

CMP: ₹ 593

Target: ₹ 700 (18%)

Target Period: 12 months

BUY

November 7, 2022

Highest ever quarterly profit, ripe for re-rating...

About the stock: SBI is a public sector bank and also the largest bank in India with a balance sheet size of over ~ ₹ 52 lakh crore.

- Strength in retail portfolios, best operating metrics in the PSU banking space
- Large subsidiaries, strong outlook adding value to the bank

Q2FY23 Results: SBI delivered highest ever quarterly PAT.

- GNPA, NNPA improved 39 bps, 20 bps QoQ, respectively; slippage ratio at 0.33%
- NII up 12.8% YoY, NIMs improved QoQ by 30 bps
- Other income jumped meaningfully QoQ as Q1FY23 was impacted by treasury losses. Provision down 30.1% QoQ, 60.0% YoY. PAT up 73.9% YoY at ₹ 13263 crore
- Gross advances up 20.8% YoY, deposits up 10% YoY; CASA at 44.63%

What should investors do? SBI's share price has surged over 2x in the past five years. We believe SBI with its humongous size has reported consistently upbeat performance with this quarter seeing above par growth in earnings and return ratios. The stock, long due for re-rating, should see a strong positive reaction.

- Hence, we retain our **BUY** rating on the stock

Target Price & Valuation: We value the bank at ~1.3x FY24E ABV and subsidiaries at ~₹ 192/share to arrive at a revised target price of ₹ 700 from ₹ 650 earlier.

Key triggers for future price performance:

- Credit growth guidance of ~14-16% to be driven by steady margins, healthy deposit franchise and strong demand pipeline, which will also aid business growth and overall performance
- Steady NIMs with adequate provision buffer to aid healthy earning momentum ahead
- Thus, improving RoE trajectory to aid improvement in valuations
- Continued traction in customer & business accretion via "Yono". Unlocking of subsidiaries value to act as positive surprise

Alternate Stock Idea: Besides SBI, in our coverage we also like IndusInd Bank.

- Robust business growth, uptick in NIM, moderation in provision seen enabling the bank to generate RoA of 1.6-1.7% in FY23-24E. This seems positive
- BUY with a target price of ₹ 1350



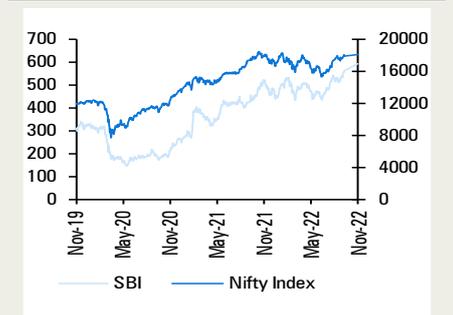
Particulars

Particulars	Amount
Market Capitalisation	₹529898 Cr ore
52 week H/L	596/425
Networth	₹304912 Cr ore
Face value	₹1

Shareholding pattern

	Sep-21	Dec-21	Mar-21	Jun-22	Sep-22
Promoter	57.6	57.6	57.6	57.6	57.5
FII	10.6	10.4	10.0	9.6	10.0
DII	24.2	24.1	24.7	25.1	25.4
Others	7.7	7.9	7.8	7.7	7.1

Price Chart



Recent event & key risk

- Slippage ratio improved 33 bps QoQ, R/s book at 0.94% of loans
- **Key Risk:** 1) Slower than anticipated growth to impact earning momentum, 2) Higher competition in deposit accretion

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Pravin Mule
pravin.mule@icicisecurities.com

Key Financial Summary

₹B n	FY20	FY21	FY22	3 Year CAGR (FY19-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
NII	981	1107	1207	11%	1446	1667	18%
PPP	681	716	679	8%	778	922	17%
PAT	145	204	317	232%	421	486	24%
ABV (₹)	203.2	243.3	282.6		334.9	391.8	
P/E	36	26	17		13	11	
P/ABV	2.9	2.4	2.1		1.8	1.5	
RoA	0.4	0.5	0.7		0.8	0.8	
RoE	6.4	8.4	11.9		14.0	14.1	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Robust overall performance; NPA improves QoQ

- Operational performance was above estimates with NII growth at 12.8% both YoY and QoQ to ₹ 35183 crore, due to improvement in NIMs (up 30 bps QoQ) to 3.55%(domestic) and high loan growth. Other income was up 8.1% YoY and witnessed meaningful jump QoQ as expected as Q1FY23 was impacted on account of MTM loss. In Q2FY23, trading income was at ₹ 457 crore vs. a loss of ₹ 6549 crore in the previous quarter
- As a positive surprise, fresh slippages declined to ₹ 2399 crore from ₹ 9740 crore in Q1FY23. Thus, slippage ratio was at 0.33% vs. 1.38% in previous quarter. Asset quality improved as GNPA ratio fell 39 bps QoQ to 3.5% while net NPA was down 20 bps QoQ to 0.8%
- Provisions declined 30.8% QoQ, 60.0% YoY to ₹ 3039 crore but loan loss provisions declined from ₹ 4268 crore in Q1FY23 to ₹ 2011 crore. Led by lower provisions and healthy top-line, PAT grew 73.9% YoY and up ~2x QoQ at ₹ 13263 crore, highest ever quarterly profit
- Operating expenses up 7.6% YoY, 10.5% QoQ mainly led by business related costs
- We estimated 18% credit growth but the bank reported overall gross credit growth at 20.8% YoY to ₹ 29.5 lakh crore, led by corporate loans, which was up 21.18% YoY, 18.8% YoY growth in retail segment. Foreign loans were up 30.1% YoY at ₹ 4.87 lakh crore
- Deposits growth came in line at 10.0% YoY to ₹ 41.9 lakh crore where CASA deposits grew 5.4% YoY. Thus, CASA ratio declined slightly from 45.3% to 44.63% QoQ and 46.24% in Q2FY22
- RoE touched 18% and RoA at 1.04% (quarterly annualised) after several years

Q2FY23 Earnings Conference Call highlights

- Credit growth was across key segments but mainly driven by retail and large corporates. Corporate credit was led by working capital utilisation demand, term loans as corporates have turned to domestic lenders for borrowings. Credit growth guidance was steady at 14-16% YoY for FY23
- During the quarter, ₹ 592 crore was towards interest on IT refund vs. ₹ 1900 crore a year ago. Full benefit of asset repricing to be seen in Q3FY23, Q4FY23
- Restructured book at ₹ 27336 crore. Total 9% of restructured book is in SMA 1 and SMA 2
- Total 62% of SA and 45% of retail assets are sourced via YONO platform
- The management said NIMs to be maintained at current levels for FY23E
- Total ₹ 3.5 lakh crore of treasury book to be redeemed in FY23
- Estimated increase in wages - @ 10% ₹ 477 crore and @ 12% ₹ 520 crore impact on staff cost per month
- Loan book mix – 75% linked to MCLR and EBLR. Fixed rate book 21%
- During the quarter, ₹ 898 crore provisions are towards restructuring
- Slippages break up – ₹ 400 crore MSME, ₹ 631 crore Agri, ₹ 1369 crore retail, ₹ 956 crore corporate
- Total ~40 accounts have been identified by NARCL with an exposure of ₹ 3400 crore
- Current capital level and internal accruals are sufficient to take care of decent growth in the near term
- Recoveries from written off accounts were ₹ 1823 crore vs. ₹ 1344 crore

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP (₹)		M Cap (₹Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)				
	TP (₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	
BoB (BANBAR)	145	170	Buy	747	-18.9	14.0	21.1	21.6	-7.7	10.3	6.9	6.7	1.4	1.0	0.9	0.8	-13.1	8.9	11.8	10.6
SBI (STABAN)	593	700	Buy	5,298	22.9	35.5	47.2	54.5	26	16.7	12.6	10.9	2.4	2.1	1.8	1.5	8.4	11.9	14.0	14.1
Axis Bank (AXIBAN)	900	1,000	Buy	2,765	21.5	42.4	66.1	72.9	42	21.2	13.6	12.3	2.9	2.6	2.2	2.1	7.1	12.0	16.3	16.2
HDFC Bank (HDFBAN)	1,438	1,750	Buy	8,011	56.4	66.7	76.9	94.1	25	21.6	18.7	15.3	4.0	3.4	3.0	2.6	16.6	16.7	16.6	17.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	35,183	33,107	31,184	12.8	31,196	12.8	Growth led by strong business growth and margin expansion
NIM (%)	3.3	2.7	3.2	8 bps	3.0	30 bps	Improvement in yields aided NIMs expansion
Other Income	8,874	8,514	8,208	8.1	2,312	283.8	QoQ jump as Q1FY23 was impacted due to MTM losses
Net Total Income	44,057	41,621	39,392	11.8	33,508	31.5	
Operating expens	22,938	22,576	21,312	7.6	20,756	10.5	
PPP	21,119	19,046	18,079	16.8	12,753	65.6	
Provision	3,039	6,600	7,607	-60.0	4,392	-30.8	Credit cost improved by 15bps YoY at 0.28%
PBT	18,080	12,446	10,472	72.7	8,361	116.3	
Tax Outgo	4,817	3,174	2,845	69.3	2,292	110.2	
PAT	13,263	9,272	7,627	73.9	6,068	118.6	Robust top-line beats PAT estimates

Key Metrics

GNPA	106,804	115,772	123,942	-13.8	113,272	-5.7	Improvement in GNPA by 39bps QoQ
NNPA	23,572	29,858	37,119	-36.5	28,258	-16.6	
Advances	2951288	2899706	2443194	20.8	2815249	4.8	Driven by retail & corporate segment
Deposits	4190255	4190593	3809630	10.0	4045696	3.6	CASA ratio moderated to 44.6%

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

₹crore	FY23E			FY24E		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	136469	144619	6.0	157677	166678	5.7
Pre Provisions Profit	88606	77776	-12.2	105756	92231	-12.8
NIM (%)	2.9	3.0	5.8	3.1	3.1	-4.4
PAT	39593	42090	6.3	47056	48611	3.3
ABV per share (₹)	329	335	1.8	384	392	2.0

Source: Company, ICICI Direct Research

Exhibit 4: Change in Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	18.3	13.0	10.3	11.0
Deposit Growth (%)	10.0	10.0	8.3	9.4
Cost to income ratio (%)	57.7	56.0	51.1	48.8
GNPA ratio (%)	3.2	2.8	3.7	3.5
NNPA ratio (%)	0.7	0.5	0.9	0.7

Source: Company, ICICI Direct Research

Exhibit 5: SOTP Valuation

	FY24E /Share
SBI (merged banks)	507
SBI AMC	42
SBI Life	93
SBI cards	78
SBI General Insurance	13
Value per share	734
Holding company discount for subsidiaries @15%	34
Value per share post discount	700

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement					₹ bn
(Year-end March)	FY21	FY22	FY23E	FY24E	
Interest Earned	2,652	2,755	3,383	3,888	
Interest Expended	1,544	1,547	1,937	2,222	
Net Interest Income	1,107	1,207	1,446	1,667	
% growth	12.9	9.0	19.8	15.3	
Non Interest Income	435	406	394	427	
Net Income	1542	1613	1840	2094	
Employee cost	509	576	633	684	
Other operating Exp.	317	358	429	488	
Operating Income	716	679	778	922	
Provisions	440	245	217	270	
PBT	275	434	561	652	
Exceptional Items	-105	-36.0	0	0	
Taxes	71	117	140	166	
Net Profit	204	317	421	486	
% growth	41	55	33	15	
EPS	22.9	35.5	47.2	54.5	

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Valuation				
No. of Equity Shares (C rore)	892.0	892.0	892.0	892.0
EPS (₹)	22.9	35.5	47.2	54.5
BV (₹)	284.6	314.0	359.2	411.7
ABV (₹)	243.3	282.6	334.9	391.8
P/E	25.9	16.7	12.6	10.9
P/BV	2.1	1.9	1.7	1.4
P/ABV	2.4	2.1	1.8	1.5
Yields & Margins (%)				
Net Interest Margins (calculated)	2.9	2.8	3.0	3.1
Yield on avg earning assets	6.9	6.3	6.9	7.1
Avg. cost on funds	4.0	3.6	4.1	4.3
Avg. cost of Deposits	4.1	3.7	4.3	4.5
Yield on average advances	7.2	6.6	7.2	7.2
Quality and Efficiency (%)				
Cost/Total net income	53.6	57.9	57.7	56.0
Credit/Deposit ratio	66.5	67.5	72.6	74.6
GNPA	5.0	4.0	3.2	2.8
NNPA	1.5	1.0	0.7	0.5
RoE	8.4	11.9	14.0	14.1
ROA	0.5	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet					₹ bn
(Year-end March)	FY21	FY22	FY23E	FY24E	
Sources of Funds					
Capital	8.9	8.9	8.9	8.9	
Reserves and Surplus	2530	2792	3195	3663	
Networth	2539	2801	3204	3672	
Deposits	36813	40515	44564	49007	
Borrowings	4173	4260	4497	4930	
Other Liabilities & Provisions	1820	2299	2487	2790	
Total	45344	49876	54752	60400	
Application of Funds					
Fixed Assets	384	377	399	423	
Investments	13517	14814	15443	16066	
Advances	24495	27340	32341	36541	
Other Assets	3518	3399	2199	2522	
Cash with RBI & call money	3430	3946	4370	4847	
Total	45344	49876	54752	60400	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios					(%)
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total assets	14.7	10.0	9.8	10.3	
Advances	5.3	11.6	18.3	13.0	
Deposits	13.6	10.1	10.0	10.0	
Total Income	2.0	2.4	19.5	14.3	
Net interest income	12.9	9.0	19.8	15.3	
Operating expenses	1.0	1.3	1.4	1.0	
Operating profit	5.0	-5.1	14.6	18.6	
Net profit	40.8	55.2	32.9	15.5	
Book value	8.9	10.3	14.4	14.6	
EPS	40.8	55.2	32.9	15.5	

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Namolia, MBA and Pravin Mule, MBA, M.com, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ00183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

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 ICICI Securities 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.