



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING
Updated Jan 08, 2022

30.07

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 3,97,190 cr
52-week high/low:	Rs. 549 / 360
NSE volume: (No of shares)	185.5 lakh
BSE code:	500112
NSE code:	SBIN
Free float: (No of shares)	383.8 cr

Shareholding (%)

Promoters	57.6
FII	10.0
DII	24.7
Others	7.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.3	-16.0	-12.9	21.9
Relative to Sensex	-5.3	-7.3	0.5	12.8

Sharekhan Research, Bloomberg

State Bank of India

Decent Q4; loan growth accelerates

Bank	Sharekhan code: SBIN		
Reco/View: Buy	↔	CMP: Rs. 445	Price Target: Rs. 600
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- SBI reported strong loan growth of 12% y-o-y/ 6% q-o-q above estimates (of 9% y-o-y) led by strong growth in mortgages (11.5% y-o-y), wholesale book (11% y-o-y) and overseas book (15%).
- Core operating profits grew by 33% y-o-y/ 2% q-o-q mainly on account of higher net interest income and contained opex.
- Net interest income grew by 15% y-o-y / 2% q-o-q led by higher loan growth. NIMs remained stable q-o-q reported at 3.12%.
- Asset quality improved significantly with GNPA & NNPA ratios falling by 53 bps / 32 bps q-o-q to 3.97%/1.02%. PCR improved by 400 bps q-o-q to 75%.
- At CMP, SBI trades at 0.9x and 0.8x its FY2023E and FY2024 Core ABV. We maintain a Buy rating on the stock with a revised SOTP-based PT of Rs. 600. SBI remains our top pick among PSU baskets

Operationally, for SBI, Q4FY22 numbers lagged street expectations. Yet, net interest income grew by 15% y-o-y/ 2% q-o-q (2% below consensus) led by higher loan growth. NIMs remained stable q-o-q at 3.12%. Core fee income fell by 5% y-o-y/ was up by 40% q-o-q. Other income was down 50% y-o-y and was up by 32% q-o-q due to last year's high base (owing to a large recovery in Q4FY21). Total operating expenses fell by 1% y-o-y/ was up by 12% q-o-q. Operating profits reported was 10% below consensus, were flat y-o-y / grew by 6% q-o-q due to lower fee and other income. However, core operating profits grew by 33% y-o-y/ 2% q-o-q led by higher NII & contained opex. Provisions were down by 35% y-o-y and grew by 4% q-o-q. Total credit cost stood at 1.09% of average advances during the quarter. Gross slippages were at Rs. 3,606 crore versus Rs. 2,579 crore q-o-q. PAT reported was 16% below consensus, grew by 41% y-o-y / 8% q-o-q led by contained credit cost. Advances grew by 12% y-o-y / 6% y-o-y. Retail loans (led by mortgages) rose by 15% y-o-y, agri and SME loans grew by 7% y-o-y and 10% y-o-y respectively. Wholesale & Overseas book grew by 11% y-o-y/15% y-o-y. Deposits grew by 10% y-o-y with CASA growing at 8% y-o-y. Asset quality saw sharp improvement with GNPA and NNPA declined by 53 bps/ 32 bps q-o-q to 3.97%/ 1.02%. The restructured book stood at Rs. 30,960 crore (~1.1 % of advances) versus Rs. 40,000 crore (1.6% of advances). SMA 1& 2 book stood at Rs.3544 crore versus Rs. 4167 crore in last quarter.

Key positives

- Higher advance growth witnessed during the quarter led by mortgages, wholesale and Overseas book.
- Asset quality saw improved significantly q-o-q, besides a reduction in restructured book & SMA 1&2 book q-o-q.

Key negatives

- Provision on investments accounted for Rs. 2,000 crore charged on account of Security receipts write off.
- Current account deposits fell by 5.4% y-o-y, with CASA ratio at 45% versus 46% in FY21.

Management Commentary

- Bank expects to sustain higher growth trajectory in advances and to focus on gaining market shares in advances.
- NIM to be stable and would improve sequentially from here on in medium term as there would be lag on passing rates for deposits franchise.

Our Call

Valuation – Maintain Buy with revised SOTP-based PT of Rs. 600: At CMP, SBI trades at 0.9x and 0.8x its FY2023E/24E Core ABV. In FY23E, there could be volatility in earnings due to MTM losses from AFS book (available for sale) in near term, however with improving asset quality, higher PCR, higher capital levels and high rated loans in corporate segment augurs well for bank in future and bank is well-positioned to gain market share on the business front. Its deposit franchise, better performance from subsidiaries, and a low risk of dilution (as compared to PSU bank peers) are likely to favor the business. Hence, we maintain a Buy rating on SBI with a revised SOTP-based price target (PT) of Rs. 600. SBI remains our top pick among PSUs.

Key Risks

Economic slowdown due to which slower loan growth and higher than anticipated credit cost especially from corporate and SME book could affect earnings.

Valuation	Rs cr			
Particulars	FY21	FY22	FY23E	FY24E
NII	1,10,710	1,20,708	1,42,865	1,59,852
PAT	20,410	31,676	37,647	45,700
EPS (Rs)	22.9	35.5	42.2	51.2
P/E (x)	11.1	7.2	6.0	5.0
P/ABV (x)	1.1	1.0	0.9	0.8
RoA (%)	0.5	0.7	0.7	0.8
RoE (%)	8.4	13.9	13.3	15.5

Source: Company; Sharekhan estimates

Key result highlights

Healthy NII growth and margin to sustain going forward

Net interest income grew by 15%y-o-y/ 2% q-o-q led by higher loan growth. NIMs remained stable q-o-q reported at 3.12%. Core fee income fell by 5% y-o-y/ was up by 40% q-o-q. Other income fell 50% y-o-y and was up by 32% q-o-q due to higher base last year on account of large recovery in Q4FY21. The bank has guided that NIMs are expected to remain stable and improve from here on in medium term as rates would be revised on deposits with a lag.

Credit cost included written-off securities receipts

Provisions fell by 35% y-o-y and grew by 4% q-o-q. Total credit cost stood at 1.09% of average advances. However, provisions on investments accounted for Rs. 2,000 crore charged on account of Security receipts written off. A 15% additional provision was shored up on the restructured book.

Asset quality improves

Asset quality improved significantly with the GNPA and NNPA ratios declining by 53 bps/ 32 bps q-o-q to 3.97%/ 1.02%. The restructured book stood at Rs. 30,960 crore (~1.1 % of advances) versus Rs. 40,000 crore (1.6% of advances). SMA 1& 2 book stood at Rs.3544 crore versus Rs. 4167 crore in the past quarter. Gross slippages stood at Rs. 3,606 crore versus Rs. 2,579 crore. Upgrades and recovery amounted to Rs. 6,756 crore in Q4FY2022 versus Rs. 2306 crore in Q3FY2022. Write off were at Rs. 4,856 crore versus Rs. 4,187 crore in last quarter. PCR stood at 75%. Bank has already fully provided for advances & investments made in future group & SREI Group. During the quarter, eight accounts were sold to ARCs, realisations stood at Rs. 297 crore.

Credit growth picked up

Advances grew by 12% y-o-y / 6% y-o-y. Retail loans (led by mortgages) rose by 15% y-o-y, agri and SME grew by 7% y-o-y and 10% y-o-y, respectively. The wholesale & overseas books grew by 11% y-o-y /15% y-o-y, respectively. SBI expects to sustain its higher growth trajectory in advances and to focus on gaining market shares in advances.

CASA momentum slowed down

Deposits grew by 10% y-o-y with CASA growing at 8% y-o-y. Current account deposits fell by 5.4% y-o-y, while saving account grew by 10.4% y-o-y with CASA ratio at 45% versus 46% in FY21. Term deposits grew by 11% y-o-y.

Dividend

The board has recommended dividend of Rs. 7.10 per share.

Results

Particulars	4Q FY22	4Q FY21	3Q FY22	Y-o-Y	Q-o-Q
Interest Inc.	70,733	65,102	69,678	9%	2%
Interest Expenses	39,535	38,035	38,991	4%	1%
Net Interest Income	31,198	27,067	30,687	15%	2%
NIM (%)	3.04	3.11	3.12	-2%	-3%
Core Fee Income	8,023	8,455	5,747	-5%	40%
Other Income	3,857	7,770	2,926	-50%	32%
Net Income	43,078	43,292	39,361	0%	9%
Employee Expenses	12,556	13,383	12,471	-6%	1%
Other Opex	10,805	10,209	8,368	6%	29%
Total Opex	23,361	23,592	20,839	-1%	12%
Cost to Income Ratio	54.2%	54.5%	52.9%		
Pre Provision Profits	19,717	19,700	18,522	0%	6%
Provisions & Contingencies - Total	7,237	11,051	6,974	-35%	4%
Profit Before Tax	12,479	8,649	11,548	44%	8%
Tax	3,366	2,198	3,116	53%	8%
Effective Tax Rate	27%	25%	27%		
Reported Profits	9,114	6,451	8,432	41%	8%
Basic EPS (Rs)	10.21	7.2	9.5	41%	8%
Diluted EPS (Rs)	10.21	7.2	9.5	41%	8%
RoA (%)	0.74	0.58	0.71		
Advances	27,33,967	24,49,498	25,78,386	12%	6%
Deposits	40,51,534	36,81,277	38,47,794	10%	5%
Gross NPA	1,12,023	1,26,389	1,20,029	-11%	-7%
Gross NPA Ratio (%)	3.97	4.98	4.5		
Net NPA	27,966	36,810	34,540	-24%	-19%
Net NPAs Ratio (%)	1.02	1.5	1.34		
PCR - Calculated	75.0%	70.9%	71.2%		

Source: Company, Sharekhan Research

SOTP Valuation

Subsidiary / Associate	Per share value
SBI Life Insurance	76
SBI General Insurance	7
SBI MF	30
SBI Cards	60
SBI Capital Market	7
Others	10
Valuation of subs. (with 20% holding co. discount)	190
Core Bank Value	410
Total SOTP Valuation (Rs)	600

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Credit growth has started to pick up, large banks placed better

System-level credit offtake grew by ~10% y-o-y for the fortnight ending April 22, 2022, indicating a gradual pick up in loans given the distinct signs of improved economy and a revival in investments and loan demand. On the other hand, deposits rose by ~10%, which reflect a healthier economic scenario. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as an economic recovery. At present, we believe the banking sector is likely to see a higher risk-off behavior, with tactical market share gains for well-placed players. We believe large banks, with a strong capital base and asset quality (with high coverage and provision buffers), are well placed to capture growth opportunities.

■ Company Outlook – Attractive play on economy

SBI is an attractive play on the fast-growing Indian economy, with a healthy PCR, higher levels, strong liability franchise, improved core operating profitability and improving asset quality matrix. FY22 results indicate that business strength and past few years' efforts that have stood the bank in terms of return profile. Bank has gradually been reducing the stressed assets by fully providing for it upfront. SBI's pole position in terms of liability franchise, an enviable reach and business strength make it well placed to ride over medium-term challenges.

■ Valuation – We maintain Buy rating on SBI with a revised SOTP-based PT of Rs. 600

At CMP, SBI trades at 0.9x and 0.8x its FY2023E/24E Core ABV. In FY23E, there could be volatility in earnings due to MTM losses from AFS book (available for sale) in near term, however with improving asset quality, higher PCR, higher capital levels and high rated loans in corporate segment augurs well for bank in future and bank is well-positioned to gain market share on the business front. Its deposit franchise, better performance from subsidiaries, and a low risk of dilution (as compared to PSU bank peers) are likely to favor the business. Hence, we maintain a Buy rating on SBI with a revised SOTP-based price target (PT) of Rs. 600. SBI remains our top pick among PSUs.

Peer valuation

Banks	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
State Bank of India	445	3,97,190	6.0	5.0	0.9	0.8	13.3	15.5	0.7	0.8
HDFC Bank	1291	7,16,641	17.4	15.4	2.6	2.2	15.7	15.3	1.9	1.9
ICICI Bank	677	4,70,857	19.0	18.0	2.4	2.1	14.7	15.5	1.8	2.0

Source: Company, Sharekhan Research

About company

SBI is the largest public-sector bank in terms of assets, deposits, branches, number of customers, and employees having pan-India presence. The bank has been designated by the RBI as a domestic systemically important bank (D-SIB), which means that its continued functioning is critical for the economy. The bank is better capitalised than most PSU banks. It is well-placed to gain market share as well as key clients by virtue of lesser competitive pressures. The bank is well placed to secure growth capital from the government, not only by virtue of being the largest bank, but also with operating parameters that have improved.

Investment theme

SBI enjoys a dominant position and market share in the Indian banking space, which we expect to be maintained in the near future as well, by virtue of its deep penetration into both rural and urban markets. SBI has a strong presence in both retail liabilities as well as retail asset side along with its corporate relationships (due to size, history, and market knowledge), which are key differentiators for it. In addition, due to its size, SBI is the market maker for interest rates, which not only puts it in a dominant position but will also allow it a margin cushion. SBI has the largest customer base in the country, by virtue of its largest and pan-India network, which enables it to be the banker of preference across India but also allows it to explore cross-sell opportunities.

Key Risks

Economic slowdown due to which slower loan growth and higher than anticipated credit cost especially from corporate and SME book could affect earnings.

Additional Data

Key management personnel

Mr. Dinesh Kumar Khara	Chairman
Mr. Challa Sreenivasulu Setty	Managing Director
Mr. Ravindra Pandey	Deputy Managing Director & CIO
Mr. Swaminathan Janakiraman	Managing Director
Mr. Ashwani Bhatia	Managing Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	8.2
2	HDFC Asset Management Co Ltd	2.5
3	SBI Funds Management Pvt Ltd	2.4
4	ICICI Prudential Asset Management	1.2
5	Bank of New York Mellon	1.2
6	Nippon India	1.1
7	Aditya Birla Sun Life Asset Manage	1.1
8	Kotak Mahindra Asset Management Co	0.8
9	Mirae Asset Global Investments Co.	0.7
10	BlackRock Inc	0.7

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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