

Pick of the week



STATE BANK OF INDIA

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 322

Target Price

₹ 400

Potential Upside

24.2%

Investment Argument

- Q2FY20 update: SBI reported a 3.2x growth in earnings on the back of 21% yoy growth in revenues, ~30% yoy operating profit growth and 8% yoy growth in provisions. NII grew 18% yoy but loan growth was modest at 10% yoy. Reported NIM improved 10 bps qoq at 2.9%. Deposit growth was muted at 8% yoy. CASA ratio was broadly stable qoq at ~45%.
- Retail segment constitutes ~30% of the loan book and has been witnessing strong growth rates driven by home loans (up ~18% yoy) and Xpress credit (personal loans) (up 42% yoy) while auto loan growth remains weak (~3% yoy). Corporate book constitutes 40% of the loan book (down ~200 bps yoy). KIE is building ~11% loan CAGR over FY19-22E.
- The bank has seen recovery and upgradation trends sustaining and KIE is optimistic that this trend could accelerate in 2HFY20. Slippages declined to 1.7% of loans with improvement in all segments. Gross NPL ratio declined 35 bps qoq to 7.2% while net NPL ratios declined ~30 bps to 2.8%. Coverage ratio improved to ~200 bps to 62% (82% including write-off).
- KIE is optimistic that FY20 should see far better performance than FY19. It believes that the bank is well-poised to show sharp improvement in return ratios by FY21-22 on the back of recovery in loan growth, healthy operating profit growth and sharp reduction in credit costs.
- KIE maintains BUY rating on SBI with fair value of Rs400, valuing the bank at 1x book and 6x Sep'21E EPS for RoEs in the range of ~15% in the medium term. The broad thesis on the bank remains unchanged and the stock remains KIE's preferred idea among