

STATE BANK OF INDIA

Highest ever quarterly profit; 15% credit growth in line with guidance for FY24E

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Result and Price Analysis

State Bank of India (SBI) has delivered a stable result on operating and assets quality front. It's reported GNPA (2.76% v/s 2.78% in 4QFY23) and NNPA (0.71% v/s 0.67% in 4QFY23) holds steady with stable PCR (incl. AUCA) of 92%. Furthermore SMA1/2 (33bps v/s 8bps) increased sequentially. The bank has witnessed better than expected advance growth (15% YoY & 1.1% QoQ) led by growth across segment and steady deposit base (12% YoY & 2.4% QoQ) sequentially with better liquidity position. Moreover the bank has reported highest ever quarterly PAT of ₹169bn (v/s ₹166bn in 4QFY23) on back of stable NII (Domestic NIMs: 3.47%) and lower loan provision (credit cost: 32bps). The 1QFY24 calculated ROA and ROE stood at 1.22% and 19.6% respectively; surpassing the ROE target of 15%. The bank has established total standard asset and contingent provision of ~₹350bn (108bps of net advances) as on 1QFY24. With improving operating environment, ample contingent buffer (against ECL provisions) and strong growth outlook, we believe the annual ROE target of 15% is achievable in FY24E/25E. Therefore, we recommend BUY with target price of ₹743.

Gazing the core

Slippages came higher but NPA ratios stable: The bank's slippages were suggestively higher sequentially at ₹77bn (v/s ₹32bn) and recoveries (₹36bn v/s ₹42bn) were lower. Moreover, bulky write-offs (₹39bn) led to sustain the GNPA ratio at 2.76% v/s 2.78% in the previous quarter. The bank's asset quality stable sequentially as reported GNPA/NNPA/PCR ratio stood at 2.76%/0.71%/92% against 0.78%/0.67%/92% in 3QFY23. GNPA ratio of retail, agriculture, SME and corporate segment stood at 3%, 11.3%, 4.8%, and 3.4% respectively. Additionally, The Bank's SMA 1 (₹56bn, 17bps) and SMA 2 (₹16bn, 5bps) have widened. Moreover, BB & below book down to 9% of wholesale book. The restructured pool came down to ₹227bn (70bps of net advances) from ₹243bn (76bps) in the previous quarter.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	1,107,100	1,207,076	1,448,505	1,602,124	1,789,359
Operating Profit	715,542	678,740	837,230	917,586	1,022,654
Reported Profits	204,105	316,760	502,425	553,107	656,060
Net Worth	2,302,978	2,567,102	2,998,522	3,551,629	4,207,689
Loan & Advances	24,494,978	27,339,666	31,992,693	36,151,743	41,212,987
Int. Bearing Liabilities	40,985,748	44,775,775	49,169,129	54,436,870	60,694,619

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIM's	2.9	2.8	3.0	3.0	3.0
C/I Ratio	53.6	57.9	53.9	54.2	54.2
Gross NPA Ratio	5.0	4.0	2.8	2.2	1.7
PCR (%)	70.9	75.0	76.4	70.0	71.7
Adj. RoA Ratio	0.5	0.7	1.0	0.9	1.0
Adj. RoE Ratio	8.4	11.9	16.5	15.5	15.6

Rating	BUY
Current Market Price (₹)	573
12M Price Target (₹)	743
Potential upside (%)	30

Stock Data

Sector:	PSU Banking
Face Value (₹) :	1
Total Market Cap (₹ bn) :	5,116
Free Float Market Cap (₹ bn) :	2,200
52-Week High / Low (₹) :	630 / 499
BSE Code / NSE Symbol :	500112 / SBIN
Bloomberg :	SBIN IN

Shareholding Pattern

(%)	Jun-23	Mar-23	Dec-22	Sep-22
GOI	57.47	57.49	57.50	57.52
FPIs	10.36	9.89	10.09	9.95
MFs	12.54	13.05	13.20	13.30
Insurance	10.48	10.33	10.52	10.49
Others	9.15	9.24	8.69	8.74

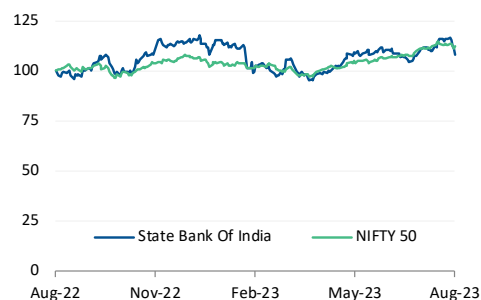
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
SBI	-2.7%	-1.2%	5.3%	8.0%
Nifty 50	0.7%	6.9%	9.3%	12.2%

* To date / current date : August 4, 2023

SBI vs Nifty 50



Management expects the pool to stay stable in near term. On total restructuring, retail book accounted for ~60%. Retail restructuring was almost home loan and SME category and there was hardly any restructuring under Xpress credit card. The provision towards restructuring (₹78bn) stood around 30% of the restructured book which is quite similar to large private banks. The provisioning expenses of ₹25bn (Credit cost: 0.32% v/s 0.16% in 4QFY23) was in line with expectations and carries ₹26.5bn for loan loss provisions. Standard asset provisions write-back worth ₹4.3bn reported in 1QFY24. The bank has established total provision outside PCR of ~₹350bn (108bps of net advances) as on 1QFY24. In the previous quarter, the Chairman mentioned that the bank has done some back of the envelope calculation on ECL provisioning and believes that the additional provision requirement could be much lower than the o/s non-specific provisions.

Highest ever quarterly profit; surpassing ROE target: Domestic NIMs (3.47%) down by 11bps sequentially. The bank has excess SLR to the tune of ₹4tn and the domestic CD ratio is lower at 65%, while the bank believes there is scope to raise MCLR rates further. Overall, the bank doesn't see much risk to the current margin levels in the coming quarters. YOA and COD stood at 8.8% and 4.55% against 8.1% and 3.99% in the previous quarter. Overall NIMs down marginally to 3.33%. It translated in 6.1% sequential de-growth in NII (389bn). However, operating expenses ratio remain lower sequentially (C/I: 50.4% v/s 54.7% in 1QFY24) resulted in the PPOP growth of 2.7% sequentially. Provision expenses were sequentially lower (24.6% down QoQ) because of standard asset provision write-back. However, Loan loss provision (~₹26.5bn v/s ~₹12.8bn in 4QFY23) were higher. Hence the net profit witnessed robust jump of 178% YoY and 1.1% sequentially. The bank's ROA/ROE (calculated, annualized) stood at 1.22% and 19.6% respectively; surpassing the ROE target of 15%.

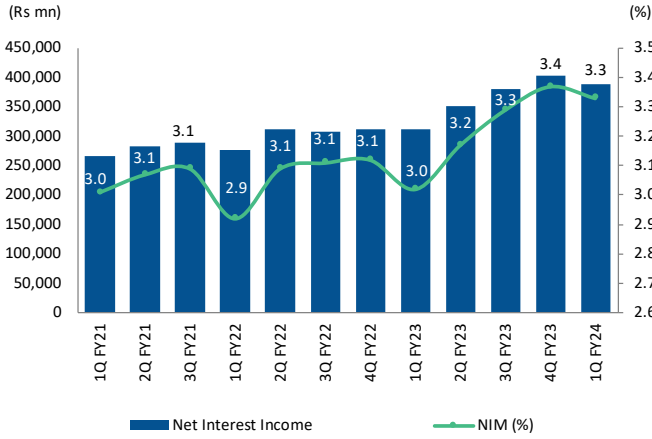
Superior credit growth; In line with FY24E guidance: The bank's net advances stood at ~₹32tn; grew healthy by 15% YOY and 1.1% QOQ. Retail (42.7% contribution) and Agriculture (9.4% contribution) grew by 2.13% and 2.1% sequentially. Corporate (34.8% contribution) grew by 0.25% QoQ. The management guided FY24E credit growth of ~12% - 14%. Moreover, the bank's investments are ~15.7tn of which ₹9.9tn are HTM and ₹5.7tn are AFS with modified duration of 2. The bank's deposit stood at ~₹45tn grew steadily by 12% YOY and 2.4% QoQ. CASA ratio down to 42.9%. In 1QFY24, the bank's CRAR stood at 14.56% vs. 14.68% in the previous quarter with CET 1 of 10.19%. The RWA to assets stood at 50.5% with LCR (~148%) well above the regulatory requirement.

Outlook & Valuations

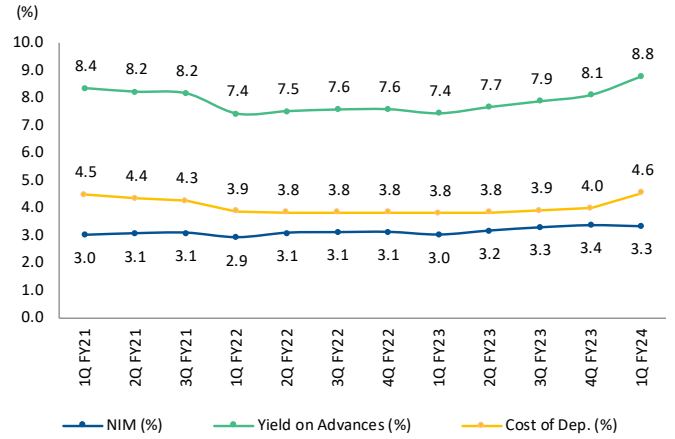
Under base case scenario, we expect the bank to post a ROA/ROE of 1%/15.5% by FY24E led by healthy balance sheet growth along with higher PCR and stable asset quality. We recommend a BUY with target price of ₹743 (potential upside of 30%). We value the standalone bank with PBV of 1.3x FY25E Adj. BVPS of ₹459 and value of subsidiaries per share of ₹146.

Quarterly story in charts

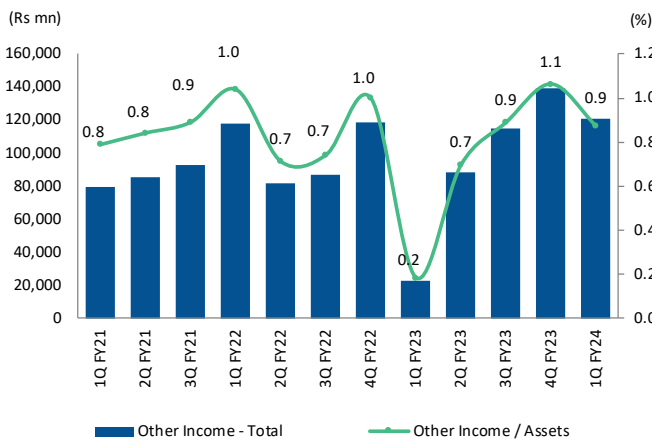
NII trend



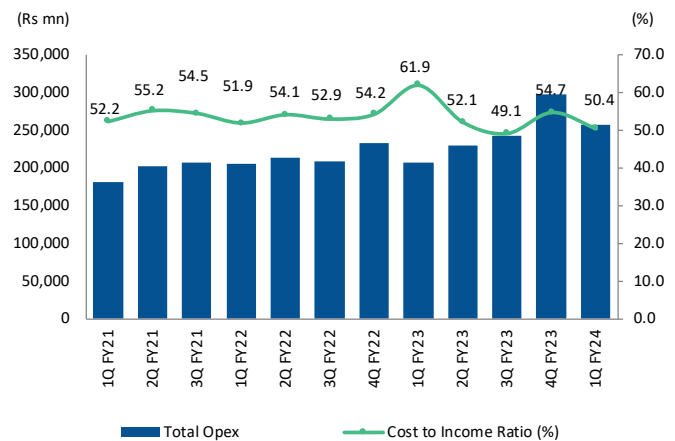
Yields & margin trend



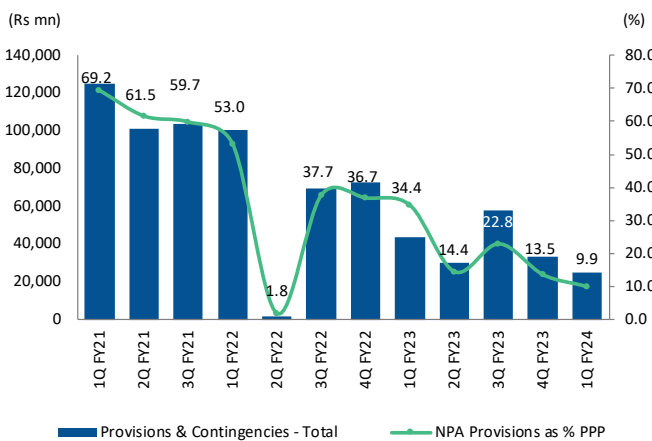
Other income trend



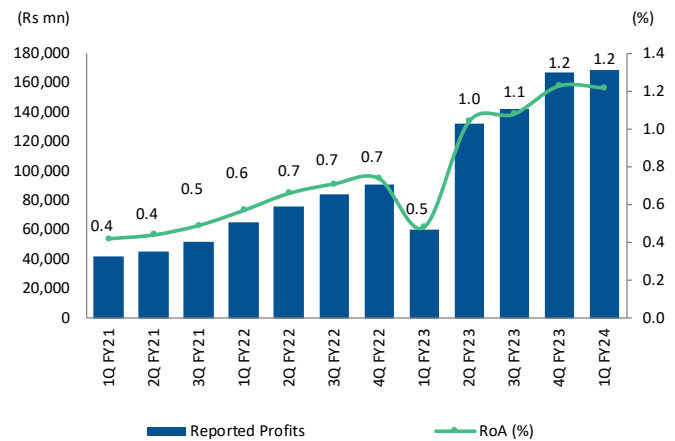
Total OPEX trend



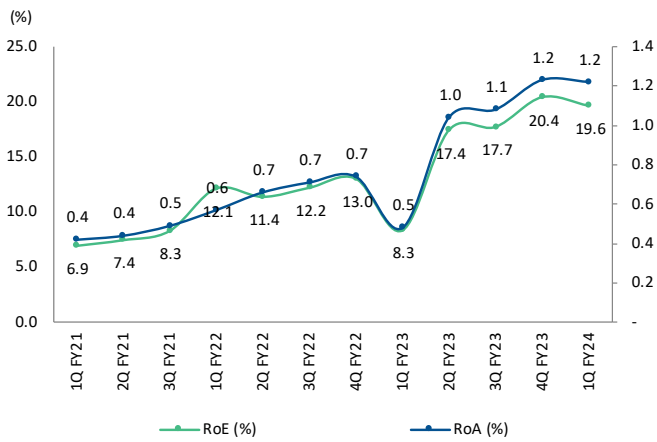
Provision expenses trend



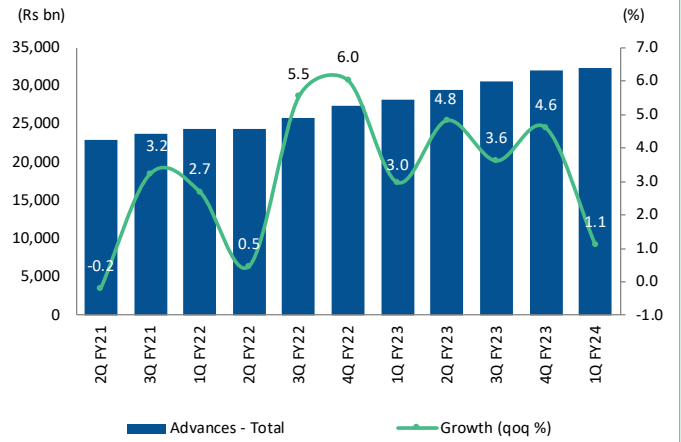
Reported profit trend



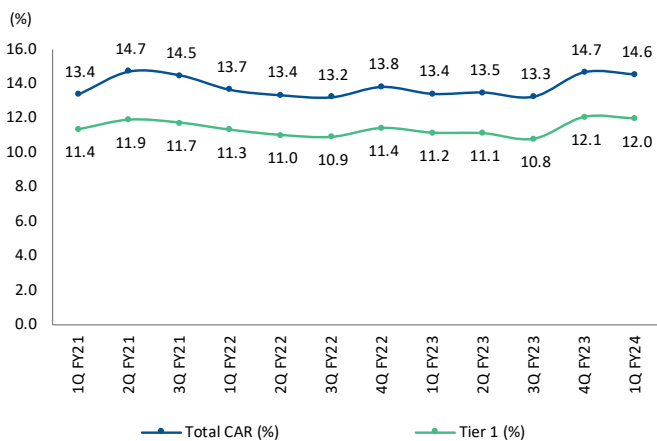
Return ratio trend



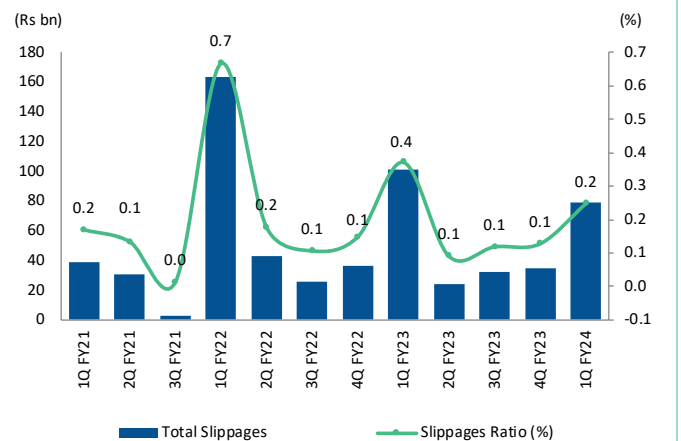
Loan book trend



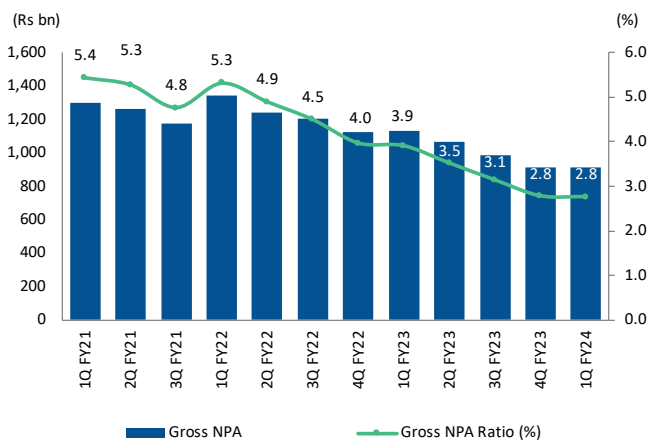
CRAR & Tier 1 ratio trend



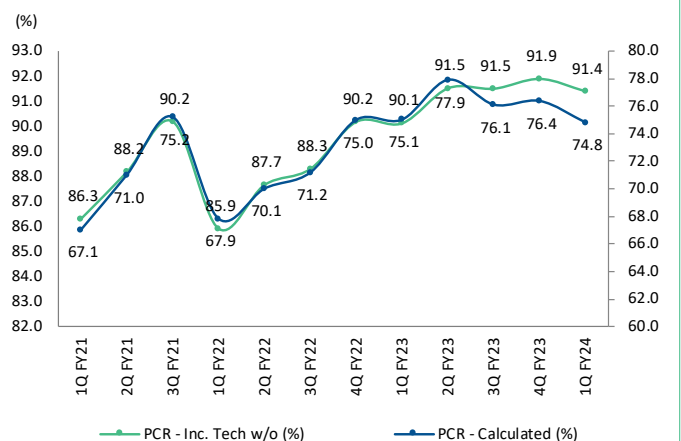
Slippages trend



Gross NPA trend



PCR Trend



Recent Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	1Q FY24	1Q FY23	% yoy / bps	4Q FY23	% qoq / bps	FY23	FY22	% yoy / bps
Interest Inc.	959,755	726,764	32.1	929,511	3.3	3,321,031	2,754,573	20.6
Interest Expenses	570,700	414,800	37.6	525,590	8.6	1,872,526	1,547,497	21.0
Net Interest Income	389,050	311,959	24.7	403,925	(3.7)	1,448,505	1,207,076	20.0
NII to Net Operative Income	76.3	93.1	(1,677)	74.3	202	79.8	74.8	497
NIM (%)	3.33	3.0	31	3.4	(4)	3.0	2.8	23
Other Income - Total	120,634	23,122	421.7	139,614	(13.6)	366,156	405,639	(9.7)
Other Inc to Net Oper. Income (%)	23.7	6.9	1,677	25.7	(202)	20.2	25.2	(497)
Net Operating Revenue	509,683	335,081	52.1	543,539	(6.2)	1,814,661	1,612,715	12.5
Employee Expenses	166,007	120,514	37.7	176,164	(5.8)	572,918	575,620	(0.5)
Other Opex	90,707	87,042	4.2	121,164	(25.1)	404,513	358,355	12.9
Total Opex	256,714	207,556	23.7	297,328	(13.7)	977,431	933,975	4.7
Cost to Income Ratio (%)	50.4	61.9	(1,157)	54.7	(433)	53.9	57.9	(405)
Pre Provision Profits	252,969	127,526	98.4	246,211	2.7	837,230	678,740	23.4
Provisions & Contingencies - Total	25,013	43,924	(43.1)	33,157	(24.6)	165,073	244,521	(32.5)
NPA Provisions as % PPP	9.9	34.4	(2,456)	13.5	(358)	19.7	36.0	(1,631)
Profit Before Tax	227,956	83,602	172.7	213,054	7.0	672,156	434,219	54.8
Tax	59,113	22,921	157.9	46,109	28.2	169,732	117,459	44.5
Effective Tax Rate (%)	25.9	27.4	(149)	21.6	429	25.3	27.1	(180)
Reported Profits	168,843	60,681	178.2	166,945	1.1	502,425	316,760	58.6
RoA (%)	1.2	0.5	74	1.2	(1)	1.0	0.7	29
RoE (%)	19.6	8.3	1,128	20.4	(78)	16.5	11.9	467

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Net Worth	2,800,881	2,913,635	3,049,128	3,212,037	3,276,085	3,444,416	5.1	18.2
RoE (%)	13.0	8.3	17.4	17.7	20.4	19.6	(78)	1,128
Tier 1 (%)	11.4	11.2	11.1	10.8	12.1	12.0	(9)	82
Total CAR (%)	13.8	13.4	13.5	13.3	14.7	14.6	(12)	113
RWA - Total	24,788,359	25,611,578	26,128,999	26,940,062	27,833,157	27,981,446	0.5	9.3
Advances - Total	27,339,666	28,152,492	29,512,875	30,581,770	31,992,693	32,350,227	1.1	14.9
Investments	14,814,455	15,292,037	15,553,219	15,692,020	15,703,662	15,726,297	0.1	2.8
Total Assets	49,875,974	50,258,199	51,998,008	53,241,229	55,169,785	55,430,757	0.5	10.3
RoA (%)	0.74	0.48	1.04	1.08	1.23	1.22	(1)	74
Deposits	40,515,341	40,456,956	41,902,549	42,135,571	44,237,778	45,312,367	2.4	12.0
CASA Deposits	17,750,840	17,676,660	17,977,510	18,006,770	18,629,040	18,660,590	0.2	5.6
CASA Ratio (%)	45.3	45.3	44.6	44.5	43.8	42.9	(92)	(245)
Interest Bearing Liabilities - Total	44,775,775	45,263,487	46,788,633	47,636,981	49,169,129	49,435,883	0.5	9.2

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Global Deposits	40,515,341	40,456,956	41,902,549	42,135,571	44,237,778	45,312,367	2.4	12.0
CASA Deposits	17,750,840	17,676,660	17,977,510	18,006,770	18,629,040	18,660,590	0.2	5.6
Saving Deposit	15,132,050	15,339,590	15,651,740	15,729,670	15,814,660	16,078,270	1.7	4.8
Current Deposit	2,618,790	2,337,070	2,325,770	2,277,100	2,814,380	2,582,320	(8.2)	10.5
Dom. Term Deposits	22,764,501	22,780,296	23,925,039	24,128,801	25,608,738	26,651,777	4.1	17.0
Borrowings	4,260,434	4,806,531	4,886,084	5,501,410	4,931,352	4,123,516	(16.4)	(14.2)
Interest Bearing Liabilities - Total	44,775,775	45,263,487	46,788,633	47,636,981	49,169,129	49,435,883	0.5	9.2

Source: Company, LKP Research

Exhibit 4: Asset Quality Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Total Slippages	36,050	101,150	24,410	32,100	34,580	78,720	127.6	(22.2)
Slippages Ratio (%)	0.15	0.37	0.09	0.12	0.13	0.25	12	(12)
Gross NPA	1,120,234	1,132,717	1,068,041	983,465	909,278	913,278	0.4	(19.4)
Gross NPAs Ratio (%)	3.97	3.91	3.52	3.14	2.78	2.76	(2)	(115)
PCR - Calculated (%)	75.0	75.1	77.9	76.1	76.4	74.8	(157)	(23)
Net NPA	279,657	282,579	235,722	234,843	214,666	229,954	7.1	(18.6)
Net NPAs Ratio (%)	1.02	1.00	0.80	0.77	0.67	0.71	4	(29)
Standard Restructured	309,600	287,850	273,360	260,350	243,020	226,660	(6.7)	(21.3)
Std. Rest. Adv. as % of Advances	1.1	1.0	0.93	0.85	0.76	0.70	(6)	(32)

Source: Company, LKP Research

Annual Projections

Exhibit 5: Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Int. Income / Opr. Revenue	2,651,506	2,754,573	3,321,031	3,675,527	4,093,414
Interest Expenses	1,544,406	1,547,497	1,872,526	2,073,403	2,304,056
Net Interest Income	1,107,100	1,207,076	1,448,505	1,602,124	1,789,359
<i>NIM (%)</i>	2.85	2.76	2.99	3.00	3.01
Other Income - Total	434,964	405,639	366,156	402,772	443,049
Net Operating Revenue	1,542,064	1,612,715	1,814,661	2,004,895	2,232,408
Employee Exp.	509,360	575,620	572,918	630,210	693,231
Other Opex	317,162	358,355	404,513	457,100	516,523
Total Opex	826,522	933,975	977,431	1,087,310	1,209,754
<i>C/I Ratio (%)</i>	53.60	57.91	53.86	54.23	54.19
Pre Provision Profits	715,542	678,740	837,230	917,586	1,022,654
<i>PPP Growth (yoy %)</i>	5.0	(5.1)	23.4	9.6	11.5
Provisions & Contingencies - Total	440,130	244,521	165,073	177,624	144,960
<i>Credit Cost (As % of Op. AUM)</i>	1.76	0.09	0.06	0.55	0.40
Profit Before Tax	275,411	434,219	672,156	739,961	877,694
Tax	71,307	117,459	169,732	186,854	221,634
<i>Effective Tax Rate (%)</i>	25.9	27.1	25.3	25.3	25.3
Reported Profits	204,105	316,760	502,425	553,107	656,060
<i>PAT Growth (yoy %)</i>	40.9	55.2	58.6	10.1	18.6

Exhibit 6 : Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	8,925	8,925	8,925	8,925	8,925
Reserves (ex Revel. Reserve)	2,294,054	2,558,177	2,989,597	3,542,705	4,198,765
Net Worth - Ex Revaluation	2,302,978	2,567,102	2,998,522	3,551,629	4,207,689
Deposits	36,812,771	40,515,341	44,237,778	48,977,198	54,607,334
Borrowings	4,172,977	4,260,434	4,931,352	5,459,672	6,087,285
Interest Bearing Liabilities (₹ mn)	40,985,748	44,775,775	49,169,129	54,436,870	60,694,619
Other Lia. & Prov.	1,819,797	2,299,318	2,724,572	2,984,940	3,277,304
Total Liabilities	45,344,296	49,875,974	55,169,785	61,279,959	68,520,175
Assets					
Cash & Cash Equivalent	3,430,387	3,945,523	3,078,996	3,408,309	3,799,513
Investments	13,517,052	14,814,455	15,703,662	16,645,960	17,644,800
Loan & Advances (₹ mn)	24,494,978	27,339,666	31,992,693	36,151,743	41,212,987
<i>Growth (yoy %)</i>	5.3	11.6	17.0	13.0	14.0
Fixed Assets	384,192	377,082	423,818	468,032	520,015
Other Assets	3,517,687	3,399,249	3,970,616	4,605,914	5,342,861
Total Assets	45,344,296	49,875,974	55,169,785	61,279,959	68,520,175

Exhibit 7: Detail RoA Tree (%)

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Yields / Margins					
Yield on Advance	7.2	6.6	7.5	7.4	7.4
Yield on Funds	6.8	6.3	6.9	6.9	6.9
Cost of Funds (CoF)	4.0	3.6	4.0	4.0	4.0
Interest Spread	2.8	2.7	2.9	2.9	2.9
NIM's	2.9	2.8	3.0	3.0	3.0
Interest Income / Assets	6.2	5.8	6.3	6.3	6.3
Interest Exp. / Assets	3.6	3.3	3.6	3.6	3.6
NII / Assets	2.6	2.5	2.8	2.8	2.8
Fee Income / Assets	0.6	0.5	0.4	0.4	0.4
Other Non Core Income / Assets	0.1	0.1	0.1	0.1	0.1
Other Income / Assets	1.0	0.9	0.7	0.7	0.7
Net Operating Income / Assets	3.6	3.4	3.5	3.4	3.4
Operating Ratios					
NII to Net Operative Income	71.8	74.8	79.8	79.9	80.2
Other Income to Net Operative Income	28.2	25.2	20.2	20.1	19.8
Empl. Cost/Oper. Exps.	61.6	61.6	58.6	58.0	57.3
Other Op. Exps./Oper. Exps.	38.4	38.4	41.4	42.0	42.7
C/I Ratio (%)	53.6	57.9	53.9	54.2	54.2
Provisions as % PPP	28.5	15.2	9.1	8.9	6.5
Credit Cost (As % of Op. AUM)	1.8	0.1	0.1	0.6	0.4
Effective Tax Rate (%)	25.9	27.1	25.3	25.3	25.3
Employee Exp. / Assets	1.2	1.2	1.1	1.1	1.1
Other Opex/ Assets	0.7	0.8	0.8	0.8	0.8
Total Opex / Assets	1.9	2.0	1.9	1.9	1.9
Operating Profits / Assets	1.7	1.4	1.6	1.6	1.6
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	1.7	1.4	1.6	1.6	1.6
Provisions / Assets	1.0	0.5	0.3	0.3	0.2
Profit Before Tax / Assets	0.6	0.9	1.3	1.3	1.4
Tax Expenses / Assets	0.2	0.2	0.3	0.3	0.3
RoA	0.5	0.7	1.0	0.9	1.0
Leverage (x)	19.7	19.4	18.4	17.3	16.3
RoE	8.4	11.9	16.5	15.5	15.6
Adj. RoA	0.5	0.7	1.0	0.9	1.0
Adj. RoE	8.4	11.9	16.5	15.5	15.6

Source: Company, LKP Research

Exhibit 8: Per share data

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Face Value (₹)	1	1	1	1	1
Adjusted Share O/S (mn)	8,925	8,925	8,925	8,925	8,925
Earnings Per Share (₹)	22.9	35.5	56.3	62.0	73.5
EPS (% YoY)	40.9	55.2	58.6	10.1	18.6
P/E (x)	25.1	16.2	10.2	9.2	7.8
Book Value (₹)	258.0	287.6	336.0	398.0	471.5
BVPS (% YoY)	10.6	11.5	16.8	18.4	18.5
P/BV (x)	2.2	2.0	1.7	1.4	1.2
Adj. BV (₹)	237.4	272.0	324.0	385.9	459.4
Adj. BV (% YoY)	16.2	14.6	19.1	19.1	19.0
P/ABV (x)	2.4	2.1	1.8	1.5	1.2

Source: Company, LKP Research

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Credit / Deposit Ratio	66.5	67.5	72.3	73.8	75.5
Incremental C/D Ratio	28.3	76.8	125.0	87.8	89.9
Investment Deposit Ratio	36.7	36.6	35.5	34.0	32.3
Dom. SLR Investment / Deposits	29.6	29.6	28.8	27.6	26.2
CASA Ratio	46.8	46.0	43.5	43.5	43.5

Exhibit 10: Credit Quality

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Slippage Ratio (%)	1.2	1.0	0.7	0.6	0.6
Gross NPA	1,263,890	1,120,234	909,278	810,352	718,471
Gross NPAs Ratio (%)	5.0	4.0	2.8	2.2	1.7
PCR (%)	70.9	75.0	76.4	70.0	71.7
Net NPA	368,097	279,657	214,666	243,385	203,684
Net NPAs Ratio (%)	1.5	1.0	0.7	0.7	0.5
Total Impaired Loans	1,263,890	1,120,234	909,278	810,352	718,471
Impaired Loan as % of Loan / AUM	4.7	3.8	2.6	2.1	1.6
Total Risk Reserves	895,793	840,577	694,611	566,967	514,787
Total Risk As % of Loan Book	3.3	2.8	2.0	1.5	1.2

Exhibit 11: Key Assumptions & Forecasts

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Loan & Advances (₹ mn)	24,494,978	27,339,666	31,992,693	36,151,743	41,212,987
<i>Growth (yoy %)</i>		11.6	17.0	13.0	14.0
Interest Bearing Liabilities (₹ mn)	40,985,748	44,775,775	49,169,129	54,436,870	60,694,619
<i>Growth (yoy %)</i>		9.2	9.8	10.7	11.5
<i>Yield on Funds</i>	6.8	6.3	6.9	6.9	6.9
<i>Cost of Funds (CoF)</i>	4.0	3.6	4.0	4.0	4.0
<i>Interest Spread</i>	2.8	2.7	2.9	2.9	2.9
<i>NIM's</i>	2.9	2.8	3.0	3.0	3.0
<i>Other Income Growth</i>	(3.8)	(6.7)	(9.7)	10.0	10.0
<i>C/I Ratio (%)</i>	53.6	57.9	53.9	54.2	54.2
<i>Effective Tax Rate (%)</i>	25.9	27.1	25.3	25.3	25.3
Return Ratios					
<i>Adj. RoA</i>	0.5	0.7	1.0	0.9	1.0
<i>Adj. RoE</i>	8.4	11.9	16.5	15.5	15.6
Asset Quality Metrics					
<i>Credit Cost (As % of Op. AUM)</i>	1.8	0.1	0.1	0.6	0.4
<i>Gross NPAs Ratio (%)</i>	5.0	4.0	2.8	2.2	1.7
<i>Net NPAs Ratio (%)</i>	1.5	1.0	0.7	0.7	0.5

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