

Industry	Financial
Bloomberg	SBIN IN
BSE CODE	500112

One off gain from stake sale boosted the profitability

RATING	BUY
CMP	282
Price Target	360
Potential Upside	28%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	373/244
Mkt Capital (Rs Cr)	251,317
Free float (%)	43%
Avg. Vol 1M (,000)	41,314
No. of Shares (Cr)	892
Promoters Pledged %	

Fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
NII	88350	98304	107676
PPP	55437	75015	76022
PAT	863	23747	27097
NIM %	2.7	2.8	2.8
EPS (Rs)	1	27	30
EPS growth	-113	2652	14
ROE (%)	0	9	11
ROA (%)	0.0	0.5	0.6
BV	248	274	299
P/B (X)	1.3	1.0	0.9
P/E (x)	331	11	9

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2QFY20 Result Update

- ❑ SBI reported healthy result during the quarter, PAT grew by 219% YoY majorly on account of Rs 3484 Cr gain from the sale of stake in SBI life. NII during the quarter rose by 18% YoY with Domestic NIM standing at 3.22% v/s 2.88% in Q2FY19.
- ❑ The slippages during the quarter were Rs 9126 Cr v/s Rs 16995 Cr in Q1FY20. The GNPA ratio stood at 7.19% v/s 7.53% in Q1FY20 while the NNPA stood at 2.79% v/s 3.07% in Q1FY20. Bank raised the provisions during the quarter Rs 13139 Cr rising 9% YoY. Banks PCR at the end of the quarter stood at 81%.
- ❑ Advance growth during the quarter was meagre at 10%/1% on QoQ/YoY basis with corporate book growing by 4% YoY while the retail book grew by 18% YoY. Deposits grew by 8% YoY.

Healthy NII growth

NII grew by 18% YoY backed by improvement in NIM. Domestic NIM stands at 3.22% v/s 2.88% in Q2FY19. The yield on advance stood at 8.69% v/s 8.43% in Q2FY19 while the Cost of deposits reduced to 5.02% v/s 5.10% in Q2FY19.

Cost to income ratio during the quarter stood at Rs 55.6% v/s the 57.2% in Q1FY20. The operating expense increased by 12.5% YoY with other expenses growing by 7% YoY and employee expense increasing by 17% YoY.

Moderation in advance growth

Advance growth during the quarter moderated at 10%/1% on QoQ/YoY basis with corporate book growing by 4% YoY while the retail book grew by 18% YoY. The Domestic advances growth during the quarter was 8% YoY while the overseas advances grew by 10% YoY. On the retail side the Xpress credit book grew by 42%/7% on YoY/QoQ basis while the home loan book grew by 18%/5% on YoY/QoQ basis. The deposits during the quarter grew by 8%/3% on YoY/QoQ basis while the CASA ratio stood at 43.72% with CA growing 12% YoY and SA growing 7% YoY.

Improvement in asset Quality

The asset quality during the quarter improved with GNPA at 7.19% v/s 7.53% in Q1FY20 while the NNPA stood at 2.79% v/s 3.07% in Q1FY20. Slippages during the quarter were Rs 9126 Cr v/s 16995 Cr in Q2FY20. The slippages from corporate stood at Rs 3239 Cr while the agri slippages stood at Rs 3078 Cr, the recovery and upgradations were Rs 3931 Cr and the write off were Rs. Banks PCR with AUCA stood at 81% v/s 79% in Q1FY20. SMA1 during the quarter stood at Rs 4957 Cr v/s 7185 Cr in Q1FY20 while the SMA 2 book stood at Rs 4355 Cr v/s Rs 3104 Cr in Q1FY20. Banks funded exposure towards telecom sector is Rs 35735 Cr out of which Rs 26408 Cr is standard and Rs 9327 Cr is NPA while the Power sector funded exposure is Rs 197613 Cr out of which Rs 173142 is standard and rest is NPA.

View and valuation

Assets quality continued on the path of improvement as slippages remained benign during the quarter. Exposure towards DHFL is likely to slip in 3Q and due to negative news around this, we believe bank will require more provisions on the exposure. Further higher exposure and uncertainty towards telecommunication sector is also developing the stress. SBIN is continuously performing well on the operating parameter. Domestic retail growth has been robust with significant improvement in margin. Bank didn't opt for lower tax regime mainly on account of DTA. Bank is sitting on provisions write back of around Rs 15000 Cr, but delay in resolution process of IBC cases is providing uncertainty towards income recovery. We increase our credit cost estimate and align the tax rate and reduce the FY20 estimate by 14%. We maintain BUY with the target price of Rs 360 at 1.2x BV FY21e.

Key Risks to our rating and target

- ❑ Materialization of latest stressed addition.
- ❑ Delay in Resolutions

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**2QFY20 Results
PAT INLINE With Estimates**

<i>Financials</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>1QFY20</i>	<i>2QFY20</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY18</i>	<i>FY19</i>	<i>fig in Rs cr</i>
										<i>YoY %</i>
<i>Interest Inc.</i>	58,793	62,277	62,985	62,638	64,312	9.4%	2.7%	220499	242869	10.1%
<i>Interest Exp.</i>	37,888	39,586	40,032	39,699	39,712	4.8%	0.0%	145645	154519	6.1%
<i>NII</i>	20,906	22,691	22,954	22,939	24,600	17.7%	7.2%	74854	88350	18.0%
<i>Other Income</i>	9,375	8,035	12,685	8,015	8,538	-8.9%	6.5%	44601	36775	-17.5%
<i>Total Income</i>	30,281	30,726	35,639	30,954	33,139	9.4%	7.1%	119455	125125	4.7%
<i>Ope Exp.</i>	16,376	18,101	18,706	17,708	18,424	12.5%	4.0%	59944	69688	16.3%
<i>PPP</i>	13,905	12,625	16,933	13,246	14,714	5.8%	11.1%	59511	55437	-6.8%
<i>Provisions</i>	12,092	6,006	16,502	9,183	13,139	8.7%	43.1%	75039	53829	-28.3%
<i>PBT</i>	1812.63	6618.73	431	4,063	5,060	179.1%	24.5%	-15528	1608	LTP
<i>Tax</i>	868	2,664	(407)	1,751	2,048	136.0%	17.0%	-8981	745	NA
<i>Net Profit</i>	945	3,955	838	2,312	3,012	218.8%	30.3%	-6547	863	LTP

Webcast Highlights:

- Management said that the gains from the sale of subsidiary has been used for up fronting of certain provisions out of which one was case of failed restructuring where bank has made provision on both funded outstanding as well as standby letter of credit and in case of one stressed NBFC bank has provided for Rs 900 Cr of provisions and provision on that account is around 20%.
- On the advances front management said corporate growth was muted as working capital utilization in book is around 30-32% however management expects better growth going forward.
- Management said that credit cost for the company in the worst case scenario can be 2% for FY20.
- Funded exposure to telecom is Rs 35735 Cr and Non funded exposure is around 18000 Cr. Provision on standard telecom assets is not much.
- On the tax rate management said they will take a call whether they need to migrate to new tax norms by the year end. The DTA number outstanding is around Rs 7000 Cr.
- On the NIM front management said that there is still room for improvement from the current levels .
- Management said cost to income ratio improvement would be will come from enhanced income
- The Mudra loan outstanding is around Rs 26000 Cr and GNPA is around Rs 4000 Cr.
- Management expects agri slippages to reduce from current levels going forward.
- The increase in the CET number was because of reduction in risk weighted asset and also of DTA reversal and Rbi has reduced risk weight of consumer credit from 125% to 100%.
- Management does not expect default from telecom sector immediately but said that is the sector that has to be kept an eye.
- Management said it is consistently working towards target of Roa of 1% which would depend on 1) ability to maintain momentum around improvement in operating income and 2) Controlling credit cost.
- The SBI cards is expected to list in January 2020.

Profitability Matrix

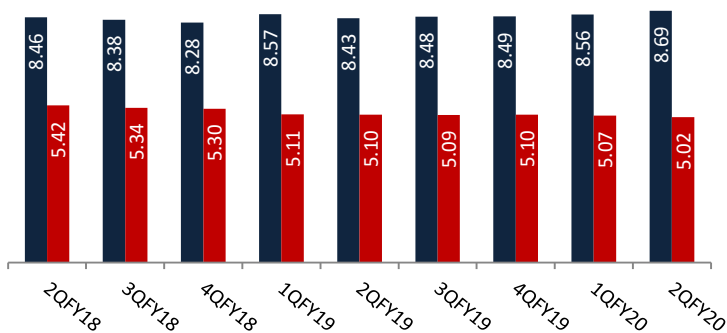
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	51.1	58.0	54.1	58.9	52.5	57.2	55.6	1.52	-1.61
Empl. Cost/ Tot. Exp. %	55.8	58.8	59.2	61.7	56.0	61.7	61.3	2.14	-0.31
Other Exp/Tot. Exp.%	44.2	41.2	40.8	38.3	44.0	38.3	38.7	-2.14	0.31
Provision/PPP %	176.9	160.6	87.0	47.6	97.5	69.3	89.3	2.33	19.97
Tax /PBT %	36.8	32.8	47.9	40.2	(94.4)	43.1	40.5	-7.40	-2.62
Int Exp./Int Inc. (%)	64.3	62.9	64.4	63.6	63.6	63.4	61.7	-2.69	-1.63
Other Inc./Net Inc. %	38.5	23.5	31.0	26.2	35.6	25.9	25.8	-5.19	-0.13
PAT/ Net Income %	(23.8)	(17.1)	3.1	12.9	2.4	7.5	9.1	5.97	1.62
PAT Growth %	(374.2)	(343.1)	(40.3)	(263.7)	110.9	147.4	(218.8)	-178.47	-366.18
NII Growth % (YoY)	10.5	23.8	12.5	21.4	14.9	5.2	17.7	5.19	12.44
Operating Profit Growth	(0.9)	0.8	(30.5)	7.4	6.6	10.6	5.8	36.30	-4.81

Margin Performance

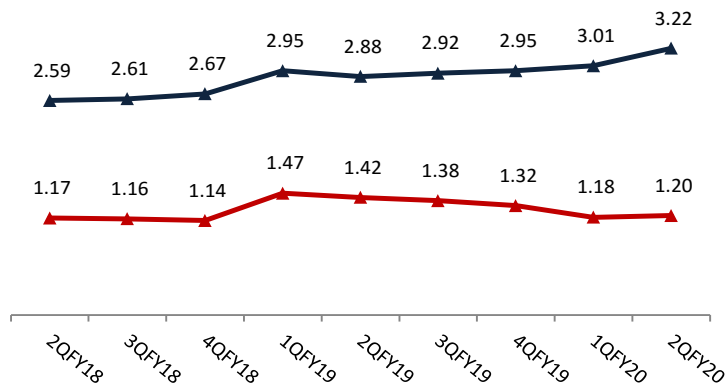
Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	8.28	8.57	8.43	8.48	8.49	8.56	8.69	0.26	0.13
Yield on Total Assets (Cal.)	7.45	7.69	7.52	7.88	7.72	7.58	7.65	0.13	0.07
Cost of Fund	4.71	4.87	4.89	4.94	4.88	4.87	4.85	-0.04	-0.02
Cost of Deposits	5.30	5.11	5.10	5.09	5.10	5.07	5.02	-0.08	-0.05
Dom. NIM	2.67	2.95	2.88	2.92	2.95	3.01	3.22	0.34	0.21
Whole NIM	2.50	2.80	2.73	2.76	2.78	2.81	2.90	0.17	0.09
Foreign NIM	1.14	1.47	1.42	1.38	1.32	1.18	1.20	-0.22	0.02

Exhibit: Yield and Cost
Rise in yield & decline in cost

■ Yield on Advances% ■ Cost of Deposits%


Exhibit: Net Interest Margin
NIM on improving trend.

— Domestic Merged NIM% — Foreign NIM%


Other Income Break Up- Marginal in fee income.

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Loan Processing Charges	637	627	1360	641	641	926	1502	617	766
Commission on Govt.	785	840	1003	931	973	953	1118	963	893
Commission on LC/BG	446	618	636	592	637	600	1289	704	717
Transaction Fees	0	0	3592	1482	1523	0	0	0	0
Cross Sell/Commission on	378	408	557	376	482	486	583	366	491
Misc Fee Income	3111	2486	883	143	291	413	600	678	448
Locker Rent, POS, CMP etc.	0	0	400	812	470	0	0	0	0
Account Maintenance		701	890	321	276	253	484	242	255
Remittance, Collection etc.		1227	2702	1162	1245	1093	3013	1606	1470
Total Fee Income	5357	4979	8431	4977	5015	4724	8589	5176	5040

Exhibit: Fee Income/Advances %

Fee income as a % of total advances declined.

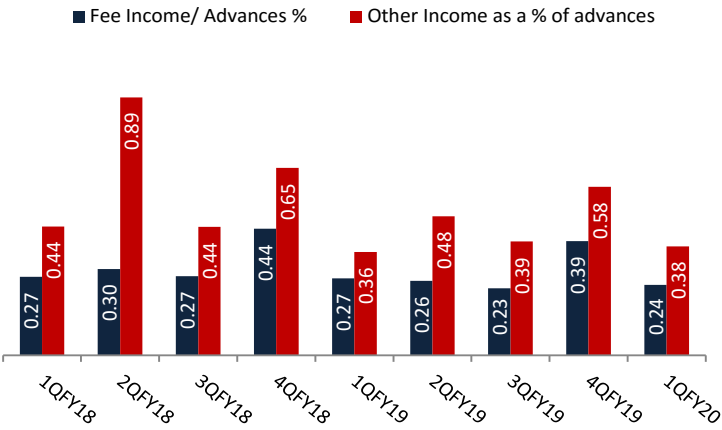
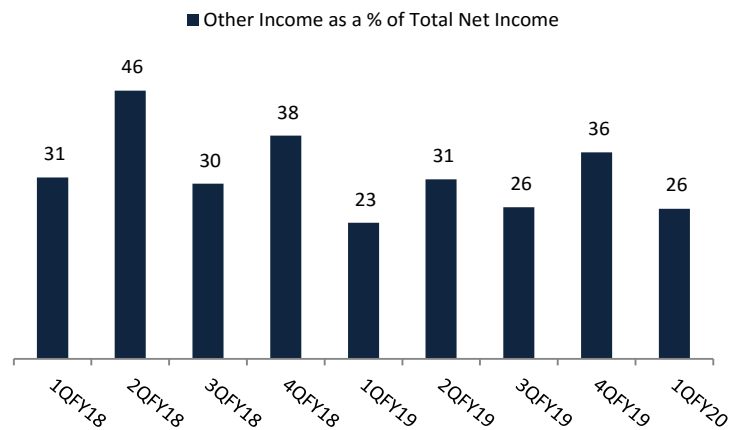


Exhibit: Other Income/ Total Income %

Growth in other income shrunk



Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	Q2FY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	223427	212840	205863	187764	172750	168494	161636	-21%	-4%
GNPA %	10.9	10.7	10.0	8.7	7.5	7.5	7.2	-2.76	-0.34
NNPA (Rs in Cr)	110855	99236	94810	80944	65895	65624	59939	-37%	-9%
NNPA %	5.7	5.3	4.8	4.0	3.0	3.1	2.8	-2.05	-0.28
Slippages (Rs in Cr)	32,821	14,349	10,888	6,541	7,961	16,995	9,126	-16%	-46%
PCR %	66.2	69.3	70.7	74.6	78.7	78.7	81.2	10.49	2.50

Exhibit: Asset Quality

Assets quality improved.

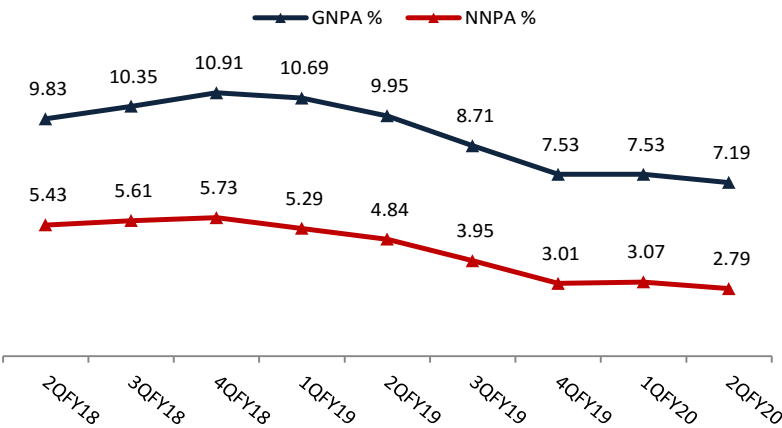


Exhibit: Provisions

PCR trending upwards.

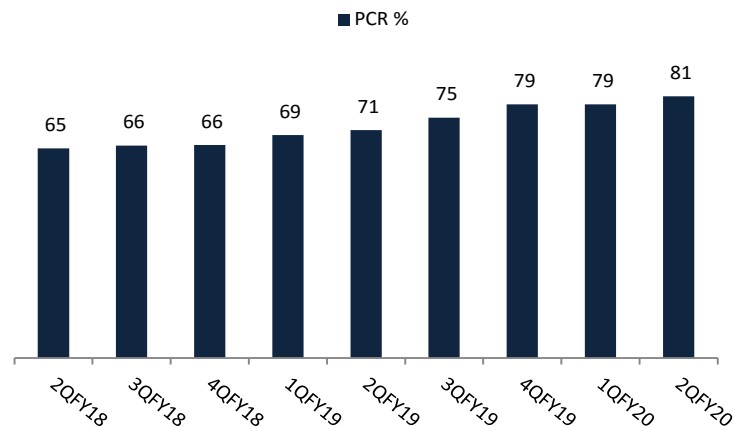


Exhibit: Advances Performance

Advances growth moderated

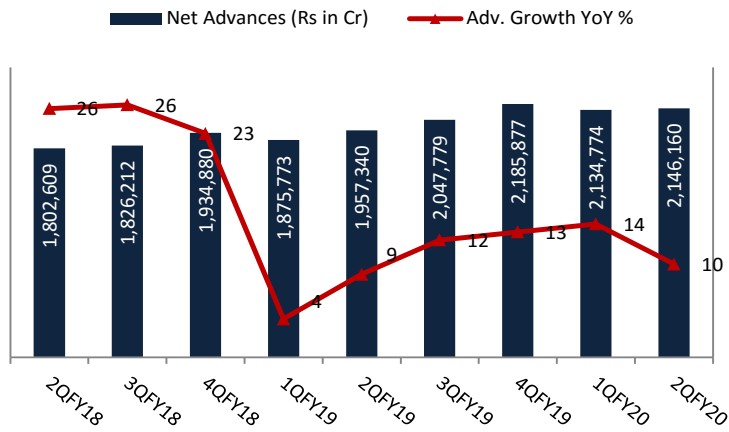


Exhibit: Domestic Advances Breakup%

Contribution of retail increasing

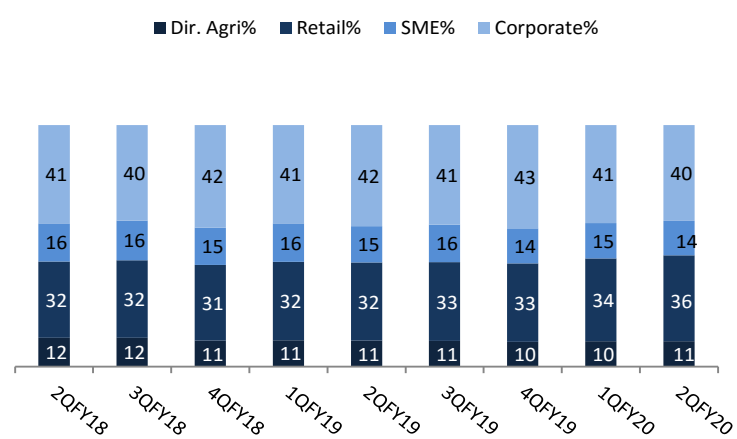


Exhibit: Deposits Performance

Steady deposit growth

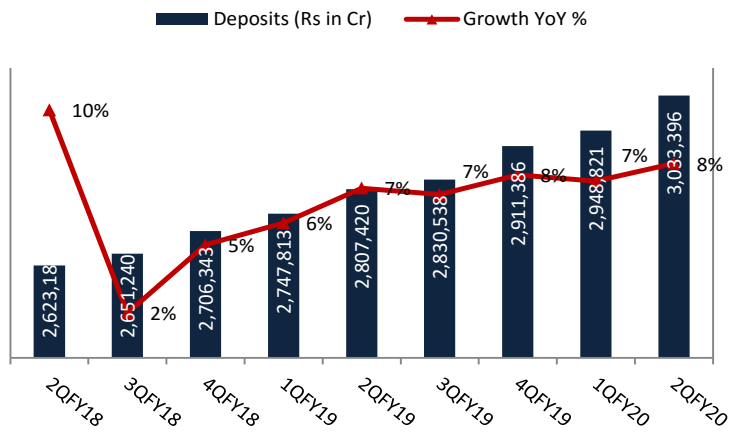


Exhibit: CASA Performance

Stable CASA

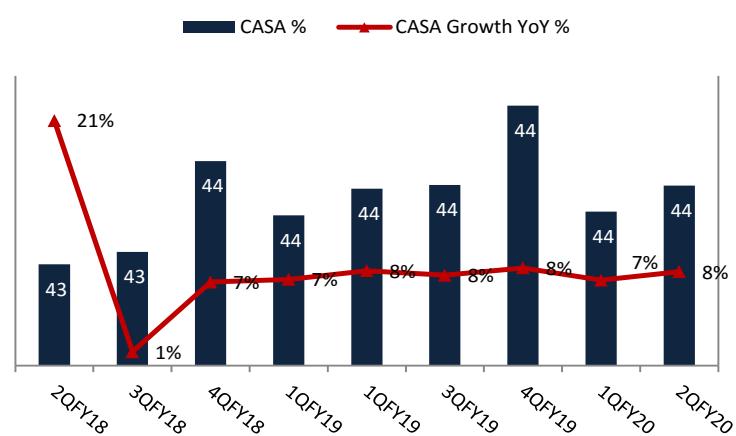


Exhibit: Credit Deposit Ratio

CD ratio moved down.

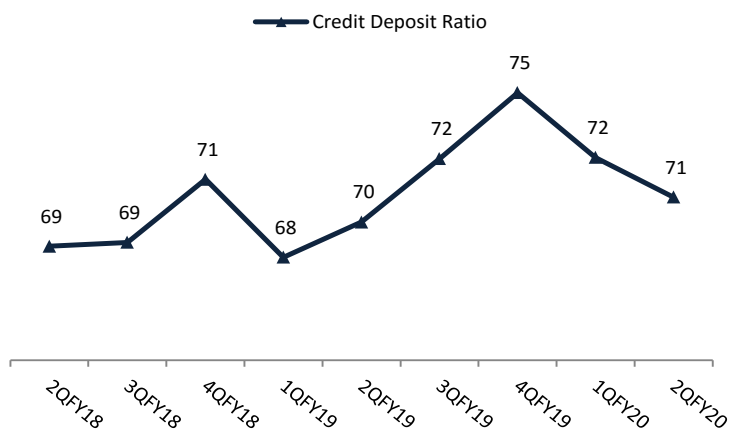
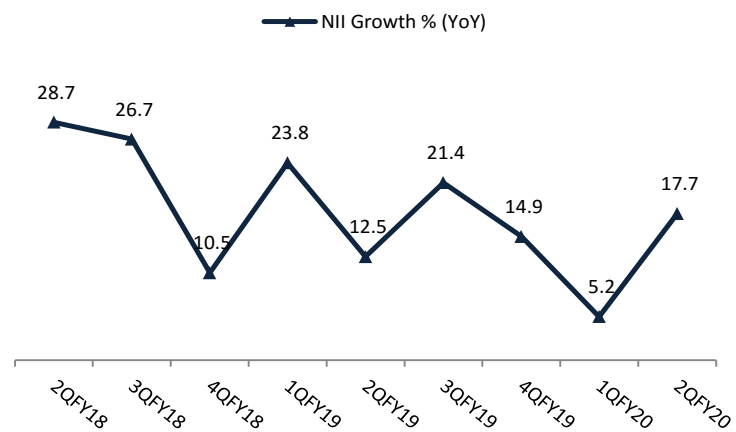


Exhibit: NII Growth

Healthy NII growth



Financial Details
Balance Sheet

fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	747	747	776	797	892	892	892	892
>> Equity Capital	747	747	776	797	892	892	892	892
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	117536	127692	143498	187489	218236	220021	243768	265511
Networth	118282	128438	144274	188286	219128	220914	244661	266403
Deposits	1394409	1576793	1730722	2044751	2706343	2911386	3308354	3655952
Change (%)	15.9	13.1	9.8	18.1	32.4	7.6	13.6	10.5
>> CASA Deposits	580197	637760	717332	890409	1187294	1287285	1456338	1609350
Change (%)	10.4	9.9	12.5	24.1	33.3	8.4	13.1	10.5
Borrowings	183131	205150	323345	317694	362142	403017	309662	345487
Other Liabilities & Prov.	96927	137698	159276	155235	167138	145597	159055	166180
Total Liabilities	1792748	2048080	2357617	2705966	3454751	3680914	4021732	4434022
Cash & Bank	132550	174861	167468	171971	191898	222490	287802	303145
Investments	398800	495027	575652	765990	1060987	967022	992506	1096786
Change (%)	13.7	24.1	16.3	33.1	38.5	-8.9	2.6	10.5
Advances	1209829	1300026	1463700	1571078	1934880	2185877	2448182	2741964
Change (%)	15.7	7.5	12.6	7.3	23.2	13.0	12.0	12.0
Fixed Assets	8002	9329	10389	42919	39992	39198	39982	40781
Other Assets	43568	68836	140408	154008	226994	266328	253260	251347
Total Assets	1792748	2048080	2357617	2705966	3454751	3680914	4021732	4434022

Income Statement

fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	136351	152397	163685	175518	220499	242869	256630	274792
Interest expended	87069	97382	106803	113658	145645	154519	158326	167116
Net Interest Income	49282	55015	56882	61860	74854	88350	98304	107676
Change (%)	11.2	11.6	3.4	8.8	21.0	18.0	11.3	9.5
Other Income	18553	22576	28158	35461	44601	36775	47657	42065
Change (%)	15.7	21.7	24.7	25.9	25.8	-17.5	29.6	-11.7
>> Core Fee Income	12611	14139	15658	17803	23636	23305	24906	27159
>> Treasury Income	2077	3618	5017	10749	12303	1023	6330	5422
>> Others	3865	4819	7483	6909	8662	12447	16422	9484
Total Net Income	67835	77591	85041	97321	119455	125125	145961	149740
Operating Expenses	35726	38678	41782	46473	59944	69688	70947	73718
Change (%)	22.0	8.3	8.0	11.2	29.0	16.3	1.8	3.9
>> Employee Expenses	22504	23537	25114	26489	33179	41055	42558	40430
Pre-provisioning Profit	32109	38913	43258	50848	59511	55437	75015	76022
Change (%)	3.3	21.2	11.2	17.5	17.0	-6.8	35.3	1.3
Provisions	15935	19600	29484	35992	75039	53829	41033	39650
Change (%)	43.2	23.0	50.4	22.1	108.5	-28.3	-23.8	-3.4
PBT	16174	19314	13775	14856	-15528	1608	37466	36372
Tax	5283	6212	3823	4371	-8981	745	13719	9275
Profit After Tax	10891	13102	9951	10485	-6547	863	23747	27097
Change (%)	-22.8	20.3	-24.0	5.4	-162.4	-113.2	2651.6	14.1

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics	16	7	13	7	23	13	12	12
Loan Growth (%)	16	13	10	18	32	8	14	11
Deposit Growth (%)	87	82	85	77	71	75	74	75
C/D Ratio (%)	41.6	40.4	41.4	43.5	43.9	44.2	44.0	44.0
CASA (%)	28.6	31.4	33.3	37.5	39.2	33.2	30.0	30.0
Investment/Deposit (%)	12.4	12.0	13.1	13.1	12.6	12.7	11.6	11.3
CRAR (%)	9.7	9.6	9.9	10.4	10.4	10.7	9.3	9.2
>> Tier 1 (%)	2.7	2.4	3.2	2.8	2.2	2.1	2.3	2.1
>> Tier 2 (%)								

Assets Quality Metrics

Gross NPA (Rs)	61,605	56,725	98,173	112,343	223,427	172,750	164,612	158,685
Gross NPA (%)	5.0	4.3	6.5	6.9	10.9	7.5	6.5	5.6
Net NPA (Rs)	31,096	27,591	55,807	58,277	110,855	65,895	62,810	60,902
Net NPA (%)	2.6	2.1	3.8	3.7	5.7	3.0	2.6	2.2
Slippages (%)	4	2	5	3	7	2	3	2
Provision Coverage (%)	63	69	61	66	66	79	77	77
Provision/Average Advances (%)	1.4	1.6	2.1	2.4	4.3	2.6	1.8	1.5

Margin Metrics

Yield On Advances (%)	9.1	9.0	8.4	7.9	8.1	7.8	7.8	7.8
Yield On Investment (%)	-	-	-	-	-	-	-	-
Yield on Earning Assets (%)	8.5	8.3	7.8	7.4	7.7	7.3	7.2	7.0
Cost Of Deposits (%)	6.0	6.0	6.0	5.6	5.7	5.0	4.7	4.5
Cost Of Funds (%)	5.7	5.6	5.5	5.1	5.2	4.7	4.5	4.3
Spread (%)	2.8	2.7	2.3	2.3	2.5	2.6	2.7	2.7
NIM (%)	3.1	3.0	2.7	2.6	2.6	2.7	2.8	2.8

Profitability & Efficiency Metrics

Int. Expense/Int. Income (%)	63.9	63.9	65.2	64.8	66.1	63.6	61.7	60.8
Fee Income/NII (%)	25.6	25.7	27.5	28.8	31.6	26.4	25.3	25.2
Cost to Income (%)	52.7	49.8	49.1	47.8	50.2	55.7	48.6	49.2
Cost on Average Assets (%)	2.1	2.0	1.9	1.8	1.9	2.0	1.8	1.7
Tax Rate (%)	32.7	32.2	27.8	29.4	57.8	46.3	36.6	25.5

Valuation Ratio Metrics

EPS (Rs)	14.6	17.5	12.8	13.2	(7.3)	1.0	26.6	30.4
Change (%)	(29.3)	20.3	(27.0)	2.6	(155.8)	(113)	2651.63	14.1
ROAE (%)	10.0	10.6	7.3	6.3	(3.2)	0.4	8.7	10.6
ROAA (%)	0.6	0.7	0.5	0.4	(0.2)	0.0	0.5	0.6
Dividend Payout (%)	20.6	19.9	20.3	19.8	-	-	18.8	19.8
Dividend yield (%)	1.6	1.3	1.3	0.9	-	-	1.8	2.1
Book Value (Rs)	158.4	172.0	185.9	236.2	245.5	247.5	274.1	298.5
Change (%)	10	9	8	27	4	1	11	9
ABVPS (Rs)	116.8	135.1	114.0	123.5	93.5	145.9	175.9	202.4
P/B (X)	1.2	1.6	1.0	1.2	1.0	1.3	1.0	0.9
P/E (X)	13.1	15.2	15.2	22.2	(34.1)	330.9	10.6	9.3

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	7.9	7.4	6.9	7.2	6.8	6.7	6.5
<i>Interest expended</i>	5.1	4.8	4.5	4.7	4.3	4.1	4.0
<i>Net Interest Income</i>	2.9	2.6	2.4	2.4	2.5	2.6	2.5
<i>Non-Fund Based Income</i>	1.2	1.3	1.4	1.4	1.0	1.2	1.0
>> <i>Core Fee Income</i>	0.7	0.7	0.7	0.8	0.7	0.6	0.6
>> <i>Trading and Other Income</i>	0.4	0.6	0.7	0.7	0.4	0.6	0.4
<i>Core Operating Income</i>	3.6	3.3	3.1	3.2	3.1	3.2	3.2
<i>Total Income</i>	4.0	3.9	3.8	3.9	3.5	3.8	3.5
<i>Total Operating Expenses</i>	2.0	1.9	1.8	1.9	2.0	1.8	1.7
>> <i>Employee Expenses</i>	1.2	1.1	1.0	1.1	1.2	1.1	1.0
>> <i>Other Expenses</i>	0.8	0.8	0.8	0.9	0.8	0.7	0.8
<i>Operating Profit</i>	2.0	2.0	2.0	1.9	1.6	1.9	1.8
<i>Provisions</i>	1.0	1.3	1.4	2.4	1.5	1.1	0.9
<i>Others</i>	-	-	-	-	-	0.1	-
<i>PBT</i>	1.0	0.6	0.6	(0.5)	0.0	0.9	0.9
<i>Tax</i>	0.3	0.2	0.2	(0.3)	0.0	0.4	0.2
<i>PAT/RoAA</i>	0.7	0.5	0.4	(0.2)	0.0	0.5	0.6
<i>Equity Multiplier (x)</i>	15.6	16.2	15.2	15.1	16.2	16.5	16.5
<i>ROAE</i>	10.6	7.3	6.3	(3.2)	0.4	8.7	10.6

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