

State Bank of India

Improving quality of earnings

SBIN posted its highest-ever quarterly profit and a strong beat, led by healthy loan growth (+17% YoY), better fees and lower credit costs, having front-loaded its provisions during 9MFY23 on a prudent basis. Asset quality remains strong, with GNPA at 2.8% (-36bps QoQ) and the restructured pool registering a marginal improvement to 0.8%. Operating expenses flared up QoQ on account of wage revision and franchise-building initiatives, resulting in an elevated C/I ratio at ~55%. While a relatively low LDR (~73%) and high stock of surplus SLR (INR4trn) offers comfort on incremental loan growth, management has guided for modest growth in deposits, backed by excess liquidity on the balance sheet. We tweak our FY24E/FY25E estimates to factor in stronger loan growth and lower credit costs, partly offset by higher opex; maintain BUY with a revised SOTP-based target price of INR732 (core bank at 1.2x Mar-25 ABVPS).

- **Higher opex partly offsets NII gains:** SBIN reported strong NII growth (+29% YoY), led by ~17% YoY loan growth and 8bps QoQ reflation in NIM. Credit growth was broad-based across segments, led by continued traction in the SME portfolio on the back of a pickup in the investment cycle and healthy momentum in retail assets. Cost-to-income was elevated at ~55%, which the management expects will remain at similar levels in the medium-term, given wage revision liability and investments in tech.
- **Benign asset quality:** GNPA/NNPA improved further to 2.8/0.7% on the back of net negative slippages (-0.1% annualised), led by strong recoveries even as the PCR was at an impressive ~76%. The bank is confident of the actual ECL requirement being well below internal estimates - any shortfall is likely to be funded by reversal of excess non-NPA provisions of INR355bn (~1% of loans).
- **Internal accruals to substitute need for capital raise:** Management is bullish on credit delivery on the back of a revamped build-out in SME and steady growth in retail. Given a comfortable LDR, the modest need for incremental deposit mobilisation should likely protect NIMs. Further, SBIN is confident of shoring up its equity buffers via internal accruals.

Financial summary

(INR bn)	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)	FY22	FY23	FY24E	FY25E
NII	403.9	312.0	29.5%	380.7	6.1%	1,207.1	1,448.4	1,607.2	1,768.8
PPOP	246.2	197.2	24.9%	252.2	-2.4%	681.4	837.1	1,032.3	1,209.0
PAT	166.9	91.1	83.2%	142.1	17.5%	319.4	502.3	552.7	609.2
EPS (INR)	18.7	10.2	83.2%	15.9	17.5%	35.8	56.3	61.9	68.3
ROAE (%)						12.0	16.5	15.7	15.0
ROAA (%)						0.7	1.0	1.0	1.0
ABVPS (INR)						266.8	327.3	379.8	436.0
P/ABV (x)						2.2	1.8	1.5	1.3
P/E (x)						16.0	10.2	9.3	8.4

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
Net advances	35,303	36,069	2.2%	39,772	40,807	2.6%
NIM (%)	3.1	3.1	4bps	3.0	3.1	9bps
NII	1,546.6	1,607.2	3.9%	1,691.8	1,768.8	4.6%
PPOP	1,017.5	1,032.3	1.5%	1,186.7	1,209.0	1.9%
PAT	524.9	552.7	5.3%	568.7	609.2	7.1%
Adj. BVPS (INR)	368.2	379.8	3.2%	416.5	436.0	4.7%

Source: Company, HSIE Research

BUY

CMP (as on 18 May 23) INR 574

Target Price INR 732

NIFTY 18,130

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR725	INR732
	FY24E	FY25E
EPS %	5.3%	7.1%

KEY STOCK DATA

Bloomberg code	SBIN IN
No. of Shares (mn)	8,925
MCap (INR bn) / (\$ mn)	5,125/62,661
6m avg traded value (INR mn)	8,877
52 Week high / low	INR 630/431

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.1	(4.7)	25.4
Relative (%)	7.4	(4.4)	12.0

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	57.5	57.5
FIs & Local MFs	25.4	25.2
FPIs	10.1	9.9
Public & Others	7.0	7.4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Deepak Shinde

deepak.shinde@hdfcsec.com
+91-22-6171-7323

Neelam Bhatia

neelam.bhatia@hdfcsec.com
+91-22-6171-7341

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com