



TM

## State Bank of India

7 November 2021

## RESULT UPDATE

Sector: Banks

Rating: HOLD

CMP: Rs 531

Target Price: Rs 515

## Stock Info

Sensex/Nifty	60,068/17,917
Bloomberg	SBIN IN
Equity shares	8925mn
52-wk High/Low	Rs 540/198
Face value	Rs 1
M-Cap	Rs 4,734bn/ USD 63bn
3-m Avg volume	USD 132mn

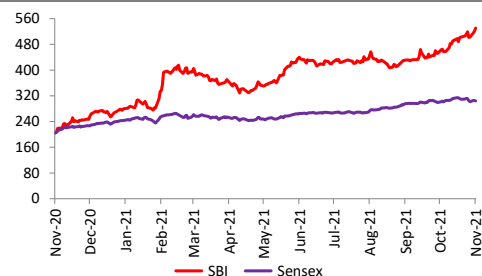
## Financial Snapshot (Rs bn)

Y/E March	FY21	FY22E	FY23E
NII	1,107	1,192	1,301
PPP	716	799	891
PAT	204	377	433
EPS (Rs)	23	34	48
EPS Gr. (%)	40.9	48.4	42.9
BV/Sh (Rs)	256	296	337
Adj. BV/Sh (Rs)	227	264	312
<b>Ratios</b>			
NIM (%)	2.9	2.7	2.7
C/I ratio (%)	53.6	51.8	50.6
RoA (%)	0.5	0.6	0.8
RoE (%)	9.3	12.3	15.3
Payout (%)	17.5	18.0	18.0
<b>Valuations</b>			
P/E (x)	23.2	15.6	11.0
P/BV (x)	2.1	1.8	1.6
P/Adj. BV (x)	2.3	2.0	1.7
Div. Yield (%)	1.0	1.5	2.2

## Shareholding pattern (%)

	Sept'21	Jun'21	Mar'21
Promoter	58	58	58
-Pledged	-	-	-
FII	11	10	8
DII	24	24	25
Others	8	8	9

## Stock Performance (1-year)



## Non-recurring events impact asset quality and credit cost

State Bank of India (SBIN IN)'s witnessed couple of one-offs in 2QFY22 results in terms of full provision of family pension liabilities, recognition & provision for SREI loan exposure and partial NPA recovery & write-off of DHFL loan exposure post partial recovery. The bank's fresh gross delinquency rate at 76bps was quite low and excluding SREI loan reclassification, gross delinquency was at 28bps. It's notable that the bank's restructured loan doubled to 151bps (from 76bps in 1QFY22). We need to monitor delinquency rate in 2HFY22 as the restructuring window would be shut. On core performance, the bank's margin improved with lower net delinquency & interest income reversals and interest income on income tax refunds. Core fee income growth remained muted with 2.8% YoY as the balance-sheet expansion was still low. Domestic loan book grew at 4.6% YoY below banking industry run-rate. From hereon we need to monitor progress in core earnings and balance-sheet expansion. We reiterate our stock rating at HOLD with a target price at Rs 515 (from earlier target price at Rs 513).

## Key progress on NPA front – recovery in DHFL exposures and reclassification of SREI loan

SBIN reported significant decline in gross delinquency ratio at 76bps vs 289bps in 1QFY22 while net delinquency was at (-) 55bps vs 201bps in 1QFY22 driven by higher recoveries. The management indicated that majority of the delinquencies were from corporate loans, of which SREI loan account was the biggest (at Rs 27bn). On NPA recovery front, the bank recovered DHFL loan account partially to an extent of ~43% of total exposure at ~Rs 100bn. In the bank's books, the loan account was totally provided but not written off. Apart from this, it could recover retail credit that slipped in 1QFY22. In the GNPA movement, loan write-off also includes unrecovered (to an extent of ~57%) DHFL loan account, which was provided and remained unrecovered. As a result, the bank reported improvement in its asset quality with GNPA/NNPA at 490bps/152bps vs 532bps/177bps in 1QFY22 respectively. Total restructuring under framework schemes 1.0 & 2.0 was Rs 300bn and legacy restructured book was at Rs 80bn totaling Rs 380bn (~150bps of credit). During the quarter, the bank has utilized provision of Rs 28.8bn for making specific provision. Now, total COVID-19 related stress provision for now stands at Rs 61.8bn.

## Lower interest income reversal and interest income on income tax refunds aid credit yield

The bank's reported margin improved by 12bps YoY/32bps QoQ to 324bps in 2QFY22, led lower delinquency and income tax refund to the tune of Rs 19bn. Management indicated that they expect NIM to be in range of 320-330bps going forward. The credit/deposit ratio declined 122bps QoQ to 64.1% on a moderate growth in advances.

## Balance sheet growth remains lackluster

SBIN posted credit growth at 6.5% YoY driven by overseas credit, it expanded by 16.2% YoY and now constitutes nearly 14.8% of the total credit vs 13.5% in 2QFY21. Domestic credit book registered growth of 4.6% YoY. Retail credits continue to support domestic credit growth, it grew at 15.2% YoY in 2QFY22 constituting 42% of the domestic credit. On the liability side, deposits grew by 9.8% YoY led by CASA deposits which increased by 11.7% YoY. CASA ratio improved to 46.2% 45.4% YoY /46% QoQ.

## Valuation &amp; Recommendation:

In 2QFY22 results, SBIN's core performance improved with margin expansion led by lower net delinquency and the one-off interest income. Core fee income stream remained muted. On asset quality front, there were couple of non-recurring events and restructured credit doubled on sequential basis.

We factor in credit and deposits growth at 10.1% & 10.3% YoY in FY22E and estimate calculated margin contraction of 12bps to 274bps. We estimate RoAA & RoAE at 64bps/83bps and 12.3%/15.3% in FY22E & FY23E, respectively. We re-iterate the stock rating at HOLD with a revised target price of Rs 515.

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## SBIN's 2QFY22 results concall highlights

### Asset Quality: Majority of delinquencies from corporate accounts:

- SBIN recovered Rs 80bn from retail credit slipped in 1QFY22; the bank was able to pull back most of slippages reported in 1QFY22.
- Majority of slippages were from corporate loans; retail delinquency was low in 2QFY22.
- There was hardly any restructuring in Xpress credit, restructuring was mainly in HL.
- SMA (in loans above Rs 50mn ticket size) at Rs 66.9bn. SMA number (in loans below Rs 50mn ticket size) is insignificant.
- The bank's exposure to DHFL was at Rs 100bn; DHFL A/c wasn't a written off loan, therefore, it has affected provision line mainly.
- Restructuring framework schemes 1.0 & 2.0 would be at Rs 300bn and legacy restructuring book at Rs 80bn.
- The bank's exposure to SREI loan a/c (Rs 27bn) has been re-classified and provided for in this quarter.

### Credit growth & profile:

- The bank is expected to witness higher credit growth in coming quarters; credit growth is expected at 10%. The bank has unutilized loans & sanctioned limits at Rs 4.5trn and pipeline is at Rs 1.5trn.
- The bank is getting fresh loan enquiries in Iron & steel industrial for greenfield & brownfield projects.
- In overseas credit book, the bank is quite confident of building a strong and robust overseas credit book.
- O/S ECLGS book: 253.6bn; of this 2% has slipped as NPA.

### Interest income on income tax refund and lower interest reversal aid margins:

- NIM would range between 320-330bps; 20% is EBLR and nearly 30% of book is fixed and EBLR based.
- Some of the write-backs and interest income write-backs led to higher credit yield.
- The bank realised interest income on income tax refunds Rs 19bn (there was nothing in 1QFY22).
- The bank is expected ROE of 15% sooner than later.
- No part of DHFL recovery flow through interest income line.

### Opex to average assets likely to decline:

- Opex would lag balance-sheet growth.
- Rise in GST led higher other expenses. Donations also led to higher the expenses.

**Services offered through YONO platform:**

- SBIN opened 62% of new savings accounts through YONO in H1FY22.
- The bank opened 27,500 SB a/c daily through YONO.
- YONO platform has been written pre-approved personal loans (PAPL) of Rs 75bn. The bank is leveraging this platform for gold loans as well.

**Capital requirements:**

- The bank still has room to raise AT I of Rs 40bn.
- The bank doesn't require to raise additional equity capital in near future.

**Exhibit 1: Quarterly performance**

Quarterly Income Statement (Rs mn)	2QFY22	1QFY22	4QFY21	3QFY21	2QFY21	YoY (%)	QoQ (%)
Interest Inc. on Advances	4,23,169	4,11,435	4,02,137	4,37,368	4,33,776	-2.4	2.9
Interest Inc. on Investments	2,10,747	2,03,698	2,03,769	2,04,721	2,02,537	4.1	3.5
Others	60,899	40,511	45,111	25,257	31,829	91.3	50.3
Total Interest Inc.	6,94,815	6,55,644	6,51,016	6,67,345	6,68,141	4.0	6.0
Interest Expended	3,82,976	3,79,260	3,80,346	3,79,146	3,86,326	-0.9	1.0
NII	3,11,839	2,76,384	2,70,670	2,88,199	2,81,815	10.7	12.8
CXB	53,910	54,030	84,550	53,490	52,430	2.8	-0.2
Treasury Income	4,290	21,020	-370	9,590	10,840	-60.4	-79.6
Other Non-interest Inc.	-23,870	-42,980	-78,070	-29,380	-22,010	8.5	-44.5
Total Non-interest Income	82,076	1,18,027	1,62,253	92,462	85,277	-3.8	-30.5
Total Net Income	3,93,915	3,94,412	4,32,923	3,80,661	3,67,092	7.3	-0.1
Total Operating Exp.	2,13,124	2,04,664	2,35,922	2,07,329	2,02,494	5.2	4.1
Operating Profit	1,80,791	1,89,748	1,97,002	1,73,332	1,64,598	9.8	-4.7
Core Operating Profit	1,76,501	1,68,728	1,97,372	1,63,742	1,53,758	14.8	4.6
Provisions for NPAs	26,993	50,298	99,140	22,904	56,193	-52.0	-46.3
Total Provisions	1,888	1,00,520	1,10,510	1,03,424	1,01,183	-98.1	-98.1
PBT	1,04,719	89,229	86,491	69,908	63,415	65.1	17.4
Tax Provision	-28,454	-24,189	-21,984	-17,946	-17,673	61.0	17.6
Exceptional item	-74,184	0	0	0	0	-	-
Net Profit	76,266	65,040	64,508	51,962	45,742	66.7	17.3
EPS	8.5	7.3	7.2	5.8	5.1	66.7	17.3
<b>Key Ratios (%)</b>	<b>2QFY22</b>	<b>1QFY22</b>	<b>4QFY21</b>	<b>3QFY21</b>	<b>2QFY21</b>	<b>YoY (bps)</b>	<b>QoQ (bps)</b>
Trading gains/PBT (%)	4.1	23.6	-0.4	13.7	17.1	-1,299.7	-1,946.1
NIM	3.2	2.9	2.9	3.1	3.1	12.0	32.0
CAR	13.4	13.7	13.7	14.5	14.7	-137.0	-31.0
Tier I	11.0	11.3	11.4	11.7	11.9	-88.0	-30.0
ROA	0.9	0.8	0.8	0.7	0.6	29.3	12.1
CD Ratio	64.1	65.4	66.5	67.0	66.1	-196.6	-122.4
<b>Asset Quality (Rs mn)</b>	<b>2QFY22</b>	<b>1QFY22</b>	<b>4QFY21</b>	<b>3QFY21</b>	<b>2QFY21</b>	<b>YoY (%)</b>	<b>QoQ (%)</b>
GNPA	12,39,418	13,42,595	12,63,890	11,72,443	12,58,630	-1.5	-7.7
NNPA	3,71,166	4,31,525	3,68,097	2,90,317	3,64,507	1.8	-14.0
GNPA (in %)	4.9	5.3	5.0	4.8	5.3	-38 bps	-42 bps
NNPA (in %)	1.5	1.8	1.5	1.2	1.7	-17 bps	-25 bps
PCR (%) (Excl. Technical Write-offs)	70.1	67.9	70.9	75.2	71.0	-99 bps	219 bps
PCR (%) (Incl. Technical Write-offs)	87.7	85.9	87.9	90.2	88.2	-	175 bps
<b>Balance Sheet Details (Rs mn)</b>	<b>2QFY22</b>	<b>1QFY22</b>	<b>4QFY21</b>	<b>3QFY21</b>	<b>2QFY21</b>	<b>YoY (%)</b>	<b>QoQ (%)</b>
Net Advances	2,44,31,942	2,43,19,081	2,44,94,978	2,36,81,391	2,29,39,012	6.5	0.5
Savings Deposits	1,45,36,240	1,43,08,810	1,37,00,820	1,33,58,610	1,31,49,500	10.5	1.6
Current Deposits	25,27,630	22,83,530	27,68,920	21,05,630	21,20,570	19.2	10.7
CASA Deposits	1,70,63,870	1,65,92,340	1,64,69,740	1,54,64,240	1,52,70,070	11.7	2.8
Term Deposits	1,98,36,420	1,95,01,070	1,92,31,910	1,87,83,910	1,83,71,280	8.0	1.7
Total Deposits	3,80,96,299	3,72,09,870	3,68,12,771	3,53,57,534	3,47,04,617	9.8	2.4
CASA (%)	44.8	44.6	44.7	43.7	44.0	79 bps	20 bps

Source: Company, Systematix Institutional Research

**Exhibit 2: Quarterly Du-Pont**

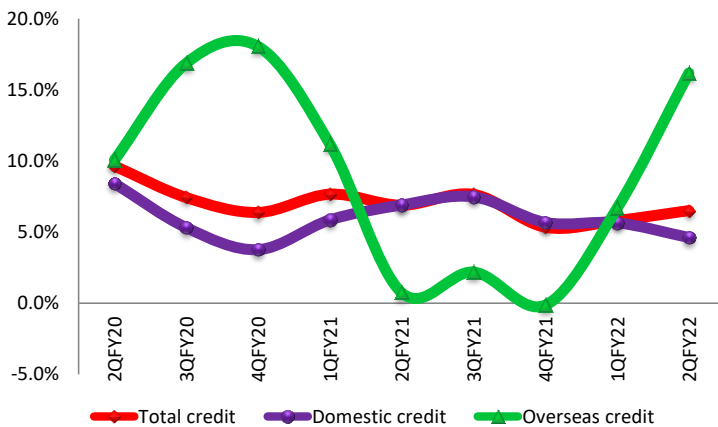
Du-Pont (%)	2QFY22	1QFY22	4QFY21	3QFY21	2QFY21
Total interest income earned	6.0	5.8	5.9	6.3	6.5
Other income	0.7	1.0	1.5	0.9	0.8
Commission, Exchange & Brokerage	0.5	0.5	0.8	0.5	0.5
Profit on sale of investment	0.0	0.2	0.0	0.1	0.1
Miscellaneous other income	0.2	0.4	0.7	0.3	0.2
Total Income	3.4	3.5	3.9	3.6	3.5
Total interest expenses	3.3	3.3	3.4	3.6	3.7
NII	2.7	2.4	2.4	2.7	2.7
Total Oper. Exps.	1.8	1.8	2.1	1.9	2.0
Operating Profit	1.6	1.7	1.8	1.6	1.6
Provisions & Cont and Taxes	-0.2	0.7	0.8	0.8	0.8
Prov for NPAs	0.2	0.4	0.9	0.2	0.5
Profit before Tax	1.2	1.0	1.0	0.8	0.8
Prov for income tax	0.2	0.2	0.2	0.2	0.2
Net Profit (RoAA)	0.9	0.8	0.8	0.7	0.6

Source: Company, Systematix Institutional Research

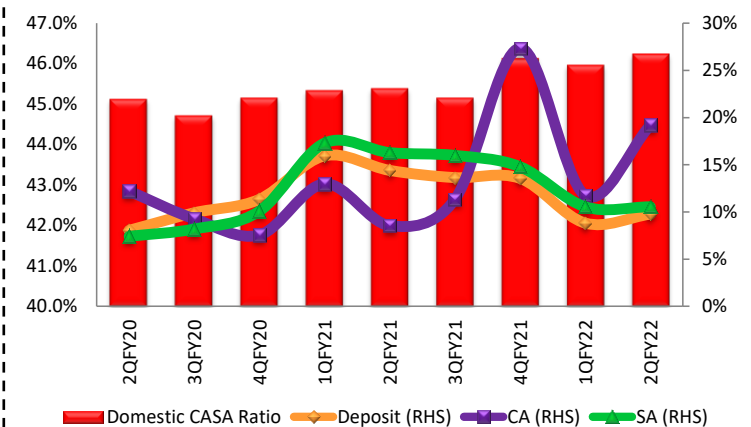
**Exhibit 3: Change in estimates**

Rs bn	Earlier		Revised		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NII	1,279	1,370	1,192	1,301	(6.8)	(5.0)
Operating Profit	879	971	799	891	(9.0)	(8.2)
PAT	414	491	377	433	(8.9)	(11.9)
Adj. BV (Rs)	276	324	264	312	(4.5)	(3.6)

Source: Company, Systematix Institutional Research

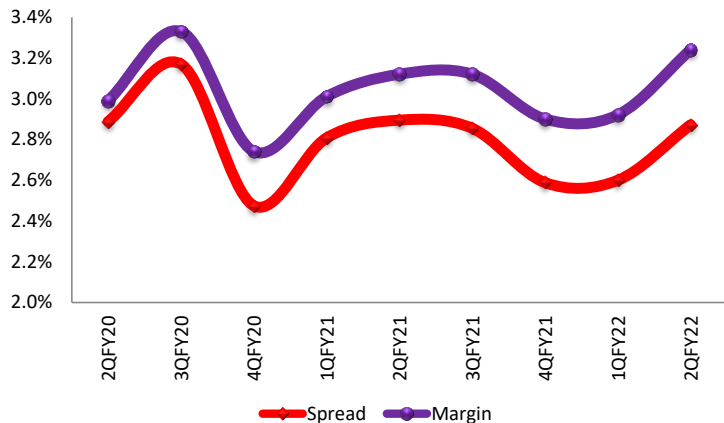
**Exhibit 4: Domestic credit growth continues to be moderate**

Source: Company, Systematix Institutional Research

**Exhibit 5: CA deposits witnessed traction**

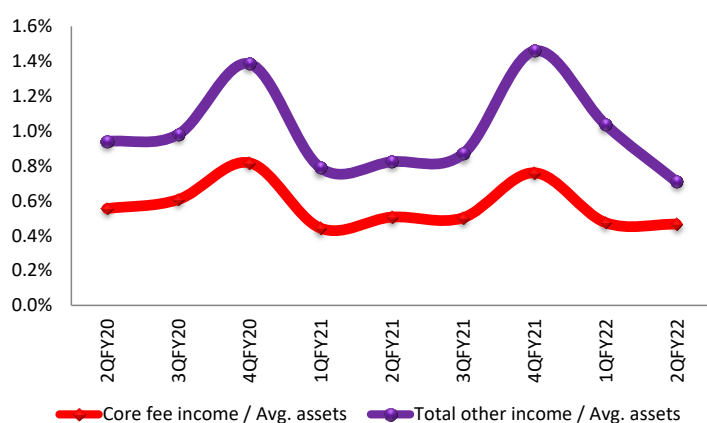
Source: Company, Systematix Institutional Research

**Exhibit 6: Margin expansion due to higher credit yield supported by lower slippages and interest on income tax refund**



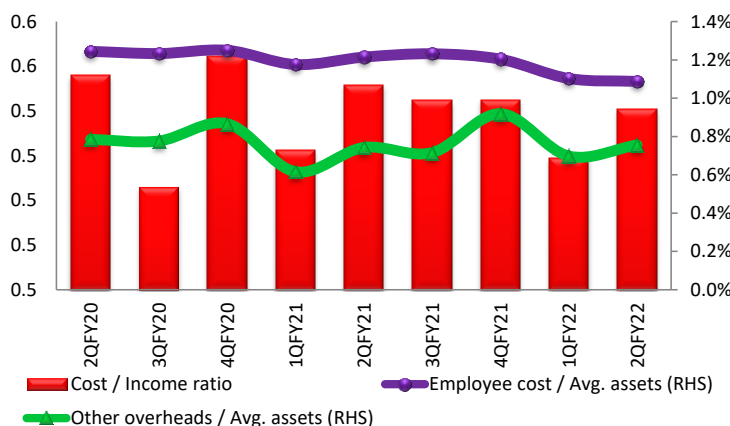
Source: Company, Systematix Institutional Research

**Exhibit 7: Treasury and forex income declined impacting overall non-interest income**



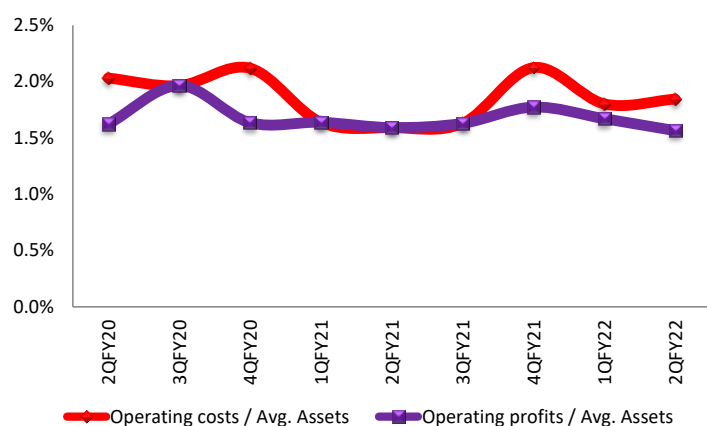
Source: Company, Systematix Institutional Research

**Exhibit 8: Other overheads increased due to higher GST, donations expenses**



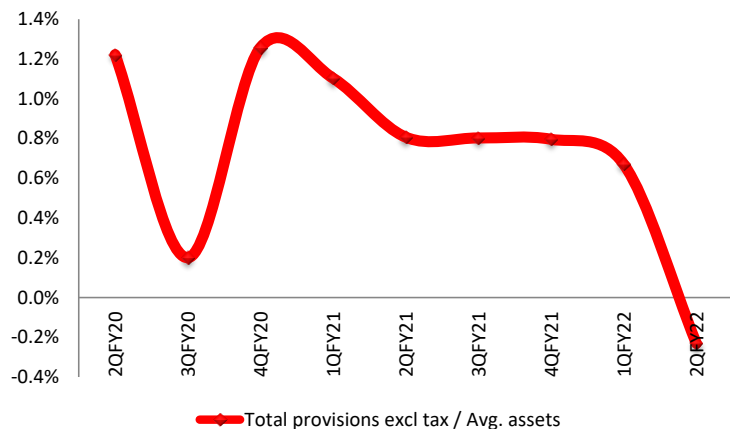
Source: Company, Systematix Institutional Research

**Exhibit 9: Operating profits/average assets largely stable**



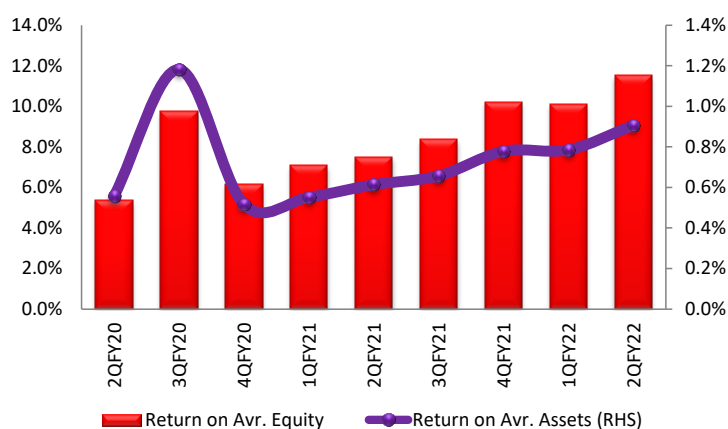
Source: Company, Systematix Institutional Research

**Exhibit 10: Bank utilized contingent covid provisions leading to negative credit cost**



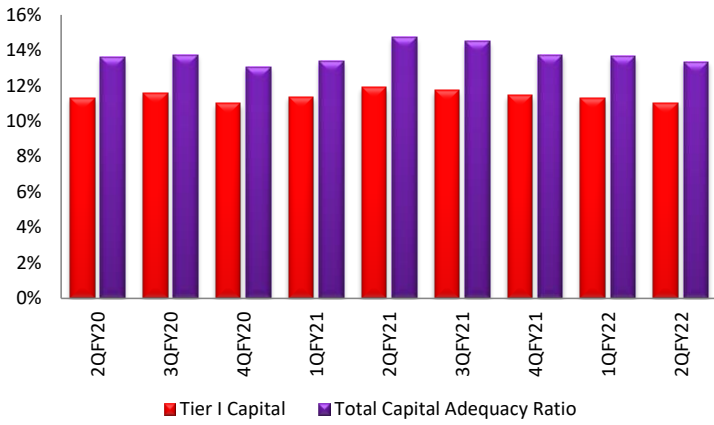
Source: Company, Systematix Institutional Research

**Exhibit 11: Return ratios improving**



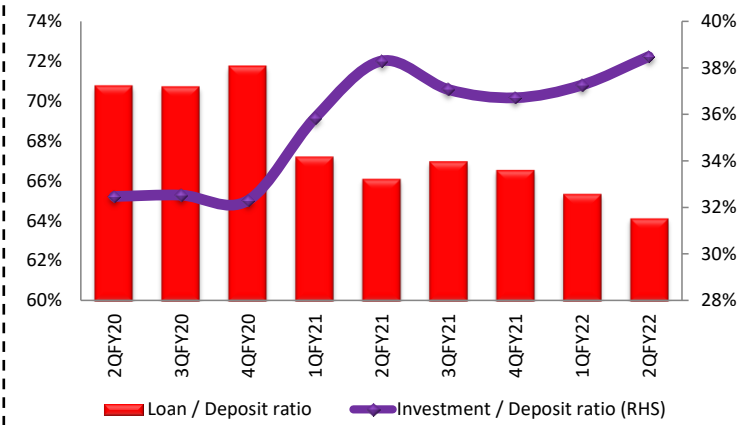
Source: Company, Systematix Institutional Research

**Exhibit 12: Capital position remains healthy**



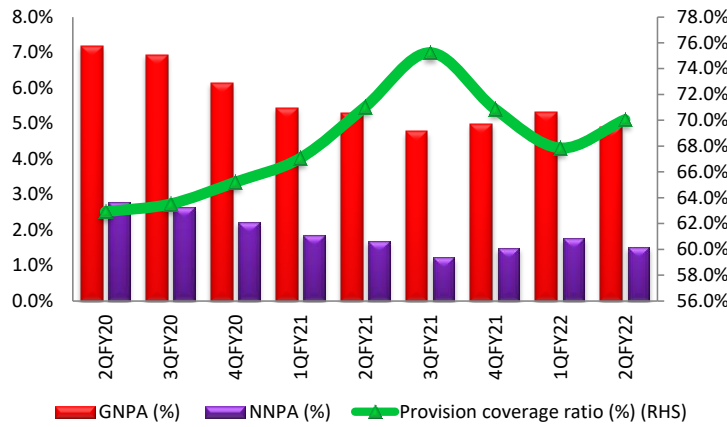
Source: Company, Systematix Institutional Research

**Exhibit 13: Low credit growth leading to decline in LDR ratio**



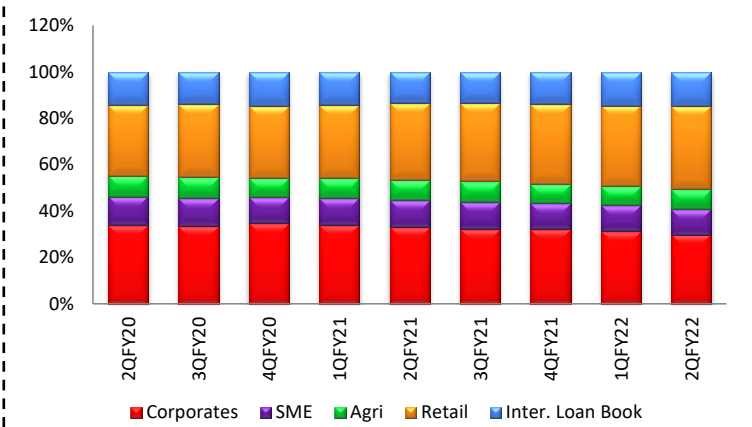
Source: Company, Systematix Institutional Research

**Exhibit 14: Asset quality improves further**



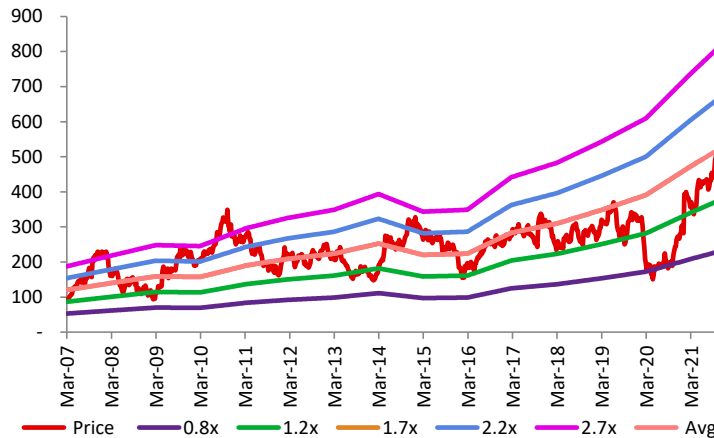
Source: Company, Systematix Institutional Research

**Exhibit 15: Rise in retail credit composition**



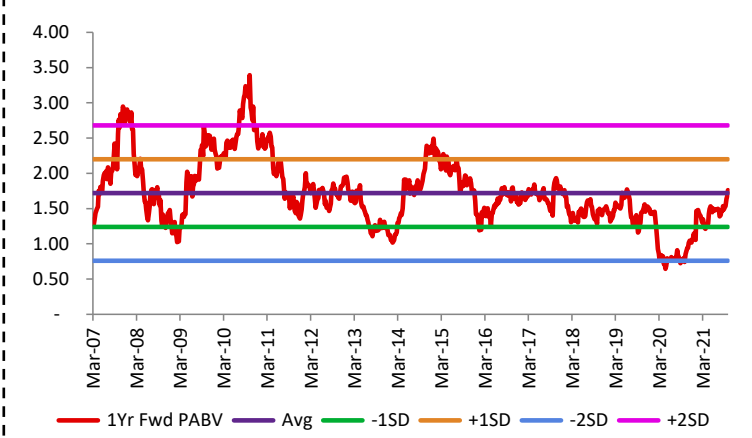
Source: Company, Systematix Institutional Research

**Exhibit 16: SBI has witnessed consistent upgrade in multiple**



Source: Company, Systematix Institutional Research

**Exhibit 17: SBI trading close to its long-term average Fwd multiple**



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	2,750	2,968
Interest Expenses	1,545	1,592	1,544	1,557	1,667
<b>Net Interest Income</b>	<b>883</b>	<b>981</b>	<b>1,107</b>	<b>1,192</b>	<b>1,301</b>
Change (%)	18.0	11.0	12.9	7.7	9.2
Commission, Ex. & Br. Inc.	233	237	235	260	294
Add: Other income	135	215	200	204	208
<b>Net Income</b>	<b>1,251</b>	<b>1,433</b>	<b>1,542</b>	<b>1,657</b>	<b>1,804</b>
Change (%)	4.7	14.5	7.6	7.5	8.9
Operating Expenses	697	752	827	858	913
<b>Operating Profit</b>	<b>554</b>	<b>681</b>	<b>716</b>	<b>799</b>	<b>891</b>
Change (%)	(6.8)	22.9	5.0	11.7	11.5
Provisions	538	431	440	313	310
<b>PBT</b>	<b>16</b>	<b>251</b>	<b>275</b>	<b>487</b>	<b>581</b>
Tax	7	106	71	110	148
Tax Rate (%)	46.4	42.2	25.9	22.6	25.5
<b>PAT</b>	<b>9</b>	<b>145</b>	<b>204</b>	<b>377</b>	<b>433</b>
Change (%)	(113.2)	1,580.5	40.9	84.7	14.8
Proposed Dividend	-	-	36	55	78

Source: Company, Systematix Institutional Research

**Dupont**

YE: Mar (%)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	6.8	6.7	6.2	5.8	5.7
Interest Expended	4.3	4.2	3.6	3.3	3.2
<b>Net Interest Income</b>	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>
Commission, Ex. & Br. Inc.	0.7	0.6	0.6	0.5	0.6
Other Fee Income	0.1	0.3	0.3	0.4	0.3
<b>Net Operating Income</b>	<b>3.2</b>	<b>3.5</b>	<b>3.5</b>	<b>3.4</b>	<b>3.4</b>
Profit on sale of investment	0.0	0.2	0.1	0.1	0.1
Net Income	3.3	3.8	3.6	3.5	3.5
Operating Expenses	2.0	2.0	1.9	1.8	1.7
<b>Operating Income</b>	<b>1.3</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>
Provisions	1.5	1.1	1.0	0.7	0.6
<b>PBT</b>	<b>0.0</b>	<b>0.7</b>	<b>0.6</b>	<b>1.0</b>	<b>1.1</b>
Tax	0.0	0.28	0.17	0.23	0.28
Exceptional items	-	-	-	0.2	-
<b>PAT</b>	<b>0.0</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>	<b>0.8</b>
Leverage	18	19	19	19	19
<b>RoE</b>	<b>0.4</b>	<b>7.2</b>	<b>9.3</b>	<b>12.3</b>	<b>15.3</b>

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	2,852	3,207
<b>Net Worth</b>	<b>2,209</b>	<b>2,320</b>	<b>2,539</b>	<b>2,861</b>	<b>3,216</b>
Change (%)	0.8	5.0	9.4	12.7	12.4
<b>Deposits</b>	<b>29,114</b>	<b>32,416</b>	<b>36,813</b>	<b>40,605</b>	<b>44,647</b>
Change (%)	7.6	11.3	13.6	10.3	10.0
CASA Ratio (%)	45	44	45	46	46
<b>Borrowings</b>	<b>4,030</b>	<b>3,147</b>	<b>4,173</b>	<b>4,279</b>	<b>4,376</b>
Other Liabilities	1,456	1,631	1,820	2,075	2,365
<b>Total Liabilities</b>	<b>36,809</b>	<b>39,514</b>	<b>45,344</b>	<b>49,819</b>	<b>54,605</b>
Change (%)	6.5	7.3	14.8	9.9	9.6
Investments	9,670	10,470	13,517	14,742	16,216
Cash & Bank balance	2,225	2,511	3,430	4,010	4,244
<b>Loans</b>	<b>21,859</b>	<b>23,253</b>	<b>24,495</b>	<b>26,978</b>	<b>29,486</b>
Change (%)	13.0	6.4	5.3	10.1	9.3
Fixed Assets	392	384	384	377	368
Other Assets	2,663	2,896	3,518	3,712	4,291
<b>Total Assets</b>	<b>36,809</b>	<b>39,514</b>	<b>45,344</b>	<b>49,819</b>	<b>54,605</b>

Source: Company, Systematix Institutional Research

**Ratios**

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
<b>Spreads Analysis (%)</b>					
Yield on Advances	7.8	8.2	7.3	6.8	6.7
Yield on Earning Assets	7.4	7.4	6.8	6.3	6.2
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	2.7	2.7
<b>Profitability Ratios (%)</b>					
Cost/Income	55.7	52.5	53.6	51.8	50.6
PPOP / Avg. assets	1.6	1.8	1.7	1.7	1.7
RoE	0.4	7.2	9.3	12.3	15.3
RoA	0.0	0.4	0.5	0.6	0.8
<b>Asset Quality (%)</b>					
GNPA (Rs bn)	1,728	1,491	1,264	1,246	1,163
NNPA (Rs bn)	659	519	368	368	290
GNPA	7.5	6.2	5.0	4.5	3.8
NNPA	3.0	2.2	1.5	1.4	1.0
PCR					
<b>Capitalisation (%)</b>					
CAR	12.7	13.1	13.7	13.3	13.5
Tier I	10.7	11.0	11.4	11.8	12.0
Tier II	2.1	2.1	2.3	1.5	1.5
Average Leverage on Assets (x)	18.3	18.9	19.4	19.3	18.5
<b>Valuations</b>					
Book Value (Rs)	216	232	256	296	337
Adj. Book Value (Rs)	180	200	227	264	312
Price-BV (x)	2.5	2.3	2.1	1.8	1.6
Price-Adj. BV (x)	2.9	2.7	2.3	2.0	1.7
EPS (Rs)	1.0	16.2	22.9	33.9	48.5
EPS Growth (%)	(112.6)	1,573.6	40.9	48.4	42.9
Price-Earnings (x)	547.4	32.7	23.2	15.6	11.0
Dividend (Rs)	-	-	4.0	6.1	8.7
Dividend Yield (%)	-	-	1.0	1.5	2.2

Source: Company, Systematix Institutional Research

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