

State Bank of India

Further rerating contingent on RoA reflation

State Bank of India's (SBI) Q1FY22 earnings surprised (26% higher than our estimates) due to higher income from recoveries. SBI continued to surprise positively on the asset quality front for a third straight quarter with slippages at 2.8% (annualised), better than private banks (AXSB: 4.5%; ICICIB: 4.2%). The incremental restructuring during the quarter was at ~0.2% of loans. With the back-book adequately provided for (PCR at 68%), and ~0.4% of loans as a COVID buffer, we expect normalisation of credit costs in H2FY22 (assuming no third wave). Loan growth was soft (+6% YoY) on account of muted economic activity, although the bank indicated a robust pipeline of undrawn limits in the corporate book. SBI's journey to a 1% potential RoA is contingent on the bank finding ways to reflate its core profitability (PPOP stagnant at ~1.8% of assets over the past 8 quarters), especially by way of higher asset yields (soft in Q1FY22 that reflected fewer deployment opportunities, a low-risk corporate portfolio and a mortgage-heavy retail book). We maintain BUY with a revised target price of INR 501 (earlier INR 490), valuing the standalone bank at 1.0x Mar'23 ABVPS - this revision reflects the valuation of listed subsidiaries.

- **Margins yet to reflate, strong other income drives PPOP beat:** SBI reported muted NII growth of 4% YoY due to muted loan growth of 6% YoY and ~10bps compression in NIM (at 2.92%). Fee income remained broadly steady, while other income included lumpy recoveries of INR 24bn. Opex-to-assets ratio remained steady at ~1.9% of assets.
- **Slippages better than peers; provisioning to normalise:** SBI's slippages surprised positively at 2.8% (annualised), lower than Axis Bank and ICICI Bank (>4%), although the underlying portfolio profitability is significantly different. ~93% of fresh slippages emerged from outside the corporate book (SME at 9.1%, Agri at 5.7% and Retail at 2.6%). The restructured portfolio is at 0.8% of loans, while SMA1+2 remained steady at 0.5% of loans. SBI expects reversals of a majority of slippages from home loans, personal loans, and SME segments during Q2FY22, as collections and recoveries were hindered during the quarter. We build in ~2% average slippages during FY22-FY23E.
- **Reflation in yields; higher credit deployment imperative for 1% ROA:** SBI delivered 0.6% RoA during the quarter. PPOP-to-assets has hovered around ~1.8% for several quarters, as the reflation in asset yields remains elusive (loan book skewed towards high-rated entities and home loans marginally offset by Xpress credit loans). Even assuming credit costs at 0.7% of loans in a best-case scenario, SBI's journey to a 1% RoA is contingent on consistent reflation in asset yields through gradual portfolio re-risking (without adding to credit costs) and better operating efficiencies.

Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	276.4	266.4	3.7%	270.7	2.1%	980.8	1,107.1	1,262.3	1,397.4
PPOP	189.7	180.6	5.1%	197.0	-3.7%	681.3	715.5	848.5	953.8
PAT	65.0	41.9	55.2%	64.5	0.8%	144.9	204.1	316.8	388.8
EPS (INR)	7.3	4.7	55.4%	7.2	0.8%	16.2	22.9	35.5	43.6
ROAE (%)						6.4	8.4	11.8	12.9
ROAA (%)						0.4	0.5	0.7	0.8
ABVPS (INR)						201.8	243.2	280.3	319.6
P/ABV (x)						2.3	1.9	1.6	1.4
P/E (x)						28.1	19.9	12.8	10.5

Source: Company, HSIE Research

BUY

CMP (as on 04 Aug 2021)	INR 457
Target Price	INR 501
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 490	INR 501
	FY22E	FY23E
EPS %	0%	0%

KEY STOCK DATA

Bloomberg code	SBIN IN
No. of Shares (mn)	8,925
MCap (INR bn) / (\$ mn)	4,078/54,802
6m avg traded value (INR mn)	18,213
52 Week high / low	INR 467/176

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.0	28.7	138.5
Relative (%)	17.3	21.3	94.2

SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	57.6	57.6
FIs & Local MFs	23.5	23.1
FPIs	9.9	10.3
Public & Others	9.0	8.8
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Deepak Shinde

deepak.shinde@hdfcsec.com
+91-22-6171-7323

Punit Bahlani

punit.bahlani@hdfcsec.com
+91-22-6171-7354

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com