Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

State Bank of India

Well positioned to capture growth going ahead

Banks	Sharekhan code: SBIN
Reco/View: Buy ↔	CMP: **Rs. 461**	Price Target: **Rs. 600** ↔

↑ 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 Apr 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. 411,603 cr
52-week high/low:	Rs. 549/401
NSE volume: (No of shares)	190 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	7.7

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.2	-5.3	0.9	10.6
Relative to Sensex	2.3	3.2	8.6	10.5

Sharekhan Research, Bloomberg

Summary

- SBI expects to sustain healthy earnings growth going ahead and further improve its return ratios led by improved loan growth outlook, steady asset quality performance and in turn lower credit cost. The bank has guided to keep credit cost well below ~1%.
- The bank indicated that the wholesale corporate loan book is also showing uptick in demand. Focus is to maintain strong underwriting especially in this portfolio as loss given default probability is higher. Management also indicated that current capital levels and expected internal accruals are sufficient for growth in the near term.
- A higher mix of floating loans, improving credit-deposit (CD) ratio and a higher CASA ratio will support margins in a rising interest rate environment. SBI has recently increased retail term deposit rates marginally in the 1-2 year tenors but majority of higher rates have been passed on bulk deposits.
- At CMP, SBI trades at 1.0x and 0.9x its FY2023E/24E Core ABV. We retain our Buy rating on SBI with an unchanged PT of Rs. 600. It is our top pick among PSU banks as we believe it is the best play on a gradual recovery in the Indian economy, with balance sheet strength and improved core operating metrics.

Our interaction with the management of SBI reaffirmed our expectation of sustaining superior performance going ahead, led by improved loan growth outlook, steady asset quality performance and in turn lower credit costs. The bank has guided to keep credit costs well below ~1%. Wholesale corporate book has already started to see some green shoots in the past quarter led by a sharp rebound in economic activity. The bank believes that as loss given default probability is higher in wholesale corporate book, focus is to maintain strong underwriting. Now, 89% of corporate book is being rated in investment grade which is a key positive. On the margin front, bank believes that higher mix of floating loans, improving CD ratio and higher CASA will support margin in a rising interest rate environment. Bank guided that it would continue to invest in constant digital innovation and capabilities. The bank also introduced two new end-to-end digital loans product - pre-approved two-wheeler and business loans, which are doing well.

Higher provision buffers and improvement in underwriting to keep credit cost lower: The bank has strengthened its balance Sheet by creating higher provisions on stressed accounts. Bank's continued focus on improving underwriting has manifested in controlled slippages ~1% in FY22 and negligible SMA book ~13bps. NNPA ratio thus dropped to 1% (a historical low) in FY22 while PCR increased to 75% (85% on corporate book). Higher provisions on stressed accounts (100% on SREI and Future Group) places it well, while higher recoveries from AUCA book would limit the overall provisioning requirement. The management has guided towards a run-rate of Rs. 8,000-10,000 crore of recoveries from written-off accounts in FY23E. Restructured loans (on account of COVID-19) stood at 1.1% of loans. Additionally, the bank has another ~0.25% of loans of other restructured advances not related to COVID-19 restructuring. However, the bank carries additional non-NPA provisions of Rs. 30,629 crores (~110 bps of net advances). The bank is seeing healthy repayment trends in restructured book and does not expect borrowers especially in SME and retail to avail the full moratorium. ECLGS loans stand at 1.2% of the total book and this book has seen less than 2% slippages thus far. The Security Receipts (SR) book now stands at Rs 7,860 crores in FY22. Bank maintains 100% provisions against the SR book which is a key positive. GNPL`s in retail segment are best in class in industry. Now, 89% of corporate book is being rated in investment grade which is also key positive. Risk Weighted Assets (RWA) to total assets is less than 50%, which indicates strong book quality. Further, the bank's exposures to the power/telecom sectors remained comfortable, with the bulk of the exposure towards PSU entities and better rated corporates. Granularity and profile of borrowers has significantly improved. This all in turn should prevent deterioration in asset quality and would lower credit cost in FY2023E/FY2024E.

Our Call

Valuation – At CMP, SBI trades at 1.0x and 0.9x 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, a 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 an unchanged 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)	14.1	9.2	7.4	6.4
P/ABV (x)	1.4	1.2	1.0	0.9
RoA (%)	0.5	0.7	0.7	0.8
RoE (%)	8.4	13.9	13.3	15.5

Source: Company; Sharekhan estimates

Key takeaways from management interaction

Improved loan growth outlook: Loan growth is gaining traction led by retail portfolio and also working capital utilization levels are seen improving in corporate book which is seen in sharp recovery in loan growth at ~12% during H2FY22, offsetting the softness in H1FY22. Retail portfolio growth has remained steady at ~15% YoY. Within Retail loans share of Home Loans (~12% y-o-y) and Xpress Credit (personal loans -~30% y-o-y) both cumulatively accounts for ~81% are growing well. The bank is seeing good success in rolling out pre-approved personal loans offers through the YONO app. Higher growth in the personal loans portfolio for the bank is not worrying because a large proportion (~95%) of the borrowers in this segment are salaried employees – evenly distributed between government employee accounts and corporate salaried accounts. The current penetration of Xpress Credit is at a mere 30% of its corporate salary depositor's base, thus providing significant room for growth. The bank could post higher growth in SME book in FY23E vs 10% in FY22 as it has increased customer proposition by adding a two-tier relationship manager system with digital features. The improved growth outlook in the Corporate book is led by improved demand and is likely to continue. Moreover, there has been improvement in granularity in loan book, its share of retail loans has inched up to ~36% from ~25% in FY17.

Strong Liability franchise: Deposit growth has sustained at 10% y-o-y, led by 12% y-o-y growth in term deposits and 8% y-o-y growth in CASA in FY22 despite offering lowest rates in the industry. SA franchise remains strong (~36%), but SBI is focusing to increase market share in the current account (which is relatively lower ~7%).

Better positioned to manage margins in a rising interest rate cycle: Out of the total advances, 74% are floating loans – 40% are linked to MCLR, 11% are linked to other EBLR, and 23% are linked to the repo rate. A higher mix of floating loans and higher CASA mix (45%) will support margins in a rising interest rate environment. NIM to range around ~2.9-3.1% over the medium term. SBI has a slightly increased the retail TD rates while majority of hike is passed on to bulk deposits which have lower share.

Opex to grow moderately: The bank has already provided for the staff expenses related to wage revision and retirement benefit cost which are not likely to come in FY23E/24E. Except for these one off items, other operating expenses growth has been moderate. We expect operating leverage to kick in with improved loan growth outlook going ahead.

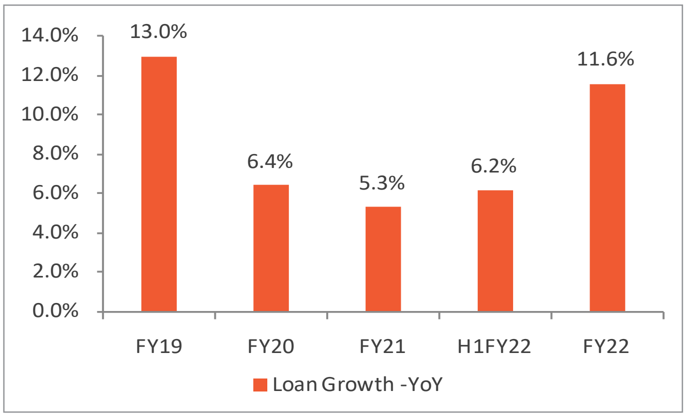
Building strong digital capabilities: Bank is likely to maintain digital leadership. Adoption of YONO has increased significantly. Digital penetration is also improving. Bank sanctioned 1.14mn digital loans worth Rs. 21,100 crores and 63% of saving accounts were opened through YONO in FY22. The bank also introduced two new end-to-end digital loans product - pre-approved two-wheeler loan and business loan which are doing well.

Volatility in earnings due to MTM losses from AFS book: Earnings would be volatile in the in near term due to MTM losses from the AFS book in the Treasury portfolio. However, the bank booked relatively lower treasury gains in the past as bond yields eased and it reduced the duration of its portfolio to 2.08 years as of FY22 besides transferring of securities to the HTM category that will help to limit MTM losses on its treasury portfolio.

Positioned well to capture growth opportunities: The balance sheet is strong, capital levels are adequate to meet loan growth. A solid liability franchise and adequately capitalized balance sheet position the bank well to capture the growth cycle going ahead, which was not the case in past. It is the best play on a gradual recovery in the Indian economy, with balance sheet strength and improved core operating metrics. Also the subsidiaries are performing well and they have successfully built strong business franchise.

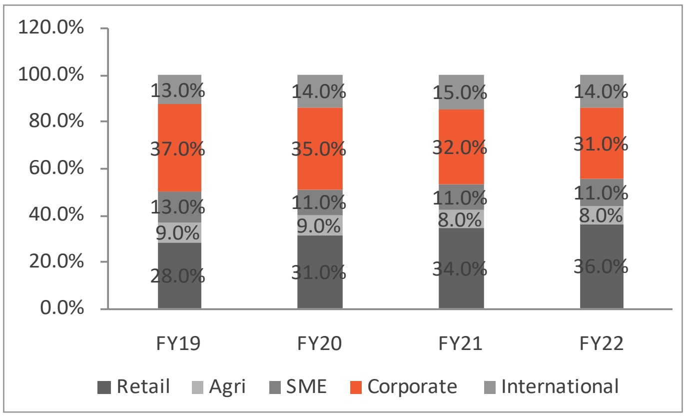
Financials in charts

Loan growth has started to pick up from H2FY22



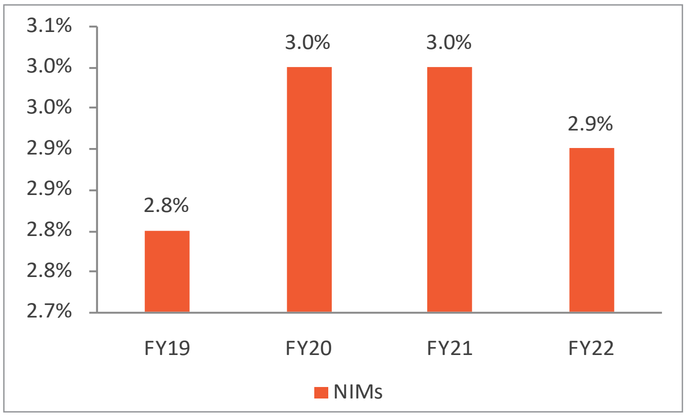
Source: Company, Sharekhan Research

Loan Mix - Share of Retail loans inching up



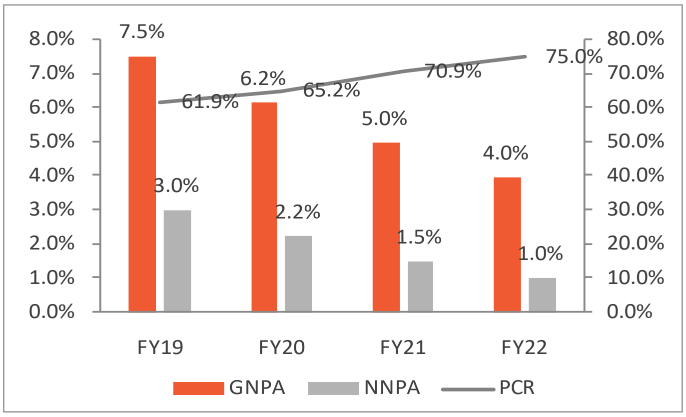
Source: Company, Sharekhan Research

NIMs to range around ~2.9 -3.1% over the medium term



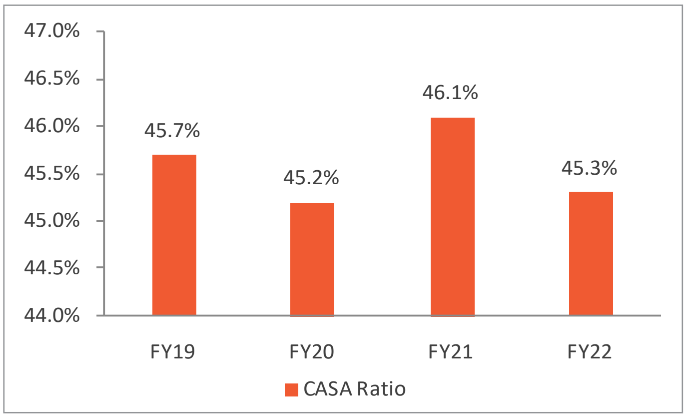
Source: Company, Sharekhan Research

Asset Quality saw sharp improvement along with higher PCR



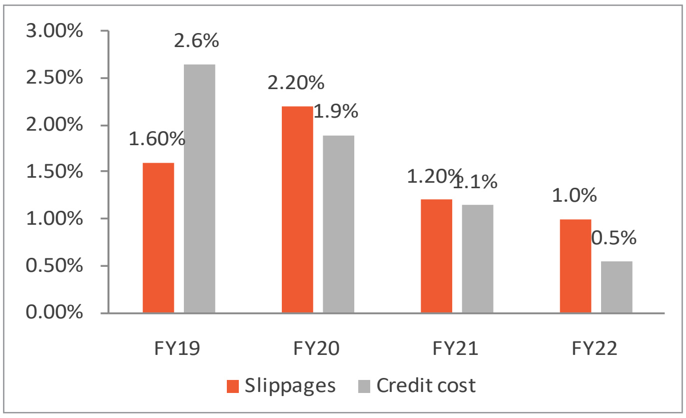
Source: Company, Sharekhan Research

Healthy CASA Ratio



Source: Company, Sharekhan Research

Slippages and Core Credit cost are expected to remain lower going forward also



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 ~13% y-o-y in the fortnight ending June 2, 2022, indicating loan has picked up given the distinct signs of improving economy and revival of investments and loan demand. On the other hand, deposits rose by ~9%, which also reflect a healthier economic scenario. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as economic recovery. At present, we believe the banking sector is likely to see higher risk-off behaviour, 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 going ahead.

■ Company outlook - Attractive play on economy

SBI is an attractive play on the fast-growing Indian economy, with a healthy PCR, higher capital 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 an unchanged PT of Rs. 600

At CMP, SBI trades at 1.0x and 0.9x 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, a 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 an unchanged PT of Rs. 600. SBI remains our top pick among PSUs.

Peer Comparison

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	461	4,11,603	7.4	6.4	1.0	0.9	13.3	15.5	0.7	0.8
HDFC Bank	1356	7,53,022	18.2	16.4	2.3	1.9	15.7	15.3	1.9	1.9
ICICI Bank	717	4,98,901	20.2	17.9	2.4	2.0	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

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Additional Data

Key management personnel

Mr. Dinesh Kumar Khara	Chairman
Mr. Challa Sreenivasulu Setty	Managing Director
Mr. Ashwini Kumar Tewari	Managing Director
Mr. Swaminathan Janakiraman	Managing Director
Mr. Alok Kumar Choudhary	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

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by BNP PARIBAS

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