

# State Bank of India

BUY

CMP Rs401

Target Rs538

Upside 34%

## Sure-footed move to higher return ratio trajectory; Result Highlights:

- ✓ **Asset quality:** Reported slippages for 4QFY21 imply new slippages worth Rs 54.73bn for the quarter, which means SBI closes 2HFY21 with slippages far lower than guided for.
- ✓ **Margin picture:** Whole bank NIM declined 22 bps QoQ to 2.90% due to interest reversals and 'interest on interest' refund
- ✓ **Asset growth:** Advances grew 3.4%/5.3% QoQ/YoY driven by retail loan growth of 4.8%/16.5% QoQ/YoY
- ✓ **Opex control:** Non-provision salary expenses jumped 35.9%/35.0% QoQ/YoY mainly due to arrear payments
- ✓ **Fee income:** Fee income rose 58.1%/7.4% QoQ/YoY mainly on the back of higher loan processing charges.

## Our view – SBI has made a sure-footed move to a higher return ratio trajectory

**Significantly lower slippages than guidance augur well from an asset quality standpoint:** Net increase in pro forma slippages in 3QFY21 was Rs 20.71bn, implying the total new slippages in 2HFY21 was Rs 75.44bn compared with prior guidance of ~Rs 200bn. Furthermore, restructuring requests received till 4QFY21-end have amounted to Rs 178.52bn, implying an additional restructuring of Rs 113.57bn made during 2HFY21, which is also well within the guidance of ~Rs 130bn additional restructuring by 3QFY21-end.

**Sequential margin shrinkage is optical since, adjusted for interest reversals and 'interest on interest' refund, NII would have expanded 4.2% sequentially:** Interest reversals due to recognition of pro forma slippages amounted to Rs 21.27bn whereas interest on interest refund amounted to Rs 8.31bn. Management conceded that deposit rates have bottomed out but would strive to maintain them at current levels.

**Retail loan growth at SBI was driven by 'other' retail loans i.e. mainly unsecured personal loans and gold loans:** Home loan growth was reasonable at 4.0%/10.5% QoQ/YoY whereas auto loan growth was slower at 0.5%/5.0% QoQ/YoY. Other retail loans rose 7.3%/33% QoQ/YoY.

**We maintain 'Buy' rating on SBI with a revised price target of Rs 538:** We value the standalone bank at 1.0x FY23 P/BV for an FY22E/23E RoE profile of 11.2%/13.5%. We assign a value of Rs 177 per share to the subsidiaries on the basis of SOTP.

(See Comprehensive con call takeaways for significant incremental colour.)

## Exhibit 1: Result table

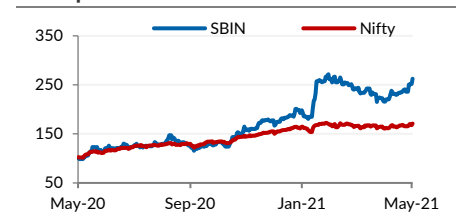
(Rs mn)	Q4 FY21	Q3 FY21	% yoy	Q4 FY20	% qoq
Total Interest Income	651,016	667,345	(2.4)	626,814	3.9
Interest expended	(380,346)	(379,146)	0.3	(399,145)	(4.7)
Net Interest Income	270,670	288,199	(6.1)	227,669	18.9
Other income	162,253	92,462	75.5	133,461	21.6
Total Income	432,923	380,661	13.7	361,130	19.9
Operating expenses	(235,922)	(207,329)	13.8	(203,793)	15.8
PPOP	197,002	173,332	13.7	157,338	25.2
Provisions	(110,510)	(103,424)	6.9	(134,951)	(18.1)
PBT	86,491	69,908	23.7	49,700	74.0
Tax	(21,984)	(17,946)	22.5	(13,892)	58.2
PAT	64,507	51,962	24.1	35,808	80.1

Source: Company, YES Sec – Research

## Stock data (as on May 21, 2021)

Nifty	15,175
52 Week h/l (Rs)	428 / 149
Market cap (Rs/USD mn)	3580554 / 49157
Outstanding Shares (mn)	8,925
6m Avg t/o (Rs mn):	16,966
Div yield (%):	1.0
Bloomberg code:	SBIN IN
NSE code:	SBIN

## Stock performance



	1M	3M	1Y
Absolute return	21.8%	0.4%	164.0%

## Shareholding pattern

Promoter	57.6%
FII+DII	34.3%
Others	7.8%

## Financial Summary

(Rs mn)	FY21	FY22E	FY23E
NII	1,107,100	1,218,876	1,264,100
PPOP	700,144	766,680	847,996
Net Profit	204,105	311,303	430,657
Growth (%)	40.9	52.5	38.3
EPS (Rs)	22.9	33.2	46.0
BVPS (Rs)	284	320	361
P/E (x)	9.8	6.8	4.9
P/BV (x)	0.8	0.7	0.6
ROE (%)	8.4	11.2	13.5
ROA (%)	0.5	0.7	0.9
Tier-1 (%)	11.4	11.7	11.3

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Asset quality

#### ✓ Slippages

- Reported slippages were Rs 219.34bn in 4QFY21 and pro forma slippages in 9MFY21 were Rs 164.61bn.
- Unlike in 3QFY21, there were no upgrades from the pro forma slippages pool in 4QFY21, implying new slippages of Rs 54.73bn in 4QFY21.
- **Corporate slippages**
  - The total corporate slippages including erstwhile pro forma slippages amounted to Rs 65.58bn for the quarter (the corporate pro forma slippages had amounted to Rs 18.09bn as of 3QFY21).
  - However, there was a chunky account worth Rs 36.5bn that slipped for purely technical reasons and would be upgraded in FY22.
  - A total of Rs 45bn of accounts that slipped, including the above account, would get upgraded in FY22.
- **Agri slippages**
  - Most of the agri slippages for FY21 (Rs 95.47bn) occurred during 1HFY21.
  - When there is non-renewal of crop loans, it results in agri slippages. The renewal rate went up in 2HFY21.
  - Of the roughly, Rs 2 trn agri loans, it is the roughly Rs 1 trn crop loans that throw up issues.
  - The remaining Rs 1 trn consists of gold loans and SHG loans, which are of less concern.

#### ✓ Collection efficiency

- Collection efficiency in April ranged between 95-96% and was similar in May.
- Collection efficiency has worsened by about 20 bps compared with March.
- There may be some lag between the event and impaired collection efficiency showing up.
- Collection efficiency is calculated as per 7-89 dpd basis.
- Agri accounts are excluded since the repayments in this segment are on seasonal basis.

#### ✓ Restructuring

- The total outstanding restructuring applications amount to Rs 178.52bn and this includes the MSME restructuring outside of Covid-19 restructuring.
- The bank has put in place a structure for new restructuring but it is too early to comment on the size of this potential book.
- Last year (FY21), SME restructuring had amounted to Rs 21.18bn.
- The MSME entrepreneurs are aware that restructuring will impact the rate at which they will be able to raise funds in the future.

#### ✓ Recoveries

- There was a Rs 40.22bn recovery on the Bhushan account during the quarter.
- Now, there are not much of chunky accounts left to recover.

- Recovery will depend on how fast the second Covid wave will settle down.
- There is improved interest in distressed assets due to the rally in commodities and recovery rate is expected to be better.
- ✓ **Provisions**
  - **Outstanding excess provisions**
    - Total provisions amounting to Rs 253.76bn not reckoned for PCR lie on the balance sheet.
    - This contains Rs 141.22bn worth of provisions on standard assets not reckoned for PCR.
    - This also contains contingent Covid provisions amounting to Rs 63.46bn (which stood at Rs 60.08bn as of 3QFY21).
    - This also contains Rs 49.08bn worth of provisions on restructured assets and excess provisions on other standard weak accounts.
  - **Commentary on credit costs**
    - The bank will have a clearer picture on the second Covid wave by the end of June after which it will take a call on provisions.
    - Net NPL in the corporate book is down to just Rs 80bn.
    - Most of the credit costs in FY22 will emerge from the SME and Agri book.
    - In a worst case, credit costs for FY22 will be contained within 2%.
    - The bank will strive to keep FY22 credit costs close to FY21 levels.
- ✓ **ECLGS**
  - ECLGS disbursement amounted to about Rs 250bn.
  - Of this, about Rs 230bn was under ECLGS 1.0 and about Rs 22bn under ECLGS 2.0.
  - Some borrowers opted for lower than the full 20% disbursement amount but, broadly speaking, the eligible book can be taken to be 5x the disbursed quantum.
- ✓ **Quality of Xpress credit**
  - 95% of this book is derived from salaried customers.
  - 50% of the salaried book is to government employees.
  - The rest is to well-rated private sector corporates.

## Net interest margin

- ✓ **One-off factors negatively impacting NIM**
  - Interest reversals due to recognition of pro forma slippages amounted to Rs 21.27bn.
  - Interest on interest refund amounted to Rs 8.31bn.
  - Adjusting for these 2 items, NII would have grown 4.2% sequentially instead of displaying de-growth.
- ✓ **Cost of deposits**
  - **Comparative level**
    - SBI cost of deposits are now somewhat higher than some of the leading private sector banks.

- This is mainly on account of a larger share of senior citizen deposits in the case of SBI.
- **Absolute level**
  - Deposit rates have bottomed out as such.
  - SBI will strive to maintain deposit rates at current levels but it remains to be seen for how long.

## Loan growth

- ✓ **Corporate loan growth**
  - **Factors impacting negatively**
    - The utilization of working capital limits is at 70%.
    - 28% of sanctioned term loans have not been disbursed.
    - Corporates have been raising funds from debt capital markets as well as equity capital markets.
    - The bank expects the corporates' dependence on DCM and ECM to reduce on the back of reduced liquidity.
- ✓ **Retail lending**
  - **Xpress credit**
    - There is a focus on mining customers with corporate salary accounts (CSAs).
    - So far, of the 16mn CSA customers, 19% have been penetrated.
    - The growth of this book may moderate to ~30% in FY22.
- ✓ **Qualitative guidance**
  - If the economy grows close to 10%, then loan growth could be driven by the corporate and SME segment.
  - Otherwise, retail loans would remain the main driver and, in absolute terms, would in any case see reasonable growth.

## Capital adequacy

- ✓ The bank is comfortable with its capital adequacy for an asset growth of 10%.

## Operating expenses

- ✓ **Staff expenses**
  - Non-provision salary expenses jumped sequentially from Rs 69.4bn to Rs 94.3bn mainly on account of arrear payments.
  - Adjusted for the arrear payments, the increase would be about Rs 15bn, which can be considered to be the permanent increase in non-provision salary expenses.
  - Performance based incentive for business in 4QFY21 has only been booked in FY21 but will be paid out in FY22.
- ✓ **Overheads**
  - The 34% QoQ rise in Overheads to Rs 102bn is mainly on account of DICGC premium and business acquisition and development expenses.

- DICGC premium is paid half-yearly in September and in March.
- Business acquisition and development expenses were higher due to the expansion of the business correspondent network.
- **IT spends**
  - IT spends from an opex perspective amounted to Rs 13bn.
  - IT spends from a capex perspective amounted to Rs 58bn.
- ✓ **Cost to income ratio**
  - The intention is to bring the cost to income ratio down to below 50%.

## Long-term RoE guidance

- ✓ A sustainable RoE of 15% is possible over the long-term.
- ✓ Management refrained from guiding a timeline for this.

## Fine on SBI

- ✓ SBI was fined by RBI due to payment of commissions to employees for sourcing JV products as well as own products.
- ✓ SBI respects the view taken by the regulator and have stopped paying these commissions.

## Fee income

- ✓ **Loan processing charges**
  - Loan processing charges jumped 83% QoQ to Rs 20.85bn.
  - The disconnect between processing charges and loan growth is explained by the fact that loan processing charges depend on the limit sanctioned and not the disbursed amount.
  - Also, typically, for term loans, the processing charges are collected upfront.

## Liabilities traction

- ✓ **Current accounts**
  - The strong traction in current accounts does not have to do with the RBI circular on current accounts.
  - The bank has seen better traction on this front due to sharper focus and improved cash management offering.

## Exhibit 2: Business Data

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Gross Advances	25,393,930	24,566,070	3.4	24,228,450	4.8
Corporate	8,187,050	7,882,080	3.9	8,442,150	(3.0)
SME	2,789,490	2,936,540	(5.0)	2,676,140	4.2
Retail / Per Segment	8,707,110	8,311,340	4.8	7,475,890	16.5
Agriculture	2,141,510	2,136,680	0.2	2,060,670	3.9
International	3,568,770	3,299,430	8.2	3,573,600	(0.1)
Total Deposits	36,812,271	35,357,534	4.1	32,416,210	13.6
Domestic	35,701,650	34,248,150	4.2	31,246,160	14.3
of which, TD	19,231,910	18,783,910	2.4	17,136,350	12.2
of which, Savings	13,700,820	13,358,610	2.6	11,935,660	14.8
of which, Current	2,768,920	2,105,630	31.5	2,174,150	27.4
International	1,110,621	1,109,384	0.1	1,170,050	(5.1)

Source: Company, YES Sec - Research

## Exhibit 3: Key Ratios

(%)	Q4 FY21	Q3 FY21	chg bps	Q4 FY20	chg bps
Global NIM (%)	3.0	3.1	-5.0	3.0	7.0
Yield on advances (%)	8.0	8.2	-19.0	8.7	-75.0
Cost of Deposits (%)	4.2	4.3	-6.0	4.9	-74.0
Domestic CASA (%)	46.1	45.2	98.0	45.2	97.0
C/D (%)	66.5	67.0	-44.0	71.7	-519.0
Non-interest income (%)	59.9	32.1	2786.0	58.6	132.0
Non-int. inc. / Int. exp. (%)	42.7	24.4	1827.0	33.4	922.0
Cost to Income (%)	54.5	54.5	3.0	56.4	-194.0
Credit Cost (%)	1.1	1.1	2.0	1.9	-75.0
CAR (%)	13.7	14.5	-76.0	13.1	68.0
Gross NPA (%)	5.0	4.8	21.0	6.2	-117.0
Net NPA (%)	1.5	1.2	27.0	2.2	-73.0

Source: Company, YES Sec - Research

## Exhibit 4: Fund based outstanding

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Infrastructure	3,285,790	3,226,790	1.8	3,435,230	(4.4)
of which, Power	855,890	1,952,410	(56.2)	2,035,320	(57.9)
of which, Telecom	291,400	277,140	5.1	378,040	(22.9)
of which, Roads & Ports	827,640	672,530	23.1	560,600	47.6
Services	2,469,020	2,531,340	(2.5)	2,504,560	(1.4)
Iron & Steel	457,940	498,880	(8.2)	550,890	(16.9)

Source: Company, YES Sec - Research

## Exhibit 5: Segmental NPA

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Corporate	630,980	594,000	6.2	816,280	(22.7)
Corporate NPA (%)	7.9	7.9		9.7	
SME	214,020	201,170	6.4	252,300	(15.2)
SME NPA (%)	7.7	6.9		9.4	
Agriculture	324,800	292,960	10.9	326,700	(0.6)
Agriculture NPA (%)	15.2	13.7		15.9	
Retail / Per Segment	69,840	58,760	18.9	79,140	(11.8)
Retail Per segment NPA (%)	0.8	0.7		1.1	
International	24,260	25,540	(5.0)	16,500	47.0
Overseas NPA (%)	0.7	0.8		0.5	

Source: Company, YES Sec – Research

## ANNUAL FINANCIALS

### Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Total cash & equivalents	2,224,901	2,510,970	3,430,387	2,694,448	2,667,503
Investments	9,670,219	10,469,545	13,517,052	12,533,678	13,787,046
Advances	21,858,769	23,252,896	24,494,978	26,944,476	29,638,923
Fixed assets	391,976	384,393	384,192	384,192	384,192
Other assets	2,663,277	2,896,136	3,517,687	3,517,687	3,165,918
<b>Total assets</b>	<b>36,809,142</b>	<b>39,513,939</b>	<b>45,344,296</b>	<b>46,074,480</b>	<b>49,643,582</b>
Net worth	2,209,138	2,320,074	2,538,752	2,996,418	3,383,969
Deposits	29,113,860	32,416,207	36,812,771	39,507,218	42,471,111
Borrowings	4,030,171	3,146,557	4,172,977	1,715,984	1,995,036
Other liabilities	1,455,973	1,631,101	1,819,797	1,854,859	1,793,467
<b>Total liabilities incl. Equity</b>	<b>36,809,142</b>	<b>39,513,939</b>	<b>45,344,296</b>	<b>46,074,480</b>	<b>49,643,582</b>

Source: Company, YES Sec - Research

### Exhibit 7: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Interest income	2,428,687	2,573,236	2,651,506	2,900,764	3,061,643
Interest expense	(1,545,198)	(1,592,388)	(1,544,406)	(1,681,888)	(1,797,543)
<b>Net interest income</b>	<b>883,489</b>	<b>980,848</b>	<b>1,107,100</b>	<b>1,218,876</b>	<b>1,264,100</b>
Non-interest income	367,749	390,058	419,566	439,387	534,935
<b>Total income</b>	<b>1,251,238</b>	<b>1,370,907</b>	<b>1,526,666</b>	<b>1,658,263</b>	<b>1,799,035</b>
Operating expenses	(696,877)	(751,737)	(826,522)	(891,583)	(951,039)
<b>PPoP</b>	<b>554,360</b>	<b>619,170</b>	<b>700,144</b>	<b>766,680</b>	<b>847,996</b>
Provisions	(538,286)	(430,699)	(440,130)	(350,666)	(272,483)
<b>Profit before tax</b>	<b>16,075</b>	<b>250,628</b>	<b>275,411</b>	<b>416,013</b>	<b>575,514</b>
Taxes	(7,453)	(105,747)	(71,307)	(104,711)	(144,857)
<b>Net profit</b>	<b>8,622</b>	<b>144,881</b>	<b>204,105</b>	<b>311,303</b>	<b>430,657</b>

Source: Company, YES Sec - Research



## Exhibit 8: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
<b>Growth matrix (%)</b>					
Net interest income	18.0	11.0	12.9	10.1	3.7
PPoP	-6.8	11.7	13.1	9.5	10.6
Net profit	na	1580	40.9	52.5	38.3
Loans	13.0	6.4	5.3	10.0	10.0
Deposits	7.6	11.3	13.6	7.3	7.5
<b>Profitability Ratios (%)</b>					
Net interest margin	2.8	2.9	2.9	3.0	3.0
Return on Average Equity	0.4	6.4	8.4	11.2	13.5
Return on Average Assets	0.0	0.4	0.5	0.7	0.9
<b>Per share figures (Rs)</b>					
EPS	1.0	16.2	22.9	33.2	46.0
BVPS	248	260	284	320	361
ABVPS	146	175	217	262	312
<b>Valuation multiples</b>					
P/E	232	13.8	9.8	6.8	4.9
P/BV	0.9	0.9	0.8	0.7	0.6
P/ABV	1.5	1.3	1.0	0.9	0.7
<b>NIM internals (%)</b>					
Yield on loans	7.8	8.0	7.2	7.3	7.4
Cost of deposits	5.0	4.8	4.1	4.2	4.2
Loan-deposit ratio	75.1	71.7	66.5	68.2	69.8
CASA ratio	44.6	43.5	44.7	45.0	45.5
<b>Opex control (%)</b>					
Cost/Income ratio	55.7	54.8	54.1	53.8	52.9
Cost to average assets	2.0	2.0	1.9	2.0	2.0
<b>Capital adequacy (%)</b>					
Tier 1 capital ratio	10.7	11.0	11.4	11.7	11.3
<b>Asset quality (%)</b>					
Slippage ratio	1.6	2.4	1.2	1.5	1.0
Gross NPL ratio	7.5	6.2	5.0	4.6	3.8
Credit cost	2.7	1.9	1.1	1.3	0.9
Net NPL ratio	3.0	2.2	1.5	1.1	0.7

Source: Company, YES Sec - Research; Valuations are the implied value of standalone entity net of subsidiaries

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**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE – 6538, NSE – 14914, MCX – 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code – 94338.

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## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

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