

# STATE BANK OF INDIA

**BUY**

22-May-17

INDUSTRY - **BANKING**  
BSE Code - **500112**  
NSE Code - **SBIN**  
NIFTY - **9427**

## Company Data

CMP	308
<b>Target Price</b>	<b>340</b>
Previous Target Price	
<b>Upside</b>	<b>10%</b>
Change from Previous	
52wk Range H/L	315/166
Mkt Capital (Rs Cr)	249905
Av. Volume (,000)	2224

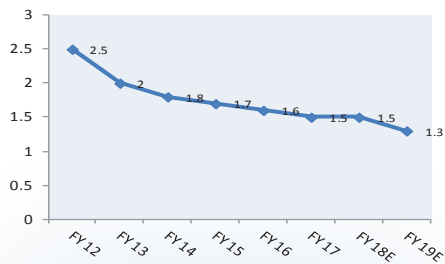
## Share Holding Pattern %

	4QFY17	3QFY17	2QFY17
Promoters	62.2	62.2	61.2
DII	18.8	19.7	19.6
FII	9.5	9.4	9.5
Others	9.6	8.7	9.7

## Key Highlights of the report:

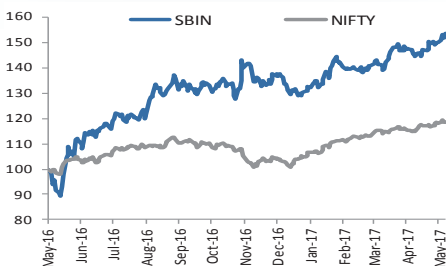
- ✓ Despite of challenging environment SBIN has been able to report the improved set of numbers in all parameters.
- ✓ Loan growth of 7.8% vs system growth of 5.1% signifies the continuous gain in market share.
- ✓ With the healthy PCR at 66%, relatively lower GNPA of 6.90% and healthy capitalization at 13.1%, SBIN remains one of the best large lenders among PSBs.
- ✓ With the bulk of stressed assets recognised, assets quality is on improving trend; however we have cautious view on merged entity.
- ✓ Strong liability franchise of CASA at 44% level will support the margins where as strong network coverage augurs well for the business growth.
- ✓ **SBIN is currently trading at 1.3x P/B FY19, we maintain our target price of Rs 340 and recommend BUY.**

## SBIN is trading at its low end of P/B



## Stock Performance %

	1Mn	1Yr	YTD
Absolute	9.2	71.0	26.5
Rel.to Nifty	3.4	19.8	15.3



**DEEPAK KUMAR**

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Financials/Valuation	FY15	FY16	FY17	FY18E	FY19E
NII	55015	56882	61859	68045	74849
PPP	38913	43258	50847	52545	56849
PAT	13102	9951	10484	11580	17721
NIM %	3.1	3.0	2.8	2.9	3.0
EPS (Rs)	17.5	12.8	13.1	14.5	22.2
EPS growth (%)	20.3	-27.0	2.6	10.5	53.0
ROE (%)	11.0	7.2	6.8	7.0	9.2
ROA (%)	0.7	0.6	0.4	0.4	0.5
BV	165	176	190	207	230
P/B (X)	1.7	1.6	1.5	1.5	1.3
P/E (x)	16.0	22.0	22.1	21.2	13.8

## Recent Development : Key Highlights of Result Update

- ✓ SBI posted the healthy set of performance in 4Q FY17. PAT grew by 123% backed by healthy NII growth of 18% YoY.
- ✓ Assets quality of SBI has shown the sign of improvement with GNPA ratio at 6.90% against 7.23% QoQ whereas NNPA improved to 3.71% from 4.24% on sequential basis.
- ✓ Gross advances grew by 7.8% YoY which was more than the credit growth of 5.1% of the industry
- ✓ CASA increased by 24% YoY backed by healthy growth in saving deposits which grew by 27.8%
- ✓ Merged entity will be come under the list of top 50 banks globally with 2nd largest physical network presence.

### Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Interest Inc.	42,831	41,594	42,319	43,926	47,393	10.6%	7.9%	1,63,685	1,75,231	7.1%
Interest Exp.	27,541	27,281	27,881	29,174	29,322	6.5%	0.5%	1,06,803	1,13,658	6.4%
NII	15,290	14,313	14,438	14,752	18,071	18.2%	22.5%	56,882	61,573	8.2%
Other Income	10,696	7,335	8,424	9,662	10,328	-3.4%	6.9%	28,158	35,749	27.0%
Total Income	25,986	21,648	22,862	24,414	28,398	9.3%	16.3%	85,040	97,321	14.4%
Ope Exp.	11,794	10,594	11,637	11,870	12,372	4.9%	4.2%	41,782	46,473	11.2%
PPP	14,191	11,054	11,225	12,543	16,026	12.9%	27.8%	43,258	50,849	17.5%
Provisions	13,174	7,413	7,897	8,943	11,740	-10.9%	31.3%	29,484	35,993	22.1%
PBT	1,017	3,641	3,328	3,600	4,286	321.3%	19.0%	13,774	14,856	7.9%
Tax	(246)	1,120	789	990	1,472	-698.3%	48.6%	3,823	4,371	14.3%
Net Profit	1,263	2,521	2,539	2,610	2,815	122.8%	7.8%	9,951	10,485	5.4%

Strong NII growth and stringent cost control resulted in healthy PAT growth.

### Healthy performance in tough environment.

- ✓ SBI posted the healthy set of performance in 4Q FY17. PAT grew by 123% backed by healthy NII growth of 18% YoY.
- ✓ NII growth was backed by higher interest income in this quarter. Other income declined by 3% YoY but fee income registered the growth of 5% YoY.
- ✓ Operating expenses grew by only 5% YoY signifying stringent control over the cost, hence cost to income ratio improved by 182 bps YoY to 43.6%.
- ✓ Operating profit remained healthy at 13% YoY growth. Provisions declined by 11% YoY but remained elevated and grew by 3% QoQ.

Profitability Metrix	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
C/I Ratio %	45.4	48.9	50.9	48.6	43.6	-1.82	-5.06	49.4	48.0	-1.44
Empl. Cost/ Tot. Exp. %	58.9	59.1	58.9	60.1	50.5	-8.41	-9.67	60.2	57.1	-3.04
Other Exp/Tot. Exp.%	41.1	40.9	41.1	39.9	49.5	8.41	9.67	39.8	42.9	3.04
Provision/PPP %	92.8	67.1	70.4	71.3	73.3	-19.6	1.96	65.4	70.5	5.09
Tax Rate %	-24.2	30.8	23.7	27.5	34.3	58.51	6.82	17.9	29.1	11.20
Int Exp./Int Inc. (%)	64.3	65.6	65.9	66.4	61.9	-2.43	-4.55	65.3	64.9	-0.32
Other Inc./Net Inc. %	70.0	51.2	58.3	65.5	57.2	-12.80	-8.35	49.0	58.1	9.09
PAT/ Net Income %	4.9	11.6	11.1	10.7	9.9	5.05	-0.78	12.3	10.8	-1.43
PAT Growth %	-66.2	-31.7	-34.6	134.0	122.8	189.0	-11.2	-23.1	47.6	70.76
NII Growth % (YoY)	3.9	4.2	1.3	8.4	18.2	14.25	9.77	3.4	8.0	4.61
Operating Profit Growth	14.4	20.1	9.3	30.7	12.9	-1.43	-17.76	11.1	18.3	7.21
RoE %	7.7	7.4	7.4	7.5	7.3	-0.49	-0.21	10.6	7.4	-3.21
RoA %	0.5	0.4	0.4	0.4	0.4	-0.05	0.00	0.6	0.4	-0.19

**Improving Assets Quality, Slippages remained flat**

- ✓ Assets quality of SBI has shown the sign of improvement with GNPA ratio at 6.90% against 7.23% QoQ whereas NNPA improved to 3.71% from 4.24% on sequential basis.
- ✓ In absolute terms GNPA increased by only 4% QoQ.
- ✓ Slippage number remained flat QoQ and slippage ratio improved to 2.58% against 2.70% a quarter back. Out of the total corporate slippages of Rs 7785 Cr, 70% slipped from watch list of the bank.
- ✓ Watch list assets declined to 1.6% as on FY17 from 2.3% in FY16. However watch list of merged entity as disclosed by management is at Rs 32427 Cr which left us with cautious stance going forward.
- ✓ Restructured advances increased to 6% QoQ. While other stress assets like SDR is at Rs 4281 Cr and S4A is Rs 5935 Cr.
- ✓ Due to increased credit cost PCR increased to 65.95% against 62.87% QoQ.

**CASA growth remained healthy, Advances growth gaining market share**

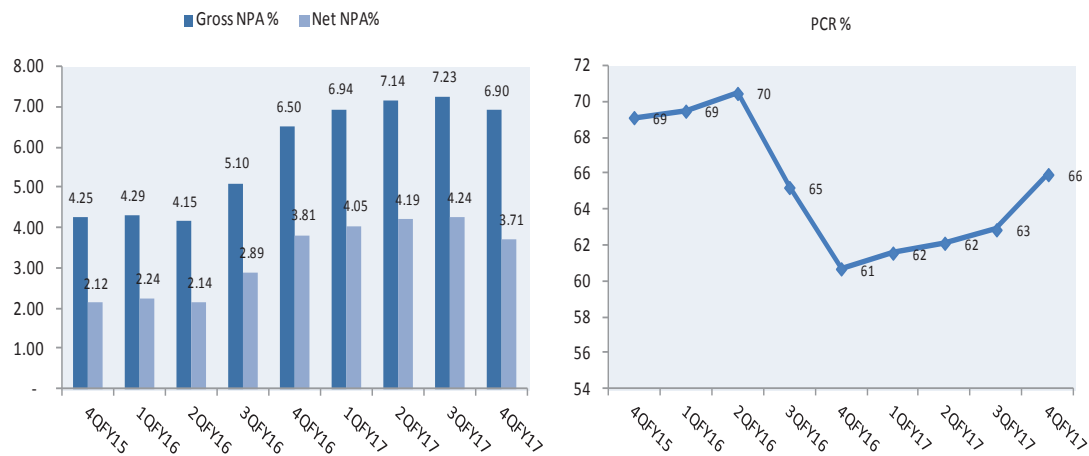
- ✓ Gross advances grew by 7.8% YoY which was more than the credit growth of 5.1% of the industry, hence signifying gain in market share.
- ✓ SBIN domestic market share in advances stands at 17.02% against 16.37% a year ago.
- ✓ Growth in advances was led by both domestic as well as foreign advances growth of each more than
- ✓ Advances growth was backed by 21% retail growth. Agri grew by 7.5%, SME grew by 3.4% and large corporate grew by 3.59%.
- ✓ Retail advances growth was backed by 17% YoY growth in home loan, 21% YoY growth in auto loan and 34% YoY growth in personal loan.
- ✓ The share of retail advances increased from 21.6% a year ago to 24.3% on FY17.
- ✓ Management disclosed the 84% of the new corporate loans are PSUs or A & above A rated companies which remains one of the key positive points for the bank.
- ✓ The stock of A and above A rated corporate loans has improved from 65% a year ago to 72% in FY17 signifying improving risk profile of the bank.
- ✓ Deposits also remained healthy with the growth of 18% YoY backed by excess liquidity in the system due to demonetization drive.
- ✓ Domestic deposit market share of SBIN has increased by 38 bps to 18.05% YoY.
- ✓ CASA increased by 24% YoY backed by healthy growth in saving deposits which grew by 27.8% while current deposits grew by 8.4%. Domestic CASA ratio stands at 45.58% against 43.84% a year back.
- ✓ Term deposits also registered the healthy growth of 15.65% YoY.

**Excluding One-offs other income grew by 11%.**

- ✓ Other income declined by 3% YoY due to non recognition of repatriation of surplus profits from overseas branches which was recognised in the corresponding quarter previous year.
- ✓ Excluding all one offs item in both the quarter growth would have been around 11% YoY.
- ✓ Fee income grew by 5% YoY. Under fee income cross sell was robust with growth of 44.5% YoY, however loan processing fee declined by 8.3% YoY. Trading income grew by 25% YoY, and dividend remained flat YoY at Rs 394 Cr while miscellaneous income declined by 40% YoY.

## Non-Performing Assets

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
GNPA (Rs)	98,173	1,01,541	1,05,783	1,08,172	1,12,343	14.4%	3.9%	98,173	1,12,343	14.4%
GNPA %	6.5	6.9	7.1	7.2	6.9	0.40	-0.33	6.5	6.9	0.40
NNPA (Rs)	55,807	57,421	60,013	61,430	58,277	4.4%	-5.1%	55,807	58,277	4.4%
NNPA %	3.8	4.1	4.2	4.2	3.7	-0.10	-0.53	3.8	3.7	-0.10
Slippages (Rs)	30,313	10,797	11,852	10,357	10,368	-65.8%	0.1%	64,198	43,374	-32.4%
Restructured Ast.(Rs)	39,055	36,551	36,570	34,628	36,634	-6.2%	5.8%	39,055	36,634	-6.2%
PCR %	60.7	61.6	62.1	62.9	66.0	5.26	3.08	60.7	66.0	5.26



## Concall Highlights

- ✓ Other income declined by 3% YoY due to non-recognition of repatriation of surplus profit from overseas branches which was recognised in 4Q FY16.
- ✓ There still remains lot of growth potential in home and auto loan segment.
- ✓ 47% of the loans of associates are corporate and rest are retail.
- ✓ Gross NPA of merged entity as on 1st April is 9.11%. NNPA is 5.19% and PCR is 61.53%. Total market share of advances and deposits is 21.16% and 23.07% respectively.
- ✓ Credit cost will remain elevated in FY18 and it will be much better in FY19.
- ✓ SBIN has Rs 1700 Cr of excess provision over the regulatory requirement.
- ✓ There is no material divergence in assets quality as per RBI directory.
- ✓ CRAR of merged entity is 12.85% and tier I is 10.05% as on 1st April 2017.
- ✓ Government holding of merged entity is 60.75%.

## View and Valuation

Despite of challenging environment SBIN has been able to report the improved set of numbers in all parameters. We like SBIN due to its improving risk profile of assets where the bank has shown 84% of the incremental loans towards A or above A rated companies. With the healthy capitalization ratio and divestments in non-core assets dilution risks remains on the lower side among its PSU peers. Strong liability franchise will continue to support the margins. Merged entity will further expand the network presence of the bank. However cost related to merger is expected to increase the opex in coming years. On standalone basis assets quality has shown impressive improvement in this tough environment. Watch list has reduced significantly in 4Q FY17. But the risk lies in increased stress assets of merged entity with GNPA ratio crossing 9% as on FY17. Credit cost is likely to remain elevated in FY18 but we expect much better scenario in terms of credit cost and slippages in FY19. However the risk also lies in the uncertainty of merged entity. We maintain of target price of Rs 310 and recommend BUY

## Advances Performance

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Advances (Rs in Cr)	1300026	1280127	1337153	1391258	1463700	1416485	1433554	1447824	1571078
Adv. Growth YoY %	7.5	6.8	10.5	12.9	12.6	10.7	7.2	4.1	7.3
>> Growth QoQ %	5.5	-1.5	4.5	4.0	5.2	-3.2	1.2	1.0	8.5

## Deposits Performance

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Deposits (Rs in Cr)	1576793	1613545	1634115	1671416	1730722	1782371	1858999	2040778	2044751
Growth YoY %	13.1	13.7	10.9	10.7	9.8	10.5	13.8	22.1	18.1
>> Growth QoQ %	4.4	2.3	1.3	2.3	3.5	3.0	4.3	9.8	0.2
CASA (Rs)	637760	635895	651430	674303	717332	726766	755805	908536	890409
>>CASA Growth YoY %	9.9	9.8	10.1	11.7	12.5	14.3	16.0	34.7	24.1
>> Growth QoQ %	5.7	-0.3	2.4	3.5	6.4	1.3	4.0	20.2	-2.0
CASA %	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
CA %	32.6	33.4	33.7	34.0	33.6	34.6	34.5	37.8	36.4
SA %	7.9	6.0	6.2	6.3	7.8	6.2	6.1	6.7	7.2
Credit Deposit Ratio	82.4	79.3	81.8	83.2	84.6	79.5	77.1	70.9	76.8

