

State Bank of India

Refer to important disclosures at the end of this report

Best-in-class 2Q, with focus on sustaining performance ahead

- Post the treasury hit leading to a profit miss, SBI made a strong come back in 2Q, reporting its highest-ever quarterly PAT at Rs132bn (Emkay est.: Rs95bn) on the back of robust credit growth, sharp margin uptick and lower LLP. Bank guides for sustained healthy growth/margin and reduction in NPAs, which should drive its RoA to ~1% in the mid-term.
- Bank clocked higher-than-industry credit growth at 20% YoY/5% QoQ, led by strong traction in retail/corporate growth. Bank believes that the impact of rate hikes on credit demand is not prominent enough yet and, thus, expects growth to remain healthy in the near-to-medium term. This, coupled with continued asset re-pricing, should help the bank sustain margins at around current levels, with an upward bias.
- Bank has seen steady improvement in asset quality, with NNPA now below 1%, given its aggressive provisioning stance; the restructured pool too moderated, to 0.9% of loans. Bank claims that it has not been intimidated by the RBI on any standard provision shortfall towards stressed PSU entities, while it remains well covered and hence expects any impact to be manageable.
- Factoring-in better growth/margins and lower LLP, partly offset by higher staff cost due to *ad hoc* provisions towards wage revision, we raise our earnings for FY23-25E by 10-14% and expect the bank to report decadal-high RoE of 15-18% without equity dilution. We retain BUY on the stock, with revised TP of Rs715 (earlier Rs640), based on 1.4x (earlier 1.3x) Sep-24E standalone ABV and subsidiary valuation of Rs206.

- What we liked:** Strong growth/margin uptick, lower slippages leading to NNPA dipping below 1%. **What we did not like:** Slower CASA growth driving a fall in CASA ratio to 43% and higher overseas credit growth.
- Strong credit growth & asset re-pricing leads to margin jump, post the Q1 dip:** Overall credit growth accelerated to 20% YoY/5% QoQ, mainly on higher retail/corporate growth. The overseas book continued to see growth, as seen in most PSBs; this is due to a better lending opportunity for Indian corporates. Retail growth remains healthy at 19% YoY/4% QoQ, led by continued strong traction in Xpress credit (up 30% YoY) and the vehicle/mortgage book. Bank has increased its credit growth guidance to ~16% in FY23, as it gains confidence amid buoyant credit demand, not only in the retail segment but also from Corporate. NIM sharply improved by 30bps QoQ to 3.3% in Q2, due to better LDR and asset re-pricing, which the bank expects to sustain, given continued repricing benefit.
- Lower NPA formation, higher PCR drive-down NNPA to <1%:** Gross slippages in Q2 sharply reduced post a seasonally-weak Q1, standing at Rs24bn/0.4% of loans and thereby pulling down the GNPA ratio to 3.5%. This, coupled with further improvement in specific PCR to 78%, led to NNPA dipping <1% to as low as 0.8%. Transfer of NPAs to NARCL should finally begin in Q3, as the bank has identified nearly 40 accounts that have exposure of Rs34bn; the lumpy corporate resolutions outside NARCL in FY23 should also drive down NPA ratios. The restructuring pool under RBI RE 1.0/2.0, too, remains low, at Rs270bn/0.9% of loans, and should meaningfully come off next year, as bulk of the portfolio comes out of moratorium.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	15,42,064	16,12,715	16,90,548	19,95,377	23,18,320
Net profit	2,04,105	3,16,760	4,19,055	5,27,370	6,48,183
EPS (Rs)	22.9	35.5	47.0	59.1	72.6
ABV (Rs)	227.2	264.2	307.1	357.8	418.5
RoA (%)	0.5	0.7	0.8	0.9	1.0
RoE (%)	9.3	13.0	15.3	16.8	17.8
P/E (x)	17.0	10.9	8.3	6.3	5.3
P/ABV	1.9	1.6	1.4	1.2	1.0

Source: Company, Emkay Research

CMP	Target Price
Rs 594 as of (November 6, 2022)	Rs 715 (▲) 12 months
Rating	Upside
BUY (■)	20.4 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	12/12
Target Price change (%)	11.7
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	47.0	59.1
Consensus	45.8	56.5
Mean Consensus TP (12M)	Rs 671	

Stock Details

Bloomberg Code	SBIN IN	
Face Value (Rs)	1	
Shares outstanding (mn)	8,925	
52 Week H/L	597 / 425	
M Cap (Rs bn/USD bn)	5,301 / 64.30	
Daily Avg Volume (nos.)	134,97,650	
Daily Avg Turnover (USD mn)	89.0	

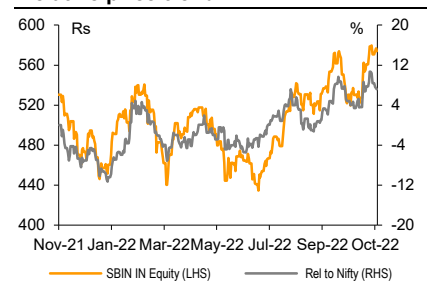
Shareholding Pattern Sep '22

Promoters	56.9%
FIIIs	9.9%
DIIIs	25.1%
Public and Others	8.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	11	24	12
Rel. to Nifty	6	7	14	11

Relative price trend



Source: Bloomberg

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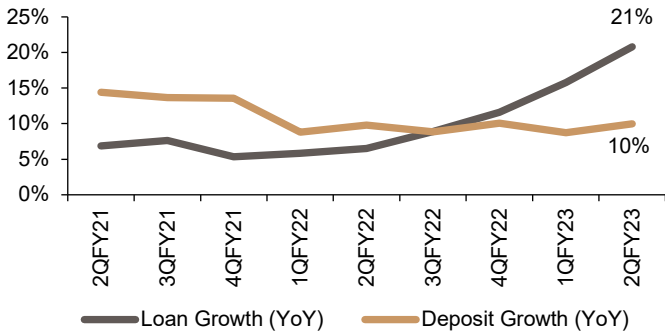
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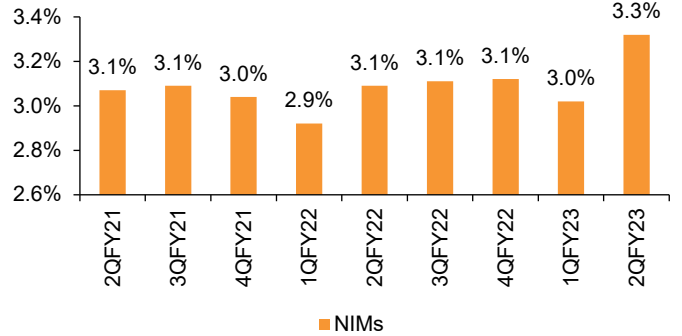
Story in charts

Exhibit 1: Credit growth accelerates, led by strong traction in the retail/corporate book



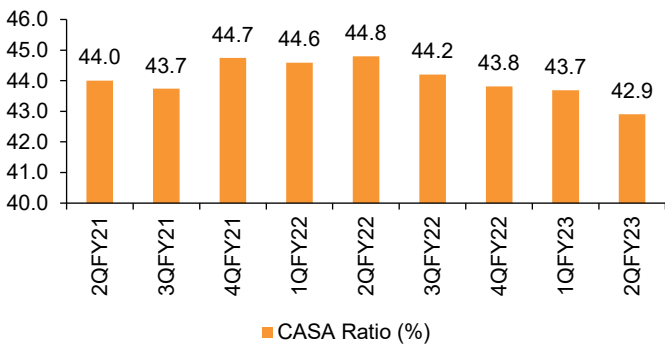
Source: Company, Emkay Research

Exhibit 2: NIM sharply improved by 30bps QoQ due to better LDR and asset re-pricing



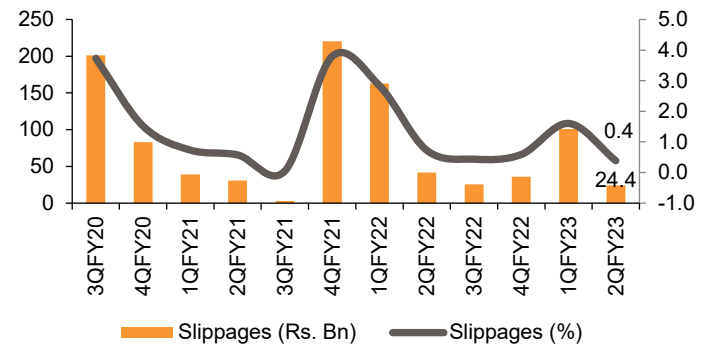
Source: Company, Emkay Research

Exhibit 3: Slower CASA growth led to a fall in CASA ratio



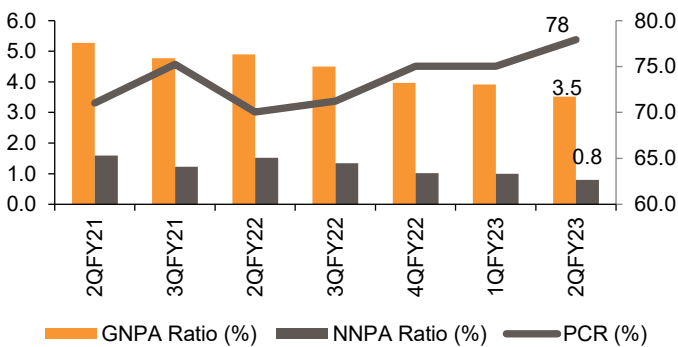
Source: Company, Emkay Research

Exhibit 4: Slippages in 2Q sharply reduced after a seasonally weak Q1



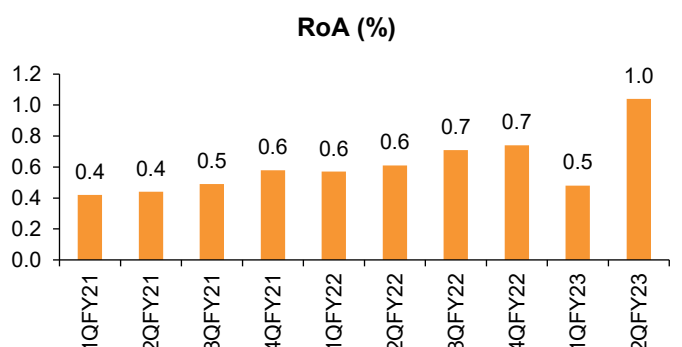
Source: Company, Emkay Research

Exhibit 5: Lower slippages led to a decline in GNPA ratio



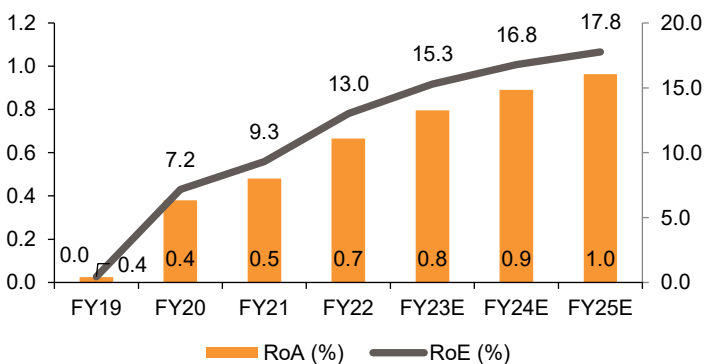
Source: Company, Emkay Research

Exhibit 6: Robust credit growth, sharp margin uptick and lower LLP led to 1% RoA



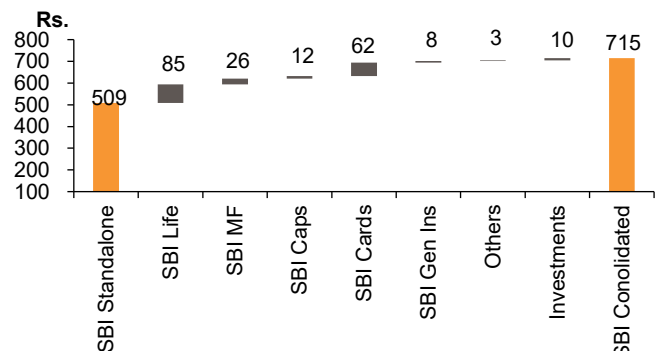
Source: Company, Emkay Research

Exhibit 7: Expect SBI to deliver healthy return ratios by FY23E-25E

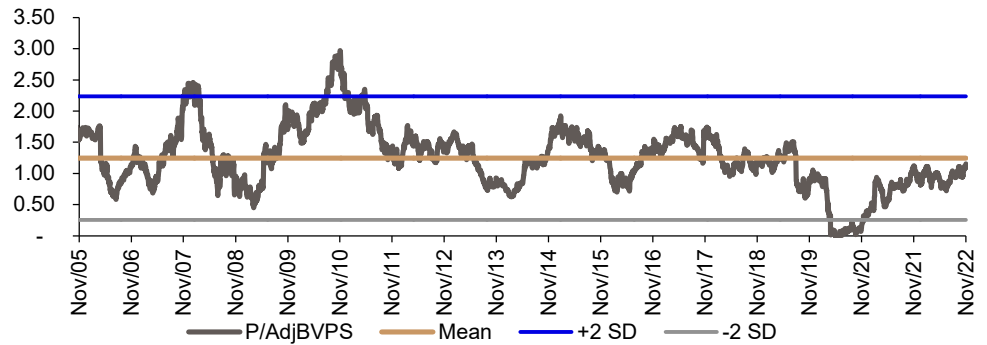


Source: Emkay Research

Exhibit 8: Sum-of-the-parts valuation



Source: Emkay Research

Exhibit 9: The stock currently trades at 1.2x – One-year forward ABV

Source: Bloomberg, Emkay Research

Exhibit 10: Actual vs Estimates (2QFY23)

Rs mn	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	4,40,577	4,12,991	4,32,849	7%	2%	Sharp margin uptick led to a beat
PPOP	2,11,200	1,92,933	2,12,279	9%	-1%	High net income partly offset by higher opex led to a beat
PAT	1,32,645	94,780	1,01,855	40%	30%	Lower LLPs resulted in strong profitability

Source: Company, Emkay Research

Exhibit 11: Quarterly summary

Rs (mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	6,94,815	6,96,781	7,07,337	7,26,764	7,98,596	15	10	27,54,573	32,43,814	18
Interest Exp	3,82,976	3,89,907	3,95,354	4,14,804	4,46,762	17	8	15,47,497	18,56,734	20
Net Interest Income	3,11,839	3,06,874	3,11,983	3,11,959	3,51,834	13	13	12,07,076	13,87,080	15
Global NIMs (reported)	3.09	3.11	3.12	3.02	3.32	23bps	30bps	2.78	2.86	8bps
Non-interest Income	82,076	86,734	1,18,802	23,122	88,743	8	284	4,05,639	3,03,468	-25
Operating Expenses	2,87,308	2,08,392	2,33,612	2,07,556	2,29,377	-20	11	9,33,975	9,44,179	1
Pre Provisioning Profit	1,06,607	1,85,216	1,97,173	1,27,526	2,11,200	98	66	6,78,740	7,46,370	10
Provision & Contingencies	1,888	69,740	72,367	43,924	30,387	1,510	-31	2,44,521	1,86,136	-24
PBT	1,04,719	1,15,477	1,24,806	83,602	1,80,814	73	116	4,34,218	5,60,234	29
Income Tax Expense (Gain)	28,454	31,158	33,660	22,921	48,168	69	110	1,17,459	1,41,179	20
Net Profit/(Loss)	76,266	84,319	91,146	60,681	1,32,645	74	119	3,16,760	4,19,055	32
Gross NPA (%)	4.90	4.50	3.97	3.91	3.52	-138bps	-39bps	3.98	2.84	-113bps
Net NPA (%)	1.52	1.34	1.02	1.00	0.80	-72bps	-20bps	1.02	0.73	-30bps
Deposits (Rs bn)	38,096	38,478	40,515	40,457	41,903	10	4	40,515	44,866	11
Net Advances (Rs bn)	24,432	25,784	27,340	28,152	29,513	21	5	27,340	31,992	17

Source: Company, Emkay Research

Exhibit 12: Revision in estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net interest income	13,34,352	13,87,080	4.0%	15,23,723	16,03,762	5.3%	17,52,260	18,51,443	5.7%
PPOP	7,36,997	7,46,370	1.3%	9,21,701	9,26,381	0.5%	11,13,219	11,06,597	-0.6%
PAT	3,73,174	4,19,055	12.3%	4,70,248	5,27,370	12.1%	5,89,410	6,48,183	10.0%
EPS (Rs)	41.8	47.0	12.3%	52.7	59.1	12.1%	66.0	72.6	10.0%
BV (Rs)	321.5	326.6	1.6%	365.6	377.2	3.2%	422.2	440.3	4.3%

Source: Emkay Research

Exhibit 13: Key Assumptions

(%)	FY22A	FY23E	FY24E	FY25E
Loan Growth	11.6	17.0	17.6	18.3
Deposit Growth	10.1	10.7	14.2	15.5
NIM	2.8	2.9	2.9	3.0
GNPA	4.0	2.8	2.2	1.9
Credit Cost	0.7	0.5	0.6	0.6

Source: Emkay Research

Exhibit 14: Key ratios and trends

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Loans (Rs bn)	22,939	23,681	24,495	24,319	24,432	25,784	27,340	28,152	29,513
Loan growth (YoY)	6.9	7.6	5.3	5.8	6.5	8.9	11.6	15.8	20.8
Loan growth (QoQ)	-0.2	3.2	3.4	-0.7	0.5	5.5	6.0	3.0	4.8
Loan composition (%)									
Corporate	34.3	33.3	33.4	32.5	31.0	30.4	31.8	31.0	31.1
Retail	34.2	35.1	35.5	35.9	37.0	36.9	36.7	36.7	36.4
SME	12.1	12.4	11.4	11.7	11.5	11.9	11.2	11.1	10.7
Overseas	14.0	13.9	14.6	15.1	15.3	15.5	15.0	16.0	16.5
Agri	5.3	5.3	5.1	4.9	5.2	5.3	5.3	5.1	5.3
Liability Profile & Margins (%)									
CASA	44.0	43.7	44.7	44.6	44.8	44.2	43.8	43.7	42.9
CA	6.1	6.0	7.5	6.1	6.6	5.9	6.5	5.8	5.6
SA	37.9	37.8	37.2	38.5	38.2	38.3	37.3	37.9	37.4
Global NIM	3.07	3.09	3.04	2.92	3.09	3.11	3.12	3.02	3.32
Domestic NIM	3.34	3.34	3.11	3.15	3.33	3.35	3.36	3.23	3.55
Asset Quality									
GNPA (%)	5.3	4.8	5.0	5.3	4.9	4.5	4.0	3.9	3.5
NNPA (%)	1.6	1.2	1.5	1.7	1.5	1.3	1.0	1.0	0.8
PCR (%)	71.0	75.2	70.9	67.9	70.1	71.2	75.0	75.1	77.9
Slippages (Rs bn)	31	3	221	163	42	26	36	101	24
Slippages (%)	0.6	0.1	3.8	2.8	0.7	0.4	0.6	1.7	0.4
Capital Adequacy									
CAR (%)	14.7	14.5	13.7	13.7	13.4	13.2	13.8	13.4	13.5
Tier I (%)	11.9	11.7	11.4	11.4	11.0	10.9	11.4	11.2	11.1
CET 1 (%)	10.5	10.3	10.0	9.9	10.4	10.3	9.9	9.7	9.5
ROE Decomposition (on total assets; %)									
NII	2.7	2.7	2.4	2.4	2.7	2.6	2.5	2.5	2.8
Other Income (Ex Treasury)	0.7	0.8	1.5	0.9	0.7	0.7	1.0	0.7	0.7
Treasury	0.1	0.1	0.0	0.2	0.0	0.0	0.0	-0.5	0.0
Opex	2.0	1.9	2.1	1.8	2.5	1.8	1.9	1.7	1.8
PPOP	1.6	1.6	1.8	1.7	0.9	1.6	1.6	1.0	1.7
Provisioning Cost	1.0	1.0	1.0	0.9	0.0	0.6	0.6	0.4	0.2
PBT	0.6	0.7	0.8	0.8	0.9	1.0	1.0	0.7	1.4
Tax	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.4
ROA	0.4	0.5	0.6	0.6	0.7	0.7	0.7	0.5	1.0
Leverage (x)	17.0	17.1	17.6	17.6	17.5	17.5	17.6	17.5	17.1
ROE	7.5	8.4	10.2	10.1	11.5	12.4	13.1	8.5	17.8

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	11,07,100	12,07,076	13,87,080	16,03,762	18,51,443
Other income	4,34,964	4,05,639	3,03,468	3,91,615	4,66,877
Fee income	2,35,175	2,45,652	2,65,304	2,97,141	3,41,712
Net income	15,42,064	16,12,715	16,90,548	19,95,377	23,18,320
Operating expenses	8,26,522	9,33,975	9,44,179	10,68,996	12,11,723
Pre provision profit	7,15,542	6,78,740	7,46,370	9,26,381	11,06,597
PPP excl treasury	6,55,233	6,46,521	8,22,742	9,41,655	10,91,322
Provisions	4,40,130	2,44,521	1,86,136	2,21,340	2,40,043
Profit before tax	2,75,412	4,34,218	5,60,234	7,05,040	8,66,554
Tax	71,307	1,17,459	1,41,179	1,77,670	2,18,372
Tax rate	26	27	25	25	25
Profit after tax	2,04,105	3,16,760	4,19,055	5,27,370	6,48,183

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	8,925	8,925	8,925	8,925	8,925
Reserves	25,29,827	27,91,956	31,39,614	35,91,125	41,54,523
Net worth	25,38,752	28,00,881	31,48,538	36,00,049	41,63,447
Deposits	368,12,770	405,15,341	448,66,453	512,29,374	591,83,295
Borrowings	35,11,721	35,40,438	40,71,503	42,75,079	40,61,325
Total liabilities	453,44,295	498,75,974	554,67,728	628,94,126	715,91,205
Cash and bank	21,32,015	25,78,592	27,07,522	28,42,898	29,85,043
Investments	135,17,052	148,14,455	156,41,660	170,23,214	183,82,553
Loans	244,94,978	273,39,666	319,92,284	376,22,050	445,24,290
Others	35,17,687	33,99,249	36,70,397	38,29,343	39,94,218
Total assets	453,44,295	498,75,974	554,67,728	628,94,126	715,91,205

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	2.9	2.8	2.9	2.9	3.0
Non-ll/avg assets	1.0	0.9	0.6	0.7	0.7
Fee income/avg assets	0.6	0.5	0.5	0.5	0.5
Opex/avg assets	1.9	2.0	1.8	1.8	1.8
Provisions/avg assets	1.0	0.5	0.4	0.4	0.4
PBT/avg assets	0.6	0.9	1.1	1.2	1.3
Tax/avg assets	0.2	0.2	0.3	0.3	0.3
RoA	0.5	0.7	0.8	0.9	1.0
RoAE	9.3	13.0	15.3	16.8	17.8
GNPA (%)	5.0	4.0	2.8	2.2	1.9
NNPA (%)	1.5	1.0	0.7	0.6	0.6

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	22.9	35.5	47.0	59.1	72.6
BVPS	258.0	287.6	326.6	377.2	440.3
ABVPS	227.2	264.2	307.1	357.8	418.5
DPS	4.0	7.1	8.0	8.5	9.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	17.0	10.9	8.3	6.6	5.3
P/BV	1.6	1.4	1.3	1.1	0.9
P/ABV	1.9	1.6	1.4	1.2	1.0
P/PPOP	2.6	2.7	2.5	2.0	1.7
Dividend Yield (%)	0.7	1.2	1.3	1.4	1.6

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	12.9	9.0	14.9	15.6	15.4
PPOP	5.0	(5.1)	10.0	24.1	19.5
PAT	40.9	55.2	32.3	25.8	22.9
Loans	5.3	11.6	17.0	17.6	18.3

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
NII	3,11,839	3,06,874	3,11,983	3,11,959	3,51,834
NIM (%)	2.9	2.8	2.8	2.7	3.0
PPOP	1,06,607	1,85,216	1,97,173	1,27,526	2,11,200
PAT	76,266	84,319	91,146	60,681	1,32,645
EPS (Rs)	8.55	9.45	10.21	6.80	14.86

Source: Company, Emkay Research

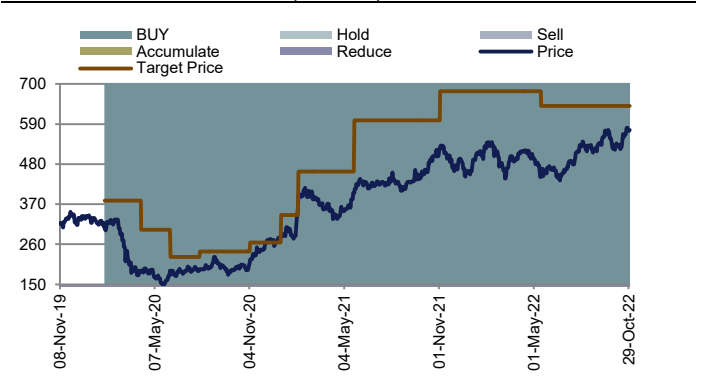
Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	56.9	56.9	56.9	56.9	56.9
FIIIs	10.4	10.3	9.9	9.5	9.9
DIIIs	23.9	23.8	24.4	24.8	25.1
Public and Others	8.8	9.0	8.9	8.8	8.1

Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
06-Aug-22	531	640	12m	Buy	Anand Dama
15-May-22	445	640	12m	Buy	Anand Dama
24-Mar-22	487	680	12m	Buy	Anand Dama
06-Feb-22	530	680	12m	Buy	Anand Dama
03-Nov-21	528	680	12m	Buy	Anand Dama
05-Jul-21	433	600	12m	Buy	Anand Dama
23-May-21	401	600	12m	Buy	Anand Dama
05-Feb-21	393	460	12m	Buy	Anand Dama
20-Jan-21	303	340	12m	Buy	Anand Dama
03-Jan-21	279	340	12m	Buy	Anand Dama
05-Nov-20	219	265	12m	Buy	Anand Dama
01-Aug-20	191	240	12m	Buy	Anand Dama
06-Jun-20	188	225	12m	Buy	Anand Dama
11-Apr-20	188	300	12m	Buy	Anand Dama
01-Feb-20	303	380	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)

Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	20.87	20.82	-0.2%	-4	100.00	
Axis Bank	2.22	2.34	5%	12	11.21	0
AU Small Finance Bank	0.27	0.25	-7%	-2	1.20	0
Bandhan Bank	0.16	0.17	1%	0	0.79	0
Bank of Baroda	0.26	0.24	-6%	-2	1.15	0
Canara Bank	0.18	0.23	27%	5	1.12	0
City Union Bank	0.00	0.00	NA	0	0.00	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.04	NA	4	0.20	0
Federal Bank	0.25	0.25	0%	0	1.22	0
HDFC Bank	6.16	6.21	1%	5	29.75	0
ICICI Bank	5.88	6.03	3%	15	28.90	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.70	0.82	18%	12	3.92	0
Karur Vysya Bank	0.00	0.10	NA	10	0.47	0
Kotak Mahindra Bank	2.53	2.00	-21%	-52	9.60	0
Punjab National Bank	0.11	0.00	-100%	-11	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	2.04	2.04	0%	0	9.78	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.06	0.06	0%	0	0.28	0
Yes Bank	0.05	0.05	1%	0	0.22	0
Cash	0.00	0.04	NA	4	0.21	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	3-Nov-21	4-May-22	3-Aug-22	3-Oct-22	3-Nov-22
EAP - BFSI-Banks	100.0	134.8	120.5	130.0	129.9	141.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	132.1	118.2	127.5	127.2	138.2

*Performance measurement base date 1st April 2019

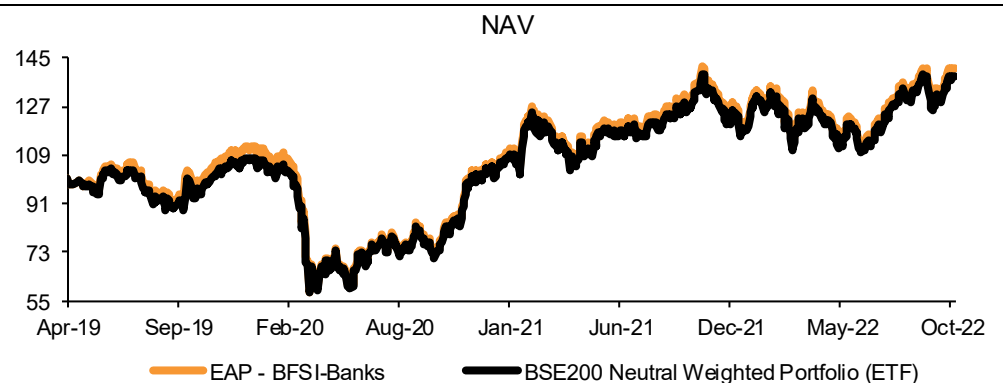
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	8.8%	8.6%	17.3%	4.8%
BSE200 Neutral Weighted Portfolio (ETF)	8.7%	8.4%	17.0%	4.7%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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