

State Bank of India

Inexpensive valuations

SBIN's 1Q was ahead of estimates across fronts, aided by margin improvement, high treasury gains, and lower provisions. Asset quality improvement was optical, and COVID-19 provisions seem inadequate. Our conservative earnings estimates, consequently, remained mostly unchanged. Asset quality trends and capital raising (given SBIN's weak capital base and RoAE profile) should be watched for. The term of SBIN's current chairman is set to end in Oct-20, which creates additional uncertainty. However, SBIN has one of the strongest deposit franchises, and this, along with inexpensive valuation, drives our BUY rating (SoTP value of Rs 286).

- **1QFY21 highlights:** After a steep 18% QoQ fall in 4QFY20, NII grew 17% QoQ, 11.9% ahead of estimates. PPOP was 2.2% lower QoQ, but 11% ahead of estimates. PAT grew 81.2/17% and was ~19% ahead of our estimates.
- **Deposit traction:** At 16/6.5% YoY/QoQ, deposit growth was strong (despite the rate reduction), aided by 15.4/5.4% TD growth and a 17/8% SA growth. Strong QoQ deposit growth is not common for SBIN in 1Q and is indicative of polarisation in the deposit market, from which SBIN stands to benefit.
- **Asset quality and moratorium trends:** GNPs dipped 23/13% to ~Rs 1.3tn (5.4%). However, this improvement is optical, as slippages (68bps) were depressed by the standstill classification benefit, and write-offs were elevated (+27.5/20.8%). The management expects corporate recoveries of the order of Rs 100-120bn in 2HFY20, where the bank has 100% coverage. As per the management, 9.5% (vs. 24% earlier) of the total book was under moratorium. Despite the sharp drop in the moratorium, we continue to factor elevated slippages of ~3.3% over FY21-22E.
- **Non-tax provisions:** At Rs 125bn (+36.1/-7.4%), non-tax provisions were surprisingly low. SBIN made ~Rs 18.4bn of COVID-19 related provisions in 1Q, taking the total stock of such provisions to Rs 30bn (just 13bps of advances). We believe that these provisions are insufficient, especially given SBIN's asset quality track record. We expect non-tax provisions to average 1.96% of loans over FY21-22E.

Financial summary

YE Mar (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
NII	266.4	229.4	16.1%	227.7	17.0%	883.5	980.8	1,021.5	1,099.4
PPOP	180.6	132.5	36.3%	184.7	-2.2%	554.4	681.3	678.0	724.4
PAT	41.9	23.1	81.2%	35.8	17.0%	8.6	144.9	108.6	209.8
EPS (Rs)	4.7	2.6	81.2%	4.0	17.0%	1.0	16.2	12.2	23.5
ROAE (%)						0.4	6.4	4.6	8.3
ROAA (%)						0.02	0.38	0.27	0.48
ABVPS (Rs)						146.1	175.2	169.7	209.6
P/ABV (x)						0.56	0.43	0.44	0.35
P/E (x)						85.1	4.59	6.19	3.13

Change in estimates

Rs bn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
Loans	24,483	24,483	0.0%	26568	26,568	0.0%
NIM (%)	2.9	2.9	0 bps	2.9	2.8	-7 bps
NII	1,016.5	1,021.5	0.5%	1,110.4	1,099.4	-1.0%
PPOP	645.8	678.0	5.0%	714.4	724.4	1.4%
PAT	104.9	108.6	3.6%	206.2	209.8	1.7%
ABVPS (Rs)	166.5	169.7	1.9%	206.7	209.6	1.4%

Source: Bank, HSIE Research

BUY

CMP (as on 31 July 2020)	Rs 193
Target Price	Rs 286
NIFTY	11,073

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 277	Rs 286
EPS %	FY21E	FY22E
	3.6%	1.7%

KEY STOCK DATA

Bloomberg code	SBIN IN
No. of Shares (mn)	8,925
MCap (Rs bn) / (\$ mn)	1,709/22,838
6m avg traded value (Rs mn)	14,960
52 Week high / low	Rs 351/149

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.5	(39.9)	(42.4)
Relative (%)	(11.0)	(32.2)	(42.7)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	57.6	57.6
FIs & Local MFs	24.6	24.5
FPIs	9.6	7.9
Public & Others	8.2	10.0
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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