

Retail Equity Research

State Bank of India (SBI)

Banking

BSE CODE: 500112

NSE CODE: SBIN

Bloomberg CODE: SBIN:IN

SENSEX: 50,638

BUY

12 Months Investment period Rating as per Large cap

CMP Rs. 412 **TARGET** Rs. 510 **RETURN** 24%
 (Closing: 25-05-21)

KEY CHANGES:
TARGET ↓

RATING ↔

EARNINGS ↓

Strong performance in Q4FY21; Outlook Positive

State Bank of India is India's largest bank. The bank operates 22,219 branches globally and has a vast network of 62,617 ATMs/CDMs. It provides a wide range of financial services, such as insurance, credit cards and asset management, through its subsidiaries.

- Q4FY21 Net interest income improved 18.9% YoY, aided by strong liability franchise, deposits growth outpaced credit growth and better asset quality management.
- Operating profit came in at Rs. 19,700cr (+6.7% YoY; +13.7% QoQ) despite of higher employee costs on account of wage revision, Increase in DICGC premium and waiver of account management fee; PAT rose 80.2% YoY to Rs. 6,451cr.
- Slippage ratio at 1.18%, among the best with fresh slippages at Rs. 28,564cr in FY21 (vs. Rs. 49,647cr in FY20). Personal retail slippages at Rs. 3,287cr; ratio at 0.44% in FY21 with low risk & resilient portfolio.
- Backed by well-diversified loan portfolio and strong balance sheet with lower exposure to high risk sectors, we believe that the banks' valuation remains attractive and hence we reiterate our BUY rating on the stock with a revised target price of Rs. 510 based on SOTP valuation.

Solid operating metrics in Q4FY21

For Q4FY21, NII grew 18.9% YoY to Rs. 27,068cr with NIM margin of 2.9% (16bps YoY), aided by deposits growth outpaced credit growth and strong liability franchise. Personal retail credit growth at 16.5% YoY at Rs. 8.7 lakh cr (40.0% of domestic advances). Increasing digital customer on boarding – 46.0% of retail asset accounts and 58.0% of liability customers added through digital channels in FY21 respectively. Credit offtake trend continues to improve with Home loan, Auto loan and personal loan segments. Profit/loss on sale of Investments declined to Rs. 37cr (-29.7% YoY), mainly includes one-off items in FY20. Resultantly, Cost to income ratio has marginally increased from 52.5% in FY20 to 53.6% in FY21.

Asset quality improves further

In Q4FY21, CASA ratio stood at 46.13% (97bps YoY). Domestic deposits improved 14.3% YoY mainly due to increase in Term deposits (12.2% YoY). Domestic advances grew 5.7% YoY, with increase in retail personal (+16.5% YoY). Marginal increase in Agri and SME segments (+3.9%; 4.2% YoY respectively). GNPA ratio at 4.98% (down by 117bps YoY) and NNPA ratio at 1.5% (down by 73bps YoY). PCR has improved to 87.75% (+413bps YoY); CAR has improved to 13.74% (+68bps YoY) on March 2021.

Key call highlights

- During April, collection efficiency stood at 95-96%, down ~20ps compared to March. May collection is currently similar to April levels.
- Share of Alternate channels in total transactions has increased from 91% in FY20 to 93% in FY21.

Outlook & Valuation

The bank has demonstrated solid performance with well diversified loan portfolio. Capital adequacy is well in-line with the risk of the loan portfolio. The bank is well positioned to deploy its excess liquidity into the credit growth as the market scenario improves. Hence we reiterate our BUY rating on the stock, with a revised target price of Rs. 510 using the SOTP methodology.

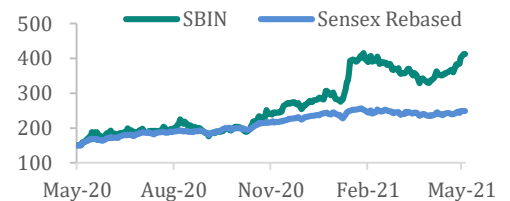
Company Data

Market Cap (cr)	Rs. 368,005
Outstanding Shares (cr)	892.8
Free Float	43.0%
Dividend Yield	0.0%
52 week high	Rs. 426
52 week low	Rs. 150
6m average volume (cr)	0.4
Beta	1.1
Face value	Rs. 1.0

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	57.6	57.6	57.6
FII's	7.8	9.8	9.9
MFs/Insti	25.5	25.1	24.6
Public	9.1	7.5	7.8
Others	1.2	1.0	1.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	1.5%	69.0%	173.2%
Absolute Sensex	-0.3%	13.8%	65.1%
Relative Return*	1.7%	55.2%	108.0%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Net Interest Income	110,711	124,545	141,608
Growth (%)	12.9	12.5	13.7
NIM (%)	3.0	3.1	3.0
Pre-provision Profit	71,554	87,102	108,259
Net Profit	20,411	29,931	39,928
Growth (%)	40.9	46.6	33.4
Adj. EPS	22.9	33.5	44.7
Growth (%)	40.9	46.6	33.4
BVPS	284.4	317.9	362.7
Adj. BVPS	243.2	275.8	319.6
P/E	18.0	12.3	9.2
P/B	1.4	1.3	1.1
P/ABV	1.7	1.5	1.3
ROE (%)	9.9	11.1	13.1
ROA (%)	0.5	0.6	0.7

Quarterly Financials (Standalone)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Interest Income	65,102	62,681	3.9	66,735	(2.4)	265,151	257,324	3.0
Interest Expense	38,034	39,914	(4.7)	37,915	0.3	154,440	159,239	(3.0)
Net Interest Income (NII)	27,068	22,767	18.9	28,820	(6.1)	110,711	98,085	12.9
Non-Interest Income	16,225	16,077	0.9	9,246	75.5	43,496	45,221	(3.8)
Total Net Income	43,293	38,844	11.5	38,066	13.7	154,207	143,306	7.6
Total Income	81,327	78,758	3.3	75,981	7.0	308,647	302,545	2.0
Operating Expenses	23,592	20,380	15.8	20,733	13.8	82,652	75,174	9.9
Total Expenditure	61,626	60,294	2.2	58,647	5.1	237,092	234,412	1.1
Pre-Provision profit	19,701	18,464	6.7	17,333	13.7	71,554	68,133	5.0
Provisions	11,051	13,495	(18.1)	10,342	6.9	44,013	43,070	2.2
Profit Before Tax	8,650	4,969	74.1	6,991	23.7	27,541	25,063	9.9
Adj.	0	0	n.m.	0	n.m.	0	0	n.m.
Adj. PBT	8,650	4,969	74.1	6,991	23.7	27,541	25,063	9.9
Tax	2,198	1,389	58.3	1,795	22.5	7,131	10,575	(32.6)
Net Profit	6,451	3,580	80.2	5,196	24.2	20,411	14,488	40.9
EPS - Diluted (Rs)	7.2	4.0	80.1	5.8	24.2	22.9	16.2	40.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Interest Income (NII)	151,746	155,117	124,545	141,608	(17.9)	(8.7)
Net Interest Margin (%)	4.0	3.9	3.1	3.0	n.m.	n.m.
Pre-Provision Profit	111,643	128,870	87,102	108,259	(22.0)	(16.0)
Net Profit	35,662	45,394	29,931	39,928	(16.1)	(11.9)
EPS (Rs.)	40.0	50.9	33.5	44.7	(16.3)	(11.9)

Business Performance

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %
Advances	2,449,498	2,325,290	5.3	2,368,139	3.4
Deposits	3,681,277	3,241,621	13.6	3,535,753	4.1
Business	6,130,775	5,566,911	10.1	5,903,893	3.8
Gross NPA	126,389	149,092	(15.2)	117,244	7.8
Net NPA	36,810	51,871	(29.0)	29,032	26.8

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr)	Value/share (Rs.)
Bank	FY23E P/ABV	1.0x	100.0%	323,734	383
SBI Life Insurance	Geojit TP		55.5%	54,668	61
SBI Cards	Geojit TP		69.4%	73,469	82
AMC	5% of Current AUM			22,825	26
Others				13,291	15
Total Value of subsidiaries				164,252	184
(20% holding discount)					(37)
Target Price					510

PROFIT & LOSS

Y.E March (Rs cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	242,868	257,324	265,151	293,212	334,049
Interest Expense	154,519	159,239	154,440	168,667	192,441
Net Int. Income	88,349	98,085	110,711	124,545	141,608
% Change	18.0	11.0	12.9	12.5	13.7
Non-Int. Income	36,775	45,221	43,496	45,671	46,584
Net Income	125,124	143,306	154,207	170,216	188,192
Total Income	279,643	302,545	308,647	338,883	380,633
Operating Exp.	69,688	75,174	82,652	83,114	79,933
Total Exp.	224,207	234,412	237,092	251,782	272,374
Pre-Prov. Profit	55,436	68,133	71,554	87,102	108,259
Provisions	53,829	43,070	44,013	46,714	54,381
PBT	1,607	25,063	27,541	40,387	53,878
Tax	745	10,575	7,131	10,457	13,949
Tax Rate (%)	46.4	42.2	25.9	25.9	25.9
Net Profit	862	14,488	20,411	29,931	39,928
% Change	n.m.	1,580.8	40.9	46.6	33.4
No. of Shares (cr)	889	893	893	893	893
Adj. EPS (Rs)	7.4	16.2	22.9	33.5	44.7
% Change	n.m.	119.3	40.9	46.6	33.4
DPS (Rs)	0.0	0.0	0.0	0.0	0.0

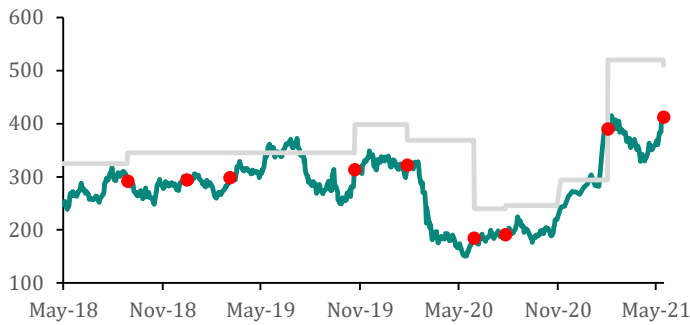
BALANCE SHEET

Y.E March (Rs cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash & Balances	222,490	251,097	343,039	418,035	511,458
Investments	967,022	1,046,955	1,351,705	1,745,162	2,253,148
Advances	2,185,877	2,325,290	2,449,498	2,600,718	2,837,383
Fixed Assets	39,198	38,439	38,419	38,399	38,379
Other Assets	266,328	289,613	351,769	365,840	380,473
Total Assets	3,680,914	3,951,394	4,534,430	5,168,153	6,020,841
Capital	892	892	892	892	892
Reserves & Surplus	220,021	231,115	252,983	282,914	322,842
Deposits	2,911,386	3,241,621	3,681,277	4,040,848	4,435,844
Borrowings	403,017	314,656	417,298	425,644	434,157
Other Liabilities	145,597	163,110	181,980	417,855	827,106
Total Liabilities	3,680,914	3,951,394	4,534,430	5,168,153	6,020,841
BVPS (Rs.)	248.6	259.9	284.4	317.9	362.7
Adj. BVPS (Rs.)	174.4	201.8	243.2	275.8	319.6
% Change	37.5	15.7	20.5	13.4	15.9

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Valuation					
P/E (x)	43.3	12.1	18.0	12.3	9.2
P/BV (x)	1.3	0.8	1.4	1.3	1.1
P/ABV (x)	1.8	1.0	1.7	1.5	1.3
Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
Profitab. & Return (%)					
Yield on Advances	8.5	8.0	7.2	7.1	7.0
Cost of Deposits	5.1	5.2	4.5	4.4	4.5
Spread	3.4	2.8	2.7	2.7	2.5
NIM	2.8	3.0	3.0	3.1	3.0
ROE	0.5	7.7	9.9	11.1	13.1
ROA	0.0	0.4	0.5	0.6	0.7
Capital Adequacy (%)					
CAR	12.7	13.1	13.7	13.4	13.6
Tier I	10.7	11.0	11.4	11.3	11.5
Tier II	2.1	2.1	2.3	2.1	2.1
Asset Quality (%)					
GNPA	7.5	6.2	5.0	4.9	4.6
NNPA	3.0	2.2	1.5	1.4	1.4
Operating Ratios (%)					
Credit/ Deposit	75.1	71.7	66.5	64.4	64.0
Cost/ Income	55.7	52.5	53.6	48.8	42.5
CASA	45.7	45.2	45.1	44.9	45.1

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit research

Investment Rating Criteria

Dates	Rating	Target
7-Sep-18	BUY	345
26-Dec-18	BUY	345
15-Mar-19	BUY	345
1-Nov-19	BUY	398
6-Feb-20	BUY	369
9-Jun-20	BUY	240
6-Aug-20	BUY	246
12-Nov-20	BUY	294
12-Feb-21	BUY	520
26-May-21	BUY	510

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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