Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

State Bank of India

Standing tall amid the global turmoil

Banks		Sharekhan code: SBIN		
Reco/View: Buy	↔	CMP: **Rs. 522**	Price Target: **Rs. 710**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We believe the Indian banking sector is expected to remain resilient despite recent local/global macro concerns. SBI is a sector proxy that benefits from its strong liability franchise and continued favourable sector tailwinds.
- Loan growth trends are expected to remain healthy, led by broad-based credit growth across the retail (especially unsecured), SME, and corporate portfolio.
- Upside risk to margins persists – a) Transmission of MCLR rates (~185 bps passed on till now vs. 250 bps rate hike) on corporate loans is yet to happen, which provides sufficient headroom for NIM expansion, offsetting any increase in cost of deposits and b) delay in rate hike pause.
- We believe there is an investment case for gradual improvement in the core ROA trajectory in the near term. At the CMP, SBI trades at 0.8x/0.7x its FY2024E/FY2025 core ABV. We retain our Buy rating on SBI with an unchanged PT of Rs. 710. The bank is our top pick among PSU banks and is available at a bargain valuation.

Healthy trends in loan growth, margin improvement, sustained lower slippages, and strong recoveries leading to lower credit costs are expected to drive robust earnings growth and improvement in the core RoA trajectory. Balance sheet strength remains strong (best-in-class in its history) with overall asset-quality outlook stable to positive in the near to medium term. The bank is well positioned to gain market share in the new credit cycle, as India is gradually moving towards its $5 trillion GDP target by 2028E. Risk reward is attractive after a steep correction (~16% in the past three months) in the stock firstly due to Adani – Hindenburg saga followed by turmoil in some of the U.S. and European banks. We do not envisage any impact arising on the Indian banking sector.

- **Margins to improve further:** We believe there is an upside risk to margins, as transmission of MCLR rates (~185 bps passed on till now vs. 250 bps rate hike) on corporate loans is yet to happen, which provides sufficient headroom for NIM expansion, thus offsetting any increase in cost of deposits. Delay in interest rate hike pause would also support NIMs. Additionally, the bank reported overall CD ratio of ~73% in Q3FY2023, while domestic CD ratio is at ~65% as of Q3FY2023. Thus, we believe all these factors along with improving CD ratio should lead to NIM improvement in the near term.
- **Loan growth is expected to be broad based:** The retail book is growing without any challenge, led by continued strong traction in Xpress credit (up 26% y-o-y) and the vehicle/mortgage book and demand remains healthy. In the corporate book, it believes improved term loan demand by corporates should drive up working capital demand over the medium term. It has decent pipeline to disburse in corporate loans (~Rs. 3.7 trillion). SME book loan growth is now accelerating as earlier investments in terms of product/business are now rewarding. Some moderation in loan growth can happen as the high base normalises in FY2024E; however, loan growth trends remain healthy, led by broad-based credit growth across the retail (especially unsecured), SME, and corporate portfolio.
- **Capital Raising:** The bank does not expect capital raise through equity in the near term but it could raise money via AT1 bonds to shore up tier-1 capital (at ~10.8% as of Q3FY2023).

Our Call

Valuation – At the CMP, SBI trades at 0.8x/0.7x its FY2024E/FY2025E core ABV, respectively. SBI's operating metrics continue to see improvement with healthy loan growth, margin improvement, and lower slippages leading to lower core credit costs, which should sustain in the 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 a sustainable core ROA trajectory of ~1% in the near to medium term. We maintain our Buy rating on SBI with an unchanged price target (PT) of Rs. 710. SBI remains our top pick among PSU banks.

Key Risks

Economic slowdown leading to 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)	9.7	6.3	5.5	5.3
P/ABV (x)	1.1	0.9	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

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 27.5
Updated Mar 08, 2023

Medium Risk

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

Source: Morningstar

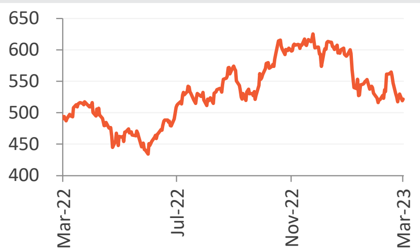
Company details

Market cap:	Rs. 4,65,419 cr
52-week high/low:	Rs. 630/431
NSE volume: (No of shares)	133.1 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



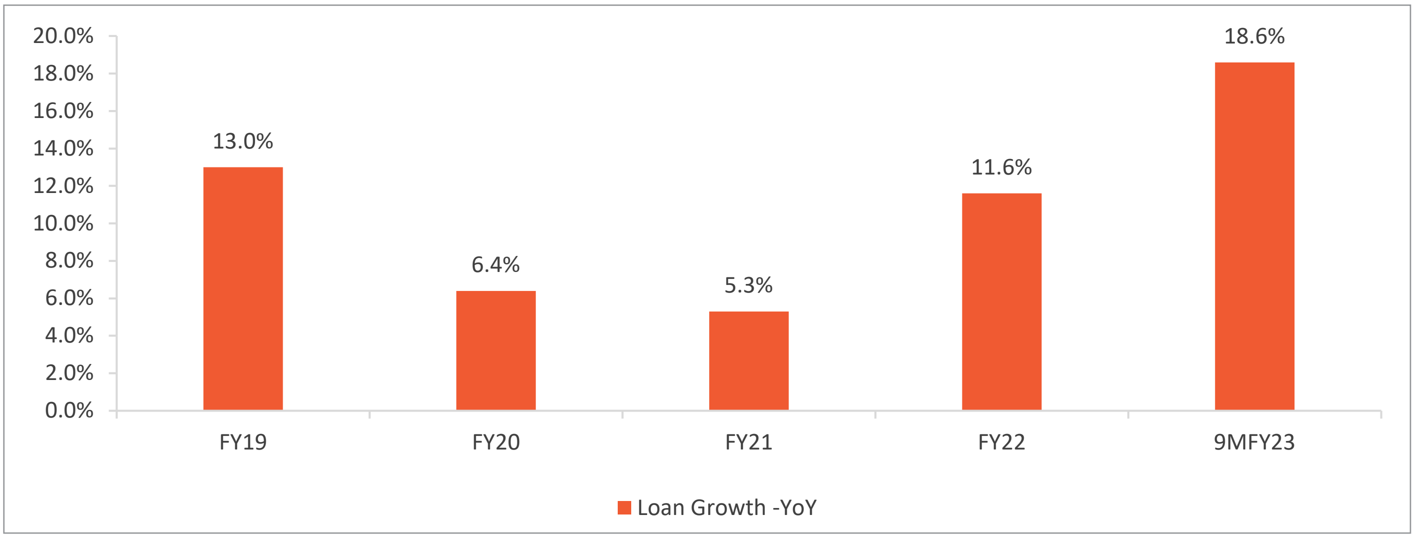
Price performance

(%)	1m	3m	6m	12m
Absolute	-0.2	-12.0	-8.4	6.3
Relative to Sensex	3.9	-7.3	-6.3	4.7

Sharekhan Research, Bloomberg

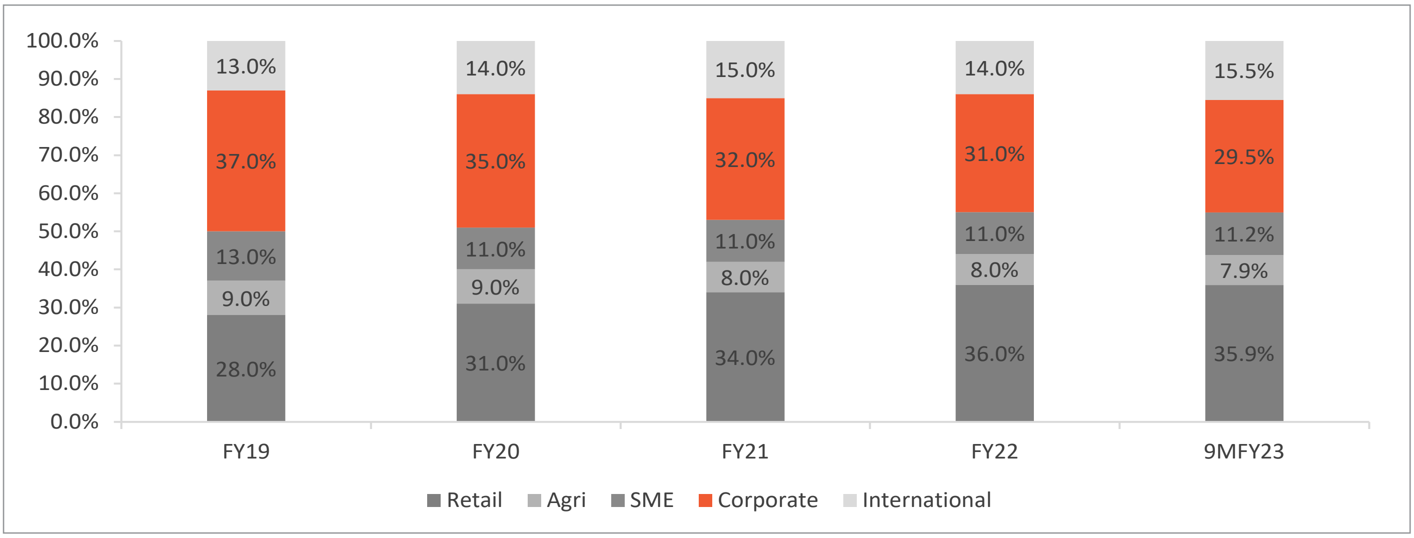
Loan growth trend remained strong (18.6% y-o-y) in 9MFY2023, led by retail portfolio and pick up in the corporate segment. Retail portfolio growth was healthy at 18% y-o-y in 9MFY2023. Within retail loans, the share of home loans and Xpress credit (personal loans) – both cumulatively account for ~81% – is 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 utilisation levels are improving in the corporate book. Overall capacity utilisation for the industry has crossed 75% and, thus, it is likely to auger well for the capex cycle. Currently, the bank has corporate loans amounting to Rs. 3.7 trillion in the pipeline, thus credit growth is expected to remain healthy going forward. Improved growth outlook in the corporate book is led by better demand and is likely to continue.

Trend in loan growth



Source: Company, Sharekhan Research

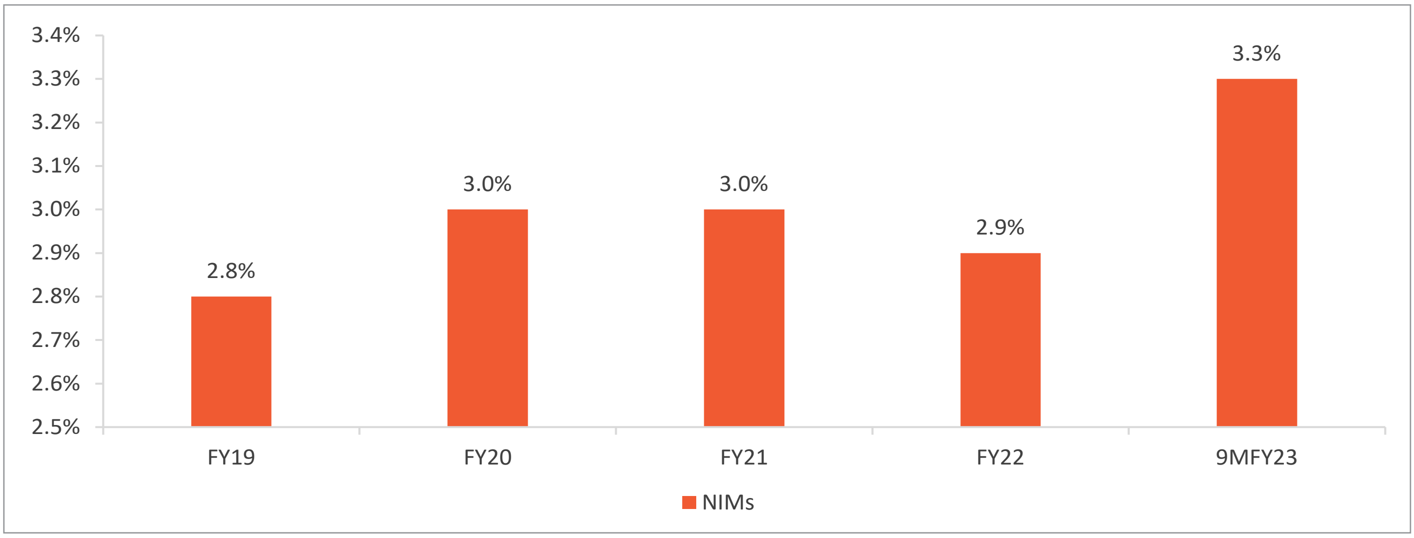
Trend in Loan Mix



Source: Company, Sharekhan Research

Upside risk to margins persists, as the transmission of MCLR rates (~185 bps passed on till now vs. 250 bps rate hike) on corporate loans is yet to happen, which provides sufficient headroom for NIM expansion, thus offsetting any increase in the cost of deposits. A delay in interest rate hike pause would also support NIM. Additionally, the bank reported an overall CD ratio of ~73% in Q3FY2023, while domestic CD ratio is at ~65% as of Q3FY2023. Thus, we believe all these factors along with improving CD ratio should lead to NIM improvement in the near term.

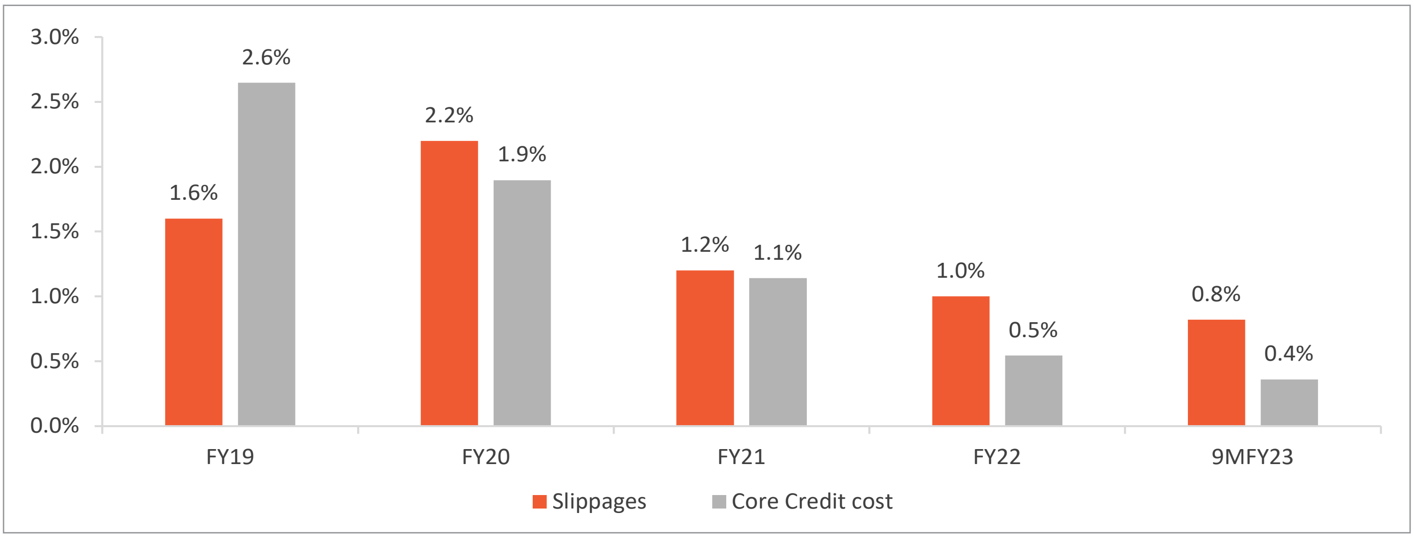
Trend in NIMs



Source: Company, Sharekhan Research

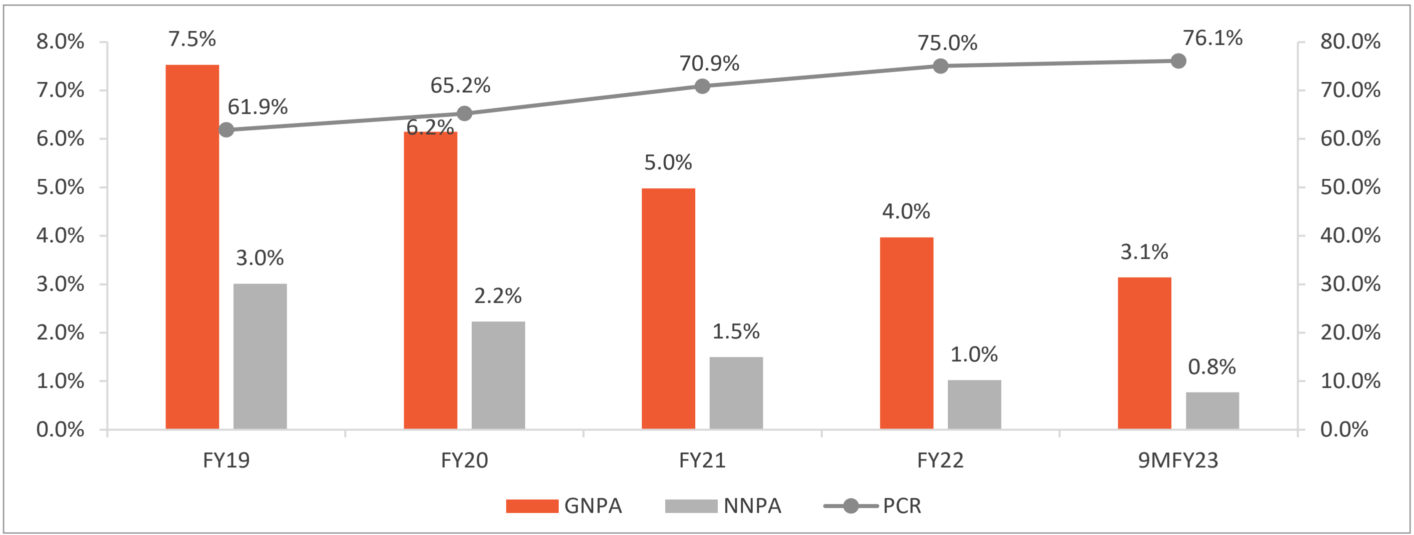
We do not foresee any material asset-quality risk and expect overall asset quality to improve further. Corporate asset quality remains strong; and in the SME book, especially ECLGS has not seen incremental stress formation. We have seen a strong rebound in retail growth, especially the unsecured book, 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 9MFY2023, core credit cost stood at 36 bps annualised (calculated as a percentage of average advances) with ~19 bps of net slippages in 9MFY2023. The restructured book stands at ~0.85% of advances and SMA 1 and 2 book stands at 0.16% of advances. However, the bank carries additional non-NPA provisions at ~1.1% of advances. We believe lower stress in the system, additional provisions, and higher coverage ratio (76%) will drive lower credit cost for the bank.

Trend in slippages & core credit cost



Source: Company, Sharekhan Research

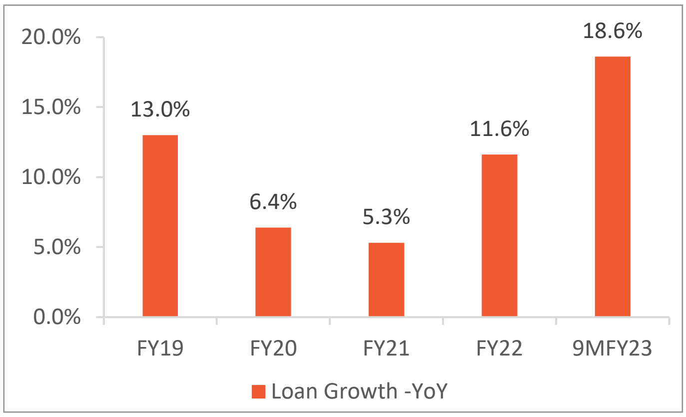
Trend in Asset Quality



Source: Company, Sharekhan Research

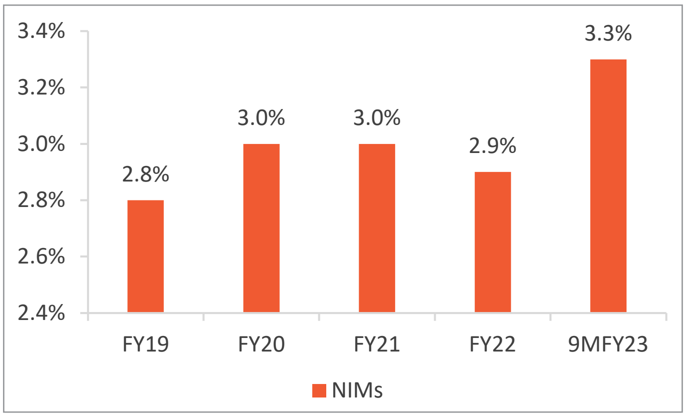
Financials in charts

Trend in Loan growth



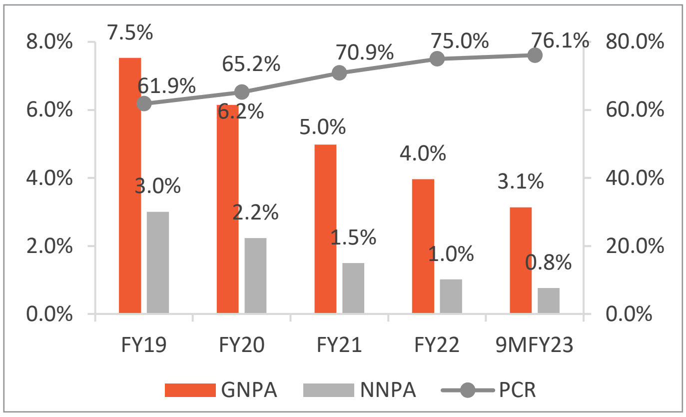
Source: Company, Sharekhan Research

Trend in NIMs



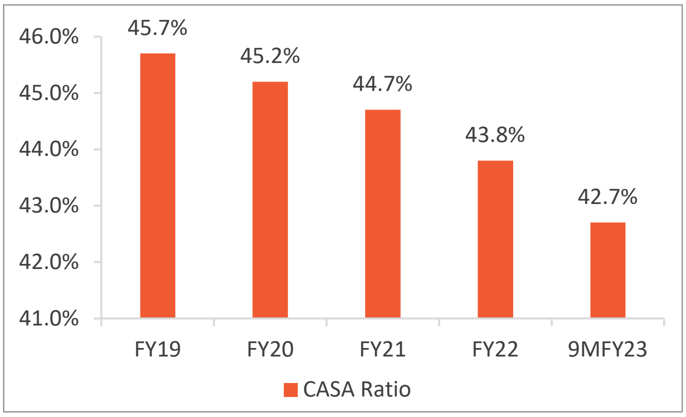
Source: Company, Sharekhan Research

Trend in Asset quality



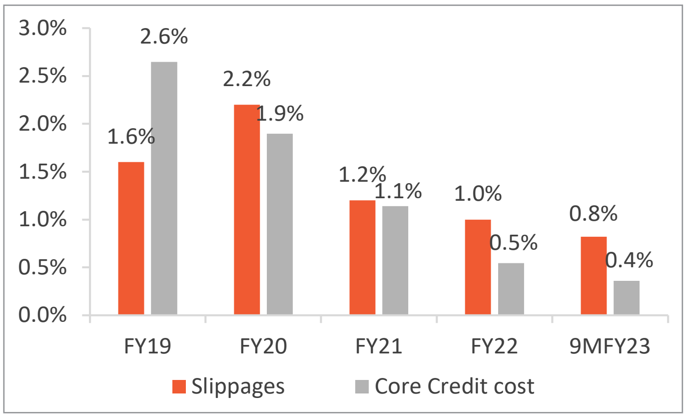
Source: Company, Sharekhan Research

Trend in CASA



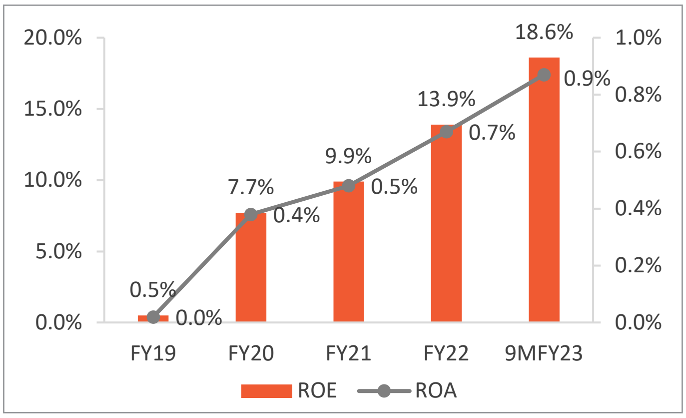
Source: Company, Sharekhan Research

Trend in Slippages & Core Credit cost



Source: Company, Sharekhan Research

Trend in Return ratio



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Deposit mobilisation to be in focus; Banks with a superior liability franchise placed better

System-level credit offtake grew by ~15.5% y-o-y in the fortnight ending February 24, 2023, indicating loan growth has been sustaining, given distinct signs of an improving economy, revival of investments, and strong demand. On the other hand, deposits rose by ~10.1% but still trail advances growth. We should see some moderation in loan growth due to a higher base in FY2024, but loan growth is expected to remain healthy. Margins are likely to improve, but momentum is expected to moderate and margins are expected to peak out by the end of FY2024. Asset quality is not a big issue on the corporate lending end due to muted growth in the past few years. From the retail side, there could be some pressure due to the adverse macro situation, but nothing is significant. Asset quality is likely to remain stable in the near to medium term. In the past few years, lenders have been cautious about lending to the 'BB & 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 banks with a robust 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, 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 in the near term. Strong PPoP growth and lower credit cost given the benign credit cycle should lead to improvement in the return ratio profile.

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

At the CMP, SBI trades at 0.8x/0.7x its FY2024E/FY2025E core ABV, respectively. SBI's operating metrics continue to see improvement with healthy loan growth, margin improvement, and lower slippages leading to lower core credit costs, which should sustain in the 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 a sustainable core ROA trajectory of ~1% in the 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 (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
State Bank of India	522	4,65,419	5.5	5.3	0.8	0.7	15.7	14.1	1.0	0.9
HDFC Bank	1,575	8,78,852	16.4	14.3	2.5	2.2	16.7	16.4	1.9	1.8
ICICI Bank	859	5,99,461	13.8	12.1	2.1	1.8	16.2	15.7	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 Reserve Bank of India (RBI) as a domestic systemically important bank (D-SIB), which means that its continued functioning is critical for the economy. The bank 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

Know more about our products and services

For Private Circulation only

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For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.