

Retail Equity Research

State Bank of India (SBI)

Banking

BSE CODE: 500112

NSE CODE: SBIN

Bloomberg CODE: SBIN:IN

SENSEX: 58,466

BUY

12 Months Investment period

Rating as per Large cap

CMP Rs. 535

TARGET Rs. 651

RETURN 22% ↑

(Closing: 09-02-22)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Mixed Quarter; Outlook promising

State Bank of India is India's largest bank. The bank operates 22,224 branches globally and has a vast network of 63,906 ATMs/CDMs. It provides a wide range of financial services, such as insurance, credit cards and asset management, through its subsidiaries.

- Advances grew by 8.9% YoY supported by 14.6% YoY growth in retail advances; Deposits surged by 8.8% YoY
- Interest Income improved 4.4% on YoY basis and 0.3% sequentially, thereby leading to improved margins. NIM increased 3bps sequentially to 3.11%
- The quarterly results look promising and the improvement in business parameters signals a turnaround in the long-run. Hence, we reiterate our BUY rating on the stock, with a rolled forward target price of Rs. 651 using the SOTP methodology.

NIM margins remain relatively stable

In Q3FY22, Net interest income grew by 6.5% YoY to Rs. 30,687cr (-1.6% QoQ) despite reduction in yield on advances, down 59bps YoY to 7.57%, aided by the decrease in cost of deposits i.e. down 43bps YoY to 3.83%. As a result, Net interest margin (NIM) improved 2bps YoY to 3.11%, mainly driven by Domestic NIM (+4bps YoY) partially offset by foreign NIM (-7bps YoY). Non-Interest income dipped by 6.2% YoY, while it grew by 5.7% on QoQ basis. Pre-Provisioning Profit grew 6.9% YoY to Rs. 18,522cr, as a result of elevated costs as total expenses increased 2.0% YoY to 59,830cr and 0.4% sequentially. The company reported a surge in PAT to Rs. 8,432cr (+62.3% YoY, 10.6% QoQ) due to lower provisioning of Rs. 6,794cr (down by 32.6% YoY). PCR also rose to 88.32% vs 87.68% in Q2FY22 and 90.21% in Q3FY21.

Asset Quality Improves on QoQ basis

GNPA for the quarter dipped to 4.5% (vs. Q3FY21: 4.77% and Q2FY22: 4.9%), while NNPA stood at 1.34% (vs. Q3FY21: 1.23% and Q2FY22: 1.52%). Slippages improved on QoQ basis to 1.16% against 1.56%, however steep as against 0.36% in Q3FY21. High slippages remains a concern for the bank in the near future. Strong growth in CASA deposits continued to drive loan growth as domestic CASA grew by 10.0% YoY with CASA ratio at 45.74% (+59bps YoY). Retail loans grew 14.6% YoY and 5.3% QoQ, led by Xpress Credit (+28.9% YoY, 9.1% QoQ), home loan (+11.2% YoY, 3.8% QoQ). CAR dipped to 13.23% vs 14.50% in Q3FY21 and 13.35% in Q2FY22.

Key call highlights

- Return on Assets (ROA) increased to 0.64% vs 0.45% in Q3FY21
- Average daily login by customers reduced to 1.03cr from 1.2cr QoQ on YONO app whereas YONO has acquired 4.54cr customers and created significant value for the bank.

Outlook & Valuation

Overall business growth remains better than the industry average, advances from retail segment grew at 14.6% YoY and foreign advances jumped 21.4% YoY. We see that the growth is expected to accelerate by SBI Bank's people, product, distribution, and technology backed by strong asset quality. Hence we reiterate our BUY rating on the stock, with a revised target price of Rs. 651 using the SOTP methodology.

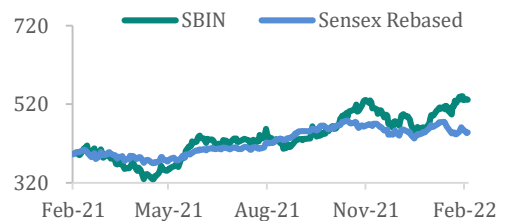
Company Data

Market Cap (cr)	Rs. 473,881
Outstanding Shares (cr)	892.3
Free Float	43.0%
Dividend Yield	0.0%
52 week high	Rs. 549
52 week low	Rs. 321
6m average volume (cr)	1.1
Beta	1.1
Face value	Rs. 1.0

Shareholding %	Q1FY22	Q2FY22	Q3FY22
Promoters	57.6	57.6	57.6
FII's	10.3	10.6	10.4
MFs/Insti	24.3	24.3	24.3
Public	6.6	6.3	6.6
Others	1.1	1.2	1.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	1.5%	21.9%	33.8%
Absolute Sensex	-4.5%	6.5%	12.6%
Relative Return*	6.0%	15.4%	21.2%

*over or under performance to benchmark index



Standalone (cr)	FY22E	FY23E	FY24E
Net Interest Income	123,359	136,845	153,548
Growth (%)	11.4	10.9	12.2
NIM (%)	3.0	3.0	3.1
Pre-provision Profit	83,773	99,496	110,696
Net Profit	33,563	42,434	49,900
Growth (%)	64.4	26.4	17.6
Adj. EPS	37.6	47.5	55.9
Growth (%)	64.4	26.4	17.6
BVPS	322.0	369.5	425.4
Adj. BVPS	279.9	327.0	382.4
P/E	14.1	11.2	9.5
P/B	1.6	1.4	1.2
P/ABV	1.9	1.6	1.4
ROE (%)	12.4	13.7	14.1
ROA (%)	0.7	0.8	0.9

Quarterly Financials (Standalone)

Profit & Loss Account

	Q3FY22	Q3FY21	YoY Growth %	Q2FY21	QoQ Growth %	9MFY22	9MFY21	YoY Growth %
Interest Income	69,678	66,735	4.4	69,481	0.3	204,724	200,049	2.3
Interest Expense	38,991	37,915	2.8	38,298	1.8	115,214	116,406	(1.0)
Net Interest Income (NII)	30,687	28,820	6.5	31,184	(1.6)	89,510	83,643	7.0
Non-Interest Income	8,673	9,246	(6.2)	8,208	5.7	28,684	25,731	11.5
Total Net Income	39,361	38,066	3.4	39,392	(0.1)	118,193	109,375	8.1
Total Income	78,352	75,981	3.1	77,689	0.9	233,408	225,780	3.4
Operating Expenses	20,839	20,733	0.5	21,312	(2.2)	62,618	59,060	6.0
Total Expenditure	59,830	58,647	2.0	59,610	0.4	177,832	175,466	1.3
Pre-Provision profit	18,522	17,333	6.9	18,079	2.4	55,576	50,314	10.5
Provisions	6,974	10,342	(32.6)	189	3594.8	17,215	32,962	(47.8)
Profit Before Tax	11,548	6,991	65.2	17,890	(35.5)	38,361	17,352	121.1
Adj.	0	0	n.m.	(7,418)	n.m.	(7,418)	1,540	n.m.
Adj. PBT	11,548	6,991	65.2	10,472	10.3	30,942	18,892	63.8
Tax	3,116	1,795	73.6	2,845	9.5	8,380	4,932	69.9
Net Profit	8,432	5,196	62.3	7,627	10.6	22,562	13,960	61.6
EPS - Diluted (Rs)	9.5	5.8	62.4	8.6	10.5	25.3	15.6	61.7

Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY22E	FY23E	FY22E	FY23E	FY24E	FY22E	FY23E
Net Interest Income (NII)	122,719	138,391	123,359	136,845	153,548	0.5	(1.1)
Net Interest Margin (%)	3.0	3.0	3.0	3.0	3.1	3bps	4bps
Pre-Provision Profit	89,979	104,467	83,773	99,496	110,696	(6.9)	(4.8)
Net Profit	32,063	40,125	33,563	42,434	49,900	4.7	5.8
EPS (Rs.)	35.9	44.9	37.6	47.5	55.9	4.7	5.8

Business Performance

	Q3FY22	Q3FY21	YoY Growth %	Q2FY21	QoQ Growth %
Advances	2,578,386	2,368,139	8.9	2,443,194	5.5
Deposits	3,847,794	3,535,753	8.8	3,809,630	1.0
Business	6,426,180	5,903,893	8.8	6,252,824	2.8
Gross NPA	120,029	117,244	2.4	123,942	(3.2)
Net NPA	34,540	29,032	19.0	37,119	(6.9)

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr)	Value/share (Rs.)
Bank	FY24E P/ABV	1.10x	100.0%	417,557	468
SBI Life Insurance	Geojit TP		55.5%	78,366	88
SBI Cards	Geojit TP		69.4%	86,530	97
AMC	5% of AUM		63.0%	25,000	28
Others				13,713	15
Total Value of subsidiaries				203,609	228
(20% holding discount)					(46)
Target Price					651

PROFIT & LOSS

Y.E March (Rs cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Interest Income	257,324	265,151	282,239	309,092	340,016
Interest Expense	159,239	154,440	158,880	172,247	186,468
Net Int. Income	98,085	110,711	123,359	136,845	153,548
% Change	11.0	12.9	11.4	10.9	12.2
Non-Int. Income	45,221	43,496	45,671	46,128	48,434
Net Income	143,306	154,207	169,030	182,973	201,982
Total Income	302,545	308,647	327,910	355,220	388,450
Operating Exp.	75,174	82,652	85,257	83,477	91,286
Total Exp.	234,412	237,092	244,137	255,724	277,754
Pre-Prov. Profit	68,133	71,554	83,773	99,496	110,696
Provisions	43,070	44,013	38,484	42,237	43,363
PBT	25,063	27,541	45,289	57,259	67,333
Tax	10,575	7,131	11,726	14,825	17,433
Tax Rate (%)	42.2	25.9	25.9	25.9	25.9
Net Profit	14,488	20,411	33,563	42,434	49,900
% Change	1,580.8	40.9	64.4	26.4	17.6
No. of Shares (cr)	893	893	893	893	893
Adj. EPS (Rs)	16.2	22.9	37.6	47.5	55.9
% Change	119.3	40.9	64.4	26.4	17.6
DPS (Rs)	0.0	0.0	0.0	0.0	0.0

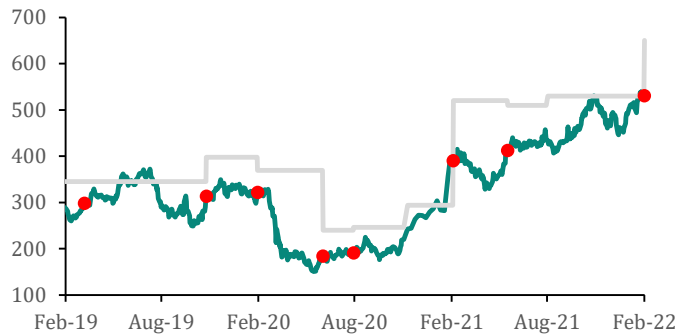
BALANCE SHEET

Y.E March (Rs cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash & Balances	251,097	343,039	366,779	393,525	423,718
Investments	1,046,955	1,351,705	1,622,046	1,784,251	1,962,676
Advances	2,325,290	2,449,498	2,681,714	2,949,886	3,244,874
Fixed Assets	38,439	38,419	38,399	38,379	38,359
Other Assets	289,614	351,769	365,840	380,473	395,692
Total Assets	3,951,395	4,534,430	5,074,778	5,546,514	6,065,319
Capital	892	892	892	892	892
Reserves & Surplus	231,115	252,983	286,546	328,981	378,881
Deposits	3,241,621	3,681,277	3,993,774	4,332,085	4,700,745
Borrowings	314,656	417,298	500,758	550,833	605,917
Other Liabilities	163,110	181,980	292,808	333,722	378,885
Total Liabilities	3,951,394	4,534,430	5,074,778	5,546,514	6,065,319
BVPS (Rs.)	259.9	284.4	322.0	369.5	425.4
Adj. BVPS (Rs.)	201.8	243.2	279.9	327.0	382.4
% Change	15.7	20.5	15.1	16.8	17.0

RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
Valuation					
P/E (x)	12.1	23.2	14.1	11.2	9.5
P/BV (x)	0.8	1.9	1.6	1.4	1.2
P/ABV (x)	1.0	2.2	1.9	1.6	1.4
Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
Profitab. & Return (%)					
Yield on Advances	8.0	7.2	7.0	7.1	7.2
Cost of Deposits	5.2	4.5	4.1	4.1	4.1
Spread	2.8	2.7	2.9	3.0	3.1
NIM	3.0	3.0	3.0	3.0	3.1
ROE	7.7	9.9	12.4	13.7	14.1
ROA	0.4	0.5	0.7	0.8	0.9
Capital Adequacy (%)					
CAR	13.1	13.7	13.4	13.6	13.8
Tier I	11.0	11.4	11.3	11.5	11.6
Tier II	2.1	2.3	2.1	2.1	2.2
Asset Quality (%)					
GNPA	6.2	5.0	4.8	4.4	4.0
NNPA	2.2	1.5	1.4	1.3	1.2
Operating Ratios (%)					
Credit/ Deposit	71.7	66.5	67.1	68.1	69.0
Cost/ Income	52.5	53.6	50.4	45.6	45.2
CASA	45.2	45.1	44.4	44.1	43.8

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
15-Mar-19	BUY	345
1-Nov-19	BUY	398
6-Feb-20	BUY	369
9-Jun-20	BUY	240
6-Aug-20	BUY	246
12-Nov-20	BUY	294
12-Feb-21	BUY	520
26-May-21	BUY	510
7-Aug-21	BUY	530
10-Feb-22	BUY	651

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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