Kotak Institutional Equities

State Bank of India (SBIN)

Banks

BUY

MAY 22, 2018

RESULT

Coverage view: Attractive

Price (₹): 254

Target price (₹): 370

BSE-30: 34,651

Getting back on track. A disappointing 3QFY18 performance and the recent RBI circular, which removed all dispensations, have resulted in the recent underperformance. High slippages and a bleak outlook were expected. Losses were high as dispensations were not fully availed and the bank chose to maintain its coverage ratio. However, with 1.3% of loans pending in the watchlist and bulk of the stress reported as NPLs with healthy coverage, we see the focus shifting to outcomes on NCLT cases. SBI, in our view, is well-placed to benefit from an NPL resolution cycle—a key driver for a stock re-rating. We maintain BUY rating with a TP of ₹370 (from ₹380).

Company data and valuation summary

State Bank of India

Stock data			
52-week range (Rs) (high,low)			351-232
Market Cap. (Rs bn)			2,266.0
Shareholding pattern (%)			
Promoters			56.6
FIIs			13.6
MFs			9.8
Price performance (%)	1M	3M	12M
Absolute	5.3	(6.9)	(13.7)
Rel. to BSE-30	4.5	(9.1)	(23.9)

Forecasts/Valuations	2018	2019E	2020E
EPS (Rs)	(7.3)	18.7	37.6
EPS growth (%)	(155.8)	355.4	100.9
P/E (X)	(34.6)	13.6	6.7
NII (Rs bn)	748.5	866.0	945.0
Net profits (Rs bn)	(65.5)	167.2	335.9
BVPS	135.4	170.5	225.0
P/B (X)	1.9	1.5	1.1
ROE (%)	(3.2)	7.4	13.6
Div. Yield (%)	1.1	1.2	1.3

Weak headline results led by higher slippages and investment provisions

SBI reported a net loss largely led by 34% yoy rise in provisions on both NPLs and investment book (MTM adjustments). NII declined 5% yoy as NIM declined ~25 bps yoy (up 5 bps qoq) while loan growth was muted at 4% yoy (6% qoq). Non-interest income was weak at 2% yoy growth, dragged by lower treasury income (down 53% yoy), even as fee income was up 13% yoy and other miscellaneous fee income was up 32% yoy. Operating cost growth was 4% yoy but helped by dispensation to spread gratuity provision over four quarters. Retail loans grew 13% yoy and within that, housing loans by 13% yoy and auto loans grew by 15% yoy. Share of retail has improved ~200 bps yoy to 27% of loans. SBI's capital adequacy is comfortable at 12.6% CAR and 9.7% CET-1 ratio.

Takes the plunge on recognition; showing promising trends of getting itself out of the woods

As compared to the previous quarter where there was a fair amount of surprise on the quantum of impaired loans published, this quarter saw a much better print. Slippages were high at ~7% of loans with ~90% of the slippages coming from the corporate sector. 50% of the slippages came from the watchlist and one large telecom exposure from outside the watchlist. The watchlist for FY2019 is comfortable at 1.3% of loans with the power sector dominating this book. Barring a single corporate exposure risk, the sector-related risks appear to be gradually reducing. NPL in the power sector is at ~18% and including the watchlist is at ~25%. Given that the bank has ~50% exposure to state-owned utilities, a substantial share appears to be recognized, most of which through NPLs. With recovery gradually taking the center stage, we should expect gross NPLs to decline over the next few years though the pace is likely to be irregular given the quantum of these exposures.

Maintain BUY; resolutions and a stronger balance sheet to drive re-rating

We maintain BUY rating on SBI with a TP of ₹370 (from ₹380) largely led by roll-forward to FY2020E. At our TP, we value the bank at 1.3X book and 7X March 2020E EPS for RoEs in the range of ~15% in the medium term. Our broad thesis on the bank remains unchanged as it remains our preferred idea among public banks. We expect the stock to re-rate as we head into the NPL resolution cycle even as balance sheet continues to strengthen. SBI remains one of the best-capitalized public banks with an improving NPL coverage ratio.

QUICK NUMBERS

- 5% yoy NII decline; 8% yoy PPOP decline
- 10.9% gross NPL; 5.7% net NPL
- Maintain BUY with ₹370 TP (from ₹380)

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Exhibit 1: SBI quarterly results
March fiscal year-ends, 4QFY17 - 4QFY18 (₹ mn)

	4QFY18	4QFY18E	4QFY17	3QFY18	(% chg.) 4QFY18E	(% chg.) 4QFY17	(% chg.) 3QFY18	2017	2018	(% chg.)	2019E	(% chg.)
Income earned	559,413	568,559	589,690	548,029	(2)	(5)	2	2,239,820	2,204,992	2	2,454,605	11
Income on advances	342,349	364,127	374,880	351,854	(6)	(9)	(3)	1,541,710	1,413,633	9	1,562,276	11
Income on investments	182,784	184,581	180,420	181,468	(1)	1	1	629,550	720,562	(13)	793,796	10
Interest on balance with RBI	34,281	19,851	34,390	14,707	73	(0)	133	68,560	70,797	(3)	98,532	39
Interest expense	359,670	370,238	379,030	361,154	(3)	(5)	(0)	1,487,830	1,456,454	2	1,588,607	9
Net interest income (NII)	**199,743**	**198,321**	**210,660**	**186,875**	**1**	**(5)**	**7**	**751,990**	**748,538**	**0**	**865,998**	**16**
Non-interest income	124,948	100,928	122,220	80,842	24	2	55	426,360	446,010	(4)	449,953	1
Fees, commission	84,300	59,535	74,340	49,790	42	13	69	213,880	236,360	(10)	264,723	12
Invt. income	9,410	13,876	19,970	10,260	(32)	(53)	(8)	136,100	123,030	11	90,000	(27)
Forex income	5,460	6,405	6,880	5,970	(15)	(21)	(9)	25,500	24,850	3	26,838	8
Dividend	3,310		3,960	-				7,580	4,480	69	5,376	20
Other income excl. treasury	115,538	87,052	102,250	70,582	33	13	64	290,260	322,980	(10)	359,953	11
Total income	**324,691**	**299,250**	**332,880**	**267,717**	**9**	**(2)**	**21**	**1,178,350**	**1,194,548**	**(1)**	**1,315,951**	**10**
Operating expenses	165,862	161,376	159,780	150,171	3	4	10	583,750	599,433	(3)	638,568	7
Staff expenses	67,612	70,379	89,140	84,968	(4)	(24)	(20)	339,750	306,850	11	361,316	18
Other operating expenses	24,930	90,997	70,640	65,203	(73)	(65)	(62)	244,000	219,263	11	277,253	26
Pre-provision operating profit	158,829	137,874	173,100	117,546	15	(8)	35	594,600	595,115	(0)	677,382	14
Provisions and extraordinaries	280,961	156,100	209,320	188,762	80	34	49	607,210	750,383	(19)	438,491	(42)
Loan loss provisions	240,801	155,982	193,230	177,600	54	25	36	554,200	706,801	(22)	400,491	(43)
Standard assets	(8,520)	10,000	2,710	(29,900)	(185)	(414)	NM	21,880	(36,050)	NM		NM
Investment depreciation	47,610	(14,260)	8,520	40,440	NM	459	18	17,380	80,870	(79)	36,000	(55)
Other provisions	1,070	4,379	4,860	620	(76)	(78)	73	13,750	(1,240)	NM	2,000	NM
PBT	**(122,132)**	**(18,227)**	**(36,220)**	**(71,216)**	**NM**	**NM**	**NM**	**(12,610)**	**(155,268)**	**NM**	**238,891**	**NM**
Less tax	(44,947)	(6,197)	(1,800)	(47,053)	NM	NM	NM	5,440	(89,800)	NM	71,667	NM
Profit after tax	**(77,185)**	**(12,029)**	**(34,420)**	**(24,164)**	**NM**	**NM**	**NM**	**(18,050)**	**(65,468)**	**NM**	**167,224**	**NM**
Fees to PBT (%)	(69)	(327)	(205)	(70)				(1,696)	(152)		111	
Treasury income/PBT (%)	31		(32)	42				(941)	(27)		23	
Key balance sheet data (Rs bn)												
Advances	20,484	20,311	19,525	18,262	1	5	12				20,700	
Deposits	27,063	27,229	25,853	26,512	(1)	5	2				27,106	
Investments	27,063	11,005	25,853	26,512	146	5	2				9,728	
Key reported ratios (%)												
Yield on advances	8.3		9.3	8.4								
Cost of funds	5.4		5.9	5.4								
Global NIM	2.5		2.7	2.5								
Cost-to-income	51.1	53.9	48.0	56.1				49.5	50.2			
CD ratio-KS	75.7		75.5	68.9								
Asset quality details												
Gross NPLs (Rs bn)	2,234		1,779	1,991		26	12				2,070	
Gross NPLs (%)	10.9		9.1	10.4							9.1	
Net NPLs (Rs bn)	1,109		970	1,024		14	8				874	
Net NPLs (%)	5.7		5.2	5.6							4.2	
Slippages (Rs bn)	328		227	268		45	23	1,116	1,003	11	387	
Slippages (%)	7.2		5.0	5.7							2.0	
PCR- KS (%)	50		45	49							58	
Capital adequacy details (%)												
CAR	12.6		12.9	12.7								
Tier I	10.4		10.1	10.3								

Notes:
(a) All quarterly numbers refer to the merged entity.

Source: Company, Kotak Institutional Equities estimates

Another round of large stress recognition; remaining watchlist of 1.3% of loans

- **6.9% slippages, 10.9% gross NPL.** Reported slippages increased sharply to 6.9% from 5.3% in 3QFY18 and 5.8% in FY2017. FY2018 slippages of 4.9% were lower than 5.8% in FY2017. Gross NPL ratio increased ~50 bps qoq to 10.9% and net NPL increased 10 bps qoq to 5.6%.

- **~90% of slippages from corporate book.** SBI reported ₹328 bn slippages of which nearly 90% came from corporate accounts and the rest was spread out among SME, agriculture and retail. Around 60% of the corporate slippages were from the pre-defined stressed loans. SBI has recognized all SDR loans as NPL. Sectoral break-up within corporate slippages was power (38%), telecom (23%) and roads (8%).

- **Unrecognized stress of 1.3% of loans.** SBI disclosed a watchlist of ₹258 bn, a potential source of incremental slippages from the corporate book. This watchlist includes all corporate SMA-2 and stressed SMA-1 accounts. Power sector is about 42%, roads/EPC is 17%, metals is 13% and textiles is 10%.

- **63% coverage on NCLT accounts.** SBI has ₹780 bn exposure to NCLT accounts in the two lists with the comfortable combined coverage ratio of 63%. These accounts comprise nearly ~35% of the outstanding gross NPL for the bank. SBI expects 52% haircut on NCLT-1 accounts.

- **High stress recognition in key sectors.** Power sector NPL is around 18% and around 7% as part of the watchlist. Adjusting for exposure to PSU entities in stress loans in power is around ~40%. Telecom has 40% NPL ratio while textile has 28% NPL ratio.

- **Retail asset quality is solid but SME and agri are weaker qoq.** The bank has delivered qoq improvement in NPL ratios in retail (1.2% NLP) whereas agri (11.3% NPL) and SME (9.5% NPL) portfolios have seen deterioration.

- We project slippages and credit cost of 2.0% in FY2019E and declining to 1.0% slippages and 1.1% credit cost in FY2020E.

Exhibit 2: SBI has net stress loans of ~6%
Break-up of stress loans and provisions, March 2018

	Amount (Rs bn)	Share of gross loans (Rs bn)
Gross NPL (A)	2,234	10.9
Net NPL (B)	1,109	5.4
Other stress	258	1.3
Total stress loans	2,492	12.2
Total provision	1,184	5.8
NPL provision	1,126	
Standard provision for stressed assets	46	
Counter cyclical provision	13	
Net stress loans	1,309	6.4
Provision coverage (%)	47	
Operating profit (FY2019E)	677	3.3

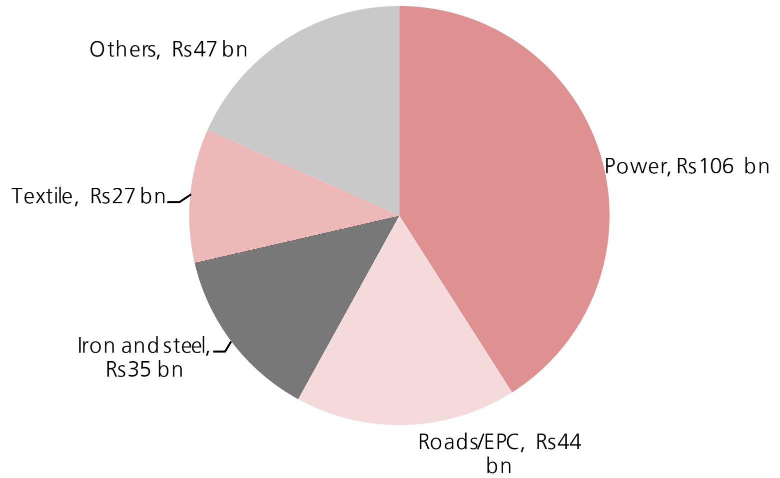
Source: Companies, Kotak Institutional Equities estimates

Exhibit 3: Considerable slippages from outside the watch list
Break-up of slippages, March fiscal year-ends, 1QFY17-4QFY18 (Rs bn)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	FY2017	FY2018
Total slippages	108	119	104	104	301	106	268	328	434	1,003
Corporate	37	69	101	78	84	45	218	290	284	638
Others (retail, agri, SME)	71	50	3	26	217	61	50	38	150	365

Source: Company, Kotak Institutional Equities

Exhibit 4: Watchlist is comprised of 42% power, 17% roads, 13% metals and 10% textiles
Break-up of watchlist, March 2018 (%)



Source: Company, Kotak Institutional Equities

Exhibit 5: NPLs increased in key portfolios like mid and large corporate segments
Sectoral break-up of NPLs, March fiscal year-ends, 2011-18 (%)

	Gross NPLs (Rs bn)								Gross NPLs (%)							
	2011	2012	2013	2014	2015	2016	2017	2018	2011	2012	2013	2014	2015	2016	2017	2018
Corporate	4	5	10	24	15	207	331	820	0.2	0.3	0.6	1.0	0.5	6.3	9.7	19.9
Mid-corporate	60	127	184	263	230	415	470	806	3.8	7.4	9.0	11.5	10.6	17.1	19.3	24.4
International	23	25	28	38	26	78	68	72	2.1	1.9	1.7	1.8	1.1	2.9	2.4	2.4
SME	78	119	145	155	164	170	159	257	6.5	7.1	7.9	8.6	9.0	7.8	7.0	9.5
Agri	45	78	101	107	107	87	75	212	4.8	9.0	9.3	8.9	8.9	6.9	5.5	11.2
Retail	44	42	43	30	25	25	22	67	2.6	2.3	2.0	1.3	0.9	0.8	0.5	1.2
Total	**253**	**397**	**512**	**616**	**567**	**982**	**1,123**	**2,234**	**3.3**	**4.4**	**4.8**	**5.0**	**4.3**	**6.5**	**6.9**	**10.9**

Notes:
(a) Gross NPL has been calculated based on outstanding NPL in each category to the reported advances. These ratios differ from those reported by the bank (exposures have been reclassified between various segments).

Source: Company, Kotak Institutional Equities

Exhibit 6: Gross NPLs inched up in the quarter as slippages remained high

Movement of NPLs, March fiscal year-ends, 4QFY16-4QFY18 (₹ bn)

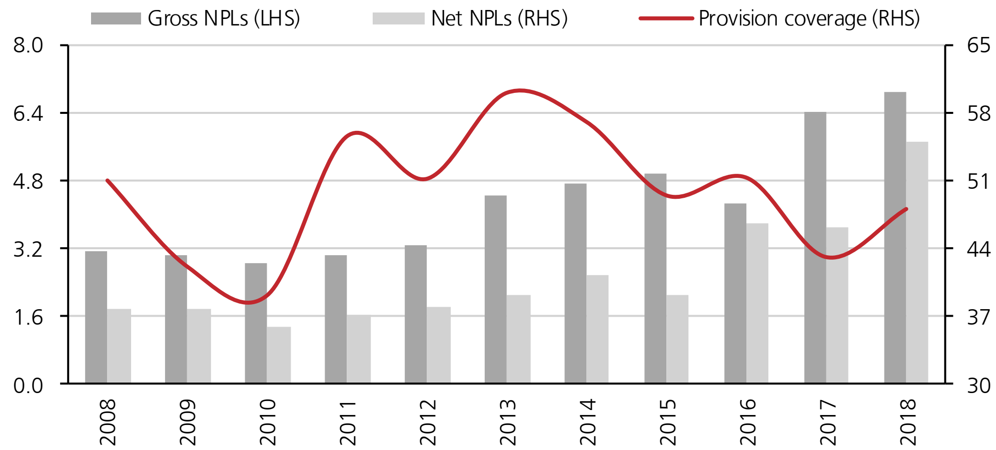
	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Opening	728	982	1,015	1,058	1,082	1,779	1,881	1,861	1,991
Addition	303	108	119	104	104	301	106	268	328
Reductions	49	74	76	80	62	199	126	138	85
Closing Gross NPL	982	1,015	1,058	1,082	1,123	1,881	1,861	1,991	2,234
Provision coverage (without w/off)	43	43	43	43	48	43	47	49	50
Provision coverage (reported)	61	62	62	63	66	61	65	66	66
Fresh impairment (%)									
Slippages	8.3	3.0	3.3	2.9	2.6	6.4	2.2	5.3	6.8
Outstanding (%)									
Net NPL	3.8	4.1	4.2	4.2	3.7	6.0	5.4	5.6	5.7
Restructured loans	2.7	2.6	2.6	2.4	2.3	2.2	1.9	1.1	-
SDR				0.7	0.3	0.7	0.6	0.3	-
S4A				0.6	0.4	0.5	0.5	0.3	-

Notes:
(a) 1QFY18-4QFY18 data refers to merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 7: GNPL are elevated at ~11%

Gross NPLs, net NPLs and provision coverage ratio, March fiscal year-ends, 2008-18 (%)



Notes:
(a) 1QFY18, 2QFY18 and 3QFY18 data refers to merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 8: Detailed sector-wise exposure and NPL ratios
Break-up of SBI's NPLs across sectors, March fiscal year-ends, 2015-18

	2015		2016		2017		2018	
	NPL (Rs bn)	NPL ratio (%)	NPL (Rs bn)	NPL ratio (%)	NPL (Rs bn)	NPL ratio (%)	NPL (Rs bn)	NPL ratio (%)
Coal and mining	11	8.9	21	15.4	19	15.0	17	19.6
Iron and steel	**68**	**5.3**	**227**	**16.9**	**563**	**42.2**	**532**	**42.8**
Metal and metal products	18	4.4	23	4.5	46	9.7	42	11.7
Engineering	32	7.6	56	12.6	87	23.1	120	31.5
of which electronics	11	8.1	8	6.9	4	6.4	33	49.7
Electricity	1	0.3	2	0.7	6	6.5	-	-
Textiles	**49**	**7.7**	**83**	**12.7**	**165**	**27.7**	**150**	**28.2**
Cotton	27	6.7	48	13.8	114	32.2	113	31.9
Jute	2	29.5	1	10.9	0	8.1	1	12.8
Others	21	8.8	34	11.5	50	21.1	36	20.8
Sugar	3	3.2	7	6.7	7	7.9	7	9.2
Tea	0	3.6	1	13.7	2	28.5	2	23.0
Food processing	42	10.8	55	14.0	104	26.6	89	15.3
Vegetable oil and vanaspati	15	15.9	13	19.7	17	28.0	25	39.5
Tobacco/tobacco products	0	3.1	0	1.8	1	12.0	0	4.3
Paper/paper products	13	19.3	11	17.5	10	19.4	9	18.4
Rubber/rubber products	3	4.2	2	4.4	8	8.5	6	7.3
Chemicals/dyes/paints	**42**	**5.1**	**50**	**6.3**	**36**	**5.2**	**38**	**4.2**
Fertilizer	1	0.4	1	0.4	0	0.3	4	2.9
Petrochemicals	7	1.7	13	3.0	11	3.7	3	0.7
Drugs and pharmaceuticals	26	19.3	28	22.6	17	14.5	19	16.1
Others	8	6.6	9	7.3	8	4.7	12	6.4
Cement	4	4.0	7	7.6	24	21.3	11	11.7
Leather/leather products	1	3.5	1	3.2	1	4.4	3	10.2
Gems and jewelry	26	12.2	21	13.8	18	11.4	22	15.0
Construction	**2**	**1.2**	**5**	**2.5**	**24**	**10.6**	**18**	**6.8**
Petroleum	5	0.8	11	2.2	47	26.8	41	12.5
Automobile and trucks	1	0.7	2	1.4	38	24.7	36	27.4
Computer software	11	29.9	6	14.6	4	15.6	1	2.7
Infrastructure	**90**	**3.5**	**150**	**5.1**	**233**	**8.8**	**582**	**20.8**
Power	**26**	**2.0**	**40**	**2.3**	**63**	**3.6**	**317**	**17.9**
Telecom	**3**	**0.8**	**6**	**2.0**	**3**	**1.1**	**86**	**39.6**
Roads and ports	26	7.9	43	12.3	73	24.5	90	24.1
Others	34	6.3	62	9.6	95	23.2	89	20.1
Other industries	23	2.0	128	7.3	127	4.4	209	7.4
Total industry	**459**	**4.8**	**882**	**8.2**	**1,586**	**14.7**	**1,961**	**17.7**
Agriculture	**231**	**8.8**	**203**	**7.0**	**178**	**6.0**	**212**	**11.3**
Retail	53	1.8	25	0.8	17	0.5	67	1.2
Others	3	0.1	126	5.4	11	0.4		
Total	**746**	**4.3**	**1,235**	**6.4**	**1,792**	**9.0**	**2,251**	**10.9**

Notes:
(a) The above data is for the consolidated group of SBI.

Source: Company, Kotak Institutional Equities estimates

Loan growth of 5% yoy and 6% qoq

- Overall loan growth was muted at 5% yoy but better at 6% qoq led by large corporate (16% qoq) and mid-corporate (14% qoq) spend. The retail segment performed better with 14% yoy and 5% qoq loan growth. The agriculture segment loan declined 2% yoy and 3% qoq.
- Retail segment constitutes ~27% of the loan book, up from 24% in 4QFY17. Corporate book comprises 36% of loan book. The bank will look at maintaining the share of corporate book in 36-40% range based on the opportunities in the corporate segment.
- The bank remains cautious in lending to SME and the mid-corporate portfolio after witnessing high levels of stress from these segments. Within retail growth in the housing loans remains moderate at 13% yoy. Auto loans grew by 15% yoy. Gross NPL ratio in retail segment was low with 0.9% in the housing segment and 1.1% in the auto loans segments.
- We are lot more concerned on growth, even as system-level credit growth is picking-up. We are less confident that SBI would be able to grow at a significant premium despite their advantage on cost of funds as the bank has a strong portfolio of companies who can tap alternate markets to raise funds and make early repayment.
- While SBI is also participating in the CP/NCD market, these loans will entail lower margins. We are building loan growth at ~10-11% in the medium term as we don't think the growth will be sufficient to replace the repayment cycle of the loans taken in the previous CAPEX cycle.

Exhibit 9: Loan growth of 8% qoq, adjusting for credit substitute and FCNR loans
Credit growth, March fiscal year-ends, 2017-4QFY18 (Rs bn)

	2017	1QFY18	2QFY18	3QFY18	4QFY18	YoY (%)	QoQ (%)
Domestic advances	16,663	16,076	16,005	16,082	17,464	5	9
Commercial paper	602	592	541	548	585	(3)	7
Corporate bonds	633	578	635	664	791	25	19
Domestic including credit substitutes	17,898	17,168	17,182	17,294	18,840	5	9
Overseas advances	2,862	2,791	2,919	2,998	3,020	6	1
Overall adjusted credit growth	20,760	19,958	20,101	20,291	21,860	5	8

Source: Company, Kotak Institutional Equities

Exhibit 10: Share of retail at 24%, up ~300 bps qoq
Loan growth and loan break-up, March fiscal year-ends, 2011-18 (%)

	Loan growth (YoY %)								Loan break-up (%)							
	2011	2012	2013	2014	2015	2016	2017	2018	2011	2012	2013	2014	2015	2016	2017	2018
Corporate and others	3.2	7.3	12.2	38.0	16.2	17.1	3.6	NA	19.3	17.5	16.3	19.5	21.1	21.9	21.0	20.1
International	12.7	24.1	24.6	26.8	9.4	13.8	7.3	5.5	14.5	15.2	15.7	17.2	17.6	17.7	17.6	14.7
Mid-corporate	19.4	10.0	18.2	11.5	(4.7)	11.4	0.2	NA	20.8	19.4	19.0	18.3	16.3	16.1	14.9	16.1
SME	22.8	41.3	8.9	(2.4)	0.9	20.0	3.5	NA	15.8	18.9	17.1	14.4	13.6	14.4	13.8	13.2
Retail	22.2	10.8	14.9	13.3	14.6	20.0	21.2	13.6	21.7	20.4	19.4	19.1	20.4	21.7	24.3	26.7
Agriculture	21.2	(9.0)	25.8	10.7	(0.4)	4.7	7.4	(1.6)	12.5	9.7	10.1	9.7	9.0	8.3	8.3	9.2
SME+Corporate	NA	NA	NA	NA	NA	NA	NA	1.8								
Total	**18.0**	**18.1**	**20.7**	**15.4**	**7.3**	**13.0**	**7.8**	**4.9**								

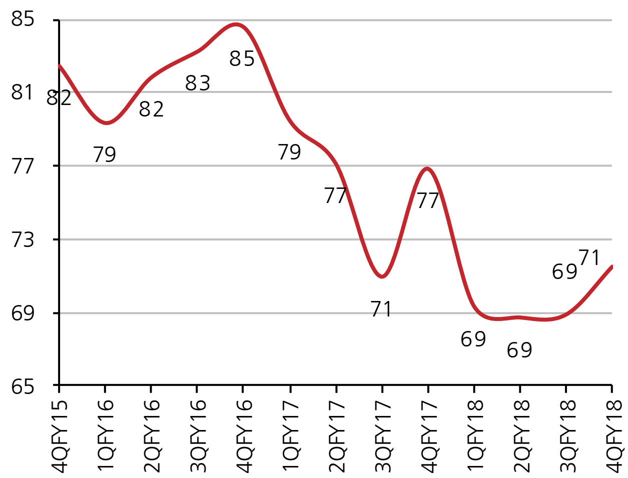
Source: Company, Kotak Institutional Equities

Underlying NIMs contract due to slippages; outlook remains positive

- **Domestic NIM up 5 bps qoq to 2.7%.** Reported domestic NIM improved marginally qoq to 2.7%, despite large slippages due to one-off interest on tax refunds. Cost of deposits declined ~5 bps qoq while yield on advances declined 10 bps qoq. Reported margins remain under pressure due to large amount of NPL loans. Incrementally margins will get support from improvement in CD ratio (~70% now), lower competition from alternative channels like CP, NCDs due to rising bond prices and lower slippages.

- **CASA ratio stable qoq at 45%.** SA growth improved to 8% yoy with CA growth of 4% yoy. The bank has benefitted from higher average balances in savings accounts post demonetization, greater traction in corporate salary packages and new current accounts. Bank is targeting to improve the share of CA in over CASA through greater penetration in services such as transaction banking, cash management, etc.

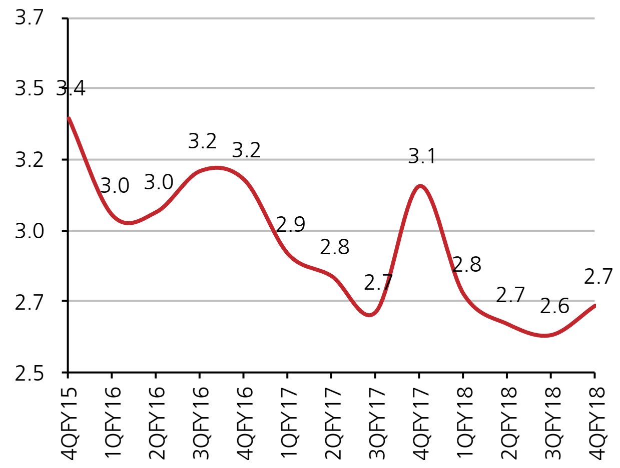
Exhibit 11: Credit/deposit ratio was improved qoq
March fiscal year-ends, 4QFY15-4QFY18 (%)



Notes:
(a) 1QFY18 and 2QFY18 data refers to merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 12: Margins improved qoq
March fiscal year-ends, 4QFY15-4QFY18 (%)



Notes:
(a) 1QFY18 and 2QFY18 data refers to merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 13: MCLR increased by ~20 bps in recent months

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Oct-16	Nov-16	Jan-17	Jun-17	Aug-17	Sep-17	Nov-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Overnight	8.95	8.90	8.90	8.90	8.85	8.80	8.65	7.75	7.75	7.75	7.75	7.70	7.70	7.70	7.80	7.80	7.80
One month	9.05	9.00	9.00	9.00	8.95	8.90	8.75	7.85	7.85	7.85	7.85	7.80	7.80	7.80	7.80	7.80	7.80
Three month	9.10	9.05	9.05	9.05	9.00	8.95	8.80	7.90	7.90	7.90	7.90	7.85	7.85	7.85	7.85	7.85	7.85
Six month	9.15	9.10	9.10	9.10	9.05	9.00	8.85	7.95	7.95	7.95	7.95	7.90	7.90	7.90	8.00	8.00	8.00
One year	9.20	9.15	9.15	9.15	9.10	9.05	8.90	8.00	8.00	8.00	8.00	7.95	7.95	7.95	8.15	8.15	8.15
Two years	9.30	9.25	9.25	9.25	9.20	9.15	9.00	8.10	8.10	8.10	8.10	8.05	8.05	8.05	8.25	8.25	8.25
Three years	9.35	9.30	9.30	9.30	9.25	9.20	9.05	8.15	8.15	8.15	8.15	8.10	8.10	8.10	8.35	8.35	8.35

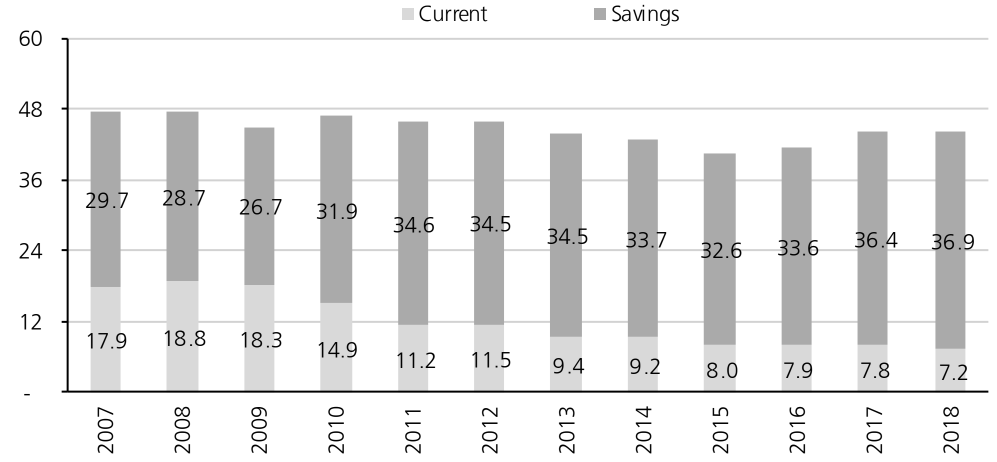
Source: Kotak Institutional Equities , Company

Exhibit 14: SBI has increased deposit rates in the last quarter
Change in term deposit rates for deposits less than ₹10 mn (%)

	Dec-16	May-17	Aug-17	Sep-17	Oct-17	Nov-17	Jan-18	Mar-18	Apr-18
7-14 days	5.50	5.50	5.50	5.50	5.50	5.25	5.25	5.75	5.75
15-30days	5.50	5.50	5.50	5.50	5.50	5.25	5.25	5.75	5.75
31-45days	5.50	5.50	5.50	5.50	5.50	5.25	5.25	5.75	5.75
46 -90 days	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.25
91-120days	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.25
120-180 days	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.25
181-270 days	6.50	6.50	6.50	6.50	6.50	6.25-6.50	6.25-6.50	6.35	6.35
271 days-1year	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.40	6.40
1 year-2year	6.9-6.75	6.9-6.75	6.5-6.75	6.5-6.75	6.50	6.25	6.25	6.40	6.40
2 year-3year	6.75	6.25	6.25	6.25	6.25	6.00	6.00	6.50	6.60
3 years-5 years	6.50	6.25	6.25	6.25	6.25	6.00	6.00	6.50	6.70
5 years-8 years	6.50	6.25	6.25	6.25	6.25	6.00	6.00	6.50	6.75
8years-10 years	6.50	6.25	6.25	6.25	6.25	6.00	6.00	6.50	6.75

Source: Company, Kotak Institutional Equities

Exhibit 15: CASA franchise remains stable
CASA ratio break-up across banks, March fiscal year ends, 2007-18 (%)



Source: Company, Kotak Institutional Equities

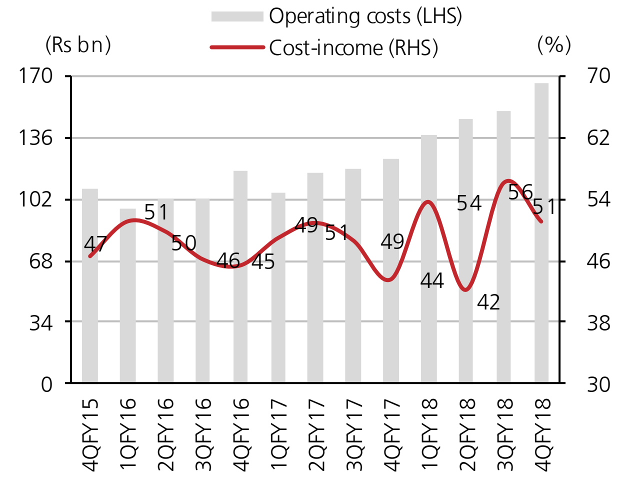
Costs growth at 4% yoy; utilizing the dispensation to spread gratuity cost

- Overall operating expenses growth was 4% yoy, led by 4% yoy growth in staff cost and non-staff expenses. Bank utilized the dispensation to spread out the impact of change in gratuity amounts over four quarters, i.e. Rs9 bn out of Rs36 bn impact has been booked in 4QFY18 and the rest will spread over next three quarters.

- Bank will see the benefit of higher retirements and branch rationalization—there was 5% yoy decline in employee strength and 6% yoy decline in branches. Bank is benefitting from retirements at the higher salary levels and fresh recruitments at lower salaries. We think this would be a long-term gain that they are likely to see considering the declining age of the bank's employee base. Average age of staff at associate banks is lower than the parent bank.

- We believe that the cost growth is a sustainable advantage for the bank. The management has indicated that it would like to keep growth in physical and human infrastructure at minimum levels. Further, it would look to reduce other non-staff costs though it may not be as material as what we have seen recently. We expect 5-6% yoy cost growth over FY2019-21E.

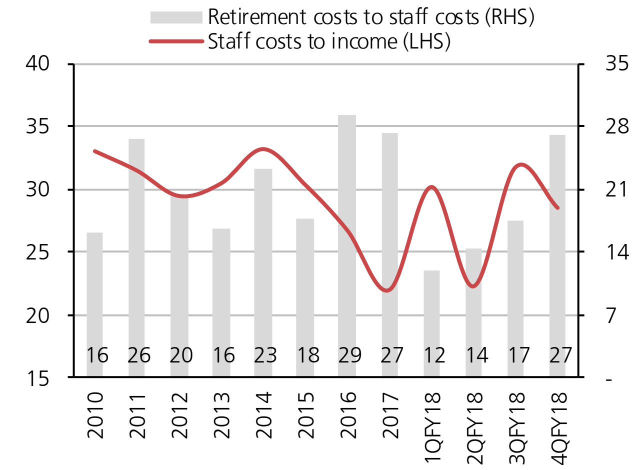
Exhibit 16: Cost-to-income increased during the quarter
Operating costs and cost-income ratio, March fiscal year-end, 4QFY15-4QFY18



Notes:
(a) 1QFY18-3QFY18 data refers to merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 17: Increase in share of retirement related cost
Retirement costs and staff costs to total income, March fiscal year-end, 2010-4QFY18



Notes:
(a) 1QFY18-3QFY18 data refers to merged entity.

Source: Company, Kotak Institutional Equities

Fee income growth of 13% yoy; large MTM provisions on AFS book

- Non-interest income increased 2% yoy driven by decline in treasury gains (down 52% yoy). Growth across other categories such as fee income (up 13% yoy) and miscellaneous income (up 32% yoy) and recovery in written-off accounts (21% yoy) was supported overall other income.
- Bank had to provide Rs48 bn provisions on investment book due to sharp rise in g-sec yields. Bank has not utilized the option of spreading the provision over four quarters.
- Within overall fee income, loan processing fee grew 2% yoy, reflecting the pressure on corporate fees while miscellaneous fees (collections, locker, etc.) grew by 23% yoy. Cross-sell fee growth was ~65% yoy on low base.

Other key highlights for the quarter

- **Capital.** CAR and CET-1 stood comfortable at 12.6% and 9.7% respectively. Credit RWA to gross advances declined by ~800 bps to 71% from 79% over the year, due to better capital efficiency.

- **SBI Cards.** SBI Cards reported PAT decline of 7% yoy to ₹3.6 bn in FY2018. The decline was on account of stricter provisioning policy on 30+ dpd accounts. Core PBT was up 30% yoy with core RoE of 31%. It has a credit cards market share of 16% (up ~110 bps yoy) with spends market share of 17% (up ~370 bps yoy).

- **SBI Fund Management.** FY2018 PAT grew 48% yoy to ₹3.3 bn. AUM grew 39% yoy to ₹2.2 tn with market share of 9%, up 90 bps yoy. Business had RoE of ~33% (up ~300 bps yoy). Bank plans to list this entity in over the next1-2 years.

- **SBI Capital Markets.** FY2018 PAT increased 30% yoy to ₹3.3 bn, with RoE of 23%.

- **SBI General Insurance.** General insurance business reported FY2018 PAT of ₹4 bn, compared to just ₹153 mn in FY2017. Gross written premium grew 36% yoy to ₹35 bn with RoE of ~27% and net worth of ₹15 bn.

Exhibit 18: SBI forecasts and valuation
March fiscal year-ends, 2016-21E

	Net int. income (Rs bn)	PAT (Rs bn)	EPS (Rs)	P/E (X)	ABVPS (Rs)	APBR (X)	RoE (%)
2016	569	100	13	19.8	121	1.4	7.3
2017	619	105	13	19.3	130	1.3	6.3
2018	749	(65)	-7	-34.6	135	1.2	-3.2
2019E	866	167	19	13.6	171	1.0	7.4
2020E	945	336	38	6.7	225	0.7	13.6
2021E	1,098	461	52	4.9	284	0.6	16.2

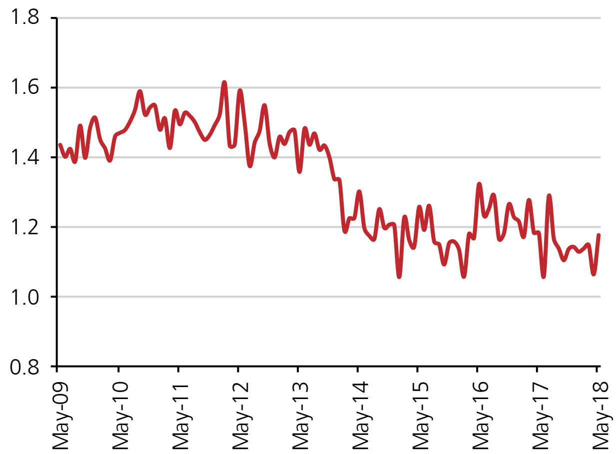
Notes:
(a) ABVPS: Reported book value of the standalone business less net NPLs at 70%.
(b) Data from FY2018 is for the consolidated book. Note that the adjusted book value is reduced for revaluation reserves.

Source: Company, Kotak Institutional Equities estimates

Exhibit 19: State Bank of India 1-year forward multiples
Rolling APBR (including banking subsidiaries), May 2009 – May 2018

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 20: SBI trading premium to peers has declined
SBI trading premium to PSU banks, May 2009 – May 2017



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Valuation methodology

Exhibit 21: SBI SoTP valuation based on FY2020E

	SBI holding (%)	Value FY2020 (Rs mn)	Value per share FY2020 (Rs)	Methodology adopted
SBI			280	Residual income model
Non banking subsidiaries and investments				
SBI Life	62%	455,504	59	Based on appraisal value
SBI Cards	74%	72,900	9	20X FY2020E PAT
SBI MF	63%	75,600	10	5% of AUM- Rs2.4 tn
UTI MF	17%	13,600	2	4% of AUM- Rs2 tn
SBI Caps	86%	30,300	4	10X FY2020E PAT
SBI DFHI	72%	12,200	2	1X FY2020 networth
Others		473,304	61	
Non-bank subsidiaries			90	
Total value of the bank			370	

Source: Kotak, Kotak Institutional Equities estimates

Exhibit 22: Key changes to estimates
March fiscal year-ends, 2019-21E (%)

	New estimates			Old estimates		% change	
	2019E	2020E	2021E	2019E	2020E	2019E	2020E
Net interest income	865,998	945,044	1,097,730	877,698	997,152	(1.3)	(5.2)
Loan growth	7.0	11.1	11.1	10.6	12.2		
NIM (%)	2.7	2.8	2.9	2.7	2.7		
Loan loss provisions	400,491	284,040	267,019	356,834	242,976	12.2	16.9
Other income	449,953	491,486	536,779	429,308	488,300	4.8	0.7
Fee income	264,723	291,196	320,315	236,987	265,425	11.7	9.7
Treasury income	90,000	95,000	100,000	100,000	120,000	(10.0)	(20.8)
Operating expenses	638,568	670,625	706,298	643,680	680,784	(0.8)	(1.5)
Employee expenses	361,316	372,011	383,022	345,228	355,020	4.7	4.8
PBT	238,891	479,845	659,151	268,394	559,572	(11.0)	(14.2)
Tax	71,667	143,953	197,745	80,518	167,872	(11.0)	(14.2)
Net profit	**167,224**	**335,891**	**461,406**	**187,876**	**391,700**	**(11.0)**	**(14.2)**
PBT - treasury+LLP	585,382	668,885	826,170	561,228	682,548	4.3	(2.0)

Source: Company, Kotak Institutional Equities

Exhibit 23: SBI – growth rates and key ratios
March fiscal year-ends, 2016-21E (%)

	2016	2017	2018E	2019E	2020E	2021E
Growth rates (%)						
Net loan	12.6	7.3	23.2	7.0	11.1	11.1
Total Asset	10.3	19.8	27.7	2.2	8.2	11.6
Deposits	9.8	18.1	32.4	0.2	7.1	11.1
Current	12.2	9.0	23.3	1.6	8.6	12.7
Savings	13.4	27.0	31.7	0.4	7.3	11.4
Fixed	7.4	14.1	34.0	(0.2)	6.7	10.7
Net interest income	3.4	8.8	21.0	15.7	9.1	16.2
Loan loss provisions	50.7	14.7	93.0	(40.3)	(29.1)	(6.0)
Total other income	24.7	25.9	25.8	0.9	9.2	9.2
Net fee income	9.4	12.9	30.0	12.0	10.0	10.0
Net capital gains	42.9	108.0	14.5	(26.8)	5.6	5.3
Net exchange gains	9.1	13.1	4.0	8.0	10.0	10.0
Operating expenses	8.0	11.2	29.0	6.5	5.0	5.3
Employee expenses	6.7	5.5	25.3	8.9	3.0	3.0
Key ratios (%)						
Yield on average earning assets	8.2	7.7	7.8	7.7	7.8	7.9
Yield on average loans	8.4	7.9	8.1	7.8	8.1	8.2
Yield on average investments	9.1	8.0	7.8	7.9	7.9	7.9
Average cost of funds	5.7	5.2	5.3	5.1	5.2	5.2
Interest on deposits	6.0	5.6	5.7	5.4	5.5	5.5
Difference	2.5	2.5	2.5	2.6	2.6	2.7
Net interest income/earning assets	**2.8**	**2.7**	**2.6**	**2.7**	**2.8**	**2.9**
New provisions/average net loans	2.2	2.3	3.8	2.0	1.3	1.1
Interest income/total income	66.9	63.6	62.7	65.8	65.8	67.2
Fee income to total income	17.0	16.7	19.8	20.1	20.3	19.6
Operating expenses/total income	49.1	47.8	50.2	48.5	46.7	43.2
Tax rate	27.8	29.4	57.8	30.0	30.0	30.0
Dividend payout ratio	20.3	20.1	(38.8)	16.2	8.6	6.7
Share of deposits						
Current	8.1	7.5	6.9	7.0	7.1	7.2
Fixed	57.4	55.4	56.1	55.9	55.7	55.5
Savings	34.5	37.1	36.9	37.0	37.1	37.2
Loans-to-deposit ratio	84.6	76.8	71.5	76.4	79.3	79.3
Equity/assets (EoY)	6.4	7.0	6.3	6.6	6.9	7.2
Asset quality trends (%)						
Gross NPL (%)	6.5	6.8	10.8	9.1	7.1	5.5
Net NPL (%)	3.8	3.7	5.7	4.2	2.7	2.0
Slippages (%)	4.9	2.7	6.4	2.0	1.0	1.0
Provision coverage (%, ex write-off)	43.2	48.1	50.7	57.8	64.8	67.6
Dupont analysis (%)						
Net interest income	2.6	2.5	2.4	2.5	2.6	2.7
Loan loss provisions	1.4	1.4	2.2	1.1	0.8	0.7
Net other income	1.3	1.4	1.4	1.3	1.3	1.3
Operating expenses	1.9	1.9	1.9	1.8	1.8	1.8
Invt. depreciation	0.0	0.0	0.3	0.1	-	-
(1- tax rate)	72.2	70.6	42.2	70.0	70.0	70.0
RoA	0.5	0.4	(0.2)	0.5	0.9	1.1
Average assets/average equity	15.8	14.9	15.1	15.5	14.8	14.2
RoE	7.3	6.3	(3.2)	7.4	13.6	16.2

Notes:
(a) Data from FY2018 is the consolidated performance of the bank.

Source: Company, Kotak Institutional Equities estimates

Exhibit 24: SBI – P&L and balance sheet
March fiscal year-ends, 2016-21E (₹ mn)

	2016	2017	2018E	2019E	2020E	2021E
Income statement						
Total interest income	1,636,853	1,755,182	2,204,993	2,454,605	2,638,557	2,956,907
Loans	1,156,660	1,195,100	1,413,632	1,562,276	1,761,104	1,997,685
Investments	423,040	482,053	703,376	793,796	773,132	846,628
Total interest expense	1,068,035	1,136,585	1,456,456	1,588,607	1,693,513	1,859,177
Net interest income	568,818	618,597	748,537	865,998	945,044	1,097,730
Loan loss provisions	302,907	347,463	670,752	400,491	284,040	267,019
Net interest income (after prov.)	265,911	271,134	77,785	465,507	661,004	830,710
Other income	281,584	354,609	446,007	449,953	491,486	536,779
Net fee income	144,160	162,766	236,360	264,723	291,196	320,315
Net capital gains	51,688	107,496	123,030	90,000	95,000	100,000
Net exchange gains	21,123	23,884	24,850	26,838	29,522	32,474
Operating expenses	417,824	464,728	599,437	638,568	670,625	706,298
Employee expenses	251,138	264,893	331,787	361,316	372,011	383,022
Depreciation on investments	1,496	2,080	80,870	36,000	-	-
Other Provisions	(9,565)	10,391	(1,230)	2,000	2,020	2,040
Pretax income	137,741	148,545	(155,285)	238,891	479,845	659,151
Tax provisions	38,234	43,711	(89,808)	71,667	143,953	197,745
Net Profit	**99,507**	**104,834**	**(65,478)**	**167,224**	**335,891**	**461,406**
% growth	(24.0)	5.4	(162.5)	(355.4)	100.9	37.4
PBT - Treasury + Provisions	380,890	400,983	472,077	587,382	670,905	828,211
% growth	7.9	5.3	17.7	24.4	14.2	23.4
Balance sheet						
Cash and bank balance	1,674,677	1,719,716	1,918,986	1,950,259	2,093,439	2,317,702
Cash	150,809	120,303	144,364	173,236	207,884	249,461
Balance with RBI	1,145,484	1,159,673	1,534,892	1,537,292	1,645,825	1,828,511
Balance with banks	31,239	69,339	69,339	69,339	69,339	69,339
Net value of investments	4,770,973	7,659,896	10,609,867	9,728,231	10,080,417	11,611,305
Govt. and other securities	3,603,989	5,752,387	8,805,992	7,924,356	8,276,543	9,807,430
Shares	43,279	54,457	54,457	54,457	54,457	54,457
Debentures and bonds	411,268	598,474	598,474	598,474	598,474	598,474
Net loans and advances	14,637,004	15,710,784	19,348,800	20,700,348	22,998,086	25,550,874
Fixed assets	103,893	429,189	399,923	512,477	444,643	377,972
Other assets	1,404,084	1,540,077	2,269,940	2,428,836	2,598,854	2,780,774
Total assets	**22,590,630**	**27,059,663**	**34,547,516**	**35,320,150**	**38,215,440**	**42,638,626**
Deposits	17,307,224	20,447,514	27,063,433	27,105,742	29,019,408	32,240,562
Current	1,398,070	1,524,211	1,879,070	1,909,113	2,072,916	2,335,250
Fixed	9,931,693	11,333,689	15,190,493	15,160,029	16,172,289	17,902,931
Savings	5,977,461	7,589,614	9,993,870	10,036,600	10,774,203	12,002,380
Borrowings and bills payable	2,426,290	3,443,605	3,888,089	4,272,267	4,709,563	5,207,493
Other liabilities	1,414,371	1,285,683	1,404,712	1,615,418	1,857,731	2,136,391
Total liabilities	**21,147,886**	**25,176,802**	**32,356,234**	**32,993,427**	**35,586,701**	**39,584,445**
Total shareholders' equity	**1,442,744**	**1,882,861**	**2,191,286**	**2,326,722**	**2,628,739**	**3,054,181**

Notes:
(a) Data from FY2018 is the consolidated performance of the bank

Source: Company, Kotak Institutional Equities estimates

"I, M B Mahesh, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

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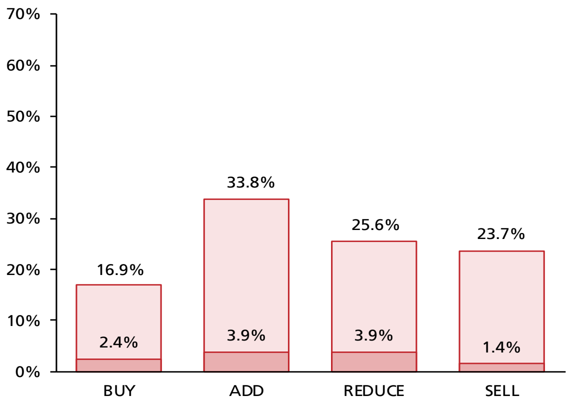

Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to deliver more than 15% returns over the next 12 months; Add = We expect this stock to deliver 5-15% returns over the next 12 months; Reduce = We expect this stock to deliver -5-+5% returns over the next 12 months; Sell = We expect this stock to deliver less than -5% returns over the next 12 months. Our target prices are also on a 12-month horizon basis. These ratings are used illustratively to comply with applicable regulations. As of 31/03/2018 Kotak Institutional Equities Investment Research had investment ratings on 207 equity securities.

Source: Kotak Institutional Equities

As of March 31, 2018

Ratings and other definitions/identifiers

Definitions of rating

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our target prices are also on a 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive, Neutral, Cautious.

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

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NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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