



State Bank of India

SBI Cards has the 2nd highest market share (16%) in number of cards

3QFY18	# cards (m)	Market share (%)
HDFC	10.19	29%
SBI Card	5.75	16%
ICICI	4.73	13%
Axis	4.15	12%
Citi	2.63	7%
Industry	35.5	

At 17%, SBI Cards has the 2nd highest market share in card spends

YTD Dec '17	Spends (INRb)	Market share (%)
HDFC	961	29%
SBI Card	574	17%
Citi	364	11%
Amex	333	10%
ICICI	375	11%
Axis	309	9%
Industry	3,355	

Subsidiaries gaining strength; MF and cards businesses to be listed by FY20

Takeaways from SBI Subsidiaries Day

We attended 'SBI Subsidiaries Day' organized by State Bank of India (SBIN), focusing on its key subsidiaries with highlights from the managements of the respective businesses. SBIN intends to list its cards and AMC businesses in FY20, and two of its 18 regional rural bank (RRB) subsidiaries. While SBI Life Insurance and SBI Cards are poised to take off on their next leg of growth, SBI General Insurance, after achieving breakeven in seven years of operations, is targeting underwriting breakeven within the next two years. SBI AMC, while continuing its leadership in B15 locations, is looking to capitalize on Amundi and SBI's overseas presence to aggressively foray in ETF, AIF and offshore funds. SBI Capital Markets targets a leadership position in investment banking. Across businesses, the focus is on aggressive cross-selling to SBIN's sizeable customer base of 420m, which presents a significant untapped market for these subsidiaries.

- **SBI Life – focusing on margin improvement:** SBI Life is focusing on increasing the share of its protection business to 10%, and improving margins with levers of opex control, digitization and fund management. The company aims to improve VNB (value of new business) margins by 1.5% every year.
- **SBI Cards** is incrementally focusing more on (a) cross-selling to SBIN's 420m customer base, (b) the premium segment for business, (c) digitalization, and (d) merger of two entities to gain operating efficiencies.
- **SBI AMC** is focusing on (a) leadership in B15 locations, where it has 14% market share, (b) digitization, and (c) capitalizing on Amundi and SBI's overseas presence to aggressively foray in ETF, AIF and offshore funds.
- **SBI General Insurance**, which has broken even in FY17 within seven years of operations, is looking to reduce its total combined ratio to achieve underwriting profits within the next two years.
- **SBI Capital Markets** is aiming to establish a leadership position in investment banking. SBICap Ventures is aiming to launch an affordable housing fund, an SME fund, and a stressed asset fund along with SBI MF.
- **RRBs:** SBIN is optimistic about the performance of its RRBs, given (a) higher rural population, (b) increased minimum wages and increased rural cash flows, and (c) the government's target to double agricultural income by FY22.

Valuation and view: We believe the management is looking to unlock maximum value from its subsidiaries, which have demonstrated robust performance over the last few years. We believe SBIN's subsidiaries will continue their strong performance and will continue to add value to the bank's valuations.

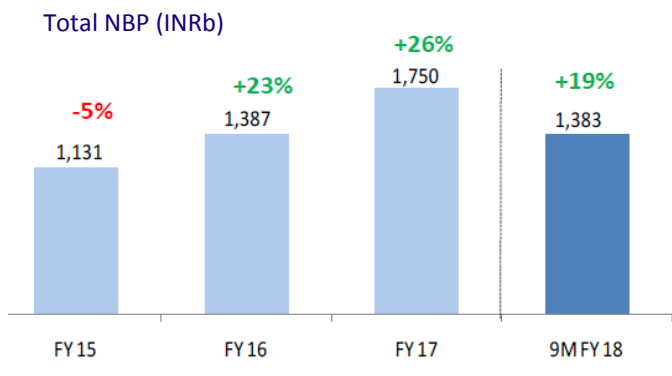
Key messages from the management

- SBIN is targeting to increase the share of bancassurance fees by 3x from the present level of 7% of total income.
- It is looking to list its cards and AMC businesses in FY20. It is also planning to list two of its 18 regional rural bank (RRB) subsidiaries, while also evaluating inorganic opportunities.
- The focus across businesses is on capitalizing on SBIN's customer base of 420m and cross-sell aggressively.
- Life insurance business has shifted focus to increasing the protection business (including credit-linked in SBIN) and improve VNB margin – in line with the historical trend.
- SBI Life's public shareholding has to be increased from the current 16% to 25% within three years of listing.
- SBIN's total investment in all subsidiaries amounts to INR39b.

SBI Life

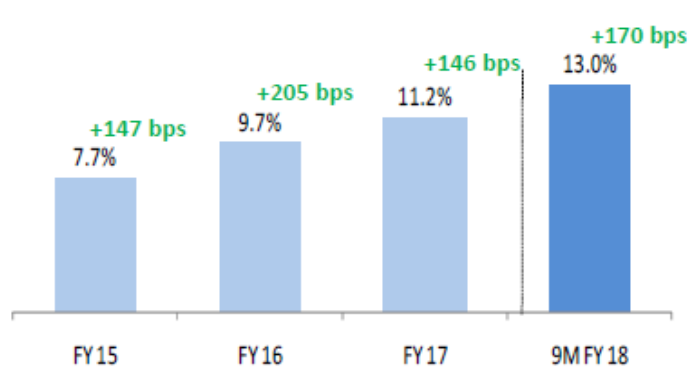
- **Margin improvement a key focus area:** With an AUM of INR11.2b, SBI Life Insurance has ~5.2% market share of total new business premium (9MFY18). The company is focused on cost reduction and has witnessed 120bp decrease in operating expenses ratio for 9MFY18. It has taken a conscious call to restrict the low-margin group life insurance business. Protection, persistency, digital, fund management and opex control are the key focus areas for improving margins. The company is focusing on improving VNB margins by 1.5% every year – however, it has not committed on a firm guidance for this metric.
- **Looking to scale up in protection business:** SBI Life is looking to build the protection business – and enhance its contribution from 5-6% of total premiums to ~10%, with a focus on both individual life as well as credit life products. The company has developed a few new products including health and group credit life business. It is also one of the first to launch insurance against critical illness. The company has achieved 40% penetration in new home loan business and intends to take that up to 55-60% in two years.
- **Rising interest rates present a risk:** ULIP products constitute 47% of the portfolio. Debt is a higher part of the portfolio compared to equity. Rising interest rates are negative for the portfolio. The company is looking to enter into interest rate swaps to counter rising rates.
- **SBIN's untapped customer base presents a big potential:** The company has tapped into a mere 6m of SBIN's 420m customers, and is optimistic about the opportunity. Other than SBIN, it has tied up with a few new Bancassurance partners – South Indian Bank, Punjab and Sind Bank, and Indian Postal Bank (in discussions).
- Public shareholding will have to be raised from 15.9% (12% public + 3.9% KKR) to 25% within three years of listing.

Exhibit 1: Industry NBP growth has been impressive



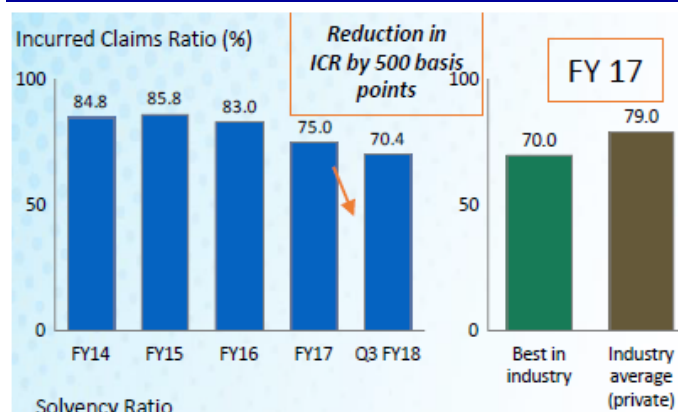
Source: MOSL, Company

Exhibit 2: Individual premium market share stands at 13%



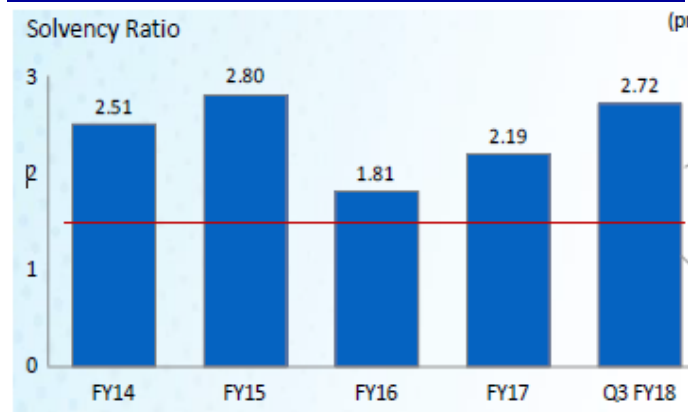
Source: MOSL, Company

Exhibit 3: Incurred claims ratio among the lowest in the industry



Source: MOSL, Company

Exhibit 4: Solvency ratio stands healthy



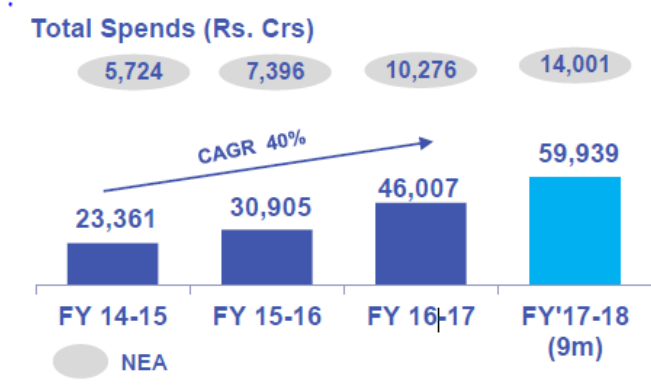
Source: MOSL, Company

SBI Cards

- Rapid growth in market share, with high profitability:** SBI Cards has a 16% market share on card base (5.75m) and 17% on card spends (INR574b). It has witnessed a 40% CAGR on card spends (over FY15-3QFY18) to INR600b, with 33% revenue CAGR to INR3.7b. Return ratios for the business are healthy, with RoE at 32% and RoA at 3.8% (9MFY18). Over the last five years, RoA has been in the range of 3.6-3.8% and RoE has been in the range of 30-32%. The company is focusing on reducing acquisition cost, which should help improve profitability further. It has a loan book of INR103b, total assets of INR108b, and net worth of INR14.5b.
- Write-offs are in control:** Write-offs for SBI Cards are controlled at ~2.4% compared to the industry average of 2.2-2.3%. After peaking at double digits during the global financial crisis of FY09, there has been sharp improvement in write-offs – at 2.35-2.55% over the last four years.
- Co-branded channels and NFC terminals to drive further growth:** Co-branded channel with Tata and other banks (Federal Bank, Karur Vysya Bank, Karnataka Bank), as well as others such as IRCTC, AI, FBB, Central, BPCL, and Yatra are expected to drive growth in cards from here. A key partner of SBI Cards is Future Group (0.5m co-branded cards). Increase in NFC terminals could be a key driver.

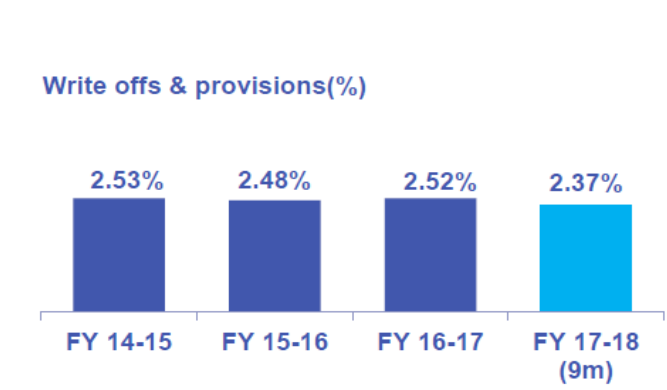
- **Internal customer acquisition has accelerated:** SBI Cards acquires ~50% customers from open market applications and ~50% through the SBIN database (an improvement over earlier 35%).
- **Key focus areas:** The company is focusing more on (a) cross-selling to SBIN’s customer base of 420m, (b) the premium segment, (c) digitalization, and (d) merger of two entities to eliminate redundancies, reduce C/I and increase CAR.
- Corporate card base is very small, with average spend of INR116k.
- Average age of the company’s customer base is 35 years.
- **Cards income break up:** 51% interest income, 23% interchange fees, and 26% other fees.
- The business witnesses a revolve rate of 56-57%.

Exhibit 5: Card spends have grown at 40% CAGR over FY14-17



Source: Company, MOSL

Exhibit 6: Write-offs have remained in control



Source: Company, MOSL

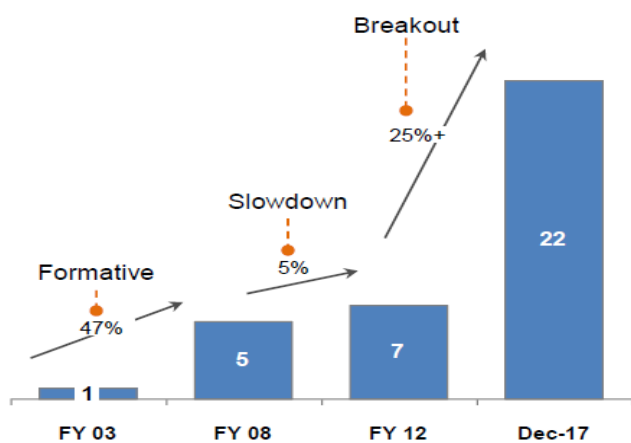
SBI AMC

- The AMC business is 63% owned by SBIN and 37% by Amundi, a European AMC.
- The company has a net worth of INR10b, and posted revenue of INR8.73b in 9MFY18 (INR7.8b in FY17) and PAT of INR2.43b in 9MFY18 (INR2.23b in FY17).
- Its average AUM is INR2.05t, of which equity book amounts to INR1.1t (phenomenal growth over INR225b in FY15). INR210b of the INR1.1t equity AUM is from balanced funds, and the rest from pure equity funds.
- 9MFY18 AUM from B15 cities stood at INR525b, compared to INR150b in FY15. The company has focused on increasing branch presence in these regions to target non-SBIN customers.
- The company is targeting a public listing by FY20.
- It has an AUM market share of 9.2%; market share has ranged between -270bp and +270bp of this level in the last three years.
- With 2.7m SIPs (INR6.7b/month), the company commands 14% market share in the number of SIPs (and 12% in value). It has 6m retail investors and 5,000+ institutional investors.
- The company has established its presence through 167 self-owned branches (51 of which are in B15 locations), 3.7m IFAs, 129 national distributors, and 57 third-party bank distribution partners.

- **Key focus areas:** (a) leadership in B15 (14% market share), (b) digitalization, (c) capitalizing on Amundi and SBIN's overseas presence to aggressively foray in ETF, AIF and offshore funds.
- ETF currently stands at INR400b. The company intends to focus just as much on ETF as on other liquid funds. 1,000+ institutional investors are already invested in this – the company is targeting to double this in the next three years.

Exhibit 7: Healthy growth in AMC industry AUM over FY12-17

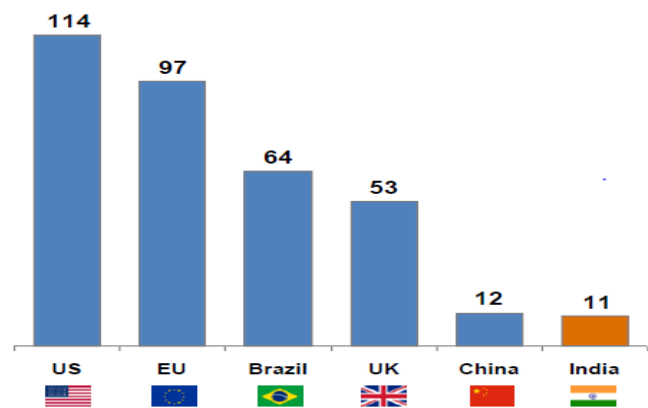
Average AUM (Rs Lac Crores)



Source: Company, MOSL

Exhibit 8: AMC industry is under-penetrated in India

% AUM/ GDP 2016



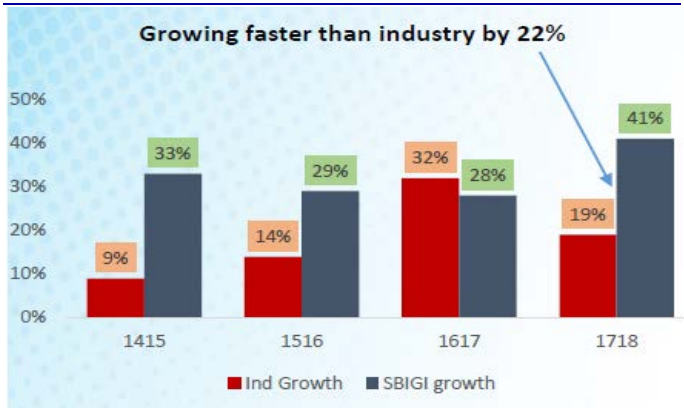
India 2015: 8%

Source: Company, MOSL

SBI General Insurance

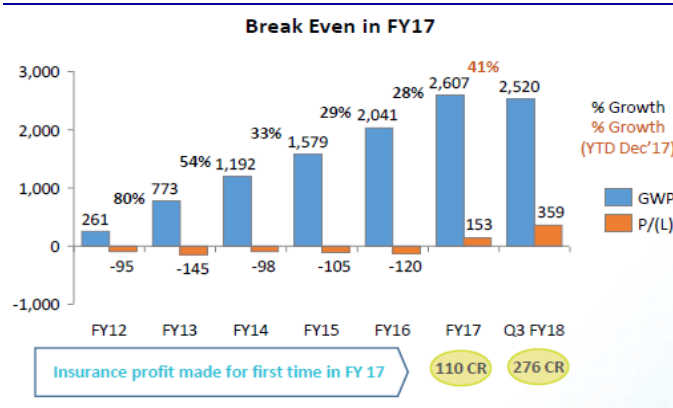
- SBI General Insurance started underwriting business in FY10. The company is 74% owned by SBIN and 26% by IAG. It has a total capital invested of INR15.5b and net worth of INR14.6b.
- The company looks to leverage massive under-penetration, especially in paid-off houses, which should be insured against natural calamities.
- It broke even in FY17 within seven years of operations.
- 9MFY18 revenue includes INR1.7b of extraordinary income.
- More diversified book compared to the industry, which is dominated by motor insurance.
- Only one GI makes underwriting profit as of today – while it has reduced total combined ratio, FY18 performance has been aided more by one-off gains.
- SME is one key area for growth.
- Prices are soft in property and motor; health is profitable.
- The company has total AUM of INR53b, with net worth of INR14.6b.
- All retail products enjoy higher RoE. The company is targeting to achieve underwriting profit in the next two years, with total combined ratio of 95-100% in 2-3 years.

Exhibit 9: SBI GI has grown faster than the industry...



Source: MOSL, Company

Exhibit 10: ...with breakeven in seven years of operations

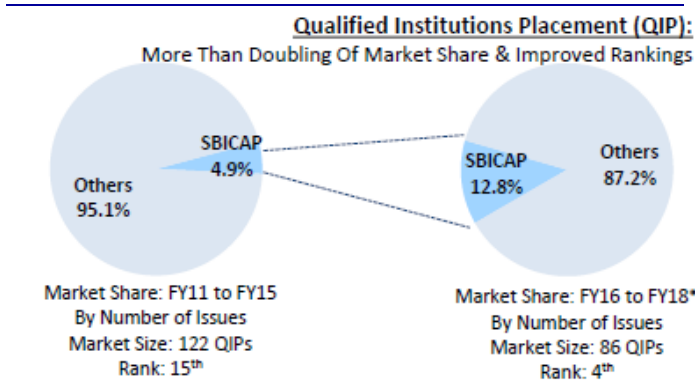


Source: MOSL, Company

SBI Capital Markets

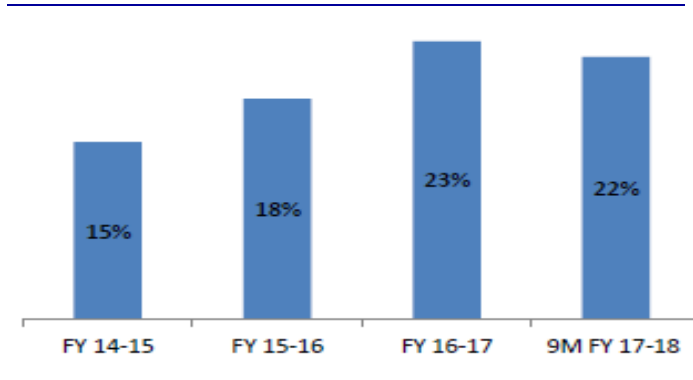
- SBI Capital Markets is 100% owned by SBIN and has a net worth of INR13.4b. The company operates in two verticals: (a) project advisory and structured finance, and (b) capital markets. It looks to return to its leading position in investment banking in the near future.
- As a group, it is focusing on making revenue contribution equal between PASF and capital markets.
- Securities Services Limited (SSL – broking and IB) net worth stood at INR1.8b as of 3QFY18. The company is targeting INR600m PAT in FY18 (INR400m in 9M); income has grown 80% YoY.
- **SSL other services:** (a) 3-in-1 accounts (the company is now charging customers for this), (b) focus on equity derivatives and retail broking, (c) currency derivatives, and (b) sourcing agent for SBIN’s home loans and auto loans.
- **SBI Ventures:** Has a fund of INR4.3b and is targeting to launch affordable housing and SME fund, and stress asset fund along with SBI MF.

Exhibit 11: SBICaps has doubled its market share in QIPs...



Source: MOSL, Company

Exhibit 12: ...while simultaneously improving market share in Debt Capital Markets (DCM)



Source: MOSL, Company

RRBs

- SBIN has 18 RRBs across 18 different states in India. Of these, the management highlighted the performance of two – Andhra Pradesh Grameena Vikas Bank (APGVB) and Saurashtra Gramin Bank (SGB).
- APGVB has a loan book of INR12.4b, with healthy asset quality (1.69% GNPA). It is well capitalized, with 15.75% CRAR. The bank operates in 22 districts (having a population of 23.8m) of AP and Telengana.
- SGB has a loan book of INR2.7b, with GNPA of 0.37% and CRAR of 10.71%. The bank operates in 11 districts of Gujarat.
- SBIN is optimistic about the performance of its RRBs, given (a) higher rural population, (b) increased minimum wages and increased rural cash flows, and (c) the government's target to double agricultural income by FY22.

Exhibit 13: SOTP valuation of SBI

SOTP valuation	Multiple	Stake (%)	Revised PT	Method	Earlier PT
SBI	1.4	100%	296	Avg. of P/ABV & EVA	
Life insurance		62%	65	Appraisal value	
Asset management		60%	9	4.5% of AUMs	
Capital Market/DFHI/Others		100%	15		
General insurance		74%	9	25x FY19E PAT	
Total subs value at 20% holding discount			78		
Total value per share of SBI, INR			375		

Source: MOSL, Company

Exhibit 14: Valuation Matrix

	Rating	Mkt. Cap (INRb)	CMP (INR)	EPS (INR)		ABV (INR)		RoA (%)		RoE (%)		P/E (x)		P/ABV (x)	
				FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Private Banks															
ICICIBC*	Buy	1,892	295	16.5	21.0	130	149	1.17	1.31	10.1	11.9	11.6	9.1	1.5	1.3
HDFCB	Buy	4,967	1,850	81	101	512	592	1.9	2.0	15.9	17.4	23.0	18.3	3.6	3.1
AXSB	Buy	1,246	520	31	45	268	308	1.1	1.3	11.1	14.1	16.8	11.7	1.9	1.7
KMB*	Buy	1,935	1,051	42	54	290	343	1.7	1.8	14.3	15.8	25.3	19.4	3.6	3.1
YES	Buy	696	305	24	31	125	151	1.7	1.8	19.9	21.5	12.8	9.9	2.4	2.0
IIB	Buy	1,029	1,721	79	101	437	522	1.9	1.9	19.1	20.7	21.8	17.0	3.9	3.3
IDFCB	Neutral	168	49	3	4	46	48	0.8	0.9	6.9	7.9	15.3	12.6	1.1	1.0
FB	Buy	156	91	7	8	62	69	0.8	0.9	9.8	11.3	13.9	11.1	1.5	1.3
DCBB	Neutral	50	162	9	11	91	102	0.9	0.9	10.4	11.3	18.0	14.8	1.8	1.6
JKBK	Buy	31	59	12	17	81	95	0.7	0.8	11.9	14.7	4.9	3.5	0.7	0.6
SIB	Buy	44	24	4	5	26	30	0.8	0.9	12.7	14.8	6.4	4.9	0.9	0.8
EQUITAS	Buy	47	141	7	10	69	77	1.6	1.8	9.5	13.1	21.2	13.8	2.0	1.8
RBK	Buy	174	463	23	30	169	193	1.3	1.4	13.8	16.2	20.4	15.3	2.7	2.4
PSU Banks															
SBIN*	Buy	2,220	248	18	30	167	206	0.5	0.7	8.4	12.7	8.1	4.9	0.9	0.7
PNB	Buy	267	96	8	16	120	149	0.3	0.5	4.3	7.6	11.4	6.1	0.8	0.6
BOI	Neutral	201	100	1	4	117	151	0.0	0.1	0.6	1.8	88.1	27.3	0.9	0.7
BOB	Buy	353	133	17	24	125	145	0.3	0.5	5.5	8.8	8.0	5.6	1.1	0.9
CBK	Neutral	158	264	37	71	299	401	0.4	0.7	6.8	11.8	7.1	3.7	0.9	0.7
UNBK	Neutral	66	96	6	15	144	159	0.1	0.3	2.7	6.4	16.2	6.3	0.7	0.6
INBK	Buy	141	293	41	47	292	328	0.7	0.7	11.9	12.4	7.2	6.3	1.0	0.9
Life Insurance															
HDFCLIFE**	Buy	747	372	5.4	6.7			3.4	3.5	19.1	19.1	69.3	55.3		

Source: MOSL, Company

UR=Under Review

*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

**RoE represents ROEV and P/BV represents P/EV

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