

State Bank of India

BSE SENSEX

28,123

S&P CNX

8,673

CMP: INR248

TP: INR290 (+17%)

Buy



Stock Info

Bloomberg	SBIN IN
Equity Shares (m)	7,763.6
52-Week Range (INR)	288 / 148
1, 6, 12 Rel. Per (%)	7/32/-14
M.Cap. (INR b)	1,925.4
M.Cap. (USD b)	28.8
Avg Val (INRm)	4553
Free float (%)	39.8

Financials Snapshot (INR b)

Y/E Mar	2016	2017E	2018E
NII	569	610	693
OP	433	475	499
NP	100	113	146
EPS (INR)	15.7	14.7	24.3
EPS Gr. %	-30.8	-6.4	64.6
Cons. BV (INR)	222	234	253
P/E (x)	15.1	16.2	9.8
P/BV (x)	1.1	0.9	0.9
RoE (%)	7.6	7.9	9.5
RoA (%)	0.5	0.5	0.5

Shareholding pattern (%)

As On	Jun-16	Mar-16	Jun-15
Promoter	60.2	60.2	59.2
DII	19.5	18.8	18.3
FII	10.7	10.9	13.6
Others	9.7	10.1	8.9

FII Includes depository receipts

Please refer note
dated 18 May 2016


Mega merger crosses another hurdle

Share swap to lead to ~1.8% dilution for SBI

Event: State Bank of India (SBIN) at its board meeting today approved swap ratio for the listed three associate banks (SBBJ, SBM and SBT) and the Government of India's wholly owned Bhartiya Mahila Bank Limited (BMBL). Parent stake in associate banks will get cancelled post-merger. Other two associate banks, SBH and SBP, are wholly owned by SBIN, and their merger thus will not lead to any dilution.

At share swap ratio, 1.8% dilution for SBIN

- SBIN would issue 28/22/22 equity shares of INR1 each for every 10 shares of INR10 of SBBJ/SBM/SBT. Further, it would issue 44.2m shares in exchange of 1b equity shares of BMBL.
- At the share swap ratio, SBBJ/SBM/SBT are valued at INR48.7b/26.2b/38.9b, which is at 3.4%/(12.4%)/7.3% premium/(discount) to today's closing price. On PBV basis, SBBJ/SBM/SBT are valued at 0.7x/0.6x/0.6x FY16, as against 1.1x for SBIN.
- Overall share swap would lead to ~1.8% equity dilution in exchange shares to be issued to minority shareholders.

Another hurdle crossed; Focus shifts to merged accounts now

- Post the announcement of the merger ([refer note dated 18 May 2016](#)), this was another hurdle to be crossed. Now, the focus will shift to merged number. In 1QFY17, we saw weak performance at associate banks as SBIN focused on harmonizing accounting policies and asset classification.
- We expect similar weak performance for 2QFY17 as well, and expect SBIN to report merged financials from 3QFY17.
- SBIN has already communicated employee-related one-time cost of INR30b for additional benefits. Further, it will have to bear additional cost of INR250m/month for change in salary structure of associate banks.

High long-term synergies; Integration of 70k+ employees is a challenge

- Branch rationalization, if executed well, would be one of the key synergy benefits from the merger. Cost savings on account of treasury operations, audit, technology, etc. would lower cost-to-income ratio in the long term.
- High network post-merger makes SBIN a default bank for corporate India. Further, strong branch network and SBI brand will increase retail and SME business. Liability franchise is likely to get further strength from the merger.
- Immediate negative impact would be from pension liability provisions (due to different employee benefit structures) and harmonization of accounting policies for NPA recognition. Consolidated CET1 ratio remains at 9.5%+.
- Integration of 70k+ employees (34% of parent workforce; size of business is 25% of the parent's) will be a key challenge.

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Dilution Details

New Shares	136
Dilution Post merger (%)	1.73
Dilution Pre merger (%)	1.76

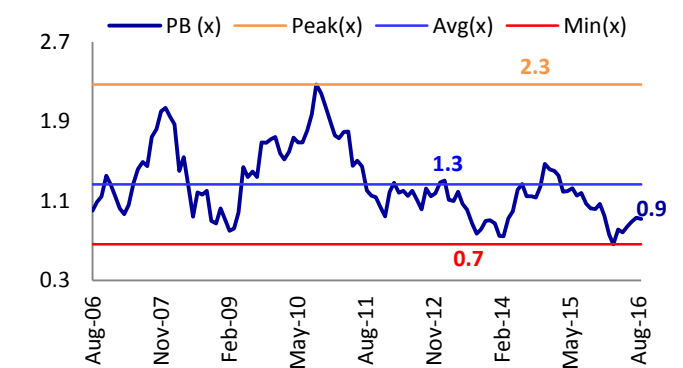
Maintain target price of INR290 (1x Cons. BV+INR33/share for Insurance)

- As a merged entity, SBIN will become 24%+ market share entity in the system. In our view, SBIN may not be an acquirer in PSU bank consolidation now, considering integration risk related to large mergers and significant concentration in the system.
- Dilution at the current market cap on account of the merger (minority shareholding in SBBJ/SBT/SBM at 25%/21%/10%) is likely to be ~1.8%. At the current market cap, total value for minority shareholders of associate banks stands at INR22.3b.
- We value SBIN on a consolidated basis. As integration cost and dilution associated with the merger is not meaningful, it does not lead to a change in our target price. BMBL operations are small (loans of ~INR10b; networth of INR10b+) and thus are unlikely to be meaningful from a merger perspective.

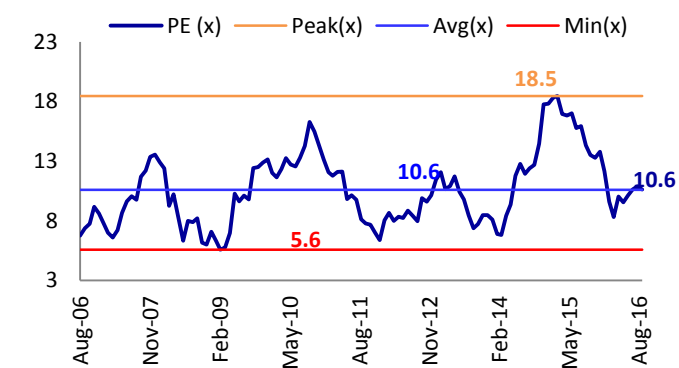
Exhibit 1: Merger Swap Ratio Details

In M	CMP (INR)	Shares Outstanding	SBI Holding (% to total)	Other shareholders (% to total)	Swap Ratio (Acquired company: SBIN)	New SBI Shares Issued	Premium/Discount (%)	BVPS (F16)	Current P/BV (F16)
SBBJ	673	70	75.1	24.9	28:10	48.86	3	963	0.70
SBM	624	48	90.0	10.0	22:10	10.56	-12	973	0.64
SBT	509	71	79.1	20.9	22:10	32.71	7	847	0.60
BMBL		1,000	0	100.0	0.44:10	44.23			

Source: MOSL, Company

Exhibit 2: SBIN: 1yr forward P/BV (x)

Source: MOSL, Company

Exhibit 3: SBIN: 1yr forward P/E (x)

Source: MOSL, Company

Exhibit 4: Consolidated financial performance (INR b)

	SBI ASSO. AGG					SBI PARENT					SBI BANKING BUSINESS				
	FY12	FY13	FY14	FY15	FY16	FY12	FY13	FY14	FY15	FY16	FY12	FY13	FY14	FY15	FY16
NII	114	129	137	143	152	433	443	493	550	552	547	572	630	693	704
% Change (Y-o-Y)	10.5	13.6	6.2	4.3	6.2	33.1	2.4	11.2	11.6	0.4	27.7	4.7	10.1	10.0	1.6
Other Income	35	37	42	50	55	144	160	186	226	264	179	197	227	276	320
% Change (Y-o-Y)	3.4	3.7	13.5	21.3	9.8	-9.3	11.7	15.7	21.7	17.1	-7.1	10.2	15.3	21.6	15.8
Net Income	149	166	179	193	207	576	604	678	776	817	725	769	857	969	1,024
% Change (Y-o-Y)	8.7	11.2	7.8	8.3	7.2	19.2	4.7	12.4	14.4	5.3	16.9	6.1	11.4	13.1	5.7
Operating Exp.	67	77	94	100	103	261	293	357	387	419	327	370	451	487	522
% Change (Y-o-Y)	9.0	16.0	21.3	6.6	2.8	13.3	12.3	22.0	8.3	8.4	12.4	13.1	21.9	7.9	7.3
Operating Profit	82	88	85	93	104	316	311	321	389	397	398	399	406	482	502
% Change (Y-o-Y)	8.5	7.3	-4.0	10.2	11.9	24.6	-1.6	3.3	21.2	2.1	20.9	0.3	1.7	18.9	4.0
Other Provisions	30	37	46	45	79	131	111	159	196	246	161	149	205	241	326
Profit before Tax	52	51	39	48	25	185	200	162	193	151	237	250	201	241	176
Tax Provisions	16	14	11	16	9	68	58	53	62	50	84	72	64	78	59
Net Profit	36	37	28	32	16	117	141	109	131	101	153	178	137	163	117
% Change (Y-o-Y)	0.8	1.4	-24.5	15.2	-50.3	41.7	20.5	-22.8	20.3	-22.8	29.3	16.0	-23.1	19.3	-28.2
Loan Gr. (YoY, %)	20.9	17.7	6.8	5.5	3.7	14.7	20.5	15.7	7.5	12.0	17.0	19.9	13.1	7.1	9.8
ROA	0.90	0.77	0.52	0.57	0.27	0.91	0.97	0.65	0.68	0.47	0.93	0.91	0.60	0.65	0.43
Cost to income (%)	44.8	46.8	52.6	51.8	49.7	45.2	48.5	52.7	49.8	51.3	45.1	48.1	52.7	50.2	51.0
Gross NPA (INR b)	85.4	115.9	182.1	167.8	238.0	396.8	511.9	616.1	567.3	813.4	482.1	627.8	798.2	735.1	1051.3
Gross NPA (%)	3.0	3.4	5.0	4.4	6.0	4.4	4.8	5.0	4.3	5.5	4.1	4.4	5.0	4.3	5.6
Net NPA (INR b)	44.2	61.4	107.2	96.9	131.8	158.2	219.6	311.0	275.9	484.6	202.4	281.0	418.2	372.8	616.4
Net NPA (%)	1.5	1.8	3.0	2.6	3.4	1.8	2.1	2.6	2.1	3.3	1.8	2.0	2.7	2.2	3.3
PCR (%)	48.3	47.0	41.1	42.3	44.6	60.1	57.1	49.5	51.4	40.4	58.0	55.2	47.6	49.3	41.4
Tax Rate (%)	30.7	27.4	28.9	33.6	36.4	36.7	29.3	32.7	32.2	33.0	35.3	28.9	31.9	32.5	33.5

Source: MOSL, Company

Financials and Valuations

Income Statement (Standalone)								(INR Million)
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Interest Income	1,065,215	1,196,551	1,363,508	1,523,971	1,636,853	1,732,288	1,886,474	2,150,208
Interest Expense	632,304	753,258	870,686	973,818	1,068,035	1,121,865	1,193,518	1,367,592
Net Interest Income	432,911	443,293	492,822	550,152	568,818	610,423	692,956	782,616
Change (%)	33.1	2.4	11.2	11.6	3.4	7.3	13.5	12.9
Non Interest Income	143,514	160,368	185,529	225,759	281,584	328,097	323,401	354,470
Net Income	576,425	603,661	678,351	775,911	850,402	938,520	1,016,357	1,137,086
Change (%)	19.2	4.7	12.4	14.4	9.6	10.4	8.3	11.9
Operating Expenses	260,690	292,844	357,259	380,539	417,824	463,993	517,718	577,982
Pre Provision Profits	315,735	310,817	321,092	395,373	432,578	474,528	498,639	559,105
Change (%)	24.6	-1.6	3.3	23.1	9.4	9.7	5.1	12.1
Provisions (excl tax)	130,902	111,308	159,353	202,233	294,838	308,266	284,168	284,579
PBT	184,833	199,509	161,739	193,140	137,741	166,261	214,471	274,526
Tax	67,760	58,459	52,827	62,124	38,234	53,204	68,631	87,848
Tax Rate (%)	36.7	29.3	32.7	32.2	27.8	32.0	32.0	32.0
PAT	117,073	141,050	108,912	131,016	99,507	113,058	145,840	186,677
Change (%)	41.7	20.5	-22.8	20.3	-24.0	13.6	29.0	28.0
Cons. PAT post MI	153,431	179,162	141,738	169,943	122,246	114,453	188,370	240,886
Change (%)	43.6	16.8	-20.9	19.9	-28.1	-6.4	64.6	27.9

Balance Sheet

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Equity Share Capital	6,710	6,840	7,466	7,466	7,764	7,764	7,764	7,764
Reserves & Surplus	832,802	981,997	1,175,357	1,276,917	1,434,982	1,848,737	1,951,723	2,085,566
Net Worth	839,512	988,837	1,182,822	1,284,382	1,442,745	1,856,500	1,959,487	2,093,330
Deposits	10,436,474	12,027,396	13,944,085	15,767,932	17,307,224	18,864,875	21,694,606	24,948,797
Change (%)	11.7	15.2	15.9	13.1	9.8	9.0	15.0	15.0
of which CASA Dep	4,676,066	5,390,634	5,984,004	6,519,051	7,375,531	8,380,144	9,637,165	11,082,740
Change (%)	1.3	15.3	11.0	8.9	13.1	13.6	15.0	15.0
Borrowings	1,270,056	1,691,827	1,831,309	2,051,503	2,241,906	2,464,193	2,708,839	2,978,157
Other Liab. & Prov.	809,151	954,053	964,130	1,376,980	1,598,755	1,862,037	2,139,643	2,460,304
Total Liabilities	13,355,192	15,662,113	17,922,346	20,480,798	22,590,630	25,047,605	28,502,575	32,480,587
Current Assets	971,632	1,148,202	1,325,496	1,547,558	1,674,677	1,450,524	1,724,268	1,905,345
Investments	3,121,976	3,508,775	3,983,082	4,817,588	4,770,973	5,486,619	6,309,611	7,256,053
Change (%)	5.6	12.4	13.5	21.0	-1.0	15.0	15.0	15.0
Loans	8,675,789	10,456,166	12,098,287	13,000,264	14,637,004	16,247,075	18,359,194	20,929,482
Change (%)	14.7	20.5	15.7	7.5	12.6	11.0	13.0	14.0
Fixed Assets	54,665	70,050	80,022	93,292	103,893	459,304	494,805	532,806
Other Assets	531,130	478,920	435,459	1,022,097	1,404,084	1,404,084	1,614,697	1,856,901
Total Assets	13,355,192	15,662,113	17,922,346	20,480,798	22,590,630	25,047,605	28,502,575	32,480,587

Asset Quality

	(%)							
GNPA (INR m)	396,765	511,894	616,050	567,249	981,724	1,054,664	952,779	733,678
NNPA (INR m)	158,189	219,565	310,961	275,906	558,070	543,496	444,563	363,837
GNPA Ratio	4.45	4.76	4.97	4.27	6.52	6.29	5.05	3.44
NNPA Ratio	1.82	2.10	2.57	2.12	3.81	3.35	2.42	1.74
PCR (Excl Tech. W/O)	60.1	57.1	49.5	51.4	43.2	48.5	53.3	50.4
PCR (Incl Tech. W/O)	68.1	66.6	62.9	69.1	60.7	66.1	73.2	78.3

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Spreads Analysis (%)								
Avg. Yield-Earning Assets	9.2	9.0	8.8	8.8	8.6	8.2	7.9	7.9
Avg. Yield on loans	10.0	9.5	9.1	9.0	8.4	8.1	7.9	7.9
Avg. Yield on Investments	7.9	8.2	8.5	8.0	8.8	8.3	7.8	7.8
Avg. Cost-Int. Bear. Liab.	5.7	5.9	5.9	5.8	5.7	5.5	5.2	5.2
Avg. Cost of Deposits	5.6	6.0	6.0	6.0	6.0	5.7	5.4	5.4
Interest Spread	3.6	3.0	2.9	3.0	2.9	2.7	2.7	2.7
Net Interest Margin	3.8	3.3	3.2	3.2	3.0	2.9	2.9	2.9

Profitability Ratios (%)

RoE	16.0	15.9	10.5	11.2	7.6	7.9	9.5	11.3
RoA	0.9	1.0	0.6	0.7	0.5	0.5	0.5	0.6
Consolidated RoE	17.2	16.3	11.1	11.9	7.8	6.8	10.3	12.0
Consolidated RoA	0.9	0.9	0.6	0.7	0.4	0.4	0.6	0.6

Efficiency Ratios (%)

Cost/Income*	45.3	50.3	55.6	53.1	54.1	56.7	56.1	55.6
Empl. Cost/Op. Exps.	65.1	62.8	63.0	61.9	60.1	57.7	56.8	55.9
Busi. per Empl. (INR m)	82.2	93.7	107.8	125.9	144.2	161.4	180.9	206.8
NP per Empl. (INR lac)	5.3	6.4	4.8	6.0	4.7	5.4	7.0	9.0

* ex treasury and recoveries

Asset-Liability Profile (%)

Loans/Deposit Ratio	83.1	86.9	86.8	82.4	84.6	86.1	84.6	83.9
CASA Ratio	44.8	44.8	42.9	41.3	42.6	44.4	44.4	44.4
Investment/Deposit Ratio	29.9	29.2	28.6	30.6	27.6	29.1	29.1	29.1
G-Sec/Investment Ratio	81.9	76.7	77.4	78.4	75.5	77.8	77.7	77.6
CAR	13.9	12.9	12.4	12.0	13.1	12.7	12.1	11.7
<i>Tier 1</i>	<i>9.8</i>	<i>9.5</i>	<i>9.7</i>	<i>9.6</i>	<i>9.9</i>	<i>9.6</i>	<i>9.1</i>	<i>8.7</i>

Valuation

Book Value (INR)	121	139	150	164	178	190	204	222
BV Growth (%)	19.8	14.8	7.8	8.9	8.7	6.6	7.4	8.9
Price-BV (x)	2.0	1.8	1.6	1.5	1.4	1.3	1.2	1.1
Consol BV (INR)	154	177	188	207	222	234	253	279
BV Growth (%)	18.3	14.8	6.5	10.0	7.2	5.3	8.4	9.9
Price-Consol BV (x)	1.5	1.3	1.3	1.2	1.1	0.9	0.9	0.8
Adjusted BV (INR)	105	117	121	138	128	141	164	189
Price-ABV (x)	2.4	2.1	2.0	1.8	1.9	1.8	1.5	1.3
Adjusted Consol BV	132	147	149	172	159	166	200	236
Price-Consol ABV (x)	1.8	1.6	1.6	1.4	1.5	1.4	1.2	1.0
EPS (INR)	17.4	20.6	14.6	17.5	12.8	14.6	18.8	24.0
EPS Growth (%)	34.0	18.2	-29.3	20.3	-27.0	13.6	29.0	28.0
Price-Earnings (x)	14.2	12.0	17.0	14.1	19.3	17.0	13.2	10.3
Consol EPS (INR)	22.9	26.2	19.0	22.8	15.7	14.7	24.3	31.0
Con. EPS Growth (%)	35.9	14.6	-27.5	19.9	-30.8	-6.4	64.6	27.9
Price-Consol EPS (x)	10.4	9.1	11.7	10.5	15.1	16.2	9.8	7.7
Dividend Per Share (INR)	3.5	4.2	3.0	3.5	2.6	2.5	4.0	5.1
Dividend Yield (%)	1.4	1.7	1.2	1.4	1.0	1.0	1.6	2.1

E: MOSL Estimates

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