



State Bank of India (SBI) reported another strong quarterly performance as the largest lender showed further sequential improvement in assets quality and rise in profitability. Net profit rose to Rs6,451 cr (24.1% QoQ) supported by lower provisioning and other income which also offset the impact of higher OPEX. NIM (domestic) reduced 23bps QoQ to 3.11% impacted by ~Rs3,000 cr of interest reversals.

The bank performance remained strong on assets quality front as slippages and restructuring remained within guidance while PCR of 71% and standard provisioning of 1% of loans (Rs25,376 cr) provides comfort. GNPA improved to 4.98% in Q4FY21 as compared to 5.4% in Q3 due to lower slippages of Rs5,473 cr (adjusting with proforma slippages of Rs16,461 cr).

SBI received restructuring application worth of Rs17,853 cr (0.7% of loans) which seems low and even better than private sector banks. Furthermore, slippages and restructuring at Rs46,416 cr for FY21 remained within the provided guidance of Rs60,000 cr, indicates bank strong control over assets quality which is commendable given the large balance sheet size. Moreover, stress appears under control given high share at 63% of AA and above rated a/c in corporate book and 58% constitution of secured home portfolio in retail book (retail book GNPA at 0.8%). On business growth front, gross advances book grew by 5.7% YoY driven by strong growth in retail credit (16.5% YoY).

Amid Covid second wave business uncertainty, PCR at 71% and standard provision at 1% of loans to immune the balance sheet and boost profitability. While slippages from SME/agri books require close monitoring. Credit cost is expected to remain <2% in next two fiscals while RoE to improve to double digits over FY22-23E.

We maintain 'Buy' rating on stock with revised target price of Rs500. Standalone business is valued at Rs345 derived at P/ABV 1.1x FY23E, while subsidiaries are valued at Rs155.

Low provisioning and higher other income boost profitability

NII contracted by -6.1% QoQ impacted by impacted by Rs2,127 cr bn of interest reversal on NPAs and Rs830 cr on account of interest-on-interest reversal. Interest reversal impact remained 30 bps on NIM (domestic) which declined to 3.11% in Q4 from 3.33% in Q3. Fee income grew by 7.4% YoY while trading income remained weak. Other income got a boost from Rs4,000 bn recovery from one a/c Bhushan steel. OPEX grew by 15.8% YoY on account of wage revision. Provisioning reduced by -18% YoY thereby proving a strong boost to profitability.

Advances growth driven by retail credit

Gross domestic advances grew by 5.7% YoY led by 16.5% YoY growth in retail advances. Agri advances grew by 3.9% YoY and SME by 4.2% YoY while corporate advances declined by -3% YoY. Within retail segment, home loans grew by 10.5% YoY, auto by 5% YoY and other retail loans including unsecured grew by 32.7% YoY. As per mgmt, retail disbursements witnessed a strong trend and growth trajectory is likely to remain strong, while corporate credit is expected to pick up from H2FY22 onwards. Deposits grew by 13.6% YoY and CASA share stood at 46.1% by Q4FY21.

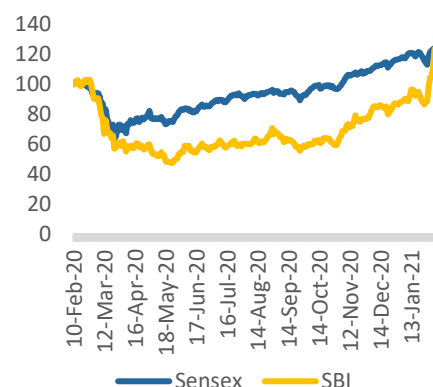
Rating Matrix

CMP	Rs412
Rating	Buy
Target Price	Rs500
Upside Potential	21.4%
52 week H/L	Rs426/149
Face value	Rs1
Mar. Cap.	Rs3,67,739 cr
Category	Large Cap
Sector	Banking

Shareholding Pattern

Particulars	Mar'21	Dec'20	Sep'20	Jun'20	Mar'20
Promoters	57.6%	57.6%	57.6%	57.6%	57.6%
FPIs	9.9%	9.8%	7.7%	7.9%	9.6%
MFs	12.6%	12.7%	12.9%	13.2%	13.6%
Insti.	34.3%	34.7%	33.0%	32.6%	34.1%
Non. Inst.	7.8%	7.5%	9.1%	9.6%	8.1%

Relative Capital Market Strength



Key Financials (Rs cr)

Particulars	FY19	FY20	FY21	FY22E	FY23E
NII	88,349	98,085	1,10,710	1,23,653	1,35,110
Gr. (%)		11.0%	12.9%	11.7%	9.3%
NIM	2.8%	2.9%	3.0%	2.9%	3.0%
PPOP	55,436	61,917	70,014	76,777	84,283
A.PAT	862	14,488	20,410	31,790	37,919
Eq./As. (%)	6.0%	5.9%	5.6%	5.9%	6.1%
RoE (%)	0.4%	6.4%	8.4%	11.9%	12.7%
CASA (%)	44.6%	43.5%	38.3%	0.0%	0.0%
GNPA(%)	8.8%	6.7%	5.0%	4.4%	4.0%
P/ABV (x)	1.7	1.6	1.7	1.5	1.3

Quarterly Trend

Q4FY21 Key result highlights	Particulars (Rs cr)	Q4FY20	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
<i>NII impacted by interest reversal</i>	Interest Earned	62,681	66,735	65,102	3.9%	-2.4%
	Interest Expended	39,914	37,915	38,035	-4.7%	0.3%
	NII	22,767	28,820	27,067	18.9%	-6.1%
	Other Income	13,346	9,246	16,225	21.6%	75.5%
	Total Income	36,113	38,066	43,292	19.9%	13.7%
<i>NIM declined sequentially due to weak NII</i>	OPEX	20,379	20,733	23,592	15.8%	13.8%
	PPOP	15,734	17,333	19,700	25.2%	13.7%
	P&C (incl NPA)	13,495	10,342	11,051	-18.1%	6.9%
	PBT	4,970	6,991	8,649	74.0%	23.7%
	Tax	1,389	1,795	2,198	58.2%	22.5%
	Net Profit	3,581	5,196	6,451	80.1%	24.1%
	Dil. EPS (Rs)	4.0	5.8	7.2	80.3%	24.2%
<i>Other income got a recovery from one a/c</i>	Balance Sheet items/ratios					
	Deposits	32,41,621	35,35,753	36,81,277	13.6%	4.1%
	Advances	24,49,498	23,68,139	23,25,290	-5.1%	-1.8%
	CD (%)	75.6%	67.0%	63.2%		
	CASA Share (%)	45.2%	45.2%	46.1%		
	CAR(%)	12.7%	14.5%	13.7%		
<i>C/I remained contained at 54.5%</i>	CET1 (%)	9.6%	10.3%	10.0%		
	Tier 1 (%)	10.7%	11.7%	11.4%		
	NIM(%)	2.7%	3.1%	2.9%		
	Cost-Income (%)	54.5%	54.5%	54.5%		
<i>Profit improved due to low provisioning and higher other income</i>	Assets Quality					
	Gross NPA	1,49,092	1,17,244	1,26,389	-15.2%	7.8%
	Net NPA	51,817	29,032	36,810	-29.0%	26.8%
	Gross NPA (%)	6.2%	4.8%	5.0%		
	Net NPA (%)	2.2%	1.2%	1.5%		
	PCR (%)	63.7%	74.2%	69.9%		
	Gross Advances	24,22,845	24,56,607	25,39,363	4.8%	3.4%
	Domestic Advances	20,65,485	21,26,664	21,82,516	5.7%	2.6%
	Corporate Credit	8,44,215	7,88,208	8,18,705	-3.0%	3.9%
<i>CASA share stood at 46%</i>	SME	2,67,614	2,93,654	2,78,949	4.2%	-5.0%
	Agriculture Advances	2,06,067	2,13,668	2,14,151	3.9%	0.2%
	International	3,57,360	3,29,943	3,56,877	-0.1%	8.2%
	Retail Advances	7,47,589	8,31,134	8,70,711	16.5%	4.8%
	Home	4,55,865	4,84,453	5,03,779	10.5%	4.0%
	Auto	72,669	75,937	76,332	5.0%	0.5%
<i>Assets quality improved</i>	Other Retail	2,19,055	2,70,744	2,90,600	32.7%	7.3%
	Break out of advances (%)					
	Corporate Credit	35%	32%	32%		
	SME	11%	12%	11%		
	Agriculture Advances	9%	9%	8%		
	International	15%	13%	14%		
	Retail Advances	31%	34%	34%		

Source: Choice Broking Research

Key Q4FY21 con-call highlights:

- Slippages + restructuring for FY21 at Rs46,416 cr have been better than earlier guidance of Rs60,000 cr.
- Slippage of Rs5,473 cr was largely on account of two chunky accounts in corporate book amounting to Rs4,500 cr, of this Rs3,600 cr was due to technical reason.
- Total restructuring requests of Rs17,853 cr includes Rs4,100 cr from retail loan, Rs11,700 cr from corporate book and Rs2,100 cr from SME.
- The bank holds non-NPA provisions worth Rs25,376 crore (~1.0% of loans), which includes Covid contingency provision of Rs6,346 crore
- Reported slippage was Rs21,934 cr, however this also includes Rs 16,400 cr of proforma slippage (9MFY21) adjusting for this net addition in Q4 was ~Rs5,500 cr.
- Collection efficiency for Apr'21 was at 95-96% (-20bps over Mar'21). Any impact due to covid-19 will come with a bit of lag.
- On the corporate credit front, the management expects some pick up from H2FY22 onwards.
- During the quarter Rs21.3bn worth interest income was reversed on account of slippages and another Rs8.3bn due to interest-on-interest refund.
- In OPEX, higher cash component in employee cost was on account of arrears being paid for wage increase.
- Mgmt guided for C/I ratio to 50% or below.
- Bank strategy to reach RoE of 15%.
- Rs230 bn has been disbursed under ECLGS 1 and Rs24 bn under ECLGS 2.
- On capital raising, the mgmt said that capital requirement would be assessed once the second covid wave is over.

P/ABV Valuation	FY19	FY20	FY21	FY22E	FY23E
Adjusted BVPS (Rs)	247.5	260.0	243.2	276.3	314.1
Valuation Parameters					
P/ABV (x)	1.1				

Source: Choice Broking Research

Financial statements (Standalone, Rs cr)

Profit And Loss Statement

Particulars	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	2,42,869	2,57,324	2,65,151	2,92,046	3,15,940
Growth (%)	0.0%	6.0%	3.0%	10.1%	8.2%
Interest Expended	1,54,520	1,59,239	1,54,441	1,68,394	1,80,830
Growth (%)	0.0%	3.1%	-3.0%	9.0%	7.4%
Net Interest Income	88,349	98,085	1,10,710	1,23,653	1,35,110
Net Interest Margin	2.8%	2.9%	3.0%	2.9%	3.0%
Other Income	36,775	39,006	41,957	42,349	45,469
% of Interest Income	15.1%	15.2%	15.8%	14.5%	14.4%
Total Income	1,25,124	1,37,091	1,52,667	1,66,002	1,80,578
Growth (%)	0.0%	9.6%	11.4%	8.7%	8.8%
Operating & Other expenses	69,688	75,174	82,652	89,225	96,295
Pre-Prov. Operating Profit	55,436	61,917	70,014	76,777	84,283
P&C	53,829	43,070	44,013	33,759	32,972
P&C % of Advances	2.5%	1.9%	1.8%	1.3%	1.1%
Operating Profit before Tax	1,608	25,063	27,541	43,017	51,311
Growth (%)	0.0%	1459.1%	9.9%	56.2%	19.3%
Pre-tax Margin %	1.3%	18.3%	18.0%	25.9%	28.4%
Tax	745	10,575	7,131	11,227	13,392
% of PBT	46.4%	27.0%	27.0%	26.1%	26.1%
Reported PAT	862	14,488	20,410	31,790	37,919
Net Profit Margin %	0.7%	10.6%	13.4%	19.2%	21.0%
Extraordinary Income	0	0	0	0	0
Adjusted PAT	862	14,488	20,410	31,790	37,919
Growth (%)	0.0%	1580.4%	40.9%	55.8%	19.3%

Balance Sheet

Particulars	FY19	FY20	FY21	FY22E	FY23E
ASSETS					
Cash and balance with Reserve Be	2,22,490	2,51,097	3,43,039	3,00,701	3,15,296
Investments	9,67,022	10,46,955	13,51,705	13,34,297	13,39,833
Advances	21,85,877	23,25,290	24,49,498	26,76,498	29,48,333
Fixed assets	39,198	38,439	38,419	40,531	42,844
Other assets	2,66,328	2,89,614	3,51,769	4,56,649	5,08,447
TOTAL ASSETS	36,80,914	39,51,394	45,34,430	48,08,676	51,54,752
CAPITAL AND LIABILITIES					
Capital	893	893	892	892	892
Reserves and Surplus	2,20,021	2,31,115	2,52,983	2,80,489	3,14,124
Deposits	29,11,386	32,41,621	36,81,277	39,71,520	42,44,033
Borrowings	4,03,017	3,14,656	4,17,298	3,61,578	3,81,081
Other liabilities and provisions	1,45,597	1,63,110	1,81,980	1,94,197	2,14,622
TOTAL CAPITAL AND LIABILITIES.....	36,80,914	39,51,394	45,34,430	48,08,676	51,54,752

Financial Ratios

Particulars	FY19	FY20	FY21	FY22E	FY23E
Return / Profitability Ratios (%)					
Net interest margin (NIM)	2.8%	2.9%	3.0%	2.9%	3.0%
Yield on advances	7.8%	8.0%	7.2%	7.2%	7.2%
Yield on investments	7.3%	6.8%	6.7%	6.7%	6.9%
EPS (Diluted) (Rs)	1.0	16.2	22.9	35.6	42.5
RoA	0.0%	0.4%	0.5%	0.7%	0.8%
RoE	0.4%	6.4%	8.4%	11.9%	12.7%
Operating ratios (%)					
Credit to Deposit (C/D)	75.1%	71.7%	66.5%	67.4%	69.5%
Cost-to-income (C/I)	55.7%	54.8%	54.1%	53.7%	53.3%
CASA (share)	44.6%	43.5%	38.3%	0.0%	0.0%
Investment / Deposit (I/D)	33.2%	32.3%	36.7%	33.6%	31.6%
Non interest income / Total incor	29.4%	28.5%	27.5%	25.5%	25.2%
Capitalization Ratios (%)					
Tier-1 capital adequacy ratio	10.7%	11.0%	11.4%	11.2%	11.1%
Tier-2 capital adequacy ratio	2.1%	2.1%	2.3%	2.3%	2.3%
Total capital adequacy ratio (Base	12.8%	13.1%	13.7%	13.5%	13.4%
Equity / Assets	6.0%	5.9%	5.6%	5.9%	6.1%
Loans / Assets	59.4%	58.8%	54.0%	55.7%	57.2%
Investments / Assets	26.3%	26.5%	29.8%	27.7%	26.0%
Asset Quality ratios (%)					
GNPA	8.8%	6.7%	5.0%	4.4%	4.0%
NNPA	4.8%	2.1%	1.5%	1.3%	1.2%
Coverage Ratio	45.7%	69.3%	69.9%	70.6%	70.8%
Per Share Data (Rs)					
EPS (Diluted)	1.0	16.2	22.9	35.6	42.5
DPS	0.0	0.0	0.0	4.0	4.0
BVPS	247.5	260.0	284.5	315.3	353.0
Adjusted BVPS	247.5	260.0	243.2	276.3	314.1
Valuation ratios (x)					
P/E (x)	426.5	25.4	18.0	11.6	9.7
P/BV (x)	1.7	1.6	1.4	1.3	1.2
P/ABV (x)	1.7	1.6	1.7	1.5	1.3
Growth ratios (%)					
Advances		6.4%	5.3%	9.3%	10.2%
Deposits		11.3%	13.6%	7.9%	6.9%
Net interest income		11.0%	12.9%	11.7%	9.3%
Interest Earned		6.0%	3.0%	10.1%	8.2%
PAT		1580.4%	40.9%	55.8%	19.3%

Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

Coverage History			
Date	Recommendation	CMP	Potential Price
25-May-21	Buy	412	500
09-Feb-21	Buy	397	470

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