

Background

State Bank of India is an Indian multinational, public sector banking and financial services statutory body. The bank has strong portfolio of distinctive products & services, and leverages technology to deliver and manage them in a personalized and customer centric way.

Important Statistics

M.CAP (₹ bn)	₹436
52 Week H/L (₹)	504/ 175
NSE Code	SBI
BSE Code	543260

Why we like SBI?

- Largest bank in terms of deposits, advances, customers and banking outlets
- Well positioned in terms of Covid-19 asset quality concern as it's share of Govt/PSU employees is large
- Retail advances seeing strong traction in growth
- Strong liability franchise with stable CASA ratio at ~45% over last four fiscals
- Trading at trailing ~1x P/B as against 2-4x for large private peers

Shareholding Pattern	Jun'21 (%)
Promoters	57.62%
FIIIs	10.34%
DII	24.32%
Public	7.70%
Others	0.02%

Asset Quality

Are Concerns regarding asset quality getting over?

Typical of any PSU bank, SBI also had its own share of asset quality woes over the past decade.

SBI has been at the receiving end due to its troubled corporate exposure slipping into NPAs in the past few years.

What has changed now?

The bank has strengthened its underwriting standards and has been in clean up mode and these are reflected in many of its key asset quality metrics improving over past couple of years as shown in the charts below.

Figure 1: Declining trend in NPA in the past three years...

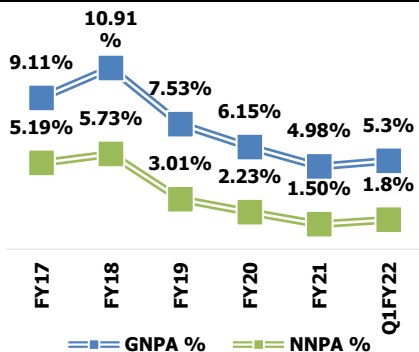


Figure 2: Led by reduction in fresh slippages...

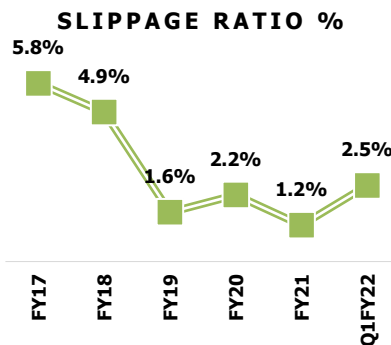
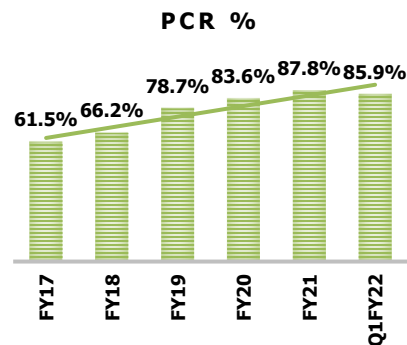


Figure 3: Higher PCR led to reduction in NNPA...



Source – Company, Way2Wealth Research

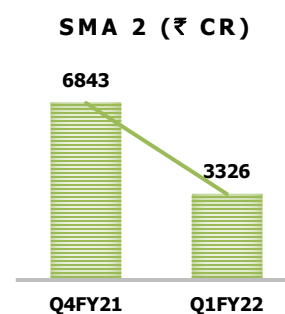
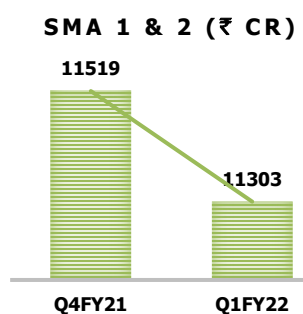
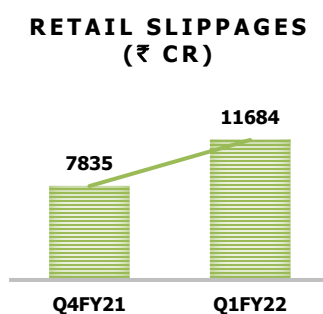
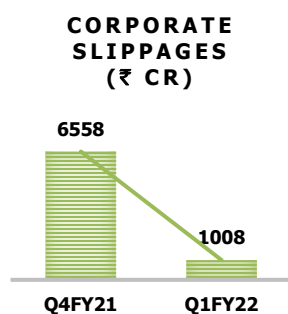
- Above charts indicate, the company has been experiencing a declining trend in slippage ratio pointing towards improvement in the quality of the book, however, the same increased to ~2.5% in Q1FY22.
- The stressed accounts have been adequately provided, reflecting an increase in PCR from ~61.5% in FY17 to ~86% in Q1FY22. The recent quarter saw GNPA increasing to ~5.3% on account of an increase in slippages in the Retail & SME segment.
- The encouraging part is on the collection efficiency front in domestic loan book(excluding agri) which stands at 92-93% as of Jul'21.
- Going forward, slippages especially from Retail and SME book would be key monitorable.

Figure 4: Reduction in Corporate Slippages ...

Figure 5: Retail & SME Slippages affected due to second wave...

Figure 6: SMA book maintained...

Figure 7: Silver lining in SMA2 book...



Source – Company, Way2Wealth Research

- The bank saw sharp reduction in corporate slippages vis-à-vis elevated slippages in retail and SME segment.
- The spike in slippages was because of second wave that impacted cash flows of retail & SME borrowers.
- Management has clarified that loans worth 4800cr has already been upgraded/recovered in Jul'21.
- Another healthy reading on the asset quality front is the decline in SMA 1 & 2 book.

Overall, the asset quality fear will exist in uncertain times, however, healthy provisioning will provide cushion to future earnings.

Additionally, monetizing stakes in subsidiaries can help meet higher provisioning requirements.

Credit Growth

Diversified Loan Portfolio

- Corporate Credit mainly to highly rated corporates (76% to A and above), limited impact from Covid
- Large proportion of Retail book in SBI is to customers employed in Govt/quasi-Govt/large corporates
- SME sector supported by Govt guaranteed lending scheme
- Significant proportion of the International book is to Govt/PSU entities and well rated corporates
- Growth momentum in the retail segment has been robust for the past three years.

Figure 8: Overall loan book growth has been tepid in the past three years...

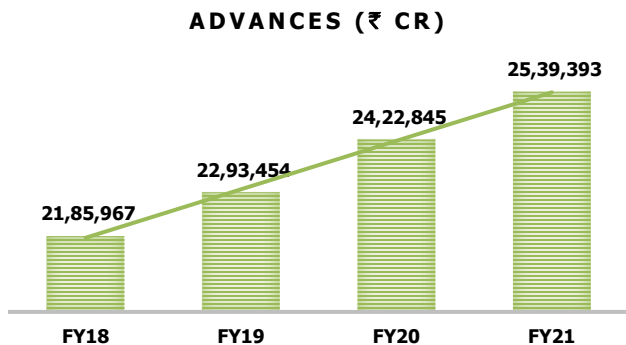
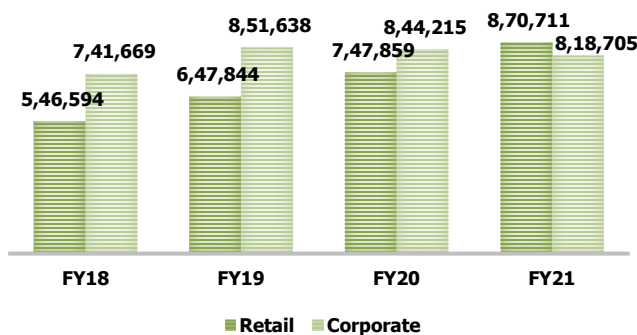


Figure 9: Retail Segment has been the bright spot growing at 17% vs subdued growth for Corporate Segment (₹ cr)



Source – Company, Way2Wealth Research

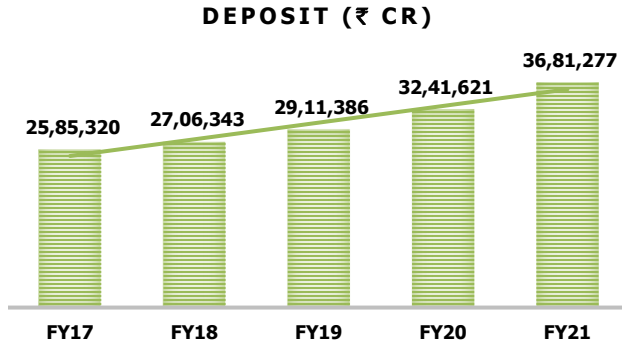
- The bank has seen tepid loan growth despite the robust growth in the retail segment.
- Slowdown in private investments and deleveraging done by companies has led to weak corporate credit demand.
- The bank is expecting corporate credit growth to move in tandem with the investment cycle.
- The bank should see strong traction in corporate book when demand rebounds post pandemic and capacity utilisation hits peak levels compelling further investment.
- Currently, banks are seeing strong growth in SME segment led by the ECLGS scheme.

Key Segmental numbers – Q1FY22

Particulars	YoY Growth %
Overall Advances	6%
Retail Loans	16%
Corporate Loans	-2%
Home Loans	11%
Xpress Credit	34%

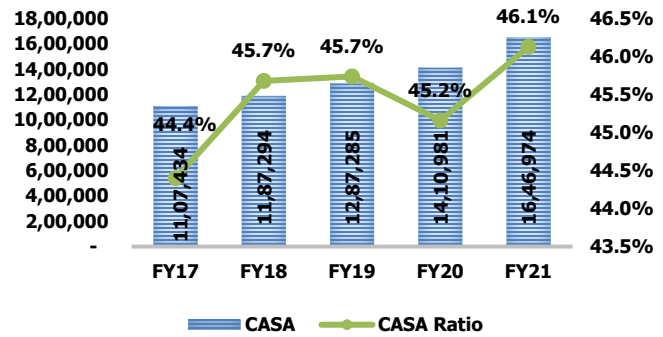
Liability Franchisee

Figure 10: SBI has strong liability franchisees driven by brand, trust and distribution reflected in total deposit base of ₹36.8 lac cr.



Source – Company, Way2Wealth Research

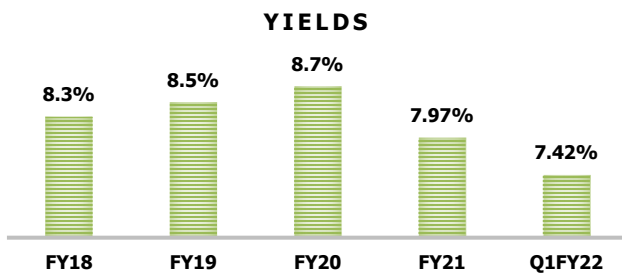
Figure 11: It has been able to maintain CASA ratio at ~45% over last four fiscals. (₹ cr)



Robust Operating Performance

- The bank has seen strong growth in Net Interest Income over FY18-20 despite of subdued loan growth, through improved loan pricing, increase in share of performing loans and control over interest expense.
- NIM improved ~65 bps to 3.26% over FY18-FY21.

Figure 12: Yields have hold up in past few years...



Source – Company, Way2Wealth Research

Figure 13: Excess liquidity has pushed down cost of deposit

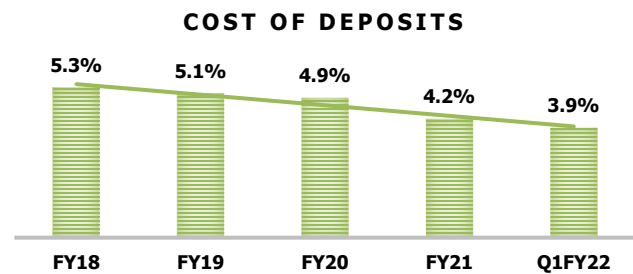
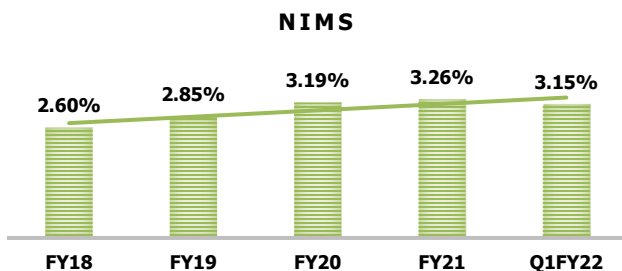


Figure 14: NIMs have improved 75 bps over FY18-FY21



Source – Company, Way2Wealth Research

Figure 15: C/I ratio has inched up at ~52% level from FY18...

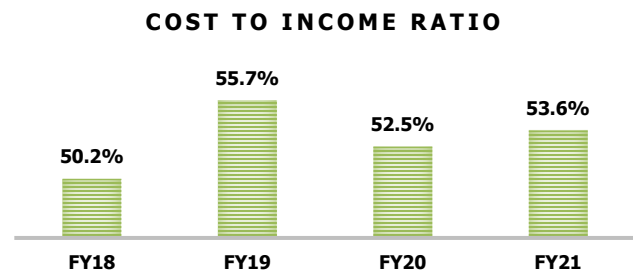


Figure 16: C/I has not dented from PPOP to rise

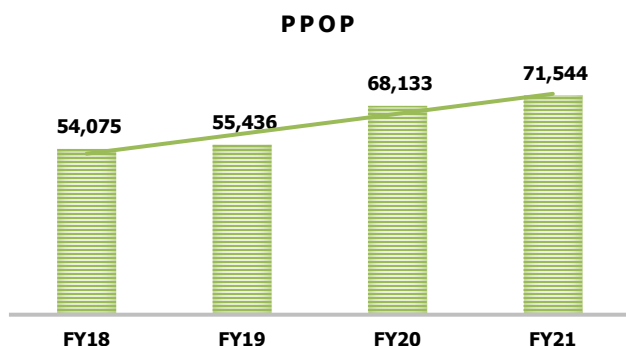
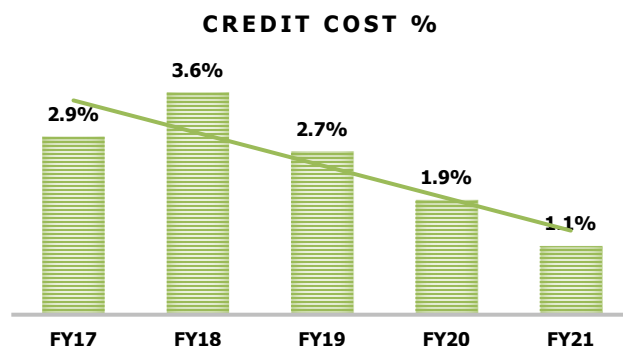


Figure 17: ..low credit cost should aid earnings going forward

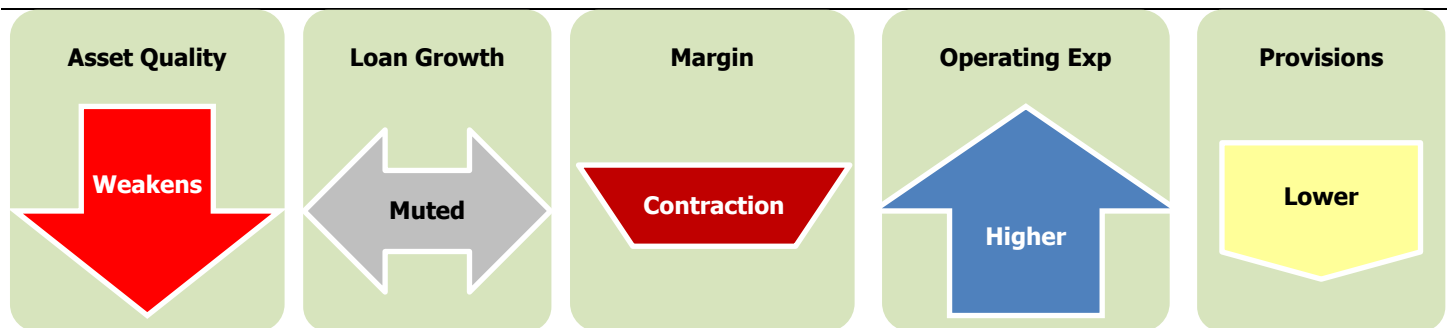


Source – Company, Way2Wealth Research

Key Q1FY22 Points

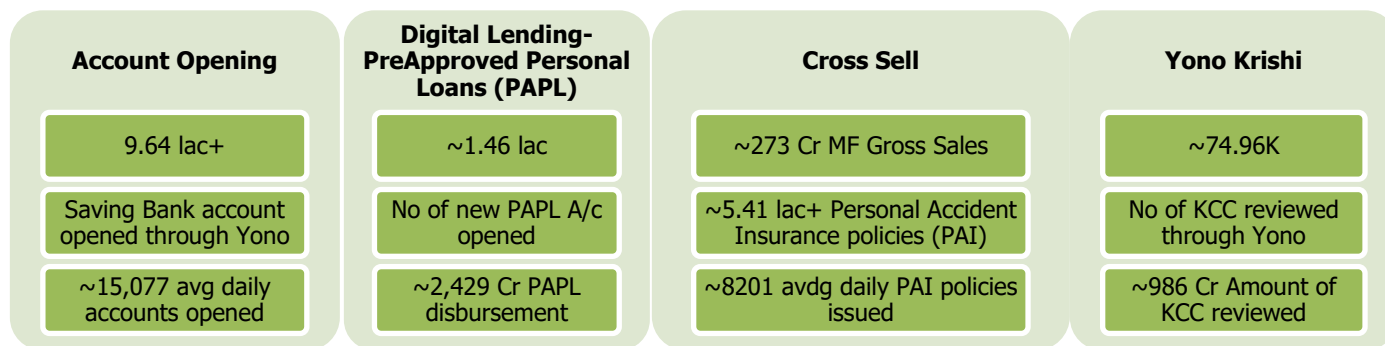
- NIMs have seen contraction due to interest reversal and low interest rate environment.
- NII has been subdued due to weak loan growth and contraction in margins
- Cost to Income ratio has declined sequentially by 261 bps but it has increased by 187 bps YoY.
- Credit cost has declined 77 bps YoY to 0.79%
- Capital adequacy ratio has improved by 26 bps to 13.66%

Highest ever quarterly profit



- The bank has clocked highest ever quarterly profit of ₹6,504Cr, ~55% increase YoY.
- The above table indicates the same was achieved because of lower provisions YoY and QoQ by ~50%.
- **The bank has huge scope for improvement in earnings when it will start firing on key parameters like loan growth, margin expansion, lower operating expense and stable asset quality.**

Accelerating Digital Agenda - Q1FY22 Key highlights



Digital leadership across channels - Market share

Debit card spends	POS Terminals	ATMs	Mobile Banking (No. of Transactions)	Mobile Banking Transaction value
28.85%	16.53%	29.75%	23.67%	22.64%

Valuation

	Current Market Cap/AUM/PAT	Stake %	Stake Value
SBI Life Insurance	1,19,350	55.5%	67,804
SBI Cards	1,04,800	69.4%	71,482
Yes Bank	34,100	30%	8,250
SBI MF	6,00,000	62.9%	26,410
SBI General	10,880	70%	7,616
Value of all Subsidiaries			1,83,226
Less: Holding Co Discount 20%			36,645
Valuation Post Holding Co Discount (A)			1,46,581
Current M Cap of SBI Bank (B)			4,36,000
Core M Cap of Bank (A-B)			2,89,419
NetWorth of SBI as on 30th Jun,2021			2,60,285
P/B			1.11

Source – Company, Way2Wealth Research

View

SBI has been able to manage the impact of the Covid-19 crisis well by reporting steady financial performance. The pandemic was a speed breaker, but it is a matter of time when it will start firing on key parameters and growth picks up.

The digital adoption is very encouraging and bank is accelerating its digital agenda as it does not want to miss out in the technology driven post covid world.

SBI is currently valued at ~1 time trailing core book value which is attractive given that ROE has inched up to ~12%. We feel the stock could narrow the valuation gap with large private peers and has the potential to re-rate to ~1.5 times in the medium term.

With the banking space looking relatively upbeat now, we expect the stock to perform well. We recommend to *BUY on Dips* from medium to long term perspective.

Financials

Particulars	(₹ Cr)							
	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ	FY21	FY20	YoY
NII	27,638	26,642	4%	27,067	2%	1,10,710	98,085	13%
Other Income	11,803	7,957	48%	16,225	-27%	41,957	39,007	8%
Total Net Income	39,441	34,599	14%	43,292	-9%	1,52,667	1,37,092	11%
Total Op. Exp.	20,466	18,079	13%	23,592	-13%	82,652	75,124	10%
Operating Profit	18,975	16,520	15%	19,700	-4%	70,015	61,968	13%
Provisions and Contingencies	10,052	12,502	-20%	11,051	-9%	44,013	43,070	2%
Exceptional Items			-			1,540	6,215	-75%
PAT	6,504	4,189	55%	6,451	1%	20,411	14,488	41%
Advances (₹ Cr)	25,23,793	23,85,639	6%	25,39,393	-1%	25,39,393	24,22,845	4.81
Deposits (₹ Cr)	37,20,987	34,19,363	9%	36,81,277	1%	36,81,277	32,41,621	13.56
Total Business	62,44,780	58,05,002	8%	62,20,670	0%	62,20,670	56,64,466	9.82

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