

State Bank of India

08 June 2020

Reuters: SBI.BO; Bloomberg: SBIN IN

Better placed from asset quality standpoint

State Bank Of India (SBI) reported Nil of Rs228bn, down 18% QoQ on account of exceptional income booking on key resolutions in 3QFY20 (Nil was nearly flat YoY). Despite in-line advances growth, the NIM was lower than expected. Reported NIM was 2.97%, down 8bps QoQ. Cost of deposits fell by 3bps QoQ to 4.94%. NIM should find some support from the recent deposit rate cuts by the bank despite FY21 being a year of high balance sheet liquidity across the sector. Management commentary suggests that the bank is looking to deliver ~3.2% NIM on a sustainable basis. Advances growth was 6.4% YoY/5.7% QoQ, driven by 18% growth in the international portfolio and 15% YoY growth in the retail segment (in the domestic book). Management seems upbeat on growth prospects from balance sheet standpoint even as there is some probability of negative GDP growth during FY21. However, we do not concur with this view and build a lower growth estimate for FY21E. Deposits growth was 11.3% YoY/4.2% QoQ. Operating profit before exceptional gains from SBI Cards IPO was Rs157bn, down 7.1% YoY/13.7% QoQ. With a stable NIM and cost cutting measures underway, the management expects to sustain the absolute level of operating profit. Provisioning during the quarter was Rs135bn, up 86% QoQ, translating into credit cost of 2.1% compared to 1.46% for 3QFY20 and 3.2% for 4QFY19. Current PCR, which stands at 65.2%, positions the balance sheet relatively better to deal with asset quality challenges ahead. 18% of the customers are currently under moratorium, which is lower than most other banks. Though legacy stress may be over, we expect covid-19 to present a fresh set of asset quality challenges. Accordingly, we estimate NPAs to remain elevated in FY21E. The ensuing provisioning requirement would push out ROE recovery. Subsidiaries add immense value to the overall franchise. Basis our estimates, the standalone bank currently trades at 0.5x FY22E ABV. We think the downside risks for the stock are limited from current levels. Even though we have revised our numbers downward to factor in the covid-19/lockdown impact, we remain positive on SBI and retain it as a preferred bet in the PSB space. We have revised our estimates for FY21/FY22 and retained Buy rating on SBI with a target price of Rs274 (from Rs315 earlier), valuing the standalone entity at 0.8x FY22E P/ABV and ascribing a value of Rs82 for subsidiaries.

Skeptical on credit growth: Considering the broader macros, 1QFY21 being a washout, RBI's commentary on negative GDP growth and our sense of the demand side factors, we do not envisage a case of high growth in FY21. For 4QFY20, the overall net advances growth was 6.4%, led by 18.1% YoY growth in the international book. Domestic book growth (up 3.8% YoY) was led by 15.4% YoY growth in the retail segment. Home loans grew by 13.9% YoY while personal loans portfolio was up 24.8% YoY. SME and large corporate portfolios were down 7.3% YoY and ~1% YoY, respectively.

Lower moratorium suggests lower slippage risks?: Based on the number of customers, the proportion of book under moratorium is ~18%, which is seemingly lower than most other large private banks. Despite extending moratorium to all, only 18% have chosen to avail of it so far while the rest of the customers have paid two or more EMIs. For NBFCs, the moratorium was considered on a case-to-case basis. In the corporate portfolio, 13% of loans by volume and 7-8% by value are under moratorium. The primary reason across the board is to conserve cash in times of uncertainty. Given the bank's customer profile, which is mostly salaried/engaged in the PSU sector, we believe it to be better placed in terms of slippage from the morat-book once the standstill is over (on 31st Aug 2020).

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BUY

Sector: Banking

CMP: Rs189

Target Price: Rs274

Upside: 45%

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Key Data

Current Shares O/S (mn)	8,924.6
Mkt Cap (Rsbn/US\$bn)	1,676/22.2
52 Wk H / L (Rs)	374/149
Daily Vol. (3M NSE Avg.)	80,685

Price Performance (%)

	1 M	6 M	1 Yr
SBI	10.0	(41.3)	(45.1)
Nifty Index	9.6	(14.9)	(14.6)

Source: Bloomberg

Y/E Mar (Rsmn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)
Interest Income	626,814	629,854	676,920	-0.5	-7.4
Interest Expenses	399,145	400,316	399,132	-0.3	0.0
Net Interest Income	227,669	229,538	277,788	-0.8	-18.0
Domestic NIM (%)	2.94	3.02	3.59	-8 bps	-65 bps
Non Interest Income	133,461	126,851	91,059	5.2	46.6
Total Income	361,130	356,390	368,847	1.3	-2.1
Staff Cost	120,387	104,780	114,556	14.9	5.1
Other Op Exp	83,406	82,279	72,065	1.4	15.7
Total Operating Expenses	203,793	187,059	186,622	8.9	9.2
Cost to Income (%)	56.4	52.5	50.6	394 bps	584 bps
Pre-Provisioning Operating Profit	157,338	169,331	182,226	-7.1	-13.7
Provisions	134,951	165,019	72,529	-18.2	86.1
Exceptional Items	27,313	0	0	-	-
PBT	49,700	4,312	109,697	1,052.6	-54.7
Tax	13,892	(4,072)	53,863	-441.2	-74.2
-effective tax rate	28.0	(94.4)	49.1	12,239 bps	-2,115 bps
PAT	35,808	8,384	55,834	327.1	-35.9
EPS (Rs)	4.0	0.9	6.3	327.1	-35.9
BV (Rs)	260.0	247.5	260.5	5.0	-0.2
Deposits	32,416,207	29,113,860	31,112,286	11.3	4.2
Advances	23,252,896	21,858,769	21,999,169	6.4	5.7

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

On the asset quality front, the bank reported GNPA of 6.15% compared to 6.94% in 3QFY20 while NNPA reduced by 42bps QoQ to 2.23%. PCR (ex-AUCA) stands at 65.2%, up from 63.5% in 3QFY20 and 61.9% in 4QFY19. Coverage on the corporate NPAs stands at 78.4%. Total slippages for the quarter were Rs82.9bn compared to Rs165bn in 3QFY20. Note that in 3QFY20, the bank witnessed slippage of a large HFC. Corporate slippages during the quarter were Rs15.6bn, SME Rs2.3bn, Agri Rs52.4bn and PER Rs6bn. The total SMA book stands at Rs72.7bn. NPAs in the PER segment remain at slightly above 1% and have held stable over the last 12 months. On the other hand, the NPAs in the corporate segment have reduced quite meaningfully from 13.62% in 4QFY19 to 9.67% in 4QFY20. Owing to the large slippage in the Agri segment, NPAs have increased from 11.56% in 4QFY19 and 13.78% in 3QFY20 to 15.85% in 4QFY20.

Considering the relatively lower slippage to NPA from the morat book, we think that the current PCR, especially in the corporate segment, places the balance sheet on a strong footing to absorb incremental stress in FY21E. LGD for the whole book stands at ~55%, which is well below the current PCR. Therefore, the loss absorbing capacity could be further enhanced in case of recoveries/resolutions, especially on accounts in NCLT list 1 & 2 where the current PCR is 98.7%. 2.11% stake dilution in SBI Life Insurance during the course of the year should also provide some buffer to absorb credit costs.

NIM sustainability and cost cutting to support PPOP: The bank reported domestic NIM of 2.94% for the quarter, down 8bps YoY and 65bps QoQ. Note that the bank had recognized exceptional income booking in 3QFY20 on the back of Essar Steel recovery. Whole bank NIM was 2.97% compared to 3.05% in 3QFY20 and 2.78% in 4QFY19. On a sustainable basis, the bank is expected to deliver NIM of 3-3.2%. Further, to enhance the operating profitability, the bank is undertaking measures which are expected to contain costs. About 35 regional business offices and 20 administrative offices have been closed and employees have been redeployed. The bank would also be making use of the BC channel more effectively, especially in terms of collections.

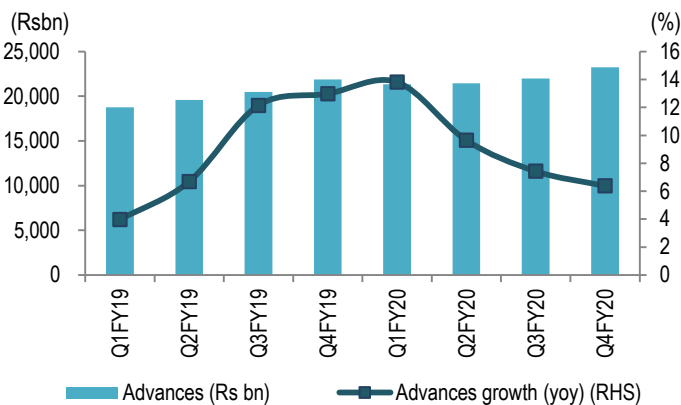
Comprehensive Analyst Meet Takeaways

- Bank has reviewed all corporate accounts and doesn't see any major concern going forward as there is no legacy account left to be dealt with. Slippages were elevated due to one major HFC (DHFL), one company in the power sector (failed restructuring) and elevated NPAs in the agri book. Bank holds 73% PCR on power sector NPAs.
 - Bank doesn't expect more than 0.5-0.75% book to be restructured after the moratorium ends. However, deep restructuring could be required in a few cases.
- Bank expects to generate PPOP of Rs1.4trn over next 8 quarters, of which ~Rs400bn would be utilized for legacy provisions. In a base case scenario, bank expects a repeat of FY20 performance. NIM is expected to be maintained at current levels (~3.2%). NII growth would be led by asset growth.
- Bank's current infra can be used to service 2bn customers.
- Bank provided moratorium option to all customers. Out of the total 9.4mn term loans, 0.9mn accounts did not pay any EMI while 0.7mn paid 1 EMI. As of May-end, 82% of the bank's customers had paid 2 or more EMIs while 92% customers had paid 1 or more EMIs. Out of the 117 NBFCs, 16 have opted for moratorium, forming <5% of the NBFC loan book. Extension of moratorium is available to all customers except NBFCs which are being considered on a case to case basis. Bank expects lesser number of customers to take extension of morat. In corporate portfolio, 13% of loans by volume and 7-8% by value are under moratorium.
 - Moratorium proportion for the bank was lower than peers since the customers are majorly govt/PSU employees. Pre-approved personal loans/personal loans are against salaries. Proportion of self-employed customers is very low.
- In home loans, despite delays, payments usually come through since ~90% of the loans are to self-occupied properties. Out of the total 3.8mn home loan customers, 20% have availed of the moratorium.
- Deposit growth may slow down. Deposit growth has been high since people have not been spending due to the lockdown.
- Bank has provided Rs30bn (vs. Rs40bn last year) for wage revisions at the rate of 10%.
- Cost cutting initiatives are underway. Employee expenses are expected to reduce.
 - Initiatives are underway on reducing costs in the FIMM vertical, which takes 38% of branch network and contributes only 12% to the business. 35 regional business offices/20 administrative offices have been closed and bank aims to reduce staff strength. Employees are being redeployed into fieldwork. Bank is also relying more on BC partnerships and retired employees.
- In terms of additional covid-related funding, bank has sanctioned ~Rs50bn, of which ~Rs20bn has been drawn.
- Decline in yields was due to interest reversal on agri NPAs. In FY20, interest reversal was worth ~Rs45bn on agri slippages. Essar Steel resolution contributed positively to the yield in Q3FY20.
- Total working capital loan book stands at Rs9trn.
- Bank is working on 50 proposals for lending to smaller NBFCs (Rs150-180bn). ~20% of this has been sanctioned and disbursal should happen in the near term. Under TLTRO 2.0, bank borrowed Rs30bn from RBI, of which Rs10bn has been sanctioned and remaining is in the pipeline.
- Rs300bn (20% of Rs1.5trn total book) is eligible for disbursal to 0.81mn SME customers. Bank has offered it to all eligible borrowers and has approved 60,000 applications aggregating to Rs100bn.
- CRE exposure is majorly LRD to large funds operating in India with high quality tenants and owners. Petrochem exposure is mainly to OMCs.
- Bank needs to sell 2.11% of SBI Life to comply with regulatory requirements.

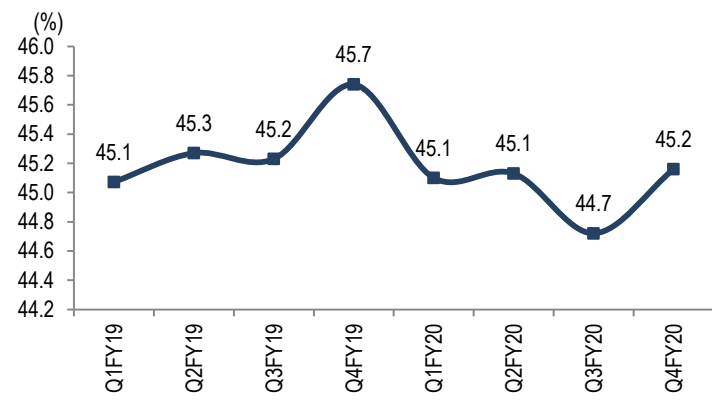
Subsidiary Valuation

Entity	Valuation Methodology	Holding	Value per share (INR)
			FY22E
SBI Life Insurance	2.6x FY22E EV	57.6%	58.9
SBI Cards	Current mcap	69.5%	4.6
SBI General Insurance	2.5x Latest BV	74.0%	1.0
SBI Capital Markets	15.0x Latest PAT	100.0%	6.1
SBI AMC	10% Latest AUM	63.0%	20.0
Holding co. discount (%)			10%
Value of total (INR per share)			81.6

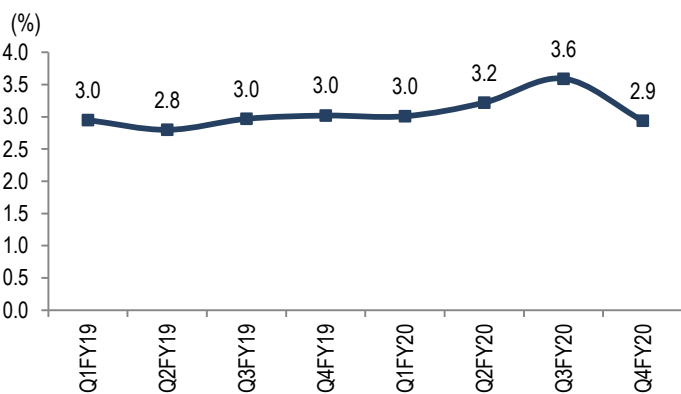
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Advances, advances growth


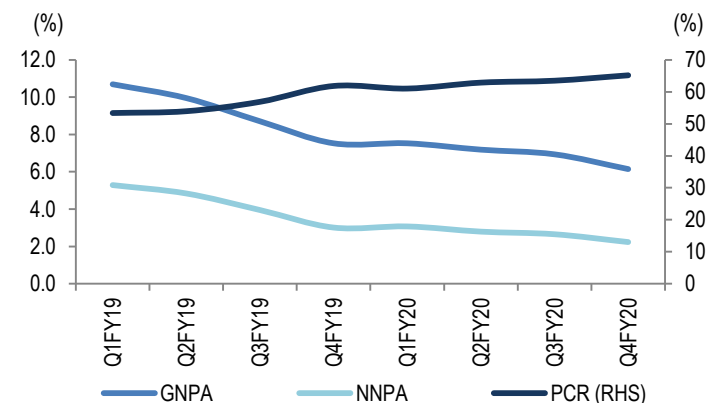
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: CASA ratio (%)


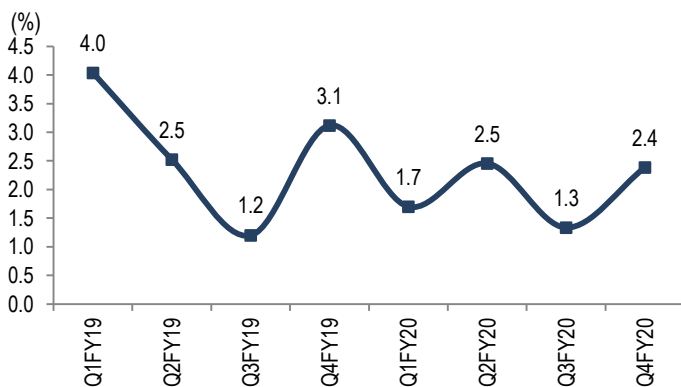
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: NIM (Domestic, Reported, %)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Asset Quality (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Credit Cost (Calculated, Annualized, %)


Source: Company, Nirmal Bang Institutional Equities Research

Advances Mix (%)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Corporate	35	36	36	37	35	34	33	35
SME	14	13	14	13	13	12	12	11
Agriculture	9	9	9	9	9	9	9	9
Retail	28	28	28	28	30	30	31	31
Home Loans	16	17	18	17	18	19	19	19
Auto Loans	3	3	3	3	3	3	3	3
Personal Loans	9	7	7	8	8	8	9	9
International Loans	13	14	13	13	14	14	14	15

Source: Company, Nirmal Bang Institutional Equities Research

Segment wise Advances growth (YoY,%)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Corporate	4	14	21	15	12	3	0	-1
SME	7	5	9	7	2	3	-5	-7
Agriculture	-1	0	2	8	7	6	6	2
Retail	14	14	18	19	19	19	17	15
Home Loans	13	24	27	28	28	18	16	14
Auto Loans	12	8	9	8	7	6	4	1
Personal Loans	17	-2	4	5	5	27	28	25
International Loans	-4	0	-8	0	16	10	17	18

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net interest income	748,537	883,489	980,848	1,071,607	1,160,629
Pre-provisioning operating profit	595,110	554,360	619,170	712,887	829,750
PAT	(65,475)	8,622	144,881	134,452	329,716
EPS (Rs)	(7.3)	1.0	16.2	15.1	36.9
BV (Rs)	245.5	247.5	260.0	278.8	312.9
P/E	(16.9)	128.3	7.6	8.2	3.4
P/BV	0.5	0.5	0.5	0.5	0.4
Gross NPAs (%)	10.9	7.5	6.2	6.2	5.9
Net NPAs (%)	5.7	3.0	2.2	1.8	1.5
RoA (%)	(0.2)	0.0	0.4	0.3	0.7
RoE (%)	(3.2)	0.4	6.4	5.6	12.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Actual performance versus our estimates

(Rsmn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	Q4FY20E	Devi. (%)
Net interest income	227,669	229,538	277,788	(0.8)	(18.0)	272,497	(16.5)
Pre-provisioning operating profit	157,338	169,331	182,226	(7.1)	(13.7)	205,380	(23.4)
PAT	35,808	8,384	55,834	327.1	(35.9)	95,002	(62.3)

Source: Company, Nirmal Bang Institutional Equities Research N.B.

Exhibit 8: Change in our estimates

	Revised Estimate		Earlier Estimate		% Revision	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (Rsmn)	1,071,607	1,160,629	1,081,638	1,171,896	(0.9)	(1.0)
NIMs	2.9	3.0	3.0	3.0	-8 bps	-6 bps
Operating Profit (Rsmn)	712,887	829,750	702,917	805,984	1.4	2.9
Profit after tax (Rsmn)	134,452	329,716	284,843	367,631	(52.8)	(10.3)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 10: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Interest Income	2,204,993	2,428,687	2,573,236	2,722,081	2,921,814
Interest expense	1,456,456	1,545,198	1,592,388	1,650,474	1,761,185
Net interest income	748,537	883,489	980,848	1,071,607	1,160,629
Fees	229,968	233,039	237,250	236,017	264,054
Other Income	216,039	134,710	152,808	160,251	175,154
Net Revenue	1,194,544	1,251,238	1,370,907	1,467,876	1,599,838
Operating Expense	599,434	696,877	751,737	754,988	770,088
-Employee Exp	331,787	410,547	457,150	466,293	475,619
-Other Exp	267,648	286,330	294,587	288,695	294,469
Pre-Provisioning Operating Profit	595,110	554,360	619,170	712,887	829,750
Provisions	750,392	538,286	430,699	533,618	390,129
-Loan Loss Provisions	713,742	546,177	427,760	519,237	377,220
-Investment Depreciation	80,876	(7,621)	5,390	5,035	5,723
-Other Provisions	(44,226)	(271)	(2,440)	9,346	7,185
Exceptional Items	0	15,606	62,156	0	0
PBT	(155,282)	16,075	250,628	179,270	439,621
Taxes	(89,808)	7,453	105,747	44,817	109,905
PAT	(65,475)	8,622	144,881	134,452	329,716

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Equity capital	8,925	8,925	8,925	8,925	8,925
Reserves & surplus	2,182,361	2,200,214	2,311,150	2,479,547	2,783,605
Shareholders' funds	2,191,286	2,209,138	2,320,074	2,488,471	2,792,529
Deposits	27,063,433	29,113,860	32,416,207	35,495,747	37,980,449
-Current deposits	1,901,739	2,058,752	2,174,150	2,626,685	2,886,514
-Saving deposits	10,137,745	10,917,520	11,935,660	13,665,863	14,812,375
-Term deposit	15,023,949	16,137,588	18,306,397	19,203,199	20,281,560
Borrowings	3,621,421	4,030,171	3,146,557	3,303,884	3,469,079
Other liabilities	1,671,381	1,455,973	1,631,101	1,889,089	2,089,698
Total liabilities	34,547,520	36,809,142	39,513,939	43,177,192	46,331,755
Cash/Equivalent	1,918,986	2,224,901	2,510,970	3,194,617	3,418,240
Advances	19,348,802	21,858,769	23,252,896	23,950,482	26,345,531
Investments	10,609,867	9,670,219	10,469,545	12,423,511	12,598,545
Fixed assets	399,923	391,976	384,393	422,832	465,115
Other assets	2,269,942	2,663,277	2,896,136	3,185,749	3,504,324
Total assets	34,547,520	36,809,142	39,513,939	43,177,192	46,331,755

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

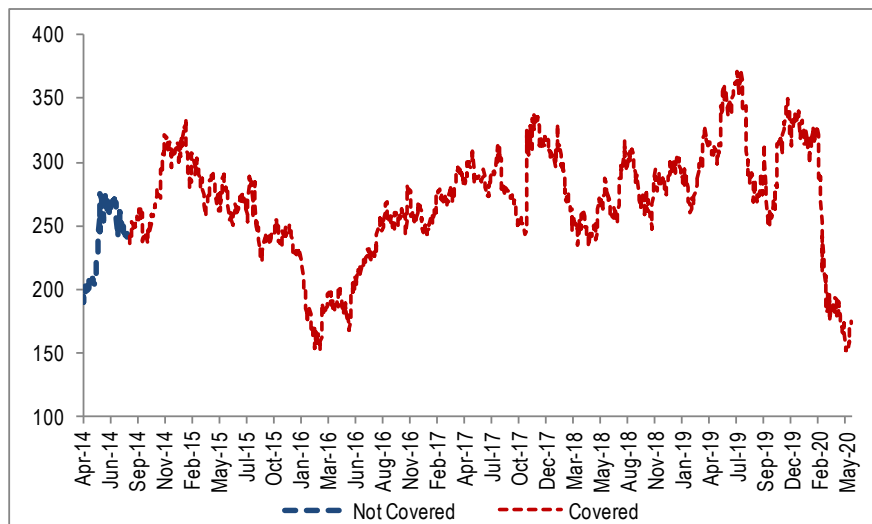
Y/E March	FY18	FY19	FY20	FY21E	FY22E
Growth (%)					
NII growth	N.A.	18.0	11.0	9.3	8.3
Pre-provision profit growth	N.A.	(6.8)	11.7	15.1	16.4
PAT growth	N.A.	N.A.	1,580.3	(7.2)	145.2
Business (%)					
Deposits growth	N.A.	7.6	11.3	9.5	7.0
Advances growth	N.A.	13.0	6.4	3.0	10.0
Business growth	N.A.	9.8	9.2	6.8	8.2
Credit deposit	71.5	75.1	71.7	67.5	69.4
CASA deposit	44.5	44.6	43.5	45.9	46.6
Operating efficiency (%)					
Cost-to-income	50.2	55.7	54.8	51.4	48.1
Cost-to-assets	1.9	2.0	2.0	1.8	1.7
Spread (%)					
Yield on advances	8.1	7.8	8.0	7.9	7.9
Yield on investments	7.7	7.3	6.8	6.8	6.8
Cost of deposits	5.7	5.0	4.8	4.6	4.5
Yield on assets	8.0	7.7	7.6	7.5	7.5
Cost of funds	5.4	4.8	4.6	4.4	4.4
NIM	2.7	2.8	2.9	2.9	3.0
Capital adequacy (%)					
Tier I	10.4	10.7	11.0	10.9	10.7
Tier II	2.2	2.1	2.1	2.0	2.0
Total CAR	12.6	12.7	13.1	12.9	12.7
Asset quality (%)					
Gross NPAs	10.9	7.5	6.2	6.2	5.9
Net NPAs	5.7	3.0	2.2	1.8	1.5
Specific provision coverage	50.4	61.9	65.2	71.9	75.5
Provision coverage (incl w/off)	58.0	71.8	78.0	83.3	86.0
Slippage	9.1	1.6	2.4	2.6	2.0
Credit costs	4.1	2.7	1.9	2.2	1.5
Return (%)					
RoE	(3.2)	0.4	6.4	5.6	12.5
RoA	(0.2)	0.0	0.4	0.3	0.7
RoRWA	(0.4)	0.0	0.7	0.6	1.4
Per share					
EPS	(7.3)	1.0	16.2	15.1	36.9
BV	245.5	247.5	260.0	278.8	312.9
ABV	93.5	146.1	174.2	201.9	241.0
Valuation (x)					
P/E	(16.9)	128.3	7.6	8.2	3.4
P/BV	0.5	0.5	0.5	0.5	0.4
P/ABV	1.5	0.9	0.7	0.6	0.5

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
13 December 2018	Buy	285	344
4 February 2019	Buy	284	347
8 April 2019	Buy	317	366
13 May 2019	Buy	308	373
8 July 2019	Buy	371	430
5 August 2019	Buy	308	370
7 October 2019	Buy	250	354
29 October 2019	Buy	282	365
8 January 2020	Buy	320	377
1 February 2020	Buy	318	377
27 March 2020	Buy	192	315
9 April 2020	Buy	183	315
8 June 2020	Buy	189	274

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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