

## Sector: Banks &amp; Finance

## Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 191</b>	
Price Target: <b>Rs. 280</b>	↑
↑ Upgrade ↔ No change ↓ Downgrade	

## Company details

Market cap:	Rs. 170,862 cr
52-week high/low:	Rs. 351/150
NSE volume: (No of shares)	687.4 lakh
BSE code:	500112
NSE code:	SBIN
Sharekhan code:	SBIN
Free float: (No of shares)	384.5 cr

## Shareholding (%)

Promoters	57.6
FII	7.9
DII	11.5
Others	22.9

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	7.3	0.5	-38.4	-39.6
Relative to Sensex	-0.4	-11.0	-30.3	-41.2

Sharekhan Research, Bloomberg

State Bank of India (SBI) posted encouraging results with asset-quality improvement on a sequential basis, even as operational performance came mixed, aided by one-time gain of stake sale benefit of Rs. 1,539 crore from the subsidiary. However, weak other income and higher provisions expenses resulted in PPOP and PAT missing estimates. Net interest income (NII) came at Rs. 26,642 crore, up 16.1% y-o-y and 17% q-o-q, in line with estimates. Non-interest income came at Rs. 7,957 crore, flat y-o-y but was down by 40% q-o-q, mainly as the quarter saw impact of fee and charge waivers amidst pandemic. However, the key is the balance sheet strength and asset quality, on which parameters the bank fares well. Asset-quality performance was robust and GNPA at 5.44% (down 209 bps y-o-y and 71 bps q-o-q) improved significantly. NNPA also at 1.86% declined by 121 bps y-o-y and 37 bps q-o-q, indicating healthy performance. Domestic NIM increased to 3.24%, up 5 bps q-o-q, helped by lower interest reversals and falling cost of deposits. During the quarter, there was Rs. 1,614 crore impact due to the wage revision impact. Moreover, during the quarter, the bank utilised the stake sale proceeds to do Rs. 1,836 crore provision for COVID-19 related accounts. Provision coverage is now at 86.2%, which is healthy.

Moratorium book was at 9.5% of the term loans versus 23% earlier, of which ~2% was comprised of AA and AAA rated corporate borrowers, which is encouraging. The bank defines moratorium loans as those that have missed one or more instalments. Provisions came at a high of Rs. 12,501 crore, up 36.1% y-o-y and down 7.4% q-o-q, with slippages ratio for Q1FY2021 declining to 0.60% (was 2.83% for Q1FY2020) with credit cost declining by 47 bps y-o-y to 1.56%. SBI expects that in the next two quarters around Rs. 12,000 crore recovery is expected from the resolution of assets. The bank has been maintaining its trend of declining NNPA% over the past several quarters, which is a positive. Management's tone was more positive in terms of asset quality, with expectations of recovery and resolution in Q2 and Q3FY2021, but it is still cautious in terms of loan growth. However, the company indicated that it would be willing to take opportunities, backed by better review mechanism and risk assessment framework. SBI is likely to benefit from the expected consolidation in the banking sector in terms of customers and liability franchise. Moreover, its healthy provision coverage ratio indicates less residual stress from the legacy book. We have fine-tuned our estimates for FY2021E and FY2022E and the target multiple. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 280.

## Key positives

- Domestic NIMs increased to 3.24%, up 5 BPS q-o-q, helped by lower interest reversals and falling cost of deposits.
- Moratorium book was at 9.5% of the term loans versus 23% earlier, of which ~2% was comprised of AA and AAA rated corporate borrowers, which is encouraging.
- SMA 1 and 2 book has dwindled to Rs. 1,740 crore, from Rs. 7,266 crore in Q4FY2020.

## Key negatives

- Non-interest income came at Rs. 7,957 crore, flat on a y-o-y basis but down 40% q-o-q, mainly as the quarter saw impact of fee waivers etc.
- Tepid domestic loan book growth of 5.84% y-o-y, with only retail leading growth at 12.9% y-o-y.

## Our Call

**Valuation:** SBI currently trades at <1x its FY2022E book value, which we believe are attractive. While markets are factoring in tough conditions on growth and uncertainty on credit costs, there are business strengths for the largest bank in India with consistent NPA decline and reasonable margin cushions. Moreover, high coverage and strong market position of the bank are positive cushions. Moreover, its healthy PCR of 86.2% indicates less residual stress from the legacy book. However, considering the tough conditions, we have fine-tuned our estimates for FY2021E and FY2022E and the target multiple. We maintain our Buy rating on the stock with a revised PT of Rs. 280.

## Key Risks

A prolonged lockdown and consequent rise in NPAs can pose risks to profitability.

## Valuation

Particulars	Rs cr			
	FY19	FY20	FY21E	FY22E
Net interest income (Rs cr)	88,349	98,085	1,08,125	1,15,561
Net profit (Rs cr)	862	14,488	21,031	25,764
EPS (Rs)	1.0	16.2	23.6	28.9
PE (x)	198.7	11.8	8.1	6.7
Book value (Rs/share)	213.3	225.7	243.8	265.9
P/BV (x)	0.9	0.9	0.8	0.7
RoE (%)	0.4	6.4	8.8	10.0
RoA (%)	0.0	0.4	0.5	0.6

Source: Company; Sharekhan estimates

## Key Highlights of Analyst Meet

- ◆ **NIM performance:** NIM and NII have improved, helped by minimal interest reversals this quarter and a comparative faster decline in cost of deposits.
- ◆ **Moratorium:** Of the Term loans only 9.5% is under moratorium (where the bank has received 1 or zero EMI), AA and AAA corporate are 2% so borrowers are using the opportunity to preserve cash. The bank is closely monitoring the lower end corporate and MSME.
- ◆ **Low interest deferral:** Rs. 4,884 crore is interest accrued and deferred, rest of the amount of Rs. 39,217 crore was received.
- ◆ **Recovery outlook:** In Q2 and Q3, the bank expects to recover some of the loans that are under resolution. The bank was holding excess provisions, which is a good cushion against future shocks.
- ◆ **Credit cost guidance:** 1.5%-1.6% credit cost guidance holds for normal business. The baseline expectation of Rs. 35,000 crore-36,000 crore slippages in FY2021E which will be elevated due to COVID-19.
- ◆ **Digital:** The digital channel is performing strong, and many new products have been launched over the past few quarters.
- ◆ **Opex cost:** Overheads increased by 2% due to cost-control and efficiencies despite higher wage hike.
- ◆ Total standard asset provision on the balance sheet for COVID-19 is Rs. 3,000 crore, loan loss provision was Rs. 9,400 crore done in Q1.
- ◆ **Legacy assets:** Has around Rs. 420 billion of legacy assets, for which the bank may have to provide due to ageing requirements. However, net of provisions has around Rs. 60 billion remaining. Assume 1.5%-1.6% credit cost similar to Q1.
- ◆ **Moratorium details:** For term loans, Rs. 16 trillion term loans (those paid 2+ instalment is not under moratorium). Retail and SME (including mortgage) is 2%, so total is 11%.
- ◆ **Sharp margin improvement:** Going forward, further improvement is less likely. So far, the bank has managed its cost of deposits well. Moreover, while in earlier years, there were interest reversals, since performing loans have gone up due to which reversals were low this year, and there is little legacy asset pressures.
- ◆ **MCLR cut impact:** MCLR reduction etc. get reflected in one month. Reduced MCLR reset time from one-year to six-month this time, which may also cause some impact on margins.
- ◆ **Resolutions:** Some of the key accounts where the bank expects resolutions are: One large steel account – SBI is waiting for supreme court's judgement; two large power accounts – bank is expecting resolutions; a Large HFC exposure: is fully provided, classified as fraud, can get resolved by Q3. SBI management expects that in Q2 or Q3 of FY21 there may be Rs. 10,000 crore-12,000 crore recovery from the resolution plan where SBI holds fully provisions. Total accelerated provision of Rs. 5,500 crore (Rs. 3,500 crore for large HFC) done in Q1FY2021.
- ◆ **Low legacy provisions pressure:** Existing NNPA book of March 2022 becomes fully provided due to accelerated provisions. Hereafter, there is no need for accelerated provisions.
- ◆ **Slippage on Retail and SME:** Slippages in retail and SME etc. were those accounts, which were not eligible for moratorium, but borrowers thought they are not expected to pay. However, now after contacting them, they may be upgraded in Q2.
- ◆ **Pool purchases:** No pool purchases done in Q1. Loans sanctions indicated, 33% growth in loan processing fees in Q2.
- ◆ **Growth guidance:** Expect ~8% credit growth for FY2021E.
- ◆ **Balance transfers:** Home loans the balance transfer rate was normal in Q1, not abnormal.
- ◆ **Wage hike impact:** Were doing at 10%, provided Rs. 1,000 crore in Q1, and in September will see the final impact of Rs. 1,000 crore in Q2. From October, it will start paying Rs. 400 crore additional from October per quarter.
- ◆ **Large telecom company exposure:** SBI has largely non-funded exposure.
- ◆ **Capital Raise:** Has approval but will go to market if and when required.

- ◆ **Moratorium book:** Comprises Rs. 32,000 crore from housing, Rs. 23,000 crore from SME book, and Rs. 11,000 crore from others who have missed one or more EMIs. Home Loan LTV is 60%+ and to salaried class. Moreover, 90% to first-time buyers, those who are self-consumers and, hence, are less vulnerable to default. Personal loans under moratorium at Rs. 11,000 crore.
- ◆ **RWA:** RWA for Q1FY2021 was at 51.60% of gross advances. RWA reduced because the bank is going for well-rated entities and helped in reducing RWA.
- ◆ **Healthy deposits growth:** Despite rate cuts, growth in SA and CA was due to SBI's huge disbursement network, more liquidity in the system and traction from YONO platform.
- ◆ **Subsidiaries:** Want to approach market in few years when two more companies can be listed.

Results						Rs cr
Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	
Interest earned	66,500	62,637	6.2	62,681	6.1	
Interest expended	39,859	39,699	0.4	39,914	-0.1	
<b>Net interest income</b>	<b>26,642</b>	<b>22,938</b>	<b>16.1</b>	<b>22,767</b>	<b>17.0</b>	
Non-interest income	7,957	8,015	-0.7	13,346	-40.4	
Net total Income	34,599	30,954	11.8	36,113	-4.2	
Operating expenses	18,078	17,708	2.1	20,379	-11.3	
<b>Pre-provisioning profit</b>	<b>16,521</b>	<b>13,246</b>	<b>24.7</b>	<b>15,734</b>	<b>5.0</b>	
Provisions	12,501	9,183	36.1	13,495	-7.4	
Profit before tax	5,560	4,063	36.8	4,970	11.9	
Tax	1,370	1,751	-21.8	1,389	-1.4	
<b>Profit after tax</b>	<b>4,190</b>	<b>2,312</b>	<b>81.2</b>	<b>3,581</b>	<b>17.0</b>	
			<b>bps</b>		<b>bps</b>	
Gross NPA%	5.44	7.53	-209	6.15	-71	
Net NPA (%)	1.86	3.07	-121	2.23	-37	

Source: Company; Sharekhan Research

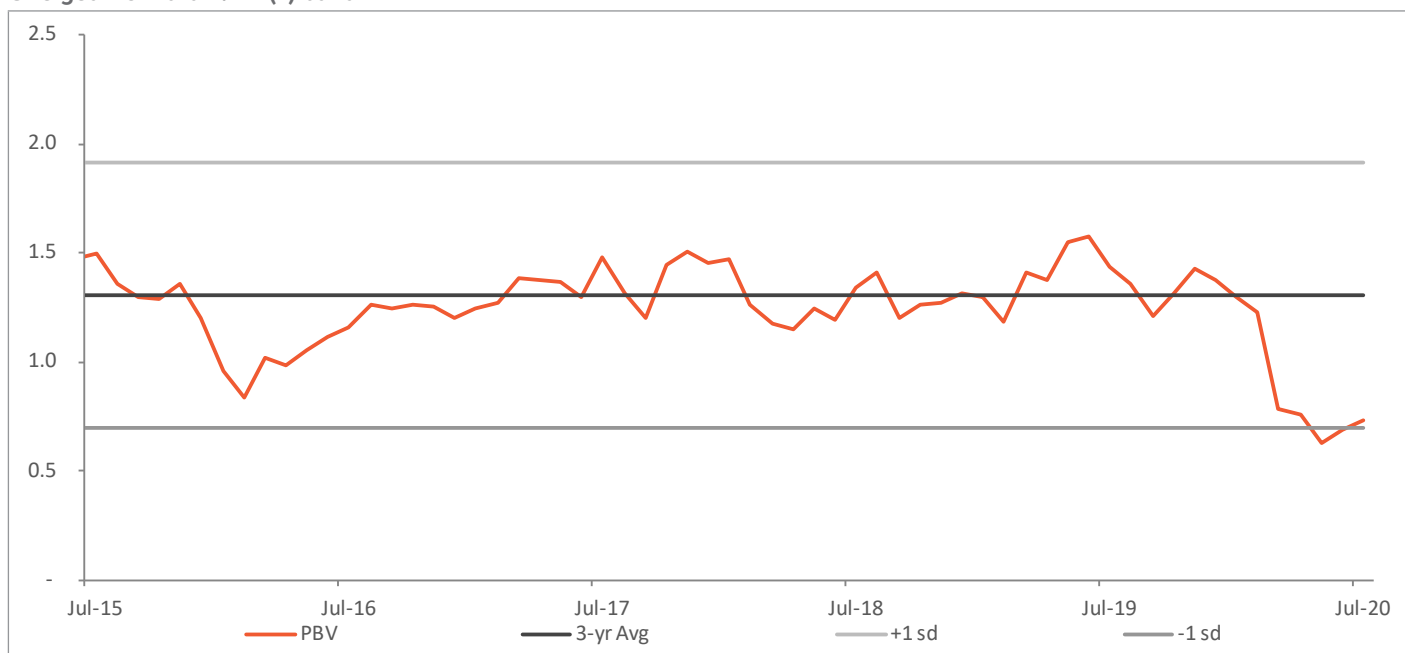
## Outlook

SBI's Q1FY2020 results indicate that business strengths and the last few years' efforts of book clean-up have stood in good stead for the bank in terms of reducing slippages and supporting margins. However, due to the lockdown, uncertainties on the business on ground, clouded still more by the moratorium, make asset quality to be a key monitorable going forward as well. Management has exuded confidence about NIM and asset-quality performance going forward; and a healthy provisioning cover on the balance sheet is a comfort factor. Management reiterated that it had taken most of the provisions for the legacy book of large stressed exposures into account. SBI's status as the market maker in terms of domestic interest rates places it at an advantage to other PSU bank peers, providing a cushion to margins and its strong growth in mortgages and deposits book is proof to its market strength. SBI's pole position in terms of liability franchise, coupled with an enviable reach and business strength make it well placed to ride over medium-term challenges.

## Valuation

SBI currently trades at <1x its FY2022E book value, which we believe are attractive. While the markets are factoring in the tough conditions on growth and uncertainty on credit costs, there are business strengths for the largest bank in India with consistent NPA decline and reasonable margin cushions. Moreover, high coverage and strong market position of the bank are positive cushions. In addition, its healthy PCR of 86.2% indicates less residual stress from the legacy book. However, considering the tough conditions, we have fine-tuned our estimates for FY2021E and FY2022E and the target multiple. We maintain our Buy rating on the stock with a revised PT of Rs. 280.

### One-year forward P/BV (x) band



Source: Sharekhan Research

### Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
State Bank of India	191	0.8	0.7	8.1	6.6	0.5	0.6	8.8	10.0
Union Bank of India	29	0.3	0.3	13.8	5.5	0.1	0.3	2.4	6.5
Bank of India	47	0.4	0.4	35.5	9.3	0.1	0.3	2.1	2.7

Source: Company, Sharekhan research

## About company

SBI is the largest public sector bank in terms of assets, deposits, branches, number of customers, and employees having pan-India presence. The bank has been designated by the RBI as a Domestic Systemically Important Bank (D-SIB), which means that its continued functioning is critical for the economy. The bank is better capitalised than most PSU banks, it is well placed to gain market share as well as key clients by virtue of lesser competitive pressures. The bank is well placed to secure growth capital from the government, not only by virtue of being the largest bank, but also with operating parameters that have improved greatly as compared to its peers.

## Investment theme

SBI enjoys a dominant position and market share in the Indian banking space, which we expect to be maintained in the foreseeable future as well, by virtue of its deep penetration and superior systems. SBI has a strong presence in both retail liabilities as well as retail asset-side along with its corporate relationships (due to size, history, and market knowledge), which are key differentiators for it. Moreover, due to its size, SBI is the market maker for interest rates, which not only puts it in a dominant position, but it also allows it with margin cushion. SBI has the largest customer base in the country, by virtue of its largest and pan-India network, which enables it to be the banker of preference across India and allows it to explore cross-sell opportunities. The bank's subsidiaries are strong players in their respective fields and provide further valuation support to the parent bank.

## Key Risks

A prolonged lockdown and consequent rise in NPAs can pose risks to profitability.

## Additional Data

### Key management personnel

Shri Rajnish Kumar	Chairman
Shri Dinesh Kumar Khara	Managing Director (Global Banking & Subsidiaries)
Shri Arijit Basu	Managing Director (Commercial Clients Group & IT)
Shri Dhananjaya Tambe	Deputy MD/CIO
Shri B Ramesh Babu	Deputy MD/COO

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	9.1
2	HDFC Asset Management Co Ltd	3.7
3	SBI Funds Management Pvt Ltd	2.8
4	Reliance Capital Trustee Co Ltd	1.6
5	ICICI Prudential Asset Management	1.3
6	ICICI PRUDENTIAL ASSET MGMT CO	1.2
7	GIC Pte Ltd	1.2
8	Franklin Resources Inc	0.9
9	Norges Bank	0.7
10	FMR LLC	0.7

Source: Bloomberg

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