

Institutional Equity Research

State Bank of India

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3QFY18 Result Update | February 12, 2018

CMP* (Rs)	289
Upside/ (Downside) (%)	28
Bloomberg Ticker	SBIN IN
Market Cap. (Rs bn)	2,491
Free Float (%)	42
Shares O/S (mn)	8,935

BUY 

Target Price: Rs370

Negative Surprise on Asset Quality Front; Credit Cost to Moderate

State Bank of India (SBI) has negatively surprised with elevated slippages to the tune of Rs258bn (+143% QoQ) in 3QFY18 led by substantially higher divergence as suggested by the RBI in Annual Supervision Audit for FY17. However, overall stressed assets ratio (including gross NPA along with all types of standard restructured loan book and corporate watch list; less overlaps if any) has reduced to 13% in Dec'17 from 13.8% in Sep'17 and 14.5% in Jun'17. Further, the Bank has improved PCR – including Advance Under Collection Account (AUCA) – to 66% and ~60% on all accounts referred to NCLT, which will give much-needed support to future credit cost trajectory.

Key Management Commentary & Guidance

- ▶ Maintaining that the RBI's divergence of Rs230bn for FY17 was across SBI and its associate banks' loan portfolio, the Management expects the situation to improve from FY19E onwards.
- ▶ The Bank has guided for slippages ratio and credit cost of 2% each for FY19 vs. 5.3% and 3.6%, respectively in 3QFY18. The Management expects annual fresh slippages of ~Rs400-450bn for full FY19.
- ▶ Following the RBI qualification on some leased assets, revaluation of assets undertaken in FY17 has been reversed to the tune of Rs112bn and has been adjusted in the Bank's balance sheet in 3QFY18.
- ▶ Further, NII was negatively impacted owing to interest reversal of Rs63bn and Rs19bn for 9MFY18 and 3QFY18, respectively.
- ▶ Under PSB recapitalisation plan, SBI will receive Rs88bn from the Government of India and it will raise another Rs200bn in FY19 to support its balance sheet clean-up drive and growth capital for next few years.
- ▶ Expecting ~9-10% growth in loan book in FY19E led by growth in Retail and MSME sector, the Management expects to return on growth path from FY19E onwards.

Outlook & Valuation

We believe that the Bank is approaching the end of recognition of stressed loan cycle, which along with improving PCR clearly indicates a sharp moderation in credit cost from FY19E onwards. The Bank has raised Rs150bn via QIP and will receive Rs88 under PSB recapitalisation plan, which will support balance sheet clean-up and meet growth capital over next ~2 years. Looking ahead, we expect SBI to sustain further improvement in operating metrics led by dwindling headwinds on asset quality front and improving balance sheet growth especially in Retail segment. Introducing our estimates for FY20E, we expect the Bank's earnings to witness 35% CAGR through FY17-20E. **We continue to maintain our BUY recommendation on the stock with an SOTP-based Target Price of Rs370 valuing parent at 1.7x FY19 Adj. BV implying standalone value at Rs315 and subsidiaries at Rs55 after 15% holding company discount.**

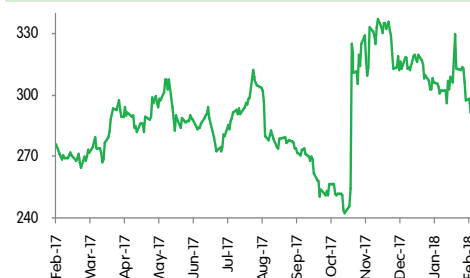
Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
NIII	618,597	741,113	883,535	1,004,745
PPP	508,479	558,755	618,980	702,041
PAT	104,841	29,302	142,825	255,989
EPS (Rs)	13.1	3.3	16.0	28.6
P/E (x)	22.0	88.4	18.1	10.1
Adj. BV (Rs)	160.0	169.1	185.0	213.7
P/Adj. BV (x)	1.8	1.7	1.6	1.4
Gross NPA (%)	7.2	11.2	8.2	5.9
Net NPA (%)	3.7	5.2	3.6	2.6
Avg. ROA (%)	0.4	0.1	0.4	0.7
Avg. ROE (%)	5.6	1.3	6.0	9.9

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(4.4)	(13.4)	4.5
Relative to Nifty	(3.5)	(15.6)	(15.5)

Shareholding Pattern (%)	Sep'17	Dec'17
Promoter	58.0	57.5
Mutual Funds	10.1	10.0
Insurance Companies	11.9	11.7
Foreign Portfolio Investors	10.9	12.3
Others	9.1	8.5
Total	100.0	100.0

1 Year Stock Price Performance



Note: * CMP as on Feb.12, 2018

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Risks to the View

- ▶ Any substantial change on asset quality front.
- ▶ Lower-than-expected growth in loan book.

Exhibit 1: Income Statement Analysis - Merged Entity

(Rs mn)	3Q FY18	3Q FY17	% yoy / bps	2Q FY18	% qoq / bps	9M FY18	9M FY17	% yoy / bps
Interest on Advance	351,850	381,750	(7.8)	358,010	(1.7)	1,071,280	1,166,830	(8.2)
<i>YoA - Calculated (%)</i>	<i>7.7</i>	<i>8.5</i>	<i>(76)</i>	<i>7.9</i>	<i>(25)</i>	-	<i>8.6</i>	-
Income on Investment	184,220	164,030	12.3	180,880	1.8	540,530	449,130	20.4
Interest on Balances	11,960	11,220	6.6	9,610	24.5	33,770	34,170	(1.2)
Interest Earned	548,030	557,000	(1.6)	548,500	(0.1)	1,645,580	1,650,130	(0.3)
Interest Expended	361,150	379,310	(4.8)	362,640	(0.4)	1,096,780	1,108,800	(1.1)
<i>CoF - Calculated (%)</i>	<i>4.6</i>	<i>5.1</i>	<i>(47)</i>	<i>4.7</i>	<i>(7)</i>	-	<i>5.0</i>	-
Net Interest Income	186,880	177,690	5.2	185,860	0.5	548,800	541,330	1.4
<i>NIM - Calculated (%)</i>	<i>2.5</i>	<i>2.5</i>	<i>(4)</i>	<i>2.6</i>	<i>(8)</i>	-	<i>2.6</i>	-
<i>NIM - Reported (%)</i>	<i>2.5</i>	<i>2.7</i>	<i>(26)</i>	<i>2.4</i>	<i>2</i>	NA	NA	NA
<i>NII as % of Oper. Income</i>	<i>69.8</i>	<i>60.7</i>	<i>911</i>	<i>53.7</i>	<i>1,609</i>	<i>63.1</i>	<i>64.0</i>	<i>(94)</i>
Core Fee Income	49,790	47,100	5.7	53,570	(7.1)	152,060	139,550	9.0
<i>Fee Inc. as % of OI</i>	<i>18.6</i>	<i>16.1</i>	<i>251</i>	<i>15.5</i>	<i>312</i>	<i>17.5</i>	<i>16.5</i>	<i>6</i>
Non Core Fee Income	31,050	67,970	(54.3)	106,590	(70.9)	169,000	164,600	2.7
<i>Non core fee Inc. as % of OI</i>	<i>11.6</i>	<i>23.2</i>	<i>(1,162)</i>	<i>30.8</i>	<i>(1,921)</i>	<i>19.4</i>	<i>19.5</i>	<i>(0)</i>
Total Other Income	80,840	115,070	(29.7)	160,160	(49.5)	321,060	304,150	5.6
<i>Other Inc. as % of OI</i>	<i>30.2</i>	<i>39.3</i>	<i>(911)</i>	<i>46.3</i>	<i>(1,609)</i>	<i>36.9</i>	<i>36.0</i>	<i>94</i>
Operating Income (OI)	267,720	292,760	(8.6)	346,020	(22.6)	869,860	845,480	2.9
Core Operating Income	236,670	224,790	5.3	239,430	(1.2)	700,860	680,880	2.9
Employees Expenses	84,970	89,780	(5.4)	77,030	10.3	239,240	250,610	(4.5)
<i>Empl. Expn. as % of OI</i>	<i>31.7</i>	<i>30.7</i>	<i>107</i>	<i>22.3</i>	<i>948</i>	<i>27.5</i>	<i>29.6</i>	<i>(214)</i>
Other Operating Expenses	65,200	58,970	10.6	69,000	(5.5)	194,330	173,360	12.1
<i>Other Oper Exp. as % of OI</i>	<i>24.4</i>	<i>20.1</i>	<i>421</i>	<i>19.9</i>	<i>441</i>	<i>22.3</i>	<i>20.5</i>	<i>184</i>
Total Operating Expenses	150,170	148,750	1.0	146,030	2.8	433,570	423,970	2.3
<i>Cost to income Ratio (%)</i>	<i>56.1</i>	<i>50.8</i>	<i>528</i>	<i>42.2</i>	<i>1,389</i>	<i>49.8</i>	<i>50.1</i>	<i>(30)</i>
Operating Profit (OP)	117,550	144,010	(18.4)	199,990	(41.2)	436,290	421,510	3.5
Provisions and Conting.	188,760	119,230	58.3	191,370	(1.4)	469,420	397,880	18.0
<i>Pro Burden as % of OP</i>	<i>160.6</i>	<i>82.8</i>	<i>7,779</i>	<i>95.7</i>	<i>6,489</i>	<i>107.6</i>	<i>94.4</i>	<i>1,320</i>
Profit Before Tax	(71,210)	24,780	(387.4)	8,620	(926.1)	(33,130)	23,630	(240.2)
Tax Expenses	(47,050)	6,580	(815.0)	(7,200)	553.5	(44,850)	7,260	(717.8)
<i>Effective Tax Rate (%)</i>	<i>66.1</i>	<i>26.6</i>	<i>3,952</i>	<i>(83.5)</i>	<i>14,960</i>	<i>135.4</i>	<i>30.7</i>	<i>10,465</i>
Net Profit	(24,160)	18,200	(232.7)	15,820	(252.7)	11,720	16,370	(28.4)
EPS	1.4	2.8	(50.0)	8.5	(83.7)	19.7	4.2	368.1

Source: Company, RSec Research

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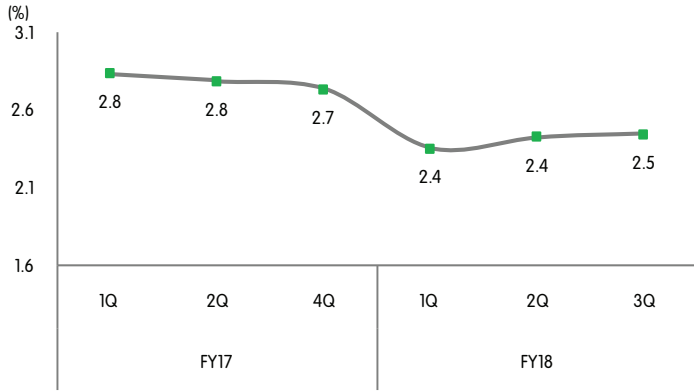
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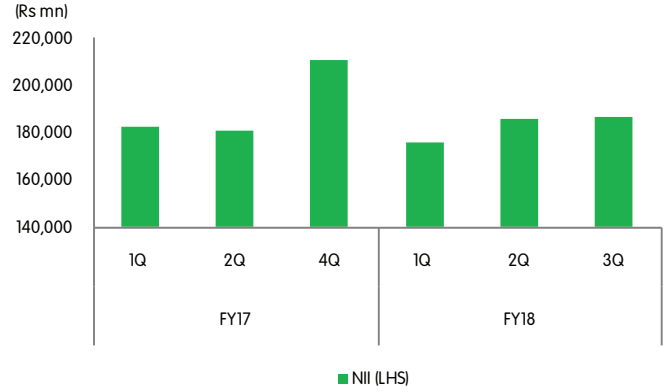
Target Price: Rs370

Exhibit 2: Quarterly Trend in Reported NIM's



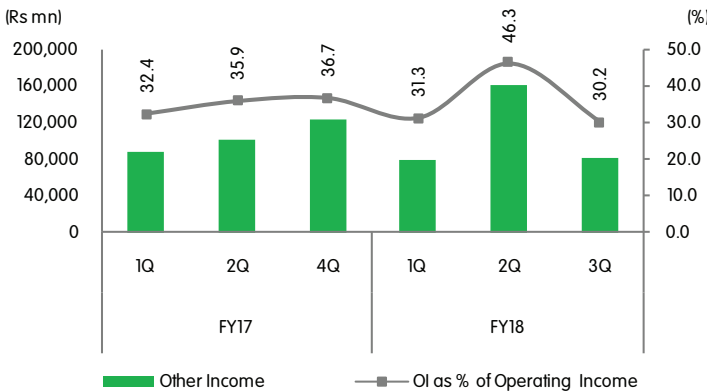
Source: Company, RSec Research

Exhibit 3: Quarterly Trend in NII



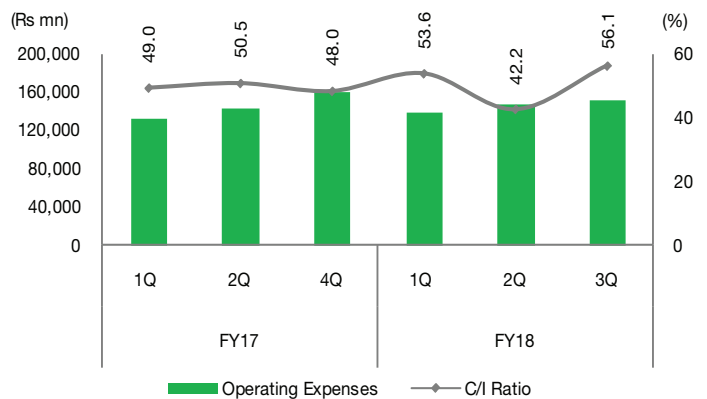
Source: Company, RSec Research

Exhibit 4: Quarterly Trend in Other income



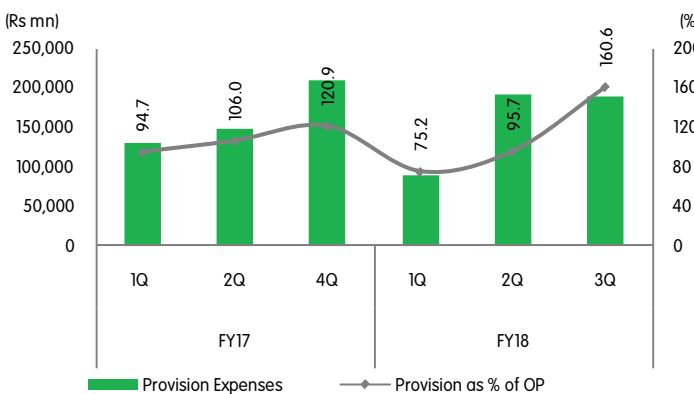
Source: Company, RSec Research

Exhibit 5: Quarterly Trend in Operating Expenses



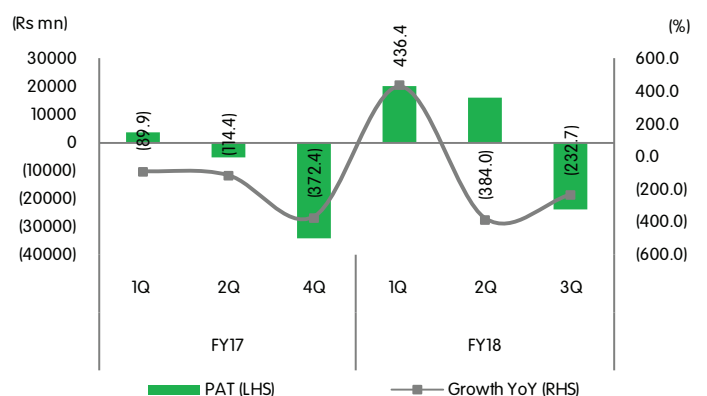
Source: Company, RSec Research

Exhibit 6: Quarterly Trend in Provision expenses



Source: Company, RSec Research

Exhibit 7: Quarterly Trend in PAT



Source: Company, RSec Research

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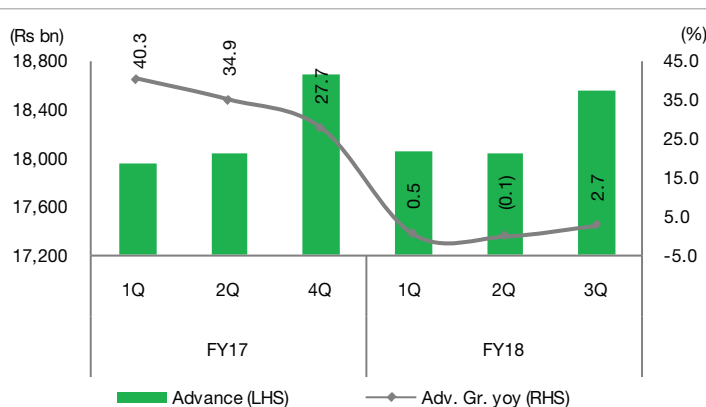
Target Price: Rs370

Exhibit 8: Balance Sheet Analysis - Merged Entity

(Rs bn)	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	QoQ % / bps	YTD % / bps	YoY % / bps
Net Worth	2,130.2	2,118.1	2,290.3	2,312.9	2,169.4	(6.2)	2.4	2.9
Deposit	26,028	25,853	26,025	26,232	26,512	1.1	2.5	11.4
Savings Deposits	9,632	9,264	7,655	9,698	9,727	0.3	5.0	22.4
Current Deposits	1,715	1,810	1,352	1,641	1,754	6.9	(3.1)	24.0
CASA Deposit	11,347	11,074	9,007	11,340	11,481	1.2	3.7	22.7
Term Deposit	13,792	13,865	16,189	13,930	13,960	0.2	0.7	3.2
Investments	10,277	9,329	9,521	10,229	11,592	13.3	24.3	46.1
Advances	18,069	18,690	18,042	18,026	18,556	2.9	(0.7)	2.9
Total Business	54,373	53,872	53,589	54,487	56,660	4.0	5.2	13.9
Avg Int. Earning Assets	26,227	30,753	29,841	30,594	30,511	(0.3)	(0.8)	17.5
CAR (%)	12.7	12.9	13.3	13.6	13.7	17	88	(21)
Tier I Capital (%)	9.6	10.1	10.7	11.0	10.0	(99)	(8)	(88)

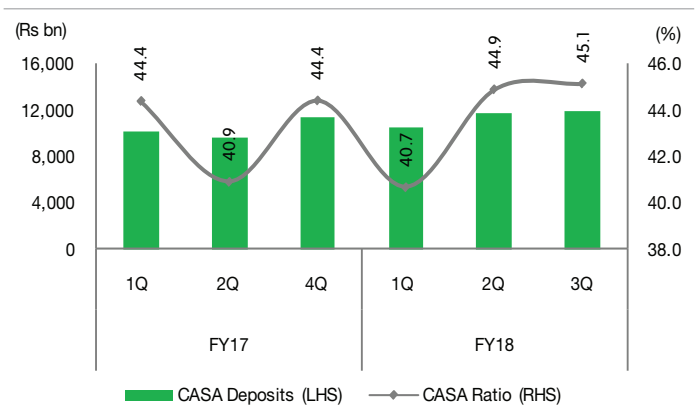
Source: Company, RSec Research

Exhibit 9: Quarterly Trend in Loan book



Source: Company, RSec Research

Exhibit 10: Quarterly Trend in CASA deposits



Source: Company, RSec Research

Exhibit 11: Loan Book Analysis - Merged Entity

(Rs mn)	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	QoQ % / bps	YTD % / bps	YoY % / bps
Agri	1,832,840	1,912,650	1,891,000	1,912,380	1,940,550	1.5	1.5	3.9
Retail	4,586,700	4,813,860	4,900,050	5,047,770	5,210,260	3.2	8.2	16.7
Corpoarte	9,497,880	9,936,370	9,284,790	9,045,310	9,097,230	0.6	(8.4)	(5.4)
Overseas	2,855,360	2,862,190	2,790,820	2,918,940	2,997,740	2.7	4.7	7.0

Source: Company, RSec Research

Exhibit 12: Loan Book Analysis (% Break Up) - Merged Entity

	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	QoQ % / bps	YTD % / bps	YoY % / bps
Agri	9.8	9.8	10.0	10.1	10.1	(2)	29	12
Retail	24.4	24.7	26.0	26.7	27.1	40	242	325
Corporate	50.6	50.9	49.2	47.8	47.3	(53)	(362)	(401)
Overseas	15.2	14.7	14.8	15.4	15.6	15	92	64

Source: Company, RSec Research

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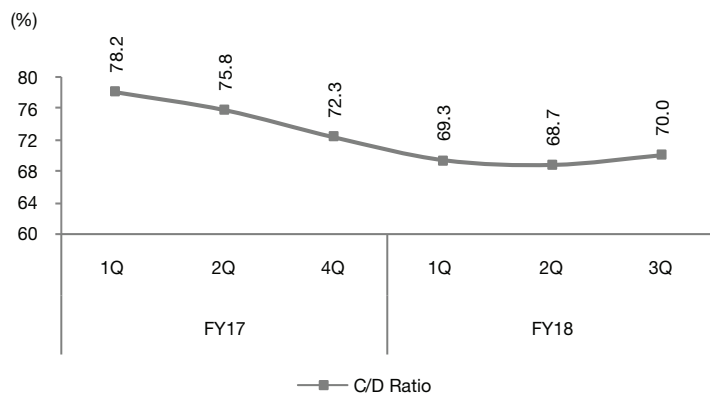
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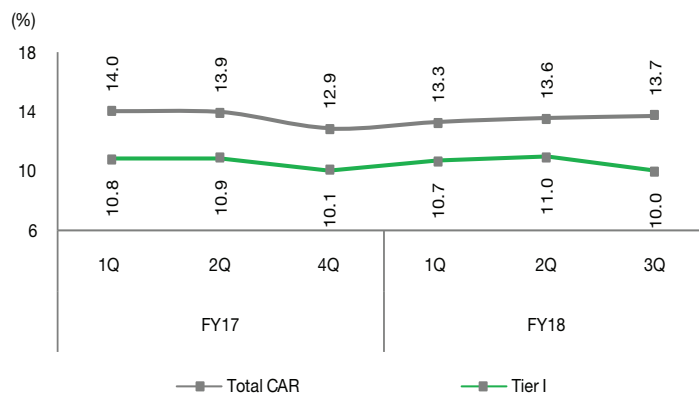
Target Price: Rs370

Exhibit 13: Quarterly Trend in C/D ratio



Source: Company, RSec Research

Exhibit 14: Quarterly Trend in CAR



Source: Company, RSec Research

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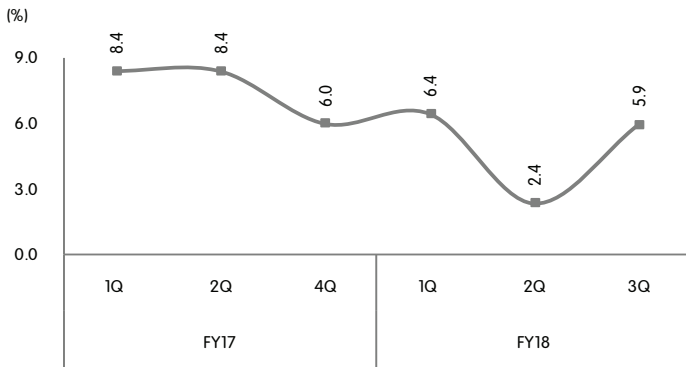
Target Price: Rs370

Exhibit 15: Asset Quality Analysis - Merged Entity

(Rs mn)	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	QoQ % / bps	YTD % / bps	YoY % / bps
Gross Non Performing Assets	1,633,420	1,778,660	1,880,680	1,861,150	1,991,410	(1.0)	4.6	35.2
Fresh Slippages	206,860	270,090	300,590	106,270	267,800	(64.6)	(60.7)	(65.3)
Net Non Performing Assets	963,020	969,780	1,077,600	978,960	1,023,700	(9.2)	0.9	25.1
GNP Ratio (%)	8.7	9.1	10.0	9.8	10.4	52	124	183
NNP Ratio (%)	5.3	5.2	6.0	5.4	5.6	18	42	49
NPA Coverage Ratio	41.04	45.48	42.70	47.40	48.59	119	312	639
Restructured Gross Loans	-	-	393,370	340,240	208,840	(13.5)	-	-
Restructured Loan as % of Adv.	-	-	2.2	1.9	1.1	(76)	-	-

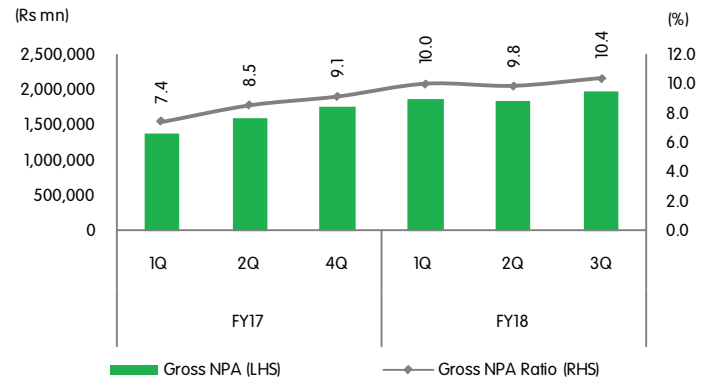
Source: Company, RSec Research

Exhibit 16: Quarterly Trend in Slippages Ratio



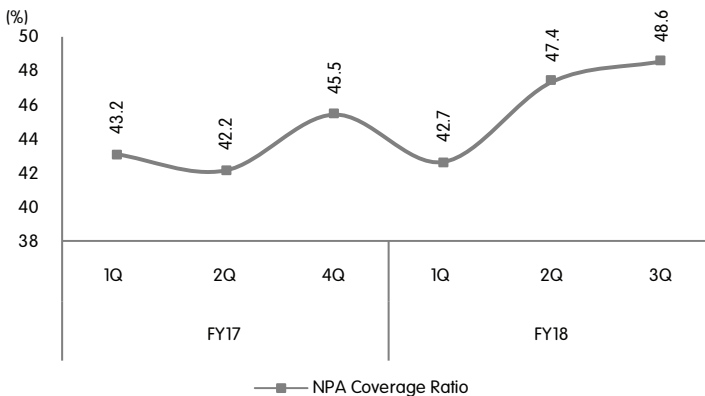
Source: Company, RSec Research

Exhibit 17: Quarterly Trend in Gross NPA



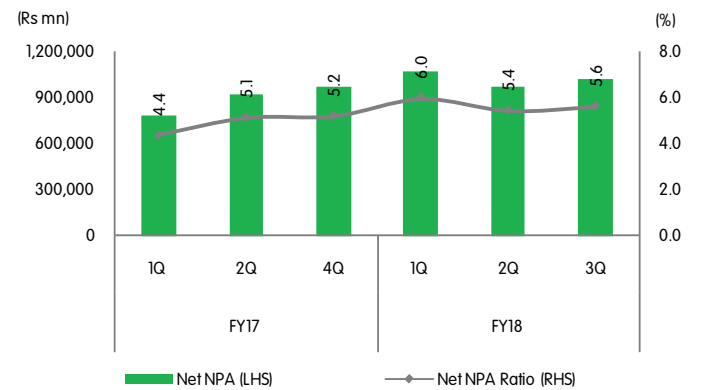
Source: Company, RSec Research

Exhibit 18: Quarterly Trend in PCR



Source: Company, RSec Research

Exhibit 19: Quarterly Trend in Net NPA



Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Interest Earned	1,755,182	2,197,738	2,368,555	2,585,290
Interest Expenditure	1,136,585	1,456,625	1,485,020	1,580,544
Net Interest Income	618,597	741,113	883,535	1,004,745
Fee Income	162,766	221,777	252,351	295,447
Non Fee Income	191,844	178,810	145,402	156,230
Other Income	354,609	400,587	397,753	451,677
Net Operating Income	973,207	1,141,700	1,281,288	1,456,423
Core Operating Income	781,363	962,890	1,135,886	1,300,193
Employee Expenses	264,893	323,166	363,562	410,825
Other Expenses	199,835	259,779	298,746	343,558
Operating Expenses	464,728	582,945	662,307	754,382
Operating Profit	508,479	558,755	618,980	702,041
Provisions and Contingencies	359,927	564,989	407,387	322,797
Profit Before Tax	148,552	(6,234)	211,593	379,244
Taxes	43,711	(35,536)	68,768	123,254
Profit After Tax	104,841	29,302	142,825	255,989

Balance Sheet

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Capital & Liabilities				
Capital	7,974	8,935	8,935	8,935
Reserves Total	1,874,887	2,226,085	2,357,910	2,587,045
Net Worth	1,882,861	2,235,021	2,366,846	2,595,980
Deposits	20,447,514	26,809,772	28,954,554	31,415,691
Current deposits	1,524,211	2,305,640	2,519,046	2,670,334
Saving deposits	7,589,614	9,758,757	10,655,276	11,466,727
Term Deposits	11,333,689	14,745,375	15,780,232	17,278,630
Borrowings	3,176,937	3,550,557	3,460,557	3,370,557
Other Liabilities & Provisions	1,552,352	2,518,949	2,482,317	2,762,349
Total Liabilities	27,059,663	35,114,299	37,264,273	40,144,577
Assets				
Cash & Cash Equivalents	1,719,717	1,752,059	1,803,053	1,913,064
Investments	7,659,896	11,588,245	11,722,981	12,247,630
Advances	15,710,784	19,297,039	21,130,258	23,243,284
Fixed Assets	429,189	427,157	414,696	371,851
Other Assets	1,540,077	2,049,799	2,193,285	2,368,748
Total Assets	27,059,663	35,114,299	37,264,273	40,144,577

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Per Share Data and Valuation

Y/E March	FY17	FY18E	FY19E	FY20E
No. of Shares (Mn)	7,973.5	8,935.5	8,935.5	8,935.5
Earnings Per Share (Rs.)	13.1	3.3	16.0	28.6
Book Value / Share (Rs.)	196.5	223.8	239.8	268.5
ABV/Share (Rs.)	160.0	169.1	185.0	213.7
Dividend Per Share (Rs.)	4.2	-	-	-
Price/ Earnings (X)	22.0	88.4	18.1	10.1
Price/ BV (X)	1.5	1.3	1.2	1.1
Price/Adjusted BV (X)	1.8	1.7	1.6	1.4

Key Assumptions

Y/E March (%)	FY17	FY18E	FY19E	FY20E
Loan Growth	7.3	3.3	9.5	10.0
Deposit Growth	18.1	3.7	8.0	8.5
Slippages Ratio	2.7	4.4	2.3	1.6
Cost of Fund	4.8	4.6	4.4	4.4
Yield on Fund	7.7	7.2	7.3	7.5
NIM	2.7	2.4	2.7	2.9
Other Income Growth	27.3	13.0	(0.7)	13.6
Cost to Income Ratio	47.8	51.1	51.7	51.8
Average Credit Cost	2.5	3.0	2.1	1.5

Growth Rate

Y/E March (%)	FY17	FY18E	FY19E	FY20E
Net interest Income	8.2	19.8	19.2	13.7
Other Income	27.3	13.0	(0.7)	13.6
Operating Profit	17.5	9.9	10.8	13.4
Provisions Expense	22.1	57.0	(27.9)	(20.8)
PAT	5.4	(72.1)	387.4	79.2

Yields / Margins

Y/E March (%)	FY17	FY18E	FY19E	FY20E
Cost of Funds (CoF)	4.8	4.6	4.4	4.4
Yield on Advance	7.9	7.5	7.6	7.9
Yield on funds	7.7	7.2	7.3	7.5
Net Interest Margin (NIM)	2.7	2.4	2.7	2.9

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State Bank of India

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CMP* (Rs)	289
Upside/ (Downside) (%)	28
Bloomberg Ticker	SBIN IN

BUY 

Target Price: Rs370

Balance Sheet Ratio

Y/E March (%)	FY17	FY18E	FY19E	FY20E
Credit / Deposit Ratio	76.8	72.0	73.0	74.0
Incremental C/D Ratio	34.2	63.5	85.5	85.9
Investment-Deposit Ratio	37.5	43.2	40.5	39.0
CASA Ratio	44.6	45.0	45.5	45.0

Asset Quality

Y/E March (%)	FY17	FY18E	FY19E	FY20E
Gross NPA/Gross Advances	7.2	11.2	8.2	5.9
Net NPA/Net Advances	3.7	5.2	3.6	2.6
Provisioning Burden as % of PPP	70.8	101.1	65.8	46.0
Provisioning Coverage Ratio	48.1	54.1	56.4	56.2
Slippage ratio (%)	2.7	4.4	2.3	1.6
Provis. Exp. to Avg. Advance (%)	2.4	3.0	2.0	1.5

RoA Tree Analysis

Y/E March (%)	FY17	FY18E	FY19E	FY20E
NII / Avg. Assets	2.4	2.2	2.4	2.6
Core Fee / Avg. Assets	0.6	0.7	0.7	0.8
Core Rev. / Avg. Assets	3.1	2.8	3.1	3.4
Ope. Exp. / Avg. Assets	1.8	1.7	1.8	1.9
Cost to Income	47.8	51.1	51.7	51.8
Emp. cost / Avg. Assets	1.0	0.9	1.0	1.1
Oprt. Exp. / Avg. Assets	0.8	0.8	0.8	0.9
Core OP/ Avg. Assets	1.3	1.1	1.3	1.4
Trading & Ot/ Avg. Assets	0.8	0.5	0.4	0.4
OP/ Avg. Assets	2.0	1.6	1.7	1.8
Provisions / Avg. Assets	1.4	1.7	1.1	0.8
NPA prov. / Avg. Assets	1.3	1.6	1.1	0.8
PBT / Avg. Assets	0.6	(0.0)	0.6	1.0
Tax / Avg. Assets	0.2	(0.1)	0.2	0.3
Effective Tax Rate	29.4	570.0	32.5	32.5
RoA	0.4	0.1	0.4	0.7
Leverage (x)	14.4	15.7	15.7	15.5
RoE	5.6	1.3	6.0	9.9

Capital Adequacy Ratio

Y/E March (%)	FY17	FY18E	FY19E	FY20E
Total CAR	12.9	12.4	11.1	10.0
Tier 1	10.1	9.0	8.1	7.3

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Target Price: Rs370

Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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