,176	1,20,04,248
Fixed assets	4,29,190	3,99,923	4,39,915	4,83,906	5,32,297
Other assets	15,40,080	22,69,942	24,96,936	27,46,630	30,21,293
Total assets	2,70,59,662	3,45,47,520	3,62,43,108	4,04,86,774	4,56,45,336

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

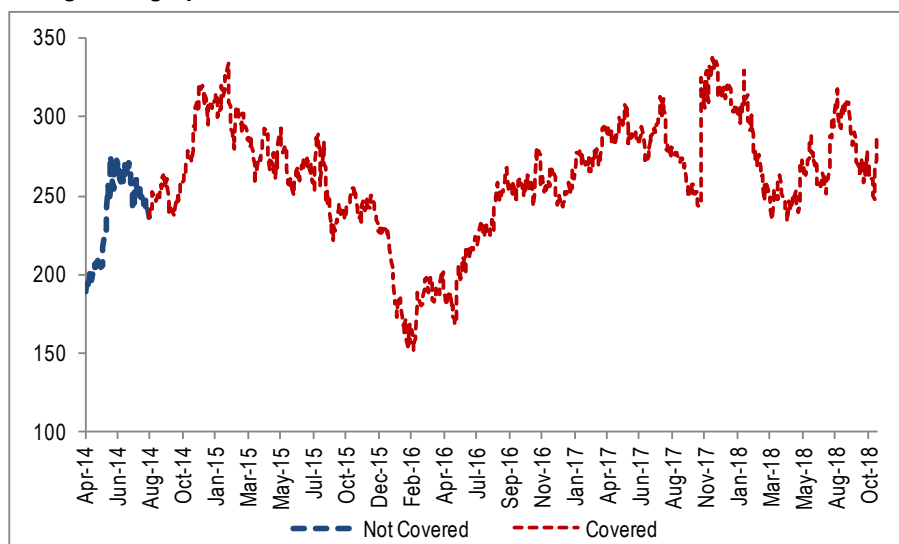
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Growth (%)					
NII growth	8.2	N.A.	14.4	8.6	15.3
Pre-provision profit growth	17.5	N.A.	12.8	19.1	18.4
PAT growth	5.4	N.A.	N.A.	71.0	32.2
Business (%)					
Deposits growth	18.1	N.A.	8.9	10.8	12.0
Advances growth	7.3	N.A.	10.0	12.0	13.2
Business growth	13.2	N.A.	9.4	11.3	12.5
Credit deposit	76.8	71.5	72.2	73.0	73.7
CASA deposit	44.6	44.5	45.0	45.5	46.2
Operating efficiency (%)					
Cost-to-income	47.8	50.2	49.6	46.4	44.8
Cost-to-assets	1.8	1.9	1.9	1.8	1.8
Productivity (Rsmn)					
Business per branch	1,987.3	2,070.7	2,259.9	2,515.7	2,830.8
Business per employee	172.5	175.8	196.8	219.1	246.6
Profit per branch	5.8	(2.9)	8.2	14.1	18.6
Profit per employee	0.5	(0.2)	0.7	1.2	1.6
Spread (%)					
Yield on advances	7.9	8.1	8.2	8.3	8.4
Yield on investments	7.2	7.7	8.1	8.0	8.0
Cost of deposits	5.6	5.7	5.7	5.7	5.7
Yield on assets	7.7	8.0	8.2	8.2	8.3
Cost of funds	5.1	5.4	5.5	5.5	5.4
NIM	2.7	2.7	2.6	2.7	2.8
Capital adequacy (%)					
Tier I	10.4	10.4	11.2	10.9	11.0
Tier II	2.8	2.2	1.9	1.8	2.1
Total CAR	13.1	12.6	13.1	12.7	13.1
Asset quality (%)					
Gross NPAs	6.9	10.9	9.9	8.7	7.6
Net NPAs	3.7	5.7	4.5	3.3	2.6
Specific provision coverage	48.1	50.4	57.1	64.2	67.6
Provision coverage (incl w/off)	65.9	58.0	64.7	71.4	74.7
Slippage	2.6	9.1	2.0	1.5	1.2
Credit costs	2.2	4.1	1.5	1.3	1.2
Return (%)					
RoE	6.3	(3.2)	7.9	12.1	14.1
RoA	0.4	(0.2)	0.5	0.8	1.0
RoRWA	0.7	(0.4)	0.9	1.5	1.7
Per share					
EPS	13.1	(7.3)	20.0	34.2	45.3
BV	236.2	245.5	267.8	299.1	341.5
ABV	123.4	93.5	137.8	187.5	239.0
Valuation (x)					
P/E	17.5	(31.3)	11.5	6.7	5.1
P/BV	1.0	1.0	0.9	0.8	0.7
P/ABV	2.0	2.7	1.8	1.3	1.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
14 August 2014	Buy	2,418	2,915
8 October 2014	Buy	2,411	2,915
17 November 2014	Buy	2,785	3,200
22 December 2014	Buy	304	363
8 January 2015	Buy	301	363
16 February 2015	Buy	308	375
25 May 2015	Buy	282	375
12 August 2015	Buy	268	375
9 November 2015	Buy	244	375
12 February 2016	Buy	155	220
30 May 2016	Buy	201	240
16 August 2016	Buy	244	280
15 November 2016	Buy	272	315
13 February 2017	Buy	275	315
14 February 2017	Buy	272	335
22 May 2017	Buy	309	355
14 August 2017	Buy	280	325
13 November 2017	Buy	333	386
12 February 2018	Buy	296	364
23 May 2018	Buy	254	331
13 August 2018	Buy	304	353
9 October 2018	Buy	266	329
6 November 2018	Buy	295	347

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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