


**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**  
Updated Oct 08, 2022 **29.88**
**Medium Risk**

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

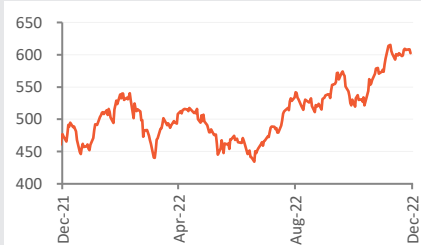
Source: Morningstar

**Company details**

Market cap:	Rs. 5,42,661 cr
52-week high/low:	Rs. 623 / 425
NSE volume: (No of shares)	125.3 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	7.1

**Price chart**

**Price performance**

(%)	1m	3m	6m	12m
Absolute	5.4	14.1	29.9	28.0
Relative to Sensex	1.8	6.4	15.6	18.3

Sharekhan Research, Bloomberg

Bank	Sharekhan code: SBIN			
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 608</b>	<b>Price Target: Rs. 710</b>	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

**Summary**

- We continue to see outperformance in the stock, given SBI is a sector proxy that benefits from its strong deposit franchise and favorable sector tailwinds.
- We believe there is an upside risk to margins as transmission of MCLR rates (~100 bps) in corporate loans is yet to happen, which provides sufficient headroom for NIM expansion, offsetting any increase in cost of deposits.
- Healthy loan growth momentum is expected to sustain, led by robust retail loan growth (homes loans and unsecured loans) and resurgence in corporate credit.
- At the CMP, SBI trades at 1.2x/1.0x/0.8x its FY2023E/FY2024E/FY2025 core ABV. We retain our Buy rating on SBI with an unchanged PT of Rs. 710. SBI remains our top pick among PSU banks with strong balance sheet strength and improved core operating metrics.

SBI has significantly improved its balance sheet strength and has emerged stronger after the corporate NPL cycle and Covid crisis, driven by the reduction in impaired loans, higher coverage on bad loans, better underwriting standards, increasing share of higher-rated loans in the corporate segment, and improving retail mix – thus, it stands to benefit from favourable sector tailwinds. We see an upside risk to SBI's earnings, led by sustained healthy loan growth, margin improvement (loan repricing and improving retail mix), lower slippages, reduced credit costs, and healthy recoveries. This should drive strong earnings compounding over the medium term and improved return profile. Hence, we expect further rerating in the stock.

- **Upside risk to margins persists:** Out of the total advances, 75% are floating loans – 41% are linked to MCLR and 34% are linked to other EBLR. We believe there is an upside risk to margins, as transmission of MCLR rates (~100 bps) in corporate loans is yet to happen, which provides sufficient headroom for NIM expansion, thus offsetting any increase in the cost of deposits. The bank reported a strong LCR of ~138% and a lower CD ratio of ~70% in Q2FY2023 and thus bank has been exhibiting its pricing power in terms of pricing of deposits as it has increased retail TD rates only by ~80 bps, while a majority of the hike is passed on to bulk deposits, which have a lower share. The bank is also witnessing an acceleration in loan growth (+20.8% y-o-y, 4.8% q-o-q) in Q2FY2023, led by the retail segment (+19% y-o-y, 4% q-o-q) and revival in the corporate segment. New term-loan disbursements in the corporate segment with higher maturity are being disbursed at higher rates. Even in international loans, margins in the trade finance book have improved, while spreads are higher in syndicate loans. Margin is likely to see an upward bias in the coming quarters.
- **Loan growth momentum expected to sustain:** Strong growth momentum in advances is expected to sustain, led by robust retail loan growth (homes loans and unsecured loans) and a resurgence in corporate credit. Demand for credit continues to be quite resilient in corporate as well as retail segments. Despite a 190-bps rate hike, home loans demand continued to remain strong and there are no signs of tepidness. Home loans and unsecured loans are likely to support robust growth in the retail segment. The bank registered strong growth in the corporate segment at 21% y-o-y in Q2FY2023. Demand in the corporate segment was driven by NBFCs, steel, petroleum, power, and construction sectors. The overall capacity utilization for the industry has crossed 75%. Thus, it is likely to augur well for the capex cycle. Currently, the bank has loans amounting to Rs. 3.7 trillion in the pipeline and, thus, credit growth is expected to remain healthy going forward. The bank has been selective in the SME segment and is underwriting loans in a risk-calibrated manner.

**Our Call**

**Valuation –** At the CMP, SBI trades at 1.2x/1.0x/0.8x its FY2023E/FY2024E/FY2025E core ABV, respectively. The bank's robust performance has been aided by strong loan growth, margin expansion, and lower provisions. Asset-quality performance remains strong, with a continuous improvement in headline asset-quality ratios, while the restructured book remains under control at 0.9%. The 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 maintain our Buy rating on SBI with an unchanged price target (PT) of Rs. 710. SBI remains our top pick in the PSU banks basket.

**Key Risks**

Economic slowdown leading to slower loan growth and higher-than-anticipated credit cost

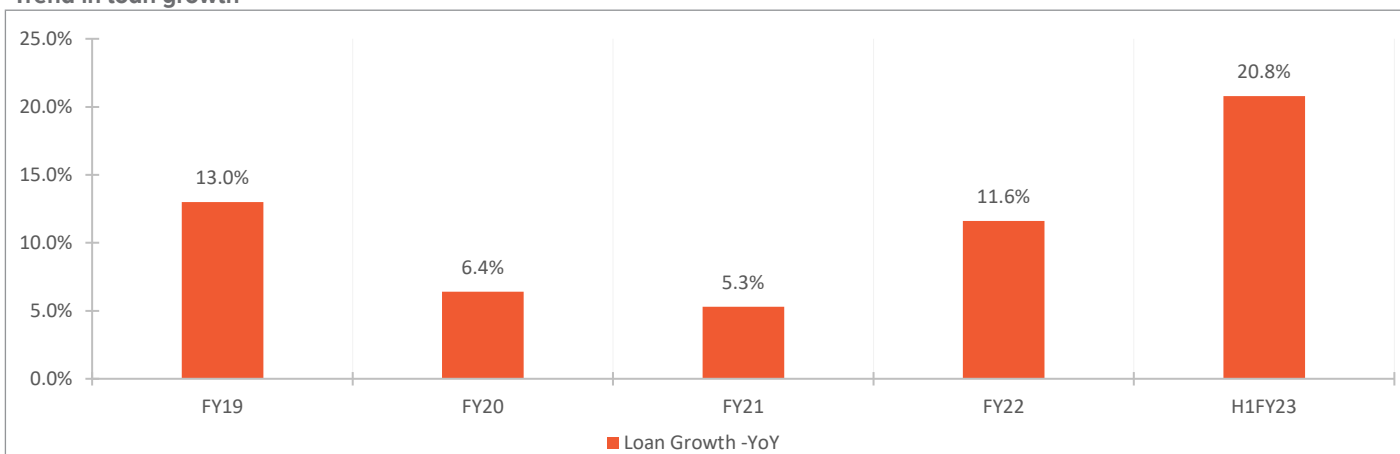
**Valuation (standalone)**

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)	12.1	8.6	6.3	5.9
P/ABV (x)	1.4	1.2	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

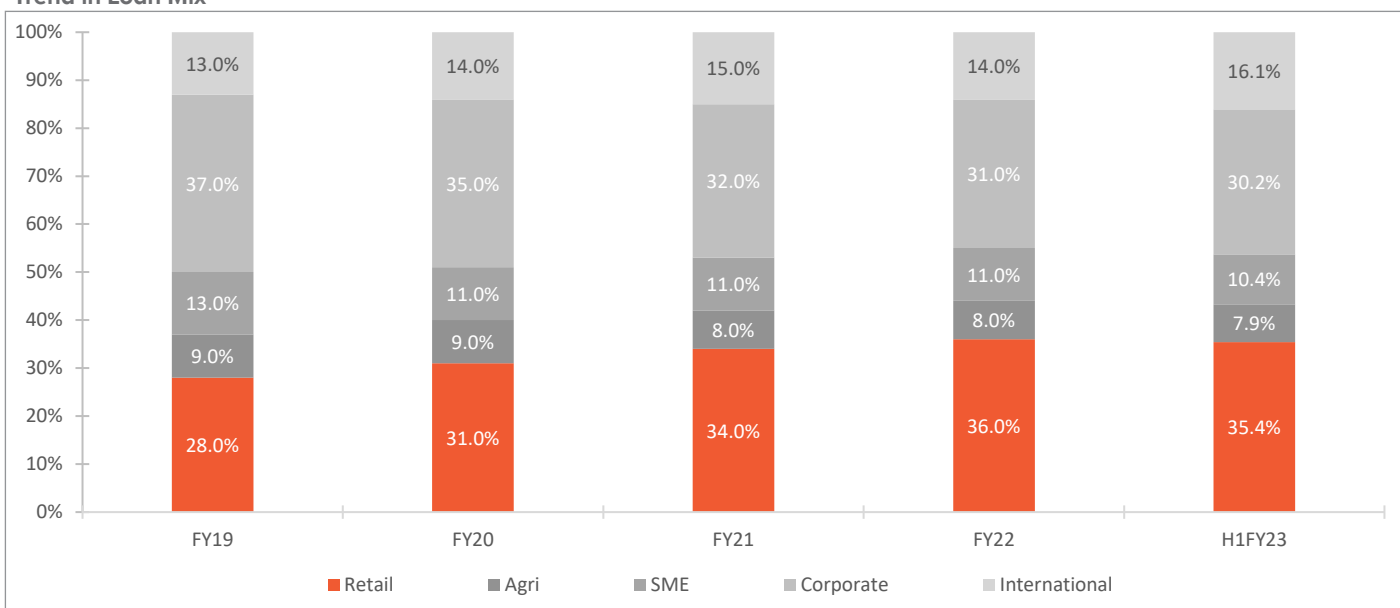
Loan growth momentum continued to remain strong (20.8% y-o-y) in H1FY23 led by retail portfolio and pick up in corporate segment. Retail portfolio growth was healthy at 19% y-o-y in H1FY23. Within retail loans, share of home loans and Xpress credit (personal loans) both cumulatively accounts for ~81% are growing well. The bank is seeing good success in rolling out pre-approved personal loan 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 the SME book in FY2023E vs. 10% in FY2022 as it has increased customer proposition by adding a two-tier relationship manager system with digital features. Working capital utilization levels are improving in the corporate book. The overall capacity utilization for the industry has crossed 75% and thus it is likely to auger well for the capex cycle. Currently, the bank has loans amounting to Rs3.7 trillion in the pipeline and thus credit growth is expected to remain healthy going forward. The improved growth outlook in the corporate book is led by better demand and is likely to continue. Moreover, there has been improvement in granularity in loan book, as its share of retail loans has inched up to ~35% from ~25% in FY2017.

#### Trend in loan growth



Source: Sharekhan Research

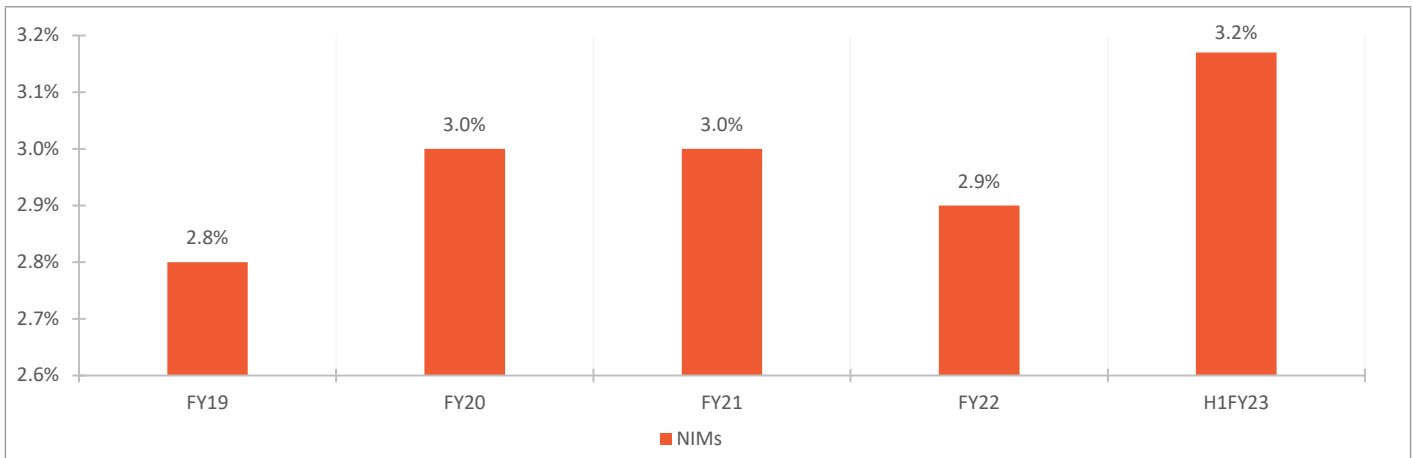
#### Trend in Loan Mix



Source: Sharekhan Research

Out of the total advances, 75% are floating loans – 41% are linked to MCLR, & 34% are linked to other EBLR. We believe there is an upside risk to margins as transmission of MCLR rates (~100 bps) in corporate loans is yet to happen which provides sufficient headroom for NIM expansion offsetting any increase in cost of deposits. The bank reported strong LCR of ~138% and lower CD ratio of ~70% in Q2FY2023, thus the bank has been exhibiting its pricing power in terms of pricing of deposits as it has increased retail TD rates only by ~80 bps, while majority of the hike is passed on to bulk deposits, which have lower share. The bank is also witnessing acceleration in loan growth (+20.8% YoY, 4.8% QoQ) in Q2FY2023, led by the retail segment (+19% YoY, 4% QoQ) and revival in corporate segment. New term loan disbursements in the corporate segment with higher maturity are being disbursed at higher rates and even in international loans, margin in trade finance book have improved, while spreads are relatively higher in syndicate loans. Margin is likely to see an upward bias in coming quarters.

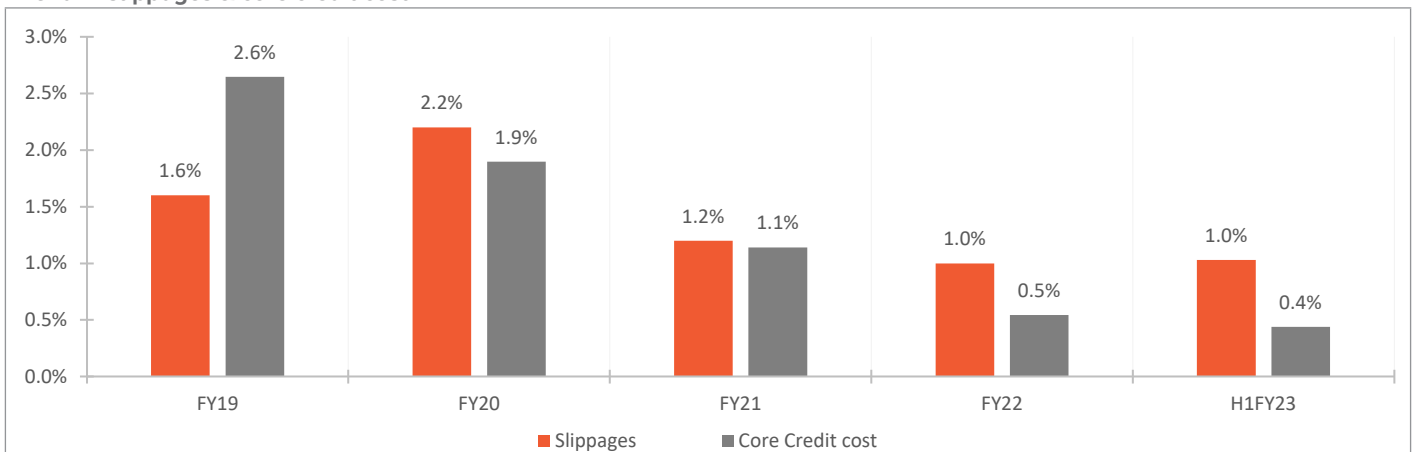
#### Trend in NIMs



Source: Sharekhan Research

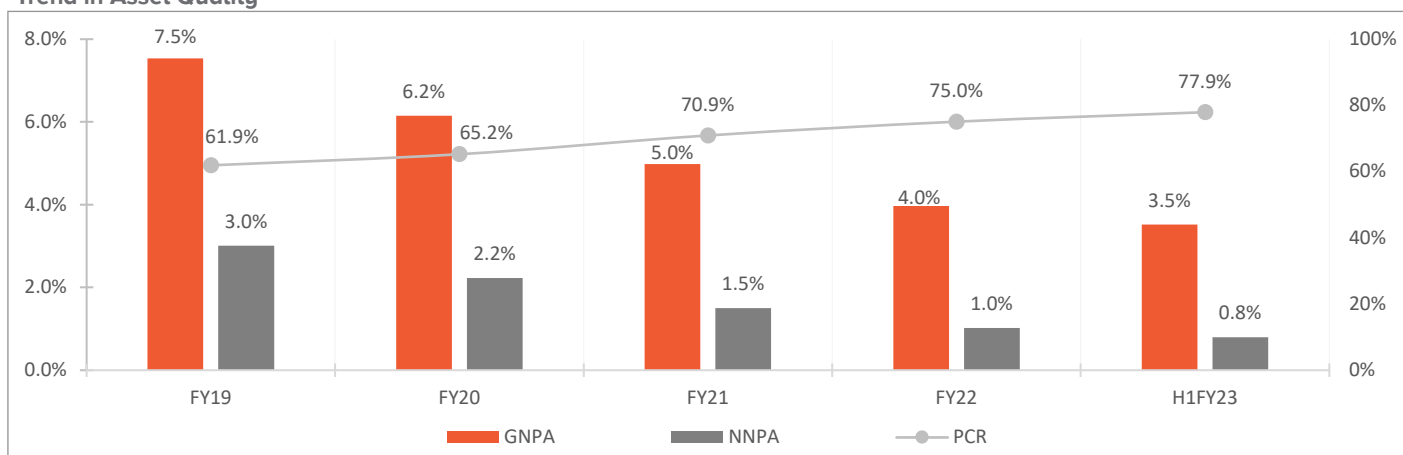
We do not foresee any material asset-quality risk and expect overall asset quality to improve further. Corporate asset quality remains strong and in the SME book, especially ECLGS has not seen incremental stress formation. We have seen strong rebound in retail growth, especially the unsecured book, but here the focus is still on higher-quality customer segments (majorly government salaried). GNPLs in the retail segment are best-in-class in the industry. In H1FY2023, core credit cost stood at 44 bps annualized (calculated as a % of average advances) with ~18 bps of net slippages in H1FY23. Restructured book stands at ~0.9% of advances and SMA 1 and 2 book stands at 0.3% of advances. However, the bank carries additional non-NPA provisions at ~1% of advances. We believe lower stress in the system, additional provisions, and higher coverage ratio (78%) will drive lower credit cost for the bank.

#### Trend in slippages & core credit cost



Source: Sharekhan Research

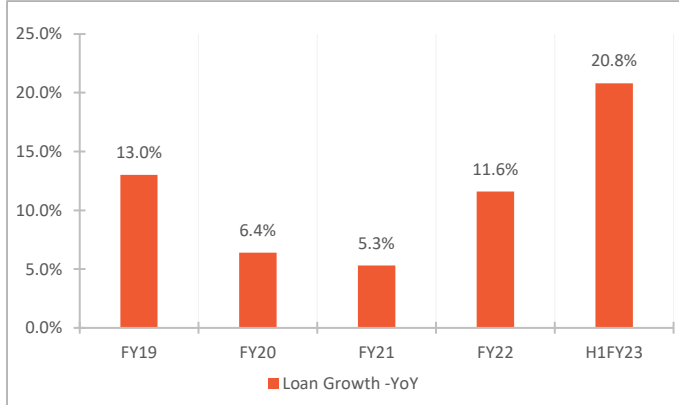
### Trend in Asset Quality



Source: Sharekhan Research

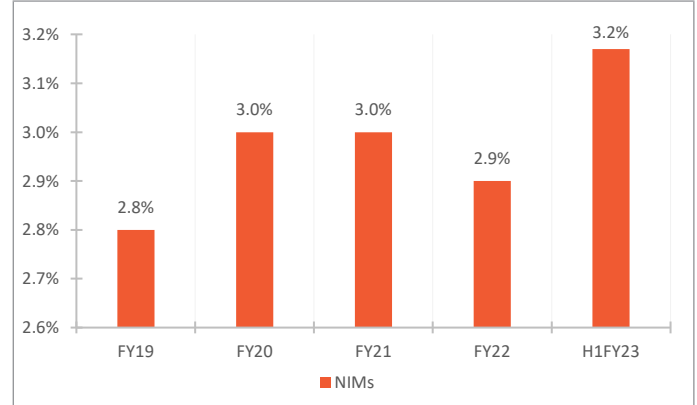
## Financials in charts

### Trend in Loan growth



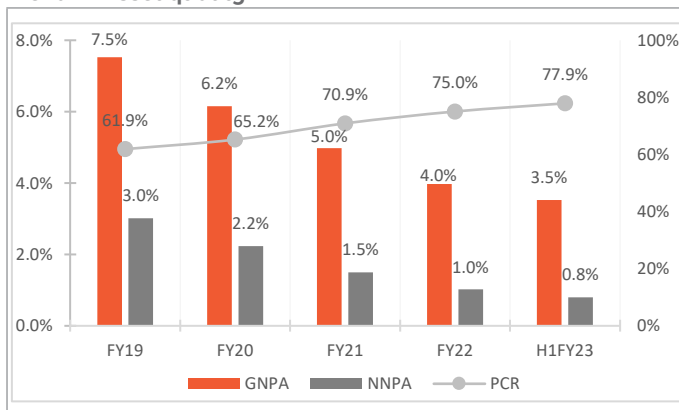
Source: Company, Sharekhan Research

### Trend in NIMs



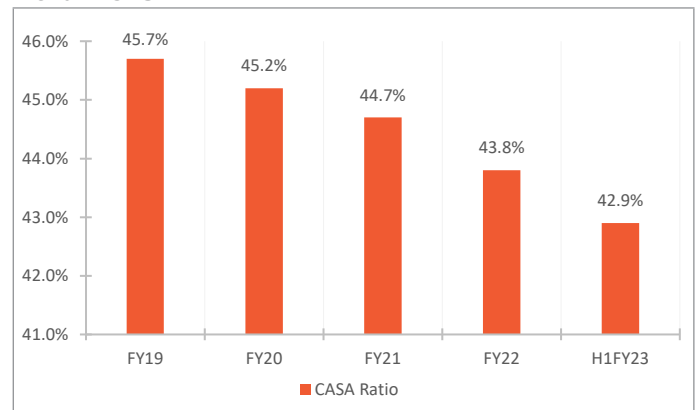
Source: Company, Sharekhan Research

### Trend in Asset quality



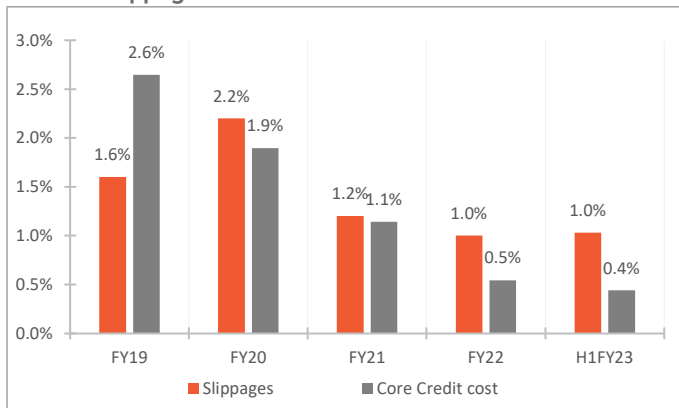
Source: Company, Sharekhan Research

### Trend in CASA



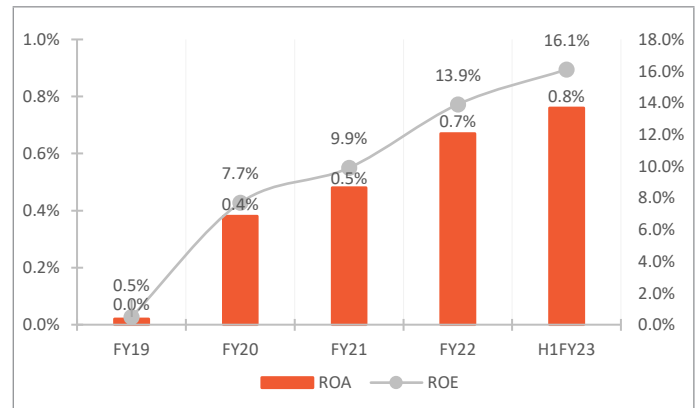
Source: Company, Sharekhan Research

### Trend in Slippages & Core Credit cost



Source: Company, Sharekhan Research

### Trend in Return ratio



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% y-o-y in the fortnight ending Nov 4, 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 ~8% 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, improving retail mix, higher rated corporate loans, sustaining lower credit cost along with lower 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 capex intensity increases. We see upside risk to margins due to higher rate cycle. Strong PPOP growth and lower credit cost given the benign credit cycle should lead to improvement in return ratio profile.

### ■ Valuation – Maintain Buy with an unchanged PT of Rs. 710

At the CMP, SBI trades at 1.2x/1.0x/0.8x its FY23E/24E/25E core ABV, respectively. Bank robust performance has been aided by strong loan growth, margin expansion, and lower provisions. Asset quality performance remains strong, with a continuous improvement in headline asset quality ratios, while the restructured book remains under control at 0.9%. The 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 favor the business. We maintain our Buy rating on SBI with an unchanged PT of Rs. 710. SBI remains our top pick among PSU bank baskets.

#### 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	608	5,42,661	8.6	6.3	1.2	1.0	14.7	17.1	0.8	1.0
HDFC Bank	1,619	9,02,825	20.0	16.9	3.1	2.6	16.5	16.8	1.9	1.9
ICICI Bank	940	6,55,538	18.5	15.5	2.7	2.3	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

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## 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 deteriorating 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



# Sharekhan

by BNP PARIBAS

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