Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

State Bank of India

Another strong quarter

Banks	Sharekhan code: SBIN
Reco/View: Buy ↔	CMP: Rs. 544	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 Updated Dec 08, 2022	29.55

Medium Risk

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

Source: Morningstar

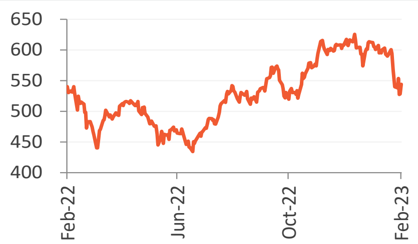
Company details

Market cap:	Rs.4,85,900 cr
52-week high/low:	Rs. 630/425
NSE volume: (No of shares)	129.2 lakh
BSE code:	500112
NSE code:	SBIN
Free float: (No of shares)	383.8 cr

Shareholding (%)

Promoters	57.5
FII	10.1
DII	25.4
Others	7.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-11.1	-7.0	2.1	0.7
Relative to Sensex	-10.4	-7.0	-2.2	-2.8

Sharekhan Research, Bloomberg

Summary

- SBI reported solid earnings growth of 68% y-o-y driven by strong operating profit growth of 36% y-o-y and a 17% y-o-y decline in provisions. Strong NII growth of 24% y-o-y (with margin expanding 35 bps y-o-y & 18 bps q-o-q) and a reversal of MTM provisions supported by a strong growth in operating profits.
- However, the key focus was around the exposure to the Adani Group. The bank stated that its O/S exposure to the Adani Group is at 0.88% of loans (~Rs.27,000 crore). In terms of net worth, it stands at ~8.4%. The 0.88% exposure includes both fund-based as well as non-fund-based exposure. Currently, bank do not envisage any challenge in their ability to service obligation and guided that their exposure is towards projects that have tangible assets and strong cash flows. On the positive side, bank does not have exposure towards Loans against shares of the group companies.
- SBI reported healthy loan growth of 19% y-o-y/ 4% q-o-q which was broad based across segments. However, domestic deposits mobilization was below par. Gross slippages were at just 50 bps vs 40 bps qoq (calc. as % of 12m trailing advances) and contained recoveries and upgrades along with higher write offs, asset quality improved with GNPA & NNPA ratios falling by 38 bps / 3 bps q-o-q to 3.14%/0.77%. PCR at ~ 76% versus 78% q-o-q.
- At CMP, SBI trades at 1.0x/ 0.8x/ 0.7x its FY2023E/ FY2024E/ FY2025E core BV estimates. We maintain our Buy rating on the stock with an unchanged PT of Rs. 710. SBI remains our top pick among PSU bank`s basket.

SBI reported another strong quarter, where numbers were above consensus and our estimates. Net interest income grew by 24%y-o-y/ 8% q-o-q led by strong loan growth and margin improvement. NIMs improved by 18 bps q-o-q to 3.50%. Bank believes that the improving LDR and higher share of the MCLR book would continue to support margins. Core fee income growth was muted at 3% y-o-y / flat q-o-q. The bank reported significantly higher treasury profits amounting to Rs. 2,938 crore vs Rs. 457 crore in the past quarter due to write-back of mark-to-market (MTM) losses and some gains were booked as yield improved. Total operating expenses grew by 17% y-o-y / 6% q-o-q led by incremental wage revision provisions of Rs. 996 crore and higher provisions on account of pension & gratuity liability. PPoP grew by 36% y-o-y / 19% q-o-q. Provisions declined by 17% q-o-q but were higher by 90% q-o-q due to higher standard asset provisioning. Core credit cost stood at 21 bps annualized vs 28 bps in the last quarter. PAT reported at Rs. 14,205 crore was up by 68% y-o-y/ 7% qoq. Net advances grew by 19% y-o-y / 4% y-o-y. Retail loans (led by mortgages and personal loans) rose by 18% y-o-y, agri and SME loans grew by 12% y-o-y and 14% y-o-y respectively. The wholesale domestic corporate book & Overseas book grew by 18% y-o-y /21% y-o-y. Deposits grew by 10% y-o-y / 1% q-o-q with CASA growing at 6% y-o-y/ flat q-o-q. However, International deposits grew by 28% y-o-y. Gross slippages were at just 50 bps vs 40 bps q-o-q (calc. as % of 12-month trailing advances) and contained recoveries and upgrades along with higher write offs, asset quality improved with GNPA & NNPA ratios falling by 38 bps / 3 bps q-o-q to 3.14%/0.77%. PCR at ~ 76% vs 78% q-o-q. The restructured book stood at Rs. 26,035 crore (~0.85% of advances vs 0.93% q-o-q). SMA 1& 2 book (accounts with exposure above Rs. 5 crore) stood at Rs.4,747 crore (0.16% of advances vs 0.29% q-o-q).

Key positives

- Solid NII growth
- Lower slippages

Key negatives

- CASA mobilisation was weak and below system growth.
- Higher write-offs
- Core fee income growth muted

Management Commentary

- NIMs are expected to be stable with positive upward bias. Bank believes that the improving LDR and higher share of the MCLR book would continue to support margins.
- Bank guided on the deposit growth outlook – The bank has Rs. 3.2 trillion as excess SLR and have lowest domestic CD ratio. Thus, overall deposit growth will be at par with the system growth.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 710: At CMP, SBI trades at 1.0x /0.8x/ 0.7x its FY2023E/ FY2024E/ FY2025E core book value (BV) estimates, respectively. SBI's operating metrics continue to see improvement with healthy loan growth, margin improvement and lower slippages in turn lower core credit costs, should sustain in near to medium term. Balance sheet is strong, and 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 see further upside risk to margins which should lead to sustainable ROA trajectory of ~1% in near to medium term. We maintain a Buy rating on SBI with an unchanged PT of Rs. 710. SBI remains our top pick among PSU banks.

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	1,42,489	1,59,603	1,72,426
PAT	31,676	49,017	56,120	58,402
EPS (Rs)	35.5	54.9	62.9	65.4
P/E (x)	10.3	6.7	5.8	5.6
P/BV (x)	1.2	1.0	0.8	0.7
RoE (%)	11.9	16.1	15.7	14.1
RoA (%)	0.7	0.9	1.0	0.9

Source: Company; Sharekhan estimates

Key Result Highlights

Strong NII growth driven by uptick in margins and healthy loan growth

NII grew by 24%y-o-y/ 8% q-o-q led by strong loan growth and margin improvement. NIMs improved by 18 bps q-o-q/ 35 bps y-o-y reported at 3.50%. Bank believes that the improving LDR and higher share of the MCLR book would continue to support margins. NIMs are expected to be stable with positive upward bias.

Benign credit cost

Provisions declined by 17% q-o-q but were higher by 90% q-o-q due to higher standard asset provisioning. Core credit cost stood at 21 bps annualized vs 28 bps in the last quarter. Credit cost is expected to remain lower in Q4FY23 also and credit cost would much depend on the macro-economic factors in FY24E.

Higher write-offs drive down NPAs

GNPA and NNPA ratios declined by 38 bps/ 3 bps q-o-q to 3.14%/ 0.77%. The restructured book stood at Rs. 26,035 crore (~0.85 % of advances vs 0.93% last quarter). SMA 1& 2 book stood at Rs 4,747 crore (0.16% of advances vs 0.29% q-o-q). Gross slippages stood at Rs. 3,209 crore versus Rs. 2,441 crore. Upgrades and recovery amounted to Rs. 1,643 crore versus Rs. 5,207 crore in Q2FY2023. Write off were at Rs. 10,024 crore versus Rs. 3,702 crore in last quarter. PCR stood at 76% vs 78% q-o-q.

Healthy Loan growth

Net advances grew by 19% y-o-y / 4% y-o-y. Retail loans (led by mortgages and personal loans) rose by 18% y-o-y, agri and SME loans grew by 12% y-o-y and 14% y-o-y, respectively. Wholesale domestic corporate book & Overseas book grew by 18% y-o-y /21% y-o-y. Some moderation in loan growth can happen as the high base normalises in FY24E. Bank is guiding for 14-16% loan growth in FY23E. The retail book is growing without any challenge led by continued strong traction in Xpress credit (up 26% YoY) and the vehicle/mortgage book and demand remains healthy. In Corporate book, it believes that improved term loan demand by corporates should drive up working capital demand over the medium term. Corporate book growth rate will be similar in the next quarter as seen in December quarter. It has decent pipeline to disburse in corporate loan. SME book loan growth is now accelerating as earlier investments in terms of product/ business is now rewarding. In International book, focus is to improve the NIMs.

Domestic deposit mobilization was below par

Deposits grew by 10% y-o-y / 1% q-o-q with CASA growing at 6% y-o-y/ flat q-o-q. However, International deposits grew by 28% y-o-y. CA balance were flat y-o-y and SA balance grew by 7% y-o-y. Domestic term deposits grew by 11% y-o-y. Bank guided on the deposit outlook – bank has Rs. 3.2 trillion excess SLR and have lowest domestic CD ratio. Thus, overall deposit growth will be at par with the system growth.

Adani group exposure discussion took center stage

Bank stated that its O/S exposure to the Adani Group is at 0.88% of loans (~Rs.27,000 crore) in terms of net worth, it stands at ~8.4%. 0.88% includes both fund- based as well as non-fund-based exposure. Currently, the bank does not envisage any challenge in their ability to service obligation and guided that their exposure is towards projects that have tangible assets and strong cash flows. On the positive side, bank does not have exposure towards loans against shares of the group companies.

Others: The bank had earlier indicated in the previous quarter that it consciously did not book majority of treasury trading gains. In the current quarter, bank booked some of the gains due to improvement in yield and there were write back of some of the MTM provisions. Thus, treasury gains were higher during the quarter. Digital sourcing continues to be strong. ~64% of savings accounts ~42% of retail assets were acquired from YONO during the quarter. The bank currently does not have specific plans but would be evaluating capital raise. It could be via equity or AT1 bonds.

Results (standalone) Rs cr

Particulars	Q3FY23	Q3FY22	Q2FY23	Y-o-Y %	Q-o-Q %
Interest Inc.	86,616	69,678	79,860	24%	8%
Interest Expenses	48,547	38,991	44,676	25%	9%
Net Interest Income	**38,069**	**30,687**	**35,183**	**24%**	**8%**
NIM (%)	3.50	3.15	3.32	11%	5%
Core Fee Income	5,928	5,747	5,942	3%	0%
Other Income	5,540	2,926	2,932	89%	89%
Net Income	**49,536**	**39,361**	**44,058**	**26%**	**12%**
Employee Expenses	14,757	12,471	12,867	18%	15%
Other Opex	9,560	8,368	10,070	14%	-5%
Total Opex	**24,317**	**20,839**	**22,938**	**17%**	**6%**
Cost to Income Ratio	49.1%	52.9%	52.1%		
Pre Provision Profits	**25,219**	**18,522**	**21,120**	**36%**	**19%**
Provisions & Contingencies - Total	5,761	6,974	3,039	-17%	90%
Profit Before Tax	**19,459**	**11,548**	**18,081**	**69%**	**8%**
Tax	5,253	3,116	4,817	69%	9%
Effective Tax Rate	27%	27%	27%		
Reported Profits	**14,205**	**8,432**	**13,265**	**68%**	**7%**
Basic EPS (Rs)	15.9	9.5	14.9	68%	7%
Diluted EPS (Rs)	15.9	9.5	14.9	68%	7%
RoA (%)	1.1	1.0	0.7		
Advances	30,58,177	25,78,386	29,51,288	18.6%	3.6%
Deposits	42,13,557	38,47,794	41,90,255	10%	1%
Gross NPA	**98,347**	**1,20,029**	**1,06,804**	**-18%**	**-8%**
Gross NPA Ratio (%)	3.14	4.50	3.52		
Net NPA	**23,484**	**34,540**	**23,572**	**-32%**	**0%**
Net NPAs Ratio (%)	0.77	1.34	0.80		
PCR - Calculated	76.1%	71.2%	77.9%		

Source: Company, Sharekhan Research

OTP 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 - Deposit mobilisation to be in focus; Banks with strong deposit franchise placed better

System-level credit offtake grew by ~16.5% y-o-y in the fortnight ending January 13, 2022, indicating loan growth has been sustaining, given distinct signs of an improving economy, and revival of investments and loan demand. On the other hand, deposits rose by ~10.6% but are trailing advances growth. We should see sustained acceleration in loan growth. Margins are likely to improve, but momentum is expected to moderate and margins are expected to peak out by H1FY2024. Asset quality is not a big issue on the corporate lending end, as only de-leveraging is 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. In the past few years, lenders have been cautious about lending to the 'BB and below' category, thus the general risk, which they are carrying on the corporate loan 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, strong deposit franchise, 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 broad-based driven by retail, SME, and corporate segments. We believe improved performance should sustain over the medium term.

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

At CMP, SBI trades at 1.0x /0.8x/ 0.7x its FY2023E/ FY2024E/ FY2025E core BV estimates, 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 sustain in 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 further upside risk to margins which should lead to sustainable ROA trajectory of ~1% in near to medium term. We maintain our Buy rating on SBI with an unchanged PT of Rs. 710. SBI remains our top pick among PSU banks.

Peer Comparison

Companies	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	544	4,85,900	6.7	5.8	1.0	0.8	16.1	15.7	0.9	1.0
HDFC Bank	1,659	9,25,188	19.9	17.3	3.1	2.7	17.0	16.7	2.0	1.9
ICICI Bank	864	6,02,749	15.7	13.9	2.4	2.1	16.9	16.2	2.1	2.1

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 sector. 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 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. Overall asset quality outlook continues to remain stable to positive. We believe improved performance should sustain over the medium term.

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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	REPUBLIC OF INDIA	56.92
2	LIFE INSURANCE CORP OF INDIA	8.65
3	SBI FUNDS MANAGEMENT LTD	3.41
4	HDFC ASSET MANAGEMENT CO LTD	1.82
5	ICICI PRUDENTIAL ASSET MANAGEMENT CO LTD	1.40
6	BANK OF NEW YORK MELLON CORP	1.04
7	KOTAK MAHINDRA ASSET MANAGEMENT CO LTD	0.95
8	NIPPON LIFE INDIA ASSET MANAGEMENT CO LTD	0.92
9	MIRAE ASSET GLOBAL INVESTMENTS CO LTD	0.70
10	ADITYA BIRLA SUN LIFE 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

Sharekhan

by BNP PARIBAS

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