

- **In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.**
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
State Bank of India	174,744	196	250	28%	BUY

* Note: Investment horizon Approx. 6-9 months., CMP as on 16th October, 2020



CMP (Rs)	Target (Rs)
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196	250
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MARKET DATA

No. of Shares	891.55 cr
Market Cap	Rs 174,744 Cr
52-week High / Low	Rs 351/ 149
BSE Code	500112
NSE Code	SBIN

State Bank of India (SBIN) is the largest public sector bank in terms of assets, deposits, branches, number of customers, and employees having pan-India presence. As of March '20, SBIN has a network of 22,141 branches and 58,555 ATMS. It has a market share of ~22.8/19.7% market share in deposits/ advances.

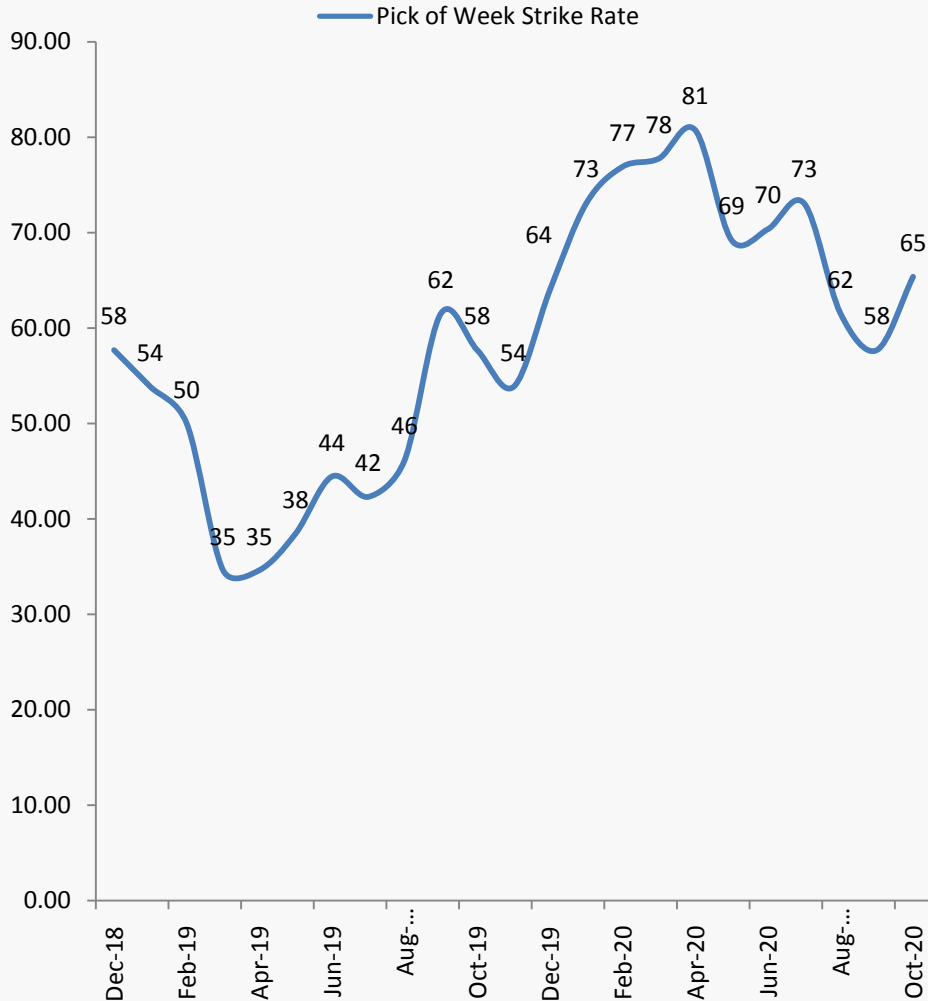
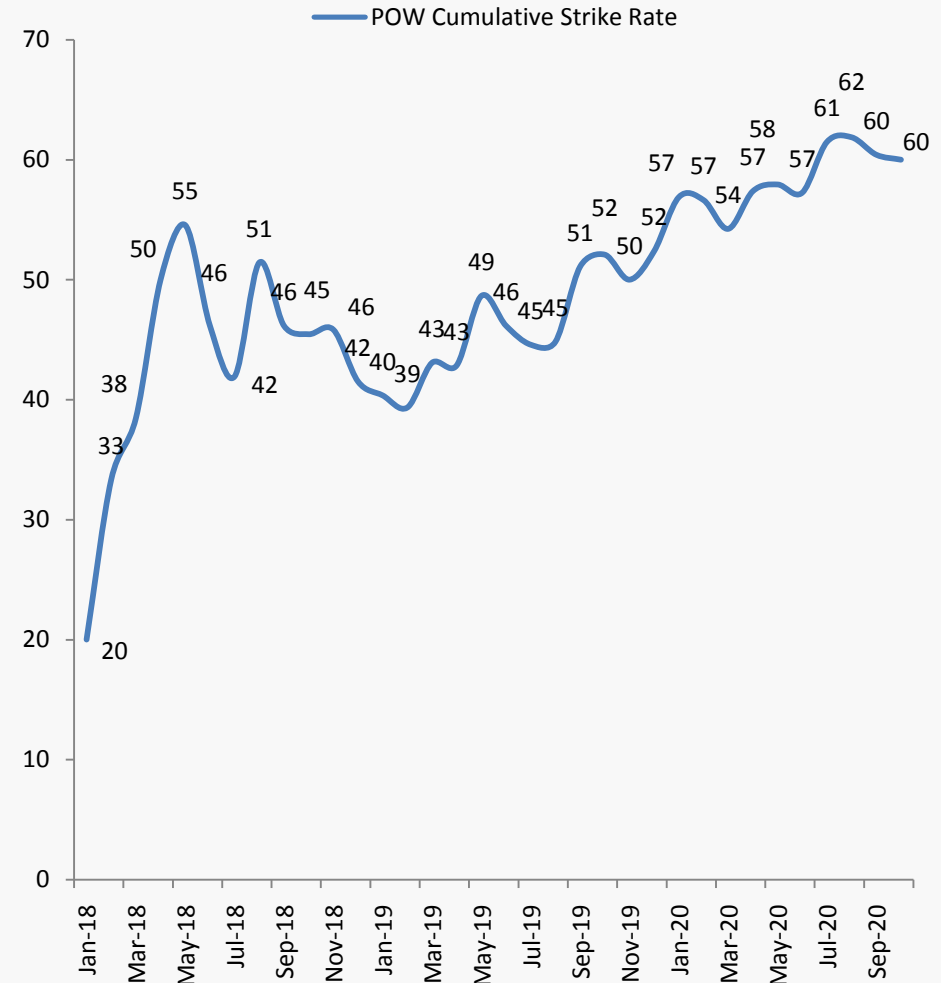
Investment Rationale

- ❑ **Consistent improvement in asset quality:** SBIN's G/NNPA ratios have reduced steadily from 10.9%/5.7% in FY18 to 5.4%/1.9% in Q1FY21. Further, its healthy coverage ratio of ~67% implies credit costs can decline sharply if recoveries progress well. Unlike other PSBs, SBIN's large balance sheet and recovery prospects are comparable to those of large private peers.
- ❑ **Liability franchise strong and improved NIM:** Despite competition from peers, SBIN's CASA franchise is at 45% of deposits, better than that of some large private banking peers. Aggressive cut in Savings and Term Deposit rates enabled margin improvement. Domestic NIMs have improved to 3% in Q1FY21 given lower cost of funds, lower GNPA's and higher recoveries. We expect NIMs to be stable at ~3% over FY21/22E.
- ❑ **Non banking subsidiaries to boost overall performance:** Apart from core banking, SBI's subsidiaries will continue to add further value. It has strong presence in various financial services operations like credit cards, insurance (life and general), asset management, pension funds, investment banking, institutional and retail broking etc. Most of these are generating stable returns and boosting overall performance.
- ❑ **Attractive valuations:** We believe key positive of SBIN which will drive its performance are i) Being the largest bank in India the bank has business strengths making it a beneficiary of liquidity with huge deposit inflow during uncertain times resulting in lower cost of funds. ii) Asset quality has improved on book clean –up efforts over the last few years resulting in lower slippages and NPA decline. iii) PCR has improved to 67%. Provisions for legacy stress is mostly over though Covid-19 may keep credit cost elevated. iv) Subsidiaries performance has been improving. SBI currently trades at <1x its FY22E core book value, which we believe are attractive. Among PSU banks, SBIN remains the best play on the gradual recovery in the Indian economy, with a healthy PCR, robust capitalization, a strong liability franchise and improved core operating profitability
- ❑ We re-iterate Buy with target price of Rs 250.

Financial Summary (Standalone)

Y/E March	NII (Rs bn)	PPOP (Rs bn)	PAT (Rs bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoAA (%)	NNPA (%)
2019	883	554	9	1.0	146.0	0.9	0.0	3.0
2020	981	681	69	7.7	222.4	0.8	0.2	2.2
2021E	1094	742	166	18.5	190.9	0.8	0.4	2.2
2022E	1181	778	277	30.8	215.4	0.7	0.7	1.9

Source: Axis Securities

Strike rate based on rolling 6 months

Strike rate since Jan 2018


Note: We have changed our methodology of calculation of strike rates for PoW product from July 2020; and shifted to calculations using 6 months rolling returns method and cumulative basis as against earlier method of calculating the strike rate for last 9 months. The performance under the revised methodology is as above.

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