INANI SECURITIES LIMITED
Relationships Beyond Investments

Tracing the Curve

Company Profile

SBI is the oldest and the largest bank domestically. Go owns 61.3 per cent of the bank's equity. As a group it offers a wide range of banking products and services. Through its non-banking subsidiaries and joint venture companies, it offers a wide range of financial services, such as merchant banking, fund management, factoring, primary dealership, broking, investment banking, credit cards, life insurance, and general insurance. The bank has the widest branch and ATM network in the country.

Source: Company Website

Credit cost remains high but improves PCR for the bank

- Recoveries from Agricultural/Retail will help write-back provisions, but an NCLT referred account by RBI takes its PCR to 52%
- SBI also went ahead to do specific provisions on stressed standard accounts and accelerated provisions on some NPAs outside NCLT which has kept credit cost at 370bps. We expect it to revert to normalized levels
- There was increased slippages in Agricultural loans from both Maharashtra and Karnataka as both these states had announced loan waivers in one form or the other.

Investment Rationale

- Remains our top pick among State Run Banks

- Decline in fresh slippages reiterates improving asset quality
- Expect limited damage to power assets but healthy recoveries from metal assets lending
- The bank is well capitalised with Tier 1 at 11% and capital infusion will help recovery faster
- While corporate slippages may remain volatile, the relatively low watch-list and restructured assets provide comfort on future slippage trajectory. Continued focus on increasing retail loan share led by housing and auto
- Strong CASA franchise and lead for deposit rates driving cost of funds lower
- Strong capital position and further capital infusion to further cleanse its book
- SBI subsidiaries continue to do well especially in its key subs like Life insurance biz, which continues to add value to profitability.
- The stock currently trades at Rs311. We have a SOTP target price of Rs 475 on the stock, that represents an upside potential of 53%.

Improving Operational performance

- Decent operational performance
- NII growth continued at decent pace of 3.5% YoY (2Qfy18) as margins improved sequentially. Margins improved by 7bps QoQ to 2.43%
- NIMs stabilized as cost of funding continued to benefit with savings rate cut benefit coming in and should reflect fully in Q3FY18.
- Core Bank's fees were slightly tepid as credit linked fees was slower.
- Contraction in corporate credit led to lower than estimated NII.

Loan growth continues to remain soft on poor corporate book off take but we expect this to improve as investments pick up

- Overall loan growth was flat as corporate loan book contracted but bank has been participating in credit substitutes (CPs/corp. bonds) which overall loan book grow by 3% YoY
- Bank has participated refinancing by better rated large corporates and hence bank credit off-take remained lower
- Retail continued to lead growth at 13% Yoy but other loan segments continued to be sluggish.
- Bank expects slower loan growth in corporate book and should pick up from FY19 as project loan disbursement pick-up, while SME/Agricultural should pick-up in H2FY18.

Decline in Fresh Slippages reflects Improving Asset Quality

- There continues to be higher provisioning which in some accounts which is reflecting in lower net earnings
- The higher provisioning has been referred to NCLT
- There has also been higher provisioning on standard stressed assets.
- Pre Provisioning Operating Profit was supported by decent NII, stake sale gains and lower opex
- Key positive was lower slippages than previous trends and equally contributed from corporate & non-corporate book.
- Loan book remained flat but liability franchise continues to hold
- We believe, provisions will remain high in FY18 as bank adopts risk based provisioning but slippages should be under control
- Half of the corporate book slippage was from watch list. 50% of watch list is now power and some exposure towards telecom/steel.
- Expect retail slippages to be lower and recoveries to improve as they see more stability to the retail credit, with Agricultural recoveries to be realised in Q3/Q4FY18
- The corporate slippages are likely to be volatile as there are few lumpy accounts still left.

SOTP VALUATIONS

SOTP VALUATIONS	Multiple	Stake %	Price Target	Method
SBI	1.50	100.00	364.50	Average P/B
Life Insurance		62.00	72.00	Appraisal Value
AMC		60.00	10.00	4.5% of AUM
Capital Market/DFHI etc.		100.00	35.00	
General Insurance		74.00	21.00	
Total Subsidiary value at 20% holding discount			110.40	
Value per share			474.90	

*Source: Company Data, Consensus Estimates

Valuations and Outlook

- Remains our top pick among State run Banks. Within PSU banks, SBIN remains the best play recovery in Indian economy with lowest NSL relatively healthy PCR, conservation of capital, healthy capitalization, strong liability franchise and focus on core operating profitability.
- Continued focus on increasing retail loan share led by housing and auto
- SBI subsidiaries continue to do well especially in its key subs like Life insurance biz, which continues to add value to profitability. The stock has still not captured the entire value of its insurance subsidiary post its listing
- Strong CASA franchise and lead for deposit rates driving its own cost of funds lower
- Strong capital position post raising from QIP and further capital infusion announced by the Government via recap bonds enable the bank to further cleanse its book
- Cross selling ability from its franchise remain low hanging fruits given its superior market share in many product segments
- While corporate slippages may remain volatile, the relatively low watch-list and restructured assets provide comfort on future slippage trajectory. The current quarter has addressed the concerns about management transition, and we look forward to speedy recovery in SBI's asset quality
- The stock currently trades at Rs311. We have a SOTP target price of Rs 475 on the stock, that represents an upside potential; of 53%.

Financials (in Rs. Millions)

Y/E March	2016A	2017A	2018E	2019E	2020E
Net Income	10,58,152	11,82,110	11,74,510	12,95,512	14,62,496
OperatingProfits	5,37,330	5,96,960	5,92,101	6,86,549	7,94,256
Provisions	3,74,113	6,09,844	4,66,931	4,32,361	3,30,062
PBT	1,63,217	-12,884	1,25,170	2,54,188	4,64,194
PAT	1,15,894	-20,239	95,129	1,72,848	3,15,652
NIMs	3.00	2.80	2.70	2.70	2.80
RoE	7.60	-1.20	5.30	8.00	13.10
RoA	0.40	-0.10	0.30	0.50	0.80
Adj. BVPS	157.00	128.00	170.00	205.00	243.00
EPS	14.90	-2.50	11.50	19.60	34.90
P/Adj.BV	1.98	2.43	1.83	1.52	1.28

*Source: Company Data, Consensus Estimates

Price	Value	Date
All time High	351.50	08-Nov-2010
All time Low	13.21	21-Sep-2001
52 Week High	351.30	26-Oct-2017
52 Week Low	241.15	19-Oct-2017
Latest Close	312.10	29-Jan-2018
Average 12M Closing	289.97	29-Jan-2018
EMA	**Value**	**Date**
Short Term	310.30	29-Jan-2018
Medium Term	304.60	29-Jan-2018
Long Term	289.85	29-Jan-2018

CAGR	Percentage	Years
Since Inception -NSE	13.08	23.24
Jan-13	4.85	5.00

Details	Recommendation
Recommendation	Buy
Closing Price	312.10
Range	286-330
Expected Target Price	475.00
Expected Return	52.19%
Stop Loss	248.00
Expected Risk	-20.54%
Minimum Holding Period	9 months

For further enquiries please contact:
research@inanisec.in

Disclosures Appendix

Analyst certification

The following analyst(s), who is (are) primarily responsible for this report, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

Disclaimer: This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. INANI SECURITIES LIMITED, (hereinafter referred as INANI) is not soliciting any action based upon it. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The intent of this document is not in recommendary nature. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. INANI or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in the report. Neither the firm, not its director, employees, agents or representative shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information. INANI or any of its affiliates or employees do not provide, at any time, any express or implies warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company/ies makes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action. INANI Securities Ltd. and affiliates, including the analyst who have issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy Or sell the securities of the company/ies mentioned herein or engage it any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions, INANI Securities Ltd. and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the company/ies referred to in this report, as on the date of this report or in the past. The author, directors and other employees of INANI and its affiliates may hold long or short positions in the above mentioned companies from time to time. Every employee of INANI and its associate companies are required to disclose their individual stock holdings and details of trades, if any, that they undertake. The team rendering corporate analysis and investment recommendations are restricted in purchasing/selling of shares or other securities till such a time this recommendation has either been displayed or has been forwarded to clients of Inani. We are sorry if this mail has caused any distraction. If you want to be removed from the mailing list then you must reply to this mail with "Remove" in the subject line and e-mail for faster response and action

INANI reserves the right to make modification and alternations to this statement as may be required from time to time.

Inani Securities Limited

NSE: Membership ID No.08571, SEBI Registration No.INB230857131, BSE: Membership No. 941, SEBI Registration No. INB010857135
CDSL: Membership ID No. DP ID is 036200, SEBI Registration No. IN – DP – CDSL – 269 – 2004

"B/1408", 14th Floor, Naman Midtown, Next Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Mumbai – 400 013. India.

Tel: 91 22 43486000; Fax: 91-22-43486011

For More updates & Stock Research, visit www.inanisec.in