

## FUNDAMENTAL COVERAGE

# STATE BANK OF INDIA LTD



BUY | CMP 270 | TARGET 319 | POTENTIAL UPSIDE 18%

25 FEBRUARY 2019

### Stock Data

M.Cap (₹ in cr)	240964.2
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	21.84
P/BV	1.04

### 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	36213.38
Nifty	10880.10
Index	A / S&P BSE SEN- SEX

### RESULTS ANALYSIS

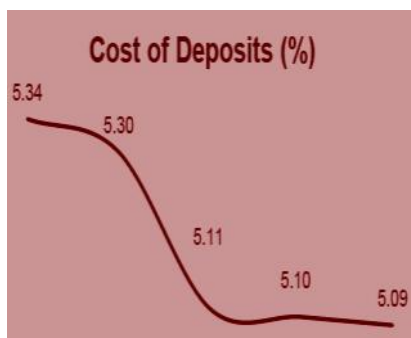
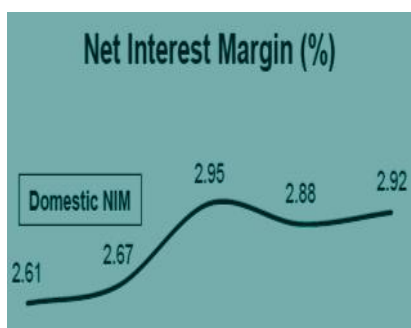
Credit cost has declined sharply by 105bps providing cushion for earning growth. Higher **credit growth, better spreads** and **lower slippages** lead to Domestic **Net Interest Margins** increasing to 2.97%. Sustained improvement in **Asset Quality** with **GNPA, Net NPA** and **PCR** improved to 8.71%, 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.

## FUNDAMENTAL COVERAGE

# STATE BANK OF INDIA LTD



### 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*)

## FUNDAMENTAL COVERAGE

# STATE BANK OF INDIA LTD



### Tabular presentation

₹ in cr

Particulars	Quarter Ended (A)		Nine months Ended (B)		Growth %	Growth %
	Q3FY19	Q3FY18	9M FY19	9M FY18		
<b>Income Statement</b>					(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
<b>Key Ratios</b>		
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.*

# FUNDAMENTAL COVERAGE

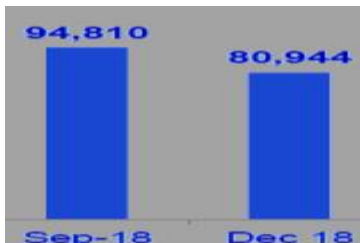
## STATE BANK OF INDIA LTD



### 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

## FUNDAMENTAL COVERAGE

# STATE BANK OF INDIA LTD



### Disclosures :

#### Business Activity :

Rudra Shares & Stock Brokers Limited is engaged in the business of providing broking services & distribution of various financial products. RUDRA is also registered as a Research Analyst under SEBI(Research Analyst) Regulations, 2014. SEBI Reg. No. INH100002524.

#### Disciplinary History :

There has been no instance of any Disciplinary action, penalty etc. levied/passed by any regulation/administrative agencies against RUDRA and its Directors. Pursuant to SEBI inspection of books and records of Rudra, as a Stock Broker, SEBI has not issued any Administrative warning to Rudra.

#### Terms & Conditions of issuance of Research Report:

The Research report is issued to the registered clients. The Research Report is based on the facts, figures and information that are considered true, correct and reliable. The information is obtained from publicly available media or other sources believed to be reliable. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation to buy or sell or subscribe for securities or other financial instruments for clients.

#### Disclosures with regard to ownership and material conflicts of interest :

Rudra or its research analysts, or his/her relative or associate has any direct or Indirect financial interest in the subject company.	NO
Rudra or its research analysts, or his/her relative or associate has any other material conflict of interest at time of publication of the research report.	NO
Rudra or its research analysts, or his/her relative or associates have actual ownership of one per cent or more securities of the subject company.	NO

#### Disclosures with regard to receipt of compensation :

Rudra or its associates have received any compensation from the subject company in the past twelve months.	NO
Rudra or its associates have managed or co-managed public offering of securities for the subject in the past twelve months.	NO
Rudra or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report .	NO

## FUNDAMENTAL COVERAGE

# STATE BANK OF INDIA LTD



### Other Disclosures:

The research analyst has served as an officer,director,employee of the subject company.	NO
Rudra or its research analyst has been engaged in market making activity for the subject company.	NO
Rudra or its or associates have received any compensation from the subject company in the past twelve months.	NO

### Disclaimers:

This Research Report (hereinafter called report) has been prepared and presented by RUDRA SHARES & STOCK BROKERS LIMITED, which does not constitute any offer or advice to sell or does solicitation to buy any securities. The information presented in this report, are for the intended recipients only. Further, the intended recipients are advised to exercise restraint in placing any dependence on this report, as the sender, Rudra Shares & Stock Brokers Limited, neither guarantees the accuracy of any information contained herein nor assumes any responsibility in relation to losses arising from the errors of fact, opinion or the dependence placed on the same.

Despite the information in this document has been previewed on the basis of publicly available information, internal data , personal views of the research analyst(s)and other reliable sources, believed to be true, we do not represent it as accurate, complete or exhaustive. It should not be relied on as such, as this document is for general guidance only. Besides this, the research analyst(s) are bound by stringent internal regulations and legal and statutory requirements of the Securities and Exchange Board of India( SEBI) and the analysts' compensation was, is, or will be not directly or indirectly related with the other companies and/or entities of Rudra Shares & Stock Brokers Ltd and have no bearing whatsoever on any recommendation, that they have given in the research report. Rudra Shares & Stock Brokers Ltd or any of its affiliates/group companies shall not be in any way responsible for any such loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Rudra Shares & Stock Brokers Ltd has not independently verified all the information, which has been obtained by the company for analysis purpose, from publicly available media or other sources believed to be reliable. Accordingly, we neither testify nor make any representation or warranty, express or implied, of the accuracy, contents or data contained within this document. Rudra Share & Stock Brokers Ltd and its affiliates are engaged in investment advisory, stock broking, retail & HNI and other financial services. Details of affiliates are available on our website i.e. [www.rudrashares.com](http://www.rudrashares.com).

We hereby declare, that the information herein may change any time due to the volatile market conditions, therefore, it is advised to use own discretion and judgment while entering into any transactions, whatsoever.

Individuals employed as research analyst by Rudra Shares & Stock Brokers Ltd or their associates are not allowed to deal or trade in securities, within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, we and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or profits.