

BUY State Bank of India

Margin decelerates, but RoA accelerates >1%

BFSI - Banks ▶ Result Update ▶ August 5, 2023

TARGET PRICE (Rs): 700

Notwithstanding the slower growth and sharp margin contraction, SBI continued to deliver a strong PAT beat, at Rs168bn (Emkay: Rs149bn)/1.2% RoA in 1Q, on robust treasury gains, lower overheads and LLP. Though NIM contraction for SBI in 1Q was relatively higher (27bps QoQ to 3.3%) vs private peers (12-20bps), we believe most banks on cumulative basis would in near term will exhibit similar margin contraction. Bank guides for 13-14% growth in FY24E led by Retail which, along with better LDR/consumption of on-balance-sheet liquidity, should help sustain FY24E margin at 3.4-3.5% (reported). Despite the lower CET 1 at 10.2%, Bank believes that it can fund current growth via internal accruals.

Factoring-in the 1Q beat, we raise our earnings by 2-3% for FY24-26E and expect the bank to deliver a healthy 1-1.1% RoA/17-19% RoE without any capital raise. We retain BUY on the stock with TP of Rs700/share, valuing the standalone bank at 1.2x Jun-25E ABV and subs/investments at Rs185/share.

State Bank of India: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	390,943	502,325	620,720	667,687	715,389
Loan growth (%)	11.6	17.0	13.1	14.4	16.0
NII growth (%)	9.0	20.0	12.4	11.0	11.1
NIM (%)	2.8	3.0	3.0	3.0	3.0
PPOP growth (%)	5.2	11.2	15.3	11.8	14.9
Adj. EPS (Rs)	43.8	56.3	69.6	74.8	80.2
Adj. EPS growth (%)	91.5	28.5	23.6	7.6	7.1
Adj. BV (INR)	264.2	318.0	374.6	433.3	492.0
Adj. BVPS growth (%)	16.3	20.4	17.8	15.6	13.6
RoA (%)	0.8	1.0	1.1	1.0	1.0
RoE (%)	16.1	18.1	19.1	17.8	16.6
P/E (x)	8.8	6.9	5.6	5.2	4.8
P/ABV (x)	1.6	1.3	1.1	0.9	0.8

Source: Company, Emkay Research

Slower growth, higher deposit cost led to sharp margin contraction

SBI reported relatively slower growth at 15% YoY/1.1% QoQ vs the system's at 16.2% YoY/5.2% QoQ, mainly due to de-growth in the overseas book amid rising dislocation and muted corporate growth (partly due to pay-off by a large corporate). However, retail growth remains strong at 17% YoY/2% QoQ; within which in Auto, Gold and X-press credit continues to grow at a healthy pace, while mortgages growth was moderate. Deposit growth was largely in line with the system's at 12% YoY/2.4% QoQ, which led to slightly lower LDR at 71%. This, coupled with flattish investment yields and sharp jump in deposit cost, led to a 27bps QoQ contraction in NIM to 3.3%. Going forward, Bank guides for 13-14% credit growth led by retail in FY24E which, along with better LDR/consumption of on-balance-sheet liquidity, should help sustain margins at 3.4-3.5% (reported) in FY24E.

Slippages inch up due to seasonal factors, but NPAs remain stable

Gross slippages were higher (in line with our expectations) at Rs79bn/1.1% of loans (due to higher slippages from Agri at 3.5% and from SME at 2.6%), leading to nearly flat GNPA ratio of 2.8%. However, the bank has already recovered ~21% of the slippages in the Jul-2023 itself which should thus lead to steady reduction in NPAs during 2Q. The restructured pool continued to moderate, to Rs226bn/0.7% of loans vs 0.8% in Q4. On personal loans, the bank allays any asset-quality concerns that it claims are largely (95%) built towards government employees with steady salary flow.

We retain BUY

Factoring-in the 1Q beat, we raise our earnings by 2-3% for FY24-26E and expect the bank to deliver a healthy 1-1.1% RoA/17-19% RoE without any capital raise. We retain BUY on the stock with TP of Rs700/share, valuing the standalone bank at 1.2x Jun-25E ABV and subs/investments at Rs185/share. Despite the lower CET 1 at 10.2%, Bank believes that it can fund the current growth through internal accruals and is thus in no hurry to raise capital. **Key risks:** Severe macro dislocation and a prolonged elevated-rate environment hurting margins, leading to growth/asset quality disruption.

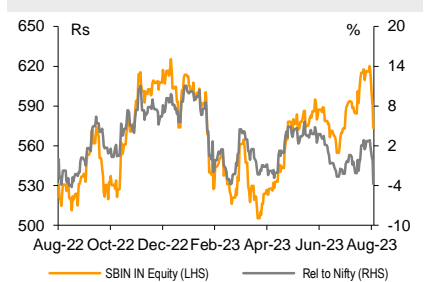
Target Price – 12M	Jun-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	22.1
CMP (04-Aug-23) (Rs)	573.3

Stock Data	Ticker
52-week High (Rs)	630
52-week Low (Rs)	499
Shares outstanding (mn)	8,924.6
Market-cap (Rs bn)	5,116
Market-cap (USD mn)	61,763
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	17
ADTV-3M (Rs mn)	9,983.1
ADTV-3M (USD mn)	120.5
Free float (%)	43.0
Nifty-50	19,517
INR/USD	82.8
Shareholding, Jun-23	
Promoters (%)	56.9
FPIs/MFs (%)	10.3/24.6

Price Performance

(%)	1M	3M	12M
Absolute	(2.7)	(1.2)	7.5
Rel. to Nifty	(3.3)	(7.5)	(4.3)

1-Year share price trend (Rs)



Anand Dama

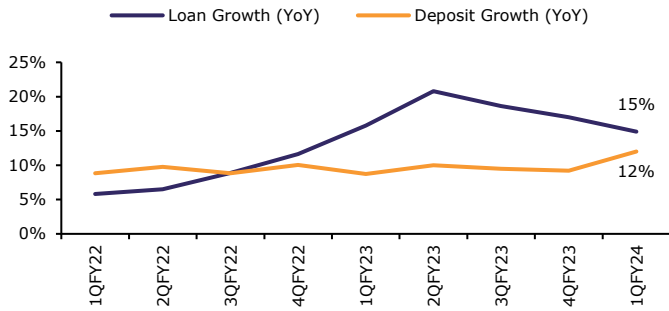
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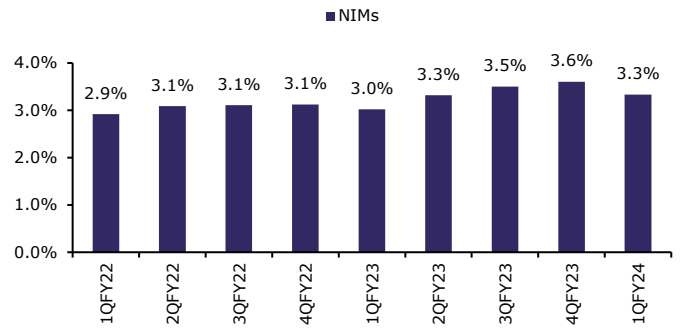
Story in Charts

Exhibit 1: Credit growth moderates to 15% vs systemic credit growth at 16%



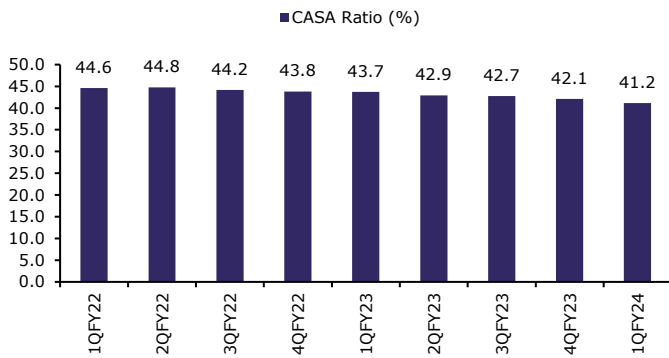
Source: Company, Emkay Research

Exhibit 2: NIM contracted by 27bps QoQ to 3.3%



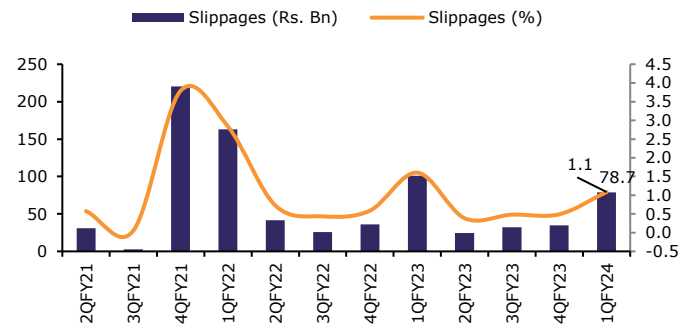
Source: Company, Emkay Research

Exhibit 3: CASA cannibalization leads to moderation in CASA ratio



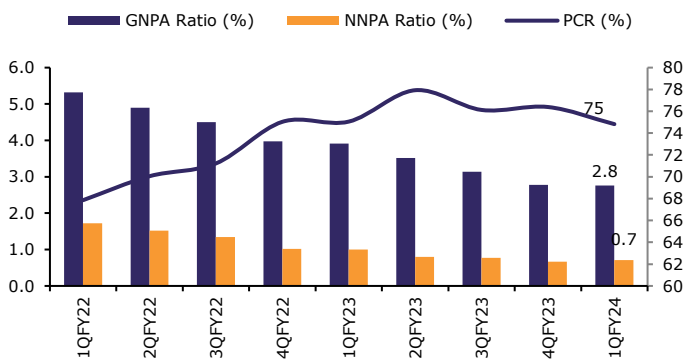
Source: Company, Emkay Research

Exhibit 4: Slippages were seasonally elevated



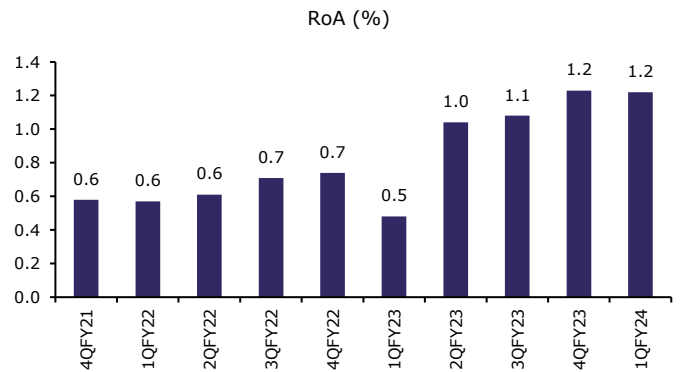
Source: Company, Emkay Research

Exhibit 5: GNPA ratio – Improvement trend stalled in 1Q, but should decelerate, as recoveries accelerate



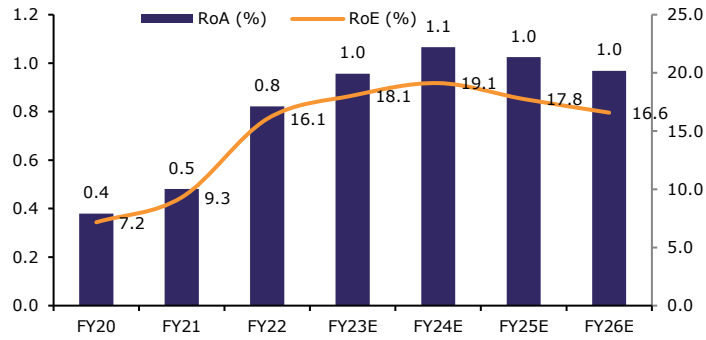
Source: Company, Emkay Research

Exhibit 6: Higher other income, lower opex/LLP led to RoA of >1%



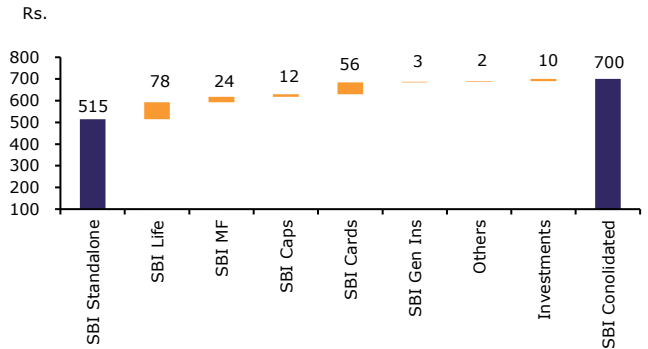
Source: Company, Emkay Research

Exhibit 7: SBI to report a healthy RoA/RoE trajectory (without factoring-in capital raise)



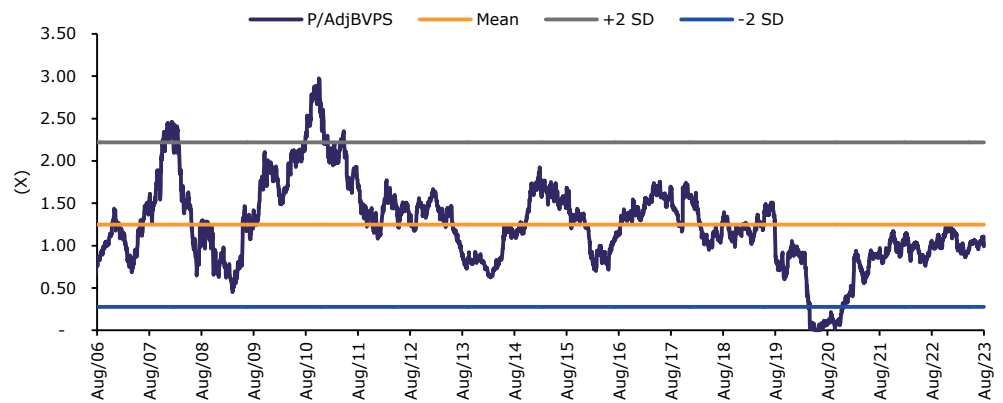
Source: Emkay Research

Exhibit 8: We value the standalone bank at 1.2x Jun-25E ABV and subsidiaries/investments at Rs185 per share



Source: Emkay Research

Exhibit 9: The stock currently trades at 1.0x its one-year forward ABV



Source: Company, Emkay Research

Exhibit 10: Actuals vs Estimates (Q1FY24)

Rs mn	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	509,683	490,379	470,422	4%	8%	Lower margins, offset by higher other income, led to a beat
PPOP	252,969	232,743	233,045	9%	9%	Higher net income and lower opex led to a beat
PAT	168,843	148,737	143,915	14%	17%	Lower LLP led to a beat

Source: Company, Emkay Research

Exhibit 11: Quarterly Summary

(Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	726,764	798,596	866,160	929,511	959,755	32	3	3,321,031	4,073,443	23
Interest Exp	414,804	446,762	485,474	525,586	570,705	38	9	1,872,626	2,445,655	31
Net Interest Income	311,959	351,834	380,686	403,925	389,050	25	-4	1,448,405	1,627,788	12
Global NIMs (reported)	3.02	3.32	3.50	3.60	3.33	31bps	-27bps	3.01	3.05	4bps
Non-interest Income	23,122	88,743	114,677	139,614	120,634	422	-14	366,156	464,202	27
Operating Expenses	207,556	229,377	243,171	297,328	256,714	24	-14	977,431	1,127,048	15
Pre Provisioning Profit	127,526	211,200	252,193	246,211	252,969	98	3	837,130	964,941	15
Provision & Contingencies	43,924	30,387	57,606	33,157	25,013	-43	-25	165,073	135,102	-18
PBT	83,602	180,814	194,587	213,054	227,956	173	7	672,057	829,839	23
Income Tax Expense (Gain)	22,921	48,168	52,534	46,109	59,113	158	28	169,732	209,120	23
Net Profit/(Loss)	60,681	132,645	142,053	166,945	168,843	178	1	502,325	620,720	24
Gross NPA (%)	3.91	3.52	3.14	2.78	2.76	-115bps	-2bps	2.78	2.19	-59bps
Net NPA (%)	1.00	0.80	0.77	0.67	0.71	-29bps	4bps	0.67	0.56	-11bps
Deposits (Rs bn)	40,457	41,903	42,136	44,238	45,312	12	2	44,238	48,986	11
Net Advances (Rs bn)	28,152	29,513	30,582	31,993	32,350	15	1	31,993	36,169	13

Source: Company, Emkay Research

Exhibit 12: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net interest income	1,667,999	1,627,788	-2.4%	1,851,097	1,807,208	-2.4%	2,066,967	2,007,968	-2.9%
PPOP	996,920	964,941	-3.2%	1,130,093	1,078,925	-4.5%	1,285,649	1,239,190	-3.6%
PAT	630,987	620,720	-1.6%	682,583	667,687	-2.2%	725,135	715,389	-1.3%
EPS (Rs)	70.7	69.6	-1.6%	76.5	74.8	-2.2%	81.3	80.2	-1.3%
BV (Rs)	393.2	391.5	-0.4%	455.2	451.3	-0.8%	520.9	515.5	-1.0%

Source: Emkay Research

Exhibit 13: Key assumptions

(%)	FY23A	FY24E	FY25E	FY26E
Loan Growth	17.0	13.1	14.4	16.0
Deposit Growth	9.2	10.7	12.9	16.0
NIM	3.0	3.0	3.0	3.0
GNPA	2.8	2.2	1.8	1.9
Credit Cost	0.5	0.5	0.5	0.7

Source: Emkay Research

Exhibit 14: Key ratios and trends

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Loans (Rs bn)	24,319	24,432	25,784	27,340	28,152	29,513	30,582	31,993	32,350
Loan growth (YoY)	5.8	6.5	8.9	11.6	15.8	20.8	18.6	17.0	14.9
Loan growth (QoQ)	-0.7	0.5	5.5	6.0	3.0	4.8	3.6	4.6	1.1
Loan composition (%)									
Corporate	32.5	31.0	30.4	31.8	31.0	31.1	30.2	30.6	30.4
Retail	35.9	37.0	36.9	36.7	36.7	36.4	36.8	36.9	37.2
SME	11.7	11.5	11.9	11.2	11.1	10.7	11.5	11.2	11.4
Overseas	15.1	15.3	15.5	15.0	16.0	16.5	15.9	15.4	14.9
Agri	4.9	5.2	5.3	5.3	5.1	5.3	5.6	5.9	6.1
Liability Profile & Margins (%)									
CASA	44.6	44.8	44.2	43.8	43.7	42.9	42.7	42.1	41.2
CA	6.1	6.6	5.9	6.5	5.8	5.6	5.4	6.4	5.7
SA	38.5	38.2	38.3	37.3	37.9	37.4	37.3	35.7	35.5
Global NIM	2.92	3.09	3.11	3.12	3.02	3.32	3.50	3.60	3.33
Domestic NIM	3.15	3.33	3.35	3.36	3.23	3.39	3.49	3.58	3.47
Asset Quality									
GNPA (%)	5.3	4.9	4.5	4.0	3.9	3.5	3.1	2.8	2.8
NNPA (%)	1.7	1.5	1.3	1.0	1.0	0.8	0.8	0.7	0.7
PCR (%)	67.9	70.1	71.2	75.0	75.1	77.9	76.1	76.4	74.8
Slippages (Rs bn)	163	42	26	36	101	24	32	35	79
Slippages (%)	2.8	0.7	0.4	0.6	1.7	0.4	0.5	0.5	1.1
Capital Adequacy									
CAR (%)	13.7	13.4	13.2	13.8	13.4	13.5	13.3	14.7	14.6
Tier I (%)	11.4	11.0	10.9	11.4	11.2	11.1	10.8	12.1	12.0
CET 1 (%)	9.9	10.4	10.3	9.9	9.7	9.5	9.3	10.3	10.2
ROE decomposition on total assets (%)									
NII	2.4	2.7	2.6	2.5	2.5	2.8	2.9	3.0	2.8
Other Income (Ex Treasury)	0.9	0.7	0.7	1.0	0.7	0.7	0.6	0.9	0.6
Treasury	0.2	0.0	0.0	0.0	-0.5	0.0	0.2	0.1	0.3
Opex	1.8	2.5	1.8	1.9	1.7	1.8	1.8	2.2	1.9
PPOP	1.7	0.9	1.6	1.6	1.0	1.7	1.9	1.8	1.8
Provisioning Cost	0.9	0.0	0.6	0.6	0.4	0.2	0.4	0.2	0.2
PBT	0.8	0.9	1.0	1.0	0.7	1.4	1.5	1.6	1.6
Tax	0.2	0.2	0.3	0.3	0.2	0.4	0.4	0.3	0.4
ROA	0.6	0.7	0.7	0.7	0.5	1.0	1.1	1.2	1.2
Leverage (x)	17.6	17.5	17.5	17.6	17.5	17.1	16.8	16.7	16.5
ROE	10.1	11.5	12.4	13.1	8.5	17.8	18.2	20.6	20.1

Source: Company, Emkay Research

State Bank of India: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	2,754,573	3,321,031	4,073,443	4,411,358	4,813,602
Interest Expense	1,547,497	1,872,626	2,445,655	2,604,150	2,805,633
Net interest income	1,207,076	1,448,405	1,627,788	1,807,208	2,007,968
NII growth (%)	9.0	20.0	12.4	11.0	11.1
Other income	405,639	366,156	464,202	513,315	594,036
Total Income	1,612,715	1,814,561	2,091,990	2,320,523	2,602,005
Operating expenses	859,792	977,431	1,127,048	1,241,598	1,362,815
PPOP	752,923	837,130	964,941	1,078,925	1,239,190
PPOP growth (%)	5.2	11.2	15.3	11.8	14.9
Core PPOP	720,705	850,674	898,339	1,005,751	1,141,007
Provisions & contingencies	244,521	165,073	135,102	186,295	282,787
PBT	508,402	672,057	829,839	892,630	956,402
Extraordinary items	0	0	0	0	0
Tax expense	117,459	169,732	209,120	224,943	241,013
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	390,943	502,325	620,720	667,687	715,389
PAT growth (%)	91.5	28.5	23.6	7.6	7.1
Adjusted PAT	390,943	502,325	620,720	667,687	715,389
Diluted EPS (Rs)	35.5	56.3	69.6	74.8	80.2
Diluted EPS growth (%)	55.2	58.6	23.6	7.6	7.1
DPS (Rs)	7.1	11.3	14.0	15.0	16.0
Dividend payout (%)	16.2	20.1	20.1	20.0	20.0
Effective tax rate (%)	23.1	25.3	25.2	25.2	25.2
Net interest margins (%)	2.8	3.0	3.0	3.0	3.0
Cost-income ratio (%)	53.3	53.9	53.9	53.5	52.4
Shares outstanding (mn)	8,924.6	8,924.6	8,924.6	8,924.6	8,924.6

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	1,120,233.7	909,281.5	805,662.1	770,073.1	933,418.8
Net NPLs	279,660.9	214,667.3	201,415.5	215,620.5	280,025.6
GNPA ratio (%)	4.0	2.8	2.2	1.8	1.9
NNPA ratio (%)	1.0	0.7	0.6	0.5	0.6
Provision coverage (%)	75.0	76.4	75.0	72.0	70.0
Gross slippages	250,212.3	192,230.0	246,380.6	314,411.0	413,345.7
Gross slippage ratio (%)	0.9	0.6	0.7	0.8	0.9
LLP ratio (%)	0.7	0.5	0.5	0.5	0.7
NNPA to networth (%)	10.1	6.6	5.3	5.0	5.7
Capital adequacy					
Total CAR (%)	13.8	14.7	14.2	13.6	12.8
Tier-1 (%)	11.4	12.1	11.9	11.6	11.1
CET-1 (%)	9.9	10.3	10.3	10.2	9.9
RWA-to-Total Assets (%)	55.0	50.5	53.0	55.0	57.0
Miscellaneous					
Total income growth (%)	2.4	16.7	23.1	8.5	9.8
Opex growth (%)	4.0	13.7	15.3	10.2	9.8
Core PPOP growth (%)	10.0	18.0	5.6	12.0	13.4
PPOP margin (%)	23.8	22.7	21.3	21.9	22.9
PAT/PPOP (%)	51.9	60.0	64.3	61.9	57.7
LLP-to-Core PPOP (%)	33.9	19.4	15.0	18.5	24.8
Yield on advances (%)	6.7	7.5	8.5	8.1	7.8
Cost of funds (%)	3.6	4.0	4.7	4.5	4.3

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	8,925	8,925	8,925	8,925	8,925
Reserves & surplus	2,791,956	3,267,160	3,762,935	4,296,752	4,869,347
Net worth	2,800,881	3,276,085	3,771,860	4,305,677	4,878,271
Deposits	40,515,341	44,237,778	48,985,996	55,322,073	64,156,933
Borrowings	4,260,434	4,931,352	5,383,200	5,655,864	5,475,777
Interest bearing liab.	44,775,775	49,169,129	54,369,196	60,977,937	69,632,711
Other liabilities & prov.	2,299,318	2,724,571	3,184,236	3,710,601	4,189,754
Total liabilities & equity	49,875,974	55,169,785	61,325,291	68,994,215	78,700,736
Net advances	27,339,666	31,992,693	36,168,974	41,367,019	47,975,514
Investments	14,814,455	15,703,662	16,963,503	18,474,729	20,415,858
Cash, other balances	3,945,523	3,078,996	3,262,152	3,658,676	4,177,963
Interest earning assets	46,099,644	50,775,351	56,394,629	63,500,424	72,569,334
Fixed assets	377,082	423,818	482,201	529,307	581,049
Other assets	3,399,249	3,970,616	4,448,461	4,964,484	5,550,353
Total assets	49,875,974	55,169,785	61,325,291	68,994,215	78,700,736
BVPS (Rs)	287.6	336.0	391.5	451.3	515.5
Adj. BVPS (INR)	264.2	318.0	374.6	433.3	492.0
Gross advances	28,180,239	32,687,307	36,773,221	41,921,471	48,628,907
Credit to deposit (%)	67.5	72.3	73.8	74.8	74.8
CASA ratio (%)	44.5	42.7	40.5	39.9	39.9
Cost of deposits (%)	3.7	3.8	4.7	4.5	4.3
Loans-to-Assets (%)	54.8	58.0	59.0	60.0	61.0
Net advances growth (%)	11.6	17.0	13.1	14.4	16.0
Deposit growth (%)	10.1	9.2	10.7	12.9	16.0
Book value growth (%)	11.5	16.8	16.5	15.3	14.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	8.8	6.9	5.6	5.2	4.8
P/B (x)	1.4	1.2	1.0	0.9	0.8
P/ABV (x)	1.6	1.3	1.1	0.9	0.8
P/PPOP (x)	2.2	2.0	1.7	1.5	1.3
Dividend yield (%)	1.2	2.0	2.4	2.6	2.8
DuPont-RoE split (%)					
NII/avg assets	2.5	2.8	2.8	2.8	2.7
Other income	0.9	0.7	0.8	0.8	0.8
Fee income	2.0	1.2	1.2	1.2	1.1
Opex	1.8	1.9	1.9	1.9	1.8
PPOP	1.6	1.6	1.7	1.7	1.7
Core PPOP	1.5	1.6	1.5	1.5	1.5
Provisions	0.5	0.3	0.2	0.3	0.4
Tax expense	0.2	0.3	0.4	0.3	0.3
RoA (%)	0.8	1.0	1.1	1.0	1.0
Leverage ratio (x)	19.6	18.9	17.9	17.3	17.1
RoE (%)	16.1	18.1	19.1	17.8	16.6

Quarterly data					
Rs mn, Y/E Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NII	311,959	351,834	380,686	403,925	389,050
NIM(%)	3.0	3.3	3.5	3.6	3.3
PPOP	127,526	211,200	252,193	246,211	252,969
PAT	60,681	132,645	142,053	166,945	168,843
EPS (Rs)	6.80	14.86	15.92	18.71	18.92

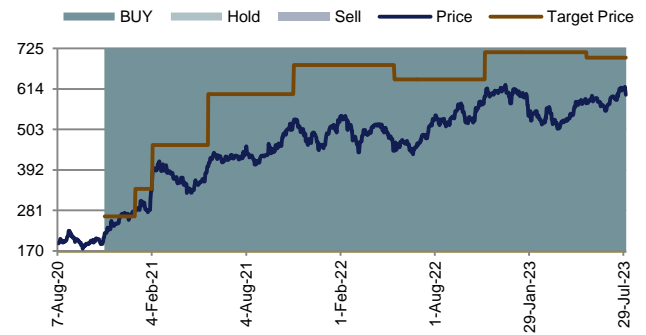
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
19-May-23	575	700	Buy	Anand Dama
09-Mar-23	559	715	Buy	Anand Dama
04-Feb-23	544	715	Buy	Anand Dama
05-Nov-22	594	715	Buy	Anand Dama
06-Aug-22	531	640	Buy	Anand Dama
15-May-22	445	640	Buy	Anand Dama
24-Mar-22	487	680	Buy	Anand Dama
06-Feb-22	530	680	Buy	Anand Dama
03-Nov-21	528	680	Buy	Anand Dama
05-Jul-21	433	600	Buy	Anand Dama
23-May-21	401	600	Buy	Anand Dama
05-Feb-21	393	460	Buy	Anand Dama
20-Jan-21	303	340	Buy	Anand Dama
03-Jan-21	279	340	Buy	Anand Dama
05-Nov-20	219	265	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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