

State Bank of India

Refer to important disclosures at the end of this report

Better asset quality, retail growth outlook; retain Buy

CMP: Rs 207
as of (November 4, 2020)

TP: Rs 265 (▲)
12 months

Rating: BUY (■)

Upside: 28.0 %

- SBI strongly beat earnings estimates by 72% with a PAT of Rs45.7bn, aided by slightly better margins and contained provisions. Proforma slippages were relatively higher at Rs14.4bn. GNPA stood at 5.9% mainly from the SME/agri segment, but the bank has seen some pull-back in Oct'20. Overall collection efficiency has touched 97%, similar to large private peers.
- SBI expects restructuring to the extent of Rs195bn (0.9% of loans) and slippages in H2 (ex. proforma slippages) largely around BAU levels (Rs100bn in each quarter). The guidance looks optimistic, but management contends that its retail book remains resilient, built largely around salaried/govt. employees. Corporate/SME stress remains moderate.
- The Covid-19 provisioning buffer stands at Rs71bn, 0.31% of loans, which is better than other PSBs and so is its capital position with CET 1 at 10.5%. SBI believes that much of its planned growth will be self-funded and need not immediately raise external equity capital.
- We like SBI among PSBs for its strong liability profile, high retail orientation, reasonable capital position and undemanding valuations (0.3x FY22E core ABV). Retain Buy/OW in EAP with a revised TP of Rs265 (0.5x core Dec'22E core ABV + subs/inv of Rs136).

Retail credit growth gaining pace; NIMs to remain volatile: Overall loan growth was moderate at 7% yoy, but retail growth is moving toward pre-Covid levels, with home loans growing 10% yoy and sanctions and disbursements during Q2FY21 being significantly higher YoY (mainly to salaried/govt. employees). SME saw some traction due to the disbursement (Rs220bn) under the govt. guarantee scheme. Deposits continue to grow at a faster pace - up 14% - despite multiple rate cuts by SBI, given risk aversion among savers. Despite lower LDR, global NIMs improved 6bps qoq to 3.1% due to lower CoF and interest on IT refund. However, NIMs may come under pressure in H2 as NPA recognition accelerates.

Bank expects moderate stress formation: Gross slippages were low at Rs31bn (0.6%) due to SC dispensation, but proforma slippages were relatively higher at Rs144bn and proforma GNPA ratio was, thus, higher by 44bps qoq to 5.9%. As per management, bulk of these slippages were from the agri/SME sector and has already seen pull-back of Rs60bn in Oct'20 (mainly from SME - Rs30bn, Agri - Rs11bn). Collection efficiency in the domestic loan book (ex. Agri.) stands at 97% as of Sep'20 and thus, SBI expects slippages (ex-proforma NPAs in Q2) to the tune of Rs200bn in H2, which seems to be largely BAU level slippages. SBI has received restructuring requests to the tune of Rs65bn (Rs40bn corp. and Rs25bn retail) and expects another Rs130bn by Dec'20, taking the overall potential restructuring pool to Rs195bn (0.9% of loans), which seems to be far lower than expected. Covid-19 provisions of Rs70.9bn as of Sep'20 include Rs32bn on proforma slippages and Rs6.5bn on restructuring proposals received till date. The bank expects recoveries to the tune of Rs60-70bn in H2FY21 in addition to recoveries from a steel and an HFC account.

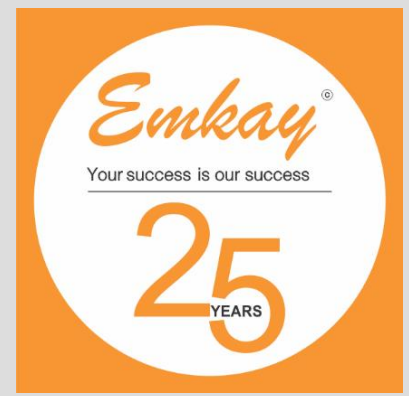
Outlook and valuation: We have raised FY21 estimates by 52% and FY22/23E by 18%/9%, factoring in slightly better growth momentum, improving fees and expected lower stress formation than earlier. We like SBI among PSBs for its strong liability profile, high retail orientation, reasonable capital position and undemanding valuations. We retain Buy/OW in EAP with a revised TP of Rs265 (0.5x core Dec'22E core ABV + subs valuation of Rs136). Key risks: Slower growth, higher-than-expected pressure on margins and higher NPA formation in the corporate/SME book.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	1,251,240	1,433,063	1,502,907	1,649,429	1,795,609
Net profit	8,623	144,878	136,972	161,609	257,152
EPS (Rs)	1.0	16.2	15.3	18.1	28.8
ABV (Rs)	171.2	189.8	213.9	230.2	257.7
RoA (%)	0.0	0.4	0.3	0.4	0.5
RoE (%)	0.4	6.4	5.7	6.2	9.2
PE (x)	214.2	12.8	13.5	11.4	7.2
P/ABV	0.4	0.4	0.3	0.3	0.3

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	51.5/17.7
Target Price change (%)	10.4
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	15.3	18.1
Consensus	13.8	23.0
Mean Consensus TP (12M)	Rs 267	

Stock Details

Bloomberg Code	SBIN IN
Face Value (Rs)	1
Shares outstanding (mn)	8,925
52 Week H/L	351 / 149
M Cap (Rs bn/USD bn)	1,847 / 24.71
Daily Avg Volume (nos.)	57,385,880
Daily Avg Turnover (US\$ mn)	152.9

Shareholding Pattern Sep '20

Promoters	56.9%
FIIIs	7.7%
DIIIs	25.0%
Public and Others	10.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	8	16	(34)
Rel. to Nifty	4	1	(10)	(34)

Relative price chart



Source: Bloomberg

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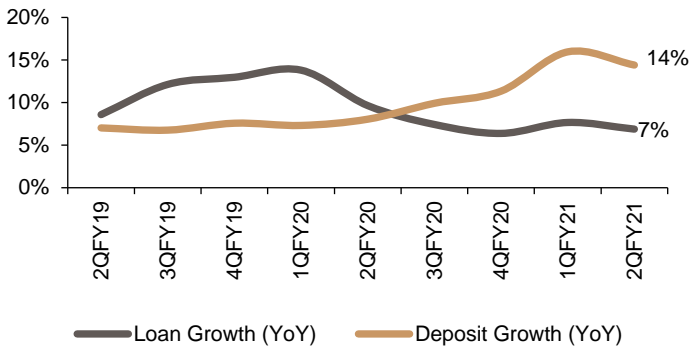
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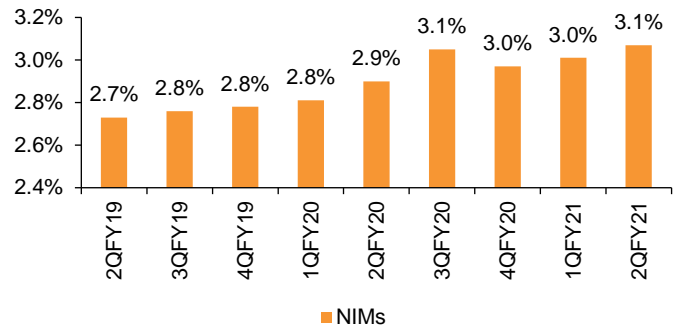
Story in charts

Exhibit 1: Credit growth remains moderate but retail is expected to be the driving engine ahead



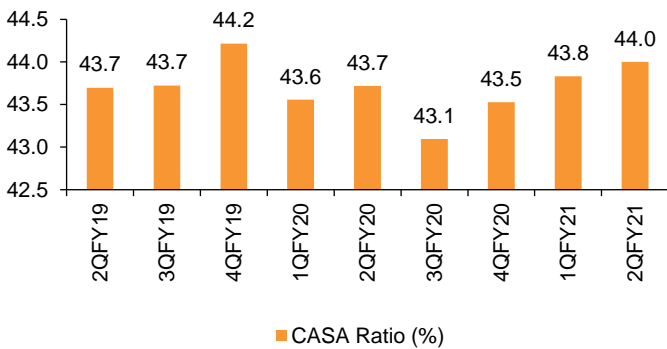
Source: Company, Emkay Research

Exhibit 2: NIM improved qoq led by reduction in COF and interest on IT refund, but NPA formation in H2 could weigh on margins



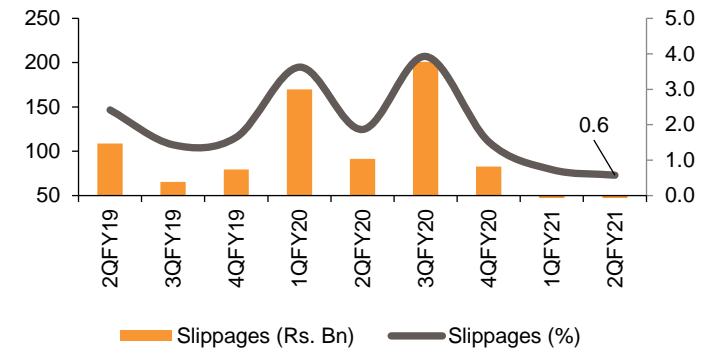
Source: Company, Emkay Research

Exhibit 3: CASA ratio improved led by strong growth in SA balance despite aggressive rate cuts



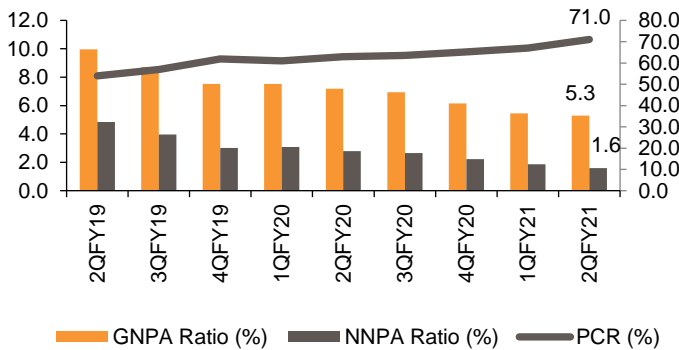
Source: Company, Emkay Research

Exhibit 4: Slippages during Q2 were abysmally low due to SC dispensation, but proforma slippages were relatively higher



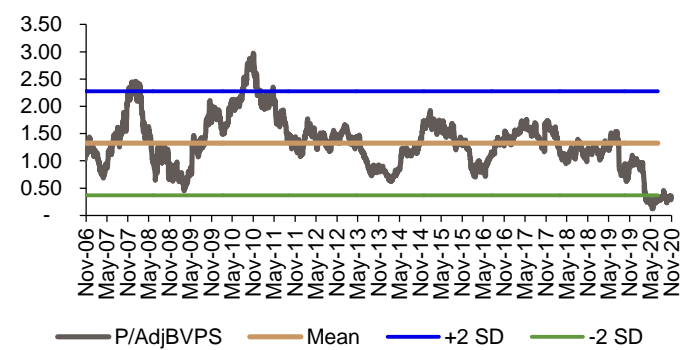
Source: Company, Emkay Research

Exhibit 5: Specific PCR improved by 390bps sequentially to 71%



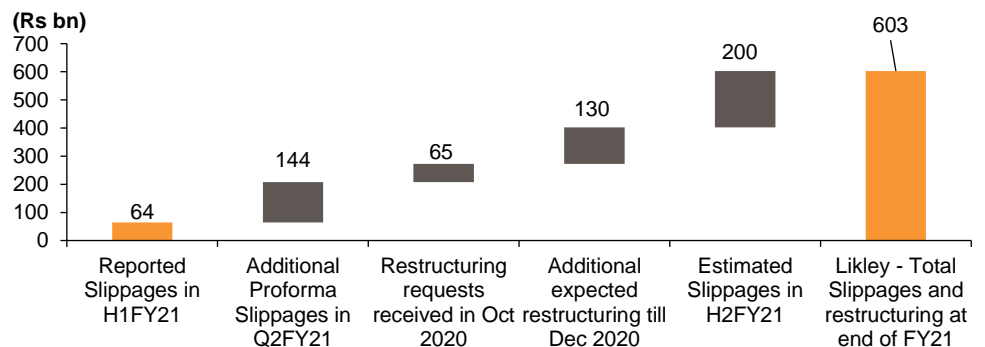
Source: Company, Emkay Research

Exhibit 6: The stock currently trades at 0.4x – 1 year forward ABV adjusted for subsidiaries valuation



Source: Company, Emkay Research

Exhibit 7: Management's assessment of Slippages/Restructuring seems to be little optimistic



Source: Company, Emkay Research

Exhibit 8: Sum of the parts valuation (in Rs per share)

	Stake (%)	Value per share (Rs)	Basis
SBI Life Insurance	56%	59	Based on 2.5x Sep EV
SBI MF	63%	18	5% of Dec FY22E AUM
SBI Caps	100%	6	10x Dec FY22E EPS
SBI Cards	69%	57	40x Dec FY22E EPS
SBI Global Factors	86%	0	10x Dec FY22E EPS
SBI General Insurance	70%	9	20x Dec FY22 PAT
Total Value of Subsidiaries/JVs		150	
Value per share from associates/subsidiaries (post 20% holding co. discount)		120	
Value of Investments		16	
Value of standalone business		129	0.5x Dec FY22E ABV
Value per share (in Rs)		265	
Upside		31%	
Contribution of Subs to Total		45%	

Source: Emkay Research

Exhibit 9: Actual vs. Estimates – 2QFY21

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	367,092	355,157	329,334	3%	11%	Better NIM led to a beat
PPOP	164,598	161,702	159,783	2%	3%	Opex partially set of net income
PAT	45,742	26,673	36,888	71%	24%	Lower provisions led to a strong beat

Source: Company, Emkay Research

Exhibit 10: Quarterly summary

Rs (mn)	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	643,124	676,920	626,814	665,004	668,141	4	0	2,573,236	2,674,238	4
Interest Exp	397,121	399,132	399,145	398,588	386,326	-3	-3	1,592,388	1,560,551	-2
Net Interest Income	246,003	277,788	227,669	266,416	281,815	15	6	980,848	1,113,686	14
Global NIMs (reported)	2.90	3.05	2.97	3.01	3.07	17bps	6bps	2.85	2.98	13bps
Non-interest Income	120,227	91,059	160,775	94,972	85,277	-29	-10	452,215	389,221	-14
Operating Expenses	184,243	186,622	203,793	180,777	202,494	10	12	751,737	792,567	5
Pre Provisioning Profit	181,988	182,226	184,651	180,611	164,598	-10	-9	681,326	710,340	4
Provision & Contingencies	131,389	72,529	134,951	125,013	101,183	-23	-19	430,699	527,706	23
PBT	50,598	109,697	49,700	55,598	63,415	25	14	250,627	182,634	-27
Income Tax Expense (Gain)	20,481	53,863	13,892	13,704	17,673	-14	29	105,747	45,658	-57
Net Profit/(Loss)	30,117	55,834	35,808	41,894	45,742	52	9	144,881	136,975	-5
Gross NPA (%)	7.19	6.94	6.15	5.44	5.28	-191bps	-16bps	6.15	6.30	14bps
Net NPA (%)	2.79	2.65	2.23	1.86	1.59	-120bps	-27bps	2.23	1.98	-25bps
Deposits (Rs in bn)	30,334	31,112	32,416	34,194	34,705	14	1	32,416	35,499	10
Net Advances (Rs in bn)	21,462	21,999	23,253	22,983	22,939	7	0	23,253	24,546	6

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	1,076,953	1,113,686	3.4%	1,121,902	1,215,696	8.4%	1,200,886	1,340,628	11.6%
PPOP	717,270	710,340	-1.0%	736,880	791,105	7.4%	798,876	840,128	5.2%
PAT	90,416	136,975	51.5%	137,341	161,612	17.7%	236,418	257,155	8.8%
EPS (Rs)	10.1	15.3	51.5%	15.4	18.1	17.7%	26.5	28.8	8.8%
BV (Rs)	249.3	254.5	2.1%	264.0	271.9	3.0%	289.0	299.2	3.6%

Source: Emkay Research

Exhibit 12: Key assumptions

	FY20	FY21E	FY22E	FY23E
Loan Growth %	6.4	5.6	7.8	12.6
Deposit Growth %	11.3	9.5	7.5	9.7
NIM %	2.9	3.0	3.0	3.0
GNPA %	6.2	6.3	6.4	5.7
Credit Cost %	1.8	2.2	2.1	1.6

Source: Emkay Research

Exhibit 13: Key ratios and trends

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Loans (Rs bn)	20,684	21,546	22,927	22,376	22,479	23,013	24,225	23,853	23,833
Loan growth (YoY)	9.4	12.0	12.0	12.5	8.7	6.8	5.7	6.6	6.0
Loan growth (QoQ)	4.0	4.2	6.4	-2.4	0.5	2.4	5.3	-1.5	-0.1
Loan composition (%)									
Corporate	36.0	36.0	37.1	35.0	34.1	33.5	34.8	33.9	33.0
Retail	27.9	28.4	28.3	29.7	30.5	31.3	30.9	31.4	33.0
SME	12.8	13.6	12.6	12.6	12.2	12.1	11.0	11.7	11.6
Overseas	14.1	12.8	13.2	13.8	14.2	14.0	14.7	14.4	13.5
Agri	9.2	9.2	8.8	9.0	9.0	9.1	8.5	8.6	8.9
Liability Profile & Margins									
CASA %	43.7	43.7	44.2	43.6	43.7	43.1	43.5	43.8	44.0
CA %	6.2	6.1	6.9	6.1	6.4	6.1	6.7	6.0	6.1
SA %	37.5	37.6	37.3	37.4	37.3	37.0	36.8	37.9	37.9
Global NIM %	2.73	2.76	2.78	2.81	2.90	3.05	2.97	3.01	3.07
Domestic NIM %	2.88	2.92	2.95	3.01	3.22	3.59	2.94	3.24	3.34
Asset Quality									
GNPA (%)	10.0	8.7	7.5	7.5	7.2	6.9	6.2	5.4	5.3
NNPA (%)	4.8	4.0	3.0	3.1	2.8	2.7	2.2	1.9	1.6
PCR (%)	53.9	56.9	61.9	61.1	62.9	63.5	65.2	67.1	71.0
Slippages (Rs Bn)	109	65	80	170	91	201	83	39	31
Slippages (%)	2.3	1.4	1.6	3.4	1.8	3.7	1.4	0.7	0.5
Capital Adequacy									
CAR (%)	12.6	12.8	12.7	12.9	13.6	13.7	13.1	13.4	14.7
Tier I (%)	10.4	10.5	10.7	10.7	11.3	11.6	11.0	11.4	11.9
CET 1 (%)	9.7	9.6	9.6	9.6	10.1	10.2	9.8	10.1	10.5
ROE Decomposition % (on total assets)									
NII	2.4	2.6	2.5	2.5	2.7	3.0	2.4	2.6	2.7
Other Income (Ex Treasury)	0.9	0.9	1.3	0.8	0.9	0.9	1.3	0.4	0.7
Treasury	0.2	0.0	0.1	0.1	0.5	0.1	0.3	0.6	0.1
Opex	1.9	2.1	2.1	2.0	2.0	2.0	2.1	1.8	2.0
PPOP	1.6	1.4	1.9	1.5	2.0	2.0	1.9	1.8	1.6
Provisioning Cost	1.4	0.7	1.8	1.0	1.4	0.8	1.4	1.2	1.0
PBT	0.2	0.7	0.0	0.4	0.6	1.2	0.5	0.6	0.6
Tax	0.1	0.3	0.0	0.2	0.2	0.6	0.1	0.1	0.2
ROA	0.1	0.4	0.1	0.3	0.3	0.6	0.4	0.4	0.4
Leverage (x)	15.8	16.0	16.4	16.4	16.2	16.2	16.6	17.0	17.0
ROE	1.7	7.1	1.5	4.2	5.4	9.7	6.2	7.1	7.5

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	883,497	980,848	1,113,686	1,215,696	1,340,628
Other income	367,744	452,215	389,221	433,732	454,981
Fee income	233,040	237,251	241,996	254,095	271,882
Net income	1,251,240	1,433,063	1,502,907	1,649,429	1,795,609
Operating expenses	696,877	751,737	792,567	858,324	955,481
Pre provision profit	554,363	681,326	710,340	791,105	840,128
PPP excl treasury	544,133	595,570	651,462	732,227	781,250
Provisions	538,286	430,699	527,706	575,622	497,255
Profit before tax	16,078	250,627	182,634	215,483	342,873
Tax	7,453	105,747	45,658	53,871	85,718
Tax rate	46	42	25	25	25
Profit after tax	8,625	144,881	136,975	161,612	257,155

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	8,925	8,925	8,925	8,925	8,925
Reserves	2,200,214	2,311,150	2,500,425	2,655,344	2,899,112
Net worth	2,209,138	2,320,074	2,509,350	2,664,268	2,908,036
Deposits	29,113,860	32,416,207	35,499,022	38,162,931	41,858,634
Borrowings	3,535,334	2,308,565	2,262,393	2,217,146	2,328,003
Total liabilities	36,809,143	39,513,939	43,270,844	46,158,848	51,172,216
Cash and bank	1,769,324	1,667,358	1,750,726	1,838,262	1,930,175
Investments	9,670,220	10,469,545	12,268,209	12,801,599	14,043,040
Loans	21,858,769	23,252,896	24,546,477	26,453,130	29,788,165
Others	2,663,277	2,896,136	3,336,692	3,563,538	3,831,163
Total assets	36,809,143	39,513,939	43,270,844	46,158,848	51,172,216

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	2.8	2.9	3.0	3.0	3.0
Non-ll/avg assets	1.0	1.2	0.9	1.0	0.9
Fee income/avg assets	0.7	0.6	0.6	0.6	0.6
Opex/avg assets	2.0	2.0	1.9	1.9	2.0
Provisions/avg assets	1.5	1.1	1.3	1.3	1.0
PBT/avg assets	0.0	0.7	0.4	0.5	0.7
Tax/avg assets	0.0	0.3	0.1	0.1	0.2
RoA	0.0	0.4	0.3	0.4	0.5
RoAE	0.4	6.4	5.7	6.2	9.2
GNPA (%)	7.5	6.2	6.3	6.4	5.7
NNPA (%)	3.0	2.2	2.0	1.9	1.7

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	1.0	16.2	15.3	18.1	28.8
BVPS	219.9	233.3	254.5	271.9	299.2
ABVPS	171.2	189.8	213.9	230.2	257.7
DPS	0.0	0.0	0.0	0.8	1.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	214.2	12.8	13.5	11.4	7.2
P/BV	1.2	1.1	1.0	0.9	0.8
P/ABV	0.4	0.4	0.3	0.3	0.3
P/PPOP	1.1	0.9	0.8	0.8	0.7
Dividend Yield (%)	0.0	0.0	0.0	0.4	0.7

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	18.0	11.0	13.5	9.2	10.3
PPOP	(6.8)	22.9	4.3	11.4	6.2
PAT	(113.2)	1,579.8	(5.5)	18.0	59.1
Loans	13.0	6.4	5.6	7.8	12.6

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
NII	246,003	277,788	227,669	266,416	281,815
NIM(%)	3.0	3.3	2.6	2.9	3.0
PPOP	181,988	182,226	184,651	180,611	164,598
PAT	30,117	55,834	35,808	41,894	45,742
EPS (Rs)	3.37	6.26	4.01	4.69	5.13

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	57.1	56.9	56.9	56.9	56.9
FIIIs	10.7	10.8	9.5	7.8	7.7
DIIIs	24.0	24.2	24.3	24.4	25.0
Public and Others	8.1	8.1	9.4	10.9	10.5

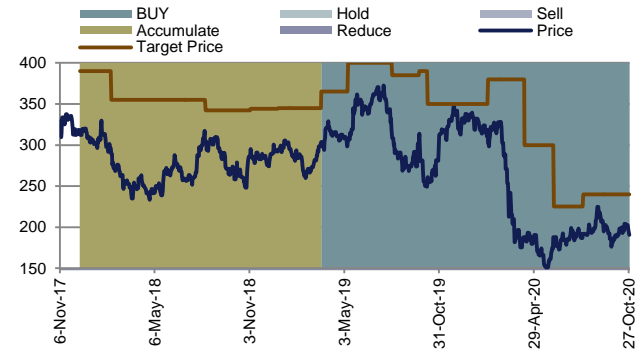
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
1-Aug-20	191	240	12m	Buy	Anand Dama
6-Jun-20	188	225	12m	Buy	Anand Dama
11-Apr-20	188	300	12m	Buy	Anand Dama
1-Feb-20	303	380	12m	Buy	Anand Dama
30-Oct-19	290	350	12m	Buy	Anand Dama
25-Oct-19	282	350	12m	Buy	Anand Dama
9-Oct-19	261	350	12m	Buy	Anand Dama
23-Sep-19	314	390	12m	Buy	Anand Dama
3-Sep-19	268	385	12m	Buy	Anand Dama
2-Aug-19	308	385	12m	Buy	Anand Dama
10-May-19	308	400	12m	Buy	Anand Dama
20-Mar-19	304	365	12m	Buy	Anand Dama
2-Feb-19	284	345	12m	Accumulate	Anand Dama
28-Dec-18	295	345	12m	Accumulate	Anand Dama
5-Nov-18	295	344	12m	Accumulate	Anand Dama
11-Aug-18	304	342	12m	Accumulate	Jignesh Shial
21-May-18	244	355	12m	Accumulate	Ravikant Bhat
12-Feb-18	289	355	12m	Accumulate	Ravikant Bhat
24-Jan-18	330	390	12m	Accumulate	Ravikant Bhat
14-Dec-17	314	390	12m	Accumulate	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	20.90	20.90	0.0%	0	100.00
Axis Bank	2.16	2.25	4%	10	10.77
AU Small Finance Bank	0.25	0.22	-11%	-3	1.05
Bandhan Bank	0.34	0.49	44%	15	2.35
Bank of Baroda	0.09	0.09	0%	0	0.43
Canara Bank	0.04	0.00	-100%	-4	0.00
City Union Bank	0.18	0.18	0%	0	0.85
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.16	0.12	-26%	-4	0.58
HDFC Bank	7.79	8.03	3%	25	38.44
ICICI Bank	4.70	4.81	2%	12	23.03
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.60	0.67	12%	7	3.20
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	3.19	2.61	-18%	-58	12.51
Punjab National Bank	0.06	0.00	-100%	-6	0.00
RBL Bank	0.12	0.12	0%	0	0.58
State Bank of India	1.21	1.30	8%	9	6.21
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

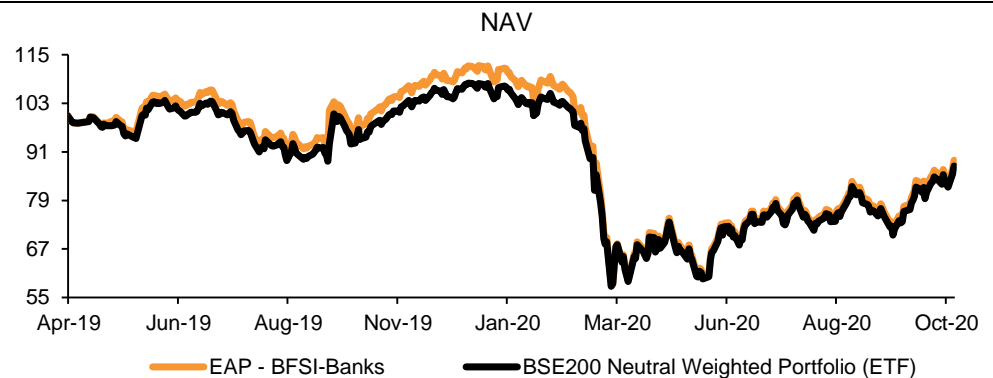
Sector portfolio NAV

	Base					Latest
	1-Apr-19	4-Feb-20	5-May-20	4-Aug-20	1-Oct-20	3-Nov-20
EAP - BFSI-Banks	100.0	106.6	66.9	74.2	77.6	88.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	102.8	66.1	73.3	76.2	87.5

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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