

FUNDAMENTAL COVERAGE

STATE BANK OF INDIA LTD



BUY | CMP 290 | TARGET 319 | POTENTIAL UPSIDE 10%

14 MARCH 2019

Stock Data

M.Cap (₹ in cr)	258813.40
Equity (₹ in cr)	892.46
52 wk H/L ₹	325.85/232
Face Value ₹	1
Div. Yield	-
NSE Code	SBIN
BSE Code	500112
BV	259.58

LEAD RATIONAL

Loan growth in FY19 for SBI is guided to be 14%, in line with industry slated growth at 15%. As bank is still short of priority sector lending target & keeping this in line, management expects to bring in loans from NBFC. Portfolio purchases from NBFCs were at ₹ 13,000 cr at the end of Dec 2018; and ₹ 7,000 cr is in pipeline. SBI has strong presence in Govt. and PSU backed NBFCs; and exposure to large reputed private sector institutions. Though, bank is looking for buying from non-priority sector as well.

Valuation Data

EV/EBITDA	21.97
P/BV	1.12

VALUATION CONCLUSION

Merger issues & asset quality concerns have been far behind for SBI. With reduction in credit cost combined with improvement in NPA's, setting aside lower provisions for bad loans, SBI is expected to post good earnings show going ahead. The recent moderation in bond yields is expected to provide boost to treasury performance additionally.

Banks, especially PSU's in the past months gone by has faced multi-fold problems. Financial as well as liquidity crunches & above all stringent norms for banks marked panic over head of many. Despite the stated reasons, we recommend to BUY SBI which delivered sequential growth and improved fundamentals beating our calculations and is available at attractive valuation. *Estimating P/BV at 1.20x (Est. 5yr avg.) for FY20, the estimated share price turns around to ₹319.*

Index Detail

Sensex	37720.21
Nifty	11326.15
Index	A / S&P BSE SEN- SEX

RESULTS ANALYSIS

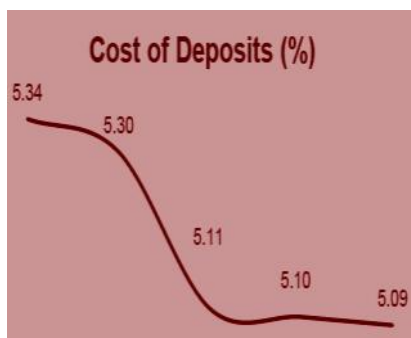
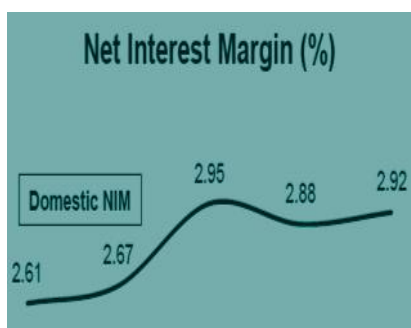
Credit cost has declined sharply by 105bps providing cushion for earning growth. Higher **credit growth, better spreads** and **lower slippages** lead to Domestic **Net Interest Margins** increasing to 2.97%. Sustained improvement in **Asset Quality** with **GNPA, Net NPA** and **PCR** improved to 8.71%, 3.95% and 74.63% respectively. Moreover, **Recovery in Written-Off Accounts** registered a very robust growth of 81.94% YoY from ₹ 3,221 Cr in 9MFY18 to ₹ 5,860 Cr in 9MFY19.

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Highlights from Press Release



Diversified Loan portfolio (as on Dec.2018)



- Registered 15.65% y-o-y growth in domestic credit off take, mainly across Per. Retail & high rated Corporates.
- With a Sequential growth at 318.56%, registered a **Net Profit** of ₹ 3,955 Cr during Q3FY19 as against Net Loss of ₹ 2,416 Cr in corresponding period last year mainly attributable to *domestic credit growth (15.65% y-o-y), better NIM's, improvement in slippage ratio and credit cost.*
- **Operating Profit increased by 7.40%** from ₹ 11,755 Cr in Q3FY18 to ₹ 12,625 Cr in Q3FY19 driven by healthy growth in **Net Interest Income, which** grew healthy by 21.42% YoY.
- **Interest Income on Loans** grew by 18.86% YoY attributable mainly to growth in **domestic credit** and **lower slippages.**
- Higher **credit growth, better spreads** and **lower slippages** lead to Domestic **Net Interest Margins** increasing to 2.97% during Q3FY19.
- Improvement in **Slippage Ratio** and **Credit Cost** by 459 bps and 105 bps YoY respectively.
- Sustained improvement in **Asset Quality** with **GNPA, Net NPA** and **PCR** improving at 8.71%, 3.95% and 74.63% respectively.
- **Recovery in Written-Off Accounts** registered a robust growth of 55.98% YoY from ₹ 1,351 Cr in Q3FY18 to ₹ 2,107 Cr in Q3FY19.
- Strength of liability franchise, being a key long term value driver (Low Cost of Deposits: 5.09%).
- UPI - No.1 Beneficiary Bank with market share of **17%** (volume of *transactions in Dec'18*)

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Tabular presentation

₹ in cr

Particulars	Quarter Ended (A)		Nine months Ended (B)		Growth %	Growth %
	Q3FY19	Q3FY18	9M FY19	9M FY18		
Income Statement					(Δ A)	(Δ B)
Net Interest Income	22691	18688	65395	54879	21.42	19.16
Operating Income	30726	26772	89485	86985	14.77	2.87
Operating Profit	12625	11755	38503	43628	7.40	-11.75
Total Provisions	8670	14171	38479	42457	-38.82	-9.37
Net Profit	3955	-2416	24	1171	-	-
EPS (in ₹)	17.58	-2.80	0.04	1.83	-	-
NIM (Domestic-Cumulative) (%)	2.92	2.61	2.92	2.61	31 bps	31 bps
Cost to Income Ratio (%)	56.97	49.84	56.97	49.84	713 bps	713 bps

Particulars	Quarter Ended	
	Q3FY19	Q3FY18
Key Ratios		
CAR (%)	12.77	12.68
ROA (%)	0.45	-0.30
Gross NPA Ratio (%)	8.71	10.35
Net NPA Ratio (%)	3.95	5.61
Provision Coverage Ratio (%)	74.63	65.92
Slippage Ratio (%)	1.64	4.17
Credit cost (%)	2.42	3.18

Higher credit growth, better spreads and lower slippages lead to Domestic Net Interest Margins increasing to 2.97%. Sustained improvement in Asset Quality with GNPA, Net NPA and PCR improved to 8.71%, 3.95% and 74.63% respectively.

With reduction in credit cost combined with improvement in NPA's, setting aside lower provisions for bad loans, SBI is expected to post good earnings show going ahead.

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GROSS NPA ₹ in cr



NET NPA ₹ in cr



YONO

gaining traction, an entirely new digital eco-system

SYNERGY BUCKET

Asset Quality show

- **Gross NPAs** of the Bank declined from ₹ 2,05,864 Cr as on September 18 to ₹1,87,765 Cr as on December 18, whereas **Net NPAs** declined from ₹94,810 Cr to ₹ 80,944 Cr during the same period. **Gross NPA Ratio** at 8.71% improved by 164 bps YoY and 124 bps sequentially.
- **Net NPA Ratio** at 3.95% improved by 166 bps YoY
- **Provision Coverage Ratio** improved by 871 bps YoY from 65.92% as on December 17 to 74.63% as on December 18, whereas the same improved by 389 bps sequentially.
- SBI offering YONO to boost digitalisation, it is purely paperless, having better customer experience in lower time & effort. With this, branch business has also increased.
- YONO offers various products & transactions such as account opening, Fund transfer, Bill pay/recharge etc. could be done on a single go.
- Also, acts as a Financial super store - Mutual Funds, Investments, cards, insurance etc.
- Moreover, one can browse categories, book tickets, shop etc.
- Presently, SBI has 53.66 lakh registered users with value of transaction being ₹ 5745.96 cr in Q3 FY19.
- Pre-approved Pers. Loan book size of more than ₹ 1100 crs, with ~ 1,18,000 customers.
- Has Dominant presence in Capital Markets, Gen. Insurance and other financial services.
- **SBIPSPL: JV** with Hitachi formed for Merchant Acquiring Business; Valued at ₹~6k Crs
- **SBI Life** being the 2 private life insurer; has a credit card franchise **SBI Card**; **SBI Funds** third in AUM
- Potential to further unlock value in subsidiaries

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