

Subsidiary stake sale boosts profits; management focus entirely on balance sheet

CMP: Rs 191

Rating: BUY

Target Price: Rs 245

Stock Info

BSE	500112
NSE	SBIN
Bloomberg	SBIN IN
Reuters	SBI.BO
Sector	Banks
Face Value (Rs)	1
Equity Capital (Rs Cr)	892
Mkt Cap (Rs Cr)	1,67,604
52w H/L (Rs)	373 / 149
Avg Yearly Vol (in 000')	45,061

Shareholding Pattern %

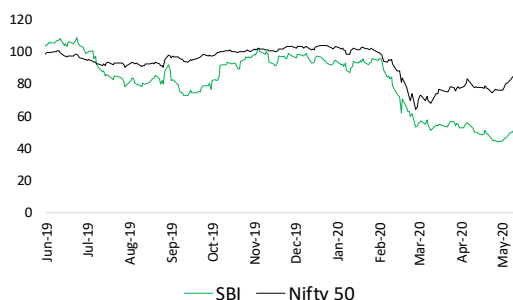
(As on June, 2020)

Promoters	57.6
FII	7.9
DII	24.9
Public & Others	9.6

Stock Performance (%)

	3m	6m	12m
SBI	0.3	-35.9	-38.1
Nifty	12.3	-5.4	0.7

SBI Vs Nifty



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State Bank of India posted Q1FY21 earnings almost in line with expectations for quarterly and annual profits. The bank's NII for Q1FY21 stood at Rs 26,642 Cr, increasing by 16.1% YoY/17.0% QoQ. PPOP increased by 24.7% YoY/7.0% QoQ and Net Income stood at Rs 4,189 Cr, up by 81.2% YoY/17.0% QoQ. Advances growth (+7.7% YoY/down by 1.2% QoQ) was driven primarily by fresh SME segment disbursements which grew by 4.1% QoQ while retail loans grew a tad slower by 0.2% QoQ and the agri & corporate portfolio de-grew sequentially. The deposits grew by 16.0% YoY/5.5% QoQ in Q1FY21, and was driven by both savings (up 8.4% YoY/17.3% QoQ) and term deposits (15.4% YoY/5.4% QoQ) after consumption trend slowed down due to the pandemic.

Key Highlights of Q1 FY21:

NIMs climb up significantly, costs of funds come lower: The bank's NIMs increased to 3.24% (up 23 bps YoY/30 bps QoQ) as Cost of Funds also fell to 4.37% (down 48 bps YoY/23 bps QoQ) for Q1FY21 as the bank passed on the benefits of fallen interest rates to the customers by decreasing its MCLR. The bank's CASA increased to 43.83% (43.53% in Q4FY20), as the falling interest rates saw a spike in term deposits.

Abundantly leveraged to grow book-size: The bank has one of the highest leverage ratios with Asset/Net Worth ratio for SBI standing at 17.03x (highest in the industry FY20). The recent approval for raising of up to Rs 25,000 Cr will add more fuel to SBI's leverage engines.

Asset Quality improves on account of moratorium: SBI's GNPA/NNPA stood at 5.44%/1.86% at the end of Q1FY21. The bank provided Rs 12,501 Cr for provisions during Q1FY21, including Rs 1,836 Cr for Covid-19 provisioning, which was much beyond RBI's mandated provisioning. Total cumulative Covid provisions stand at Rs 3,008 Cr as of Q1FY21 while fresh slippage ratio came down to 0.60% (2.83% in Q1FY20) at Rs 3,637 Cr.

Performance of subsidiaries: SBI's subsidiaries in insurance business were also hit hard due to the timing of the lockdown at the end of Q4FY20 and almost entire month of April 2020. However, since the IPO of SBI Cards and the lockdown opened in most of the country, the insurance subsidiaries have started to witness green shoots with almost flat Q1FY21 performance in terms of new business written.

Valuation & View

SBI has a vast branch chain of 22,135 branches across the nation along with 49 crore customer accounts, making it the largest bank in entire South Asia. The bank's insurance subsidiaries are competing well in respective field of business, besides the credit card and AMC subsidiaries. SBI is currently trading at a 0.9x/0.7x P/adj. BV FY21/22E which is fairly inexpensive for a bank of this size. We assign an exit P/adj. BV multiple of 0.6x on FY22E adj. BV of INR 259 for standalone bank and use a SOTP approach to value its subsidiaries, to arrive at a revised **Target Price of INR 245 and maintain our BUY rating.**

State Bank of India (Rs Cr)	FY19A	FY20A	FY21E	FY22E
NII	88,349	98,085	103,123	117,298
PPOP	56,181	61,917	70,146	81,876
PAT	862	14,488	18,815	32,262
EPS (INR / Share)	1.0	16.2	21.1	36.1
BVPS (INR / Share)	247.5	260.0	280.5	316.2
NIM (%)	2.7%	2.8%	2.8%	2.9%
Advances Growth YoY (%)	13.0%	6.4%	7.0%	10.0%
Deposits Growth	7.6%	11.3%	7.3%	12.3%
P/ABV (x)	1.1	1.0	0.9	0.7

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q1 FY21 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Cr)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Interest Income	66,500	62,681	62,638	6.1%	6.2%
Interest Expended	39,859	39,914	39,699	-0.1%	0.4%
Net Interest Income	26,642	22,767	22,939	17.0%	16.1%
Other Income	7,957	13,346	8,015	-40.4%	-0.7%
Operating Income	34,599	36,113	30,954	-4.2%	11.8%
Operating Expenses	18,078	20,379	17,708	-11.3%	2.1%
Employee Expenses	11,865	12,039	10,918	-1.4%	8.7%
Other Operating Expenses	6,213	8,341	6,790	-25.5%	-8.5%
PPOP	16,521	15,734	13,246	5.0%	24.7%
Provisions	12,501	13,495	9,183	-7.4%	36.1%
PBT	5,560	4,970	4,063	11.9%	36.8%
Tax Expenses	1,370	1,389	1,751	-1.4%	-21.7%
Net Income	4,189	3,581	2,312	17.0%	81.2%
Balance Sheet Analysis					
Advances	2,298,346	2,325,290	2,134,774	-1.2%	7.7%
Deposits	3,419,363	3,241,621	2,948,821	5.5%	16.0%
Total Assets	4,117,932	3,951,394	3,581,997	4.2%	15.0%
CASA Deposits	1,498,718	1,410,981	1,284,401	6.2%	16.7%
CASA (%)	43.83%	43.53%	43.56%	30bps	27bps
CAR (%)	13.40%	13.06%	12.89%	34bps	51bps
Spreads					
NIMs (%)	3.24%	2.94%	3.01%	30bps	23bps
Cost of Funds	4.37%	4.61%	4.85%	-23bps	-48bps
Yield on Average Advances	7.63%	7.53%	8.12%	10bps	-49bps
Asset Quality					
GNPA	129,661	149,092	168,494	-13.0%	-23.0%
NNPA	42,704	51,871	65,624	-17.7%	-34.9%
GNPA (%)	5.44%	6.15%	7.53%	-71bps	-209bps
NNPA (%)	1.86%	2.23%	3.07%	-37bps	-121bps
Credit Costs	1.56%	2.07%	1.72%	-51bps	-16bps
Provision Coverage Ratio	86.32%	83.62%	79.34%	270bps	698bps
Returns & Expenses					
RoA	0.41%	0.36%	0.26%	4bps	15bps
RoE	6.93%	6.17%	4.16%	76bps	278bps
Cost / Income Ratio	52.25%	56.43%	57.21%	-418bps	-496bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q1 FY21 – Key Concall Highlights

- Regarding the moratorium, the bank's 9.5% of the loan book is under moratorium as of 30 June 2020, i.e. 90.5% of the term loan book of Rs 16.5 trillion has paid two or more number of instalments during the moratorium.
- As per the chairman, most of the corporates rated AA & above will be able to service loans from September.
- The bank did provisions of Rs 12,501 Cr, out of which Rs 1,836 Cr is for Covid-19 pre-provisioned, taking cumulative Covid-19 provisioning Rs 3,008 Cr.
- The NIM for the quarter stood at 3.24% (+30 bps QoQ), the management however did not provide any guidance on that apart from a flat guidance.
- On the loan growth front, the management said it has moderated its growth target at 8% YoY growth for the current fiscal apart from the earlier targeted more than 10%.
- Fresh slippage during this quarter was at Rs 3,637 Cr, down from Rs 16,212 Cr. The management expects most corporates to fulfill their outstanding dues thereafter.
- The bank's management however, pointed out that a prolonged recession where recovery never happens, they will not rule out of new corporate slippages spiking.

Sum of the Parts Valuation

Entity	Valuation methodology	Holding	Intrinsic Value per Share
SBI - Standalone banking business / Parent	0.6x FY22E ABV	100.0%	149
SBI Life Insurance	2x FY22E EV	57.6%	47
SBI General Insurance	20x FY22 PAT	70.0%	14
SBI Asset Management	5% of FY22E AUM	63.0%	15
SBI Cards & Payment	25x FY22E P/E	69.5%	34
SBI Caps Consolidated	10x FY19 PAT	100.0%	3
SBI DFHI	10x FY19 PAT	69.0%	1
Others (Overseas subsidiaries)			5
Holding co. discount (%)			20.0%
Value of subs (INR per share)			95
Value of total (INR per share)			245

* Excludes investments into subsidiaries comprising Rs 6.3 per share intrinsic value

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Profit & Loss Statement (in INR Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	220,499	242,869	257,324	264,316	296,684
Interest Expended	145,646	154,520	159,239	161,192	179,386
Net Interest Income	74,854	88,349	98,085	103,123	117,298
Other Income	44,601	36,775	39,006	45,656	50,222
Operating Income	119,454	125,124	137,091	148,780	167,520
Operating Expenses	68,924	68,942	75,174	78,634	85,644
Employee Expenses	33,179	41,055	45,715	45,036	48,693
Other Operating Expenses	35,746	27,888	29,459	33,598	36,950
PPOP	50,530	56,181	61,917	70,146	81,876
Provisions	66,058	54,574	43,070	51,684	38,763
PBT	-15,528	1,607	18,847	18,462	43,114
Tax Expenses	-8,981	745	10,575	4,647	10,852
Net Income	-6,547	862	14,488	18,815	32,262

Balance Sheet (in INR Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Equity & Liabilities					
Share Capital	892	892	892	892	892
Reserves & Surplus	218,236	220,021	231,115	249,484	281,299
Net Worth	219,129	220,914	232,007	250,376	282,192
Deposits	2,706,343	2,911,386	3,241,621	3,479,363	3,908,126
Borrowings	362,142	403,017	314,656	301,305	316,370
Other Liabilities and Provisions	167,138	145,597	163,110	176,939	183,035
Total Capital & Liabilities	3,454,752	3,680,914	3,951,394	4,207,983	4,689,723
Assets					
Cash & Balances with RBI	150,397	176,932	166,736	183,409	197,253
Balances with Other Banks & Call Money	41,501	45,558	84,361	83,627	97,644
Investments	1,060,987	967,022	1,046,955	1,067,894	1,121,288
Advances	1,934,880	2,185,877	2,325,290	2,488,060	2,736,866
Fixed Assets	39,992	39,198	38,439	42,283	46,512
Other Assets	226,994	266,328	289,614	342,710	490,160
Total Assets	3,454,752	3,680,914	3,951,394	4,207,983	4,689,723

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Ratios	FY18A	FY19A	FY20A	FY21E	FY22E
Growth rates					
Advances (%)	23.2%	13.0%	6.4%	7.0%	10.0%
Deposits (%)	32.4%	7.6%	11.3%	7.3%	12.3%
Total assets (%)	27.7%	6.5%	7.3%	6.5%	11.4%
NII (%)	21.0%	18.0%	11.0%	5.1%	13.7%
Pre-provisioning profit (%)	-8.5%	11.2%	10.2%	13.3%	16.7%
PAT (%)	-162.5%	-113.2%	1580.3%	29.9%	71.5%
Balance sheet ratios					
Credit/Deposit (%)	71.5%	75.1%	71.7%	71.5%	70.0%
CASA (%)	44.5%	44.6%	43.5%	45.8%	46.5%
Advances/Total assets (%)	56.0%	59.4%	58.8%	59.1%	58.4%
Leverage (x) (Asset/Shareholder's Fund)	15.77	16.66	17.03	16.81	16.62
CAR (%)	12.6%	12.7%	13.3%	13.3%	13.8%
CAR - Tier I (%)	10.4%	10.7%	12.6%	12.6%	13.2%
Operating efficiency					
Cost/income (%)	57.7%	55.1%	54.8%	52.9%	51.1%
Opex/total assets (%)	2.0%	1.9%	1.9%	1.9%	1.8%
Opex/total interest earning assets	1.2%	1.3%	1.3%	1.2%	1.2%
Profitability					
NIM (%)	2.6%	2.7%	2.8%	2.8%	2.9%
RoA (%)	-0.2%	0.0%	0.4%	0.4%	0.7%
RoE (%)	-3.0%	0.4%	6.2%	7.5%	11.4%
Asset quality					
Gross NPA (%)	11.5%	7.9%	5.4%	7.3%	6.9%
Net NPA (%)	5.7%	3.0%	1.9%	3.2%	3.2%
PCR (%)	50.4%	61.9%	59.2%	56.3%	53.1%
Credit cost (%)	2.5%	1.8%	1.3%	1.5%	1.0%
Per share data / Valuation					
EPS (INR)	-7.34	0.97	16.23	21.08	36.15
BVPS (INR)	245.53	247.53	259.96	280.55	316.20
ABVPS (INR)	121.32	173.70	192.12	218.39	259.44
P/E (x)	-26.04	197.75	11.77	9.06	5.29
P/BV (x)	0.78	0.77	0.73	0.68	0.60
P/ABV (x)	1.57	1.10	0.99	0.87	0.74
Profitability					
Return on Capital	-1.2%	0.1%	2.5%	3.4%	5.6%
Return on Equity	-3.0%	0.4%	6.2%	7.5%	11.4%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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