

Walking the talk...

SBI posted strong performance on the asset quality front wherein slippages and restructuring were within guidance while sufficient provisioning buffer also provides comfort. Business growth was in-line with estimates while profitability was boosted by a sharp jump in other income.

On a reported basis GNPA saw a jump from 4.77% to 4.98% as standstill asset classification norms are now removed. However, when compared with proforma GNPA number of 5.44% in the previous quarter, the asset quality showed a meaningful improvement. **Slippages during the quarter were at ₹ 21934 crore of which ₹ 16461 crore were proforma slippages** while recoveries and upgrades were at ₹4329 crore. Pool of SMA1 & 2 accounts came down from ₹ 17946 crore to ₹ 11519 crore QoQ. **For FY21, total slippage and restructuring came in at ₹ 46416 crore, well within earlier guidance of ₹ 60000 crore.** For SBI PCR was at 71% while it holds non-NPA provisions worth ₹ 25376 crore (~1.0% of loans), which includes Covid contingency provision of ₹ 6346 crore. Total restructuring request received for FY21 is ₹ 17852 crore (~0.7% of loans).

Net interest income (NII) grew 18.9% YoY and fell 6.1% QoQ to ₹ 27067 crore due to sequential decline in NIMs, down 5 bps QoQ to 3.0%. **NIM contraction can be partly attributed to reversal of interest worth ₹ 2127 crore due to NPA in Q4FY21 apart from ₹ 800 crore due to relief on interest on interest.** Non-interest income jumped 75.5% QoQ to ₹ 16225 crore, driven by recoveries worth ₹ 6312 crore vs. ₹ 2142 crore QoQ. Fee income also showed healthy sequential growth of 58.1%. **Other expenses were up 34% QoQ partly due to DICGC insurance expense.** Overall PPP grew 6.7% YoY, 13.7% QoQ to ₹ 19700 crore. Provisions were up 6.9% QoQ to ₹ 11051 crore. As a result of higher other income, PAT was at ₹ 6451 crore, higher than our estimates.

Loan growth came in at 5.3% YoY to ₹ 24.5 lakh crore, in line with our estimates. Retail advances grew 16.4% YoY. SME advances increased 4.2% YoY and corporate book (including CP, CB) grew 2.6% YoY. In retail, home loan, which forms ~20% of overall advances, have grown 10.5% YoY while its express credit (personal loans) was up 36.4% YoY. Deposits grew 13.6% YoY to ₹ 36.8 lakh crore wherein domestic CASA was up 16.7% YoY. As a result, CASA ratio was up from 45.1% to 46.1% QoQ.

Valuation & Outlook

SBI has surprised positively on the asset quality front while it also has walked the talk and contained stress within guidance. We believe the overall outlook has improved with many positive levers like decline in credit cost, improvement in credit - deposit ratio, better yields due to less reversals and, thus, better margins, in place, which could lift the bank's operational performance. We expect RoA of 0.6% and RoE of 10% by FY22E with scope to improve gradually. We maintain our **BUY** rating with a revised target price of ₹ 500 (earlier ₹ 410), valuing the stock at ~1.2x FY23E ABV for standalone bank and subsidiaries valued at ₹ 150 post holding company discount.

Key Financial Summary

₹ Bn	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
NII	883	981	1107	1197	1314	9%
PPP	539	681	700	753	820	8%
PAT	9	145	204	267	292	20%
ABV (₹)	174.0	203.2	242.2	270.2	299.2	
P/E	426	25	19	13	12	
P/ABV	2.3	2.0	1.7	1.5	1.3	
RoA	0.0	0.4	0.4	0.6	0.6	
RoE	0.5	6.4	7.8	10.0	10.0	



Particulars

Particulars	Amount
Market Capitalisation	₹ 357966 Crore
GNPA (Q4FY21)	₹ 126389 Crore
NNPA (Q4FY21)	₹ 36809 crore
NIM (Q4FY21)	3.04%
52 week H/L	426/150
Networth	₹ 253875 Crore
Face value	₹ 1
DII Holding (%)	24.4
FII Holding (%)	9.9

Key Highlights

- GNPA declines from 5.44% (proforma) to 4.98% QoQ
- Overall slippage and restructured book within guidance
- Maintain BUY with revised TP of ₹ 500

Risk to our call

- Persisting impact of pandemic could impact asset quality in near term
- Slow pick-up in business growth could lead to delayed improvement in operational parameters

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
NII	27,067	28,810	22,767	18.9	28,820	-6.1	Sequential decline due to fall in NIMs
NIM (%)	3.0	2.7	3.0	7 bps	3.1	-5 bps	NIM impacted by interest reversals of ₹2127 crore for NPA and ₹830 crore for relief of interest on interest
Other Income	16,225	8,500	16,077	0.9	9,246	75.5	Other income jumped due to better recoveries
Net Total Income	43,292	37,310	38,844	11.5	38,066	13.7	
Operating expense	23,592	20,940	20,380	15.8	20,733	13.8	Sequential rise due to increased insurance premium of DICGC, increased number of business correspondent
PPP	19,700	16,370	18,464	6.7	17,333	13.7	
Provision	11,051	9,700	13,495	-18.1	10,342	6.9	
PBT	8,649	6,670	4,969	74.1	6,991	23.7	
Tax Outgo	2,198	1,701	1,389	58.3	1,795	22.5	
PAT	6,451	4,969	3,580	80.2	5,196	24.1	PAT boosted by other income
Key Metrics							
GNPA	1,26,389	1,25,241	1,49,092	-15.2	1,17,244	7.8	Asset quality improved sequentially on proforma basis
NNPA	36,810	30,232	51,871	-29.0	29,032	26.8	
Advances	2449498	2451024	2325290	5.3	2368139.12	3.4	Credit growth is in line with estimates
Deposits	3681277	3598199	3241621	13.6	3535753	4.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

₹ crore	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	115215	119680	3.9	123124.0	131417	6.7
Pre Provisions Profit	74489	75312	1.1	80430.6	81976	1.9
NIM (%)	2.9	3.0	11	2.8	3.0	20
PAT	25045	26693	6.6	27203.9	29184	7.3
ABV per share (₹)	250	270	8.0	277.6	299	7.8

Source: Company, ICICI Direct Research

Exhibit 1: Change in Assumption

	Current			Current		Earlier		Earlier
	FY19	FY20	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Credit growth (%)	13.0	6.4	5.3	10.3	10.0	5.7	9.9	11.3
Deposit Growth (%)	7.6	11.3	13.6	9.4	9.4	7.6	9.2	9.2
Cost to income ratio (%)	55.7	52.4	54.1	54.5	54.9	52.4	52.4	52.0
GNPA ratio (%)	7.5	6.2	5.0	4.0	3.4	5.2	4.3	3.6
NNPA ratio (%)	3.0	1.9	1.5	1.4	1.3	2.1	1.9	1.7

Source: Company, ICICI Direct Research

Conference call highlights

Asset quality

- Credit cost to be contained below 2%, going ahead
- April collection efficiency at ~95-96%, ~20 bps lower than March 2021
- Net NPA in corporate book is ~₹ 8000 crore
- Provisions on restructured book is ₹ 1176 crore. They have made 10% upfront provisions on account of which they are under restructuring implementation
- Due to Covid there could be some stress on agri book as the rural economy has been impacted

Business

- Disbursement under ECLGS (1 + 2) is ~₹ 25000 crore of which ~₹ 2000 crore is from ELGS 2.0
- Expect credit growth to be around 10% mark in FY22
- Working capital limit utilisation is at ~70% while around 30% of term loans sanctioned has not been disbursed, which also increases potential to push credit growth
- In express credit, ~95% customers are salaried of which ~50% are government employees.

Others

- The bank intends to reach a long-term sustainable RoE of ~15%
- Other opex has increased due to higher number of business correspondents and increased premium of DICGC
- Incremental growth momentum to be added by SME and corporate while retail will continue to post better than overall loan growth
- The management believes deposit rates have bottomed out
- IT capex spend is ~₹ 1000 crore

Outlook & Valuation

SBI has surprised positively on the asset quality front while it also has walked the talk and contained stress within guidance. We believe the overall outlook has improved with many positive levers like decline in credit cost, improvement in credit - deposit ratio, better yields due to less reversals and, thus, better margins, in place, which could lift the bank's operational performance. We expect RoA of 0.6% and RoE of 10% by FY22E with scope to improve gradually. We maintain our **BUY** rating with a revised target price of ₹ 500 (earlier ₹ 410), valuing the stock at ~1.2x FY23E ABV for standalone bank and subsidiaries valued at ₹ 150 post holding company discount.

Exhibit 2: SoTP valuation

	FY23E / Share
SBI (merged banks)	350
SBI AMC	39
SBI Life	68
SBI cards	80
SBI General Insurance	13
Value per share	550
Holding company discount for subsidiaries @15%	50
Value per share post discount	500

Source: Company, ICICI Direct Research

Story in charts

Exhibit 3: Stress scenario as on Q3FY21

As at Q3FY21	₹ crore
Reported slippage in H1FY21	6,393
Slippage in Q3FY21	237
Additional proforma slippage for 9MFY21	16,461
Restructuring request received	18,125
Total Slip + Restructuring upto Q3FY21	41,216

Source: Company, ICICI Direct Research

Exhibit 4: Stress scenario as on Q4FY21

As at Q4FY21	₹ crore
Slippage in H1FY21	6,393
Slippage in Q3FY21	237
Reported Slippage in Q3FY21	21,934
Restructuring request received	17,852
Total Slip + Restructuring for FY21	46,416

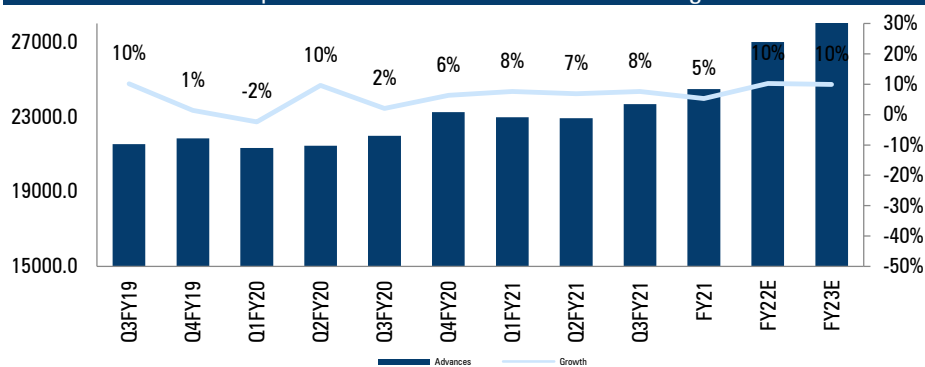
Source: Company, ICICI Direct Research

Exhibit 5: Restructuring application segment wise

	₹ crore
Retail	3,865
SME	2,553
Corporate	11,707
Total	18,125

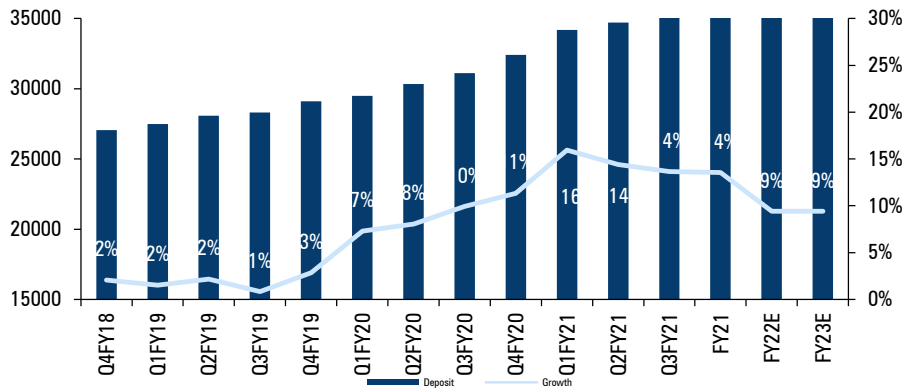
Source: Company, ICICI Direct Research

Exhibit 6: SME and corporate also to contribute towards loan growth now



Source: Company, ICICI Direct Research

Exhibit 7: Deposit growth trajectory



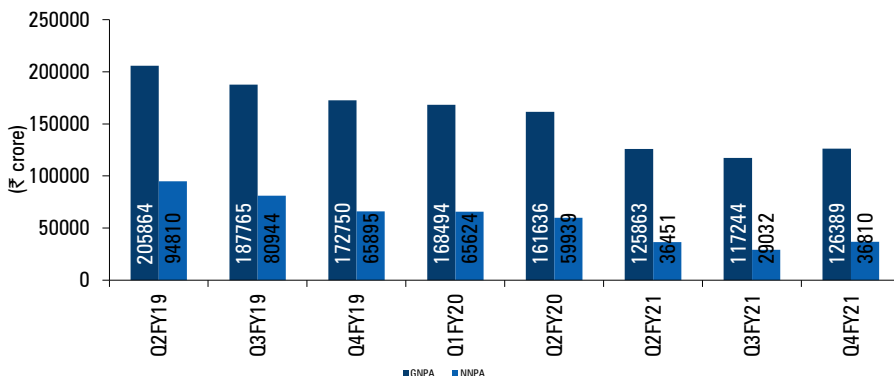
Source: Company, ICICI Direct Research

Exhibit 8: Healthy CASA levels

Break-up of deposit	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Saving deposit	11,308	11,517	11,936	12,944	13,150	13,359	13,701
Current deposit	1,953	1,891	2,174	2,043	2,121	2,106	2,769
Term deposit	16,126	16,574	17,136	18,068	18,371	18,784	19,232
International	946	1,130	1,170	1,138	1,063	1,109	1,111
Total Deposits	30,334	31,112	32,416	34,194	34,705	35,358	36,813

Source: Company, ICICI Direct Research

Exhibit 9: Asset quality showing improvement



Source: Company, ICICI Direct Research

Exhibit 10: Advances growth in line with industry

₹ crore	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY Growth
Corporates	771000	844215	809322	787559	778208	818705	-3.02
Agriculture	209997	206067	204288	210945	213668	214151	3.92
SME	278035	267614	278711	277248	293654	278949	4.24
Retail	719766	747589	748800	785345	831134	870711	16.47
Home Loans	440448	455865	455443	468382	484453	503779	10.51
Auto Loans	73,462	72,662	70,151	71,631	75,937	76,322	5.04
Other personal	205856	219062	223206	245332	270744	290610	32.66
Foreign Advances	322870	357360	344519	322526	329943	356888	-0.13
Total	2301668	2422845	2385640	2383623	2446607	2539404	4.81

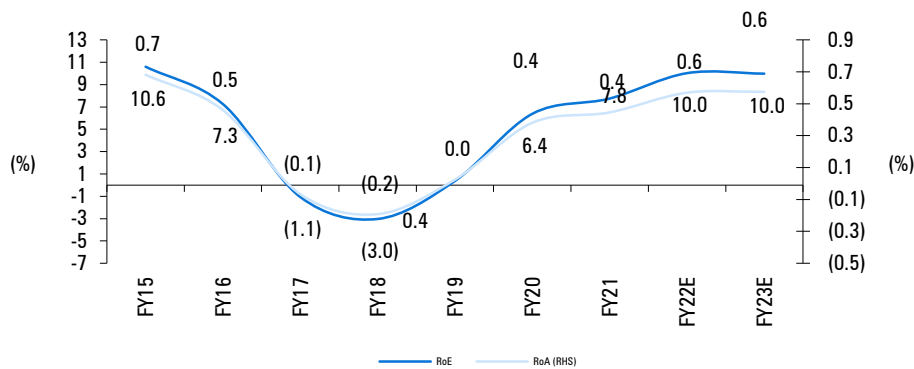
Source: Company, ICICI Direct Research

Exhibit 11: Sector wise GNPA

Sector-wise NPA	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Corporate	93743	81628	62581	62168	59400	63098
Mid Corp & SME	26,054	25,230	25,262	22,711	20,117	21,402
Agri	28,932	32,670	31,402	31,234	29,296	32,480
Retail	7,521	7,914	8,261	6,485	5,876	6,984
International	3,411	1,650	2,154	3,265	2,554	2,426
Total	159661	149092	129660	125863	117243	126390

Source: Company, ICICI Direct Research

Exhibit 12: Return ratio to improve



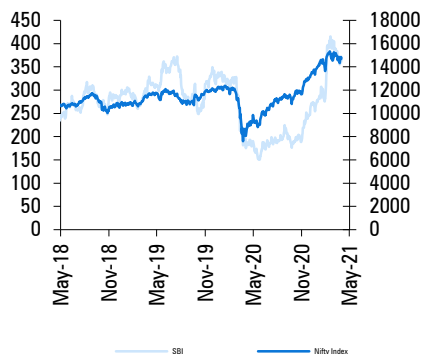
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern (%)

	Dec 19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	57.9	57.6	57.6	57.6	57.6	57.6
FII	11.0	9.6	7.9	7.8	9.8	9.9
DII	24.5	24.6	24.7	25.5	24.9	24.4
Others	6.6	8.2	9.8	9.1	7.7	8.0

Source: Company, ICICI Direct Research

Exhibit 14: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement					
	₹ Bn				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	2,429	2,573	2,652	2,935	3,236
Interest Expended	1,545	1,592	1,544	1,738	1,922
Net Interest Income	883	981	1,107	1,197	1,314
% growth	18.0	11.0	12.9	8.1	9.8
Non Interest Income	352	452	420	460	505
Net Income	1236	1433	1527	1657	1819
Employee cost	411	457	509	556	611
Other operating Exp.	286	294	317	348	388
Operating Income	539	681	700	753	820
Provisions	538	431	440	395	428
PBT	0	251	260	358	392
Exceptional Items	16	-152	15	0	0
Taxes	7	106	71	91	100
Net Profit	9	145	204	267	292
% growth	-113	1625	41	31	9
EPS	0.9	16.3	21.2	29.9	32.7

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares (Crore)	892.0	892.0	892.0	892.0	892.0
EPS (₹)	1.0	16.3	21.2	29.9	32.7
BV (₹)	247.9	261.3	284.6	312.5	343.3
ABV (₹)	174.0	203.2	242.2	270.2	299.2
P/E	425.9	24.7	19.0	13.4	12.3
P/BV	1.6	1.5	1.4	1.3	1.2
P/ABV	2.3	2.0	1.7	1.5	1.3
Yields & Margins (%)					
Net Interest Margins (calculated)	2.9	2.8	3.0	3.0	3.0
Yield on avg earning assets	7.4	7.4	7.1	7.3	7.4
Avg. cost on funds	4.8	4.6	4.0	4.1	4.1
Avg. cost of Deposits	5.0	4.8	4.5	4.4	4.4
Yield on average advances	7.8	8.0	7.2	7.3	7.4
Quality and Efficiency (%)					
Cost / Total net income	55.7	52.4	54.1	54.5	54.9
Credit/Deposit ratio	75.1	71.7	66.5	67.1	67.4
GNPA	7.5	6.2	5.0	4.0	3.4
NNPA	3.0	1.9	1.5	1.4	1.3
RoE	0.5	6.4	7.8	10.0	10.0
ROA	0.0	0.4	0.4	0.6	0.6

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet					
	₹ Bn				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	8.9	8.9	8.9	8.9	8.9
Reserves and Surplus	2200	2322	2530	2779	3053
Networth	2209	2331	2539	2788	3062
Deposits	29114	32416	36813	40279	44074
Borrowings	4030	3147	4173	3596	3917
Other Liabilities & Provisions	1456	1631	1820	1934	2117
Total	36809	39525	45344	48598	53171
Application of Funds					
Fixed Assets	392	384	384	401	420
Investments	9670	10470	13517	11867	12465
Advances	21859	23253	24495	27018	29720
Other Assets	2663	2907	3518	6198	7092
Cash with RBI & call money	2225	2511	3430	3114	3474
Total	36809	39525	45344	48598	53171

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	6.6	7.4	14.7	7.2	9.4
Advances	13.0	6.4	5.3	10.3	10.0
Deposits	7.6	11.3	13.6	9.4	9.4
Total Income	5.5	8.2	1.5	10.5	10.2
Net interest income	18.0	11.0	12.9	8.1	9.8
Operating expenses	1.6	0.8	1.0	0.9	1.1
Operating profit	-6.8	22.9	2.7	7.6	8.8
Net profit	-112.9	1626.6	30.1	41.4	9.3
Book value	0.9	5.4	8.9	9.8	9.8
EPS	(112.9)	1,627	30.1	41.4	9.3

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
SBI (STABAN)	401	500	Buy	3579	21.2	29.9	32.7	19	13.4	12.3	1.7	1.5	1.3	0.4	0.6	0.6	7.8	10.0	10.0
Indian Bank (INDIBA)	140	180	Buy	158	16.9	29.1	45.5	8.3	4.8	3.1	0.9	0.8	0.7	0.4	0.5	0.7	6.1	8.5	12.5
Axis Bank (AXIBAN)	731	900	Buy	2239	25.2	47.7	58.7	29.0	15.3	12.5	2.6	2.2	1.9	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	175	200	Buy	129	10.0	10.0	10.0	17.5	17.5	17.5	2.6	2.3	2.3	1.2	1.3	1.3	11.2	11.9	11.9
DCB Bank (DCB)	103	110	Buy	32	10.8	12.3	15.6	9.5	8.4	6.6	1.1	0.9	0.8	0.9	0.9	1.1	10.2	10.5	11.8
Federal Bank (FEDBAN)	85	95	Buy	169	8.0	11.2	13.7	10.7	7.6	6.2	1.2	1.1	1.0	0.8	1.0	1.1	10.4	13.2	14.7
HDFC Bank (HDFBAN)	1,497	1,700	Buy	8256	56.4	66.4	77.8	26.5	22.6	19.2	4.1	3.7	3.4	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	1,016	1,100	Buy	786	36.7	63.6	76.3	27.7	16.0	13.3	1.9	1.6	1.5	0.8	1.3	1.4	7.3	10.6	11.3
J&K (JAMKAS)	28	25	Hold	20	7.5	10.4	0.0	3.7	2.7		0.4	0.3	1.1	0.5	0.6	0.0	8.1	10.6	0.0
Kotak Bank (KOTMAH)	1,757	2,040	Buy	3456	35.1	43.2	51.4	50.0	40.7	34.2	5.7	5.0	4.4	1.8	1.9	2.0	12.4	12.0	13.1
Bandhan (BANBAN)	299	330	Hold	482	14.7	24.7	31.4	20.3	12.1	9.5	3.5	2.7	2.1	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	57	65	Buy	345	0.8	1.6	2.9	71.5	36.0	19.8	2.0	1.6	1.5	0.3	0.6	0.9	2.7	4.6	7.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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