Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

State Bank of India

Stable Q2, Valuation attractive

Banks		Sharekhan code: SBIN	
Reco/View: Buy	↔	CMP: **Rs. 578**	Price Target: **Rs. 710** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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 Aug 08, 2023

Medium Risk

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

Source: Morningstar

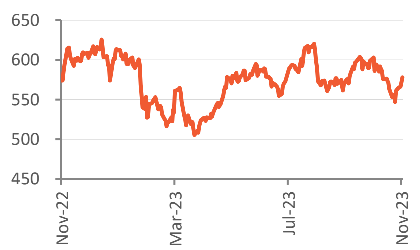
Company details

Market cap:	Rs. 5,15,976 cr
52-week high/low:	Rs. 630 / 499
NSE volume: (No of shares)	164.8 lakh
BSE code:	500112
NSE code:	SBIN
Free float: (No of shares)	383.8 cr

Shareholding (%)

Promoters	57.5
FII	10.7
DII	24.4
Others	7.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.4	0.9	-0.3	-2.7
Relative to Sensex	0.0	2.9	-4.6	-8.3

Sharekhan Research, Bloomberg

Summary

- PAT of Rs. 14,330 crore was marginally above estimates mainly on minimal credit cost despite a large one off cost, translating into an RoA of ~1%. Core credit cost stood at 22 bps vs. 33 bps q-o-q and 28 bps y-o-y.
- Core PPoP growth (excluding one off cost ~Rs. 3,417 crore) was muted as expected, grew by 2% y-o-y / down 6% q-o-q. Loan growth was at 13% y-o-y / 3% q-o-q and NIMs fell by 4 bps q-o-q.
- Asset quality was stable including unsecured book. Lower slippages, higher recoveries and contained write-offs led to improvement in headline asset quality ratios q-o-q.
- We believe bank is likely to sustain RoA of ~1% in the near to medium term. At CMP, SBI trades at 0.9x/0.7x its FY2024E/FY2025E core BV estimates. We maintain a Buy rating on the stock with an unchanged PT of Rs. 710.

Q2FY2024 earnings marginally beat estimates led by minimal credit cost despite a large one-off cost. Net interest income (NII) grew by 12% y-o-y/ 2% q-o-q. Net interest margin (NIM) declined by 4 bps q-o-q to 3.29% led by repricing of deposits partly offset by an increase in yields. The bank expects domestic NIMs to fall ~5 bps in coming quarters considering the last leg of re-pricing of deposits and NIMs in international book is expected to remain steady. Core fee income grew 10% y-o-y/ down 1 % q-o-q. The bank reported treasury profit amounting to Rs. 2,021 crore versus Rs. 3,847 crore q-o-q and Rs. 457 crore in Q2FY23. Total operating expenses grew 35% y-o-y / 20% q-o-q. Staff cost included one off item pertaining to additional wage revision provisions (Rs. 3,417 crore). Earlier, the bank had provided taking the assumption of 10% increase and now they have accounted taking assumption of 14% increase with retrospective effect. PPoP declined by 8% y-o-y/ 23% q-o-q mainly due to an one-off item and higher opex growth even after excluding one off. Sequential dip was led by higher treasury profits in last quarter. Provisions declined by 96% y-o-y/95% q-o-q. Core credit cost stood at 22 bps versus 33 bps q-o-q and 28 bps y-o-y. PBT grew by 7% y-o-y/ down 15% q-o-q. Net advances grew by 13% y-o-y/3% y-o-y. Retail, agriculture and SME loans grew by 16%, 15%, and 23% on a y-o-y basis, respectively. The wholesale domestic corporate book and overseas book grew by 13% y-o-y and 8% y-o-y, respectively. Deposits grew by 12% y-o-y/3% q-o-q, with CASA growing at 5% y-o-y/1% q-o-q. Domestic term deposits and international deposits grew by 17% y-o-y and 15% y-o-y, respectively. GNPA/ NNPA ratios fell 21 bps / 7 bps q-o-q to 2.55%/0.64%. PCR at ~75% stable q-o-q. Slippages were lower at 0.55% vs 1.12% q-o-q. The restructured book stood at ~0.62% of net advances vs 0.70% q-o-q. SMA-1 and -2 book (accounts with exposure above Rs. 5 crore) stood at Rs. 3,964 crore vs Rs. 7221 crore q-o-q. The bank has non-NPA provisions of ~1.0% of loans outside the PCR.

Key positives

- Better asset quality trends led by lower slippages & higher recoveries.
- Core credit cost remained lower.

Key negatives

- Core PPoP growth was muted despite excluding one off

Management Commentary

- The bank is confident of delivering 14% plus credit growth in FY2024 which would be broad based.
- Trends in unsecured personal loans are stable. 95% of book is funded to salaried class with 83% funded to government employees & rest to top private corporates.
- Bank endeavors to sustain RoA in the range of 1.0-1.2% going forward.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 710 – At CMP, SBI trades at 0.9x/0.7x its FY2024E/FY2025E core book value (BV) estimates, respectively. We believe the bank is likely to sustain RoA of ~1% in the near to medium term led by healthy loan growth trajectory, margins stabilising in the coming quarters and lower credit costs. Consequently, the bank would continue to deliver healthy RoE in the near to medium term, enabling it to consume capital at a slower pace. The bank has additional non-NPA provisions of ~1% of loans outside PCR to take care of any uncertain future events, which is a key positive. We maintain our Buy rating on SBI with an unchanged price target (PT) of Rs. 710.

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	1,60,662	1,77,746
PAT	31,676	50,232	63,249	68,161
EPS (Rs)	35.5	56.3	70.9	76.4
P/E (x)	10.8	6.8	5.4	5.0
P/core BV (x)	1.2	1.0	0.9	0.7
RoE (%)	11.9	16.5	17.6	16.0
RoA (%)	0.7	1.0	1.1	1.1

Source: Company; Sharekhan estimates

Key Result Highlights

- **Margin outlook:** Net interest income (NII) grew by 12% y-o-y/ 2% q-o-q. Net interest margin (NIM) declined by 4 bps q-o-q to 3.29%, led by repricing of deposits partly offset by increase in yields. The bank guided that domestic NIMs are expected to be lower by ~5bps in coming quarters considering the last leg of repricing of deposits and NIMs in international book is expected to remain steady. The full MCLR rate hike is largely done, however, the bank still has some room and that would be captured judiciously.
- **One-off item drove up opex:** Total operating expenses grew by 35% y-o-y / 20% q-o-q d. Staff cost included one off item pertaining to additional wage revision provisions provided (~Rs. 3,417 crore). Earlier, the bank had provided taking the assumption of 10% increase and now they have accounted taking assumption of a 14% increase in wages with retrospective effect. If assumption shifts to 15%, it would lead to additional Rs. 400 crore per quarter to be provided w.e.f from November 22. Excluding one-off, Opex to Avg assets ratio stood at 1.9% stable q-o-q.
- **Credit cost outlook:** Provisions fell by 96% y-o-y/95% q-o-q. Core credit cost stood at 22 bps vs. 33 bps q-o-q and 28 bps y-o-y. Credit cost is expected gradually normalise from here on but expected to still remain lower as the bank does not foresee incremental stress in any portfolio segment including unsecured personal loans.
- **Strong asset-quality:** Overall, asset quality trends were stable including unsecured book. Lower slippages & higher recoveries along with contained write-offs led to improvement in headline asset quality ratios q-o-q. GNPA/ NNPA ratios rose by 21 bps / 7 bps q-o-q to 2.55%/0.64%. PCR at ~75% stable q-o-q. Slippages were lower at 0.55% versus 1.12% q-o-q. The restructured book stood at ~0.62% of net advances vs 0.70% q-o-q. SMA-1 and -2 book (accounts with exposure above Rs. 5 crore) stood at Rs. 3,964 crore vs Rs. 7221 crore q-o-q. The bank has non-NPA provisions of ~1% of loans outside the PCR. Trends in unsecured personal loans are stable. 95% of book is funded to salaried class with 83% funded to government employees & rest to top private corporates. GNPA in personal loans stands at 0.69%. The bank expects risk weights to increase in lower ticket size unsecured personal loans.
- **Loan growth outlook:** Net advances grew by 13% y-o-y/3% y-o-y. Retail, agriculture and SME loans grew by 16%, 15%, and 23% on a y-o-y basis, respectively. The wholesale domestic corporate book and overseas book grew by 13% y-o-y and 8% y-o-y, respectively. Growth picked by in SME segment. The bank has guided for a 14% plus loan growth in FY2024. The retail book is growing without any challenge, led by continued strong traction in Xpress credit, vehicle loans , and mortgage book . In the corporate book, it has a strong pipeline to disburse (~ Rs. 4.8 trillion). SME book loan growth is now accelerating as earlier investments in terms of product/ business are now rewarding. Domestic demand continues to remain buoyant. Good traction in retail, SME & Corporate should lead to healthy growth in advances.
- **Deposit mobilisation at par with loan growth:** eposits grew by 12% y-o-y/3% q-o-q, with CASA growing at 5% y-o-y/1% q-o-q in Q2FY2024. International deposits grew by 15% y-o-y. Current account balance grew by 9% y-o-y/ down 2% q-o-q and savings account balance grew by 4% y-o-y/ 2% q-o-q. Domestic term deposits grew by 17% y-o-y. The bank has 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 marginal cost of deposits from here on.

Results (Standalone) Rs cr

Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Interest Inc.	1,01,379	79,860	95,975	27%	6%
Interest Expenses	61,879	44,676	57,071	39%	8%
Net Interest Income	**39,500**	**35,183**	**38,905**	**12%**	**2%**
NIM (%)	3.29	3.32	3.33	-1%	-1%
Core Fee Income	6,536	5,942	6,625	10%	-1%
Other Income	4,255	2,932	5,438	45%	-22%
Net Income	**50,291**	**44,058**	**50,968**	**14%**	**-1%**
Employee Expenses	18,926	12,867	16,601	47%	14%
Other Opex	11,948	10,070	9,071	19%	32%
Total Opex	**30,874**	**22,938**	**25,671**	**35%**	**20%**
Cost to Income Ratio	61.4%	52.1%	50.4%		
Pre Provision Profits	**19,417**	**21,120**	**25,297**	**-8%**	**-23%**
Provisions & Contingencies - Total	115	3,039	2,501	-96%	-95%
Profit Before Tax	**19,301**	**18,081**	**22,796**	**7%**	**-15%**
Tax	4,971	4,817	5,911	3%	-16%
Effective Tax Rate	26%	27%	26%		
Reported Profits	**14,330**	**13,265**	**16,884**	**8%**	**-15%**
Basic EPS (Rs)	16.1	14.9	18.9	8%	-15%
Diluted EPS (Rs)	16.1	14.9	18.9	8%	-15%
RoA (%)	1.0	1.0	1.2		
Advances	33,45,167	29,51,288	32,35,023	13.3%	3.4%
Deposits	46,89,218	41,90,255	45,31,237	12%	3%
Gross NPA	**86,974**	**1,06,804**	**91,328**	**-19%**	**-5%**
Gross NPA Ratio (%)	2.55	3.52	2.76		
Net NPA	**21,352**	**23,572**	**22,995**	**-9%**	**-7%**
Net NPAs Ratio (%)	0.64	0.80	0.71		
PCR - Calculated	75.4%	77.9%	74.8%		

Source: Company; Sharekhan Research

SOTP Valuation

Subsidiary/Associate	Per share value (Rs.)
A. SBI Life Insurance	99
B. SBI Cards	78
C. SBI MF	35
D. SBI General Insurance	8
E. Others	25
Valuation of subs. and associates (A+B+C+D+E)	**245**
(less) holding co. discount (20%)	49
F. Value of subs/associates post holdco discount	**196**
G. Core Bank Value	**514**
Total SOTP Valuation (Rs.) (F+G)	**710**

Source: Company; Sharekhan Research

Outlook and Valuation

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

System-level credit offtake grew by ~19% y-o-y in the fortnight ending October 06, 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 ~13%. The gap between advances and deposits growth has again widened. We are seeing strong traction in loan growth and overall deposit growth is challenging and is mainly led by time deposits rather than CASA. Margins are expected to be lower as deposits get repriced at higher costs to fund growth. The overall asset-quality outlook is stable to positive for the sector. We believe banks with a robust capital base and strong retail deposit franchise are well-placed to capture growth opportunities.

■ Company Outlook – Riding on economic optimism

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 bank has worked on 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 CMP, SBI trades at 0.9x/0.7x its FY2024E/FY2025E core book value (BV) estimates, respectively. We believe the bank is likely to sustain RoA of ~1% in the near to medium term led by healthy loan growth trajectory, margins stabilising in the coming quarters and lower credit costs. Consequently, the bank would continue to deliver healthy RoE in the near to medium term, enabling it to consume capital at a slower pace. The bank has additional non-NPA provisions of ~1% of loans outside PCR to take care of any uncertain future events, which is a key positive. We maintain our Buy rating on SBI with an unchanged price target (PT) of Rs. 710.

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	578	5,15,976	5.4	5.0	0.9	0.7	17.6	6.0	1.1	1.1
HDFC Bank	1484	11,25,843	14.1	12.6	2.1	1.9	14.8	15.3	1.9	1.9
ICICI Bank	933	6,54,043	14.4	13.7	2.4	2.0	17.7	15.8	2.3	2.3

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. 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	8.74
3	SBI FUNDS MANAGEMENT LTD.	2.96
4	HDFC ASSET MANAGEMENT CO LTD.	1.76
5	NPS TRUST UTI	1.39
6	ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD.	1.22
7	REPUBLIC OF SINGAPORE	1.10
8	NIPPON LIFE INDIA ASSET MANAGEMENT CO. LTD.	0.98
9	Mirae Asset Global Investments Ltd	0.84
10	Kotak Mahindra AMC Ltd	0.80

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

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by BNP PARIBAS

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