Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

State Bank of India

In a sweet spot with better credit growth

Banks and Finance	Sharekhan code: SBIN
Reco/View: Buy ↔	CMP: **Rs. 498** Price Target: **Rs. 650** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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 30.07
Updated Jan 08, 2022

High Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 443,910 cr
52-week high/low:	Rs. 549/ 321
NSE volume: (No of shares)	167.4 lakh
BSE code:	500112
NSE code:	SBIN
Free float: (No of shares)	384.5 cr

Shareholding (%)

Promoters	57.6
FII	10.4
DII	24.1
Others	7.91

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	3.0	7.9	8.2	38.0
Relative to Sensex	0.6	8.5	11.3	23.1

Sharekhan Research, Bloomberg

Summary

- As credit growth has steadily improved, we believe banks with strong balance sheet, capital position and investments in digitalisation/technology are better placed to ride on the potential uptick in credit off-take.
- State Bank of India (SBI) has an edge in terms of loan book growth deriving from overall systemic improvement in credit demand. The management's focus on building a granular loan portfolio with better underwriting practices has aided robust operating performance and profitability.
- The bank's asset quality too has improved significantly over the past three years.
- With a correction of 10% from highs of Rs. 549, SBI presents a good investment opportunity. The stock trades at 1.6x and 1.5x its FY23E and FY24E P/BV. We maintain a Buy rating on the stock with an unchanged SOTP-based PT of Rs. 650.

State Bank of India (SBI), with its superior funding profile and better asset quality buffers, is set to reap the benefits of credit growth trend. Its loan book registered ~11% CAGR over FY2016 to FY2021. The bank has a well-diversified asset book, supported by a large distribution network and a strong liability franchise, which is likely to drive growth going ahead. We expect its loan book to grow at a CAGR of ~11% over FY22E to FY24E. The bank saw consistent growth in loan book with home loans growing at a faster pace. The management plans to double its home loan portfolio in next five years. After dropping by ~400 bps, the bank's asset quality has improved significantly over the past three years. Its retail book which constitutes ~42% of the advances have seen NPAs of 4.5-5.3% in twelve quarters. Additionally, the bank has stepped up its ante in digital capabilities through its offerings via YONO 2.0 App and tie-ups with fintech companies. Further, the bank has also hired Mr. Nitin Chugh as Deputy Managing Director (DMD) to drive its digital banking operations in line with its private peers.

- **Credit growth to remain robust:** SBI's focus on building granular portfolio with better underwriting practices has led to strong operating performance and profitability. The bank foresees a credit growth of 9-10% in FY22E. Its retail book continues to be a key driver over the past several quarters. Retail book grew by ~15% y-o-y and ~17% y-o-y in Q3FY22 and FY21, respectively. Within retail, express credit (unsecured personal loans) and home loans witnessed a robust growth (29% y-o-y and 11% y-o-y, respectively in 9MFY22). Express Credit, which constitutes 9% of the book has witnessed strong demand which led to an increase in ticket size to more than Rs. 5 lakh from less than Rs. 3 lakh earlier with 0.72% as GNPA ratio. The bank has 1.75 crore corporate salary accounts, of which 90% are state, central government and defence sector employees which is set to see further incremental growth going ahead. Further, the management plans to double its home loan portfolio in the next five years. Home loans which constitute ~24% of the book stood at Rs.5.4 trillion in December 2021. Additionally, the retail book which forms 42% of the book has been seasoned across two Covid waves and is expected to perform well. While corporate book, which remained flat y-o-y in 9MFY22, is likely to gain traction with better utilisation rates.
- **Funding costs among the lowest:** SBI enjoys lowest funding costs among the banks. The cost of deposits stood at 3.8% in December 2021. Further, the bank's cost of funds remain lower with the lower cost of deposits and excess liquidity/deposits (loan to deposit ratio of 67%), which may not encourage the bank to increase the savings account rate. Its deposits have witnessed steady growth of 9% y-o-y in 9MFY22 to Rs. 38.5 trillion and the management does not foresee any challenges in retaining and garnering the deposits amid intense competition. The bank's NIM is expected to expand aided by increasing interest rates or monetary tightening environment and improving asset quality. Around 70% of the book is external benchmark linked which would get re-priced if there is increase in the repo rate.
- **Significant improvement in the asset quality:** After dropping by ~400 bps, the bank's asset quality has improved significantly over the past three years. Its GNPA ratio improved to 4.5% in Q3FY22 from 10.91 in Q4FY18 (pre-COVID-19 levels). While its PCR was at 90.2% versus 66.2 in FY18. Further, its restructured book is also low at ~1.3% of the loan book as compared to its peers. This was aided by strong recoveries and fresh slippages which moderated to Rs. 23,340 crore in 9MFY22 which provides comfort on the asset quality front. With a healthy PCR and contingency buffer (additional COVID-related provisions) of Rs. 6,180 crores, we expect its credit cost to reduce going ahead.

Our Call

Valuation – Maintain Buy with an unchanged SOTP-based PT of Rs. 650: At the CMP, SBI trades at 1.6x and 1.5x its FY2023E and FY2024P/BV, which we believe is at attractively lower valuations and is well positioned to take benefits of the economic recovery. We find SBI is better-placed with respect to asset quality, capitalisation, and underwriting strengths. With its business strengths (being India's largest bank), we expect NII and profitability to bounce back in the next 2-3 years, helped by higher margins. We expect the bank to benefit from recovery of the benign corporate credit cycle. Additionally, SBI's stronger deposit franchise, support from subsidiaries, and a low risk of dilution (as compared to PSU bank peers) further support valuations. Hence, we maintain our Buy rating on SBI with an unchanged SOTP-based price target (PT) of Rs. 650.

Key Risks

Any prolonged economic slowdown may affect its loan book growth and deteriorate its asset quality.

Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
NII	1,10,710	1,27,508	1,42,865	1,59,852
PAT	20,411	27,987	37,647	45,700
EPS (Rs)	22.9	31.4	42.2	51.2
P/E (x)	21.8	15.9	11.8	9.7
P/BV (x)	1.9	1.7	1.6	1.5
RoA (%)	0.5	0.6	0.7	0.8
RoE (%)	8.4	10.6	13.3	15.5

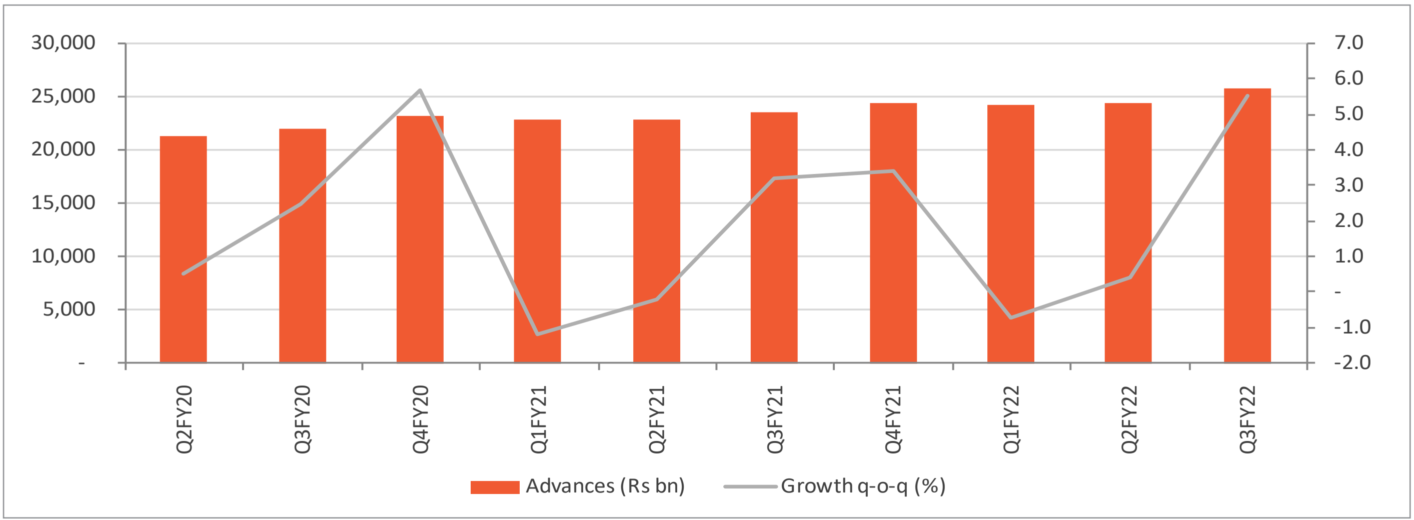
Source: Company; Sharekhan Research

SOTP Valuation

Particulars	% stake	Basis	Per share value
SBI Bank SOTP	100.0%	Based on P/ABV	460
Subsidiary/Associate/JV			238
Holding co. discount (%)			20%
Total SOTP Valuation (Rs)			**650**

Source: Company; Sharekhan Research

Loan book growth



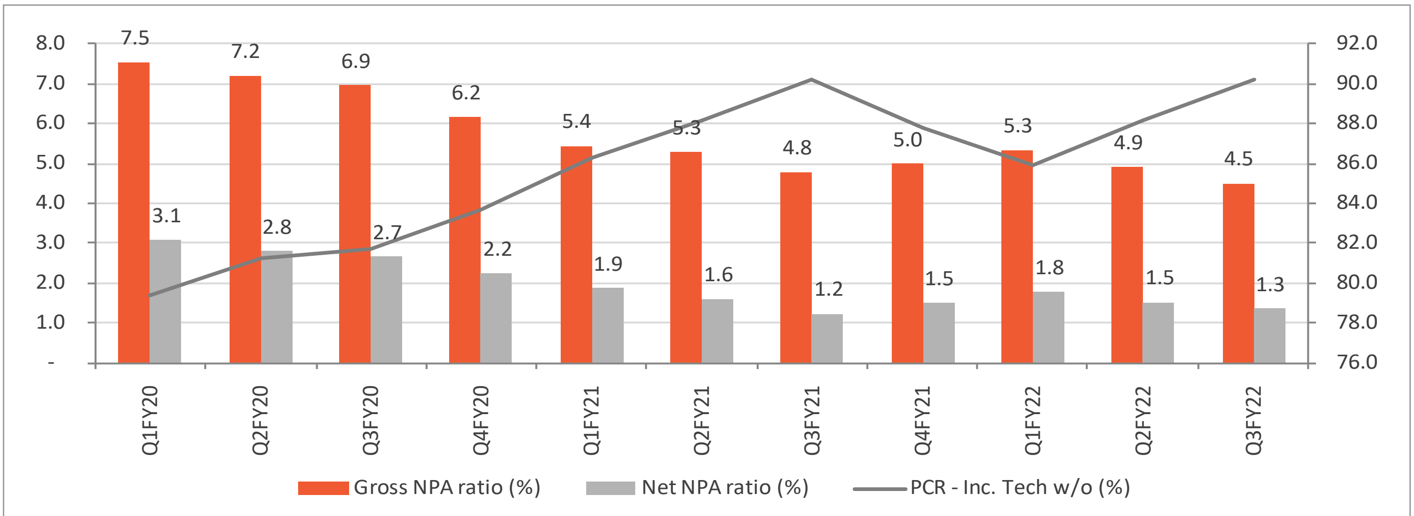
Source: Company, Sharekhan Research

Loan book mix (%)- seasoned book and home loans contribution higher

xx	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22
Retail Personal	32.4%	32.4%	32.6%	32.5%	34.4%	35.6%	36.8%	36.2%	36.7%	38.1%	39.1%	39.9%	40.4%	41.9%	42.0%
Corpo-rate	40.7%	41.9%	41.2%	42.8%	40.6%	39.7%	39.0%	40.9%	39.7%	38.2%	37.1%	37.5%	36.7%	35.1%	34.6%
SME	16.0%	14.9%	15.6%	14.5%	14.6%	14.2%	14.1%	13.0%	13.7%	13.5%	13.8%	12.8%	13.2%	13.0%	13.6%
Agri	10.9%	10.7%	10.6%	10.2%	10.4%	10.5%	10.6%	10.0%	10.0%	10.2%	10.0%	9.8%	9.7%	10.0%	9.8%
Home Loans	17.1%	8.1%	1.7%	18.3%	10.3%	13.5%	13.7%	13.6%	19.8%	20.4%	20.5%	20.6%	20.8%	21.2%	20.9%

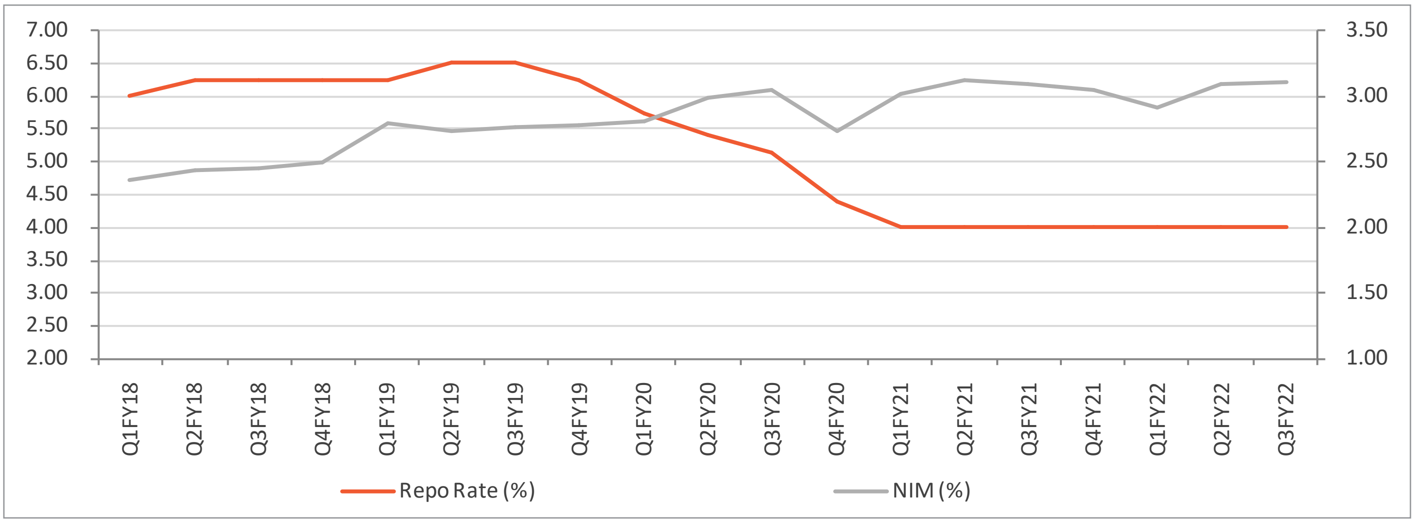
Source: Company; Sharekhan Research

Asset quality- Significant improvement in the asset quality over the past three years



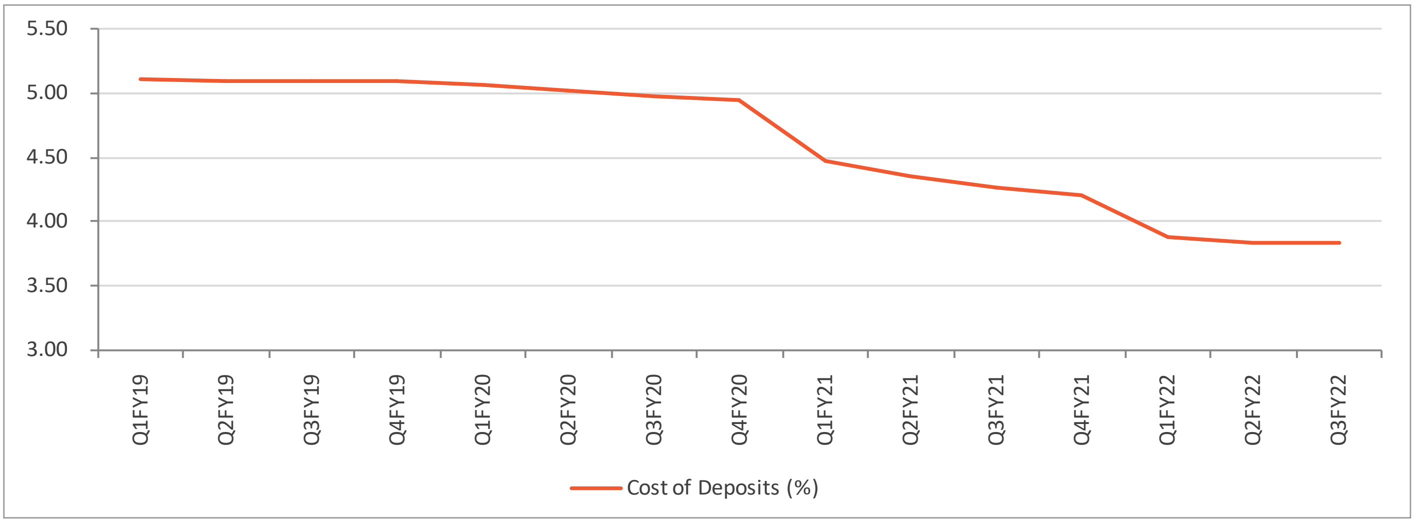
Source: Company, Sharekhan Research

Trend in repo rate and NIM



Source: RBI; Sharekhan Research

Cost of deposits amongst the lowest



Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Green shoots of credit growth, stronger banks placed better

System-level credit off take grew by 8.7% y-o-y in the fortnight ending March 11, 2022, showing that credit growth held strong after the festive season. On the other hand, deposits rose by 9.4%, which indicate a healthier economic scenario. Moreover, the Reserve Bank of India's (RBI) accommodative monetary policy stance, resulting in surplus liquidity, provides succour in terms of easy availability of funds and lower cost of funds for banks and financials. 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 increased risk-off behavior, with tactical market share gains for well-placed players. We believe large banks, with a strong capital base and strong asset quality (with high coverage and provision buffers), are better placed to take off once the situation normalises.

■ Company outlook - Attractive play on gradual economic recovery

SBI is an attractive play on the gradual recovery in the Indian economy, with a healthy PCR of 90.21% (with AUCA), robust capitalisation (Tier 1 of ~10.91%), strong liability franchise, and improved core operating profitability. Q3FY2022 results indicate that business strength and the past few years' efforts on cleaning up the books have stood the bank in good stead for reducing slippages and supporting margins. Management commentary exuded confidence about net interest margins (NIMs) and asset quality performance going forward; and a healthy provisioning cover on the balance sheet is a comfort factor. Management reiterated that it is well provided for with respect to the legacy book of large stressed exposures and, going forward, the impact of residual provisions is likely to be manageable. SBI's status as the market maker in terms of domestic interest rates places it at an advantage to other PSU bank peers, providing a cushion to margins and its strong growth in mortgages and deposits book, which is proof to its market strength. SBI's pole position in terms of liability franchise and an enviable reach and business strength make it well placed to ride over medium-term challenges.

■ Valuation - Maintain Buy with an unchanged SOTP-based PT of Rs. 650

At CMP, SBI trades at 1.6x and 1.5x its FY2023E and FY2024P/BV, which we believe is at attractively lower valuations and is well positioned to take benefits of the economic recovery. We find SBI is better-placed with respect to asset quality, capitalisation, and underwriting strengths. With its business strengths (being India's largest bank), we expect NII and profitability to bounce back in the next 2-3 years, helped by higher margins. We expect the bank to benefit from recovery of the benign corporate credit cycle. In addition, SBI's stronger deposit franchise, support from subsidiaries, and a low risk of dilution (as compared to its PSU bank peers) further support valuations. However, near term challenges such as increasing input prices and macro factors but we are positive in the long term. Hence, we maintain our Buy rating on SBI with an unchanged SOTP-based price target (PT) of Rs. 650.

Peer Comparison

Company	CMP	MCAP	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
	(Rs /Share)	(Rs Cr)	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
State Bank of India	498	4,43,910	15.9	11.8	1.7	1.6	10.6	13.3	0.6	0.7
HDFC Bank	1,436	7,94,493	21.5	18.0	3.3	2.9	17.1	16.7	2.1	2.2
ICICI Bank	711	4,93,515	21.6	16.9	3.0	2.7	14.5	14.7	3.3	2.9

Source: Company, Sharekhan estimates

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 greatly as compared to its peers.

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 and superior systems. 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. Going forward, with the improvement in the resolutions, we expect a gradual normalisation in NPA. 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

Any prolonged economic slowdown may impact its loan book growth and deteriorate its asset quality.

Additional Data

Key management personnel

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

Source: Company

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

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 detoriating 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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

---

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;