



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Stock Idea @ Dalal & Broacha

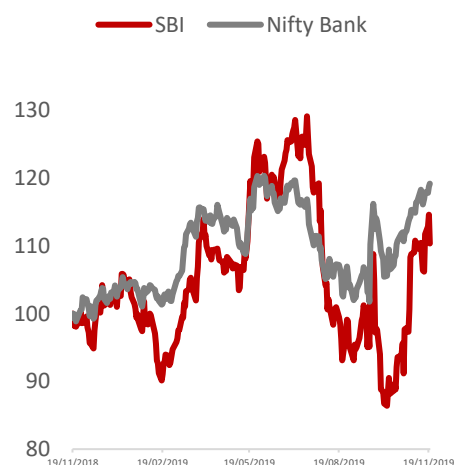
### BUY

Current Price	332
52 Week Range	374/244
Target Price	393
Upside (%)	18%

### Key Share Data

Market Cap (Rs.bn)	2927
Market Cap (US\$ Bn)	40.75
No of o/s shares (Mn)	8924.6
Face Value	1
BSE Code	500112
NSE Code	SBIN
Bloomberg	SBI:IN

### Price performance



% Shareholding	Sep-19	June-19
Government	57.88	57.88
DII	24.40	23.82
FII	10.83	10.85
Others	6.89	7.45
Total	100	100

State bank of India (SBI), one of the largest lenders in the country, has suffered huge credit losses in the last credit cycle. However, we believe that the worst in terms of asset quality is long behind. The bank has proactively recognized most of its stressed assets and has made necessary provisions for the same. Furthermore, the bank has de-risked its balance sheet by focusing on retail and better-rated corporates entities; re-organizing risk & recovery management structures; and leveraging technology to reduce operating costs.

**Focus on core profitability;** SBI has prepared a detailed road-map on the key financial parameters for FY20e/21e. According to which, Bank is targeting an RoA of 0.4%-0.5% in FY20 and 0.9%-1.0% in FY21, supported by credit growth of 10%/12% with a margin of 3.15%/3.2% in FY20/21, translating into NII growth of 17%/14% for FY20/21, non-interest income growth of 15% for both years with opex growth sustaining at <10% and a slippage ratio of 2.0%/1.3% in FY20/21. The bank is looking to list its subsidiary -SBI cards in coming quarters, which will provide further delta (not yet build into banks estimates).

**Asset quality improves:** Despite a challenging macro environment, Bank's asset quality improved significantly in the past few quarters, with GNPA ratio improved to 7.19% (vs 10.91% in FY18) and Net NPA ratio improved to 2.79% (vs 5.73% in FY18). The reduction in NPAs was on account of lower slippages and higher amount of recoveries and write-off. PCR increased from ~66% in FY18 to ~81% in 2QFY20. High level of PCR is likely to result in lower ageing related provisions going forward which should keep credit costs low.

**Key Resolutions Expected:** Essar Steel's supreme court verdict was in favor of banks. SBI has an exposure of Rs 131.13bn, considering 90% recovery, write back expected to be around Rs 120bn. Key resolutions of other large NCLT accounts is key for the bank to report a substantial improvement in profitability.

**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 1.2x its FY20E BV and 1.1x its FY21E BV. We value SBI at FY21E P/BV multiple of 1.3x to arrive at target price of Rs 393/ share, with a BUY rating on the stock.

### Key Financials (Rs bn)

Year	NII	PAT	NIM	ROA	ROE	BVPS	PB (X)
FY19	883	8.6	2.8	0.0	0.4	248	1.3
FY20E	990	199	2.9	0.5	9	270	1.2
FY21E	1141	360	2.9	0.8	13	302	1.1



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**Exhibit 1:** Bank has prepared a detailed road-map on the key financial parameters for FY20/21

<b>Key Financial Indicators -</b>	<b>FY19</b>	<b>H1FY20</b>	<b>FY20E</b>	<b>FY21E</b>
Credit Growth (%)	11.96	8.65	> 10.00	> 12.00
NII Growth (%)	18.03	11.32	> 17.00	> 14.00
NIM (domestic) (%)	2.95	3.11	> 3.15	> 3.20
Non-Interest Income Growth (%)	-17.55	24.81	> 15.00	> 15.00
Opex Growth (%)	16.26	9.89	< 10.00	< 10.00
PPOP (excl. one off) (in Rs. crore)	53,557	27,961	> 65,000	> 75,000
Slippage Ratio (%)	1.6	2.18	< 2.00	< 1.30
Corporate Slippages (in Rs cr)	10,244	9,128	< 22,000	< 12,000
Retail Slippages (in Rs cr)	22,494	15,889	< 24,000	< 20,000
Credit Cost (%)	2.66	1.98	< 1.80	< 1.00
PCR (with AUCA) (%)	78.73	81.23	> 84.00	> 88.00
ROA (%)	0.02	0.29	0.4 – 0.5	0.9 – 1.0

Source: D&B Research, Company

**Exhibit 2: Focus on better rated corporate reflected in improved performance**

<b>Credit Portfolio (ECR)</b>	<b>Mar'18</b>	<b>Sept'18</b>	<b>Mar'19</b>	<b>Sept'19</b>
AAA	21.12	23.54	38.79	35.72
AA	22.09	26.14	24.85	25.39
A	16.30	20.89	14.11	18.19
Total A & above	59.51	70.57	77.75	79.30
BBB	10.47	13.30	9.85	8.97
<b>Investment Grade</b>	<b>69.98</b>	<b>83.87</b>	<b>87.60</b>	<b>88.27</b>
BB & Below	17.50	8.69	6.04	7.32
Unrated	12.52	7.43	6.36	4.74

Source: D&B Research, Company

**Exhibit 3: SBI and its Subsidiaries - leveraging synergies**

**(focussed on the cross-sell opportunity with bank customers); SBI has total 437.8 million customers**

<i>SBI customers holding products of subsidiaries</i>	<i>Number of SBI Customers with subsidiary products (in million)</i>	<i>Sales through Banca channel (%)</i>
SBI Life	3.6	66
SBI Funds	3.3	24
General Insurance	24.3	31
SBI Card	3.3	39

Source: D&B Research, Company



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