

SBI is one of the largest commercial bank and holds ~20% market share in the banking sector. It has 16,784 branches in India along with 98 overseas branches spread over 36 countries. The bank has achieved consistent growth over the last 5 years (FY11-16) with a CAGR of 13% in total assets, 13% in total deposits, 14% in total advances and 12% in net interest income (NII).

### Key Developments

#### Growth in advances:

SBI's advances grew at a CAGR of 14% over FY11-16 driven by 16% growth in domestic corporate advances. Overseas loan book (18% of total loan book) grew at a much faster pace of 20% CAGR over FY11-16 as compared to 13% CAGR reported in domestic loan book.

#### Consistent CASA levels:

Over the last five years, SBI has continuously focussed on maintaining low cost deposits. This has helped the bank in sustaining the current accounts savings account (CASA) ratio consistently over 40% levels.

#### Higher slippages impacted Net Interest Margin (NIM):

NIM of SBI has declined consistently over the last five years due to higher slippages coupled with lower credit to deposits (c/d) ratio. SBI's return ratios remained under pressure on the back of higher operating expenses coupled with higher credit cost due to deteriorating asset quality. However, the bank has taken several measures to improve its operating efficiency.

#### Deterioration in the asset quality:

SBI's asset quality deteriorated significantly in FY16 on account of RBI's asset quality review (AQR). However, as per the bank's management, it has recognized all the known stress from the loan book.

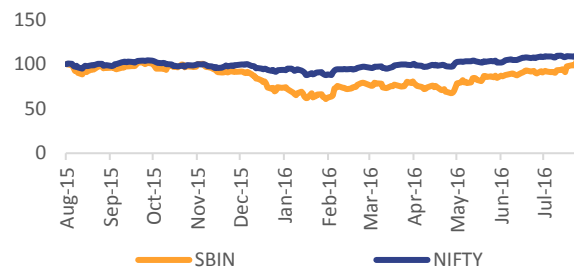
### Market Data

<b>CMP (Rs.)</b>	<b>258</b>
Face Value	1.0
52 week H/L (Rs.)	272/148
Adj. all time High (Rs.)	282
Decline from 52WH (%)	5.1
Rise from 52WL (%)	73.7
Beta	1.7
Mkt. Cap (Rs.Cr)	199,969

### Fiscal Year Ended

	FY14	FY15	FY16
<b>Interest Income (Rs.cr)</b>	136,351	152,397	163,685
<b>Interest Expense (Rs.cr)</b>	87,069	97,382	106,804
<b>Net Interest Income (Rs.Cr)</b>	49,282	55,015	56,881
<b>Pre Pro Profit (Rs. Cr)</b>	32,109	39,006	43,257
<b>EPS (Rs.)</b>	14.6	17.5	12.8
<b>P/E (x)</b>	17.7	14.7	20.1
<b>P/BV (x)</b>	1.6	1.5	1.4
<b>P/ABV (x)</b>	2.2	1.9	2.3
<b>ROE (%)</b>	10.0	10.6	7.3
<b>ROA (%)</b>	0.6	0.7	0.5

### One year Price Chart



Shareholding	Jun16	Mar16	Diff.
<b>Promoters (%)</b>	61.3	61.3	-
<b>Public (%)</b>	38.7	38.7	-
<b>Others (%)</b>	-	-	-

SBI is one of the largest commercial bank in India with over 1/5th market share of Indian banking sector.

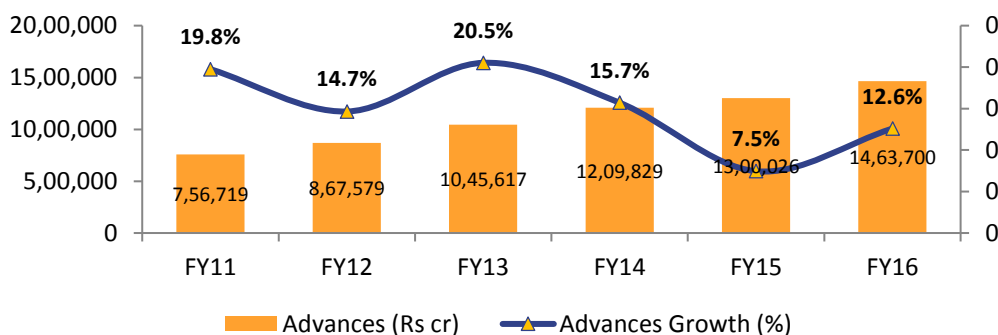
## State Bank of India (SBI): Business overview

SBI is one of the largest commercial bank and holds ~20% market share in the banking sector. It has 16,784 branches in India along with 98 overseas branches spread over 36 countries. The bank has achieved consistent growth over the last 5 years (FY11-16) with a CAGR of 13% in total assets, 13% in total deposits, 14% in total advances and 12% in net interest income (NII).

## Growth in the loan book

SBI's advances have grown at a CAGR of 14% over FY11-16 driven by 16% growth in domestic corporate advances. Retail continued to show impressive growth (15% CAGR over FY11-16), driven by both housing / mortgage loans and auto loans. However, SBI remained conservative in growing SME (6% CAGR over FY11-16) advances. Overseas loan book (18% of total loan book) grew at a much faster pace of 20% CAGR over FY11-16 as compared to 13% CAGR reported in domestic loan book.

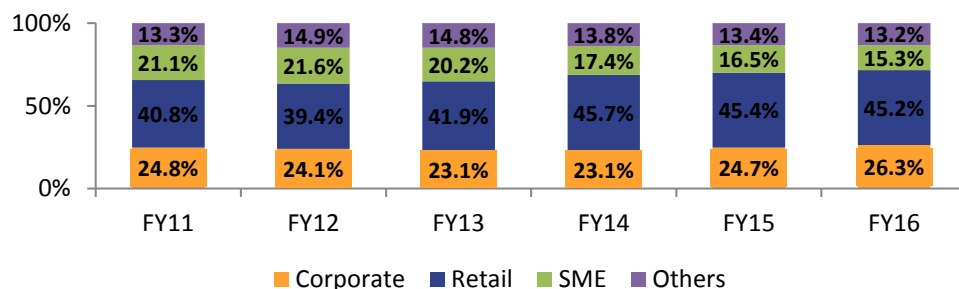
### Advances grew at a CAGR of 14% over FY11-16



Source: Company, In-house research

Until FY12, the majority of loan growth was coming from corporates, however, due to stress in the economy, the asset quality of corporate segment got affected. Hence, SBI changed its strategy and moved towards retail segment. Consequently, the share of retail loans (to overall domestic loans) has improved steadily from 39% in FY12 to 45% in FY16.

### Share of retail advances has increased to 45% of total domestic advances

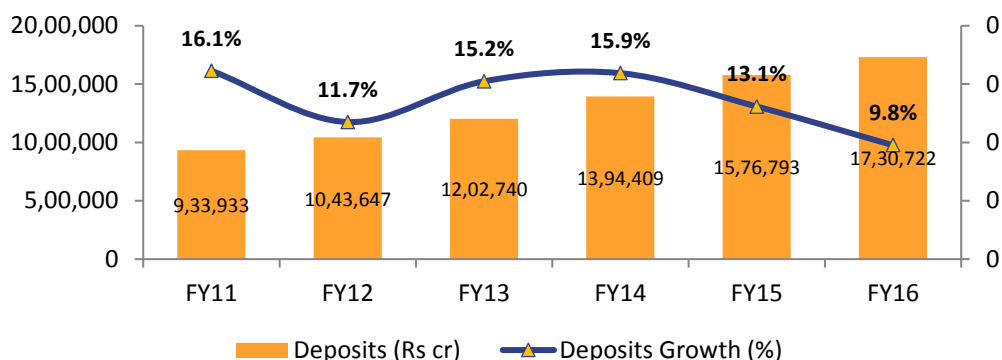


Source: Company, In-house research

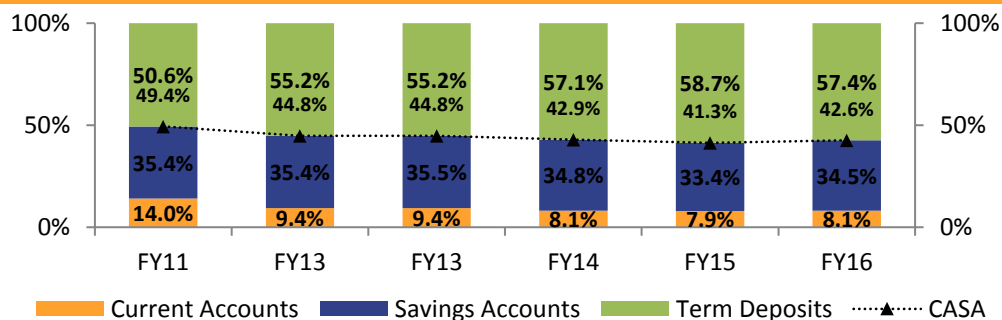
## Low cost deposits driving deposits growth

Over the last five years, SBI has continuously focussed on maintaining low cost deposits. This has helped the bank in sustaining the current accounts savings account (CASA) ratio consistently over 40% levels. Further, the bank has the highest branch network in the country with 16,784 branches, of which 65% are in rural and semi-urban areas. As a result, 20% of the banked population has their accounts with SBI.

Deposits growth trend



CASA driving deposits growth

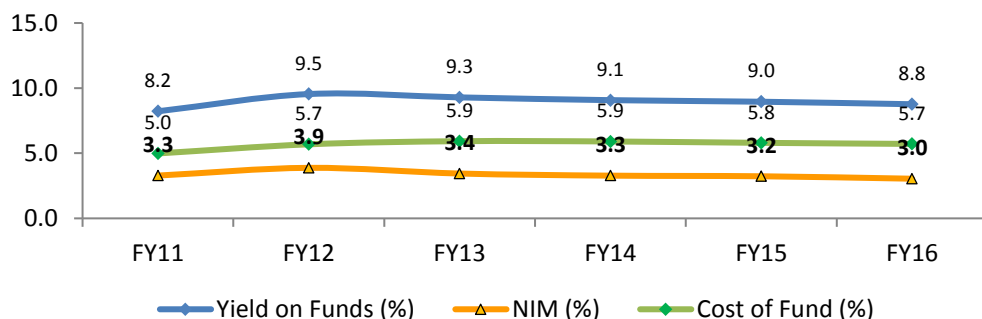


Source: Company, In-house research

## Higher slippages impacted Net Interest Margins (NIMs)

NIM of SBI has declined consistently over the last five years due to higher slippages coupled with lower credit to deposits (c/d) ratio. NIM of the bank has declined to 3% in FY16 from 3.9% in FY12.

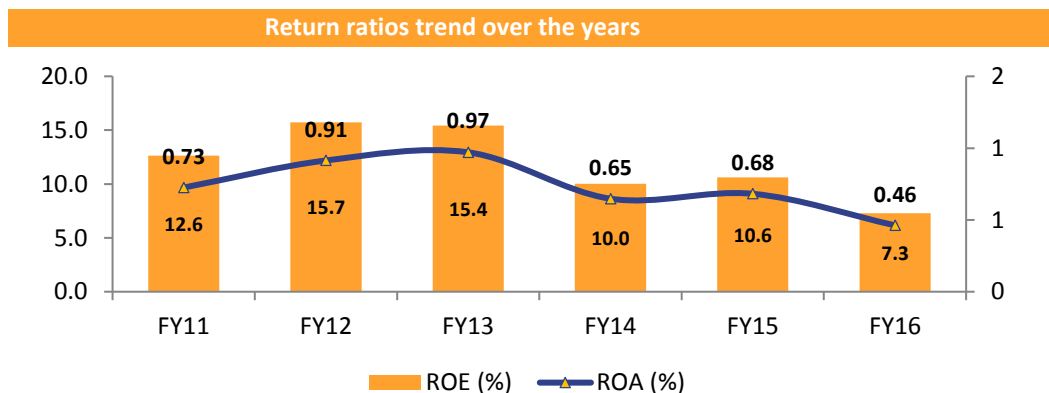
NIMs over the years



Source: Company, In-house research

## Trend in the return ratios over the years

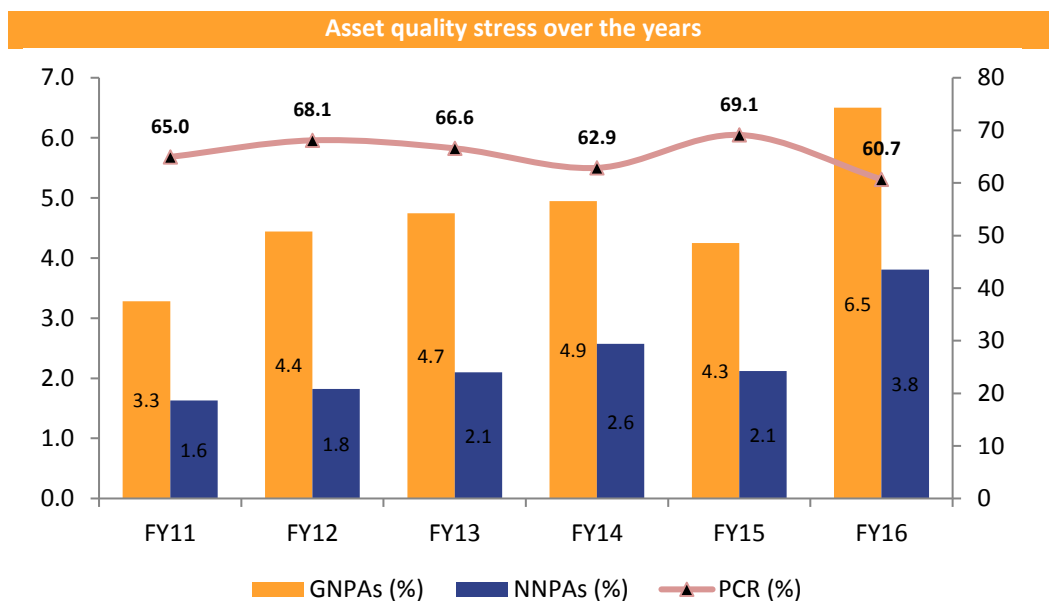
SBI's return ratios remained under pressure on the back of higher operating expenses coupled with higher credit cost due to deteriorating asset quality. However, the bank has taken several measures to improve its operating efficiency. Recently, the bank has moved its overseas treasury operations to centralized location from 21 locations.



Source: Company, In-house research

## Decline in the asset quality

SBI's asset quality deteriorated significantly in FY16 on account of RBI's asset quality review (AQR). However, as per the bank's management, it has recognized all the known stress from the loan book. Additionally, SBI has one of the smallest watch-list of stressed accounts which is just 2.2% of total loan book. Of the watch list, ~45% is already reported as stress loans either as SDR (Special Drawing Rights), 5:25 or Restructured loans.

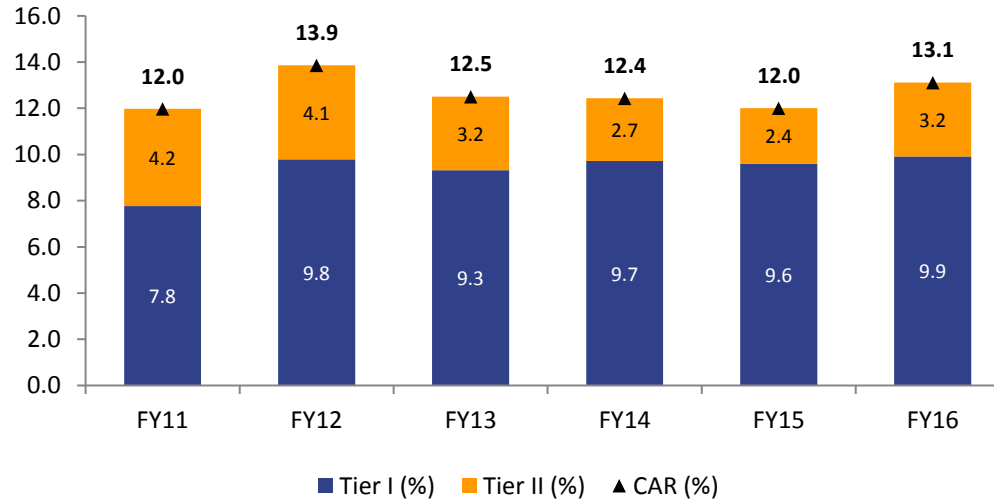


Source: Company, In-house research

## Adequately capitalised

SBI's capital adequacy ratio (CAR) as per Basel III norms continues to remain strong at 13.1% (one of the highest among PSBs) with Tier-I capital ratio of 9.9%.

### Well capitalized to support growth momentum



Source: Company, In-house research

## Balance Sheet (Standalone)

(Rs.Cr)	FY14	FY15	FY16
<b>Liabilities</b>			
Capital	747	747	776
Reserves and surplus	117,536	127,692	143,498
Deposits	1,394,409	1,576,793	1,730,722
Borrowings	183,131	205,150	224,191
Other Liabilities & Provisions	98,748	137,698	159,876
<b>Total Liabilities</b>	<b>1,794,570</b>	<b>2,048,080</b>	<b>2,259,063</b>
<b>Assets</b>			
Cash & Balances	132,550	174,861	167,468
Investments	398,308	495,027	477,097
Advances	1,209,829	1,300,026	1,463,700
Fixed assets	8,002	9,329	10,389
Other assets	45,881	68,836	140,408
<b>Total Assets</b>	<b>1,794,570</b>	<b>2,048,080</b>	<b>2,259,063</b>

## Profit & Loss Account (Standalone)

(Rs.Cr)	FY14	FY15	FY16
<b>Interest Income</b>	<b>136,351</b>	<b>152,397</b>	<b>163,685</b>
Interest Expense	87,069	97,382	106,804
<b>Net Interest Income</b>	<b>49,282</b>	<b>55,015</b>	<b>56,881</b>
Non Interest Income	18,553	22,576	28,158
<b>Net Income</b>	<b>67,835</b>	<b>77,591</b>	<b>85,040</b>
Operating Expenses	35,726	38,585	41,782
Total Income	154,904	174,973	191,844
<b>Total Expenditure</b>	<b>122,794</b>	<b>135,967</b>	<b>148,586</b>
Pre Provisioning Profit	32,109	39,006	43,257
<b>Provisions</b>	<b>15,935</b>	<b>19,692</b>	<b>29,484</b>
Profit Before Tax	16,174	19,314	13,774
Tax	5,283	6,212	3,823
<b>Net Profit</b>	<b>10,891</b>	<b>13,102</b>	<b>9,950</b>

## Key Ratios (Standalone)

	FY14	FY15	FY16
<b>Per share data (Rs.)</b>			
EPS	14.6	17.5	12.8
DPS	34.0	35.0	26.0
BV	158.4	172.0	185.9
ABV	116.8	135.1	111.1
<b>Valuation (%)</b>			
P/E	17.7	14.7	20.1
P/BV	1.6	1.5	1.4
P/ABV	2.2	1.9	2.3
Div. Yield	13.7	14.1	10.5
<b>Capital (%)</b>			
CAR	12.4	12.0	13.1
Tier I	9.7	9.6	9.9
Tier II	2.7	2.4	3.2
<b>Asset (%)</b>			
GNPA	4.9	4.3	6.5
NNPA	2.6	2.1	3.8
PCR	62.9	69.1	60.7
<b>Management (%)</b>			
Credit/ Deposit	86.8	82.4	84.6
Cost/ Income	52.7	49.7	49.1
CASA	42.9	43.8	42.6
<b>Earnings (%)</b>			
NIM	3.3	3.2	3.0
ROE	10.0	10.6	7.3
ROA	0.6	0.7	0.5

## Financial performance snapshot

Net interest income of the bank stood at Rs56,881cr in FY16, a growth of 3.4% as compared to Rs55,015cr in FY15. The NIM (net interest margin) of the bank contracted by 19 bps to 3.0% from 3.2% during the year. The bank's pre-provisioning profit grew by 10.9% YoY to Rs43,257cr in FY16 from Rs39,006cr in FY15. Net profit decreased by 24.1% to Rs9,950cr in FY16 from Rs13,102cr in FY15. CAR (Capital Adequacy Ratio) expanded by 112 bps to 13.1% from 12.0% during the period under review.



Indbank Merchant Banking Services Ltd.  
I Floor, Khiviraj Complex I,  
No.480, Anna Salai, Nandanam, Chennai 600035  
Telephone No: 044 – 24313094 - 97  
Fax No: 044 – 24313093  
[www.indbankonline.com](http://www.indbankonline.com)

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