

Quarterly Update

State Bank of India

BUY

Business outlook appears sanguine

9th Mar 2022

- State Bank of India (SBI) reported PAT of Rs84 bn in Q3FY22 which grew by 62.3% YoY thereby continuing its strong profitability trend. Though major support to the bottom line came from the significant decline in the provisioning cost and contained OPEX. NII grew by slower pace of 6.5% YoY (17.0% in Q2FY22) due to low YoA of 7.6% in Q3FY22, while contained CoD helped to maintain NIM at last quarter level of 3.1%.
- Slippages at Rs23bn (slippages rate improved to 0.4% v/s 0.7% in previous quarter) remained contained and better recovery led 40 bps improvement in the GNPA of 4.5%. Stress appears low with restructuring assets at 120 bps, SMA of 16 bps of loans, while the bank also maintained healthy coverage ratio (PCR) at ~70%, providing comfort on the assets quality front. SBI carries a higher (85%) provisions coverage on corporate NPAs. Mgmt expects similar run rate of slippages rate and credit cost of ~70-80 bps for the next two fiscals.
- Advances grew by 8.5% YoY (6.1% in Q2FY22) led by strong growth in retail (14.6% YoY) & international book. Corporate credit grew by 3.5% sequentially after last 2-quarter of contraction as the bank witnessed demand from infra spend by PSUs, pick-up of investments in the core sectors and increase in utilization of WC limits. Bank expects the corporate credit growth momentum to continue amidst likely pick up in investment demand also supported by investment orientated latest Budget.
- With the sustained decline in the slippages, assets quality of the bank marked strong improvement. We expect credit cost to remain contained given the low stress in the book. With the pick-up in the credit growth, contained credit cost, profitability is expected to remain strong in coming fiscals. RoE is expected to improve from 8.4% in FY21 to 14.1% in FY24E. Subsidiaries of the bank have been consistently showing strong performance and are now better placed in their respected field thereby providing fillip to SOTP value for the bank. Though, SME book requires close monitoring given the high commodity prices which can impact their loan repayment capability.
- We maintain 'Buy' rating on stock with revised target price of Rs595. Standalone banking business is valued at Rs453 derived at P/ABV1.2x FY24E, while subsidiaries are valued at Rs142.

Low provisioning and contained OPEX drive profitability: - NII grew by a slower pace at 6.5% YoY as compared to 17% YoY in the previous quarter. Despite the recovery in advances growth, NII growth slowed down due to low YoA which stood at 7.6% in Q3FY22 v/s 8.2% in the same quarter of previous fiscal., Low CoD of 3.8% while helped to keep NIM at last quarter level of 3.1%. Domestic NIM stood at 3.35% in the quarter under review v/s 3.3% in Q2FY22 and same at 3.3% in Q3FY21. Other income declined by -6% YoY due to treasury income which declined by -46% YoY. OPEX remained contained at 0.5% YoY driving an improvement in C/I to 52.9% in Q3FY22 as compared to last 6 quarter avg. of 54.0%. Provisioning declined by -32.6% YoY on account of lower slippages. SBI reported 62.3% YoY & 10.6% QoQ growth in PAT during Q3FY22.

Credit growth picks up : - Advances grew by 8.5% YoY/5.5% QoQ, above the past quarterly trend. Retail segment continue to dominant the space growing at 14.6% YoY led by home loans (11.2% YoY) and other retail products (24.2% YoY). Corporate credit picked up 3.5% sequentially on the back of improved utilization. Deposits grew by 8.8% YoY/QoQ with CASA ratio stood at 45.7% as of the quarter.

Rating Matrix

CMP	Rs440
Rating	Buy
Target Price	Rs595
Upside Potential	35.2%
52 week H/L	Rs549/321
Face value	Rs1
Mar. Cap.	Rs3,92,861 cr
Category	Large Cap
Sector	Banking

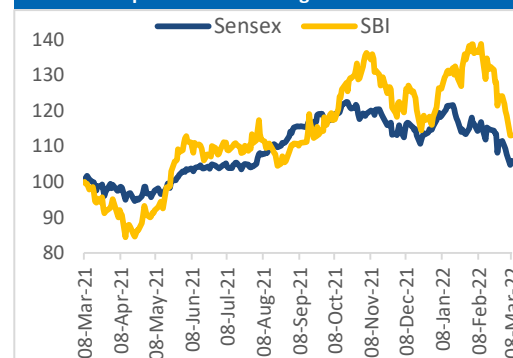
Shareholding Pattern

Particulars	Dec'21	Sep'21	Jun'21	Mar'21	Dec'20
Promoters	57.6%	57.6%	57.6%	57.6%	57.6%
FPIs	10.4%	10.6%	10.3%	9.9%	9.8%
MFs	12.9%	13.0%	12.8%	12.6%	12.7%
Insti.	34.5%	34.7%	34.5%	34.3%	34.7%
Non. Inst.	7.8%	7.5%	7.7%	7.8%	7.5%

Quarterly Snapshot (Q3FY22)

Particulars	(Rs cr)	YoY (%)	QoQ (%)
NII	30,687	6.5%	-1.6%
Other Income	8,673	-6.2%	5.7%
NIM	3.1%	-1 bps	2 bps
PPOP	18,522	6.9%	2.4%
PAT	8,432	62.3%	10.6%
Advances	25,78,386	8.9%	5.5%
Deposits	38,47,794	8.8%	1.0%
CASA	45.7%	54 bps	-50 bps
GNPA	4.5%	-27 bps	-40 bps

Relative Capital Market Strength



Key Financials (Rs cr)

Particulars	FY20	FY21	FY22E	FY23E	FY24E
NII	98,085	1,10,710	1,21,708	1,37,554	1,54,713
Gr. (%)	11.0%	12.9%	9.9%	13.0%	12.5%
NIM	2.9%	3.0%	2.8%	2.9%	3.1%
PPOP	61,917	70,014	76,630	85,815	96,837
A.PAT	14,488	20,410	38,638	42,150	49,238
Eq./As. (%)	5.9%	5.6%	5.8%	6.0%	6.2%
RoE (%)	6.4%	8.4%	14.2%	13.7%	14.1%
CASA(%)	43.5%	38.3%	45.6%	46.1%	46.3%
GNPA (%)	6.7%	5.0%	4.2%	3.7%	3.1%
P/ABV (x)		1.8	1.5	1.3	1.2

Q3FY22 key result highlights

NII grew by a slower pace at 6.5% YoY as compared to 17% YoY in the previous quarter.

Domestic NIM stood at 3.35% in the quarter under review v/s 3.3% in Q2FY22 and 3.3% in Q3FY21.

OPEX remained contained 0.5% YoY driving an improvement in C/I to 52.9% in Q3FY22 as compared to last 6 quarter avg. of 54.0%.

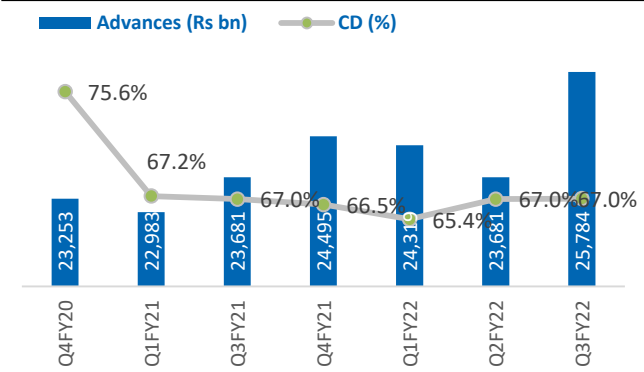
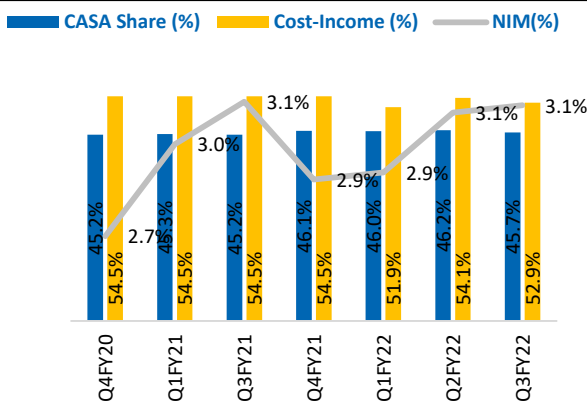
Advances grew by 8.5% YoY/5.3% QoQ, above the past quarterly trend.

GNPA/NNPA was reported at 4.50%/1.3%.

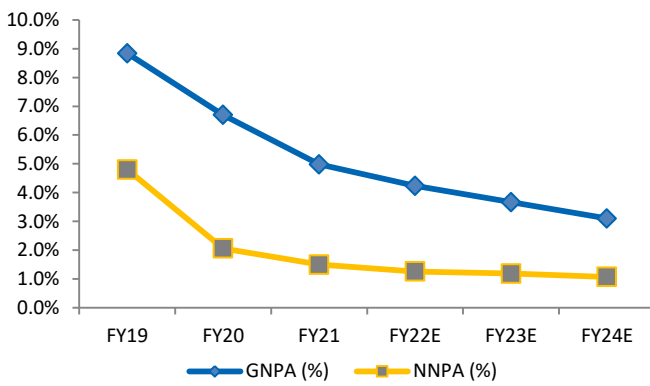
Quarterly Snapshot

Particulars (Rs cr)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	YoY (%)	QoQ (%)
Interest Earned	66,735	65,102	65,564	69,481	69,678	4.4%	0.3%
Interest Expended	37,915	38,035	37,926	38,298	38,991	2.8%	1.8%
NII	28,820	27,067	27,638	31,184	30,687	6.5%	-1.6%
Other Income	9,246	16,225	11,803	8,208	8,673	-6.2%	5.7%
Total Income	38,066	43,292	39,441	39,392	39,361	3.4%	-0.1%
OPEX	20,733	23,592	20,466	21,312	20,839	0.5%	-2.2%
PPOP	17,333	19,700	18,975	18,079	18,522	6.9%	2.4%
P&C (incl NPA)	10,342	11,051	10,052	189	6,974	-32.6%	
PBT	6,991	8,649	8,923	10,472	11,548	65.2%	10.3%
Tax	1,795	2,198	2,419	2,845	3,116	73.6%	9.5%
Net Profit	5,196	6,451	6,504	7,627	8,432	62.3%	10.6%
Dil. EPS (Rs)	5.8	7.2	7.3	8.6	9.5	62.4%	10.5%
Balance Sheet items/ratios							
Deposits	35,35,753	36,81,277	37,20,987	35,35,753	38,09,600	8.8%	1.0%
Advances	23,68,139	24,49,498	24,31,908	23,68,139	24,43,200	8.9%	5.5%
CD (%)	67.0%	66.5%	65.4%	67.0%	67.0%		
CASA Share (%)	45.2%	46.1%	46.0%	46.2%	45.7%	0.54%	-0.50%
CAR(%)	14.5%	13.7%	13.7%	13.4%	13.2%		
CET1 (%)	10.3%	10.0%	9.9%	9.8%	9.4%		
Tier 1 (%)	11.7%	11.4%	11.3%	11.0%	10.9%		
NIM(%)	3.1%	2.9%	2.9%	3.1%	3.1%	-0.01%	0.02%
Cost-Income (%)	54.5%	54.5%	51.9%	54.1%	52.9%		
Assets Quality							
Gross NPA	1,17,244	1,26,389	1,34,260	1,23,942	1,20,029	2.4%	-3.2%
Net NPA	29,032	36,810	43,153	37,119	34,540	19.0%	-6.9%
Gross NPA (%)	4.8%	5.0%	5.3%	4.9%	4.5%	-0.27%	-0.40%
Net NPA (%)	1.2%	1.5%	1.8%	1.5%	1.3%		
PCR (%)	75.2%	70.9%	67.9%	70.1%	71.2%		
Advances (Rs bn)							
Gross Advances (Rs bn)	24,566	25,394	25,238	25,308	26,646	8.5%	5.3%
Domestic Advances	21,267	21,825	21,563	21,561	22,642	6.5%	5.0%
Corporate Credit	7,882	8,187	7,905	7,568	7,834	-0.6%	3.5%
SME	2,937	2,789	2,843	2,798	3,072	4.6%	9.8%
Agriculture Advances	2,137	2,142	2,094	2,150	2,215	3.7%	3.0%
International	3,299	3,569	3,675	3,747	4,004	21.4%	6.9%
Retail Advances	8,311	8,707	8,721	9,045	9,522	14.6%	5.3%
Home	4,845	5,038	5,055	5,187	5,385	11.2%	3.8%
Auto	759	763	743	746	774	2.0%	3.8%
Other Retail	2,707	2,906	2,924	3,111	3,363	24.2%	8.1%
Break out of advances (%)							
Corporate Credit	32%	32%	31%	30%	29%		
SME	12%	11%	11%	11%	12%		
Agriculture Advances	9%	8%	8%	8%	8%		
International	13%	14%	15%	15%	15%		
Retail Advances	34%	34%	35%	36%	36%		

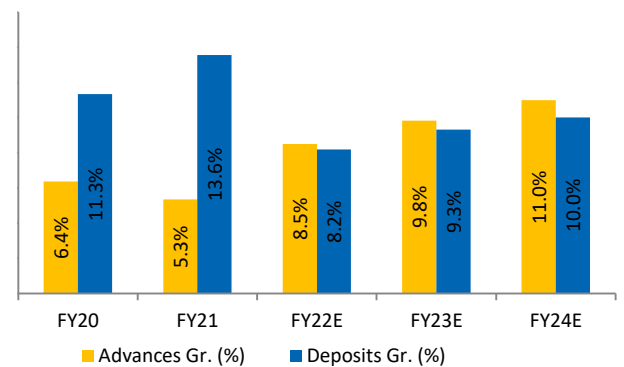
Source: Choice Broking Research



Assets quality trend



Business growth trend



Q3FY22 Key Concall Highlights:

- Mgmt stated that slippages rate of 0.4% is sustainable. Recovery remains strong which will further contain the net slippages. Recovery is estimated at Rs80 bn for FY22.
- Restructuring stood at Rs329 bn (1.2% of loans) of which retail at Rs155 bn, MSME – Rs122 bn and corporates – Rs51 bn.
- Corporates NPAs is covered to 85%. SMA ½ portfolio fell to Rs42 bn v/s Rs67 bn in Q2FY22.
- SBI expects credit growth to improve and expected at 9% for FY22. Bank can increase term deposits rate with the increase in the interest rate.
- Capex spending by PSUs and core sector are providing demand for corporate credit. As per the mgmt, the bank has witnessed better growth in Jan despite surge in the Covid cases.
- International book is getting strong traction mainly on account of trade finance and local loans in UK, USA, Singapore and Hong Kong.
- The bank will continue to focus on YONO for unsecured loans disbursements. The bank will launch more retail products through YONO.
- NIM is getting support from the credit growth, short term financing and syndicated loans. With interest rate going up, focus to remain to maintain NIM at the current level.
- ECLGS disbursements stood at Rs310 bn, with the bank disbursing Rs70 bn in 3QFY22.
- The bank remains committed to deliver 15% RoE on a sustainable basis.
- Impact on MTM provisions is likely to remain manageable till yields increase to 6.95-7%.

Source: Choice Broking Research

Valuation & View

With the sustained decline in the slippages, assets quality of the bank marked strong improvement. We expect credit cost to remain contained given the low stress in the book. With the pick-up in the credit growth, contained credit cost, profitability is expected to remain strong in coming fiscals. RoE is expected to improve from 8.4% in FY21 to 14.1% in FY24E. Subsidiaries of the bank have been consistently showing strong performance and are now better placed in their respected field thereby providing fillip to SOTP value for the bank. Though, SME book requires close monitoring given the high commodity prices which can impact their loan repayment capability.

We maintain 'Buy' rating on stock with revised target price of Rs595. Standalone banking business is valued at Rs453 derived at P/ABV1.2x FY24E, while subsidiaries are valued at Rs142.

P/ABV Valuation	FY20	FY21	FY22E	FY23E	FY24E
Adjusted BVPS (Rs)	260.0	243.3	286.2	327.1	377.4
Valuation Parameters					
P/ABV (x)	1.2				

Sum-of-the-parts valuation (SOTP)	Basis	Stake	Value
Standalone	P/ABV 1.2x FY24E	100%	453
SBI Life Insurance	CMC	56%	64
Assets Mgmt	P/E 30x FY24E	63%	33
Cards	CMC	69%	54
SBI General Insurance	P/E 25x FY24E	70%	10
SBI Cap	P/E 20x FY24E	100%	8
Yes Bank	CMC	30%	11
Value of subsidiaries			179
Less: Holding company discount (20%)			36
Value of subsidiaries after holding discount			142
Value of consolidate business			595

Source: Choice Broking Research

Financial statements (Standalone, Rs crore)

Profit And Loss Statement

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Earned	2,42,869	2,57,324	2,65,151	2,80,124	3,18,268	3,57,286
Growth (%)		6.0%	3.0%	5.6%	13.6%	12.3%
Interest Expended	1,54,520	1,59,239	1,54,441	1,58,416	1,80,713	2,02,574
Growth (%)		3.1%	-3.0%	2.6%	14.1%	12.1%
Net Interest Income	88,349	98,085	1,10,710	1,21,708	1,37,554	1,54,713
Net Interest Margin	2.8%	2.9%	3.0%	2.8%	2.9%	3.1%
Other Income	36,775	39,006	41,957	40,211	41,616	45,554
% of Interest Income	15.1%	15.2%	15.8%	14.4%	13.1%	12.8%
Total Income	1,25,124	1,37,091	1,52,667	1,61,918	1,79,170	2,00,267
Growth (%)		9.6%	11.4%	6.1%	10.7%	11.8%
Operating & Other expenses	69,688	75,174	82,652	85,288	93,355	1,03,430
Pre-Prov. Operating Profit	55,436	61,917	70,014	76,630	85,815	96,837
P&C	53,829	43,070	44,013	24,347	28,779	30,209
P&C % of Advances	2.5%	1.9%	1.8%	0.9%	1.0%	0.9%
Operating Profit before Tax	1,608	25,063	27,541	52,284	57,037	66,628
Growth (%)		1459.1%	9.9%	89.8%	9.1%	16.8%
Pre-tax Margin %	1.3%	18.3%	18.0%	32.3%	31.8%	33.3%
Tax	745	10,575	7,131	13,646	14,887	17,390
% of PBT	46.4%	27.0%	27.0%	26.1%	26.1%	26.1%
Reported PAT	862	14,488	20,410	38,638	42,150	49,238
Extraordinary Income	0	0	0	0	0	0
Adjusted PAT	862	14,488	20,410	38,638	42,150	49,238
Growth (%)		1580.4%	40.9%	89.3%	9.1%	16.8%

Balance Sheet

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
ASSETS						
Cash and balance with Reserve Bank of India.....	2,22,490	2,51,097	3,43,039	3,98,565	4,02,273	4,21,221
Investments	9,67,022	10,46,955	13,51,705	15,13,286	17,32,093	19,48,893
Advances	21,85,877	23,25,290	24,49,498	26,57,721	29,18,948	32,39,819
Fixed assets	39,198	38,439	38,419	39,600	40,400	41,600
Other assets	2,66,328	2,89,614	3,51,769	3,61,900	3,71,300	3,86,500
TOTAL ASSETS	36,80,914	39,51,394	45,34,430	49,71,072	54,65,015	60,38,033
CAPITAL AND LIABILITIES						
Capital	893	893	892	892	892	892
Reserves and Surplus	2,20,021	2,31,115	2,52,983	2,88,051	3,25,740	3,70,517
Deposits	29,11,386	32,41,621	36,81,277	39,82,529	43,53,782	47,89,724
Borrowings	4,03,017	3,14,656	4,17,298	4,99,400	5,68,400	6,43,400
Other liabilities and provisions	1,45,597	1,63,110	1,81,980	2,00,200	2,16,200	2,33,500
TOTAL CAPITAL AND LIABILITIES.....	36,80,914	39,51,394	45,34,430	49,71,072	54,65,015	60,38,033

Financial Ratios

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
Return / Profitability Ratios (%)						
NIM	2.8%	2.9%	3.0%	2.8%	2.9%	3.1%
Yield on advances	7.8%	8.0%	7.2%	6.8%	7.1%	7.2%
Yield on investments	7.3%	6.8%	6.7%	5.9%	6.1%	6.1%
EPS (Diluted) (Rs)	1.0	16.2	22.9	43.3	47.2	55.2
RoA	0.0%	0.4%	0.5%	0.8%	0.8%	0.9%
RoE	0.4%	6.4%	8.4%	14.2%	13.7%	14.1%
Operating ratios (%)						
Credit to Deposit (C/D)	75.1%	71.7%	66.5%	66.7%	67.0%	67.6%
Cost-to-income (C/I)	55.7%	54.8%	54.1%	52.7%	52.1%	51.6%
CASA (share)	44.6%	43.5%	38.3%	45.6%	46.1%	0.0%
Investment / Deposit (I/D)	33.2%	32.3%	36.7%	38.0%	39.8%	40.7%
Non interest income / Total income	29.4%	28.5%	27.5%	24.8%	23.2%	22.7%
Capitalization Ratios (%)						
Tier-1 ratio	10.7%	11.0%	11.4%	11.2%	11.1%	11.1%
Tier-2 ratio	2.1%	2.1%	2.3%	2.3%	2.3%	2.3%
CAR	12.8%	13.1%	13.7%	13.5%	13.4%	13.4%
Equity / Assets	6.0%	5.9%	5.6%	5.8%	6.0%	6.2%
Loans / Assets	59.4%	58.8%	54.0%	53.5%	53.4%	53.7%
Investments / Assets	26.3%	26.5%	29.8%	30.4%	31.7%	32.3%
Asset Quality ratios (%)						
GNPA	8.8%	6.7%	5.0%	4.2%	3.7%	3.1%
NNPA	4.8%	2.1%	1.5%	1.3%	1.2%	1.1%
Coverage Ratio	45.7%	69.3%	69.9%	70.2%	67.5%	65.5%
Per Share Data (Rs)						
EPS (Diluted)	1.0	16.2	22.9	43.3	47.2	55.2
DPS		0.0	4.0	5.0	5.0	5.0
BVPS	247.6	260.0	284.5	323.8	366.1	416.3
Adjusted BVPS	247.6	260.0	243.3	286.2	327.1	377.4
Valuation ratios (x)						
P/E (x)	455.3	27.1	19.2	10.2	9.3	8.0
P/BV (x)	1.8	1.7	1.5	1.4	1.2	1.1
P/ABV (x)	1.8	1.7	1.8	1.5	1.3	1.2
Growth ratios (%)						
Advances		6.4%	5.3%	8.5%	9.8%	11.0%
Deposits		11.3%	13.6%	8.2%	9.3%	10.0%
Net interest income		11.0%	12.9%	9.9%	13.0%	12.5%
Interest Earned		6.0%	3.0%	5.6%	13.6%	12.3%
PAT		1580.4%	40.9%	89.3%	9.1%	16.8%

Source: Choice Broking Research

Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

Rating Rationale	
BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

Coverage History			
Date	Recommendation	CMP	Target Price
09-Mar-22	Buy	440	595
27-Sep-21	Buy	441	535
25-May-21	Buy	412	500
09-Feb-21	Buy	397	470

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