

Aug 13, 2018

State Bank of India

Q1FY19 Result Update

Total assets dropped 3% QoQ led by similar drop in advances; Deposits up 2%

Total assets came at 33449bn as compared to 34547bn in Q4FY18. Advances shrunk 3% to 18757bn due to shift from large corporate loan to mid-size corporate loans. Evidently, large corporate book shrunk 30% QoQ, while mid-size corporate book grew 25% QoQ. Retail book witnessed 2% QoQ growth to 5591bn. Deposits grew 2% QoQ to 27478bn and CASA came at 45% as oppose to 46% in previous quarter.

NIM aided on back of improved yield and moderating cost of funds

Yield on advances improved from 8.3% in Q4FY18 to 8.6%, yield on investments remained flat at 7.3%, while cost of funds squeezed from 5.4% in Q4FY18 to 5.2%. This resulted in improving NIM by 30bps to 2.8% in current quarter.

Cost to income expanded on lower base

Cost to income came at 58% as compared to 51% in previous quarter due to 12% drop in total operating income to 285bn on the back of 47% fall in non-interest income (67bn v/s 125bn in Q4). Loan processing fees tumbled 41% to 6bn, transaction fees tanked 58% to 15bn.

Credit cost expected to moderate

GNPA came at 10.7% as compared to 10.9% in Q4. NNPA came at 5.3% as compared to 5.7% in Q4. PCR came at 53% as compared to 50%. Credit cost came at 2.6% as compared to 4.9% in Q4FY18 and 3.6% in FY18. Management guided for credit cost to moderate around 2% by Mar'19. CRAR came at 12.8% (Tier I: 9.8%) as compared to 12.6% (9.7%) in Q4.

Valuations

Bank reported loss of 4875cr as oppose to 2006cr in Q1FY18. We expect bank to report RoA (annualized) of 0.2% on back of strong recovery from NCLT list and economies of scale due to credit growth of 10%. Stock is trading at FY20E P/BV of 1.1x, we assign BUY rating and value stock at P/BV of 1.3x implying an upside potential of 14% and a target price of INR 335.

Financial Snapshot

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	57,194.8	61,859.7	74,853.7	91,109.8	102,455.6
Growth%	4%	8%	21%	22%	12%
Pre-provisioning profit	43,257.8	50,847.9	59,511.0	70,380.5	74,802.7
Growth%	11%	18%	17%	18%	6%
Adjusted PAT	9,950.7	10,484.1	-6,547.5	6,765.6	8,735.2
Growth%	-24%	5%	-	-	29%
EPS (INR)	12.8	13.1	-	7.6	9.8
BVPS (INR)	185.9	236.1	245.5	250.8	257.7
ABVPS (INR)	114.0	113.7	120.6	114.3	113.9
P/B (x)	1.0	1.2	1.0	1.2	1.1
P/ABV (x)	1.7	2.6	2.1	2.6	2.6

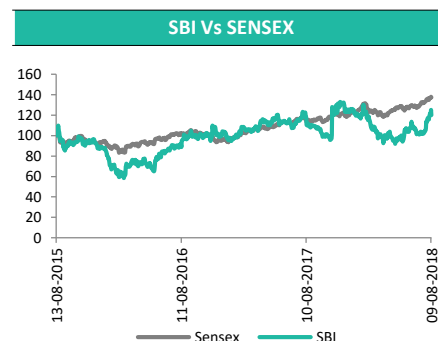
Source: NSPL Research

* Read last page for disclaimer & rating rationale



Stock Details	
Industry	BFSI
Sensex	37644
Nifty	11355
Bloomberg Code	SBIN:IN
Eq. Cap. (Rs. Cr)	893
Face Value (Rs.)	1
52-w L/H	232/351
Market Cap (Cr)	262,407

	Valuation Data		
	FY18A	FY19E	FY20E
NIM	2.6%	2.7%	2.8%
Book value	246	251	258
Adj BV	121	114	114
P/BV	1.0x	1.2x	1.1x



Shareholding Pattern			
	Jun'18	Mar'18	Jun'17
Promoters	58.5	58.9	58.0
FII's	10.4	11.2	11.2
MF	11.9	10.9	9.5
Retail	5.6	5.6	6.1
Others	13.7	13.4	15.2
	100.0	100.0	100.0



Q1FY19 Result Analysis

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Interest on Advances/Bills	38865	36142	34235	8%	14%
Interest on Investment	18588	16598	18278	12%	2%
Interest on bal. with RBI & Others	245	946	256	-74%	-4%
Other Interest	1116	1220	3172	-9%	-65%
INTEREST EARNED	58813	54905	55941	7%	5%
Net-Interest Income (NII)	21798	17606	19974	24%	9%
Other Income	6679	8006	12495	-17%	-47%
Total Operating Income	28478	25612	32469	11%	-12%
Operating Expenses	16505	13738	16585	20%	0%
Pre-Provisional Profits	11973	11874	15884	1%	-25%
Provisions & Contingencies	19228	8929	28096	115%	-32%
PBT	-7255	2945	-12212		
Provision for Taxes	-2379	939	-4495		
Adjusted Net Profit	-4876	2006	-7718		

Source: Company, NSPL Research

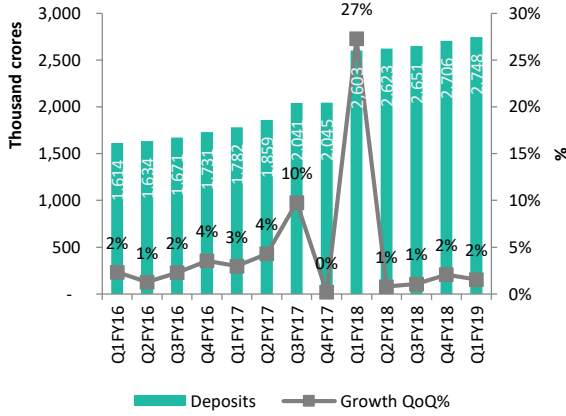
- Bank's total operating income grew 11% YoY from 25612cr in Q1FY18 & de-grew 12% QoQ from 32469cr in Q4FY18 to 28478cr in this quarter on the back of 24% YoY growth in net interest income founded on 4% YoY growth in advances.
- Bank's Net Interest Income grew 24% YoY from 17606cr in Q1FY18 & 9% QoQ from 19974cr in Q4FY18 to 21798cr in this quarter. Yield on advances expanded from 8.5% in Q1FY18 to 8.6% in Q1FY19, yield on investments marginally contracted from 7.4% in Q1FY18 to 7.3% in Q1FY19 and cost of funds contracted from 5.6% in Q1FY18 to 5.2% in Q1FY19, resulting in 44bps NIM improvement to 2.8%.
- Bank's quarterly cost to income ratio expanded by 430bps YoY to 58.0% due to 26% YoY growth in employee expenses.
- Bank's quarterly pre-provisioning profit grew 1% YoY from 11874cr in Q1FY18 to 11973cr.
- Bank's reported loss of 4876cr in this quarter as oppose to gain of 2006cr in Q1FY18 and loss of 7718 in Q4FY18.
- Gross NPA ratio came at 10.69% (v/s 9.97% in Q1FY18) and NNPA came at 5.29% (v/s 5.97% in Q1FY18). Provision coverage ratio stood at 53% (v/s 43% in Q1FY18).

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Deposits	2,747,813	2,602,534	2,706,343	6%	2%
Borrowings	262,492	236,101	362,142	11%	-28%
Investments	1,063,474	952,128	1,060,987	12%	0%
Advances	1,875,773	1,804,219	1,934,880	4%	-3%
Total Assets	3,344,898	3,193,556	3,454,752	5%	-3%

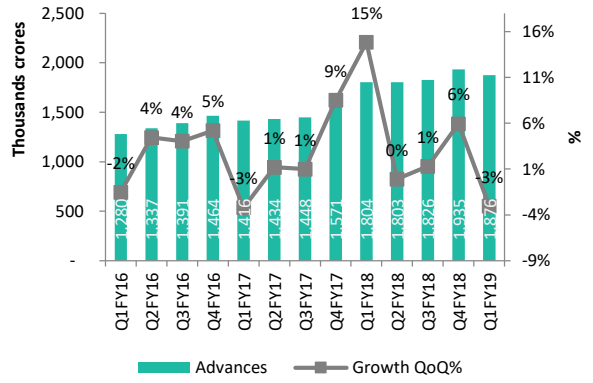
Source: Company, NSPL Research



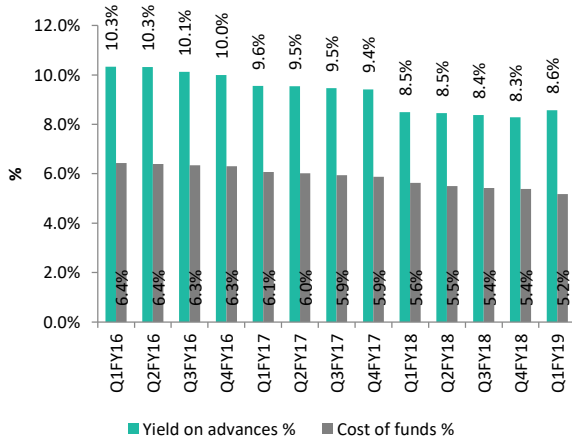
Deposits Profile



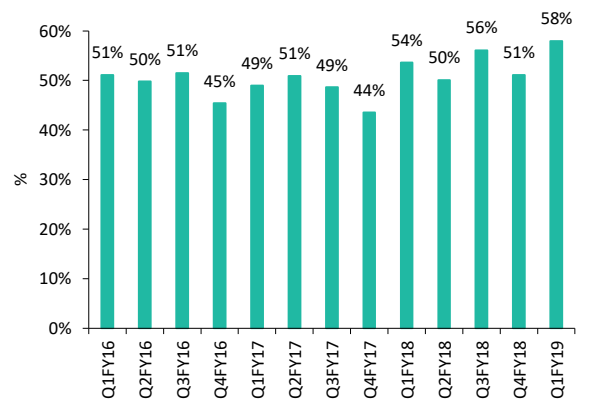
Advances Profile



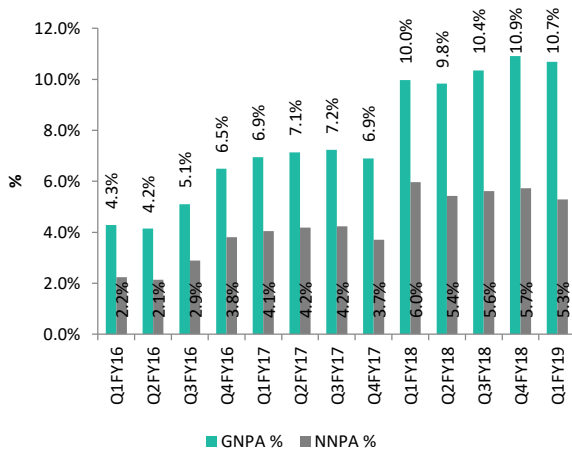
Yield & Cost of funds



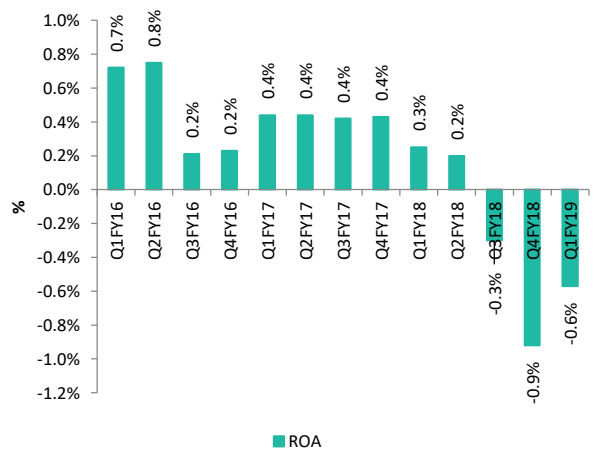
Operational Efficiency



Asset Quality



Return Ratios



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Interest earned	163,998.3	175,518.2	220,499.3	262,307.9	290,773.5
Interest expended	106,803.5	113,658.5	145,645.6	171,198.1	188,317.9
Net interest income	57,194.8	61,859.7	74,853.7	91,109.8	102,455.6
Non-interest income	27,845.4	35,460.9	44,600.7	44,237.3	48,661.0
Total income	85,040.2	97,320.7	119,454.4	135,347.1	151,116.6
Operating expenses	41,782.4	46,472.8	59,943.4	64,966.6	76,313.9
Pre-provisioning profit	43,257.8	50,847.9	59,511.0	70,380.5	74,802.7
Provisions	29,483.8	35,992.7	75,039.2	60,715.4	62,323.9
Profit before tax (PBT)	13,774.1	14,855.2	-15,528.2	9,665.1	12,478.9
Tax expense	3,823.4	4,371.1	-8,980.8	2,899.5	3,743.7
Adjusted PAT	9,950.7	10,484.1	-6,547.5	6,765.6	8,735.2

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Capital	776.3	797.4	892.5	892.5	892.5
Shareholder's Fund	144,274.4	188,286.1	219,128.6	223,864.5	229,979.2
Deposits	1,730,722.4	2,044,751.4	2,706,343.3	2,987,170.5	3,293,313.3
Borrowings	323,344.6	317,693.7	362,142.1	388,163.4	419,554.0
Cash & Balances with RBI	167,467.7	171,971.6	191,898.6	211,088.5	232,197.4
Investments	575,651.8	765,989.6	1,060,986.7	1,167,085.4	1,283,793.9
Advances	1,463,700.4	1,571,078.4	1,934,880.2	2,128,368.2	2,341,205.0
Total Assets	2,357,617.5	2,705,966.3	3,454,752.0	3,800,227.2	4,180,249.9

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Growth rates					
Advances (%)	12.6%	7.3%	23.2%	10.0%	10.0%
Deposits (%)	9.8%	18.1%	32.4%	10.4%	10.2%
Total assets (%)	15.1%	14.8%	27.7%	10.0%	10.0%
NII (%)	4.0%	8.2%	21.0%	21.7%	12.5%
Pre-provisioning profit (%)	11.2%	17.5%	17.0%	18.3%	6.3%
PAT (%)	-24.0%	5.4%	-	-	29.1%

Balance sheet ratios					
Credit/Deposit (%)	84.6%	76.8%	71.5%	71.3%	71.1%
CASA (%)	42.6%	44.6%	44.5%	44.5%	44.5%
Advances/Total assets (%)	62.1%	58.1%	56.0%	56.0%	56.0%
Leverage (x)	15.2x	15.1x	16.4x	17.6x	18.2x

Operating efficiency					
Cost/income (%)	49.1%	47.8%	50.2%	48.0%	50.5%
Opex/total assets (%)	1.8%	1.7%	1.7%	1.7%	1.8%
Opex/total interest earning assets (%)	1.9%	1.9%	1.9%	1.9%	2.0%

Profitability					
NIM (%)	2.7%	2.6%	2.6%	2.7%	2.8%
RoA (%)	0.5%	0.4%	-0.2%	0.2%	0.2%
RoE (%)	6.9%	6.3%	-3.5%	3.3%	4.0%

Asset quality					
Gross NPA (%)	6.4%	10.8%	11.0%	10.7%	11.5%
Net NPA (%)	3.8%	6.2%	5.8%	4.8%	4.6%
PCR (%)	68.9%	45.5%	50.5%	55.0%	60.0%
Net Slippages (%)	0.6%	1.3%	0.5%	0.4%	0.4%

Per share data / Valuation					
EPS (Rs.)	12.8	13.1	-	7.6	9.8
BV (Rs.)	185.9	236.1	245.5	250.8	257.7
ABV (Rs.)	114.0	113.7	120.6	114.3	113.9
P/BV (x)	1.0x	1.2x	1.0x	1.2x	1.1x
P/ABV (x)	1.7x	2.6x	2.1x	2.6x	2.6x

Source: Company, NSPL Research

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State Bank of India				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
August 13, 2018	294	335	Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Other disclosures	NO

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