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SBI: Is the worst priced in?

Concerns over asset quality, slower economic recovery are some of the pressure points for the banking sector

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State Bank of India (SBI) has started 2016 on a weak note and there seems to be no respite as yet. The SBI scrip on Tuesday made a new 52-week low for the second trading session in a row at Rs 217.75. The stock had corrected 28 per cent in 2015. Concerns around asset quality, slower economic recovery, among others, are some of the pressure points on not just SBI but the entire banking sector. Downgrades by brokerages such as [Sharekhan](#) and [Religare Capital Markets](#) early this week is another.

While SBI stands to gain from economic recovery, the actual execution of reforms in the power and other sectors is critical in determining the pace of this recovery. Not surprisingly, SBI's net interest income growth has come off from mid-teens a few quarters ago to mid-single digits in recent quarters on the back of slowing loan growth. Recently, the bank trimmed its base rate by 40 basis points. This, along with intensifying competition in retail lending (due to a virtual halt in corporate borrowings), will keep SBI's net interest margins under pressure. Analysts at [Sharekhan](#) believe the benefits of easing deposit rates will kick in only in FY17 due to the lag in re-pricing of deposits. While the bank's [asset quality](#) seems to be stabilising over the past two quarters, analysts believe provisioning will continue to be high as the bank complies with Reserve Bank of India guidelines for early non-performing asset (NPA) recognition. These norms are aimed at cleaning up the balance sheets of banks by March 2017.

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In this backdrop, SBI's credit costs are likely to remain elevated going forward.

However, on the **asset quality** front, the bank is ahead of its other public sector undertaking peers.

Though the **SBI** scrip is beaten down and trades at attractive valuation of one-

time FY17 estimated adjusted book value (versus historical average of 1.1 times), analysts are cautious. Suresh Ganapathy, financials analyst, Macquarie Capital, says, "We believe that there are no catalysts now and investors may have to wait for more than a year to see some sustainable gains in the **SBI** scrip." He has a 'neutral' view on the stock with a target price of Rs 250.

Most analysts, however, have a positive view on the stock citing its well-capitalised balance sheet, strong liability franchise and extensive distribution network. Further, the bank is a play on economic revival and earlier than expected recovery is a key upside risk.

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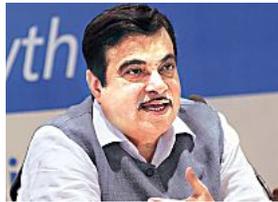
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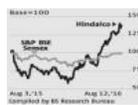


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%Change:YoY	-16.8	3.0
EBITDA (₹ cr)	5,895	8,926
%Change:YoY	24.7	35.0
Net profit (₹ cr)	2,292	3,436
%Change:YoY	-28.7	52.6

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