

BUY

TP: Rs 729 | ▲ 28%

STATE BANK OF INDIA

| Banking

| 07 August 2023

PAT surges on higher other income and cost control

- Treasury gains buoyed the topline and together with lower opex and provisioning lifted Q1 PAT 178% YoY
- NIM slipped 18bps QoQ on deposit repricing; guided to stay rangebound through FY24
- Maintain BUY with an unchanged TP of Rs 729 (1.3x FY25E ABV)

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Strong Q1: SBIN's Q1FY24 NII increased 25% YoY to Rs 389bn while other income surged five-fold to Rs 120.6bn, backed by treasury gains of Rs 38.5bn vs. a loss of Rs 65.5bn in the year-ago quarter. Despite strong non-core income, NIM slipped 18bps QoQ to 3.1% as deposit repricing led to a higher cost of funds, offsetting an increased yield on assets. PPOP rose 98% YoY and PAT jumped 178% to Rs 169bn supported by the recovery in other income, reduction in opex and lower provisions at Rs 25bn vs. Rs 44bn in Q1FY23, despite an increase in slippages.

Healthy business growth: Advances climbed 15% YoY, marking broad-based growth for SBIN barring overseas operations. Deposits grew 12% YoY, bettering the sub-10% run-rate of the last 3-4 quarters. Excess SLR of Rs 4tn alongside recovery in deposit mobilisation is likely to support business growth. Management is confident of achieving credit growth of 15% YoY in FY24, though we pencil in 13% growth as a conservative measure.

Steady asset quality with lower credit cost: Despite higher slippages due to seasonality, asset quality remained stable with GNPA/NNPA at 2.76%/0.71% vs. 2.78%/0.67% in Q4FY23. PCR stood at 75% vs. 76%. SBIN's restructured book reduced to Rs 227bn (vs. Rs 243bn in Q4FY23), forming 0.7% of loans, whereas the SMA-1&2 book spiked to Rs 72.2bn (vs. Rs 32.6bn). However, a non-NPA provision of Rs 35bn (152% of NPA) provides a cushion against any sudden rise in stress. Credit cost declined 11bps QoQ to 31bps in Q1.

Maintain BUY, TP Rs 729: Healthy business growth together with recovery in non-core income is likely to boost the topline even as cost control measures along with stable asset quality should support the bottomline. We expect the bank to maintain NIM at 3% with ROA/ROE at 1%/16% in both FY24-FY25. Further, with no immediate equity dilution on the cards, we see further profit potential and model for a 12% CAGR in PAT over FY23-FY25. Given healthy growth prospects and consistent asset quality, we maintain BUY for an unchanged TP of Rs 729, based on 1.3x FY25E ABV (Gordon Growth Model) and adding in Rs 166/sh for subsidiaries.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	SBIN IN/Rs 568
Market cap	US\$ 61.7bn
Free float	42%
3M ADV	US\$ 124.5mn
52wk high/low	Rs 630/Rs 499
Promoter/FPI/DII	57%/10%/25%

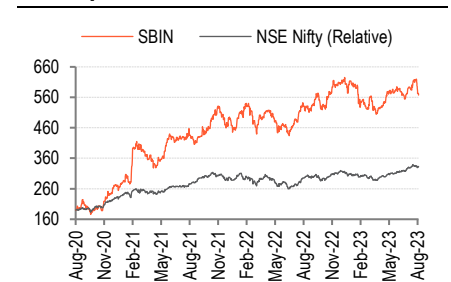
Source: NSE | Price as of 7 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	144,840	158,561	177,210
NII growth (%)	20.0	9.5	11.8
Adj. net profit (Rs mn)	50,232	55,513	62,954
EPS (Rs)	56.3	62.2	70.5
Consensus EPS (Rs)	56.3	63.5	75.3
P/E (x)	10.1	9.1	8.1
P/BV (x)	1.5	1.4	1.2
ROA (%)	1.1	1.0	1.0
ROE (%)	19.3	15.9	15.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

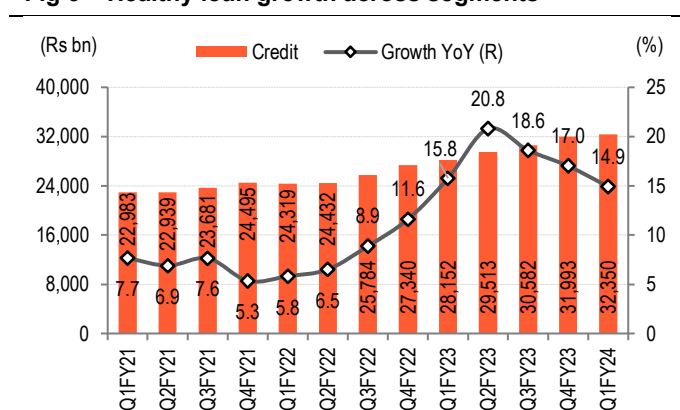
(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Income Statement							
Interest Income	464,735	523,829	588,650	636,792	671,279	44.4	5.4
Income on investments	224,396	236,696	245,254	252,937	250,070	11.4	(1.1)
Int. on bal. with RBI & inter-bank funds & Others	37,632	38,071	32,257	39,782	38,406	2.1	(3.5)
Interest income	726,764	798,596	866,160	929,511	959,755	32.1	3.3
Interest expense	414,804	446,762	485,474	525,586	570,705	37.6	8.6
Net interest income	311,959	351,834	380,686	403,925	389,050	24.7	(3.7)
Growth YoY (%)	12.9	12.8	24.1	29.5	24.7	1184bps	(476bps)
Non-interest income	23,122	88,743	114,677	139,614	120,634	421.7	(13.6)
Growth YoY (%)	(80.4)	8.1	32.2	17.5	421.7	NA	NA
Total income	335,081	440,577	495,364	543,539	509,683	52.1	(6.2)
Growth YoY (%)	(15.0)	11.8	25.9	26.2	52.1	6,715bps	2,593bps
Staff expenses	120,514	128,674	147,567	176,164	166,007	37.7	(5.8)
Other operating expenses	87,042	100,703	95,604	121,164	90,707	4.2	(25.1)
Operating expenses	207,556	229,377	243,171	297,328	256,714	23.7	(13.7)
Pre-Provisioning Profit (PPoP)	127,526	211,200	252,193	246,211	252,969	98.4	2.7
Growth YoY (%)	(32.8)	16.8	36.2	24.9	98.4	13,116bps	7,349bps
Provisions	43,924	30,387	57,606	33,157	25,013	(43.1)	(24.6)
Growth YoY (%)	(56.3)	1509.9	(17.4)	(54.2)	(43.1)	1,325bps	1,113bps
PBT	83,602	180,814	194,587	213,054	227,956	172.7	7.0
Tax	22,921	48,168	52,534	46,109	59,113	157.9	28.2
PAT	60,681	132,645	142,053	166,945	168,843	178.2	1.1
Growth YoY (%)	(6.7)	(11.8)	68.5	83.2	178.2	18,495bps	9,506bps
Per Share							
FV (Rs)	1	1	1	1	1	0.0	0.0
EPS (Rs)	16	16	16	19	19	18.8	1.1
Book Value (Rs)	326	342	360	367	386	18.2	5.1

Source: BOBCAPS Research, Company

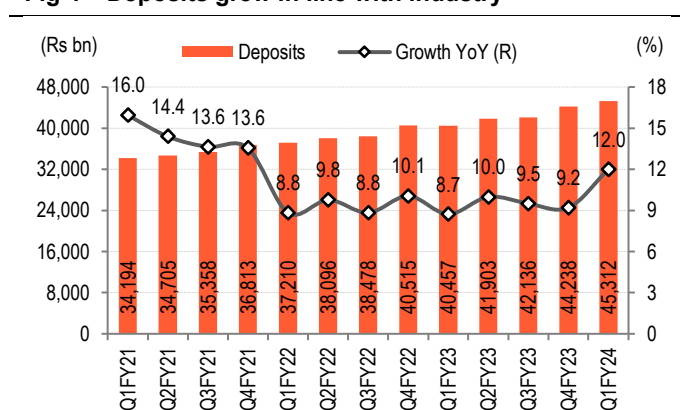
Fig 2 – Quarterly snapshot: Balance sheet & Key ratios

Balance sheet (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Deposits	40,456,956	41,902,549	42,135,571	44,237,778	45,312,367	12.0	2.4
Growth YoY (%)	8.7	10.0	9.5	9.2	12.0	328bps	281bps
Advances	28,152,492	29,512,875	30,581,770	31,992,693	32,350,227	14.9	1.1
Growth YoY (%)	15.8	20.8	18.6	17.0	14.9	(85bps)	(211bps)
Investment	15,292,037	15,553,219	15,692,020	15,703,662	15,726,297	2.8	0.1
Equity	2,913,635	3,049,128	3,212,037	3,276,085	3,444,416	18.2	5.1
Assets	50,258,199	51,998,008	53,241,229	55,169,785	55,430,757	10.3	0.5
Growth YoY (%)	10.3	10.8	10.4	10.6	10.3	0bps	(32bps)
Yield (%)							
Yield on Funds	6.29	6.78	7.14	7.45	7.55	126bps	10bps
Cost of Funds	3.69	3.88	4.11	4.34	4.63	94bps	29bps
Spread	2.61	2.89	3.03	3.11	2.92	31bps	(19bps)
Net Interest Margin	2.70	2.99	3.14	3.24	3.06	36bps	(18bps)
Ratios (%)							
Other Income / Net Income	6.9	20.1	23.2	25.7	23.7	1677bps	(202bps)
Cost to Income ratio	61.9	52.1	49.1	54.7	50.4	(1,157bps)	(433bps)
CASA ratio	43.7	42.9	42.7	42.1	41.2	(251bps)	(93bps)
C/D ratio	69.6	70.4	72.6	72.3	71.4	181bps	(93bps)
Investment to Assets	30.4	29.9	29.5	28.5	28.4	(206bps)	(9bps)
Assets Quality							
GNPA	1,132,717	1,068,041	983,465	909,278	913,278	(19.4)	0.44
NNPA	282,579	235,722	234,843	214,666	229,954	(18.6)	7.1
Provision	850,138	832,320	748,622	694,611	683,325	(19.6)	(1.6)
GNPA (%)	3.91	3.52	3.14	2.78	2.76	(115bps)	(2bps)
NNPA (%)	1.00	0.80	0.77	0.67	0.71	(29bps)	4bps
Provision (%)	75.1	77.9	76.1	76.4	74.8	(23bps)	(157bps)

Source: BOBCAPS Research, Company

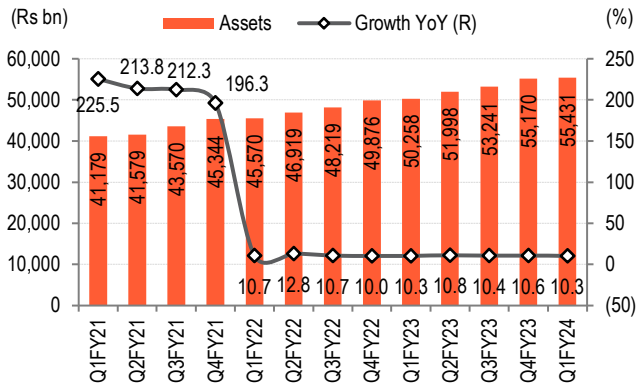
Fig 3 – Healthy loan growth across segments

Source: Company, BOBCAPS Research

Fig 4 – Deposits grew in line with industry

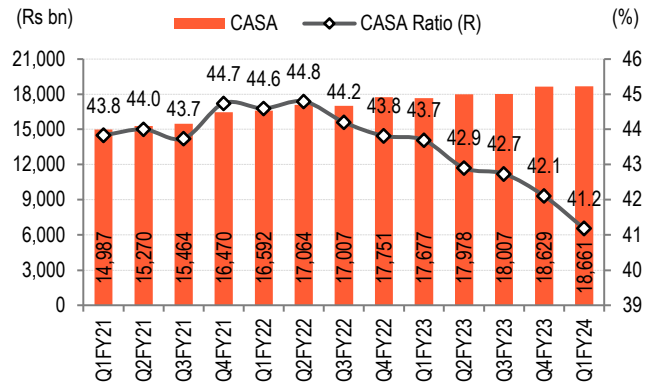
Source: Company, BOBCAPS Research

Fig 5 – Asset grew 10% YoY



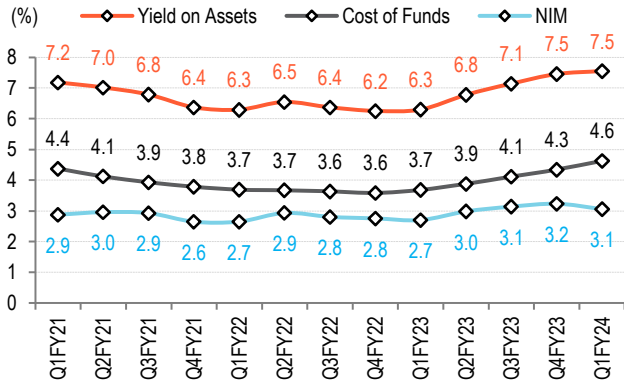
Source: Company, BOBCAPS Research

Fig 6 – CASA ratio muted but likely to improve



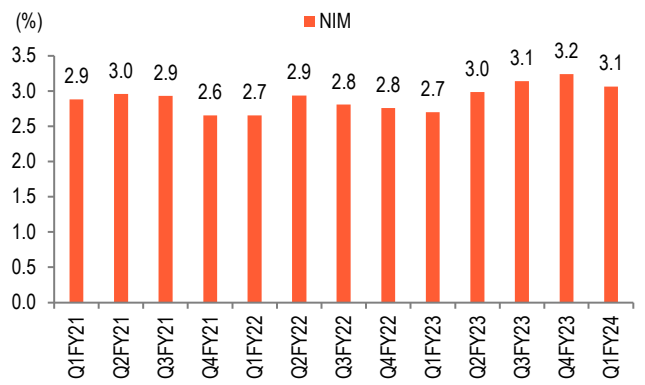
Source: Company, BOBCAPS Research

Fig 7 – NIM (calc.) down 18bps QoQ on higher cost of funds...



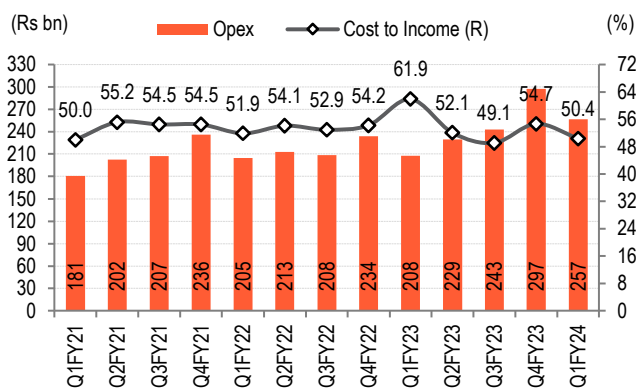
Source: Company, BOBCAPS Research

Fig 8 – ...expected to sustain at ~3% over FY24E-FY25E



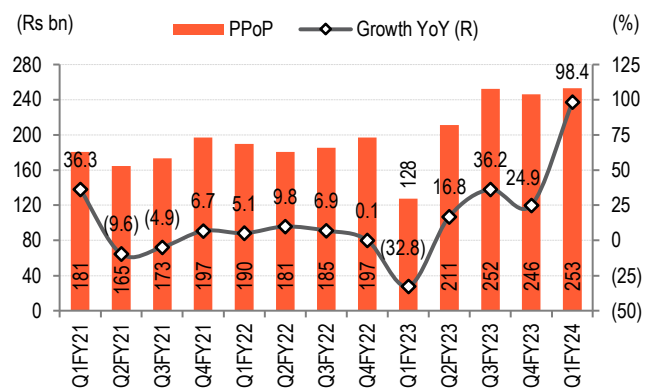
Source: Company, BOBCAPS Research

Fig 9 – Lower employee cost supported better C/I ratio



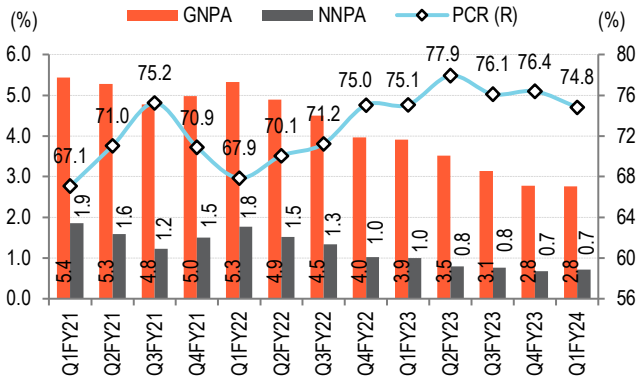
Source: Company, BOBCAPS Research

Fig 10 – Strong topline and lower opex aided PPOP



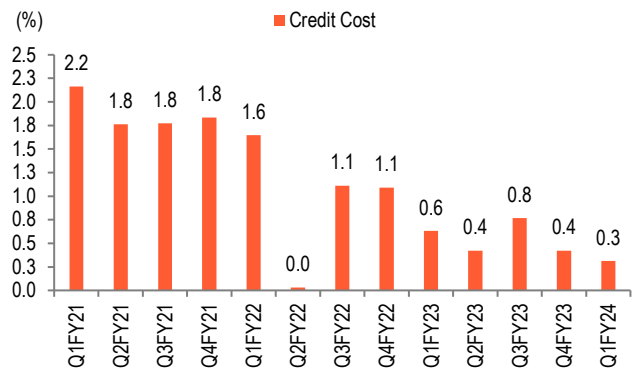
Source: Company, BOBCAPS Research

Fig 11 – Continued improvement in asset quality



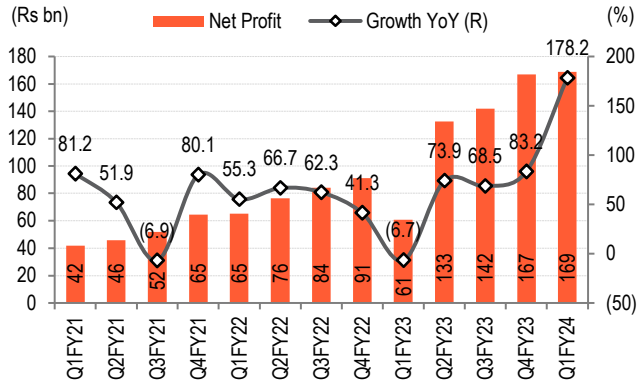
Source: Company, BOBCAPS Research

Fig 12 – Credit cost declined



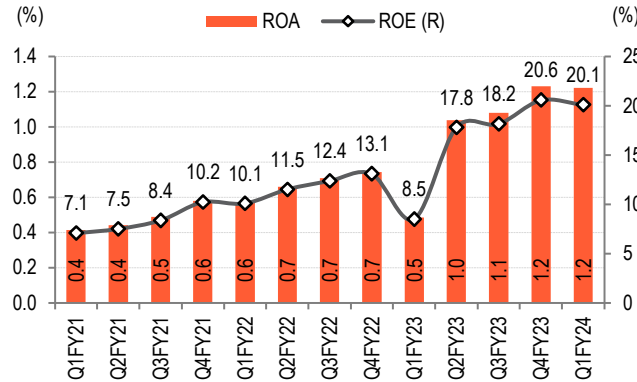
Source: Company, BOBCAPS Research

Fig 13 – Increased other income, lower opex and provisions drove PAT



Source: Company, BOBCAPS Research

Fig 14 – Return ratios strong



Source: Company, BOBCAPS Research

Earnings call highlights

Asset quality

- SBIN's asset quality was stable in Q1FY24 despite higher slippages at Rs 78.7bn (vs. Rs 34.6bn in Q4FY23 and Rs 101.1bn in Q1FY23). Upgrades and recoveries stood at Rs 74.7bn for the quarter (vs. Rs 108.7bn and Rs 88.7bn respectively).
- Slippages from retail & personal loans stood at Rs 24bn (of which Rs 7bn was recovered), agriculture at Rs 23bn (Rs 3bn), and SME at Rs 24bn (Rs 6bn).
- Credit cost declined 11bps QoQ and 32bps YoY to 31bps.
- Restructured loans stood at Rs 227bn (0.7% of total loans) vs. Rs 243bn in Q4FY23. SMA-1/2 spiked to Rs 72.2bn (SMA-1 at Rs 56.4bn and SMA-2 at Rs 15.8bn) from Rs 32.6bn in Q4FY23.

Loans and deposits

- Management is confident of clocking broad-based loan growth of 15% YoY in FY24. Growth during Q1 was mainly led by the renewables, infrastructure and NBFC sectors.
- The bank's large corporate loans grew 12% YoY (+0.2% QoQ) in Q1 while SMEs increased 18% YoY (+3% QoQ). Retail witnessed healthy growth of 16.5% mainly driven by auto loans (+23% YoY, +3% QoQ) and express credit (+23% YoY, +2.2% QoQ). International business grew 7% YoY (-1.9% QoQ).
- On the liability side, deposits grew 12% YoY led by term deposits. Savings and current accounts increased by 5% and 10.5% YoY respectively, leading to a CASA ratio of 41.2% (-93bps QoQ).
- The sequential dip in CASA was mainly on account of a slowdown in current accounts as 55% of these are sourced from the government which is quite challenging in the current market.

NIM

- NII during the quarter stood at Rs 389bn, rising 25% YoY (-3.7% QoQ).
- NIM (calc.) stood at 3.1% vs. 3.2% in Q4FY23 on the back of a higher cost of funds as the bank raised term deposit rates in a few buckets. Management expects rates to remain stable in the near term. Full-year NIM is guided to hold at the FY23 level of 3.0%(Calc.)
- About ~75% of the loan book is floating in nature while ~24% is fixed rate. The average tenor of the MCLR book is six months.

Operating parameters

- Total opex rose 24% YoY while falling 14% QoQ due to the absence of wage revision provisions that the bank had been making since Nov'22 at the rate of Rs 5bn per month.
- C/I ratio declined to 50.4% in Q1FY24 vs. 54.7% in Q4FY23.
- SBIN plans to open ~300 branches in FY24
- Pre-provisioning operating profit (PPOP) grew 25% YoY (+3% QoQ).

Valuation methodology

SBIN's strong Q1FY24 performance was supported by robust business growth, recovery in other income and control over costs (both opex and provisions declined sequentially). After a 15% YoY uptick in advances for Q1, management is confident of sustaining this run-rate for full-year FY24. We pencil in 13% growth for the year as a conservative measure and a 13% CAGR over FY23-FY25, with a deposit CAGR of 11%.

In line with management, we expect the bank to sustain NIM at 3% over FY24-FY25, assuming an increased share of high-yield assets coupled with moderation in cost of funds. The bank's focus on granularity should support further improvement in CASA ratio.

We maintain our estimates of an NII CAGR of 10.6% and a PPOP/PAT CAGR of 14.6%/12% over FY23-FY25 with stable asset quality. GNPA/NNPA/PCR are forecast at 2.3%/0.55%/76% for FY25 with credit cost of 63bps. Non-NPA provisions of Rs 35bn (152% of NPA) provide a further cushion against any major asset quality shock. SBIN's CAR stands at 14.6% and management has no plans to raise funds in the near term as it believes internal accruals are adequate to support growth.

Given healthy growth, sustainable NIM and stable asset quality, we believe SBIN would deliver ROA/ROE of 1%/16% in FY25 vs. 0.7%/12% in FY22. The stock is currently trading at 0.9x FY25E P/ABV and looks attractive. We reiterate BUY for an unchanged SOTP-based TP of Rs 729, based on 1.3x FY25E ABV (Gordon Growth Model) and adding in Rs 166/sh as the value of subsidiaries.

Fig 15 – Key operational assumptions

Parameter (%)	FY22	FY23	FY24E	FY25E
Advances	11.6	17.0	13.2	12.6
Net Interest Income	9.0	20.0	9.5	11.8
PPoP	(5.1)	23.3	14.1	15.1
PAT	55.2	58.6	10.5	13.4
NIM	2.8	3.0	3.0	3.0
GNPA	3.9	2.8	2.4	2.3
CAR	13.8	14.7	14.6	14.6

Source: Company, BOBCAPS Research

Fig 16 – Valuation summary

Business	Valuation method	Holdings (%)	Value (Rs/sh)
Bank	1.3x FY25E ABV	100	564
SBI Life	Mcap	55	72
SBI AMC	7% of AUM	63	35
SBI General	25x FY25E EPS	70	6
SBI Card	Mcap	69	65
SBI Capital	15x FY25E EPS	100	17
Holding Company Discount	15%	-	(29)
Total	-	-	729

Source: Company, BOBCAPS Research

Fig 17 – Valuation assumptions (Gordon growth model)

Parameter	Assumptions
Risk-free rate (%)	6.3
Equity risk premium (%)	5.0
Beta	1.2
Cost of equity (%)	12.3
Blended ROE (%)	13.3
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	5.3
Long term dividend payout ratio (%)	60.0
Justified P/BV Multiple (x)	1.3

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- any sudden delinquency in the retail and SME segments, resulting in higher provision requirements, and
- inability to manage cost of funds, which may drag down NIM as well as overall profitability.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Axis Bank	AXSB IN	35.5	947	1,155	BUY
Federal Bank	FB IN	3.5	134	165	BUY
HDFC Bank	HDFCB IN	151.5	1,651	2,061	BUY
ICICI Bank	ICICIB IN	82.9	976	1,015	HOLD
Indusind Bank	IIB IN	13.4	1,415	1,755	BUY
Kotak Mahindra Bank	KMB IN	44.3	1,832	2,122	HOLD
State Bank of India	SBIN IN	61.7	568	729	BUY

Source: BOBCAPS Research, NSE | Price as of 7 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Net interest income	110,710	120,708	144,840	158,561	177,210
NilI growth (%)	12.9	9.0	20.0	9.5	11.8
Non-interest income	43,496	40,564	36,616	43,548	49,421
Total income	154,206	161,272	181,456	202,109	226,632
Operating expenses	82,652	93,398	97,743	106,629	116,726
PPOP	71,554	67,874	83,713	95,480	109,905
PPOP growth (%)	5.0	(5.1)	23.3	14.1	15.1
Provisions	44,013	24,452	16,507	20,463	24,253
PBT	27,541	43,422	67,206	75,018	85,652
Tax	7,131	11,746	16,973	19,505	22,698
Reported net profit	20,410	31,676	50,232	55,513	62,954
Adjustments	0	0	0	0	0
Adjusted net profit	20,410	31,676	50,232	55,513	62,954

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	892	892	892	892	892
Reserves & surplus	252,983	279,196	326,716	371,126	421,490
Net worth	253,875	280,088	327,608	372,019	422,382
Deposits	3,681,277	4,051,534	4,423,778	4,888,274	5,411,809
Borrowings	417,298	426,043	493,135	557,243	618,539
Other liab. & provisions	181,980	229,932	272,457	278,395	287,989
Total liab. & equities	4,534,430	4,987,597	5,516,979	6,095,931	6,740,720
Cash & bank balance	343,039	394,552	307,900	335,234	370,803
Investments	1,351,705	1,481,445	1,570,366	1,683,895	1,778,759
Advances	2,449,498	2,733,967	3,199,269	3,621,573	4,077,891
Fixed & Other assets	390,188	377,633	439,443	455,229	513,267
Total assets	4,534,430	4,987,597	5,516,979	6,095,931	6,740,720
Deposit growth (%)	13.6	10.1	9.2	10.5	10.7
Advances growth (%)	5.3	11.6	17.0	13.2	12.6

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	22.9	35.5	56.3	62.2	70.5
Dividend per share	4.0	7.1	11.3	12.4	14.1
Book value per share	284.5	313.8	367.1	416.8	473.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	24.8	16.0	10.1	9.1	8.1
P/BV	2.0	1.8	1.5	1.4	1.2
Dividend yield (%)	0.7	1.3	2.0	2.2	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Net interest income	2.8	2.8	3.1	2.7	2.8
Non-interest income	1.1	0.9	0.8	0.8	0.8
Operating expenses	2.1	2.1	2.0	1.8	1.8
Pre-provisioning profit	1.9	1.7	1.8	1.6	1.7
Provisions	1.1	0.6	0.3	0.4	0.4
PBT	0.8	1.1	1.5	1.3	1.3
Tax	0.2	0.3	0.4	0.3	0.4
ROA	0.6	0.8	1.1	1.0	1.0
Leverage (x)	16.5	17.1	17.0	16.6	16.2
ROE	9.7	14.1	19.3	15.9	15.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Net interest income	12.9	9.0	20.0	9.5	11.8
Pre-provisioning profit	5.0	(5.1)	23.3	14.1	15.1
EPS	40.9	55.2	58.6	10.5	13.4
Profitability & Return ratios (%)					
Net interest margin	3.0	3.1	3.4	3.3	3.3
Fees / Avg. assets	0.1	0.1	0.1	0.1	0.1
Cost-Income	53.6	57.9	53.9	52.8	51.5
ROE	9.7	14.1	19.3	15.9	15.8
ROA	0.6	0.8	1.1	1.0	1.0
Asset quality (%)					
GNPA	4.9	3.9	2.8	2.4	2.3
NNPA	1.5	1.0	0.7	0.6	0.6
Slippage ratio	1.2	1.0	0.7	0.9	1.2
Credit cost	1.8	0.9	0.6	0.6	0.6
Provision coverage	69.4	74.0	75.7	75.4	75.4
Ratios (%)					
Credit-Deposit	66.5	67.5	72.3	74.1	75.4
Investment-Deposit	36.7	36.6	35.5	34.4	32.9
CAR	13.7	13.8	14.7	14.6	14.6
Tier-1	11.4	11.4	12.1	12.1	12.3

Source: Company, BOBCAPS Research

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Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

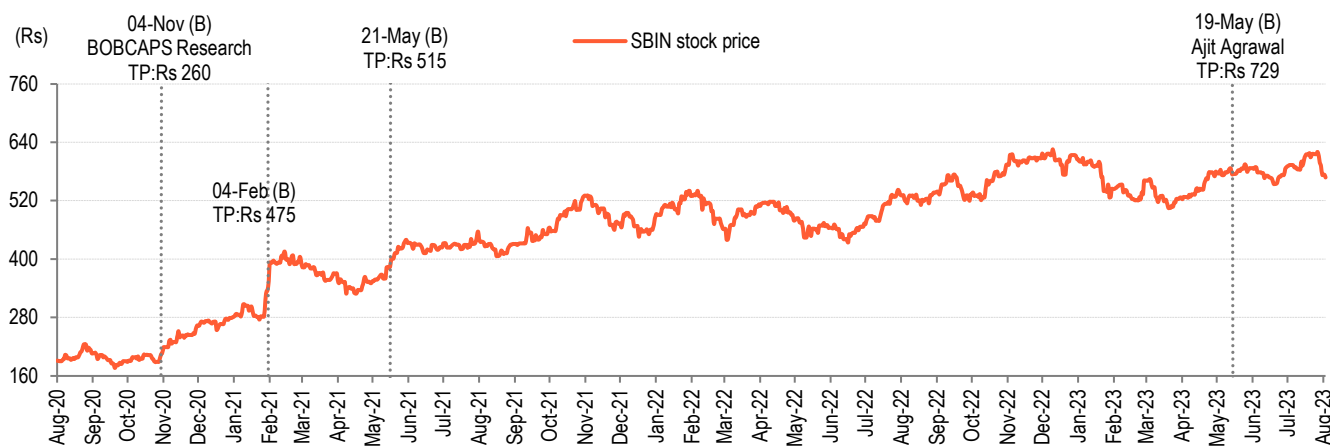
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): STATE BANK OF INDIA (SBIN IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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