

CMP: ₹ 445

Target: ₹ 605 (36%)

Target Period: 12 months

May 14, 2022

BUY

Continued strong results, poised for re-rating...

About the stock: SBI is a public sector bank and also the largest bank in India with a balance sheet size of over ~ ₹ 54 lakh crore.

- Strength in retail portfolios and best operating metrics in the PSU banking space
- Large subsidiaries, strong outlook adding value to the banks

Q4FY22 Results: SBI reported stellar credit growth and improving asset quality.

- GNPA down 53 bps QoQ to 3.97%, total non-NPA provisions at ₹ 30629 crore
- NII up 15% YoY, NIM stable QoQ at 3.4%, C/I ratio rose to 54%
- Provisions at ₹ 7214 crore down 35% YoY, PAT up 41% YoY at ₹ 9114 crore
- Gross advances up 11% YoY (higher than estimates) and deposits up 10% YoY, CASA at 45.3%

What should investors do? SBI's share price has surged over 2.2x in the past five years. We believe overall strength in lending franchise and liability growth >9% guidance along with a well provisioned book remain positives. Improving return ratios with RoE touching 12-13% and RoA reaching 0.7-0.8%, offer long term visibility for the stock.

- We retain our **BUY** rating on the stock.

Target Price and Valuation: We value the bank at ~1.1x FY24E ABV (from 1.2x) and subsidiaries at ~₹ 186 per share to arrive at a revised target price of ₹ 605 from ₹650 earlier

Key triggers for future price performance:

- Strong performance on the asset quality front is a positive
- Healthy pipeline to aid business growth and overall performance
- Healthy provisions worth around 1.1% provide comfort on earnings shock
- Improving RoE trajectory to aid improvement in valuations

Alternate Stock Idea: Besides SBI, in our coverage we also like Axis Bank

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with a target price of ₹ 970



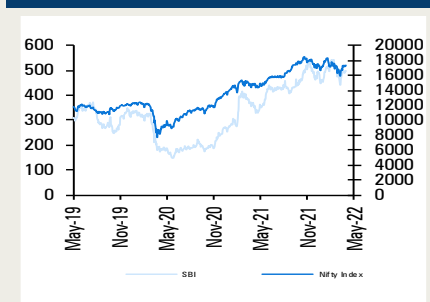
Particulars

Particulars	Amount
Market Capitalisation	₹ 397189 Crore
52 week H/L	549/359
Networth	₹ 280088 Crore
Face value	₹ 1

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-21
Promoter	57.6	57.6	57.6	57.6
FII	10.3	10.6	10.4	10.0
DII	24.2	24.2	24.1	24.7
Others	7.8	7.7	7.9	7.8

Price Chart



Recent event & key risk

- GNPA down 53 bps QoQ to 3.97%, R/s book at 1.1% of loans
- Key Risk:** 1) MTM loss led by hardening of yields, 2) Resurgence of pandemic wave could delay recoveries

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Key Financial Summary

₹ Bn	FY19	FY20	FY21	FY22	3 Year CAGR (FY19-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
NII	883	981	1107	1207	11%	1365	1577	14%
PPP	539	681	716	753	12%	886	1058	19%
PAT	9	145	204	317	232%	396	471	22%
ABV (₹)	174.0	203.2	243.3	282.6		328.9	383.5	
P/E	473	27	19	13		10	8	
P/ABV	2.6	2.2	1.8	1.6		1.4	1.2	
RoA	0.0	0.4	0.5	0.7		0.8	0.8	
RoE	0.5	6.4	8.4	11.9		13.2	13.7	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Stress reduces sequentially

- Operational performance was strong with NII growth at 15.3% YoY and up 1.7% QoQ to ₹ 31198 crore (largely in-line with estimates), led by strong credit growth of 11% YoY and domestic NIMs stable at 3.4% QoQ
- The bank reported a sharp decline in GNPA and NNPA ratios. GNPA ratio declined 53 bps QoQ to 3.97% while net NPA was down 32 bps QoQ to 1.02%. Slippages remained low at of ₹ 2800 crore vs. ₹ 2300 crore QoQ. Watch-list (SMA1 and SMA2) are now at ₹ 3544 crore vs. ₹ 4167 crore QoQ
- Other income came in at ₹ 11880 crore, sharply lower YoY due to higher recoveries in Q4FY21. Operating expenses rose 29% QoQ, with rise in tech expenses sequentially, thus C/I ratio increased to 54.2% from 52.9% QoQ. Provisions rose QoQ to 7237 crore but loan loss provisions were stable at ₹ 3262 crore from ₹ 3096 crore. PCR was at 75% from 71% QoQ. As a result, net profit for Q4FY22 rose to ₹ 9139 crore, up 41% YoY beating our estimates
- The bank reported overall gross credit growth at 11% YoY to ₹ 28.1 lakh crore while sequential growth came in at 5.8%. Key driver for growth in loans was retail segment. It was up 15% YoY in which home loans were up 11.5% YoY. Corporate loans were up 6.3% YoY. Foreign loans were up 15.4% YoY at ₹ 4.1 lakh crore. Deposits growth came in at 10.6% YoY to ₹ 40.51 lakh crore, where in CASA growth moderated to 7.8% YoY from 10% YoY in sequential quarters. Thus, CASA ratio declined from 45.7% to 45.3% QoQ

Q4FY22 Earnings Conference Call highlights

- Working capital un-utilised limit at ₹ 2.76 lakh crore
- For 50% of restructured book i.e. ~₹ 15000 crore, moratorium has ended
- Security receipts are fully provided as of now and are at ~₹ 7900 crore
- AFS book at ₹ 5.6 lakh crore and has 2.08 duration
- Focus on forex business from retail outlets helped grow forex income
- ATM interchange expense at ₹1500 crore
- Sale to ARC at ₹ 297 crore, total eight accounts were sold this quarter
- Co-lending business to pick up going ahead target ₹ 10000 crore book for FY23E
- A 100% provisions taken on SERI exposure
- Total non-NPA provisions at ₹ 30000 crore
- ~74% of book linked to MCLR/EBLR
- Line of credit to Sri Lanka is on books but fully guaranteed by the government
- Target recoveries of ₹ 8000-10000 crore for FY23E
- Additional provisions on restructured account were at ₹ 7912 crore
- There was no MTM provision as on March 31, 2022
- No plans to make YONO a digital entity

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SBI (STABAN)	445	605	Buy	3,971	35.5	44.4	52.8	13.6	10.9	9.2	1.7	1.5	1.3	11.9	13.2	13.7
Axis Bank (AXIBAN)	670	970	Buy	2057	42.4	52.7	63.7	15.8	12.7	10.5	1.9	1.7	1.6	12.0	13.3	14.8
Federal Bank (FEDBAN)	83	100	Hold	175	9.0	10.5	12.9	10.5	8.9	7.3	1.2	1.1	1.0	10.8	11.6	13.1
HDFC Bank (HDFBAN)	1,290	1,650	Buy	7,166	66.7	77.9	92.3	19.4	16.6	14.0	3.0	2.7	2.5	16.7	16.8	17.8
IndusInd Bank (INDBA)	923	1150	Buy	689	59.5	82.4	101.0	14.9	10.8	8.8	1.5	1.5	1.3	10.1	13.1	15.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	31,198	31,355	27,067	15.3	30,687	1.7	Driven by pick up in loan growth
NIM (%)	3.2	2.7	2.9	25 bps	3.2	0 bps	Stable margins sequentially as funding cost remained under control
Other Income	11,880	11,762	16,225	-26.8	8,673	37.0	
Net Total Income	43,078	43,117	43,292	-0.5	39,360	9.4	
Operating expense	23,361	22,303	23,592	-1.0	20,839	12.1	Sequentially rise in opex as business activity rises
PPP	19,717	20,814	19,700	0.1	18,521	6.5	
Provision	7,212	9,900	11,051	-34.7	6,974	3.4	Provisions flat QoQ and down YoY as asset quality improves
PBT	12,504	10,914	8,649	44.6	11,547	8.3	
Tax Outgo	3,366	2,783	2,198	53.1	3,116	8.0	
PAT	9,139	8,131	6,451	41.7	8,431	8.4	PAT boosted by reduced provisions

Key Metrics

GNPA	112,023	118,529	126,389	-11.4	120,028	-6.7	
NNPA	27,966	36,130	36,810	-24.0	34,530	-19.0	
Advances	2733967	2673787	2449498	11.6	2578386.46	6.0	Driven by retail and corporate mix
Deposits	4051534	4012592	3681277	10.1	3847794	5.3	Helped by CASA

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

₹ crore	FY23E			FY24E		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	136302	136469	0.1	152365	157677	3.5
Pre Provisions Profit	86513	88606	2.4	98704	105756	7.1
NIM (%)	3.0	2.9	-3	3.0	3.1	5
PAT	37964	39593	4.3	42271	47056	11.3
ABV per share (₹)	324	329	1.6	372	384	3.0

Source: Company, ICICI Direct Research

Exhibit 4: Change in Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	10.3	11.0	10.0	11.0
Deposit Growth (%)	8.3	9.4	9.4	9.4
Cost to income ratio (%)	51.1	48.8	52.6	51.4
GNPA ratio (%)	3.7	3.5	4.0	3.8
NNPA ratio (%)	0.9	0.7	1.0	0.8

Source: Company, ICICI Direct Research

Exhibit 5: SOTP Valuation

	FY24E / Share
SBI (merged banks)	422
SBI AMC	42
SBI Life	84
SBI cards	80
SBI General Insurance	10
Value per share	638
Holding company discount for subsidiaries @15%	32
Value per share post discount	605

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				₹ Bn
(Year-end March)	FY21	FY22	FY23E	FY24E
Interest Earned	2,652	2,755	3,283	3,654
Interest Expended	1,544	1,547	1,919	2,077
Net Interest Income	1,107	1,207	1,365	1,577
% growth	12.9	9.0	13.1	15.5
Non Interest Income	435	406	446	490
Net Income	1542	1613	1811	2067
Employee cost	509	501	542	585
Other operating Exp.	317	358	383	424
Operating Income	716	753	886	1058
Provisions	440	245	355	426
PBT	275	508	531	632
Exceptional Items	105	-74.2	0	0
Taxes	71	117	136	161
Net Profit	204	317	396	471
% growth	41	55	25	19
EPS	22.9	35.5	44.4	52.8

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Valuation				
No. of Equity Shares (Crore)	892.0	892.0	892.0	892.0
EPS (₹)	22.9	35.5	44.4	52.8
BV (₹)	284.6	314.0	360.5	411.3
ABV (₹)	243.3	282.6	328.9	383.5
P/E	19.4	12.5	10.0	8.4
P/BV	1.6	1.4	1.2	1.1
P/ABV	1.8	1.6	1.4	1.2
Yields & Margins (%)				
Net Interest Margins (calculated)	2.9	2.8	2.9	3.1
Yield on avg earning assets	6.9	6.4	7.1	7.2
Avg. cost on funds	4.0	3.6	4.1	4.1
Avg. cost of Deposits	4.1	4.2	4.3	4.3
Yield on average advances	7.2	7.1	7.1	7.2
Quality and Efficiency (%)				
Cost / Total net income	53.6	53.3	51.1	48.8
Credit/Deposit ratio	66.5	67.5	68.7	69.7
GNPA	5.0	4.0	3.7	3.5
NNPA	1.5	1.0	0.9	0.7
RoE	8.4	11.9	13.2	13.7
ROA	0.5	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				₹ Bn
(Year-end March)	FY21	FY22	FY23E	FY24E
Sources of Funds				
Capital	8.9	8.9	8.9	8.9
Reserves and Surplus	2530	2792	3207	3660
Networth	2539	2801	3216	3668
Deposits	36813	40515	43877	48018
Borrowings	4173	4260	4646	4920
Other Liabilities & Provisions	1820	2299	2111	2282
Total	45344	49876	53850	58889
Application of Funds				
Fixed Assets	384	377	430	463
Investments	13517	14814	14777	15488
Advances	24495	27340	30149	33454
Other Assets	3518	3399	4313	4856
Cash with RBI & call money	3430	3946	4180	4628
Total	45344	49876	53850	58889

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios					(%)
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total assets	14.7	10.0	8.0	9.4	
Advances	5.3	11.6	10.3	11.0	
Deposits	13.6	10.1	8.3	9.4	
Total Income	2.0	2.4	18.0	11.1	
Net interest income	12.9	9.0	13.1	15.5	
Operating expenses	1.0	0.4	0.8	0.9	
Operating profit	5.0	5.2	17.7	19.4	
Net profit	40.8	55.2	25.0	18.9	
Book value	8.9	10.3	14.8	14.1	
EPS	40.8	55.2	25.0	18.9	

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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