

State Bank of India

4 August 2021

RESULT UPDATE

Sector: Banks	Rating: HOLD
CMP: Rs 457	Target Price: Rs 513

Stock Info

Sensex/Nifty	54,370/ 16,259
Bloomberg	SBIN IN
Equity shares	8925mn
52-wk High/Low	Rs 467/176
Face value	Rs 1
M-Cap	Rs 4,079bn/ USD 55bn
3-m Avg volume	USD 206mn

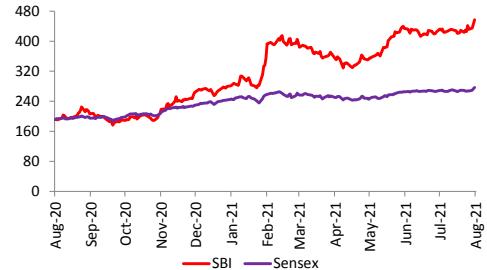
Financial Snapshot (Rs bn)

Y/E March	FY21	FY22E	FY23E
NII	1,107	1,279	1,370
PPP	716	879	971
PAT	204	414	491
EPS (Rs)	23	46	55
EPS Gr. (%)	40.9	102.7	18.8
BV/Sh (Rs)	256	297	344
Adj. BV/Sh (Rs)	227	276	324
Ratios			
NIM (%)	2.9	2.9	2.9
C/I ratio (%)	53.6	49.7	48.7
RoA (%)	0.5	0.9	0.9
RoE (%)	9.3	16.7	17.2
Payout (%)	17.5	18.0	18.0
Valuations			
P/E (x)	20.0	9.9	8.3
P/BV (x)	1.8	1.5	1.3
P/Adj. BV (x)	2.0	1.7	1.4
Div. Yield (%)	1.1	2.4	2.8

Shareholding pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	58	58	58
-Pledged	-	-	-
FII	10	8	10
DII	24	25	25
Others	8	9	8

Stock Performance (1-year)



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Stable core performance

State Bank of India (SBIN IN)'s 1QFY22 show was below the domestic banking industry's performance in terms of balance-sheet expansion; domestic credit and deposit growth was 5.6% and 9.2% YoY vs. 6.2% and 9.8% YoY for the banking industry. Traction in the overseas credit book pushed overall credit growth at 5.8% YoY. CASA deposit grew 10.7% YoY; domestic CASA composition was stable at 46% on a QoQ basis. The bank's CA deposit growth contracted 17.5% QoQ; 10% of the contraction was due to the RBI's guidelines on CA deposits while the remaining 7.5% was due to the cyclicality in the first quarters. Core profitability was stable with domestic & overseas margins at 315bps & 106bps respectively; flat on a sequential basis. In non-interest income, strong recoveries on written-off loans at Rs 28bn (including one large recovery of Rs 16bn) aided the operating performance. The bank's fee income stream run-rate has rebounded to 48bps (on average assets) but it is still below the pre-pandemic levels of 59bps & 57bps in 1QFY19 & 1QFY20, respectively. The absence of provision for wage revision aided establishment costs. The cost-income ratio was at 51.9% (vs. 54.5% in 4QFY21 & 52.2% in 1QFY21). The opex-average assets ratio was at 180bps (vs. 212bps in 4QFY21 & 164bps in 1QFY21). On the asset quality front, the bank's gross & net delinquency rates were at 289bps & 201bps (vs. 126bps & 51bps in FY21) respectively. Its annualized credit cost was at 83bps (vs. 116bps in FY21). The provision coverage was at 68% (vs. 71% in 4QFY21); PCR (including TWO) was at 86% vs. 87.7% in 4QFY21. It now holds total unutilized provisions of Rs 298bn (121bps of standard credit) compared to Rs 254bn (105bps of standard credit) in 4QFY21. The bank has beefed up provisions for standard assets and non-fund based stressed assets. Overall, the results were stable on key parameters. Post a re-rating in SBIN's market valuation, we downgrade the stock to HOLD from Buy with a target price at Rs 513.

Retail and SME verticals witness elevated delinquencies: SBIN witnessed elevated fresh delinquencies in the retail and SME sectors; of the fresh delinquencies of Rs 157bn (delinquency rate at 278bps), the sectoral delinquencies were Rs 53bn & Rs 64bn while the delinquency rates were ~283bps & ~920bps, respectively. One unsecured retail loan product (Xpress credit, mainly provided to corporate salary holders) did not witness much stress; GNPA was at ~70bps. As per the bank's management, the loan portfolio is of high credit quality. Total SMA I & II remained stable at Rs 113bn (46bps of total credit).

Margins remain stable: The bank's reported margin was stable on a sequential basis at 292bps vs. 290bps in 4QFY21, led by stable CASA composition at 44.6% on a QoQ basis and the reduction in calculated funding costs by 9bps QoQ to 3.69%. Interest reversal of Rs 8bn impacted yields partially, leading to a contraction in the yield on funds by 8bps QoQ to 6.29%. The credit/deposit ratio declined 118bps QoQ to 65.4% on a moderate growth in advances.

Valuation & Recommendation: SBIN's 1QFY22 performance was largely stable with flat domestic margins and traction in written-off loan recoveries. The bank's provision buffer moderated to 68% (from 71% on a sequential basis), but it added provision buffer to other stressed assets (restructured credit and non-funded exposures). The resources allocation would improve with a likely uptick in credit demand in the retail and corporate segments in 2HFY22, leading to margin expansion. We factor in credit and deposits growth at 8.1% & 10.3% YoY in FY22E and estimate calculated margin expansion of 10bps to 295bps. We estimate RoAA & RoAE at 87bps/94bps and 16.7%/17.2% in FY22E & FY23E, respectively. Post a re-rating in SBIN's market valuation, we downgrade the stock to HOLD from Buy with a target price of Rs 513.

Investors are advised to refer disclosures made at the end of the research report.

Other highlights from SBI's 1QFY22 results concall

- The bank refrained from providing any guidance but its long-term RoE target remains at 15%.

Asset Quality: High recoveries in delinquencies pool of 1QFY22 in July encouraging

- Significant slippages came from the retail sector due to lower collections.
- Total unutilized provision was at Rs 298bn (not a part of PCR calculation).
- Collection efficiency (CE) was at 93.5% in July'21 vs. 92% in June'21.
- Based on experience, the bank believes that 70% of the restructured MSME loans survive.
- Xpress credit (mainly corporate salary holders) did not see much stress; NPA was at ~70bps. This is a high-quality credit portfolio and the safest product in the personal loans segment with yields at 11%.
- The rise in gold loan NPLs was due to restricted mobility; there has been a good pull-back in the loan product.
- ~50% of the bank's housing loans NPLs were from the self-employed category.
- Recoveries in SME, Agri & housing loans were at Rs 47.9bn during July'21.
- Other provisions consist of provisions for restructuring and non-fund based (NFB) exposures.
- The bank could sell NPLs to NARCL (National Asset Reconstruction Company) worth Rs 220bn.
- Retail/Personal delinquencies were Rs 52.68bn of which, home loans were at Rs 31.23bn.
- Total outstanding restructuring book including pipeline was around Rs 203bn of which, retail & personal/MSME/corporates was Rs 90bn/Rs 30bn/Rs 78bn, respectively.

Margin & profitability:

- Interest income reversal in the quarter was at Rs 8bn vs. Rs 30bn in 4QFY21.
- MCLR has been reduced from 7.75% to 7%, leading to a decline in yields.
- A one-time large recovery (from TWO) of Rs 16bn was from one loan A/c; total recovery was at Rs 28bn; total target of recovery (from TWO) at Rs 140bn in FY22.

Credit growth & profile:

- Overall ECLGS sanctions were at Rs 300mn, disbursements at Rs 270bn and O/s at Rs 220bn.
- Corporates are not availing limits; there has been some underutilization and LDR has also been low; has a credit proposals pipeline of Rs 1.3trn from a wide set of industrials (iron & steel and others).
- The overall sanctions limit towards the corporate book (not availed) stands at ~Rs 3trn.

- Pre-approved personal loans (PAPL) O/s credit at Rs 250bn - part of Xpress credit. All these loans are to borrowers having salary accounts with the bank. The average loan ticket size is Rs 3 lakhs.
- The management expects Xpress credit to increase around 25-26% for FY22.
- Good credit demand opportunities in the US, UK and Hong Kong.

Deposits mobilization:

- The impact of the RBI's regulation on CA deposits was only to an extent of 10%; the drop in CA deposits is seasonal.

Miscellaneous:

- Other provisions at Rs 29.3bn included provisions for NFB exposures.
- The bank had purchased PSLC (of Rs 600bn) during the quarter which led to a rise in business acquisition & development charges. The 'business acquisition & development charges' account for expenses for BC & expenses for PSLCs.

Exhibit 1: Quarterly performance

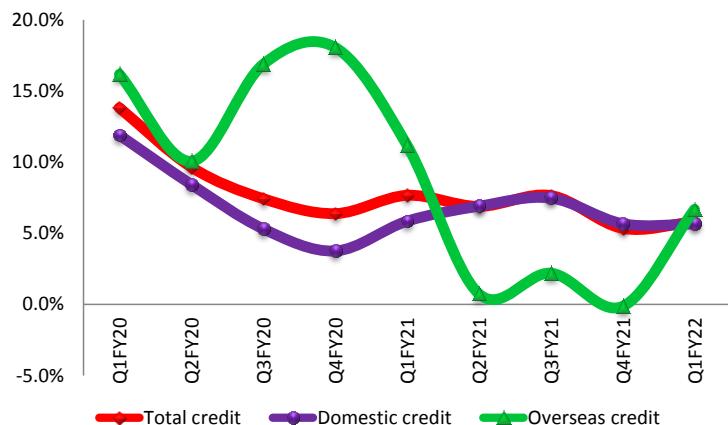
Quarterly Income Statement (Rs mn)	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21	YoY (%)	QoQ (%)
Interest Inc. on Advances	411,435	402,137	437,368	433,776	441,011	-6.7	2.3
Interest Inc. on Investments	203,698	203,769	204,721	202,537	187,055	8.9	0.0
Others	40,511	45,111	25,257	31,829	36,938	9.7	-10.2
Total Interest Inc.	655,644	651,016	667,345	668,141	665,004	-1.4	0.7
Interest Expended	379,260	380,346	379,146	386,326	398,588	-4.8	-0.3
NII	276,384	270,670	288,199	281,815	266,416	3.7	2.1
CXB	54,030	84,550	53,490	52,430	44,710	20.8	-36.1
Treasury Income	21,020	-370	9,590	10,840	40,250	-47.8	-5,781.1
Other Non-Interest Inc.	-42,980	-78,070	-29,380	-22,010	-10,020	328.9	-44.9
Total Non-interest Income	118,027	162,253	92,462	85,277	79,575	48.3	-27.3
Total Net Income	394,412	432,923	380,661	367,092	345,990	14.0	-8.9
Total Operating Exp.	204,664	235,922	207,329	202,494	180,777	13.2	-13.2
Operating Profit	189,748	197,002	173,332	164,598	165,214	14.9	-3.7
Core Operating Profit	168,728	197,372	163,742	153,758	124,964	35.0	-14.5
Provisions for NPAs	50,298	99,140	22,904	56,193	94,205	-46.6	-49.3
Total Provisions	100,520	110,510	103,424	101,183	125,013	-19.6	-9.0
PBT	89,229	86,491	69,908	63,415	55,598	60.5	3.2
Tax Provision	-24,189	-21,984	-17,946	-17,673	-13,704	76.5	10.0
Net Profit	65,040	64,508	51,962	45,742	41,893	55.3	0.8
EPS	7.3	7.2	5.8	5.1	4.7	55.3	0.8
Key Ratios (%)	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21	YoY (bps)	QoQ (bps)
Trading gains/PBT (%)	23.6	-0.4	13.7	17.1	72.4	-4,883.7	2,398.5
NIM	2.9	2.9	3.1	3.1	3.0	-9.0	2.0
CAR	13.7	13.7	14.5	14.7	13.4	26.0	-8.0
Tier I	11.3	11.4	11.7	11.9	11.4	-3.0	-12.0
ROA	0.6	0.6	0.5	0.4	0.4	15.7	-0.8
CD Ratio	65.4	66.5	67.0	66.1	67.2	-185.9	-118.3
Asset Quality (Rs mn)	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21	YoY (%)	QoQ (%)
GNPA	1,342,595	1,263,890	1,172,443	1,258,630	1,296,607	3.5	6.2
NNPA	431,525	368,097	290,317	364,507	427,036	1.1	17.2
GNPA (in %)	5.3	5.0	4.8	5.3	5.4	-12 bps	34 bps
NNPA (in %)	1.8	1.5	1.2	1.7	1.9	-9 bps	27 bps
PCR (%) (Excl. Technical Write-offs)	67.9	70.9	75.2	71.0	67.1	79 bps	-302 bps
PCR (%) (Incl. Technical Write-offs)	86.3	87.9	90.2	88.2	86.3	-	-153 bps
Balance Sheet Details (Rs mn)	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21	YoY (%)	QoQ (%)
Net Advances	24,319,081	24,494,978	23,681,391	22,939,012	22,983,462	5.8	-0.7
Savings Deposits	14,308,810	13,700,820	13,358,610	13,149,500	12,943,840	10.5	4.4
Current Deposits	2,283,530	2,768,920	2,105,630	2,120,570	2,043,340	11.8	-17.5
CASA Deposits	16,592,340	16,469,740	15,464,240	15,270,070	14,987,180	10.7	0.7
Term Deposits	19,501,070	19,231,910	18,783,910	18,371,280	18,068,400	7.9	1.4
Total Deposits	37,209,870	36,812,771	35,357,534	34,704,617	34,193,628	8.8	1.1
CASA (%)	44.6	44.7	43.7	44.0	43.8	76 bps	-15 bps

Source: Company, Systematix Institutional Research

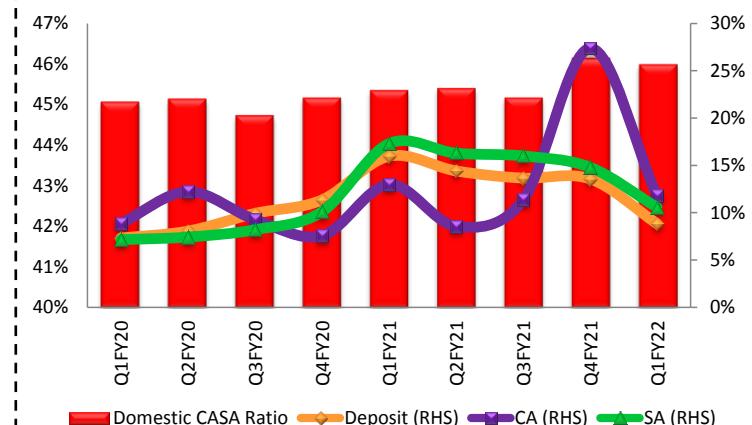
Exhibit 2: Quarterly Du-Pont

Du-Pont (%)	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21
Total interest income earned	5.8	5.9	6.3	6.5	6.6
Other income	1.0	1.5	0.9	0.8	0.8
Commission, Exchange & Brokerage	0.5	0.8	0.5	0.5	0.4
Profit on sale of investment	0.2	0.0	0.1	0.1	0.4
Miscellaneous other income	0.4	0.7	0.3	0.2	-0.1
Total Income	3.5	3.9	3.6	3.5	3.4
Total interest expenses	3.3	3.4	3.6	3.7	4.0
NII	2.4	2.4	2.7	2.7	2.6
Total operating expenses	1.8	2.1	1.9	2.0	1.8
Operating Profit	1.7	1.8	1.6	1.6	1.6
Provisions & Cont. and Taxes	0.7	0.8	0.8	0.8	1.1
Provision for NPAs	0.4	0.9	0.2	0.5	0.9
Profit before Tax	1.0	1.0	0.8	0.8	0.7
Provision for income tax	0.2	0.2	0.2	0.2	0.1
Net Profit (RoAA)	0.8	0.8	0.7	0.6	0.6

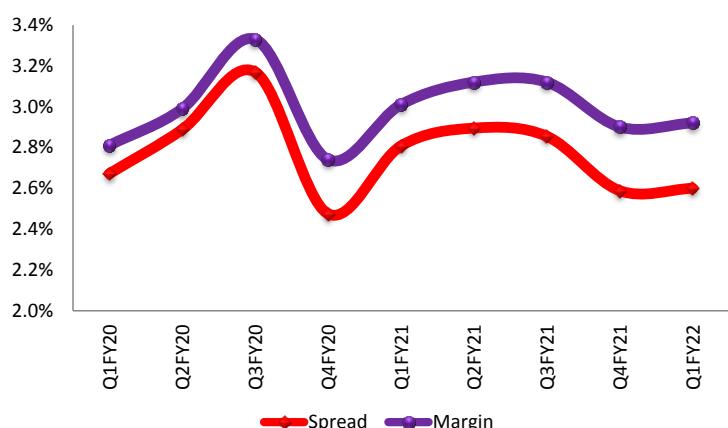
Source: Company, Systematix Institutional Research

Exhibit 3: Traction in overseas credit

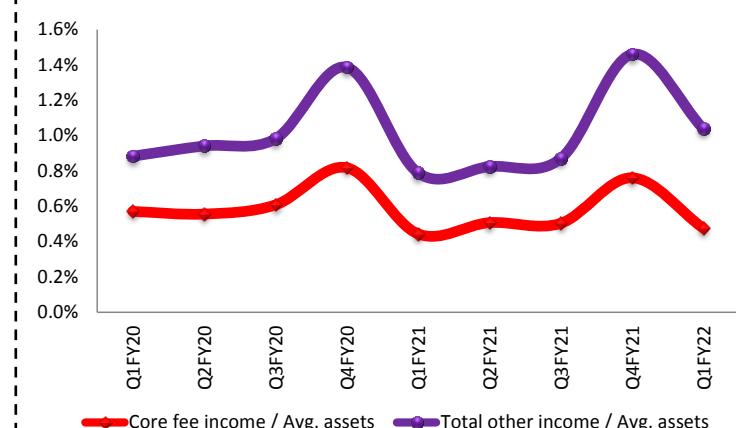
Source: Company, Systematix Institutional Research

Exhibit 4: CASA growth moderating

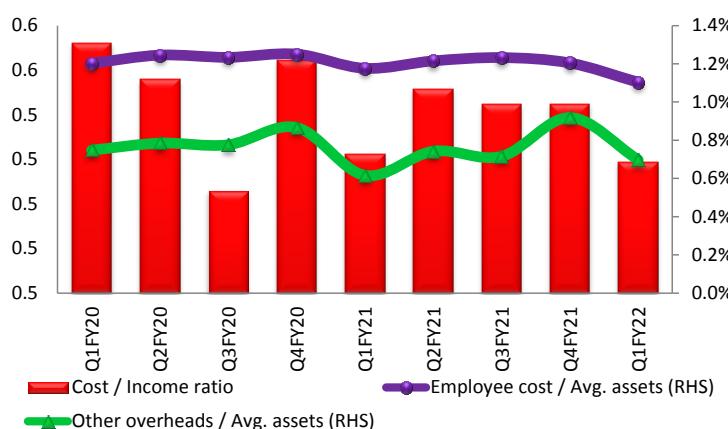
Source: Company, Systematix Institutional Research

Exhibit 5: Margins largely stable

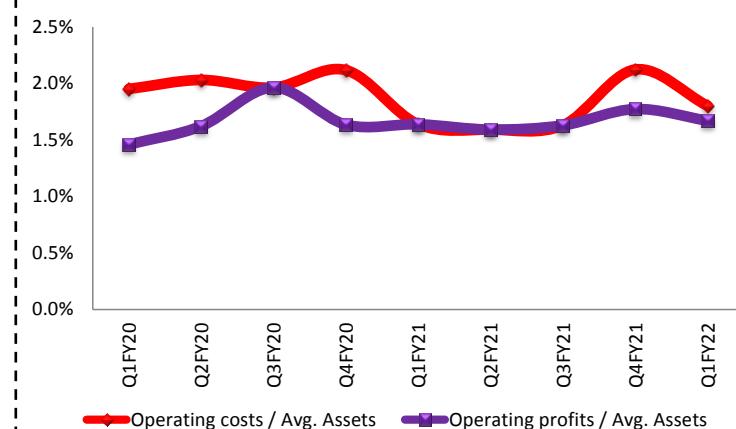
Source: Company, Systematix Institutional Research

Exhibit 6: Recovery in written-off accounts leads to higher non-interest income

Source: Company, Systematix Institutional Research

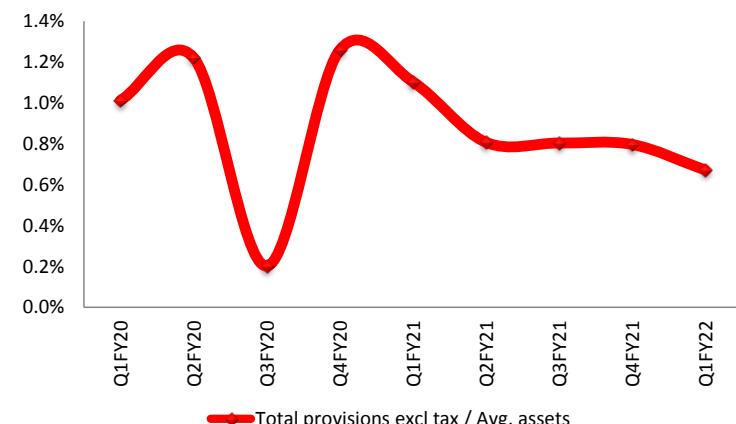
Exhibit 7: Other overheads likely to remain elevated

Source: Company, Systematix Institutional Research

Exhibit 8: Operating profits/average assets largely stable

Source: Company, Systematix Institutional Research

Exhibit 9: Provisions remain elevated due to provisions towards restructured/non-fund based accounts



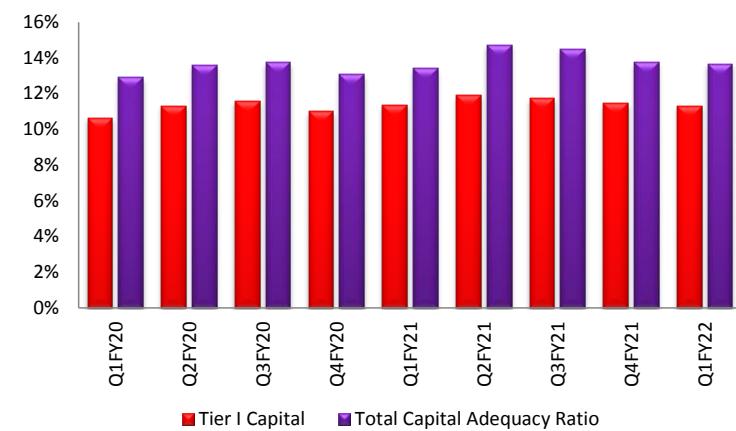
Source: Company, Systematix Institutional Research

Exhibit 10: Return ratios remain stable



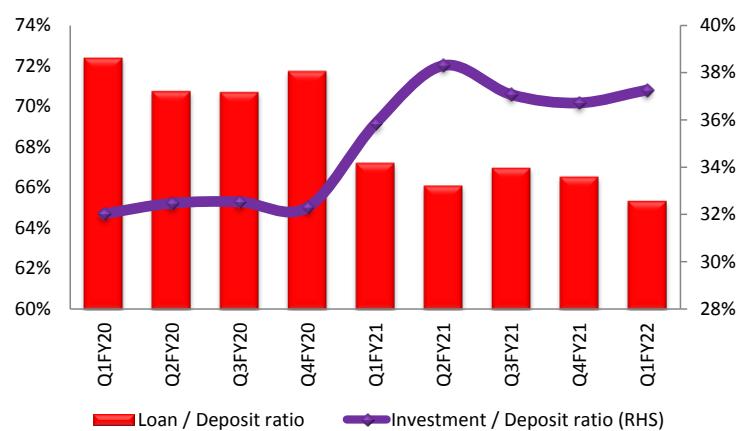
Source: Company, Systematix Institutional Research

Exhibit 11: Capital position remains strong



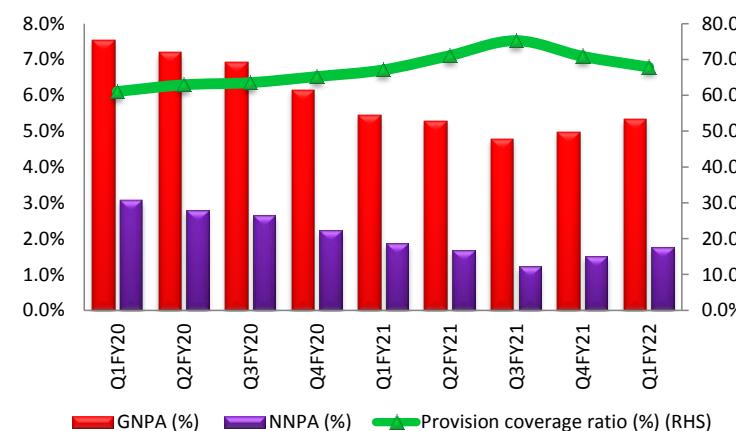
Source: Company, Systematix Institutional Research

Exhibit 12: Decline in loan/deposits ratio impacts margins



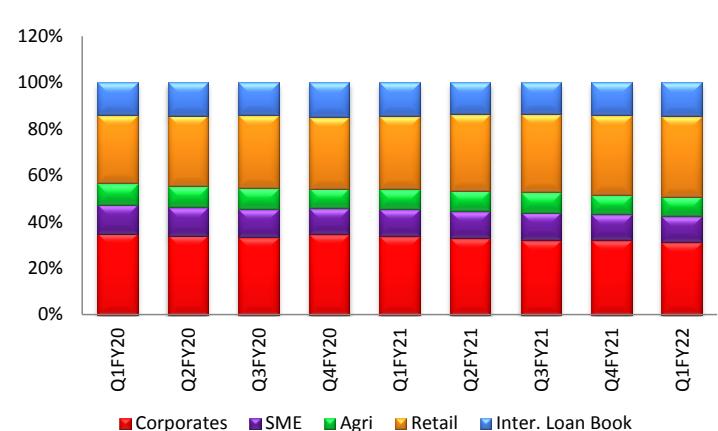
Source: Company, Systematix Institutional Research

Exhibit 13: Asset quality deteriorates marginally on a QoQ basis



Source: Company, Systematix Institutional Research

Exhibit 14: The share of retail credit increasing



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs bn)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	2,429	2,573	2,652	2,822	3,031
Interest Expenses	1,545	1,592	1,544	1,543	1,661
Net Interest Income	883	981	1,107	1,279	1,370
Change (%)	18.0	11.0	12.9	15.5	7.1
Commission, Ex. & Br. Inc.	233	237	235	263	298
Add: Other income	135	215	200	203	223
Net Income	1,251	1,433	1,542	1,745	1,891
Change (%)	4.7	14.5	7.6	13.2	8.3
Operating Expenses	697	752	827	867	920
Operating Profit	554	681	716	879	971
Change (%)	(6.8)	22.9	5.0	22.8	10.5
Provisions	538	431	440	323	311
PBT	16	251	275	555	660
Tax	7	106	71	142	168
Tax Rate (%)	46.4	42.2	25.9	25.5	25.5
PAT	9	145	204	414	491
Change (%)	(113.2)	1,580.5	40.9	102.7	18.8
Proposed Dividend	-	-	36	74	88

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY19	FY20	FY21	FY22E	FY23E
Capital	9	9	9	9	9
Reserves & Surplus	2,200	2,311	2,530	2,869	3,272
Net Worth	2,209	2,320	2,539	2,878	3,281
Change (%)	0.8	5.0	9.4	13.4	14.0
Deposits	29,114	32,416	36,813	40,589	44,783
Change (%)	7.6	11.3	13.6	10.3	10.3
CASA Ratio (%)	45	44	45	45	45
Borrowings	4,030	3,147	4,173	4,251	4,348
Other Liabilities	1,456	1,631	1,820	2,075	2,365
Total Liabilities	36,809	39,514	45,344	49,792	54,777
Change (%)	6.5	7.3	14.8	9.8	10.0
Investments	9,670	10,470	13,517	15,004	16,354
Cash & Bank balance	2,225	2,511	3,430	3,720	3,915
Loans	21,859	23,253	24,495	26,551	29,222
Change (%)	13.0	6.4	5.3	8.4	10.1
Fixed Assets	392	384	384	377	368
Other Assets	2,663	2,896	3,518	4,141	4,918
Total Assets	36,809	39,514	45,344	49,792	54,777

Source: Company, Systematix Institutional Research

Dupont

YE: Mar (%)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	6.8	6.7	6.2	5.9	5.8
Interest Expended	4.3	4.2	3.6	3.2	3.2
Net Interest Income	2.5	2.6	2.6	2.7	2.6
Commission, Ex. & Br. Inc.	0.7	0.6	0.6	0.6	0.6
Other Fee Income	0.1	0.3	0.3	0.3	0.3
Net Operating Income	3.2	3.5	3.5	3.6	3.5
Profit on sale of investment	0.0	0.2	0.1	0.1	0.1
Net Income	3.3	3.8	3.6	3.7	3.6
Operating Expenses	2.0	2.0	1.9	1.8	1.8
Operating Income	1.3	1.8	1.7	1.8	1.9
Provisions	1.5	1.1	1.0	0.7	0.6
PBT	0.0	0.7	0.6	1.2	1.3
Tax	0.0	0.28	0.17	0.30	0.32
PAT	0.0	0.4	0.5	0.9	0.9
Leverage	18	19	19	19	18
RoE	0.4	7.2	9.3	16.7	17.2

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
Spreads Analysis (%)					
Yield on Advances	7.8	8.2	7.3	6.9	6.6
Yield on Earning Assets	7.4	7.4	6.8	6.5	6.4
Cost of Deposits	5.0	4.8	4.1	3.7	3.6
Cost of Funds	4.8	4.6	4.0	3.6	3.5
NIM	2.7	2.8	2.9	2.9	2.9
Profitability Ratios (%)					
Cost/Income	55.7	52.5	53.6	49.7	48.7
PPOP / Avg. assets	1.6	1.8	1.7	1.8	1.9
RoE	0.4	7.2	9.3	16.7	17.2
RoA	0.0	0.4	0.5	0.9	0.9
Asset Quality (%)					
GNPA (Rs bn)	1,728	1,491	1,264	1,144	1,149
NNPA (Rs bn)	659	519	368	255	238
GNPA	7.5	6.2	5.0	4.2	3.8
NNPA	3.0	2.2	1.5	1.0	0.8
PCR					
Capitalisation (%)					
CAR	12.7	13.1	13.7	13.3	13.5
Tier I	10.7	11.0	11.4	11.8	12.1
Tier II	2.1	2.1	2.3	1.5	1.4
Average Leverage on Assets (x)	18.3	18.9	19.4	19.2	18.3
Valuations					
Book Value (Rs)	216	232	256	297	344
Adj. Book Value (Rs)	180	200	227	276	324
Price-BV (x)	2.1	2.0	1.8	1.5	1.3
Price-Adj. BV (x)	2.5	2.3	2.0	1.7	1.4
EPS (Rs)	1.0	16.2	22.9	46.4	55.1
EPS Growth (%)	(112.6)	1,573.6	40.9	102.7	18.8
Price-Earnings (x)	471.1	28.2	20.0	9.9	8.3
Dividend (Rs)	-	-	4.0	8.3	9.9
Dividend Yield (%)	-	-	1.1	2.4	2.8

Source: Company, Systematix Institutional Research

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