

State Bank of India

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Sustained delivery on profitable growth; valuations undemanding

- SBI continued to report a strong PAT of Rs91bn (est.: Rs86bn), up 41% yoy, led by better credit growth/margins, forex fees and contained LLP. However, the bank took a hit on investments (Rs20.6bn) mainly on security receipts, while core banking fees were slightly lower. It expects fee growth to improve in FY23, led by business pick-up and lower fee waivers, while contained opex will partly cushion the impact of rising G-sec yields on the treasury.
- SBI delivered system-beating credit growth at 11% yoy in FY22, mainly led by strong traction in retail (mortgages/xpress credit), SME and corporate/overseas growth. It expects credit growth momentum to continue in FY23, with retail doing the heavy-lifting and supported by SME/corporate growth. It believes that better LDR and a higher share of the floating-rate loan portfolio (MCLR - 41%, Repo - 23%, T-Bill - 11%) should support its strong margin trajectory.
- SBI's GNPA/NNPA ratios have been steadily falling since FY18, hitting a low of 4%/1.3% in Q4 due to lower net slippages. The restructured pool was lower at 1.4% of loans. Lower NPA formation and healthy PCR on stock of NPAs should contain incremental LLP. Factoring in better growth, margins and LLP, we expect the bank to report a decadal-high RoE of ~15-17% over FY23-25E, without factoring in any equity dilution.
- SBI has come a long way and is now far better placed in terms of delivering sustained profitable growth, but it still trades at cheap valuations. It is reasonably capitalized and can shore up capital buffers by tapping capital market/unwinding value in subsidiaries. Retain Buy/OW in EAP with a revised TP of Rs640 v/s Rs680, valuing the core bank now at 1.3x v/s 1.5x FY24E ABV due to higher CoE and subs/investments at Rs207. SBI remains one of our preferred large-cap stocks after ICICI.

System-beating credit growth; surpasses expectations: Overall credit growth improved to 11% yoy/6% qoq, led by continued strong traction in retail (up 15% yoy) and resurging corporate book. Retail growth was mainly driven by mortgages (up 12% yoy) and Xpress credit (up 28% yoy). SBI expects credit growth momentum to continue in FY23, with retail doing heavy lifting and supported by SME/corporate growth. The corporate sanctioned pipeline remained strong, while utilization limits too remained low. Overseas corporate growth is partly influenced by the bank's newly launched factoring business. Reported NIM remained strong at 3.1%, while it believes that better LDR and higher share of floating rate loan portfolio (MCLR - 41%, Repo - 23%, T-Bill - 11%) should support its strong margin trajectory.

Steady improvement in asset quality, higher PCR to contain incremental LLP: Net slippages, including Future Retail (100% provided), were low at Rs36bn/0.6% of loans, while higher recoveries led to a sharp 50bps qoq reduction in the GNPA ratio to 4%. The restructuring pool under RBI RE 1.0/2.0 was at Rs310bn/1.1% of loans, including restructuring under older schemes at 1.4% of loans. The moratorium has ended largely in the housing book and the repayment track record seems to be healthy, thereby reducing the risk of higher flow of delinquency from the restructured pool. After a long delay, the transfer of NPAs to NARCL should begin soon, while the steady lumpy corporate resolutions outside NARCL in FY23 should accelerate moderation in NPA ratios. SBI expects LLP to be <1% in FY23.

Outlook and valuation: SBI remains one of our preferred picks, given its healthy growth trajectory and improving RoA/RoRWA/RoE profile. SBI has come a long way and is now far better placed in terms of delivering sustained profitable growth, but it still trades at cheap valuations. SBI is reasonably capitalized and can shore up capital buffers by tapping capital market/unwinding value in subsidiaries. Retain Buy/OW in EAP with a revised TP of Rs640 v/s Rs680, valuing the core bank now at 1.3x v/s 1.5x FY24E ABV due to higher CoE and subs/investments at Rs207. **Key risks:** Macro-slowdown hurting corporate credit acceleration, delay in corporate resolutions, and a sharp rise in G-sec yields hurting treasury performance.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	15,42,064	16,12,721	18,19,826	20,68,428	23,66,069
Net profit	2,04,105	3,16,766	4,08,556	4,93,266	6,05,348
EPS (Rs)	22.9	35.5	45.8	55.3	67.8
ABV (Rs)	227.2	264.0	303.2	349.6	409.1
RoA (%)	0.5	0.7	0.8	0.9	1.0
RoE (%)	9.3	13.0	14.9	15.9	16.9
PE (x)	10.4	6.7	5.2	4.3	3.5
P/ABV	1.1	1.0	0.8	0.7	0.6

Source: Company, Emkay Research

CMP

Rs 445
as of (May 14, 2022)

Rating

BUY (■)

Target Price

Rs 640 (▼)
12 months

Upside

43.9 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	4.5/0.8
Target Price change (%)	(5.9)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	45.8	55.3
Consensus	48.6	56.6
Mean Consensus TP (12M)	Rs 644	

Stock Details

Bloomberg Code	SBIN IN
Face Value (Rs)	1
Shares outstanding (mn)	8,925
52 Week H/L	549 / 360
M Cap (Rs bn/USD bn)	3,968 / 51.24
Daily Avg Volume (nos.)	195,92,590
Daily Avg Turnover (US\$ mn)	123.6

Shareholding Pattern Mar '22

Promoters	56.9%
FIIIs	9.9%
DIIIs	24.4%
Public and Others	8.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	(16)	(13)	21
Rel. to Nifty	(5)	(8)	-	13

Relative price chart



Source: Bloomberg

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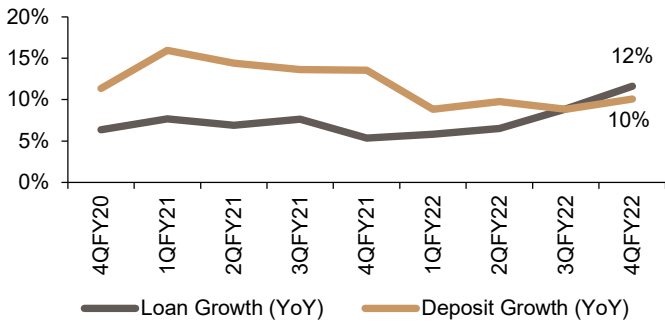
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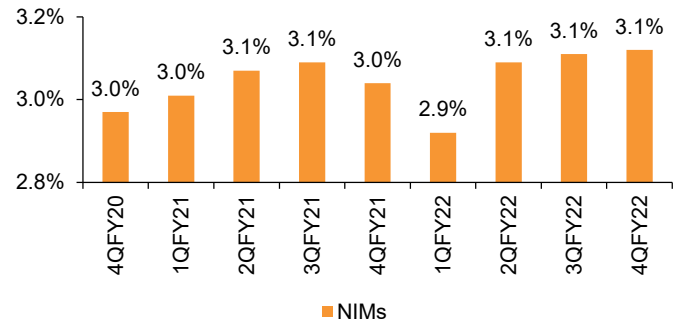
Story in charts

Exhibit 1: Credit growth improves led by strong traction in retail, SME and corporate growth



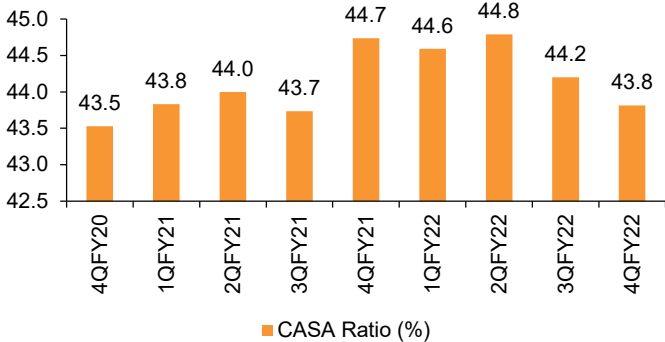
Source: Company, Emkay Research

Exhibit 2: NIM remains high and healthy at 3.1%



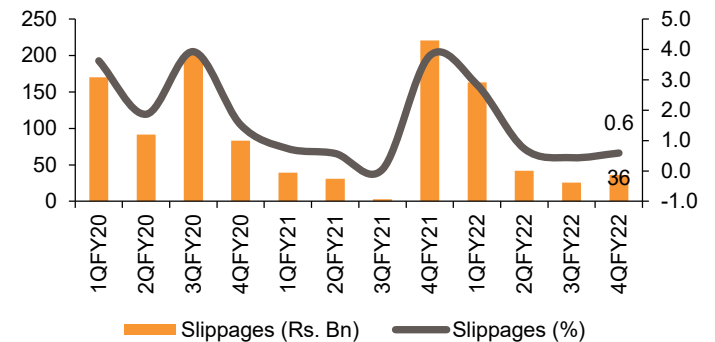
Source: Company, Emkay Research

Exhibit 3: CASA came off a bit due to faster growth pick-up in the TD as compared to CA and SA



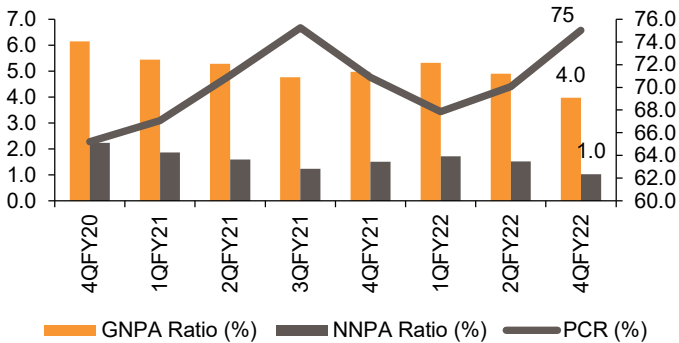
Source: Company, Emkay Research

Exhibit 4: Net slippages for the quarter were contained at 0.6% of loans



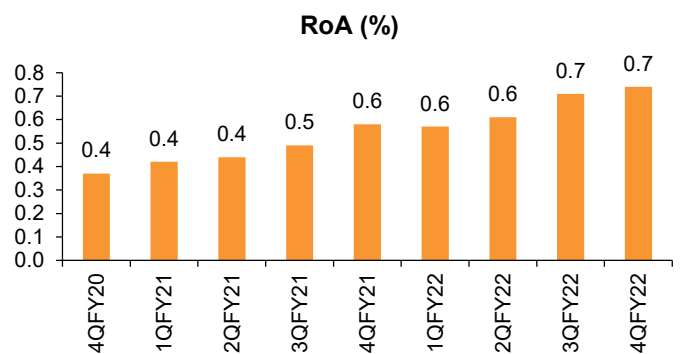
Source: Company, Emkay Research

Exhibit 5: Lower slippages, better recoveries led to 50bps contraction in GNPA ratio



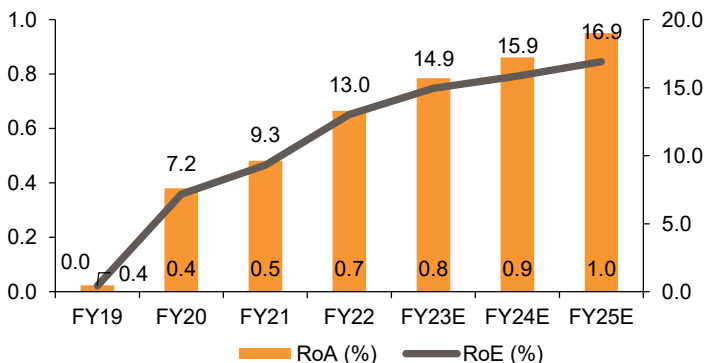
Source: Company, Emkay Research

Exhibit 6: RoA remains on upward trajectory, supported by better growth/NIMs, lower LLP



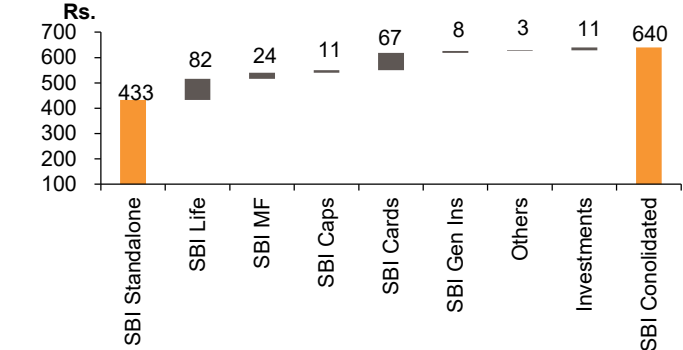
Source: Company, Emkay Research

Exhibit 7: Expect SBI to deliver healthy return ratios by FY23E-25E



Source: Emkay Research

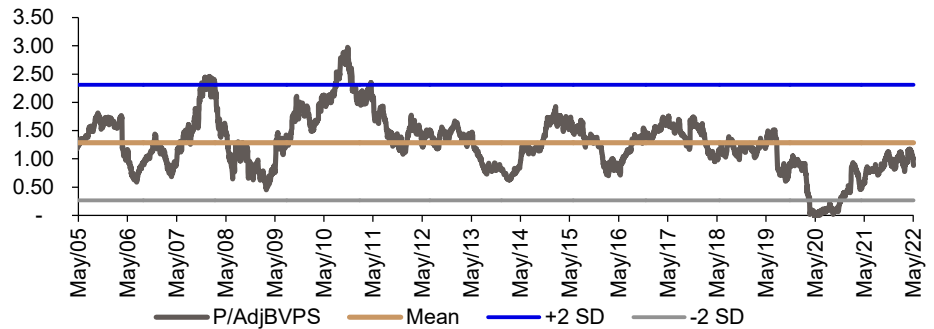
Exhibit 8: Sum-of-the-parts valuation



Source: Emkay Research

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Exhibit 9: The stock currently trades at 0.9x – one-year forward ABV

Source: Bloomberg, Emkay Research

Exhibit 10: Actual vs. Estimates (4QFY22)

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	4,30,784	4,06,458	4,15,302	6%	4%	Higher fee income and better margins led to a beat
PPOP	1,97,173	1,87,085	1,99,071	5%	-1%	Marginally higher opex offset by higher net income led to beat
PAT	91,146	86,254	99,334	6%	-8%	Lower LLP led to strong profitability

Source: Company, Bloomberg, Emkay Research

Exhibit 11: Quarterly summary

Rs (mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	6,51,016	6,55,644	6,94,815	6,96,781	7,07,337	9	2	27,54,573	31,25,094	13
Interest Exp	3,80,346	3,79,260	3,82,976	3,89,907	3,95,354	4	1	15,47,491	17,60,044	14
Net Interest Income	2,70,670	2,76,384	3,11,839	3,06,874	3,11,983	15	2	12,07,082	13,65,050	13
Global NIMs (reported)	3.04	2.92	3.09	3.11	3.12	8bps	1bps	2.78	2.85	7bps
Non-interest Income	1,62,253	1,18,027	82,076	86,734	1,18,802	-27	37	4,05,639	4,54,777	12
Operating Expenses	2,35,922	2,04,664	2,87,308	2,08,392	2,33,612	-1	12	9,33,975	10,38,904	11
Pre Provisioning Profit	1,97,002	1,89,747	1,06,607	1,85,216	1,97,173	0	6	6,78,746	7,80,922	15
Provision & Contingencies	1,10,510	1,00,520	1,888	69,740	72,367	-35	4	2,44,521	2,34,725	-4
PBT	86,491	89,227	1,04,719	1,15,477	1,24,806	44	8	4,34,225	5,46,197	26
Income Tax Expense (Gain)	21,984	24,189	28,454	31,158	33,660	53	8	1,17,459	1,37,642	17
Net Profit/(Loss)	64,507	65,038	76,266	84,319	91,146	41	8	3,16,766	4,08,556	29
Gross NPA (%)	4.98	5.32	4.90	4.50	3.97	-101bps	-53bps	3.98	3.07	-91bps
Net NPA (%)	1.50	1.72	1.52	1.34	1.02	-48bps	-32bps	1.02	0.85	-18bps
Deposits (Rs in bn)	36,813	37,210	38,096	38,478	40,515	10	5	40,515	44,208	9
Net Advances (Rs in bn)	24,495	24,319	24,432	25,784	27,340	12	6	27,340	30,938	13

Source: Company, Emkay Research

Exhibit 12: Revision in estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E
	Earlier	Revised	% change	Earlier	Revised	% change	
Net interest income	13,65,675	13,65,050	0.0%	15,49,408	15,64,788	1.0%	17,98,113
PPOP	7,87,945	7,80,922	-0.9%	9,26,175	9,25,945	0.0%	11,09,381
PAT	3,90,853	4,08,556	4.5%	4,89,525	4,93,266	0.8%	6,05,348
EPS (Rs)	43.8	45.8	4.5%	54.9	55.3	0.8%	67.8
BV (Rs)	325.6	325.2	-0.1%	371.9	372.0	0.0%	430.3

Source: Emkay Research

Exhibit 13: Key assumptions

	FY22A	FY23E	FY24E	FY25E
Loan Growth %	11.6	13.2	14.6	16.4
Deposit Growth %	10.1	9.1	11.5	12.6
NIM %	2.8	2.9	3.0	3.0
GNPA %	4.0	3.1	2.5	2.0
Credit Cost %	0.8	0.7	0.8	0.8

Source: Emkay Research

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Exhibit 14: Key ratios and trends

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Loans (Rs bn)	23,253	22,983	22,939	23,681	24,495	24,319	24,432	25,784	27,340
Loan growth (YoY)	6.4	7.7	6.9	7.6	5.3	5.8	6.5	8.9	11.6
Loan growth (QoQ)	5.7	-1.2	-0.2	3.2	3.4	-0.7	0.5	5.5	6.0
Loan composition (%)									
Corporate	36.3	35.2	34.3	33.3	33.4	32.5	31.0	30.4	31.8
Retail	32.2	32.6	34.2	35.1	35.5	35.9	37.0	36.9	36.7
SME	11.5	12.1	12.1	12.4	11.4	11.7	11.5	11.9	11.2
Overseas	15.4	15.0	14.0	13.9	14.6	15.1	15.3	15.5	15.0
Agri	4.7	5.1	5.3	5.3	5.1	4.9	5.2	5.3	5.3
Liability Profile & Margins									
CASA %	43.5	43.8	44.0	43.7	44.7	44.6	44.8	44.2	43.8
CA %	6.7	6.0	6.1	6.0	7.5	6.1	6.6	5.9	6.5
SA %	36.8	37.9	37.9	37.8	37.2	38.5	38.2	38.3	37.3
Global NIM %	2.97	3.01	3.07	3.09	3.04	2.92	3.09	3.11	3.12
Domestic NIM %	2.94	3.24	3.34	3.34	3.11	3.15	3.33	3.35	3.36
Asset Quality									
GNPA (%)	6.2	5.4	5.3	4.8	5.0	5.3	4.9	4.5	4.0
NNPA (%)	2.2	1.9	1.6	1.2	1.5	1.7	1.5	1.3	1.0
PCR (%)	65.2	67.1	71.0	75.2	70.9	67.9	70.1	71.2	75.0
Slippages (Rs Bn)	83	39	31	3	221	163	42	26	36
Slippages (%)	1.5	0.7	0.6	0.1	3.8	2.8	0.7	0.4	0.6
Capital Adequacy									
CAR (%)	13.1	13.4	14.7	14.5	13.7	13.7	13.4	13.2	13.8
Tier I (%)	11.0	11.4	11.9	11.7	11.4	11.4	11.0	10.9	11.4
CET 1 (%)	9.8	10.1	10.5	10.3	10.0	9.9	10.4	10.3	9.9
ROE Decomposition % (on total assets)									
NII	2.4	2.6	2.7	2.7	2.4	2.4	2.7	2.6	2.5
Other Income (Ex Treasury)	1.3	0.4	0.7	0.8	1.5	0.9	0.7	0.7	1.0
Treasury	0.3	0.6	0.1	0.1	0.0	0.2	0.0	0.0	0.0
Opex	2.1	1.8	2.0	1.9	2.1	1.8	2.5	1.8	1.9
PPOP	1.9	1.8	1.6	1.6	1.8	1.7	0.9	1.6	1.6
Provisioning Cost	1.4	1.2	1.0	1.0	1.0	0.9	0.0	0.6	0.6
PBT	0.5	0.6	0.6	0.7	0.8	0.8	0.9	1.0	1.0
Tax	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3
ROA	0.4	0.4	0.4	0.5	0.6	0.6	0.7	0.7	0.7
Leverage (x)	16.6	17.0	17.0	17.1	17.6	17.6	17.5	17.5	17.6
ROE	6.2	7.1	7.5	8.4	10.2	10.1	11.5	12.4	13.1

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	11,07,101	12,07,082	13,65,050	15,64,788	17,98,113
Other income	4,34,964	4,05,639	4,54,777	5,03,640	5,67,956
Fee income	2,35,175	2,45,650	2,80,041	3,27,648	3,93,178
Net income	15,42,064	16,12,721	18,19,826	20,68,428	23,66,069
Operating expenses	8,26,522	9,33,975	10,38,904	11,42,483	12,56,688
Pre provision profit	7,15,543	6,78,746	7,80,922	9,25,945	11,09,381
PPP excl treasury	6,55,234	6,46,526	7,55,146	9,01,458	10,86,118
Provisions	4,40,130	2,44,521	2,34,725	2,66,498	3,00,092
Profit before tax	2,75,412	4,34,225	5,46,197	6,59,447	8,09,289
Tax	71,307	1,17,459	1,37,642	1,66,181	2,03,941
Tax rate	26	27	25	25	25
Profit after tax	2,04,105	3,16,766	4,08,556	4,93,266	6,05,348

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	8,925	8,925	8,925	8,925	8,925
Reserves	25,29,827	27,91,956	31,29,115	35,46,522	40,67,086
Net worth	25,38,752	28,00,881	31,38,040	35,55,447	40,76,011
Deposits	368,12,770	405,15,341	442,08,291	492,91,839	555,15,890
Borrowings	35,11,721	35,51,197	37,28,757	39,15,195	37,19,435
Total liabilities	453,44,295	498,75,974	543,21,954	602,80,257	671,44,009
Cash and bank	21,32,015	25,78,592	27,07,522	28,42,898	29,85,043
Investments	135,17,052	148,14,455	153,92,441	164,85,663	174,91,234
Loans	244,94,978	273,39,666	309,37,669	354,55,500	412,58,495
Others	35,17,687	33,99,249	36,62,921	38,13,216	39,67,479
Total assets	453,44,295	498,75,975	543,21,954	602,80,257	671,44,009

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	2.9	2.8	2.9	3.0	3.0
Non-II/avg assets	1.0	0.9	0.9	0.9	0.9
Fee income/avg assets	0.6	0.5	0.5	0.6	0.6
Opex/avg assets	1.9	2.0	2.0	2.0	2.0
Provisions/avg assets	1.0	0.5	0.5	0.5	0.5
PBT/avg assets	0.6	0.9	1.0	1.2	1.3
Tax/avg assets	0.2	0.2	0.3	0.3	0.3
RoA	0.5	0.7	0.8	0.9	1.0
RoAE	9.3	13.0	14.9	15.9	16.9
GNPA (%)	5.0	4.0	3.1	2.5	2.0
NNPA (%)	1.5	1.0	0.8	0.8	0.6

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	22.9	35.5	45.8	55.3	67.8
BVPS	258.0	287.4	325.2	372.0	430.3
ABVPS	227.2	264.0	303.2	349.6	409.1
DPS	4.0	7.1	8.0	8.5	9.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	10.4	6.7	5.2	4.3	3.5
P/BV	0.9	0.8	0.7	0.6	0.6
P/ABV	1.1	1.0	0.8	0.7	0.6
P/PPOP	2.6	2.7	2.4	2.0	1.7
Dividend Yield (%)	0.9	1.6	1.8	1.9	2.1

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	12.9	9.0	13.1	14.6	14.9
PPOP	5.0	(5.1)	15.1	18.6	19.8
PAT	40.9	55.2	29.0	20.7	22.7
Loans	5.3	11.6	13.2	14.6	16.4

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
NII	2,70,670	2,76,384	3,11,839	3,06,874	3,11,983
NIM(%)	2.6	2.7	2.9	2.8	2.8
PPOP	1,97,002	1,89,747	1,06,607	1,85,216	1,97,173
PAT	64,507	65,038	76,266	84,319	91,146
EPS (Rs)	7.23	7.29	8.55	9.45	10.21

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	56.9	56.9	56.9	56.9	56.9
FIIIs	9.8	10.2	10.4	10.3	9.9
DIIIs	24.1	23.9	23.9	23.8	24.4
Public and Others	9.2	9.0	8.8	9.0	8.9

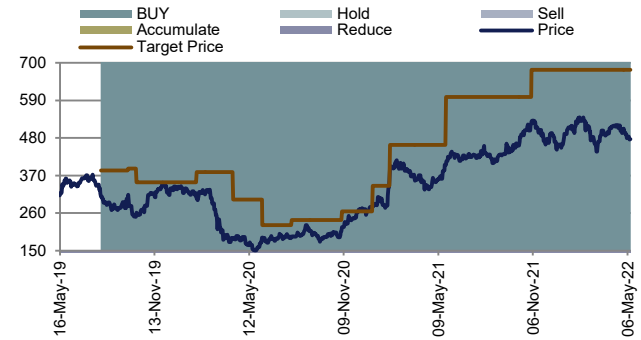
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
24-Mar-22	487	680	12m	Buy	Anand Dama
06-Feb-22	530	680	12m	Buy	Anand Dama
03-Nov-21	528	680	12m	Buy	Anand Dama
05-Jul-21	433	600	12m	Buy	Anand Dama
23-May-21	401	600	12m	Buy	Anand Dama
05-Feb-21	393	460	12m	Buy	Anand Dama
20-Jan-21	303	340	12m	Buy	Anand Dama
03-Jan-21	279	340	12m	Buy	Anand Dama
05-Nov-20	219	265	12m	Buy	Anand Dama
01-Aug-20	191	240	12m	Buy	Anand Dama
06-Jun-20	188	225	12m	Buy	Anand Dama
11-Apr-20	188	300	12m	Buy	Anand Dama
01-Feb-20	303	380	12m	Buy	Anand Dama
30-Oct-19	290	350	12m	Buy	Anand Dama
25-Oct-19	282	350	12m	Buy	Anand Dama
09-Oct-19	261	350	12m	Buy	Anand Dama
23-Sep-19	314	390	12m	Buy	Anand Dama
03-Sep-19	268	385	12m	Buy	Anand Dama
02-Aug-19	308	385	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



Analyst: Anand Dama

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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	19.51	19.51	0.0%	0	100.00	
Axis Bank	1.92	1.96	2%	4	10.03	0
AU Small Finance Bank	0.30	0.25	-17%	-5	1.28	0
Bandhan Bank	0.22	0.26	15%	3	1.32	0
Bank of Baroda	0.19	0.19	0%	0	0.99	0
Canara Bank	0.12	0.05	-54%	-6	0.28	0
City Union Bank	0.00	0.04	NA	4	0.19	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.18	0.22	21%	4	1.15	0
HDFC Bank	6.17	6.24	1%	6	31.97	0
ICICI Bank	5.23	5.36	3%	13	27.48	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.57	0.67	18%	10	3.43	0
Karur Vysya Bank	0.00	0.00	NA	0	0.00	0
Kotak Mahindra Bank	2.50	2.22	-11%	-27	11.40	0
Punjab National Bank	0.09	0.00	-100%	-9	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	1.92	2.05	7%	13	10.49	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.04	0.00	-100%	-4	0.00	0
Yes Bank	0.04	0.00	-100%	-4	0.00	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base 1-Apr-19	12-May-21	12-Nov-21	11-Feb-22	12-Apr-22	Latest 12-May-22
EAP - BFSI-Banks	100.0	111.2	132.6	131.8	127.4	115.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	109.1	130.1	129.2	124.9	112.8

*Performance measurement base date 1st April 2019

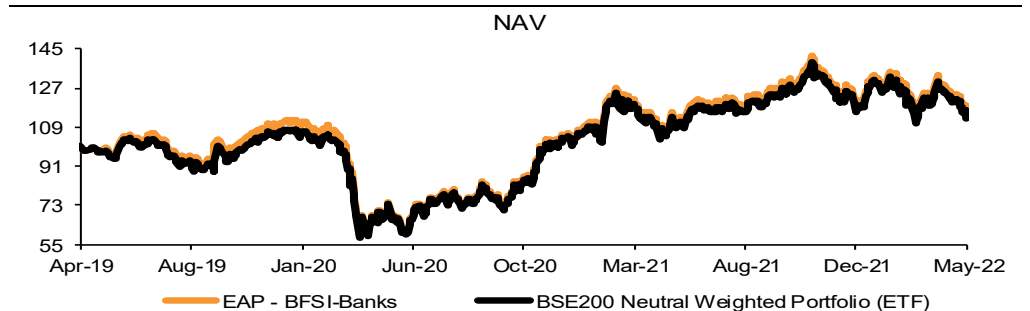
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-9.7%	-12.7%	-13.2%	3.5%
BSE200 Neutral Weighted Portfolio (ETF)	-9.6%	-12.7%	-13.3%	3.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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HOLD	Between -5% to 15%
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