Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

State Bank of India

Stellar Q2, ROA ~1%

Bank		Sharekhan code: SBIN	
Reco/View: Buy	↔	CMP: **Rs. 594**	Price Target: **Rs. 710** ↑

↑ 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 29.88

Updated Oct 08, 2022

Medium Risk

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

Source: Morningstar

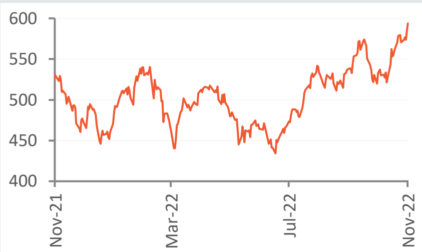
Company details

Market cap:	Rs. 5,29,899 cr
52-week high/low:	Rs. 597 / 425
NSE volume: (No of shares)	124.3 lakh
BSE code:	500112
NSE code:	SBIN
Free float: (No of shares)	383.8 cr

Shareholding (%)

Promoters	57.5
FII	10.0
DII	25.4
Others	7.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.4	11.4	23.8	12.1
Relative to Sensex	6.5	6.9	14.3	10.6

Sharekhan Research, Bloomberg

Summary

- SBI reported strong Core PPoP growth at 17% y-o-y / 7% q-o-q driven by sharp margin improvement. PAT reported at Rs. 13,265 crore was also above street expectations and our estimates (28%) driven by strong PPoP growth (17% y-o-y/ 66% q-o-q) and lower core credit cost (28 bps annualized versus 62 bps q-o-q & 44 bps y-o-y).
- Bank reported a healthy loan growth of 21% y-o-y/ 5% q-o-q led by strong growth in domestic corporate book (21% y-o-y), overseas book (30%) along with retail advances growing at 19% y-o-y driven by home loans and personal loans growing at healthy pace. However, domestic deposits mobilization was weak.
- Gross slippages were at just 40 bps vs 166 bps (calc. as % of 12-month trailing advances) sequentially, coupled with healthy recoveries and upgrades along with contained write offs, asset quality saw sharp improvement with GNPA & NNPA ratios falling by 39 bps / 20 bps q-o-q to 3.52%/0.8%. PCR at ~ 78% vs 75% q-o-q.
- At CMP, SBI trades at 1.1x and 1.0x its FY2023E and FY2024 core BV. We maintain a Buy rating on the stock with a revised PT of Rs. 710. SBI remains our top pick among PSU bank`s basket.

SBI reported stellar performance in Q2FY23 driven by sharp margin improvement, lower slippages and in turn lower core credit cost. Net interest income grew by 13%y-o-y/ 13 q-o-q driven by strong loan growth and margin improvement. NIMs improved by 30 bps q-o-q reported at 3.32%. However, during the quarter, there was a one-off item in interest income amounting to Rs. 592 crore on account of IT refunds. Core fee income grew by 10% y-o-y but was down by 7% q-o-q. Bank reported treasury profit amounting to Rs. 457 crore vs a loss of Rs. 6,549 crore in last quarter. Total operating expenses grew by 8% y-o-y / 11% q-o-q. Core PPoP grew by 17.1% y-o-y / 7.1% q-o-q. Provisions declined by 31% q-o-q. Core credit cost stood at 28 bps annualized vs 62 bps in the last quarter. PAT reported at Rs. 13,265 crore was also above street expectations and our estimates (28%) driven by strong PPoP growth (17% y-o-y/ 66% q-o-q) and lower core credit costs. Net advances grew by 21% y-o-y / 5% y-o-y. Retail loans (led by mortgages and personal loans) rose by 19% y-o-y, agri and SME loans grew by 11% y-o-y and 13% y-o-y respectively. Wholesale domestic corporate book & Overseas book grew by 21% y-o-y /30% y-o-y. Deposits grew by 10% y-o-y / 4% q-o-q with CASA growing at 5% y-o-y/ 2% q-o-q. However, International deposits grew by 36% y-o-y. Gross slippages were at just 40 bps vs 166 bps (calc. as % of 12-month trailing advances) sequentially, coupled with healthy recoveries and upgrades along with contained write offs, asset quality saw sharp improvement with GNPA & NNPA ratios falling by 39 bps / 20 bps q-o-q to 3.52%/0.8%. PCR at ~ 78% vs 75% q-o-q. The restructured book stood at Rs. 27,336 crore (~0.9% of advances vs 1.1% q-o-q). SMA 1& 2 book stood at Rs.8,497 crore (0.3% of advances vs 0.25% q-o-q).

Key positives

- Strong loan growth witnessed along with sharp improvement in NIMs.
- Improved asset quality matrix. Lower slippages and in turn lower credit cost.
- ROA touched ~1%

Key negatives

- CASA mobilisation was weak and below system growth. CA balance de-grew by 8% y-o-y.
- Higher overheads growth (16% y-o-y/ 15% QoQ)
- Core fee income lower sequentially despite strong loan growth momentum.
- SMA 1 & 2 book higher sequentially.

Management Commentary

- Bank expects to sustain loan growth trajectory as there is good demand visibility in retail and strong pipeline in corporate and SME book. Also, higher focus would be on deposit mobilization.
- NIMs likely to sustain & improve further in H2FY23.

Revision in estimates – We have increased our FY2023E/FY2024E earnings estimates, factoring in margin improvement & lower credit cost.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 710 - At CMP, SBI trades at 1.1x and 1.0x its FY2023E and FY2024E core BV, respectively. SBI's operating metrics continue to see improvement with healthy loan growth, margin improvement and lower slippages in turn lower core credit cost should drive improvement in return ratio in the near to medium term. The balance sheet is strong, and bank is well positioned to gain market share on the business front. SBI's strong deposit franchise and better performance from subsidiaries are likely to favour the business. We see upside risk to margins due to higher interest-rate cycle and lower credit cost given the benign credit cycle, which should lead to improvement in return ratio profile. We maintain our Buy rating on SBI with a revised PT of Rs. 710. SBI remains our top pick among PSUs.

Key Risks

Economic slowdown due to which slower loan growth and higher than anticipated credit cost.

Valuation (standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
NII	1,20,708	1,42,753	1,64,324	1,79,909
PAT	31,676	44,504	60,591	64,751
EPS (Rs)	35.5	49.9	67.9	72.6
P/E (x)	11.7	8.4	6.1	5.7
P/BV (x)	1.3	1.1	1.0	0.8
RoE (%)	11.9	14.7	17.1	15.5
RoA (%)	0.7	0.8	1.0	1.0

Source: Company; Sharekhan estimates

Key Results Highlights

- **NII growth picked up led by sharp margin improvement:** NII grew by 13%y-o-y/ 13 q-o-q driven by strong loan growth and margin improvement. NIMs improved by 30 bps q-o-q reported at 3.32%. However, during the quarter, there was a one-off item in interest income amounting to Rs. 592 crore on account of IT refund. Core fee income grew by 10% y-o-y but was down by 7% q-o-q. The bank has guided that NIMs likely to sustain & improve further in H2FY23.
- **Reported lower core credit cost:** Provisions were down by 31% q-o-q. Core credit cost stood at 28 bps (calc. as % of avg advances) versus 62 bps last quarter.
- **Asset quality improved:** GNPA and NNPA ratios declined by 39 bps/ 20 bps q-o-q to 3.52%/ 0.80%. The restructured book stood at Rs. 27,336 crore (~0.9 % of advances vs 1.1% last quarter). SMA 1& 2 book stood at Rs 8,497 crore (0.3% of advances vs 0.25% q-o-q). Gross slippages stood at Rs. 2,441 crore versus Rs. 10,115 crore. Upgrades and recovery amounted to Rs. 5,207 crore in Q2FY2023 versus Rs. 5,208 crore in Q1FY2023. Write off were at Rs. 3,702 crore versus Rs. 3,658 crore in last quarter. PCR stood at 78%. About 9% of standard restructured book is in SMA 1 &2.
- **Loan growth strong:** Net advances grew by 21% y-o-y / 5% y-o-y. Retail loans (led by mortgages and personal loans) rose by 19% y-o-y, agri and SME loans grew by 11% y-o-y and 13% y-o-y respectively. Wholesale domestic corporate book & Overseas book grew by 21% y-o-y /30% y-o-y. The bank guided that corporate growth is coming from high rated large corporates. Growth in international book was broad based led by syndicated loans, trade finance & India linked business and in terms of sector OMC, BFSI & IT contributed growth while in terms of geography US, UK, Singapore & Hong Kong contributed growth. Average maturity of international loan is short. Do not envisage any challenges in overseas book. The retail book is growing without any challenge, corporate witnessing decent trends led by improving working capital utilisation & higher term loan demand. SBI expects to sustain loan growth trajectory as there is good demand visibility in retail and strong pipeline in corporate and SME book.
- **Domestic deposit mobilization was weak:** Deposits grew by 10% y-o-y / 4% q-o-q with CASA growing at 5% y-o-y/ 2% q-o-q. However, International deposits grew by 36% y-o-y. CA balance declined by 8% y-o-y and SA balance grew by 8% y-o-y.
- **Others:** Bank indicated that it consciously did not book majority of treasury trading gains this quarter. This would cushion increase in yield to an extent going forward. Digital sourcing continues to be strong. 62% of savings accounts 45% of retail accounts acquired from YONO. It expects to provide for expected wage revision starting from Q3FY23. With assumption of 10% increment, provisions would be Rs.477 crore per month & if rate is 12%, it would be Rs. 580 crore per month run rate for 36 months.

Results (standalone) Rs cr

Particulars	2QFY23	2QFY22	1QFY23	Y-o-Y	Q-o-Q
Interest Inc.	79,860	69,481	72,676	15%	10%
Interest Expenses	44,676	38,298	41,480	17%	8%
Net Interest Income	**35,183**	**31,183**	**31,196**	**13%**	**13%**
NIM (%)	3.32	3.09	3.02	7%	10%
Core Fee Income	5,942	5,391	6,372	10%	-7%
Other Income	2,932	2,817	-4,060	4%	-172%
Net Income	**44,058**	**39,391**	**33,508**	**12%**	**31%**
Employee Expenses	12,867	12,578	12,051	2%	7%
Other Opex	10,070	8,735	8,704	15%	16%
Total Opex	22,938	21,313	20,756	8%	11%
Cost to Income Ratio	52.1%	54.1%	61.9%		
Pre-Provision Profits	21,120	18,078	12,753	17%	66%
Provisions & Contingencies – Total	3,039	189	4,392	1510%	-31%
Exceptional item	-	7,418	-	-	-
Profit Before Tax	18,081	10,472	8,360	73%	116%
Tax	4,817	2,845	2,292	69%	110%
Effective Tax Rate	27%	27%	27%		
Reported Profits	13,265	7,626	6,068	74%	119%
Basic EPS (Rs)	14.9	8.6	6.8	74%	119%
Diluted EPS (Rs)	14.9	8.6	6.8	74%	119%
RoA (%)	1.0	0.7	0.5		
Advances	29,51,288	24,43,194	28,15,249	20.8%	4.8%
Deposits	41,90,255	38,09,630	40,45,696	10%	4%
Gross NPA	1,06,804	1,23,942	1,13,272	-14%	-6%
Gross NPA Ratio (%)	**3.52**	**4.90**	**3.91**		
Net NPA	23,572	37,119	28,258	-36%	-17%
Net NPAs Ratio (%)	0.80	1.52	1.00		
PCR – Calculated	77.9%	70.1%	75.1%		
Net NPAs Ratio (%)	1.02	1.5	1.34		
PCR - Calculated	75.0%	70.9%	71.2%		

Source: Company, Sharekhan Research

SOTP Valuation

Subsidiary / Associate	Per share value
SBI Life Insurance	93
SBI Cards	81
SBI Caps	23
Others	25
Valuation of subs.	222
(-) holding co. discount (20%)	44
Value of subs/ associates post holdco discount	178
Core Bank Value	532
Total SOTP Valuation (Rs)	**710**

Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – Strong credit offtake & benign credit cost; Top private banks and top PSUs placed better

System-level credit offtake grew by ~17.95% y-o-y in the fortnight ending Oct 21, 2022, indicating loan growth has been sustaining, given distinct signs of improving economy and revival of investments and loan demand. On the other hand, deposits rose by ~9.5% but are trailing advanced growth. We should see loan growth acceleration sustaining. Margins are likely to improve in a higher interest-rate cycle. Asset quality is not a big issue on the corporate lending end, as only de-leveraging is being observed. From the retail side, there could be some pressure, but nothing is significant. Asset quality is likely to remain stable in the medium term. Banks are in a sweet spot in terms of fundamentals and reasonable valuations. In the past two years, lenders have been cautious on lending to the 'BB and below' category, thus the general risk, which they are carrying on the corporate portfolio, is low. On the retail loans front, due to COVID-19, banks have already seen one downcycle. Most of the exposure has been taken into credit costs. In terms of the MSME book, we need to be watchful. 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.

Company Outlook – Strong outlook

SBI is an attractive play on the fast-growing Indian economy, with a healthy PCR, strong liability franchise, higher rated corporate loans, sustaining lower credit cost along with contained slippages and improving asset quality matrix. In the past two years, results indicate its business strength and past few years' efforts that have stood the bank in moving towards improving return profile. We believe credit growth would be driven by both retail and corporate segments as private capex increases. We see upside risk to margins due to higher rate cycle and lower credit cost given the benign credit cycle which should lead to improvement in return ratio profile.

Valuation – Maintain Buy with a revised PT of Rs. 710

At CMP, SBI trades at 1.1x and 1.0x its FY2023E and FY2024E core BV, respectively. SBI's operating metrics continue to see improvement with healthy loan growth, margin improvement and lower slippages in turn lower core credit cost should drive improvement in return ratio in the near to medium term. The balance sheet is strong, and bank is well positioned to gain market share on the business front. SBI's strong deposit franchise and better performance from subsidiaries are likely to favour the business. We see upside risk to margins due to higher interest-rate cycle and lower credit cost given the benign credit cycle, which should lead to improvement in return ratio profile. We maintain our Buy rating on SBI with a revised PT of Rs. 710. SBI remains our top pick among PSUs.

Peer valuation

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	594	5,29,899	8.4	6.1	1.1	1.0	14.7	17.1	0.8	1.0
HDFC Bank	1,497	8,34,518	18.5	15.6	2.8	2.4	16.5	16.8	1.9	1.9
ICICI Bank	906	6,31,314	17.7	14.8	2.6	2.2	16.0	16.2	2.0	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. It is well-placed to gain market share driven by strong balance sheet strength.

Investment theme

SBI enjoys a dominant position and market share in the Indian banking space, which we expect to be maintained 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

Economic slowdown due to which slower loan growth and higher than anticipated credit cost.

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	REPUBLIC OF INDIA	56.92
2	LIFE INSURANCE CORP OF INDIA	8.52
3	SBI FUNDS MANAGEMENT LTD	2.96
4	HDFC ASSET MANAGEMENT CO LTD	2.08
5	ICICI PRUDENTIAL ASSET MANAGEMENT CO LTD	1.47
6	BANK OF NEW YORK MELLON CORP	1.12
7	KOTAK MAHINDRA ASSET MANAGEMENT CO LTD	0.98
8	NIPPON LIFE INDIA ASSET MANAGEMENT CO LTD	0.96
9	MIRAE ASSET GLOBAL INVESTMENTS CO LTD	0.77
10	UTI ASSET MANAGEMENT CO LTD	0.67

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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