

State Bank of India

Restructuring books to lead the sector

CMP INR 307	Target INR 351	Potential Upside 14.3%	Market Cap (INR Mn) 2,737,625	Recommendation Accumulate	Sector Banking
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Result highlights

- SBI's advances grew during the quarter at 13% YoY/7% QoQ. Deposit mobilization was slow with growth of 7.6% YoY/3% QoQ. CASA at 45.7% improved 51 bps sequentially and 6 bps YoY.
- NII at INR 22,954 Cr. is up 15% YoY/1% QoQ. NIMs (cumulative) stood at 2.78%, expanding by 28 bps YoY/2 bps QoQ. Total Income at INR 35,639 Cr. is up 9.7% YoY/16% QoQ.
- The bank has provided for INR 16,502 Cr of net provisions during the quarter, down 41% YoY/ up 174% QoQ translating in credit costs of 3.22%, an improvement of 178 bps YoY /down 52 bps QoQ. Asset quality improved with GNPA's at 7.53%, improving by 338 bps YoY / 118 bps QoQ while NNPA's at 3.01% was 272 bps better on sequential basis and 94 bps better annually. PCR stood at 78.7%.
- PAT at INR 838 Cr. is down 78% QoQ, translating into ROA of 0.09% on account of high provisions the bank had to make in order to finish the year with cleaner books.

MARKET DATA

Shares outs (Mn)	8,924
Equity Cap (INR Mn)	220,914
Mkt Cap (INR Mn)	2,737,625
52 Wk H/L (INR)	339/238
Volume Avg (3m K)	23,409.5
Face Value (INR)	1
Bloomberg Code	SBIN IN

KEY FINANCIALS

Particulars (INR Crores)	FY17	FY18	FY19	FY20E	FY21E
NII	61,860	74,854	88,349	1,09,918	1,24,543
PPOP	50,848	54,075	53,875	76,913	87,629
PAT	10,484	-6,547	862	21,188	31,586
EPS	13.15	-7.34	0.97	23.74	35.39
NIM	2.8%	2.8%	2.8%	3.2%	3.4%
Advances Growth	7.3%	23.2%	13.0%	13.0%	13.0%

Source: Company, KRChoksey Research

Retail book driving lending growth; high growth in deposits to provide liquidity

State Bank of India's loan book grew by 13.0% over last year while the domestic retail book grew by 18.5% and domestic corporate lending grew by 14.8% YoY during FY19. The home loans consisted of 62% of the retail loans and that grew by 17.4% to cross above 4 lakh Crs for the first time. Lending remained strong for the domestic corporate sector as well (+14.8% during FY19) while the advances towards agricultural sector and SME's slowed with marginal growth of around 7% for both segments during FY19. Deposit mobilization grew slowly at a meagre 7.6% YoY in FY19. CASA deposits improved marginally by 6 bps to 45.7%, as the C/I increased to 56.4% against last year's 52.6% on account of higher growth in term deposits annually at 8% during FY19. We see further room for growth in the home loans business as the bank derive benefit after ongoing general elections.

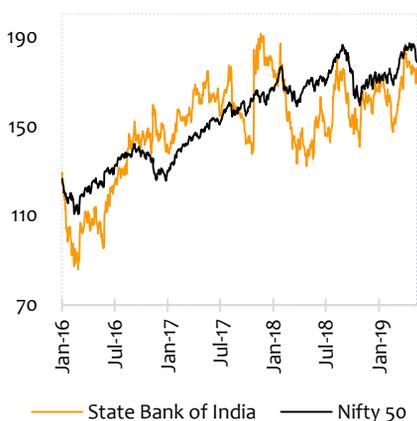
NII growth remained subdued; NIM growth to accelerate as higher rated

NII grew slower at 14.9% YoY/+1.1% QoQ in Q4 FY19 to INR 22,954 Cr. (+18.0% YoY to INR 88,349 Cr. for FY19). The bank's fee income engines slowed down surprisingly due to lesser realizations from restructuring/recovery of distressed loans. NIMs at 2.78% (cumulative) in Q4 FY19 expanded marginally by 28bps YoY/ 2bps QoQ. All these, affected the pre-provision profits which declined by -0.4% during the year on account of stricter norms and preference of higher rated accounts. The banks advance/deposit ratio jumped from 71.5% in FY18 to 75.1% in FY19, clearly reflecting the strategic shift of asset composition in favour of credit lending/core business.

Asset quality improved on higher provisioning; recovers from several NNPA in line

Asset quality improved with GNPA's levels down to 7.53% at the end of FY19, reducing by 338 bps over the year. PCR stood at 78.7% in Q4FY19 (vs. 74.6% in Q3FY19) as the company provisioned vast amounts in the last quarter of the year. We expect the ROA to rise to 0.55% and 0.75% by FY20/21 on the back of several recoveries in line from three major accounts: Essar Steel, Bhushan Steel and Alok Industries amounting around INR16,000 Cr along with a recoveries of around INR17,000 Cr (after 50% write-off of corporate NNPA of INR 34,000 Cr) from other NPA accounts.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	37,091
NIFTY	11,148

SHARE HOLDING PATTERN (%)

Particulars	Mar-19	Dec 18	Sep 18
Promoters	57.13	57.7	57.7
FII's	9.74	9.23	10.07
DII's	24.15	24.17	23.41
Others	8.98	8.9	8.83
Total	100	100	100



NII CAGR between FY19 and FY21E



PPOP CAGR between FY19 and FY21E

ANALYST

Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

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Key Con-call Highlights: (i) State Bank of India's Chairman addressed the concall with the clear guidance of the Management towards improving the asset quality of the bank. (ii) The corporate NNPA stood at INR34,000 Cr at the end of March 2019, of which the banks confidently declared of recovering +50% in FY20, i.e. INR17000 Cr. (iii) The management acknowledged 3 major accounts alone of Essar Steel, Bhushan Steel and Alok Industries, from where the bank expects to recover INR16,000 Cr alone during FY20 (after taking hair-cuts of around 50%). (iv) Regarding the other major accounts, the management said: IL&FS have been provisioned 900 Cr during Q3 FY19, Jet Airways provisioned fully during March 2019 while DHFL still is a standard asset but kept under watch. (v) On the recovery front, the Bank acknowledged the recovery of INR37,000 Cr during FY19 and INR11,000 Cr in Q4 FY19, and expects similar if not more recovery during FY20 as well. (vi) On the high credit costs of the bank against industry standards, the Management clarified that the credit cost related to fresh slippages during FY19 was very low at 0.52% and will be kept below 1% in coming years while the overall credit cost at 2.66% was attributed to slippages from legacy sub-standard NPAs. (vii) Going forward, the Management provided a FY20 PPOP guidance of INR70,000 Cr from core business, 15,000 Cr of recoveries and 5,000 Cr of stake sale in subsidiaries (85-90,000 Cr).

Valuation and view

We expect State Bank of India to deliver NII growth of average 20% YoY in FY20E/FY21E on back of its expanding retail franchisee (network of 22,010 branches and 58,415 ATMs). Rising mix of term deposits and a stable CASA level around 45% would keep the CoF at around 4.5% levels while asset yields are expected to improve on back of improvement in standard asset levels and better repayment. C/I ratio of the bank is expected to improve significantly as the asset quality improves in lending business. Asset quality of the bank is expected to better with several recoveries in line during the current year, credit costs improving below 2% by FY21, PCR at 78-80% and Net NPA expected to go below 2.0% in the forecast period lower rated accounts are avoided to keep the books clean.

The growth in advance/deposit ratio from 71.5% in FY18 to 75.1% reflects the changed focus towards asset composition with higher credit over investments. In addition, the improved home loan growth of 17.4% in FY19 has led the growth in retail advances above 18.5% during the year. The NPA recoveries of around INR16,000 Cr from the 3 major accounts apart from other corporate recoveries of around INR17,000 Cr (after 50% write-offs of corporate NNPA of INR34,000 at end of FY19) will add to the PPOP, since the bank is on fast-track recovery mode and has recovered around INR37,000 Cr in FY19 alone and is expected to recover similar amount in FY20 as well. **State Bank of India is currently trading at a P/Adj.BV multiple of 1.16x/1.04x on FY20E/FY21E book value and we expect the valuation of the bank to improve on back of its improving ROE outlook and asset quality metrics. The bank's expanding retail franchisee supports asset yields on back of high margin lending opportunities in home loan segment, while bank's fee income engines gain momentum over time. We apply a P/Adj.BV multiple of 1.33x to the FY21 adj. BVPS of INR 183 and arrive at a target price of INR 351 per share using SOTP approach, an upside of 14.3% over the CMP. Accordingly, we assign an "Accumulate" rating.**

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Crores	FY 17	FY 18	FY 19	FY 20E	FY 21E
Interest Income	1,75,518	2,20,499	2,42,869	2,71,876	3,06,306
Interest Expense	1,13,659	1,45,646	1,54,520	1,61,958	1,81,763
Net Interest Income	61,860	74,854	88,349	1,09,918	1,24,543
Non interest income	35,461	39,165	35,214	42,257	44,370
Operating income	97,321	1,14,018	1,23,563	1,52,176	1,68,913
- Employee expense	26,489	33,179	41,055	44,339	47,886
- Other operating expense	19,983	26,765	28,633	30,924	33,398
Operating Expense	46,473	59,943	69,688	75,263	81,284
PPOP	50,848	54,075	53,875	76,913	87,629
Provisions	35,993	75,039	53,829	45,754	41,179
PBT	14,855	-20,964	47	31,159	46,450
Exceptional Items	0	5,436	1,561	0	0
Tax Expense	4,371	-8,981	745	9,971	14,864
PAT	10,484	-6,547	862	21,188	31,586
Diluted EPS (INR)	13.15	-7.34	0.97	23.74	35.39

Source: Company, KRChoksey Research

ANALYST

Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

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Exhibit 2: Balance Sheet

INR Crores	FY17	FY18	FY19	FY20E	FY21E
Source of Funds					
Share capital	797	892	892	892	892
Reserves & Surplus	1,87,489	2,18,236	2,20,021	2,36,336	2,60,657
Networth	1,88,286	2,19,129	2,20,914	2,37,228	2,61,550
Borrowings	3,17,694	3,62,142	4,03,017	4,43,319	4,87,651
Deposits	20,44,751	27,06,343	29,11,386	31,51,877	35,30,103
Other liabilities & provisions	1,55,235	1,67,138	1,45,597	1,53,731	1,05,337
Total Equity & Liabilities	27,05,966	34,54,752	36,80,914	39,86,156	43,84,640
Uses of Funds					
Cash & Balance with RBI	43,974	41,501	1,76,932	43,294	45,458
Other Bank and Call Money	1,27,998	1,50,397	45,558	1,56,892	1,64,737
Net investments	7,65,990	10,60,987	9,67,022	9,68,495	9,87,865
Loans & advances	15,71,078	19,34,880	21,85,877	24,70,041	27,91,146
Fixed assets	42,919	39,992	39,198	41,157	43,215
Other assets	1,54,008	2,26,994	2,66,328	3,06,277	3,52,218
Total Assets	27,05,966	34,54,752	36,80,914	39,86,156	43,84,640

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Exhibit 3: Ratio Analysis

Key Ratio	FY17	FY18	FY19	FY20E	FY21E
Growth Rates					
Advances (%)	7.3%	23.2%	13.0%	13.0%	13.0%
Deposits (%)	18.1%	32.4%	7.6%	8.3%	12.0%
Total assets (%)	14.8%	27.7%	6.5%	8.3%	10.0%
NII (%)	8.2%	21.0%	18.0%	24.4%	13.3%
Pre-provisioning profit (%)	17.5%	6.3%	-0.4%	42.8%	13.9%
PAT (%)	5.4%	-37.5%	113.2%	2357.3%	49.1%
B/S Ratios					
Credit/Deposit (%)	76.8%	71.5%	75.1%	78.4%	79.1%
CASA (%)	44.6%	44.5%	45.7%	46.0%	45.0%
Advances/Total assets (%)	58.1%	56.0%	59.4%	62.0%	63.7%
Leverage - Total Assets to Equity	14.37	15.77	16.66	16.80	16.76
Operating efficiency					
Cost/income (%)	47.8%	52.6%	56.4%	49.5%	48.1%
Opex/total assets (%)	1.7%	1.7%	1.9%	1.9%	1.9%
Opex/total interest earning assets	2.0%	2.0%	2.1%	2.2%	2.1%
Profitability					
NIM (%)	2.8%	2.8%	2.8%	3.2%	3.4%
RoA (%)	0.4%	-0.2%	0.0%	0.6%	0.8%
RoE (%)	6.3%	-3.2%	0.4%	9.2%	12.7%
Asset quality					
Gross NPA (%)	7.2%	10.9%	7.5%	5.5%	4.3%
Net NPA (%)	3.7%	5.7%	3.0%	2.2%	1.8%
PCR (%) (excl. AUCA)	48.1%	50.4%	60.0%	65.0%	65.0%
Slippage (%)	5.8%	4.9%	1.6%	1.0%	0.3%
Credit cost (%)	1.5%	2.5%	1.6%	1.3%	1.1%
Per share data / Valuation					
EPS (INR)	13.15	-7.34	0.97	23.74	35.39
BVPS (INR)	236.14	245.53	247.53	265.81	293.07
ABVPS (INR)	163.05	121.32	120.16	158.62	183.54
P/E (x)	22.31	-41.98	318.75	12.97	8.70
P/BV (x)	1.24	1.25	1.24	1.16	1.05
P/ABV (x)	1.80	2.54	2.56	1.94	1.68

Source: Company, KRChoksey Research

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Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

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