



**AJCON GLOBAL**  
YOUR FRIENDLY FINANCIAL ADVISOR

**Investor's delight: State Bank of India Ltd. (SBI)**

**Feb. 02, 2019**

**SBI|CMP: Rs. 284|FV: Re. 1|Market Cap: Rs. 2,53,726 crores**

We believe the bank is well placed now after its performance in last few quarters. We were happy with SBI's Q3FY19 result and the management has delivered what it had promised in previous quarters. We believe the bank is well on track to return to its past glories after witnessing strong execution led by its strong management.

In Q3FY19, robust off take was witnessed in lending. Corporate credit witnessed a growth of 20.67 percent on yoy basis whereas retail segment witnessed a growth of 17.57 percent. CD ratio stood at 68.67 percent in Q3FY19. The bank registered strong NII growth of 21.4 percent on yoy basis led by robust credit growth, lower slippages and lower funding cost. The Bank registered a Net Profit of Rs. 3,955 crores due to domestic credit growth of 15.65 percent on yoy basis, better NIMs due to higher Yields on Advances, while Cost of Funds is flat (NIMs for Q3FY19 stood at 2.97% as against 2.92% in Q2FY19), improvement in Slippage ratio by 459 bps on yoy basis, significant improvement in credit cost by 105 bps on yoy basis and write-back of MTM due to softening of bond yields. RoA has improved to 0.45 percent in Q3FY19 as against 0.11 percent in Q2FY19 on qoq basis.

The most crucial aspect that we were looking is for slippages number in Q3FY19. It was heartening to see that Bank successfully contained corporate slippages and retail slippages too were lower. The slippage ratio improved from 4.85 percent in FY18 (Slippages in FY18: Rs. 94,781 crores) to 0.87 percent (Slippages in Q3FY19: Rs. 4,523 crores). Corporate slippages continue to decline.

In addition, there was sustained improvement in asset quality. Significant improvement was seen in Gross NPAs in absolute terms. Gross NPAs declined from Rs. 1,99,141 crores in Q3FY18 to Rs. 1,87,765 crores in Q3FY19. Net NPA ratio improved to 3.45 percent in Q3FY19 (Net NPAs: Rs. 80,944 crores) from 5.73 percent (Net NPAs: Rs. 1,10,855 crores) in FY18. The bank has discontinued the practice of having a watchlist as SMA 1 & SMA 2 which covers account above Rs. 5 crores across all verticals are a better representation of stress as compared to erstwhile watchlist. Total SMA1 and SMA2 stood at Rs. 17,059 crores in Q3FY19 (SMA 1 stands at Rs. 13,440 crores and SMA 2 stands at Rs. 3,619 crores). Slippages from old watch list not significant any longer.

The stress from Power sector has been mostly recognized by the bank. ~ Rs. 5,000 crores of NPAs admitted/referred to NCLT; resolution process underway for other NPAs. The much talked about exposure to IL&FS has been taken care of. As per the bank, the DHFL account is fully secured and is a good rated standard asset. With regards to provisioning for stressed assets, SBI's PCR improved to 74.63 percent in Q3FY19 as against 71% in Q2FY19 on qoq basis and 65.92 percent in Q3FY18. Provision Coverage Ratio (Excluding AUCA) improved by 830 bps YoY from 48.59% as on December 17 to 56.89% as on December 18 and by 294 bps sequentially. The bank has provided for both NCLT 1 and NCLT 2 list. PCR for NCLT list 1 is 66 percent (o/s – Rs. 25,681 crores) whereas PCR for NCLT list 2 is 86% (o/s – Rs. 18,641 crores), average PCR on NCLT 1 and 2 is 75%.

Four accounts resolved from NCLT1 & 2 List, with recovery >67%. One account from NCLT2 list sold to ARC with recovery of ~69% on 100% cash sale basis. The resolution of NCLT accounts will lead to lower GNPA's in coming quarters which would lead in significant writebacks. It is comforting to see that 20 accounts have 100% PCR. The final outcome of NCL/NCLAT in one large account itself will generate a bumper profit for the banks.

After the recent liquidity crisis in NBFCs space, the bank has targeted NBFCs backed by Govt. and PSU and high quality Private Sector NBFCs. Portfolio purchases from NBFCs were at ~Rs. 13,000 crores at the end of Dec 2018; ~ Rs. 7,000 crores in pipeline.

CAR stood at 12.77 percent. CRWAs on Advances to Total Advances" Ratio improved to 59.73 percent as on Dec. 18 from 63.09 percent as on Dec. 17. "TRWAs to Total Assets" Ratio improved to 54.41 percent as on



## AJCON GLOBAL

YOUR FRIENDLY FINANCIAL ADVISOR

Dec.18 from 58.71 percent as on Dec.17. Bank raised Additional Tier I Bonds of Rs. 6,066 crores and Tier II Bonds of Rs. 4,116 crores during Q3FY19.

We believe that SBI is well on track to achieve its earlier guidance of loan CAGR of 12 percent, NIM target of 3 percent, slippages & credit cost of less than 2 percent, ROA of 0.9-1 percent, cost/income of 46 percent by end of FY20. The management of the bank is confident that it is progressing well to meet Slippage ratio and credit cost guidance for FY19E and FY20E.

To unlock value from its subsidiaries, SBI General Insurance and SBI Funds and Cards management are expected to be listed next year.

We are bullish on the prospects of SBI as we feel that the worst is discounted in current market price and there is room for upside. We believe that the bank has accounted for its NPAs and stressed assets and the worst case scenario is now behind us. Prospects of recovery are likely to increase and we expect good write-backs as well. Structurally, the bank is strongly placed against peers like Punjab National Bank, Bank of Baroda and Bank of India owing to higher CASA ratio, lower cost of funds ability to underwrite large corporate loans, strong branch network and largest customer base to enable cross selling, technological advancement, largest market share in digital payments (Digital leadership; YONO, an entirely new digital eco-system and distribution channel is emerging, Share of Alternate Channel transactions over 87%, the Leadership position of the Bank in Debit Card spends continues with a market share of 30.16 percent as on December 18.), credit card business etc.

At current market price of Rs. 284, the bank trades at P/BV of 1.30x (9MFY19 Book Value stands at Rs. 218) and at adjusted Book Value of Rs. 127 (after deducting Net NPAs), the stock trades at P/BV of 2.24x. We are bullish on the stock and advice accumulation as CMP is quite reasonable.



**AJCON GLOBAL**  
YOUR FRIENDLY FINANCIAL ADVISOR

### **Recommendation parameters for fundamental reports:**

**Buy** – Absolute return of 20% and above

**Accumulate** – Absolute return between 15% and above

**Book profits:** On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

### **Disclosure under SEBI Research Analyst Regulations 2014:**

- a) **Analyst holding: No**
- b) **Company holding: No**
- c) **Directors holding: No**
- d) **Group/Associates Position: No**
- e) **Relationship with management: No**
- f) **Any Compensation Received by our Company/Associate during the last 12 months: No**
- g) **Our Company/Associate have managed the public offering of securities for the subject Company in the past 12 months: No**

### **Disclaimer**

Ajcon Global Services Ltd. is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Ltd. research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Ltd. is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Ltd. or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above para, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Ltd. or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Ltd. and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Ltd. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Ltd. is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Ltd. from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Ltd. will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any

**Author of the research report – Mr. Akash Jain, MBA (Financial Markets)**



## AJCON GLOBAL

YOUR FRIENDLY FINANCIAL ADVISOR

recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Ltd. accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Ltd. or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Ltd. encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Ltd. or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Ltd. nor Research Analysts have any material conflict of interest at the time of publication of this report. It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Ltd. or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Ltd. may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Neither the Research Analysts nor Ajcon Global Services Ltd. have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Ltd. by any Regulatory Authority impacting Equity Research Analysis activities.

### **Analyst Certification**

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

### **For research related queries contact:**

Mr. Akash Jain – Vice President (Research) at, 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

**Website:** [www.ajcononline.com](http://www.ajcononline.com)

### **Registered and Corporate office**

408 - (4<sup>th</sup> Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062