

## Best play among PSU Banks

We initiate Buy on State Bank of India (SBIN) with a target price of Rs 240 (SOTP basis, valuing core book at 0.6x FY22E ABV and Subsidiary value at Rs 110). SBIN with business size of ~Rs 57trn is the largest commercial bank with ~22.8/19.7% market share in deposits/ advances in India. The bank has a strong presence in both retail liabilities (CASA ~45%) as well as retail advances (~31% of loan book) along with corporate (~34% of loan book). Due to its size, SBI drives the interest rate movements in the sector which also allows it with margin manoeuvres. The bank's subsidiaries are strong players in their respective fields, also aided by cross sell opportunities through SBIN and provide further valuation support to the parent bank. In the last couple of years, SBIN has improved its PCR (67%) and resolved most of its legacy book which will help in keeping asset quality in check amid Covid-19 crisis. Its morat book now stands at ~9.5% in-line with most top sector private banks. Its inherent strength lies in brand value, unparalleled geographical presence and strong customer franchise. We believe valuations are attractive as SBI, being the largest banking conglomerate along with its non banking affiliates, would be the biggest beneficiary of improvement in the credit cycle.

## Our Investment Thesis Is Based On The Following Premises

### Consistent improvement in asset quality

SBIN's G/NNPA ratios have reduced steadily from 10.9%/5.7% in FY18 to 5.4%/1.9% in Q1FY21. Further, its healthy coverage ratio of ~67% implies credit costs can decline sharply if recoveries progress well. Unlike other PSBs, SBIN's large balance sheet and recovery prospects are comparable to those of large private peers

### Liability franchise strong and improved NIM

Despite competition from peers, SBIN's CASA franchise is at 45% of deposits, better than that of some large private banking peers. Aggressive cut in Savings and Term Deposit rates enabled margin improvement. Domestic NIMs have improved to 3% in Q1FY21 given lower cost of funds, lower GNPA's and higher recoveries. We expect NIMs to be stable at ~3% over FY21/22E.

### Non banking subsidiaries to boost overall performance

Apart from core banking, SBI's subsidiaries will continue to add further value. It has strong presence in various financial services operations like credit cards, insurance (life and general), asset management, pension funds, investment banking, institutional and retail broking etc. Most of these are generating stable returns and boosting overall performance.

### Attractive valuations – Initiate with BUY

We believe key positive of SBIN which will drive its performance are i) Being the largest bank in India the bank has business strengths making it a beneficiary of liquidity with huge deposit inflow during uncertain times resulting in lower cost of funds. ii) Asset quality has improved on book clean –up efforts over the last few years resulting in lower slippages and NPA decline. iii) PCR has improved to 67%. Provisions for legacy stress is mostly over though Covid-19 may keep credit cost elevated. iv) Subsidiaries performance has been improving.

SBI currently trades at <1x its FY22E book value, which we believe are attractive. Among PSU banks, SBIN remains the best play on the gradual recovery in the Indian economy, with a healthy PCR, robust capitalization, a strong liability franchise and improved core operating profitability. **We initiate Buy with target price of Rs 240 (on SOTP basis valuing core bank at 0.6x FY22E and Subsidiaries at Rs 110).**

### Key Financials (Standalone)

(Rs. bn)	FY19	FY20	FY21E	FY22E
NII	883	981	1,094	1,181
PPOP	554	681	742	778
Net Profit	9	69	166	277
EPS (Rs.)	1.0	7.7	18.5	30.8
ABV	146.0	222.4	190.9	215.4
P/ABV	0.9	0.8	0.8	0.7
Core P/ABV	0.4	0.2	0.3	0.2
ROAA	0.0	0.2	0.4	0.7
NNPA (%)	3.00	2.20	2.20	1.90

Source: Company, Axis Research

(CMP as of Aug 4, 2020)	
CMP (Rs)	191
Upside /Downside (%)	25%
High/Low (Rs)	351/150
Market cap (Cr)	170,862
Avg. daily vol. (6m) Shrs.	16,067,516
No. of shares (Cr)	892.4

### Shareholding (%)

	Jun-20	Mar-20	Dec-19
Promoter	56.9	56.9	56.9
FIs	7.8	9.5	10.8
MFs / UTI	13.0	13.5	13.6
Banks / FIs	0.1	0.1	0.1
Others	22.2	20.1	18.6

### Financial & Valuations

Y/E Mar (Rs. bn)	FY20	FY21E	FY22E
NII	981	1,094	1,181
PPOP	681	742	778
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EPS (Rs.)	7.7	18.5	30.8
ABV	222.4	190.9	215.4
P/ABV	0.8	0.8	0.7
ROAA	0.2	0.4	0.7
NNPA (%)	2.20	2.20	1.90

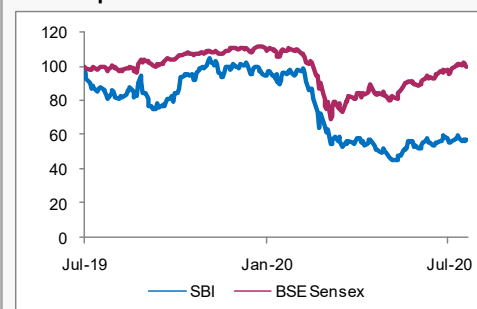
### Key Drivers (%) (Growth in %)

Y/E Mar	FY20	FY21E	FY22E
NII	11.1	11.5	8.0
NIM	2.9	3.1	3.1
C-I	52.5	51.3	52.1

### Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	18.5	30.8
Consensus	19.6	30.1
<b>Mean Consensus TP (12M)</b>		<b>258.4</b>

### Relative performance



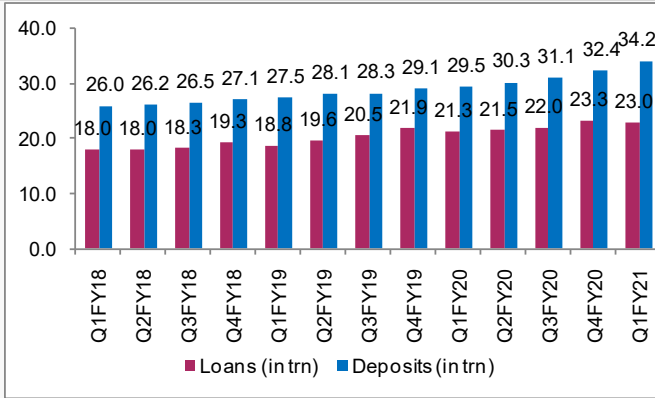
Source: Capitaline, Axis Securities

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## Story in charts

Exhibit 1: Deposit growth remains strong at 16% YoY



Source: Company, Axis Securities

Exhibit 2: Corporate/Retail share at 34/31%

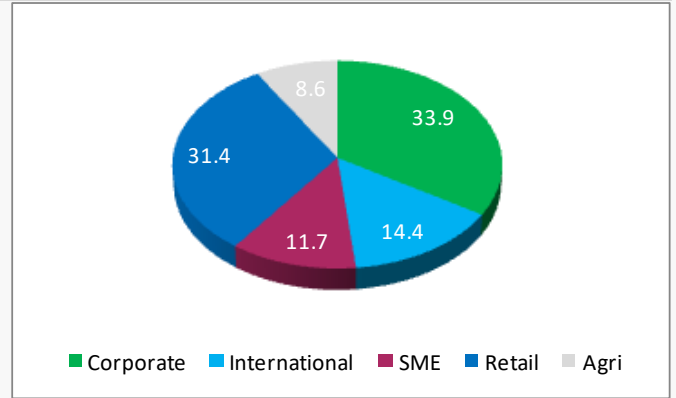
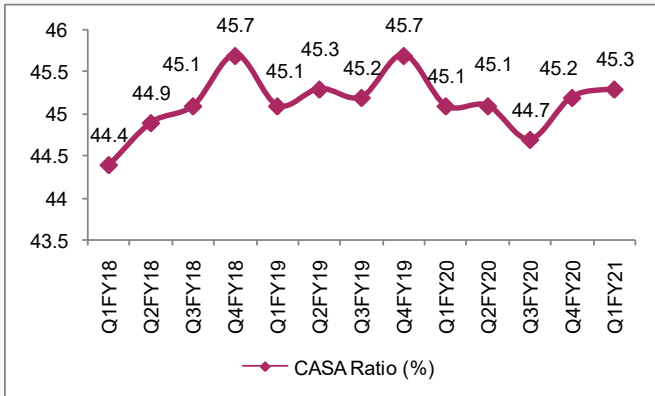


Exhibit 3: CASA improves



Source: Company, Axis Securities

Exhibit 4: CASA ratio amongst the best

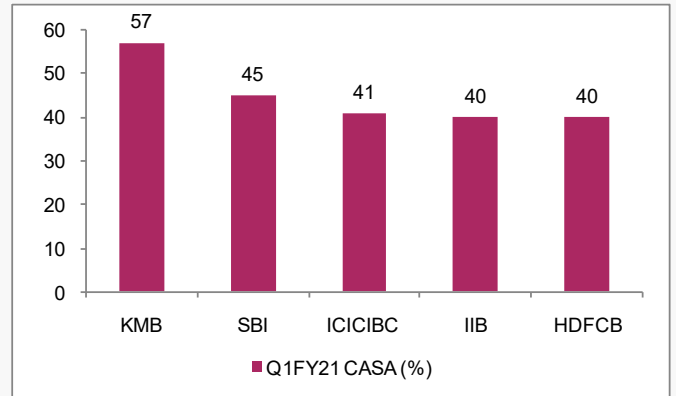
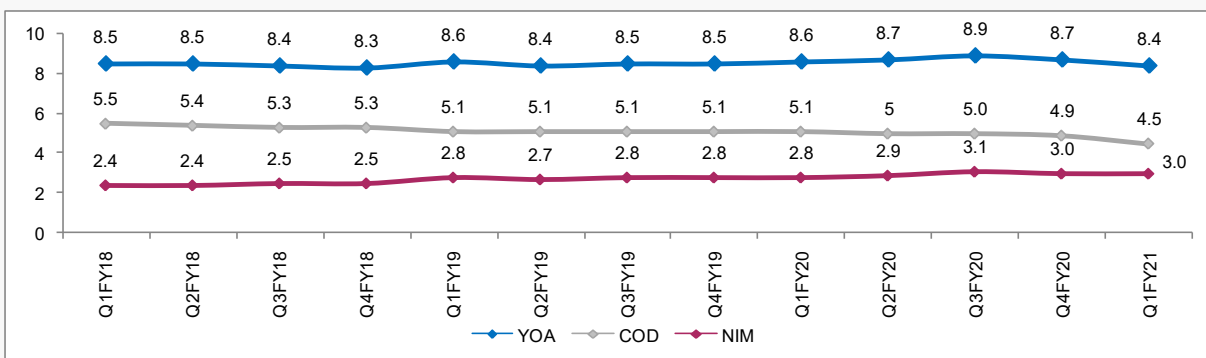


Exhibit 5: Loan growth led by retail

(YoY %)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Q1FY21
Corporate	11	8.7	15.3	23.8	6	14.6	25.6	3.1	14.8	-0.9	3.4
International	12.7	24.1	24.6	26.8	9.4	13.8	7.3	5.5	0.2	18.1	11.2
SME	22.8	41.3	8.9	-2.4	0.9	20	26.1	-1.7	6.9	-7.3	-0.9
Retail	22.2	10.8	14.9	13.3	14.6	20	47.2	13.5	18.5	15.4	12.8
Agri	21.2	-9	25.8	10.7	-0.4	4.7	52.5	-1.6	7.7	1.7	1.6
<b>Total</b>	<b>16.3</b>	<b>14.1</b>	<b>16.4</b>	<b>16.2</b>	<b>6.9</b>	<b>15.4</b>	<b>29.3</b>	<b>4.9</b>	<b>12.0</b>	<b>5.6</b>	<b>7.7</b>

Source: Company, Axis Research

Exhibit 6: NIM on a steady wicket

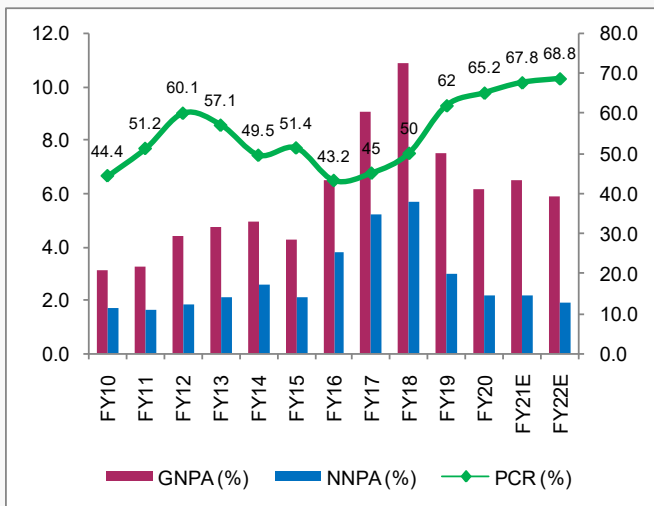


Source: Axis Securities

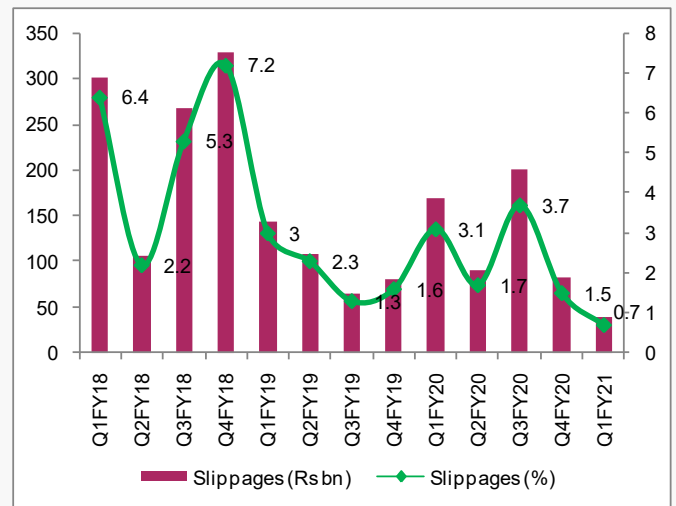
**Exhibit 7: Fee income - Banca continues to improve**

(Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
SBI Life	1,595	2,446	3,372	4,646	7,148	9,519	11,169
SBI General insurance	281	700	623	1,811	2,126	2,709	3,145
Others	472	737	896	1,309	17	39	46
<b>Total</b>	<b>2,348</b>	<b>3,883</b>	<b>4,891</b>	<b>7,766</b>	<b>9,291</b>	<b>12,267</b>	<b>14,360</b>

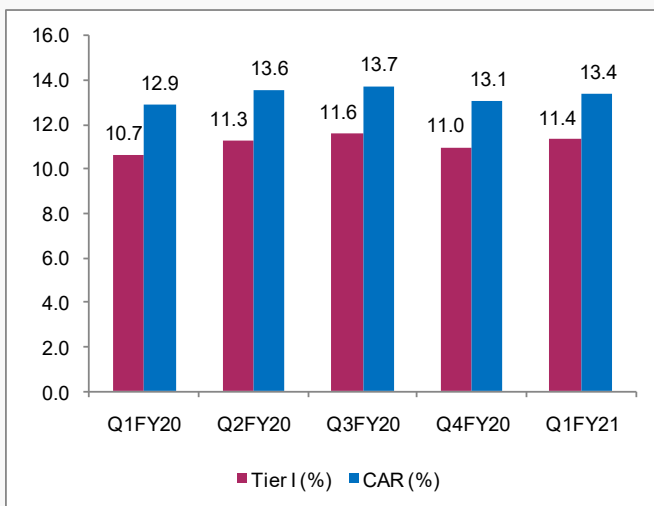
Source: Company, Axis Research

**Exhibit 8: Asset quality on the mend**


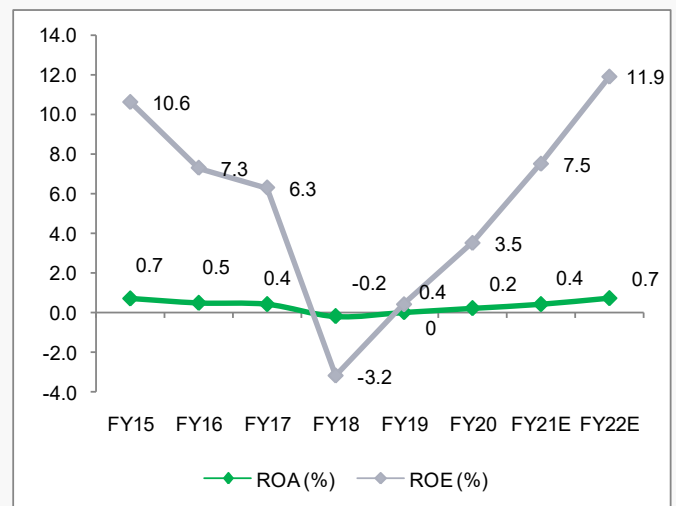
Source: Company, Axis Securities

**Exhibit 9: Slippages lowest in last 2 years**


Source: Company, Axis Securities

**Exhibit 10: Comfortable Tier I at 11.4%**


Source: Company, Axis Securities

**Exhibit 11: ROA/ROE at 0.7/11.9% by FY22E**


Source: Company, Axis Securities

### Q1FY21 Performance Highlights

SBIN's Q1FY21 PAT of Rs 41.9bn was led by strong NII growth, stake sale in subsidiaries (Rs15.4bn) and controlled opex. The bank further built Covid-19 provisions of Rs 18.4bn, taking the total Covid related provisions to Rs30bn. NII grew 16/17% YoY/QoQ to Rs 267bn with domestic NIMs improving by 30bp QoQ to ~3.2%. Other income grew 18% YoY, led by stake sale gains of Rs15.4bn in SBILIFE. Opex growth moderated to 2% YoY (11% QoQ decline), leading to improvement in C/I ratio to 52% compared to 57/56% YoY/QoQ. Therefore, PPOp grew 36% YoY while core PPOp increased ~12% YoY. Loans grew ~8% YoY led by retail loans (13% YoY) while international loans/corporate loans grew 11/3.4% YoY. Deposit growth was strong at 16/6% YoY/QoQ. CASA deposits grew 17% YoY while CASA mix improved 18bp QoQ to 45.3%. On the asset quality front, total slippages declined to Rs 39.1bn (~0.7% annualized), leading to 13%/18% QoQ decline in G/NNPAs. PCR improved ~190bp QoQ to 67%. Performance of subsidiaries remained strong during the quarter.

### Quarterly Update (Standalone)

(Rs bn)

Y/E March	Q1FY21	Q1FY20	% YoY	Q4FY20	% QoQ
Net Interest Income	267	229	16.2	228	17.0
Non Interest Income	95	80	18.5	161	-40.9
<i>Fee income</i>	45	52	-13.7	79	-43.2
<i>Treasury income</i>	40	5	722.4	32	24.4
Total net income	362	310	16.8	389	-6.9
Operating expenses	181	177	2.1	204	-11.3
<i>Staff Cost</i>	119	109	8.7	120	-1.4
Pre provision profits	181	133	36.4	185	-2.2
Provisions and contingencies	125	92	36.2	135	-7.4
PBT	56	41	37.2	50	12.1
Provision for Tax	14	18	-21.7	14	-1.4
PAT	42	23	81.8	36	17.3
Deposits (Rs bn)	34194	29488	16.0	32416	5.5
Advances (Rs bn)	22983	21348	7.7	23253	-1.2
CD ratio (%)	67	72		72	
Tier 1 (%)	11.4	10.7		11.0	
CAR (%)	13.4	12.9		13.4	
Reported NIM (%)	3.01	2.81		2.97	
Cost-Income ratio (%)	52.0	57.0		56.0	
Gross NPAs (%)	5.44	7.5		6.2	
Net NPAs (%)	1.86	3.1		2.2	
Delinquency ratio (%)	0.7	3.1		1.5	
Coverage ratio (%)	67.1	61.1		65.2	

Source: Company, Axis Securities

## Key Concall Takeaways

- **On Moratorium**

- ✓ Only ~9.5% of term loans (only accounts that have paid less than two EMIs) are under moratorium.
- ✓ For working capital, the interest deferment stands at ~Rs 48.8bn on the overall working capital book
- ✓ Home loans morat book stands at Rs 320bn and personal loans at Rs 110bn.

- **On Asset Quality**

- ✓ Base line slippages guidance of 1.5-1.6% i.e. Rs 320-360bn which could increase due to the impact of COVID-19.
- ✓ Of the total SMA of Rs 420bn (as on Feb'20), the portfolio where less than two EMIs were paid stands at Rs 130b, on which, the bank has made provisions of Rs 30bn.
- ✓ Interest reversal was negligible during the quarter.
- ✓ Large HFC exposure (DHFL) was declared as a fraud account in the previous quarter, and thus, provisions of Rs 35bn were made in this quarter. Overall, expect resolution to get completed by Dec'20.
- ✓ On the large steel account, expect resolution by Q3FY21. Also, few power accounts are expected to get resolved soon. Overall, expect total recoveries of Rs 100-120bn over the next two quarters.
- ✓ No accelerated provision requirements are expected on the legacy portfolio. Thus, expect ageing provisions of Rs50bn (each quarter) over the next 7 quarters.
- ✓ Standard COVID provisions stood at Rs30bn while provisions for other standard assets were Rs 2.82bn during the quarter.
- ✓ CRE Exposure is ~Rs418.8, of which, 90% is LRD, exposure to Aviation (0.3% of loans), and Tourism and Hotels (0.47% of loans).

- **On Slippages**

- ✓ Total slippages declined to Rs39.1bn (Rs82.9b in Q4FY20), led by decline across Agri and corporate while SME and retail increased
- ✓ Recoveries/upgrades picked up to Rs 36.1bn while write-offs for the quarter stood at Rs 197.3bn. As a result, absolute GNPA/NNPA declined 13%/18% QoQ to Rs 1.3tr/Rs 427bn. G/NNPA ratios, thus, declined to 5.4% (-71bp QoQ)/1.9% (-37bp QoQ). Reported PCR increased 270bp QoQ to 86.3%.
- ✓ GNPA in agriculture/corporate segment declined to 15.4/7.7% from 15.9/9.7% QoQ. GNPA in retail/SME segment was stable at 1.1/9.1%
- ✓ Total SMA-1 and SMA-2 declined sequentially to Rs17.5b (0.1% of advances).

- **On Loan book**

- ✓ Retail segment continued exhibiting strong growth (+12.8% YoY), led by healthy growth in home loans (+10.7%) while auto loans declined 2.2% YoY. Retail / wholesale mix now stands at 60:40. Corporate book/ International book declined sequentially by 4.1/3.6% QoQ. SME/Agri book grew 4.1/1.6% YoY. The bank is witnessing strong traction in gold loans.
- ✓ Avg. LTV in Home Loans stands at ~60%. 90% of the portfolio comprises first-time buyers. Large proportion to government employees.

- **Others**

- ✓ CET 1 ratio stood at 10.1%, with Tier 1 ratio of 11.4% (CAR of 13.4%).
- ✓ Loans sanctioned during June 2020 has picked up well. Further, loan pipeline on corporate loans is strong (mainly project financing). Therefore, expect corporate disbursements to pick up.
- ✓ On the wage revisions – The bank has built provisions of Rs 10bn during the quarter. Also, an additional impact of ~Rs10bn is expected in the coming quarter.
- ✓ Further improvement in margins is not expected. Expect it to remain stable at the present levels.
- ✓ Under credit guarantee scheme, loans sanctioned stands at Rs 210bn, of which, ~INR150b was disbursed.
- ✓ Risk weights have reduced due to disbursement toward high-rated entities.

- **On Subsidiaries**

- ✓ SBI Mutual Fund has the highest market share (14.79%) in mutual fund. It registered QAAUM growth of ~18% against industry decline of ~3% and PAT growth of ~57% YoY to Rs1.9 bn in Q1FY21.
- ✓ SBI Life's PAT was up 5% yoy in 1QFY21 to Rs3.9 bn. VNB recorded an increase of 34%, driven by a strong 19% VNB margin. PAT for the general insurance business increased 80% YoY in Q2FY21 to Rs1.4 bn.
- ✓ SBI Cards PAT was up 14%YoY to Rs3.9 bn in Q1FY21. It has a market share of ~20/18% by total spends/card base. RoE for the business was at ~28% in 1QFY21.

## Valuations and Outlook

**We initiate coverage on SBIN with a target price of Rs 240 (on SOTP basis, valuing core bank at 0.6x FY22E ABV and subsidiary value at Rs 110).** Among PSU banks, SBIN remains the best play on the gradual recovery in the Indian economy, with a healthy PCR of 67%, robust capitalization (Tier 1 of ~11.4%), a strong liability franchise and improved core operating profitability.

SBIN has been reporting strong operating performance in the last couple of years. Deposit growth stood strong and aggressive cut in Savings and Term Deposit rates enabled margin improvement unlike the decline for many private banks. Slippages were lower, helped by the RBI's dispensation, which resulted in asset quality improvement. We believe that SBIN has prudently improved PCR over the last few years and has one of the lowest stressed assets amongst corporate banks. The proportion of moratorium book has improved further to 9.5% of terms loans (v/s 23% earlier). The legacy book being provided for, wage provision needs also being limited and scope for NIM expansion augur well for the bank's future earnings.

Due to the lockdown and macro uncertainties on account of Covid-19, asset quality will be a key monitorable going forward as well. However, Management commentary on NIM and asset quality denotes confidence and a healthy provisioning cover adds comfort. Management reiterated that it had taken most of the provisions for the legacy book of large stressed exposures into account. SBIN's has been the first mover in driving sectoral interest rate which places it at an advantage to other PSU bank peers, providing a cushion to margins. SBIN's strong position in terms of liability franchise, coupled with an impeccable reach and business strength makes it well placed to ride over medium-term challenges. Subsidiaries can continue to add further value with improving market share in most subsidiaries.

We expect muted loan growth over FY21/FY22E at ~3/11% while deposit growth should be better at 6% in FY21. This will aid stable NIM at ~3.1%. Further cost income improvement to ~51/52% will support operating performance. We expect credit cost to go up to 2/1.5% in FY21/FY22E and thus we estimate ROA/ROE of 0.7/11.9% by FY22E.

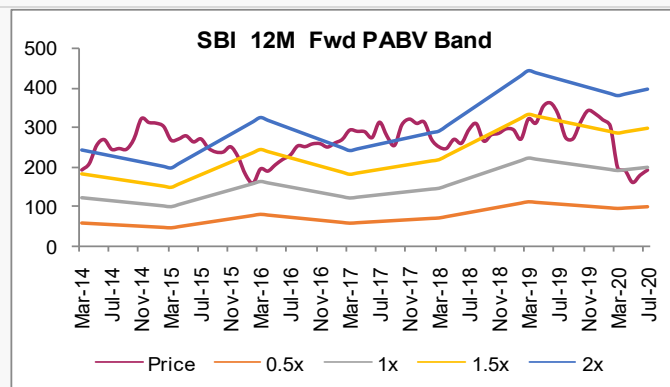
SBI currently trades at <1x its FY22E book value, which we believe is attractive. While markets are factoring in tough conditions on growth and uncertainty on credit costs, there are business strengths with consistent NPA decline and comfortable margin cushions. Moreover, high coverage of 67% indicating less residual stress and steady CAR of the bank are positives. It is our preferred idea among public banks, the best to play the improvement in corporate NPA cycle with the impact of Covid likely to be relatively lower.

### SBI SOTP

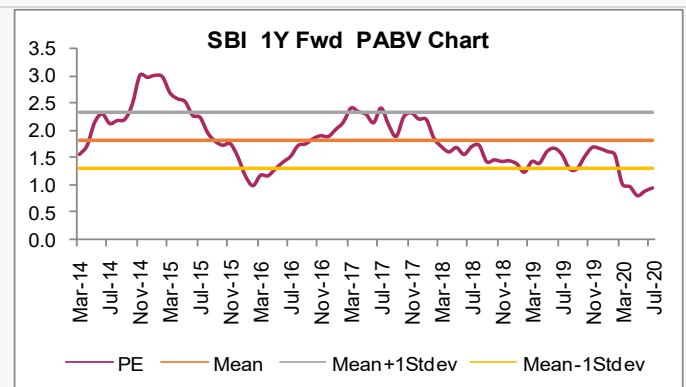
		Per Share
SBI Parent	0.6x FY22E ABV	129
SBI Life	2.8x FY22E EV	49
SBI AMC	5% FY22E AUM	19
SBI Cards	44x FY22E PE	51
SBI Capital	10x FY22E PE	10
SBI General Insurance	20x FY22E PE	9
Total Val of Sub.		138
Less: 20% holding discount		28
Net Value of Sub.		110
Total Value		240

Source: Company, Axis Research

### FWD PABV (x)



### Mean Std Deviation (x)



Source: Company, Axis Securities

## Key Risks

- The bank had to play a role to stabilize certain parts of the financial system, which private banks have avoided. These risks act as an overhang.
- The risk of moral hazard arising from farm loan waivers could lead to higher slippages in the agriculture sector.
- A prolonged lockdown and consequent rise in NPAs can pose risks to profitability
- Change in MD in Oct 2020, which is usually associated with asset quality deterioration.

## About the company

SBIN is the largest public sector bank in terms of assets, deposits, branches, number of customers, and employees having pan-India presence. As of March '20, SBIN has a network of 22,141 branches and 58,555 ATMS. It has a market share of ~22.8/19.7% market share in deposits/advances. The bank has been designated by the RBI as a Domestic Systemically Important Bank, which means that its continued functioning is critical for the economy. Over the years, it has made its presence felt and undertaken digital initiatives on par with top private banks. The bank is better capitalised than most PSU banks. It has sustained its market share unlike other PSU banks. Operating parameters of the bank has improved greatly in last couple of years with focus on reducing legacy book stress. In addition to banking services, the bank, through its subsidiaries, provides a range of financial services including life insurance, merchant banking, mutual funds, credit card, security trading, pension fund management and primary dealership in the money market.



## Financials (Standalone)

### Profit & Loss

(Rs bn)

Y/E March	FY19	FY20	FY21E	FY22E
<b>Net Interest Income</b>	883	981	1,094	1,181
<b>Other Income</b>	368	452	429	442
<b>Total Income</b>	1,251	1,433	1,523	1,624
<b>Total Operating Exp</b>	697	752	781	846
Staff expenses	411	457	484	489
Other operating expenses	286	295	313	325
<b>PPOP</b>	554	681	742	778
Provisions & Contingencies	538	431	517	403
<b>PBT</b>	16	250	225	374
Provision for Tax	7	181	58	97
<b>PAT</b>	9	69	166	277

Source: Company, Axis Securities

### Balance Sheet

(Rs bn)

Y/E March	FY19	FY20	FY21E	FY22E
<b>SOURCES OF FUNDS</b>				
Share Capital	9	9	9	9
Reserves	1,954	2,074	2,240	2,517
<b>Shareholder's Funds</b>	1,963	2,083	2,249	2,451
<b>Total Deposits</b>	29,114	32,416	34,361	37,453
Borrowings	4,030	3,147	2,851	2,828
Other Liabilities & Provisions	1,702	1,868	1,961	2,118
<b>Total Liabilities</b>	36,809	39,514	41,423	44,851
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	2,225	2,511	2,413	2,232
Investments	9,670	10,470	11,517	12,208
Advances	21,859	23,253	23,951	26,585
Fixed Assets & Other Assets	3,055	3,280	3,542	3,826
<b>Total Assets</b>	36,809	39,514	41,423	44,851

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY19	FY20	FY21E	FY22E
<b>VALUATION RATIOS</b>				
EPS	1.0	7.7	18.5	30.8
Earnings Growth (%)	NM	666.7	140.9	66.6
DPS	0.0	0.0	0.0	3.0
BVPS	220	231.4	249.9	272.4
Adj. BVPS	146	222.4	190.9	215.4
ROA (%)	0	0.2	0.4	0.7
ROE (%)	0.4	3.5	7.5	11.9
P/E (x)	NM	24.9	10.3	6.2
P/ABV (x)	0.9	0.8	0.8	0.7
Core P/ABV (x)	0.4	0.2	0.3	0.2
Dividend Yield (%)	0.0	0.0	0.0	1.6
<b>PROFITABILITY</b>				
NIM (%)	2.8	2.9	3.1	3.1
Cost-Income Ratio	55.7	52.5	51.3	52.1
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	13	6.4	3.0	11.0
Deposit Growth (%)	8	11.3	6.0	9.0
C/D Ratio (%)	75.1	71.7	69.7	71.0
CASA	45.0	44.0	44.0	43.0
Tier 1	10.7	11.0	10.8	10.9
CAR	12.7	13.1	13.3	13
<b>ASSET QUALITY</b>				
Gross NPLs (%)	7.5	6.2	6.5	5.9
Net NPLs (%)	3.0	2.2	2.2	1.9
Coverage Ratio (%)	62.0	65.2	67.8	68.8
Credit cost	2.5	1.8	2.0	1.5

Source: Company, Axis Securities

**About the analyst****Analyst:** Siji Philip**Contact Details:** [siji.philip@axissecurities.in](mailto:siji.philip@axissecurities.in)**Sector:** BFSI**Analyst Bio:** Siji Philip is MBA (Finance) from NMIMS with over 15 years of research experience in the Banking/NBFC sector**Disclosures:**

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