

### Well-positioned to ride economic recovery



State bank of India (SBI), one of the largest lenders in the country, has suffered huge credit losses in the last credit cycle. However, the bank has substantially work on its asset quality and credit underwriting standers in last few years and because of which bank's overall stress assets (in percentage term) is much lower than the industry average. What we most like about SBI is 1) lower slippages and fewer restructured assets in Q3FY21, 2) well provided for legacy assets with a ~68% coverage ratio on pro forma NPLs, 3) strong recovery in loan growth and 4) stability in key operating metrics.

#### Operational Highlights

- After unlocking, retail growth (15.5% YoY/ 5.8% QoQ) is swiftly moving toward pre-Covid level in Q3FY21, which was largely driven by home loans (3.4% QoQ) in which SBI has a leadership position and auto loans (6% QoQ) where it has made deep inroads due to competitive rates. Besides, Xpress credit, which up by 36% YoY/11% QoQ demonstrates the strength of SBI franchise and the ability to scale up in select product lines.
- While loan growth in corporate portfolio was muted due to run-down of exposure in iron & steel, petroleum, tourism/hotels etc, SME credit was healthy (5.9%), largely supported by ECLGS disbursements.
- All put together, the bank's restructuring applications stood at Rs 181 Bn, well within guidance Slippage ratio as on 31st Dec 2020 at 1.3% (including proforma slippages). Proforma GNPLs, with recoveries and write-offs, were down from 5.88% to 5.44%.
- The bank held total Covid related provisions of Rs59 bn, which includes provision of Rs53bn on proforma slippages and Rs14.6 bn provisioning on restructured pool. We expect the credit costs to moderate in FY22/23E.
- Bank's liability franchise remains unparalleled and has among the best-in-class CASA ratio of 45.2% in Q3FY21.
- Bank's capital adequacy ratio stood at 14.5% (vs 14.7% QoQ), of which Tier I capital was 11.7% (vs 11.9% QoQ) and Tier II capital was 2.8% (flat QoQ).

#### Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	983	1117	1243	1401
Adjusted net profit	145	181	253	340
Net worth	2320	2501	2753	3093
EPS (Rs)	16	20	28	38
Growth (%)	1580	25	40	35
P/E (x)	24	19	14	10
P/Adj BV (x)	1.9	1.8	1.5	1.3
RoA (%)	0.4	0.4	0.6	0.7
RoE (%)	6.4	7.5	9.6	11.7

Source: Dalal & Broacha Research, Company

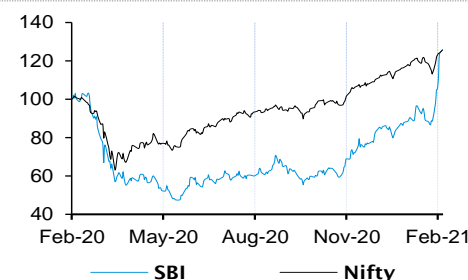
Rating	TP (Rs)	Up/Dn (%)
<b>BUY ON DIPS</b>	<b>447</b>	<b>14</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>393</b>
Market Cap (Rs.Bn)	(Rs Bn)	3567
Market Cap (US \$ Mn)	(US \$ Mn)	48959
Face Value	Rs	1
52 Weeks High/Low	Rs	408/150
Average Daily Volume	('000)	225567
BSE Code		500112
Bloomberg		SBIN:IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	57.64	57.63
Public	42.36	42.37
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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## Valuation & Outlook

In our opinion, SBI is well poised for an earnings recovery over the next few years, supported by a strong liability franchise, better capital position and stable margin along with improving operating efficiencies. Bank's subsidiaries in asset management, insurance and capital market segments are well-positioned in their respective domains and continue to report sturdy performance. SBI is well focused on the cross-sell opportunity with bank customers (total 437.8 million) and its subsidiaries' products. **At CMP the stock trades at 1.5x its FY22E Adj BV and 1.3x its FY23E BV. We value SBI at FY23E P/ Adj BV multiple of 1.5x to arrive at target price of Rs 447/ share, with a 'Buy on Dips' rating on the stock.**

## Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23	Ratios	FY20	FY21	FY22	FY23
Interest income	2573	2755	2988	3412	<b>Growth (%)</b>				
Interest expense	1592	1638	1745	2009	NII	11	14	11	13
<b>NII</b>	<b>981</b>	<b>1118</b>	<b>1243</b>	<b>1402</b>	PPOP	23	5	16	18
Non-interest income	452	417	494	587	PAT	1580	25	40	35
<b>Net revenues</b>	<b>1433</b>	<b>1534</b>	<b>1737</b>	<b>1989</b>	Advances	6	8	12	13
Operating expenses	752	816	901	1003	Deposits	11	13	10	12
<b>PPOP</b>	<b>681</b>	<b>718</b>	<b>836</b>	<b>987</b>	<b>Spread (%)</b>				
Provisions	433	476	498	531	Yield on Funds	7.4	7.2	7.1	7.3
<b>PBT</b>	<b>248</b>	<b>242</b>	<b>338</b>	<b>456</b>	Cost of Funds	4.6	4.4	4.2	4.4
Tax	103	61	85	115	Spread	2.7	2.8	2.9	2.9
<b>PAT</b>	<b>145</b>	<b>181</b>	<b>253</b>	<b>341</b>	NIM	2.8	2.9	3.0	3.0
<b>Balance sheet</b>					<b>Asset quality (%)</b>				
Share capital	8.9	8.9	8.9	8.9	Gross NPAs	6.2	6.7	5.5	5.0
Reserves & surplus	2311	2492	2745	3086	Net NPAs	2.2	2.4	1.5	1.4
<b>Net worth</b>	<b>2320</b>	<b>2501</b>	<b>2754</b>	<b>3095</b>	Provisions	65	66	73	74
Deposits	32416	36562	40155	44858	<b>Return ratios (%)</b>				
Borrowings	3147	3030	2882	2997	RoE	6.4	7.5	9.6	11.7
Other liability	1631	1491	1509	1527	RoA	0.4	0.4	0.6	0.7
<b>Total liabilities</b>	<b>39514</b>	<b>43584</b>	<b>47299</b>	<b>52477</b>	<b>Per share (Rs)</b>				
Fixed assets	384	392	400	408	EPS	16	20	28	38
Investments	10470	11885	13133	14582	BV	260	280	309	347
Loans	23253	25090	28050	31753	ABV	202	214	260	298
Cash	2511	3263	2703	2660	<b>Valuation (x)</b>				
Other assets	2896	2954	3013	3073	P/E	24.2	19.4	13.9	10.3
<b>Total assets</b>	<b>39514</b>	<b>43584</b>	<b>47299</b>	<b>52477</b>	P/BV	1.5	1.4	1.3	1.1
					P/ABV	1.9	1.8	1.5	1.3

Source: Dalal & Broacha Research, Company

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