

October 4, 2022

Management Meet Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	650		620	
NII (Rs. m)	13,67,532	15,18,952	13,38,091	14,61,725
% Chng.	2.2	3.9		
Op. Profit (Rs. m)	7,64,372	8,95,814	7,67,542	8,81,972
% Chng.	(0.4)	1.6		
EPS (Rs.)	43.3	51.9	43.6	51.2
% Chng.	(0.7)	1.5		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII (Rs bn)	1,207	1,368	1,519	1,693
Op. Profit (Rs bn)	679	764	896	1,003
PAT (Rs bn)	260	387	463	524
EPS (Rs.)	29.1	43.3	51.9	58.7
Gr. (%)	27.2	48.9	19.8	13.0
DPS (Rs.)	7.1	7.8	8.8	10.0
Yield (%)	1.4	1.5	1.7	1.9
NIM (%)	2.9	3.0	3.0	3.0
RoAE (%)	10.7	14.3	15.3	15.3
RoAA (%)	0.5	0.7	0.8	0.8
P/BV (x)	1.8	1.6	1.4	1.3
P/ABV (x)	2.0	1.8	1.6	1.4
PE (x)	17.9	12.0	10.0	8.9
CAR (%)	13.8	13.3	12.9	12.5

Key Data

SBI.BO | SBIN IN

52-W High / Low	Rs.579 / Rs.425	
Sensex / Nifty	56,789 / 16,887	
Market Cap	Rs.4,639bn/ \$ 56,653m	
Shares Outstanding	8,925m	
3M Avg. Daily Value	Rs.7106.85m	

Shareholding Pattern (%)

Promoter's	57.57
Foreign	9.62
Domestic Institution	25.09
Public & Others	7.72
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.2)	2.3	15.1
Relative	0.3	6.8	19.1

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Drivers in place to support core earnings growth

Quick Pointers:

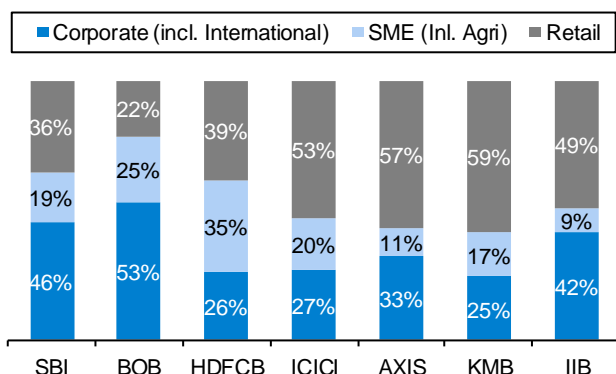
- Fresh corporate proposals are of Rs1.5trn, of which 70% are from pvt. sector.
- Opex growth to be controlled and reasonable in-line with inflation.

We recently interacted with the management to understand 1) credit outlook, 2) changes in credit appraisal 3) asset quality view and 4) opex trajectory. The bank is optimistic on loan growth, as improving economic activity and tight liquidity may support its credit offtake. New proposals and unavailed limits within corporate total to Rs6trn, while retail momentum might continue. With cash flows normalizing for SMEs, the ECLGS/OTR pools are also performing well. Underwriting has strengthened with induction of non-sales personnel in credit appraisal and robust credit research across 36 sectors. Asset quality may remain under control and target is to keep credit costs below 1%. While we slightly tweak our estimates, we expect a core PAT CAGR of 20% over FY22-25E. Retaining the multiple at 1.4x, we roll forward to core Sep'24 ABV, raising SOTP based TP from Rs620 to Rs650. Maintain 'BUY'.

- **Credit momentum to sustain:** With economic activity improving, domestic credit demand has been strong despite banking system usually witnessing de-growth in the first quarter. Credit growth is expected to continue owing to strong fundamentals, although there could be minor hiccups due to global macros. Another lever to credit growth sustaining, is tightened system liquidity which would urge corporates to turn towards banks for satisfying their credit requirements. SBI is ready to participate in this opportunity, as underwriting and monitoring processes have been strengthened to make balance sheet more resilient. Overall growth expected in FY23 is 15%, in-line with industry.
- **Corporate credit rebounds:** Currently, bank has proposals of Rs1.5trn, of which 70% is TL and 30% is WC. Of the new proposals, 70% demand is from private sector, mainly from sectors like NBFC, Power, port, services, etc. In addition to this, there are unavailed limits of Rs4.5trn. Overall utilization levels have improved to 65-70% (peak at 90%). Usually, as corporates add new capacity or expand existing one beyond utilization of 75-80%, banks see influx of new capex proposals. Hence capex pipeline is expected to shore up from H2FY22. Target would be to maintain market share, however pricing wouldn't be compromised. Improvement in yield would be visible from Q3 onwards. Competition has been increasing in corporate with some PSU banks vying for market share; however, SBI is selectively participating without compromising on pricing.
- **SME risks abating:** SME portfolio is performing well with improved cash flows which is partly the reason that ECLGS portfolio has reduced over Mar'22 to Jun'22 from Rs320bn to Rs280bn, while OTR has reduced from Rs310bn to Rs287bn. To protect asset quality in SME, higher focus is to tap the value chain and focus on products like vendor and dealer financing. In agri, SBI has introduced risk mitigation strategies like focus on agri gold loans, setting up of contact centers and analytics based lending.

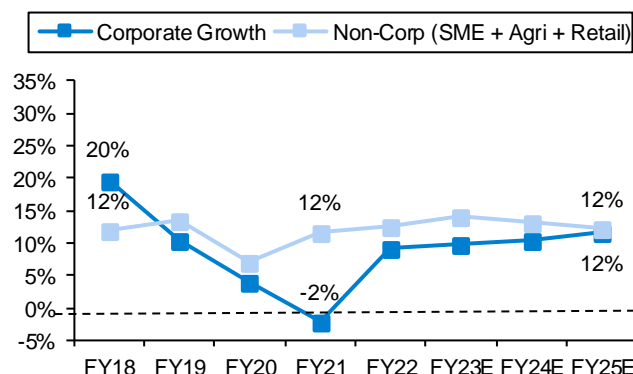
- **Retail to remain mainstay:** Xpress credit continues to see good traction with improved TAT of 2hrs through YONO and 1-day through branches. Lending is majorly to corporate salaried customers, of which 83% are Government based (minimizing the risks). Home Loan continues to be the driver with majority customers being first time home buyers with a credit score of 700+. ATS would be Rs3.0–3.5mn.
- **Systems and process:** To better control risks, underwriting has been strengthened. Earlier the credit underwriting committee was headed by a single person with a sales background but now this committee consists of 4 people, of which two are from non-sales and two are from sales. The deciding authority vests with the senior person from non-sales background. To further fortify the evaluation process, the in-house research department covering 39 sectors has been made more active since last 5-6 years.
- **Asset quality to remain under control:** Asset quality risks have materially abated. PCR (calc.) is 75% with a clean balance sheet. While OTR and ECLGS combined contributes 2%, there is ~14% cover on the same. These pools are performing in-line with the overall portfolio with no significant deviations. Management expects normalized slippages from this book. Credit quality of the SME book is better than industry with GNPA at 6.5%, while no major slippages are expected from corporate. Aspiration is to keep credit costs below 1%.
- **Opex growth to remain controlled:** Pension and gratuity provisions might decrease with rise in discount rates. Annually 10,000-12,000 employees usually retire of which 75-80% are replaced that too at a much lower cost with the balance business being sourced through technology. Cost differential between old and new employees is substantial with salaries being 2-2.5x to that of new joiners. Nov'22 onwards employee cost may increase by 10-15%, owing to bi-partite wage settlement. Overall opex may not change significantly but the quantum rise could be lower or equivalent to inflation.

Exhibit 1: SBI likely to benefit more from corporate credit cycle revival



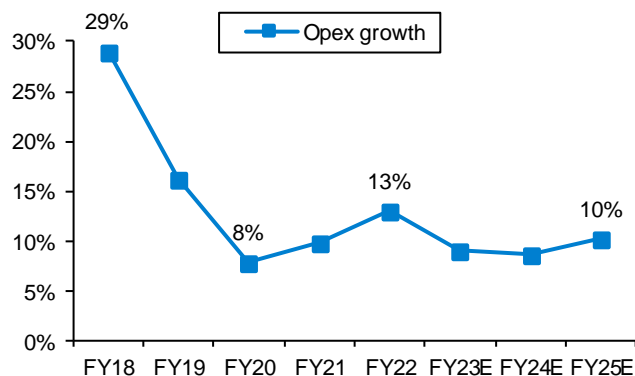
Source: Company, PL

Exhibit 2: Non-Corporate credit growth has been growth driver



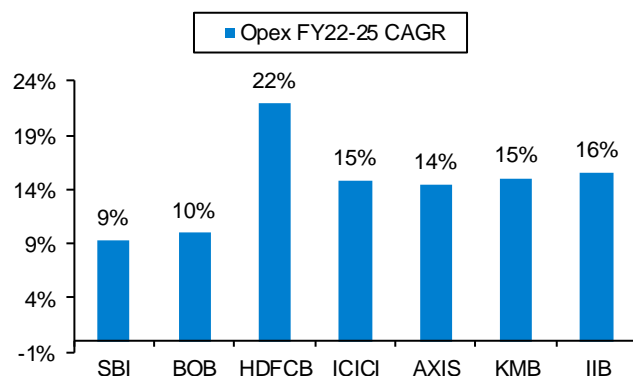
Source: Company, PL

Exhibit 3: Opex growth may be controlled for SBI



Source: Company, PL

Exhibit 4: SBI could see lowest opex CAGR over FY22-25E



Source: Company, PL

Exhibit 5: Return ratios on track for +15%

RoA decomposition (%)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Interest Income/Assets	2.4	2.4	2.5	2.6	2.6	2.5	2.6	2.6	2.6
Other Income/Assets	1.4	1.4	1.0	1.2	1.0	0.9	0.8	0.8	0.8
Net revenues/Assets	3.8	3.9	3.5	3.8	3.6	3.4	3.4	3.4	3.4
Operating Expense/Assets	1.8	1.9	2.0	2.0	1.9	2.0	1.9	1.9	1.9
Provisions/Assets	1.4	2.4	1.5	1.1	1.0	0.5	0.5	0.5	0.5
Taxes/Assets	0.2	-0.3	0.0	0.3	0.2	0.3	0.3	0.3	0.3
ROA	0.4	-0.2	0.0	0.4	0.5	0.5	0.7	0.8	0.8
ROE	7.8	-3.7	0.4	7.2	9.3	10.7	14.3	15.3	15.3

Source: Company, PL

Exhibit 6: We marginally tweak our estimates

Earnings Estimates (Rs mn)	Earlier Estimates		Revised Estimates		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net interest income	1,338,091	1,461,725	1,367,532	1,518,952	2.2	3.9
Operating profit	767,542	881,972	764,372	895,814	(0.4)	1.6
Net profit	389,506	456,528	386,710	463,330	(0.7)	1.5
Loan Growth (%)	10.2	11.0	12.1	12.0	1.9	1.0
Credit Cost (bps)	76	76	75	75	(0.5)	(0.5)
EPS (Rs)	43.6	51.2	43.3	51.9	(0.6)	1.4
ABVPS (Rs)	283	322	283	322	(0.0)	0.0
Price target (Rs)	620		650		4.8	
Recommendation	BUY		BUY			

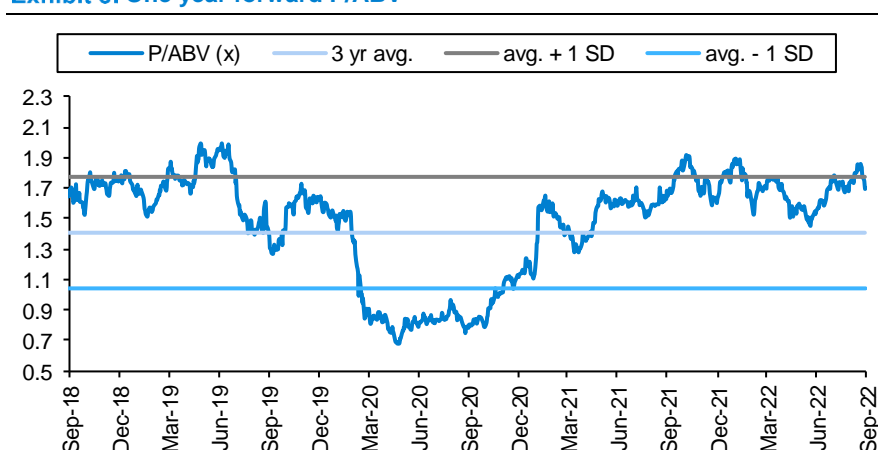
Source: Company, PL

Exhibit 7: We raise out TP to rs.650 as we roll forward to Sep-24

SOTP valuation, Sep-23	Stake (%)	Revised PT	Method
Standalone		468	1.4x Mar-24 P/ABV
SBI Cards	69.2%	80	37.0x on FY24 PAT
SBI Life	55.5%	78	M-Cap
Asset management	62.6%	24	32.0x on FY22 PAT
Yes Bank	30.0%	13	1x Investment in Subs
General Insurance	70.0%	3	30.0x on FY22 PAT
SBI Caps	100.0%	3	5x on FY22 PAT
UTI AMC	10.0%	1	1x Investment in Subs
Total		670	
Hold Co Discount		20	
Target Price		650	

Source: Company, PL

Exhibit 8: One year forward P/ABV



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Earned from Adv.	17,18,237	21,48,554	26,51,472	30,61,312
Int. Earned from invt.	8,48,772	10,45,108	12,77,284	14,22,606
Others	1,43,784	1,70,194	2,05,089	2,29,264
Total Interest Income	27,54,573	34,11,569	41,86,176	47,71,467
Interest Expenses	15,47,497	20,44,037	26,67,223	30,78,612
Net Interest Income	12,07,076	13,67,532	15,18,952	16,92,855
Growth(%)	4.6	10.6	12.3	11.0
Non Interest Income	4,05,639	4,15,538	4,83,091	5,29,965
Net Total Income	16,12,715	17,83,070	20,02,043	22,22,820
Growth(%)	2.4	21.1	22.0	13.5
Employee Expenses	5,75,620	6,40,735	7,00,453	7,79,630
Other Expenses	3,25,852	3,77,963	4,05,777	4,39,703
Operating Expenses	9,33,975	10,18,698	11,06,230	12,19,333
Operating Profit	6,78,740	7,64,372	8,95,814	10,03,487
Growth(%)	(5.1)	12.6	17.2	12.0
NPA Provision	1,41,430	1,77,576	2,04,788	2,29,391
Total Provisions	2,44,521	2,47,380	2,76,389	3,03,248
PBT	4,34,219	5,16,992	6,19,425	7,00,239
Tax Provision	1,00,320	1,30,282	1,56,095	1,76,460
Effective tax rate (%)	23.1	25.2	25.2	25.2
PAT	2,59,715	3,86,710	4,63,330	5,23,779
Growth(%)	65.8	48.9	19.8	13.0

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Face value	1	1	1	1
No. of equity shares	8,925	8,925	8,925	8,925
Equity	8,925	8,925	8,925	8,925
Networth	28,00,881	30,60,938	34,45,502	38,80,238
Growth(%)	10.3	9.3	12.6	12.6
Adj. Networth to NNPA's	2,79,657	3,02,167	3,37,599	3,65,600
Deposits	4,05,15,341	4,51,31,672	5,04,26,442	5,64,64,871
Growth(%)	10.1	11.4	11.7	12.0
CASA Deposits	1,80,35,806	1,86,67,996	2,00,33,161	2,23,26,040
% of total deposits	44.5	41.4	39.7	39.5
Total Liabilities	4,98,75,974	5,51,43,339	6,10,48,635	6,83,81,190
Net Advances	2,73,39,666	3,06,53,442	3,43,36,106	3,84,68,317
Growth(%)	11.6	12.1	12.0	12.0
Investments	1,48,14,455	1,63,82,797	1,81,38,391	2,03,10,414
Total Assets	4,98,75,974	5,51,43,339	6,10,48,635	6,83,81,190
Growth (%)	10.0	10.6	10.7	12.0

Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs (Rs m)	11,20,234	11,33,606	12,06,770	13,05,741
Net NPAs (Rs m)	2,79,657	3,02,167	3,37,599	3,65,600
Gr. NPAs to Gross Adv.(%)	4.0	3.6	3.4	3.3
Net NPAs to Net Adv. (%)	1.0	1.0	1.0	1.0
NPA Coverage %	75.0	73.3	72.0	72.0

Profitability (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	2.9	3.0	3.0	3.0
RoAA	0.5	0.7	0.8	0.8
RoAE	10.7	14.3	15.3	15.3
Tier I	11.4	11.1	10.7	10.4
CRAR	13.8	13.3	12.9	12.5

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Interest Income	6,75,595	6,96,781	7,07,333	7,26,764
Interest Expenses	3,82,976	3,89,907	3,95,354	4,14,804
Net Interest Income	2,92,619	3,06,874	3,11,979	3,11,959
YoY growth (%)	3.8	6.5	15.3	12.9
CEB	53,910	57,470	80,230	63,720
Treasury	-	-	-	-
Non Interest Income	82,076	86,734	1,18,802	23,122
Total Income	7,57,671	7,83,515	8,26,134	7,49,886
Employee Expenses	1,25,778	1,24,715	1,25,560	1,20,514
Other expenses	87,346	83,677	1,08,052	87,042
Operating Expenses	2,13,124	2,08,392	2,33,612	2,07,556
Operating Profit	1,61,571	1,85,216	1,97,168	1,27,526
YoY growth (%)	(1.8)	6.9	0.1	(32.8)
Core Operating Profits	1,57,281	1,80,076	1,95,388	1,93,016
NPA Provision	26,993	30,961	32,620	42,681
Others Provisions	1,888	69,740	72,375	43,924
Total Provisions	1,888	69,740	72,375	43,924
Profit Before Tax	1,59,683	1,15,477	1,24,794	83,602
Tax	28,454	31,158	33,659	22,921
PAT	1,31,230	84,319	91,135	60,681
YoY growth (%)	186.9	62.3	41.3	(6.7)
Deposits	3,80,96,299	3,84,77,937	4,05,15,341	4,04,56,956
YoY growth (%)	9.8	8.8	10.1	8.7
Advances	2,44,31,942	2,57,83,865	2,73,39,666	2,81,52,492
YoY growth (%)	6.5	8.9	11.6	15.8

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	520	520	520	520
EPS (Rs)	29.1	43.3	51.9	58.7
Book Value (Rs)	288	317	360	409
Adj. BV (70%)(Rs)	256	283	322	368
P/E (x)	17.9	12.0	10.0	8.9
P/BV (x)	1.8	1.6	1.4	1.3
P/ABV (x)	2.0	1.8	1.6	1.4
DPS (Rs)	7.1	7.8	8.8	10.0
Dividend Payout Ratio (%)	24.4	18.0	17.0	17.0
Dividend Yield (%)	1.4	1.5	1.7	1.9

Efficiency

Y/e Mar	FY22	FY23E	FY24E	FY25E
Cost-Income Ratio (%)	57.9	57.1	55.3	54.9
C-D Ratio (%)	67.5	67.9	68.1	68.1
Business per Emp. (Rs m)	278	312	351	396
Profit per Emp. (Rs lacs)	11	16	19	22
Business per Branch (Rs m)	3,047	3,388	3,777	4,216
Profit per Branch (Rs m)	12	17	21	23

Du-Pont

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	2.54	2.60	2.61	2.62
Total Income	3.39	3.40	3.45	3.43
Operating Expenses	1.96	1.94	1.90	1.88
PPoP	1.43	1.46	1.54	1.55
Total provisions	0.51	0.47	0.48	0.47
RoAA	0.55	0.74	0.80	0.81
RoAE	13.41	15.30	15.82	15.68

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Aug-22	BUY	620	532
2	08-Jul-22	BUY	600	487
3	14-May-22	BUY	600	445
4	09-Apr-22	BUY	610	516
5	07-Feb-22	BUY	610	530
6	12-Jan-22	BUY	540	506
7	06-Oct-21	BUY	540	457

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	2,300	2,383
2	Axis Bank	BUY	940	727
3	Bank of Baroda	Accumulate	130	116
4	Can Fin Homes	BUY	675	538
5	City Union Bank	BUY	190	163
6	DCB Bank	BUY	120	89
7	Federal Bank	BUY	135	99
8	HDFC	BUY	2,900	2,378
9	HDFC Bank	BUY	1,800	1,521
10	ICICI Bank	BUY	950	800
11	IDFC First Bank	UR	-	34
12	IndusInd Bank	BUY	1,300	1,018
13	Kotak Mahindra Bank	Accumulate	1,950	1,827
14	LIC Housing Finance	BUY	450	379
15	Punjab National Bank	BUY	50	31
16	State Bank of India	BUY	620	532

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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