

# State Bank of India

**BSE SENSEX**

40,802

**S&P CNX**

12,048


**Stock Info**

Bloomberg	SBIN IN
Equity Shares (m)	8,925
M.Cap.(INRb)/(USDb)	3021.4 / 42.2
52-Week Range (INR)	374 / 244
1, 6, 12 Rel. Per (%)	6/-6/6
12M Avg Val (INR M)	7996
Free float (%)	42.9

**Financials Snapshot (INR b)**

Y/E March	FY19	FY20E	FY21E
NII	883.5	969.1	1,117.6
OP	554.4	663.7	781.8
NP	8.6	229.0	330.3
NIM (%)	2.8	3.0	3.2
EPS (INR)	1.0	25.7	37.0
EPS Gr. (%)	NM	NM	44.2
ABV (INR)	169.6	206.6	247.8
Cons. BV (INR)	247.6	272.2	308.6
RoE (%)	0.4	11.1	14.1
RoA (%)	0.0	0.6	0.8

**Valuations**

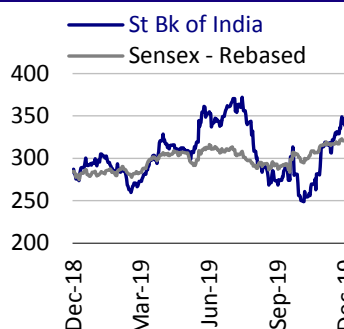
P/BV (x) (Cons.)	1.4	1.2	1.1
P/ABV (x)	1.3	1.1	0.9
P/E (x)	NM	8.8	6.1

\*Price adjusted for value of subs

**Shareholding pattern (%)**

As On	Sep-19	Jun-19	Sep-18
Promoter	57.1	57.1	57.7
DII	24.1	23.5	23.5
FII	12.0	12.0	11.5
Others	6.8	7.4	7.4

FII Includes depository receipts

**Stock Performance (1-year)**

**CMP: INR339**
**TP: INR425 (+26%)**
**Buy**

## Earnings momentum to accelerate

### Subs monetisation a big trigger

- State Bank of India (SBIN) has delivered 28% returns since our last [report](#) on the bank in Oct'19. There have been significant developments over the past two months which have supported this performance: (i) Essar Steel resolution enabling significant write-backs for banks, (ii) upcoming listing of its cards subsidiary at proposed valuation of ~INR600b and (iii) easing of stress in the telecom sector, aided by the recent tariff hikes and the government deferring payment of spectrum fees.
- Although the macro environment remains challenging, net stressed loans for SBIN at 0.8% of loans are the lowest amongst peers. This, along with anticipated provisioning write-backs, will enable normalization in credit cost, in our view.
- We upgrade our FY20/21 earnings estimates by 15%/12% and project credit cost to decline to 1.3% by FY21 (guidance: <1%). We thus estimate RoA/RoE to improve to 0.8%/14.1%. Maintain Buy with a revised target price of INR425 (1.3x FY21E ABV + INR114 per share for subs). Subs accounts for ~34% of total valuation.

### Earnings recovery in sight; resolutions to support higher recoveries

After reporting a sub-optimal performance over the last few years, SBIN appears well positioned to report a strong uptick in earnings. With the overhang on Essar resolution getting clear, recoveries for the bank are expected to be robust at ~INR120b (90% of exposure). This will enable it to further improve upon the PCR and provide toward a few other residual stressed accounts. Even at the core earnings level, we estimate SBIN to report a 19% CAGR in PPOp over FY19-21.

### Net stressed loans (excl. NPA) at ~0.8% of total loans

Our deep-dive analysis on stressed accounts suggests that SBIN's exposure to the stressed pool stands at ~2% of total loans, which we believe is manageable. However, according to SBIN's disclosure on stressed accounts, net stressed loans (excl. NNPA) at ~0.8% are lowest amongst corporate banks. We estimate GNPL/NNPL ratio to decline to ~4.5%/1.6% by FY21 and PCR to improve to ~65%.

### Subs gaining remarkable scale; value unlocking to boost returns

SBIN's subs – SBI MF, SBI Life, SBI Cards and SBI Cap – have displayed a robust performance over the last few years. The bank plans to monetize its subsidiaries, which would lead to further value unlocking for stakeholders, in our view. At CMP, subs account for ~34% of total valuation, while SBIN trades at a discount of 24% to its six-year average (1.2x ABV) (refer page 7 for quick snapshot on subs).

### Valuation and view

SBIN has demonstrated a strong improvement in slippage trajectory and prudently improved PCR over the past two years. The bank has one of the lowest net stressed assets amongst corporate banks which will drive a sharp decline in credit cost to 1.3% by FY21. Also, NCLT write-backs and subs monetization will further boost earnings. At CMP, subs accounts for ~34% of total valuation, while the bank trades at a discount of 24% to its six-year average (1.2x ABV). We estimate RoA/RoE to improve to 0.8%/14.1% by FY21 though quarterly earnings may still remain volatile. SBIN remains our top investment idea. Maintain **Buy** with a revised target price of INR425 (1.3x FY21E ABV + INR114 per share for subs).

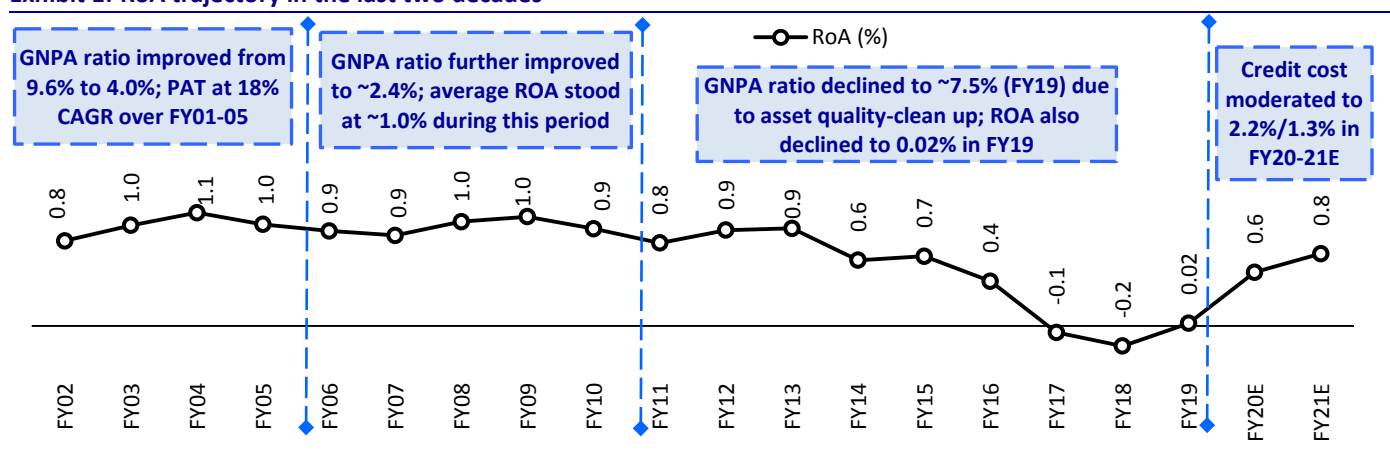
## Earnings recovery in sight

After reporting a sub-optimal performance during most of FY11-19, SBIN now appears well positioned for an earnings recovery. With the overhang on Essar Steel resolution getting clear, recoveries for the bank are expected to be robust at ~INR120b (90% of exposure). In our view, the SC judgment will also expedite the NCLT resolution process and drive further recoveries for underlying banks.

While the bank's core PPOP growth is expected to remain strong (19% CAGR over FY19-21), higher recoveries along with normalization in credit costs to 1.3% by FY21 (guidance of <1% for FY21, average of 3.2% over FY17-19) will likely result in a sharp earnings revival. Further, the reduction in the corporate tax rate from 30% to 22% will likely support earnings. However, 2HFY20 will be impacted by one-time DTA reversal, while the full benefit will come from FY21.

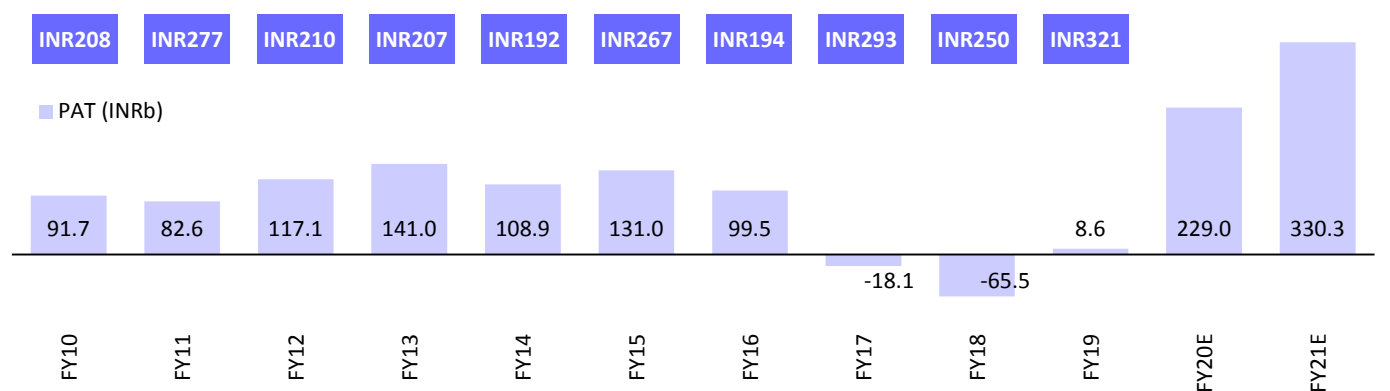
Overall, we estimate profits to grow to INR229b/INR330b for FY20/21 (v/s 10-year average PAT of INR70b). We thus estimate RoA/RoE to improve to 0.8%/14.1% by FY21.

**Exhibit 1: RoA trajectory in the last two decades**



Source: MOFSL, Company

**Exhibit 2: PAT and provisions trajectory over last decade – earnings to pick up sharply as provisions subside**

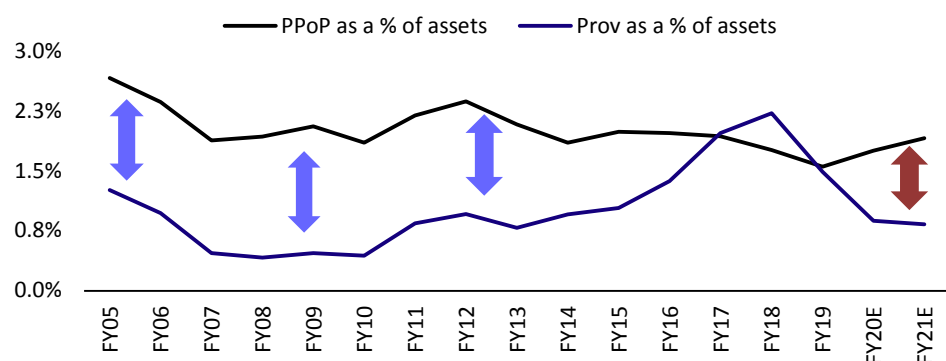


■ Denotes SBIN share price as at year end

Source: MOFSL, Company

Expect PPOP CAGR of 19%  
over FY19-21.

**Exhibit 3: Gap between PPOP and provisions (as % of assets) to widen....**



Source: MOFSL, Company

**Exhibit 4: Key Financial Indicators: SBIN base case and stress case as presented by management**

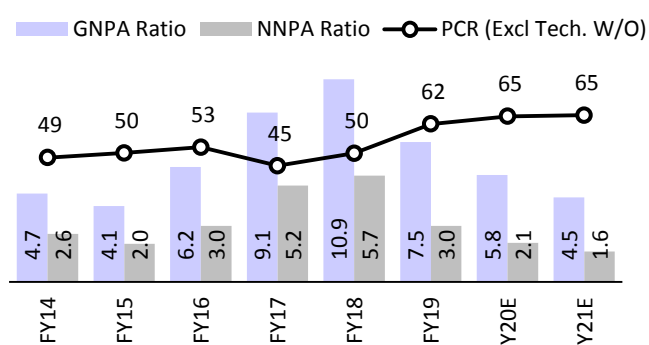
%	Actuals		Base case		Stress case	MOSLE
	FY19	1HFY20	FY20E	FY21E	FY21E	FY21E
Credit Growth	11.96%	8.65%	>10%	>12%	>10%	12.00%
NII Growth	18.03%	11.32%	>17%	>14%	<10%	15.30%
NIM (Domestic)	2.95%	3.11%	>3.15%	>3.20%	>3.00%	3.17%
Non-Interest Income Growth	-17.55%	24.81%	>15%	>15%	>10%	2.00%
Opex Growth	16.26%	9.89%	<10%	<10%	<12%	5.30%
PPOP (INRb)	536	280	>650	>750	<700	782
Slippage Ratio	1.60%	2.18%	<2.00%	<1.30%	<1.50%	1.40%
Credit Cost	2.66%	1.98%	<1.80%	<1.00%	<1.10%	1.30%
PCR (with AUCA)	78.73%	81.23%	>84%	>88%	>85%	NA
ROA	0.02%	0.29%	0.4-0.5%	0.9-1.0%	0.75-0.85%	0.81%

Source: MOSL, Company

### Net stressed loans (excl. NPA) at ~0.8% of total loans

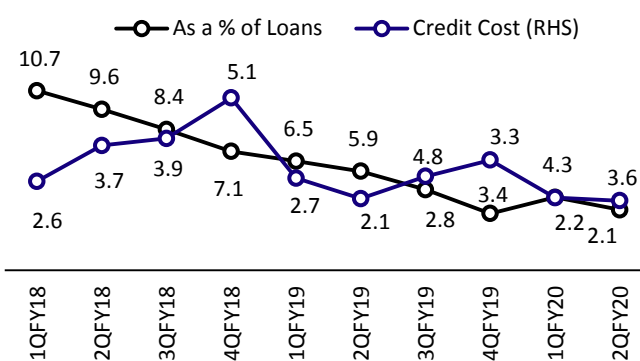
According to SBIN's disclosure on stressed accounts, net stressed loans (excl. NNPA) at ~0.8% are lowest amongst corporate banks. We build in elevated credit cost of 2.2% / 1.3% for FY20/21, which will likely be partly offset by NCLT-linked write-backs. We thus estimate the GNPL/NNPL ratio to decline to ~4.5%/1.6% by FY21 and the PCR to improve to ~65% from ~63% in 2QFY20.

**Exhibit 5: PCR up by ~1,147bp to 61.9% in FY19**



Source: Company, MOFSL

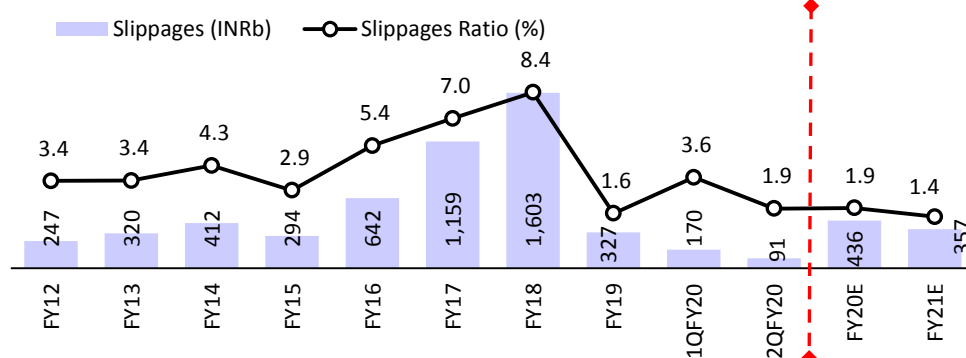
**Exhibit 6: NSL down to 3.6% from 10.7% in 1QFY18**



Source: Company, MOFSL

Slippage ratio expected to decline to 1.4% by FY21.

**Exhibit 7: Slippages over the past several years – a downtrend**



Source: MOFSL , Company

We estimate SBIN to write back INR120b, supporting earnings.

**Exhibit 8: Top 10 exposure toward Essar Steel and expected recoveries**

Banks & Financial Creditors (INR b)	Amount admitted	Estimated Write-backs based on Recovery Rate of 90%
State bank of India	132.3	118.8
Canara Bank	38.0	34.1
Punjab national Bank	29.4	26.4
Deutsche Bank AG	28.3	25.4
IDBI Bank	24.8	22.3
ICICI Bank	22.9	20.6
Union Bank of India	21.2	19.1
Bank of India	19.9	17.8
Corporation bank	15.7	14.1
Syndicate Bank	9.7	8.7

Source: MOFSL , Company, NCLT Order

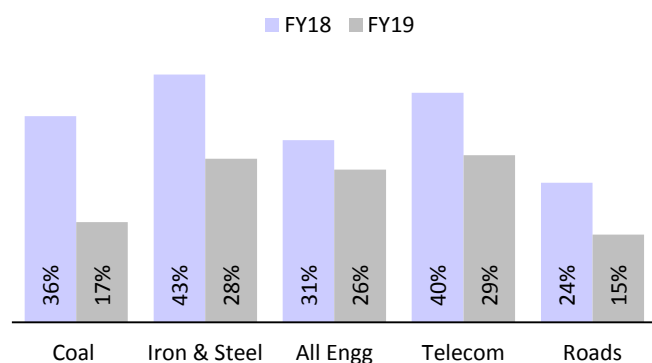
Exposure toward NCLT list 1 and 2 at INR249.9b.

**Exhibit 9: SBIN exposure toward NCLT and other accounts where ICA is in process**

As on 2QFY20 (INRb)	Total	NPA	PCR (%)
Accounts admitted to NCLT	1,163.7	482.5	93.0%
Accounts filed but not yet admitted	238.0	83.3	80.8%
21 NPA A/c where ICA signed/likely to be signed	265.4	265.4	60.3%
15 Standard A/c where ICA signed/likely to be signed	168.2	NA	13.2%

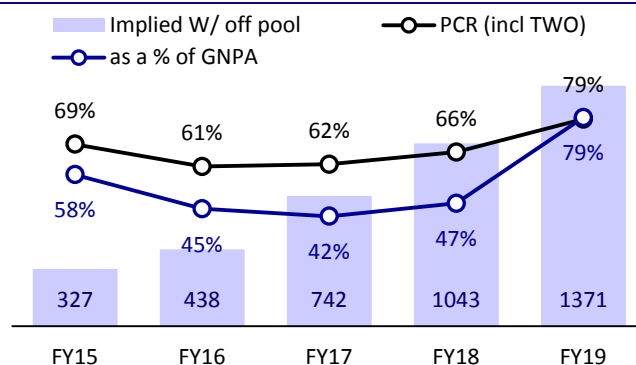
Source: MOFSL , Company, NCLT Order

**Exhibit 10: NPL ratios in stressed sectors moderate**



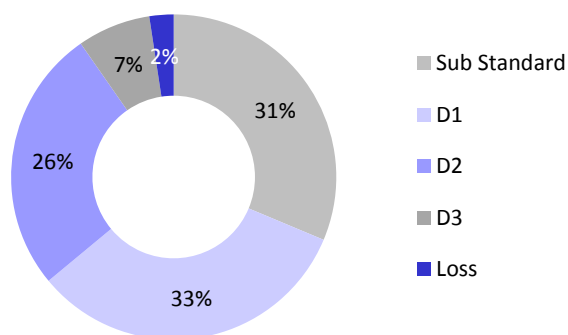
Source: Company, MOFSL , Basel III disclosure

**Exhibit 11: SBIN has INR1.3t technically written-off pool**

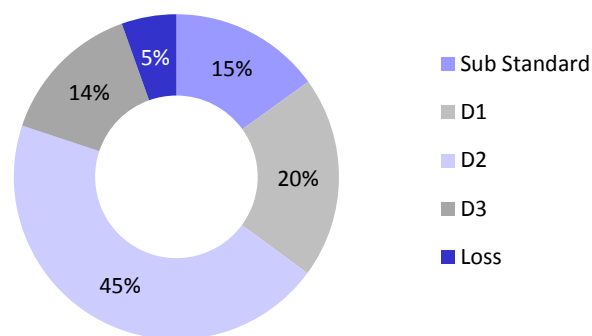


Source: Company, MOFSL , Basel III disclosure

## As slippages declined, substandard assets have halved



Source: Company, MOFSL



Source: Company, MOFSL

### Exhibit 12: A comparison of net stressed loans across major banks

As on 2QFY20 (INRb)	SBIN	ICICIB	AXSB	YES	IIB
GNPA	1,616	456	291	171	44
<b>Stressed Exposure</b>					
- Security Receipts	-	33	29	16	-
- BB and below (Fund based)	-	109	63	210	-
- BB and below (Non-Fund based)	-	52	22	16	-
- BB and below (Investment)	-	7	18	88	-
- Non performing Investment	-	-	-	6	-
- Stressed exposure/Watchlist	171	-	-	-	37
- Non funded NPA exposure	-	-	25	-	-
<b>Gross stress loans</b>	<b>1,788</b>	<b>657</b>	<b>447</b>	<b>507</b>	<b>80</b>
<b>as a % of advances</b>	<b>8.3%</b>	<b>10.7%</b>	<b>8.6%</b>	<b>22.6%</b>	<b>4.1%</b>
Specific Provisions	1,017	347	179	74	22
Contingent provisions	-	13	26	-	-
<b>Net Stress Loans</b>	<b>771</b>	<b>296</b>	<b>242</b>	<b>434</b>	<b>59</b>
<b>as a % of net advances</b>	<b>3.6%</b>	<b>4.8%</b>	<b>4.6%</b>	<b>19.3%</b>	<b>3.0%</b>
<b>Net Stress Loans (excluding NPA)</b>	<b>171</b>	<b>187</b>	<b>131</b>	<b>336</b>	<b>37</b>
<b>as a % of net advances</b>	<b>0.8%</b>	<b>3.0%</b>	<b>2.5%</b>	<b>15.0%</b>	<b>1.9%</b>

Source: Company, MOFSL,

- SMA 1 and 2 for SBIN stood at INR93.1b (0.4% of loans) in 2QFY20 with SMA 2 accounts (INR50m and above) comprising ~INR43.6b. The bank's power/telecom exposure remains comfortable, with bulk of it toward PSU entities and better-rated corporates. DHFL comprises bulk of SBIN's private HFC exposure, for which a resolution plan is under process.

**Exhibit 13: Disclosure on stressed sectors as identified by management**

Sector	Comments
<b>Power sector:</b> Remains a key monitor able	<ul style="list-style-type: none"> <li>❖ Total exposure of ~INR2t, of which ~INR1.7t is standard while the balance (INR0.2t) is classified as NPA.</li> <li>❖ SBIN remains comfortable due to its large exposure towards PSU entities and top-rated private corporates (~58% are rated A- or higher). As of 2QFY20, the bank held ~54% PCR on the NPA portion.</li> <li>❖ Further, according to the management, two power accounts of INR18b are expected to be resolved soon, while three other accounts are expected to be resolved through the OTS schemes.</li> </ul>
<b>Telecom sector:</b> 99% of the standard exposure is towards two private sector conglomerates	<ul style="list-style-type: none"> <li>❖ Total fund-based exposure of INR357b, of which ~INR93b is NPA. Non-fund-based exposure stands at INR102b.</li> <li>❖ Of the standard exposure, ~72% is towards the private sector with ~99% towards highly rated private sector conglomerates in the sector.</li> <li>❖ As of FY19, the bank held ~50% PCR on the NPA portion.</li> </ul>
<b>IL&amp;FS:</b> Exposure manageable; provisions coverage increased to 60%	<ul style="list-style-type: none"> <li>❖ Of the total exposure of ~INR34b, INR16b is already recognized as NPA with PCR of ~60%.</li> <li>❖ Of the standard portion of ~INR18b, INR1.4b/INR9.3b is categorized in the red/amber category.</li> <li>❖ PCR held on the red category is 21.9% as of FY19.</li> </ul>
<b>NBFC exposure:</b> Majority of exposure is towards PSU entities and highly-rated private sector	<ul style="list-style-type: none"> <li>❖ NBFC and FI exposure stands at INR1.7t of which HFCs constitutes INR0.6t while other NBFCs stand at INR1.0t.</li> <li>❖ Of total exposure: ~25% is backed by the Central and State government, ~9% is backed by PSU entities while 45% is backed by large private institutions.</li> <li>❖ Of INR0.6t exposure to HFCs, ~79% is towards private sector.</li> </ul>

Source: Company, MOFSL

**Exposure toward stressed groups controlled at ~2% of total loans**

The macro environment remains challenging with high rating downgrades in the system. This has resulted in new names being added to the stressed pool. Our deep dive analysis on stressed accounts suggests that SBIN's exposure to the stressed pool constitutes ~2% of total loans. Given its size, new stress is manageable, in our view.

**Exhibit 14: SBIN's exposure toward certain stressed groups**

Stressed groups	INR b
Vodafone	112.0
DHFL	102.4
Indiabulls	82.6
SREI	29.0
CG Power	26.3
ADAG Group	23.6
Sintex	16.0
ECL Finance	13.2
Jain irrigation	12.2
Cox & Kings	6.2
Essel Group	5.6
Edelweiss Housing	4.0
Lodha Developers	2.5
<b>Total</b>	<b>435.5</b>
<b>As a % of total loans</b>	<b>2.0%</b>

Source: MOFSL , Company, MCA, Debt offering circulars, media articles

## Subs gaining remarkable scale; value unlocking to boost shareholder returns

SBI Cards PAT CAGR of 42% over FY17-19.

### SBI Cards – robust profitability, operating metrics remain healthy

- SBI Cards has delivered a strong performance in both customer acquisitions and earnings. As at 2QFY20, SBI Cards had a market share of 18% on a card base of 9.5m and 17.9% in card spends. Over FY17-19, card spends CAGR stood at 50% and PAT CAGR at 42% (PAT up 83% YoY in 2QFY20). Return ratios remain healthy with an RoE of 36.1% and a CAR of 18.9%.
- SBI Cards is looking to expand sourcing by leveraging SBIN's higher penetration, integrating with SBI platforms and capturing cross-selling opportunities with subsidiaries.
- It further plans to unlock some value by listing the cards business in FY20 and has already filed a DRHP to raise ~INR80-90b – pegging total valuation of INR530-600b.

### Exhibit 15: Snapshot – PAT/spend CAGR of 42%/50% over past two years

INR m	FY15	FY16	FY17	FY18	FY19	1HFY20
Spends on cards	2,33,610	3,09,050	4,60,070	7,98,080	10,36,046	6,33,505
Mkt. Share Spends	11.3%	11.9%	13.1%	16.8%	17.1%	17.9%
Mkt. Share cards base	15.0%	14.8%	15.3%	16.4%	17.6%	18.0%
Revenue	19,050	24,920	33,630	51,870	69,990	46,640
PAT	2,670	2,840	3,904	5,810	7,880	7,270
PBT	2,710	4,380	5,980	7,760	NA	NA
RoA	4.4%	3.7%	3.7%	4.6%	4.8%	6.5%
RoE	30.8%	26.7%	29.5%	33.4%	30.2%	36.1%
Net Worth	8,660	10,610	13,217	16,141	NA	NA
<b>Total Assets</b>	<b>60,480</b>	<b>78,800</b>	<b>1,06,521</b>	<b>1,46,950</b>	<b>195,930</b>	<b>244,591</b>

Source: MOFSL , Company

### Exhibit 16: SBI Cards - Valuation

INR b	FY17	FY18	FY19	FY20E	FY21E
Total Assets	108.3	147.0	195.9	NA	NA
RoE %	29.5%	33.4%	30.2%	NA	NA
RoA %	3.7%	4.6%	4.6%	NA	NA
<b>Net profit</b>	<b>3.9</b>	<b>5.8</b>	<b>7.9</b>	<b>15.0</b>	<b>20.2</b>
Target PAT multiple (x)					28
<b>SBI Cards Valuation</b>					<b>566</b>
SBI Stake					74%
<b>Value for SBI</b>					<b>419</b>
<b>Value per share</b>					<b>47</b>

Source: MOFSL , Company

New business premium CAGR of 26% over FY15-19.

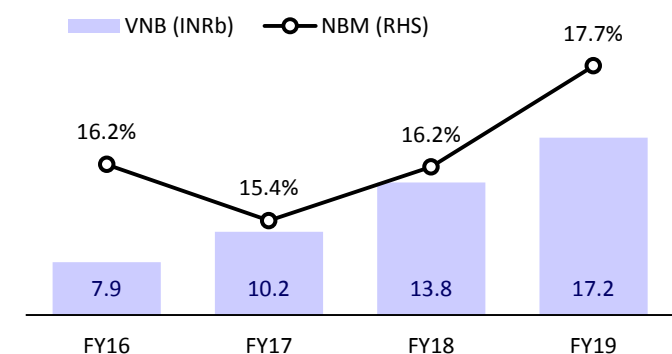
### SBI Life – growth momentum steady; distribution – a key edge

- SBI Life has delivered a robust all-round operational performance and maintained its dominant market position with an un-weighted NBP market share of 6.2% as at 1HFY20.
- It delivered ~26% CAGR in un-weighted NBP over FY15-19 (+40% YoY in 1HFY20) with a VNB margin of 17.7% as at FY19 (18.1% as on 1HFY20). SBI Life's VNB/EV grew 33%/24% YoY to INR9.4b/INR261.5b in 1HFY20.



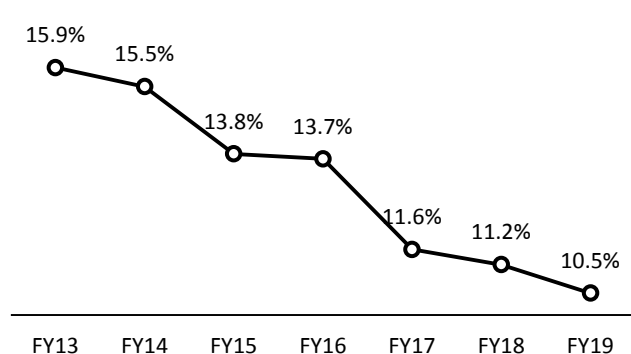
- It has robust distribution franchise with 22,000 branches, 50,000+ CIFs, ~121,600 individual agents and 12,000 branches of other banking partners. Furthermore, the subsidiary has one of the lowest cost structures with a total expense ratio of 11.3% as at 1HFY20. This has enabled it to maintain healthy margins (despite a higher share of the ULIP business) and deliver an RoEV of ~17.5%.

**Exhibit 17: SBILIFE reported 150bp improvement in NBM over FY19 while VNB grew at 24% in FY19**



Source: MOFSL , Company

**Exhibit 18: Total expense (as a % of GWP) improved to 10.5% in FY19 from ~16% in FY13**



Source: MOFSL , Company

**Exhibit 19: Key operating metrics of SBI Life**

INR b	FY17	FY18	FY19
Gross premium	210.2	253.5	329.9
New business premium	101.4	109.7	137.9
New business margin	15.7%	16.0%	17.7%
Net profit	9.6	11.5	13.3
AUM	977.4	1,162.6	1,410.2
Embedded Value	165.4	190.6	224.0

Source: MOFSL , Company

**Exhibit 20: SBI Life Insurance – Valuation**

INR b	FY17	FY18	FY19	FY20E	FY21E	HDFC Life*	IPRU Life*	Max Life**
Gross premium	210.2	253.5	329.9	427.9	557.0	452.7	395.7	64.3
New buss premium	101.4	109.7	137.9	182.1	243.9	252.6	139.5	22.9
New business margin	15.7%	16.0%	17.7%	18.4%	19.2%	27.1%	23.2%	21.0%
Net profit	9.6	11.5	13.3	14.8	17.2	17.5	13.5	1.7
AUM	977.4	1,162.6	1,410.2	1,680	2,032.4	1,962.7	2,405.1	650.0
Embedded Value	165.4	190.6	224.0	265.4	315.9	293.8#	321.2#	98.3
P/EV multiple forward					3.0	3.9	2.2	NA
Target EV multiple (x)					3.0	4.1	2.3	NA
SBI Life's Valuation					948	1,208	745	NA
- Current market cap					952	1,160	716	138
Implied PAT multiple forward (x)					55.1	61.5	49.8	NA
SBI Stake					58%			
Value for SBI					546			
Value per share					61			

\*As on FY21

\*\*For Max Life the numbers are as of 1HFY20

#Valuations are based on Sep'21

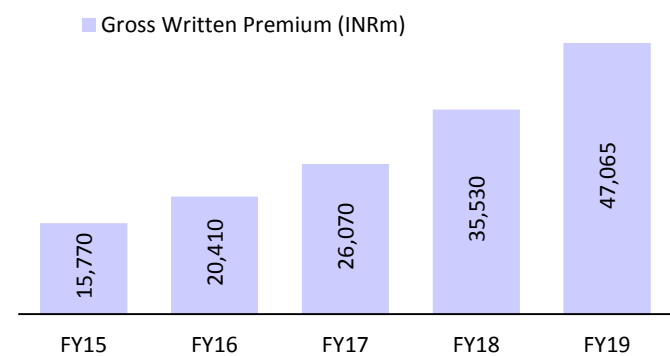
Source: MOFSL , Company



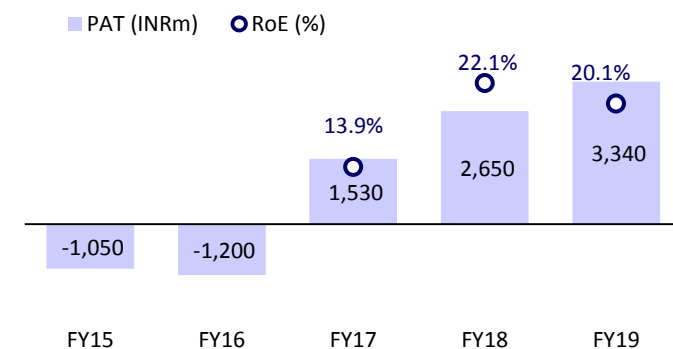
**SBI General Insurance – rapidly gaining scale and profitability**

Gross written premium  
CAGR of 31% over FY15-19.

- SBI General Insurance delivered ~31% CAGR in gross written premium over FY15-19, while it grew robustly at 51% YoY to INR31.2b in 1HFY20. It ranks 7<sup>th</sup> amongst private insurers and 11<sup>th</sup> in the industry on the basis of gross written premium. Its market share improved to 3.27% in 2QFY20 from 2.35% in FY18.
- PAT increased 26% YoY to INR3.3b in FY19 from INR2.6b in FY18, with an RoE of 20.1%. For 1HFY20, it delivered PAT of INR1.9b with an RoE of 21.6%. Combined ratio declined from ~96.4% in FY18 to ~94.9% in FY19, while a continuous improvement in process efficiencies, claims and expenses drove better operating ratios.
- According to a news article ([Link](#)), SBIN's general insurance business is valued at ~INR120b.

**Exhibit 21: GWP CAGR of 31% over FY15-19**

Source: MOFSL, Company

**Exhibit 22: PAT grew sharply over the last three years with RoE improving to ~20%**

Source: MOFSL, Company

**Exhibit 23: SBI General Insurance – Valuation**

INRb	FY17	FY18	FY19	FY20E	FY21E	ICICI Lombard (FY19)
Gross premium	26.1	35.5	NA	NA	NA	144.9
RoE	13.9%	22.1%	20.1%	NA	NA	20.3%
Net profit	1.5	2.7	3.3	4.2	5.4	10.0
P/PAT multiple forward					NA	37.0
Target PAT multiple (x)					25.0	NA
SBI General Valuation					136	NA
- Current market cap					NA	619
SBI Stake					70%	
Value for SBI					95	
Value per share					11	

Source: MOFSL, Company

**SBI Asset Management – fast gaining market share**

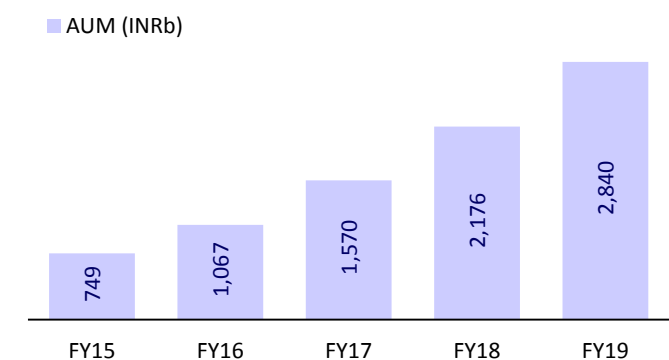
Third largest mutual fund  
with total AUM of ~INR3.2t.

- SBI Mutual Fund is the country's largest ETF provider and the third largest mutual fund with total AUM of ~INR3.2t (INR5.01t incl. PMS) and a market share of 12.5% as at 2QFY20. It had an SIP book of 10.9b as at 2QFY20.
- AUM CAGR was robust at 38% over FY16-19 (up from INR1.1t in FY16 to INR2.8t in FY19). PAT CAGR over the same period was 27% to reach INR4.3b in FY19

(INR2.8b in 1HFY20) with an RoE of 31.1%. SBI MF has a wide reach with ~6m retail investors and a 30% unique investor base of the MF industry.

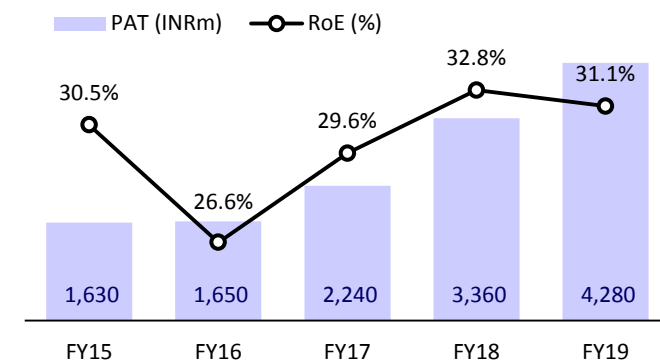
- SBI MF has a wide distribution base of 22,000 SBI branches, 24,157 of AMFI certified distributors, 50,000 individual financial advisors and global banks like CITI, STANC, Deutsche, Barclays. With stable inflows from SIP accounts and an increase in financialisation of savings, SBI MF is likely to continue gaining momentum and expanding market share, in our view.

**Exhibit 24: AUM CAGR of 40% over FY15-19**



Source: MOFSL, Company

**Exhibit 25: PAT CAGR of 27% over FY15-19**



Source: MOFSL, Company

**Exhibit 26: SBI MF gained the maximum market share**

Market Share (%)	FY17	FY18	FY19
HDFC MF	12.9%	13.0%	14.0%
IPRU MF	13.3%	13.3%	13.1%
SBI MF	8.6%	9.4%	11.6%
Birla MF	10.6%	10.7%	10.1%
Reliance MF	11.5%	10.6%	9.6%
UTI MF	7.5%	6.7%	6.5%
Kotak MF	5.0%	5.4%	6.1%
Franklin MF	4.5%	4.5%	4.9%
Axis MF	3.1%	3.4%	3.7%
DSP MF	3.6%	3.7%	3.2%

Source: MOFSL, Company

**Exhibit 27: SBI AUM CAGR of 38% over FY16-19**

Total AUM (INR b)	FY17	FY18	FY19	CAGR (FY16-19)
HDFC MF	2,375	3,008	3,425	25%
IPRU MF	2,431	3,062	3,213	22%
SBI MF	1,575	2,180	2,841	38%
Birla MF	1,953	2,478	2,467	22%
Reliance MF	2,117	2,456	2,343	14%
UTI MF	1,368	1,549	1,597	15%
Kotak MF	924	1,249	1,503	37%
Franklin MF	825	1,041	1,199	21%
Axis MF	578	774	898	33%
DSP MF	652	863	784	25%

Source: MOFSL, Company

**Exhibit 28: SBI Funds Management – Valuation**

INRb	FY17	FY18	FY19	FY20E	FY21E	HDFC AMC*	ICICI AMC*	Kotak AMC*
Net profit	2.2	3.4	4.3	6.2	8.6	6.6	5.2	1.6
RoE	29.6%	31.7%	31.1%	NA	NA	NA	NA	NA
<b>AUM</b>	<b>1,570.3</b>	<b>2,176.5</b>	<b>2,840.0</b>	<b>3,550.0</b>	<b>4,437.5</b>	<b>3,662.4</b>	<b>3,266.1</b>	<b>1,577.8</b>
<b>Debt: Equity Mix</b>		<b>67:33</b>	<b>67:33</b>	<b>NA</b>	<b>NA</b>	<b>55:45</b>	<b>53:47</b>	<b>59:41</b>
<b>P/AUM multiple forward</b>					<b>NA</b>	<b>15.4%</b>	<b>NA</b>	<b>NA</b>
<b>Target AUM multiple (x)</b>					<b>5.7%</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<b>SBI Funds Valuation</b>					<b>253</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
- Current market cap					<b>NA</b>	<b>740</b>	<b>NA</b>	<b>NA</b>
<b>Implied PAT multiple forward (x)</b>					<b>29.5</b>	<b>48.0</b>		
<b>SBI Stake</b>					<b>63%</b>			
<b>Value for SBI</b>					<b>159</b>			
<b>Value per share</b>					<b>18</b>			

\*As on 1HFY20

Source: MOFSL, Company

### NIM to sustain at ~3%; reduction in SA rate to support transition to external benchmark

The linking of floating rate retail and MSME loans to the external benchmark will bring in more variability to the bank's margins. However, SBIN has a higher share of CASA deposits, which places it in a better position to manage yield pressure on the asset side. SBIN has already linked SA balances above INR0.1m to the repo rate which stands at 3% (at floor level, unchanged after the last policy rate cut) and recently announced reducing the SA rate on balances up to INR0.1m to 3.25% from 3.5% w.e.f from 1<sup>st</sup> Nov'19. We believe that this will help offset margin pressure and will gradually become an important tool to control funding cost.

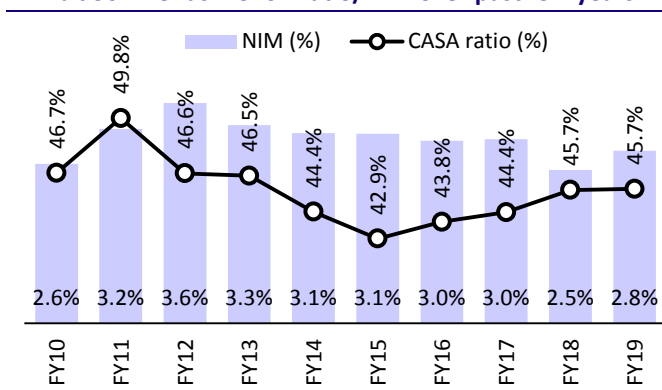
SBIN offers home loans linked to repo rate in the range of 7.95%-8.30%.

Further, margins should also be supported by an increasing proportion of retail loans to ~36% of domestic advances (2QFY20) v/s ~30% in 1QFY18, and lower interest reversal due to controlled slippages trajectory v/s previous years.

**Exhibit 29: Snapshot of home loan rates under external benchmark-based pricing regime**

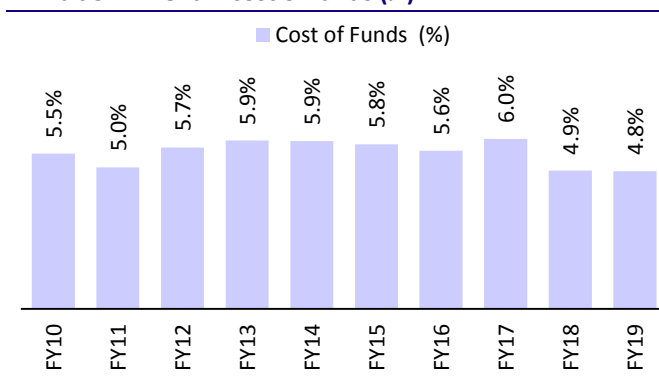
Home Loan Rates (%)	BOB	PNB	SBIN	AXSB	ICICIBC
Repo Rate	5.15%	5.15%	5.15%	5.15%	5.15%
Spread	295bp	265bp	265bp	345bp-390bp	350bp-410bp
Additional for customer risk rating	Up to 100bp	25bp-30bp	15bp-50bp	NA	NA
<b>Housing Loan as per Repo linked (A)</b>	<b>8.10%-9.10%</b>	<b>8.05%-8.10%</b>	<b>7.95%-8.30%</b>	<b>8.60%-9.05%</b>	<b>8.65%-9.25%</b>
One Year MCLR	8.40%	8.30%	8.15%	8.40%	8.45%
Spread	Up to 100bp	25bp-30bp	15bp-50bp	NA	NA
<b>Housing Loan as per MCLR (B)</b>	<b>8.40%-9.40%</b>	<b>8.55%-8.60%</b>	<b>8.30%-8.65%</b>	<b>NA</b>	<b>NA</b>
<b>Impact (B-A)</b>	<b>30bp</b>	<b>50bp</b>	<b>35bp</b>	<b>NA</b>	<b>NA</b>

**Exhibit 30: Trends – CASA ratio/NIM over past few years**



Source: MOFSL , Company

**Exhibit 31: Trend – cost of funds (%)**



Source: MOFSL , Company

Within retail, home loans comprise ~62% of total loans as at FY19.

### Loan book gaining granularity; retail loan CAGR of 24% over FY15-19

- SBIN's loan book is becoming granular. Retail loan CAGR was at 24% over FY15-19, as the proportion of retail loans to domestic advances improved to ~36% in 2QFY20 from ~25% in FY15. Within retail loans, home loans CAGR was at 26% and auto CAGR at 22% over FY15-19. Home and auto loans together form ~72% of total retail loans.
- SBIN has an overall NPA ratio of 1.0% on the retail book – 0.9%/1.0% in home loans/auto loans. The increased contribution of the retail book is likely to support the delinquency/margin profile.

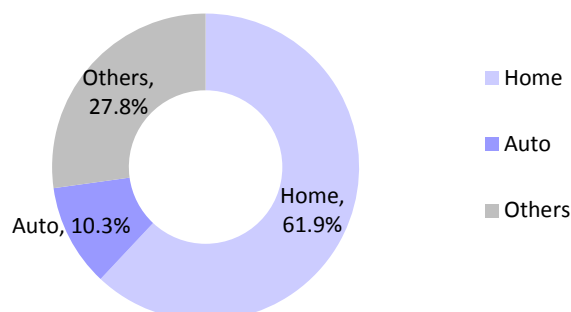
- SBIN is offering home loans (linked to repo rate) at 7.95-8.30%. Peers like AXSB offer at 8.60%-9.05% and ICICIBC at 8.65%-9.25%. We believe that SBIN is offering home loans at the lowest rates, which should help it gain market share.

**Exhibit 32: Loan book split: Retail loan CAGR of 24% over FY15-19**

Loan Mix (INR b)	FY14	FY16	FY18	2QFY20
Large Corporates	2,427	3,301	4,119	7,660*
Mid Corporates	2,284	2,424	3,298	
International	2,143	2,668	3,020	3,202
SME	1,798	2,177	2,699	2,741
Retail	2,377	3,270	5,466	6,856
Agri	1,423	1,254	1,883	2,025

Source: MOFSL, Company

**Exhibit 33: Composition of retail loans as on 2QFY20**



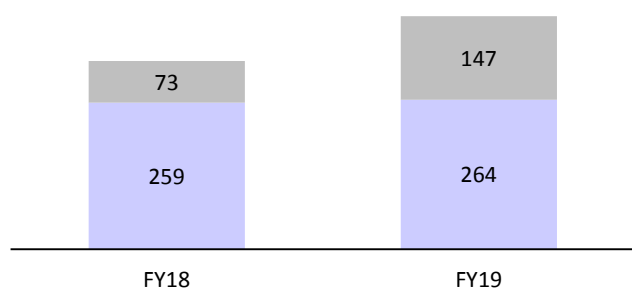
Source: MOFSL, Company

### Expect CI ratio to improve over FY19-21; staff provisions to moderate sharply

SBIN had made additional provisions toward wage revisions (INR39.8b) and enhancement in gratuity limit (~INR27.1b) over FY19, which led to elevated operating expenses. Besides, management guided for INR19b of wage-related provisions over FY20 (~50% reduction over FY19). Further, we expect rationalization of branches and improved efficiency due to technological initiatives on the digital front to help control operating expenses. We thus estimate an improvement in its C/I ratio to ~50% by FY21 from ~56% in FY19.

**Exhibit 34: Provision for employees grew ~101% YoY in FY19, leading to higher employee expense**

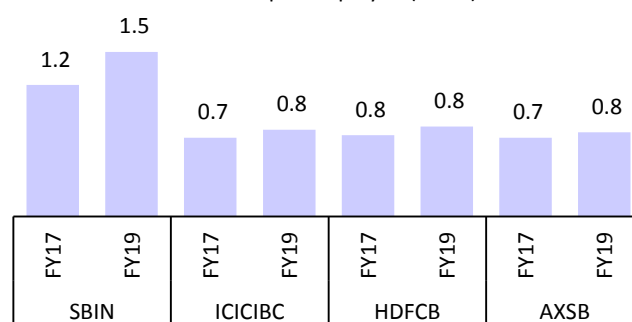
Salary (INRb)    Provision for Employee Expenses (INRb)



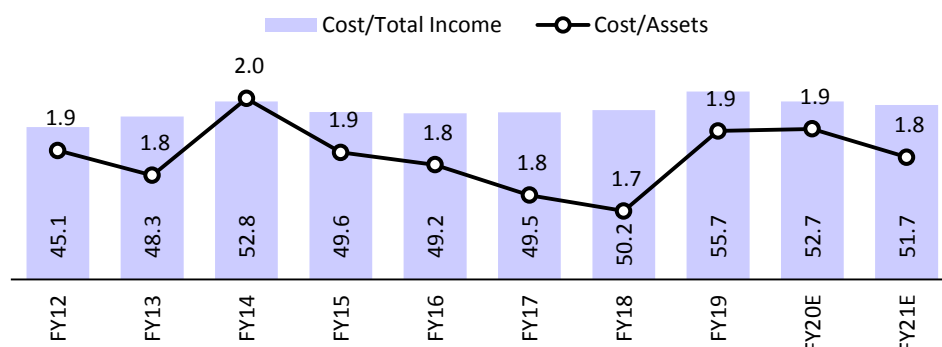
Source: Company, MOFSL

**Exhibit 35: Cost per employee across major banks**

Cost per employee (INRm)



Source: Company, MOFSL

**Exhibit 36: CI ratio to start declining post FY19 as wage revision and gratuity related provisions moderate**

Source: Company, MOFSL

**Valuation and view**

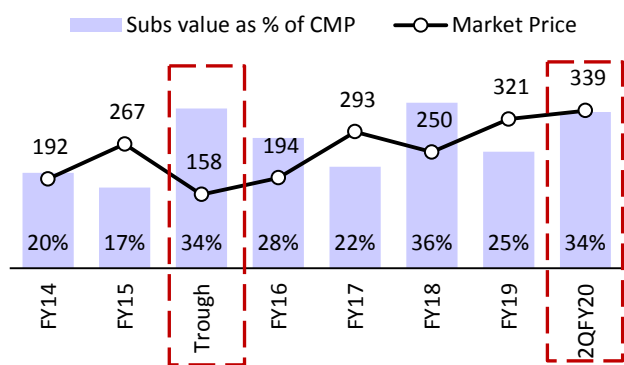
- SBIN is strengthening its balance sheet by making higher provisions toward stressed accounts. The bank increased its PCR (including TWO) from ~65% in 1QFY18 to ~81% in 2QFY20. SBIN holds higher provision coverage on power NPAs compared to peers. It maintains a PCR of ~54% on power NPAs and 93% (including TWO) on admitted NCLT accounts. The bank fully utilized the stake sale gain to create provisioning on stressed accounts.
- Among PSU banks, SBIN remains the best play on the gradual recovery in the Indian economy with a healthy PCR of 63% (81.2% including TWO), robust capitalization (Tier 1 of ~11.3%), a strong liability franchise and an improvement in core operating profitability (margins and opex).
- SBIN has demonstrated a strong improvement in slippage trajectory but prudently improved the coverage ratio over the past two years. The bank has one of the lowest net stressed assets amongst corporate banks, which will enable credit cost to decline sharply to 2.2%/1.3% for FY20/21 while NCLT write-backs and subs monetization will further boost earnings. At CMP, subs account for ~34% of total valuation, while the bank trades at a discount of 24% to its six-year average (1.2x ABV). We estimate RoA/RoE to improve to 0.8%/14.1% by FY21 though quarterly earnings may still remain volatile. SBIN remains our top investment idea in the banking space. Maintain **Buy** with a revised target price of INR425 (1.3x FY21E ABV + INR114 per share for subs).

**Exhibit 37: SOTP-based valuation**

Name	Stake (%)	Total Value (INR b)	Value per Share	% of total value	Rationale
<b>SBI Bank</b>	<b>100</b>	<b>2,776</b>	<b>311</b>	<b>73</b>	<b>1.3x FY21E ABV</b>
Life insurance	58	546	61	14	3.0x FY21E EV
Cards	74	419	47	11	28x FY21E PAT
Asset management	63	159	18	4	5.7% of FY21E AUM
General insurance	70	95	11	3	25x FY21E PAT
Capital Market/DFHI/Others		53	6	1	
<b>Total Value of Subs</b>		<b>1,272</b>	<b>142</b>	<b>34</b>	
Less: 20% holding disc		254	28	7	
<b>Value of Subs (Post Holding Disc)</b>		<b>1,017</b>	<b>114</b>	<b>27</b>	
<b>Target Price</b>		<b>3,793</b>	<b>425</b>		

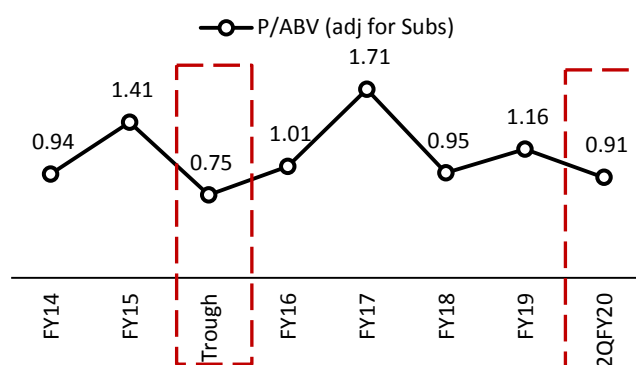
Source: MOFSL, Company

Exhibit 38: Subsidiaries contribution over the years



Source: MOFSL, Company

Exhibit 39: One-year forward P/ABV (adjusted for Subs)



Source: MOFSL, Company

Exhibit 40: We upgrade our FY20/21 earnings estimates by 15%/12% as we factor in higher recoveries from NCLT write-backs

INR B	Old Estimates		Revised Estimates		Change (%) /bps	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income	969.1	1,081.4	969.1	1,117.6	0.0	3.3
Other Income	433.9	442.6	433.9	442.6	0.0	0.0
<b>Total Income</b>	<b>1,403.0</b>	<b>1,524.1</b>	<b>1,403.0</b>	<b>1,560.2</b>	<b>0.0</b>	<b>2.4</b>
Operating Expenses	739.3	788.1	739.3	778.4	0.0	-1.2
<b>Operating Profits</b>	<b>663.7</b>	<b>735.9</b>	<b>663.7</b>	<b>781.8</b>	<b>0.0</b>	<b>6.2</b>
Provisions	371.4	340.2	331.4	340.2	-10.8	0.0
<b>PBT</b>	<b>292.3</b>	<b>395.8</b>	<b>332.3</b>	<b>441.6</b>	<b>13.7</b>	<b>11.6</b>
Tax	93.2	99.7	103.3	111.3	10.8	11.6
<b>PAT</b>	<b>199.1</b>	<b>296.0</b>	<b>229.0</b>	<b>330.3</b>	<b>15.0</b>	<b>11.6</b>
<b>Cons. PAT</b>	<b>216.3</b>	<b>316.7</b>	<b>246.3</b>	<b>351.0</b>	<b>13.8</b>	<b>10.8</b>
Loans (INRt)	24.0	26.9	24.0	26.9	0.0	0.0
Deposits (INRt)	31.6	34.7	31.6	34.7	0.0	0.0
Margins (%)	3.0	3.1	3.0	3.2	0	10
Credit Cost (%)	2.2	1.3	2.2	1.3	0	0
<b>RoA (%)</b>	<b>0.5</b>	<b>0.7</b>	<b>0.6</b>	<b>0.8</b>	<b>8</b>	<b>8</b>
<b>RoE (%)</b>	<b>9.7</b>	<b>13.0</b>	<b>11.1</b>	<b>14.1</b>	<b>136</b>	<b>116</b>
Standalone ABV	202.7	239.4	206.6	247.8	1.9	3.5
Consol BV	268.8	301.4	272.2	308.6	1.2	2.4
Consol EPS	24.2	35.5	27.6	39.3	13.8	10.8
Consol PAT post MI	216.3	316.7	246.3	351.0	13.8	10.8

Source: MOFSL, Company

**Exhibit 41: DuPont – return ratios to improve over FY19-21**

<b>Y/E MARCH</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
Interest Income	7.89	7.28	6.52	6.81	6.98	6.94
Interest Expense	5.23	4.83	4.31	4.33	4.43	4.21
<b>Net Interest Income</b>	<b>2.66</b>	<b>2.44</b>	<b>2.21</b>	<b>2.48</b>	<b>2.56</b>	<b>2.73</b>
Fee income	0.74	0.94	0.92	0.94	1.07	1.01
Trading and others	0.49	0.44	0.40	0.09	0.07	0.08
<b>Non-Interest income</b>	<b>1.23</b>	<b>1.39</b>	<b>1.32</b>	<b>1.03</b>	<b>1.14</b>	<b>1.08</b>
<b>Total Income</b>	<b>3.88</b>	<b>3.83</b>	<b>3.53</b>	<b>3.51</b>	<b>3.70</b>	<b>3.81</b>
<b>Operating Expenses</b>	<b>1.91</b>	<b>1.90</b>	<b>1.77</b>	<b>1.95</b>	<b>1.95</b>	<b>1.90</b>
Employee cost	1.08	1.10	0.98	1.15	1.15	1.12
Others	0.83	0.79	0.79	0.80	0.80	0.78
<b>Operating Profit</b>	<b>1.97</b>	<b>1.93</b>	<b>1.76</b>	<b>1.55</b>	<b>1.75</b>	<b>1.91</b>
<b>Core Operating Profit</b>	<b>1.48</b>	<b>1.49</b>	<b>1.36</b>	<b>1.47</b>	<b>1.68</b>	<b>1.83</b>
<b>Provisions</b>	<b>1.37</b>	<b>1.97</b>	<b>2.22</b>	<b>1.49</b>	<b>0.87</b>	<b>0.83</b>
NPA	1.29	1.80	2.11	1.53	1.30	0.81
Others	0.08	0.17	0.11	-0.04	-0.43	0.02
<b>PBT</b>	<b>0.60</b>	<b>-0.04</b>	<b>-0.46</b>	<b>0.06</b>	<b>0.88</b>	<b>1.08</b>
Tax	0.17	0.02	-0.27	0.04	0.27	0.27
<b>RoA</b>	<b>0.43</b>	<b>-0.06</b>	<b>-0.19</b>	<b>0.02</b>	<b>0.60</b>	<b>0.81</b>
Leverage (x)	17.0	17.6	18.0	18.3	18.3	17.5
<b>RoE</b>	<b>7.2</b>	<b>-1.0</b>	<b>-3.5</b>	<b>0.4</b>	<b>11.1</b>	<b>14.1</b>

Source: Company, MOFSL



## Financials and Valuations

Income Statement					(INRb)	
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	2,149.7	2,239.8	2,205.0	2,428.7	2,647.6	2,842.3
Interest Expense	1,425.8	1,487.8	1,456.5	1,545.2	1,678.5	1,724.7
<b>Net Interest Income</b>	<b>723.9</b>	<b>752.0</b>	<b>748.5</b>	<b>883.5</b>	<b>969.1</b>	<b>1,117.6</b>
Change (%)	4.4	3.9	-0.5	18.0	9.7	15.3
<b>Non-Interest Income</b>	<b>334.3</b>	<b>426.4</b>	<b>446.0</b>	<b>367.7</b>	<b>433.9</b>	<b>442.6</b>
<b>Total Income</b>	<b>1,058.2</b>	<b>1,178.4</b>	<b>1,194.5</b>	<b>1,251.2</b>	<b>1,403.0</b>	<b>1,560.2</b>
Change (%)	9.2	11.4	1.4	4.7	12.1	11.2
Operating Expenses	520.8	583.8	599.4	696.9	739.3	778.4
<b>Pre Provision Profits</b>	<b>537.3</b>	<b>594.6</b>	<b>595.1</b>	<b>554.4</b>	<b>663.7</b>	<b>781.8</b>
Change (%)	10.0	10.7	0.1	-6.8	19.7	17.8
<b>Core Provision Profits</b>	<b>479.0</b>	<b>458.5</b>	<b>460.9</b>	<b>522.9</b>	<b>635.4</b>	<b>750.6</b>
Change (%)	8.4	-4.3	0.5	13.5	21.5	18.1
Provisions (excl. tax)	374.1	607.2	750.4	531.3	331.4	340.2
<b>PBT</b>	<b>163.2</b>	<b>-12.6</b>	<b>-155.3</b>	<b>23.1</b>	<b>332.3</b>	<b>441.6</b>
Tax	47.3	5.5	-89.8	14.5	103.3	111.3
Tax Rate (%)	29.0	-43.3	57.8	62.6	31.1	25.2
<b>PAT</b>	<b>115.9</b>	<b>-18.0</b>	<b>-65.5</b>	<b>8.6</b>	<b>229.0</b>	<b>330.3</b>
Change (%)	-28.9	NA	NA	NA	NA	44.2
<b>Cons. PAT post MI</b>	<b>122.2</b>	<b>2.4</b>	<b>-45.6</b>	<b>23.0</b>	<b>246.3</b>	<b>351.0</b>
Change (%)	-28.1	-98.0	NA	NA	NA	42.5

Balance Sheet						
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	8	8	9	9	9	9
Reserves & Surplus	1,683	2,110	2,182	2,200	2,419	2,734
<b>Net Worth</b>	<b>1,691</b>	<b>2,118</b>	<b>2,191</b>	<b>2,209</b>	<b>2,428</b>	<b>2,743</b>
<b>Deposits</b>	<b>22,405</b>	<b>25,853</b>	<b>27,063</b>	<b>29,114</b>	<b>31,589</b>	<b>34,747</b>
Change (%)	9.8	15.4	4.7	7.6	8.5	10.0
<b>of which CASA Dep.</b>	<b>8,608</b>	<b>11,988</b>	<b>12,039</b>	<b>12,976</b>	<b>14,183</b>	<b>15,984</b>
Change (%)	6.9	39.3	0.4	7.8	9.3	12.7
Borrowings	2,525	3,321	3,621	4,030	3,431	3,703
Other Liab. & Prov.	1,898	1,756	1,671	1,456	1,558	1,683
<b>Total Liabilities</b>	<b>28,519</b>	<b>33,049</b>	<b>34,548</b>	<b>36,809</b>	<b>39,005</b>	<b>42,876</b>
Current Assets	2,020	2,709	1,919	2,225	2,379	2,513
<b>Investments</b>	<b>6,155</b>	<b>9,329</b>	<b>10,610</b>	<b>9,670</b>	<b>9,090</b>	<b>9,635</b>
Change (%)	3.0	51.6	13.7	-8.9	-6.0	6.0
<b>Loans</b>	<b>18,493</b>	<b>18,690</b>	<b>19,349</b>	<b>21,859</b>	<b>24,045</b>	<b>26,930</b>
Change (%)	10.5	1.1	3.5	13.0	10.0	12.0
Fixed Assets	143	499	400	392	400	412
<b>Total Assets</b>	<b>28,519</b>	<b>33,049</b>	<b>34,548</b>	<b>36,809</b>	<b>39,005</b>	<b>42,876</b>

Asset Quality						
GNPA	1,182	1,779	2,234	1,728	1,438	1,263
NNPA	558	970	1,109	659	506	438
GNPA Ratio	6.18	9.12	10.91	7.53	5.76	4.55
NNPA Ratio	3.02	5.19	5.73	3.01	2.10	1.63
Slippage Ratio	5.4	7.0	8.4	1.6	1.90	1.40
Credit Cost	2.2	3.3	3.8	2.7	2.2	1.3
PCR (Excl. Tech. W/O)	52.8	45.5	50.4	61.9	64.8	65.3

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Yield and Cost Ratios (%)</b>						
<b>Avg. Yield-Earning Assets</b>	<b>8.9</b>	<b>9.0</b>	<b>7.4</b>	<b>7.8</b>	<b>8.1</b>	<b>8.0</b>
Avg. Yield on loans	9.0	9.3	7.4	7.8	8.4	8.5
Avg. Yield on Investments	8.3	8.5	7.2	7.5	7.4	7.2
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>6.0</b>	<b>6.0</b>	<b>4.9</b>	<b>4.8</b>	<b>4.9</b>	<b>4.7</b>
Avg. Cost of Deposits	5.8	6.4	5.1	5.0	5.1	4.8
<b>Interest Spread</b>	<b>2.9</b>	<b>3.0</b>	<b>2.5</b>	<b>2.9</b>	<b>3.1</b>	<b>3.3</b>
<b>Net Interest Margin</b>	<b>3.0</b>	<b>3.0</b>	<b>2.5</b>	<b>2.8</b>	<b>3.0</b>	<b>3.2</b>

### Capitalization Ratios (%)

CAR	13.1	13.0	12.7	12.8	12.6	12.5
Tier I	9.9	10.4	10.5	10.8	10.8	10.8
Tier II	3.2	2.6	2.2	2.1	1.9	1.6

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	82.5	72.3	71.5	75.1	76.1	77.5
CASA Ratio	38.4	46.4	44.5	44.6	44.9	46.0
Cost/Assets	1.8	1.8	1.7	1.9	1.9	1.8
Cost/Total Income	49.2	49.5	50.2	55.7	52.7	49.9
Cost/Core Income	53.6	56.0	56.5	57.1	53.8	50.9
Int. Expense./Int. Income	66.3	66.4	66.1	63.6	63.4	60.7
Fee Income/Total Income	26.1	24.6	26.1	26.9	28.9	26.4
Non Int. Inc./Total Income	31.6	36.2	37.3	29.4	30.9	28.4
Emp. Cost/Total Expense	56.4	58.2	55.3	58.9	58.9	59.0
Investment/Deposit Ratio	27.5	36.1	39.2	33.2	28.8	27.7

### Profitability Ratios and Valuation

RoE	7.6	-1.1	-3.5	0.4	11.1	14.1
RoA	0.4	-0.1	-0.2	0.0	0.6	0.8
RoRWA	0.9	-0.1	-0.3	0.0	1.0	1.3
Consolidated RoE	7.8	0.1	-2.0	1.0	9.9	12.9
Consolidated RoA	0.4	0.0	-0.1	0.1	0.6	0.8
Consol BV (INR)	222	248	243	248	272	309
Change (%)	7.2	11.6	-2.0	2.0	10.0	13.4
<b>Price-Consol BV (x)</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.4</b>	<b>1.2</b>	<b>1.1</b>
Adjusted BV (INR)	157	139	135	170	207	248
<b>Price-ABV (x)</b>	<b>1.4</b>	<b>1.6</b>	<b>1.7</b>	<b>1.3</b>	<b>1.1</b>	<b>0.9</b>
EPS (INR)	14.9	-2.3	-7.7	0.1	25.7	37.0
Change (%)	-31.6	NA	NA	NA	NA	44.2
<b>Price-Earnings (x)</b>	<b>15.1</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>8.8</b>	<b>6.1</b>
Dividend Per Share (INR)	2.6	3.0	0.0	0.0	1.1	1.7
<b>Dividend Yield (%)</b>	<b>0.8</b>	<b>0.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>0.5</b>

E: MOSL Estimates

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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