


IDEA2ACT : State Bank of India

Reco Price	12-months Target Price
BUY @ ₹ 345-358	₹ 429

SBI is the country's largest commercial bank, in terms of assets, deposits, branches and employees. On the credit front, the bank has loans of Rs23.7tn, as of FY20, implying a market share of ~23%. It has a stronghold in most segments, including SME, corporate, government, rural and international, despite inroads made by private banks. In addition to banking services, the bank, through its subsidiaries, provides a range of financial services including life and general insurance, merchant banking, mutual funds, credit cards etc.

Key highlights of 3QFY21:

- SBIN's reported profit of Rs62.6bn was below estimate primarily due to higher operating expenses.
- Provisions of Rs108bn were made in the quarter including Rs58.85bn towards COVID.
- Loans grew 8% YoY/3% QoQ, while deposits grew 14% YoY.
- NIM adjusted for one-off interest write-back in 3QFY20, expanded ~20bps YoY.
- Pro-forma GNPL ratio declined 44bps QoQ to 5.44%. Restructured loans stood at Rs181.25bn or 0.75% of loans.
- The company reported a collection efficiency of 96.5% in 3QFY21.

Business update

- **Loan growth:** Management expects loan growth of 7% for FY21 (down from 8% earlier).
- **Digital sourcing:** Of the incremental retail loans sourced in 3QFY21, 41% were sourced digitally.
- **Loan mix by rate-linkage:** Of the total loans, ~75% are MCLRlinked, while 15% are linked to the Repo rate.
- **Margins:** NIM for the bank in 3QFY21 stood at 3.09%, up 2bps QoQ. SBIN did not reverse interest income on pro-forma slippages, which would have had a 8-9bps impact on margins.

Raise earnings by 16.6/10.9/12.9% over FY21/22/23ii:

For the standalone entity, we increase our loan growth estimate to a 10% Cagr over FY20-23ii (8% earlier) and build-in higher margins driven by lower cost of funds, leading to an increase in NII.





Credit cost estimates for FY21/22/23ii have been lowered to 175/135/135bps from 180/150/150bps earlier to factor in lower stress going forward.

Improved profitability outlook should drive re-rating:

Asset quality outlook has improved significantly given that the bank will likely report stressed asset accrual well within its guidance of Rs600bn for FY21. Consolidated RoA / RoE will likely improve to 0.7 / 11.2% by FY23ii. We apply a 1x FY23ii BVPS to the bank and ascribe a value of Rs128/share to subsidiaries after holding company discount of 20%. On some of the parts value, we recommend a target price of Rs429/share.

Technical: SBI has given a strong recovery from its recent low of ~270 and is trading in a higher top higher bottom chart structure on the daily chart. The stock is on a verge of breaking out of a 10-year consolidation zone if it manages to close above its previous life-time high of ~374. As the MACD Histogram & ADX index are showing positive signals, we expect the stock to continue its bullish momentum and give a strong price breakout. **If the current impulse move accentuates the way it should, we expect the stock to test our immediate target price of 429 during the next 6-months. We recommend a Buy rating on SBI.**

Previous Recommendations:

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	17%	Target Achieved (₹225 + Dividend ₹10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	6%	Open
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
1-Oct-20	Manappuram Finance Ltd	155.5	186	17%	Open
16-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
2-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved
3-Dec-20	Bharat Electronics	112	139.0	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
6-Jan-21	Alembic Pharmaceuticals	1075	1252	-12%	Open
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	0%	Open



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