Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

State Bank of India

Expect to sustain core ROA of ~1% in the near to medium term

Banks	Sharekhan code: SBIN		
Reco/View: Buy ↔	CMP: Rs. 574	Price Target: Rs. 710 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- SBI reported solid earnings beat, with PAT at Rs. 16,695 crore (up 83% y-o-y/18% q-o-q), led by a 54% y-o-y/ 42% q-o-q decline in provisions. Core credit cost stood at 16 bps vs. 21 bps q-o-q and 49 bps y-o-y.
- However, core PPoP growth (up 17% y-o-y/ 2% q-o-q) moderated, led by higher opex growth (27% y-o-y/22% q-o-q) despite strong revenue growth.
- Asset-quality outlook continues to remain stable to positive. Net slippages were negative during the quarter. GNPA and NNPA ratios improved by 36 bps/10 bps q-o-q to 3.14%/0.77%. PCR at ~76% was stable q-o-q. The bank is positioned well to handle any incremental burden on account of ECL provisions, if any, as it already has non-NPA provisions of ~1.1% of loans outside PCR.
- We believe the bank is likely to sustain a core RoA trajectory of 1% in the near to medium term. At the CMP, SBI trades at 0.9x/0.8x its 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 banks.

SBI reported a solid beat on the earnings front for Q4FY2023. However, on the operational front, performance was below consensus. Net interest income (NII) grew strongly by 29% y-o-y/6% q-o-q, led by healthy loan growth and margin improvement. Net interest margin (NIM) improved by 10 bps q-o-q/45 bps y-o-y to 3.6%. The bank refrained from specific guidance on NIM; however, management guided that the bank does not foresee any significant rise in the cost of deposits from here on and it has levers to sustain margins at current levels despite a marginal rise in the cost of deposits. Core fee income growth was flat y-o-y but was higher by 35% q-o-q. The bank reported treasury profit amounting to Rs. 1,800 crore vs. Rs. 2,938 crore in the past quarter. Total operating expenses growth was significantly higher and grew by 27% y-o-y/22% q-o-q, led by incremental wage revision provisions of Rs. 500 crore, provisions on account of pension cost amounting to Rs. 1,360 crore, tech expenses, and insurance cost on deposits during the quarter. Thus, core PPoP growth moderated. PPoP grew by 25% y-o-y but was down by 2% q-o-q. Provisions declined by 54% y-o-y/42% q-o-q. Core credit cost stood at 16 bps annualised vs. 21 bps in the last quarter. PBT reported at Rs. 21,305 crore was up by 71% y-o-y/ 9% q-o-q. Net advances grew by 17% y-o-y/5% y-o-y. Retail, agri, and SME loans grew by 18%, 13%, and 18% on a y-o-y basis, respectively. The wholesale domestic corporate book and overseas book grew by 13% y-o-y and 20% y-o-y, respectively. Deposits grew by 9% y-o-y/5% q-o-q, with CASA growing at 5% y-o-y/4% q-o-q. Retail domestic term deposits and international deposits grew by 11% y-o-y and 30% y-o-y, respectively. Gross slippages ratio stood at 51 bps, stable on a q-o-q basis (calculated as a % of 12-month trailing advances), while net slippages were negative at Rs. 742 crore during the quarter. GNPA and NNPA ratios fell by 36 bps and 10 bps q-o-q to 2.78% and 0.67%, respectively. PCR at ~76% was stable q-o-q. The restructured book stood at Rs. 24,302 crore (~0.76% of advances vs. 0.85% q-o-q). SMA 1 and 2 book (accounts with exposure above Rs. 5 crore) stood at Rs. 3,260 crore (0.10% of net advances vs. 0.16% q-o-q).

Key positives

- Solid NII growth (29% y-o-y/6% q-o-q), driven by strong loan growth and margin improvement.
- Net slippages were negative (~Rs. 742 crore) during the quarter.
- Core credit stood at just 16 bps during the quarter.
- Strong return ratios – RoA /RoE at 1.2%/21% in Q4FY2023 and 1.0%/16.5% in FY2023.

Key negatives

- Opex growth was higher (up 27% y-o-y/22% q-o-q), led by higher employee expenses and overheads.
- Saving balances growth continued to remain muted (up 4.5% y-o-y/0.5% q-o-q).

Management Commentary

- The bank is confident of delivering 12-14% credit growth in FY2024. Management refrained from specific guidance on NIM. However, it guided that the bank does not foresee any significant rise in cost of deposits from here on and it has levers to sustain margins at current levels despite a marginal rise in cost of deposits.
- The bank has Rs. 4 trillion as excess SLR and domestic CD ratio is still lower. Thus, overall deposit growth will be at par with system growth.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 710: At the CMP, SBI trades at 0.9x/0.8x its FY2024E/FY2025E core book value (BV) estimates, respectively. SBI's operating metrics continued to see improvement, driven by healthy loan growth, uptick in margins, and lower credit cost in FY2023. Going forward, we believe credit cost is likely to sustain at lower levels, even if incrementally higher ECL provisions are required to be maintained as the bank already has additional non-NPA provisions of ~1.1% of loans outside PCR to take care and the total provisions to be made would be spread over five years. Moreover, the bank's strong liability franchise would result in slower cost of fund expansion as compared with private banks. Consequently, the bank would continue to deliver healthy RoE in the near to medium term, enabling it to consume capital at a slower pace. We believe the bank is likely to sustain 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 can lead to slower loan growth and higher-than-anticipated credit cost.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
NII	1,20,708	1,44,841	1,60,828	1,74,162
PAT	31,676	50,232	60,614	66,490
EPS (Rs)	35.5	56.3	67.9	74.5
P/E (x)	11.2	7.1	5.8	5.3
P/core BV (x)	1.3	1.1	0.9	0.8
RoE (%)	11.9	16.5	16.9	15.8
RoA (%)	0.7	1.0	1.0	1.0

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 27.50

Updated Mar 08, 2023

Medium Risk

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

Source: Morningstar

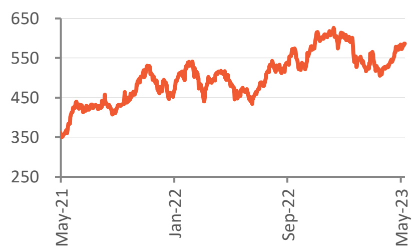
Company details

Market cap:	Rs. 5,12,407 cr
52-week high/low:	Rs. 630 / 431
NSE volume: (No of shares)	153.7 lakh
BSE code:	500112
NSE code:	SBIN
Free float: (No of shares)	383.9 cr

Shareholding (%)

Promoters	57.5
FII	9.9
DII	25.2
Others	7.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.1	8.1	-4.8	25.3
Relative to Sensex	3.5	7.8	-4.1	9.0

Sharekhan Research, Bloomberg

Stock Update

Result Update

Key Result Highlights

- **Solid NII growth:** NII grew strongly by 29%y-o-y/6% q-o-q, led by healthy loan growth and margin improvement. NIM improved by 10 bps q-o-q/45 bps y-o-y to 3.6%. The bank refrained from specific guidance on NIM; however, management has guided that it does not foresee any significant rise in cost of deposits from here on and it has levers to sustain margins at current levels despite a marginal rise in cost of deposits. The bank believes that it can reprice the MCLR book upwards to compensate the rise in cost of deposits. We believe NIMs have peaked out in Q4FY2023.
- **Higher opex growth:** Total operating expenses growth was significantly higher and grew by 27% y-o-y/22% q-o-q, led by incremental wage revision provisions of Rs. 500 crore, provisions on account of pension cost amounting to Rs. 1,360 crore, tech expenses, and insurance cost on deposits during the quarter. Thus, core PPoP growth moderated despite strong revenue growth.
- **Lower credit cost likely to sustain:** Provisions declined by 54% y-o-y/42% q-o-q. Core credit cost stood at 16 bps annualised vs. 21 bps in the last quarter. Credit cost is expected to remain at lower levels in FY2024, as the bank does not foresee incremental stress in any portfolio segment.
- **Asset-quality matrix continued to see improvement:** GNPA and NNPA ratios declined by 36 bps/10 bps q-o-q to 2.78%/ 0.67%. The restructured book stood at Rs. 24,302 crore (~0.76% of advances vs. 0.85% q-o-q). SMA 1 and 2 book (accounts with exposure above Rs. 5 crore) stood at Rs. 3,260 crore (0.10% of net advances vs. 0.16% q-o-q). Gross slippages stood at Rs. 3,458 crore versus Rs. 3,209 crore; however, net slippages were negative during the quarter. Upgrades and recovery amounted to Rs. 4,200 crore in Q4FY2023 versus Rs. 1,643 crore in Q3FY2023. Write-offs were at Rs. 6,677 crore in Q4FY2023 versus Rs. 10,024 crore in Q3FY2023. PCR stood at 76% stable q-o-q. Asset-quality outlook continues to remain stable to positive. The bank is positioned well to handle any incremental burden on account of ECL provisions, if any, as it has already additional non-NPA provisions of ~1.1% of loans outside PCR.
- **Loan growth outlook:** Net advances grew by 17% y-o-y/5% q-o-q. Retail, agri, and SME loans grew by 18%, 13%, and 18% on a y-o-y basis, respectively. The wholesale domestic corporate book and overseas book grew by 13% y-o-y and 20% y-o-y, respectively. Some moderation in loan growth can happen due to a higher base of FY2023. The bank has guided for 12-14% loan growth in FY2024. The retail book is growing without any challenge, led by continued strong traction in Xpress credit (up 23% y-o-y – 95% of the book constitutes salaried category with 83% government employee and 12% private employee), vehicle loans (up 23% y-o-y), and mortgage book (14% y-o-y). Retail loans now constitute 36% of total gross advances. In the corporate book, it has a decent pipeline to disburse. SME book loan growth is now accelerating as earlier investments in terms of product/ business are now rewarding.
- **Deposit mobilisation at par with system growth:** Deposits grew by 9% y-o-y/5% q-o-q, with CASA growing at 5% y-o-y/4% q-o-q in Q4FY2023. International deposits grew by 30% y-o-y. CA balance grew by 7% y-o-y and SA balance grew by 5% y-o-y. Domestic term deposits grew by 11% y-o-y. The bank has Rs. 4 trillion excess SLR and domestic CD ratio is still lower. Thus, overall deposit growth will be at par with system growth. The bank does not foresee any significant rise in the cost of deposits from here on and will keep the savings account rate at the current levels, while there could be a marginal rise in cost of TD.
- **Others:** Digital sourcing continues to be strong. About 64% of savings accounts and ~42% of retail assets were acquired from YONO during the quarter. The bank currently does not have plans for equity capital raise. The bank declared a dividend of Rs. 11.3 per equity share for FY2023.

Results (Standalone) Rs cr

Particulars	4QFY23	4QFY22	3QFY23	Y-o-Y	Q-o-Q
Interest Inc.	92,951	70,733	86,616	31%	7%
Interest Expenses	52,559	39,535	48,547	33%	8%
Net Interest Income	**40,393**	**31,198**	**38,069**	**29%**	**6%**
NIM (%)	3.60	3.15	3.50	14%	3%
Core Fee Income	8,003	8,023	5,928	0%	35%
Other Income	5,958	3,857	5,540	54%	8%
Net Income	**54,354**	**43,078**	**49,536**	**26%**	**10%**
Employee Expenses	17,616	12,556	14,757	40%	19%
Other Opex	12,116	10,805	9,560	12%	27%
Total Opex	**29,733**	**23,361**	**24,317**	**27%**	**22%**
Cost to Income Ratio	54.7%	54.2%	49.1%		
Pre Provision Profits	**24,621**	**19,717**	**25,219**	**25%**	**-2%**
Provisions & Contingencies - Total	3,316	7,237	5,761	-54%	-42%
Profit Before Tax	**21,305**	**12,479**	**19,459**	**71%**	**9%**
Tax	4,611	3,366	5,253	37%	-12%
Effective Tax Rate	22%	27%	27%		
Reported Profits	**16,695**	**9,114**	**14,205**	**83%**	**18%**
Basic EPS (Rs)	18.7	10.2	15.9	83%	18%
Diluted EPS (Rs)	18.7	10.2	15.9	83%	18%
RoA (%)	1.2	0.7	1.1		
Advances	31,99,269	27,33,967	30,58,177	17.0%	4.6%
Deposits	44,23,778	40,51,534	42,13,557	9%	5%
Gross NPA	**90,928**	**1,12,023**	**98,347**	**-19%**	**-8%**
Gross NPA Ratio (%)	2.78	3.97	3.14		
Net NPA	**21,467**	**27,966**	**23,484**	**-23%**	**-9%**
Net NPAs Ratio (%)	0.67	1.02	0.77		
PCR - Calculated	76.4%	75.0%	76.1%		

Source: Company; Sharekhan Research

SOTP Valuation

Subsidiary / Associate	Per share value
SBI Life Insurance	99
SBI Cards	78
SBI MF	26
SBI Caps	8
Others	10
Valuation of subs. & associates	221
(-) holding co. discount (20%)	44
Value of subs/ associates post holdco discount	177
Core Bank Value	533
Total SOTP Valuation (Rs)	**710**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation to remain in focus; banks with a superior liability franchise placed better

Overall, system-level credit offtake grew by ~15.7% y-o-y in the fortnight ending April 7, 2023, while deposits rose by ~10.2% but still trail advances growth. In the past 2-3 years, loan growth was driven majorly by retail loans and, off lately, we have seen MSME and SME loan offtake picking up. Corporate loan growth has been sluggish. The RBI has taken a pause in rate hikes as of now. In this backdrop, we believe credit to large industries/corporates is expected to pick up gradually, driven by capex-led demand. However, we should see some moderation in loan growth due to a higher base going forward, partially offset by pick-up in corporate loan growth, but loan growth is expected to remain healthy. Margin improvement is likely to end by Q1FY2024. Margin pressure, if any, due to the sharp repricing of deposits is expected to get offset by opex growth moderation. Asset quality is not a concern right now as corporate lending has been muted in the past few years. From the retail and MSME side, there could be some pressure due to an adverse macro situation if any, but nothing is significant. Asset-quality outlook remains stable to positive for the sector in the near to medium term. We believe there would be tactical market share gains for well-placed players. Banks with a robust capital base, strong retail deposit franchise, and with high coverage and provision buffers are well placed to capture the new credit growth cycle.

■ Company Outlook – Stable outlook

SBI is an attractive play on the fast-growing Indian economy, with a healthy balance sheet and strong liability franchise. The past three years' results indicate its business strength and the past few years' efforts enabled the bank in moving towards improving operating metrics along with strong sector tailwinds. 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 the CMP, SBI trades at 0.9x/0.8x its FY2024E/FY2025E core book value (BV) estimates, respectively. SBI's operating metrics continued to see improvement, driven by healthy loan growth, uptick in margins, and lower credit cost in FY2023. Going forward, we believe credit cost is likely to sustain at lower levels, even if incrementally higher ECL provisions are required to be maintained as the bank already has additional non-NPA provisions of ~1.1% of loans outside PCR to take care and the total provisions to be made would be spread over five years. Moreover, the bank's strong liability franchise would result in slower cost of fund expansion as compared with private banks. Consequently, the bank would continue to deliver healthy RoE in the near to medium term, enabling it to consume capital at a slower pace. We believe the bank is likely to sustain 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 valuation

Particulars	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	574	5,12,407	5.8	5.3	0.9	0.8	16.9	15.8	1.0	1.0
HDFC Bank	1,645	9,19,423	17.8	15.1	2.7	2.3	16.4	16.5	1.9	1.9
ICICI Bank	946	6,61,220	16.5	14.5	2.4	2.1	15.9	15.5	2.0	2.1

Source: Company, Sharekhan estimates

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. The past three years' results indicate its business strength and past few years' efforts that have enabled the bank in moving towards improving operating metrics along with strong sector tailwinds. Overall, the asset-quality outlook continues to remain stable to positive. We believe improved performance should sustain over the medium term.

Key Risks

Economic slowdown can lead to slower loan growth and higher-than-anticipated credit cost.

Additional Data

Key management personnel

Mr. Dinesh Kumar Khara	Chairman
Mr. C.S. Setty	Managing Director
Mr. Swaminathan Janakiraman	Managing Director
Mr. Ashwini Kumar Tewari	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	8.68
3	SBI FUNDS MANAGEMENT LTD	3.11
4	HDFC ASSET MANAGEMENT CO LTD	1.75
5	ICICI PRUDENTIAL ASSET MANAGEMENT CO LTD	1.38
6	NPS TRUST UTI	1.28
7	REPUBLIC OF SINGAPORE	1.05
8	BANK OF NEW YORK MELLON CORP	1.04
9	NIPPON LIFE INDIA ASSET MANAGEMENT CO LTD	0.95
10	KOTAK MAHINDRA ASSET MANAGEMENT CO LTD	0.88

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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