



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	■	↔	■

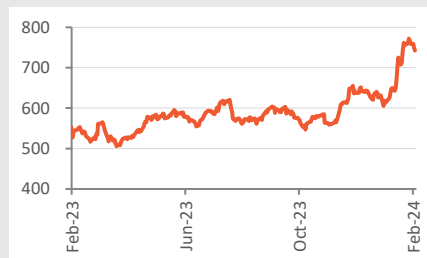
Company details

Market cap:	Rs. 6,68,721 cr
52-week high/low:	Rs. 778 / 502
NSE volume: (No of shares)	169.2 lakh
BSE code:	500112
NSE code:	SBIN
Free float: (No of shares)	383.8 cr

Shareholding (%)

Promoters	57.5
FII	10.9
DII	24.2
Others	7.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	20.2	31.6	30.3	43.2
Relative to Sensex	19.4	23.3	18.9	20.3

Sharekhan Research, Bloomberg

State Bank of India

Maintain positive stance

Banks	Sharekhan code: SBIN		
Reco/View: Buy	↔	CMP: Rs. 749	Price Target: Rs. 915 ↑
	↑ Upgrade	↔ Maintain	↓ Downgrade

Summary

- SBI is likely to sustain healthy return ratios (RoA ~1%, RoE ~18-20%) in the near to medium term despite sectoral headwinds.
- Impact of a marginal pressure on NIMs and gradual normalisation of credit cost is likely to be offset by lower opex growth as wage settlement has been concluded.
- Loan growth outlook remains healthy driven lower credit-deposit (CD) ratio, pick-up in private capex which is likely to support Corporate & MSME segment even if retail loan growth moderates slightly due to regulatory caution.
- Valuations are still reasonable as compared to RoE trajectory of over 15% in near to medium term. We maintain a Buy with a revised PT of Rs. 915. At CMP, SBI trades at 1.0x/0.9x its FY2025E/FY2026E core BV estimates.

SBI is expected to sustain steady performance in the near to medium term on the back of stable asset quality outlook. An improvement in underwriting, lower SMA book and higher provisions on stressed assets should keep incremental slippages under control. Thus, we believe that normalisation of credit cost is expected to be very gradual until we see a major economic downturn. Additionally, there is no challenge on liquidity side (led by healthy LCR, excess SLR and a lower CD ratio) however amid high competition for deposits, cost of funds may remain under pressure in near term and thereby impact NIMs. The bank does not envisage any further increase in deposit rates but believes that rates may remain elevated for a longer period. Opex growth is expected to be lower in FY25E, which would offset lower NIMs and slightly higher credit cost in near term as full impact of the wage revision as per bipartite agreement will be taken in FY24E. The bank is guiding for 14-15% loan growth in FY25E.

- NIMs & growth outlook:** The bank expects domestic NIMs to remain broadly rangebound with marginal downward bias as re-pricing of deposits is largely done. The bank does not envisage any further increase in deposit rates but believes that rates may remain elevated for a longer period. On the growth front, retail book is growing without any challenge, led by continued strong traction in Xpress credit, vehicle loans and the mortgage book. In the corporate book, it has a strong pipeline to disburse (Rs. 4.6 trillion). SME book loan growth is now accelerating as earlier investments are now rewarding. Domestic demand continues to remain buoyant. Good traction in retail, SME & Corporate should lead to healthy and broad-based growth in advances.
- Credit cost outlook:** Credit cost is expected to gradually normalise from hereon but it is expected to remain lower as the bank does not foresee incremental stress in any portfolio segment. Improvement in underwriting, lower SMA book (~Rs. 4,128 crore) and higher provisions on stressed assets should keep incremental slippages under control. Thus, we believe normalisation of credit cost is expected to be very gradual until we see a major economic downturn. The bank has non-NPA provisions of ~1.0% of loans outside the PCR.
- Capital raising:** The bank has a relatively lower CET 1 capital vs peers i.e. excluding 9MFY24 profits CET1 is at ~9.1% (minimum regulatory requirement of ~8.6%), but internal accruals looks sufficient to fund near-term envisaged credit growth. The bank is open to raising equity capital if the growth trends so warrant, and SBI has also identified resources. Additionally, it may also raise AT-1 infrastructure bonds if opportunity exists.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 915: At CMP, SBI trades at 1.0x/0.9x its FY2025E/FY2026E core book value (BV) estimates, respectively. The performance on loan growth and asset quality remains healthy. Thus, we believe that the bank is likely to sustain RoA of ~1% in the near to medium term. We also acknowledge that the bank needs to ramp-up other avenues of productivity (fee income and opex) to drive RoA/RoE expansion, which would also help in building up higher capital buffers through internal accruals. The bank has an additional non-NPA provisions of ~1% of loans outside the PCR to take care of any uncertain future events, which is a key positive. We maintain a Buy rating on SBI with a revised price target (PT) of Rs. 915.

Key Risks

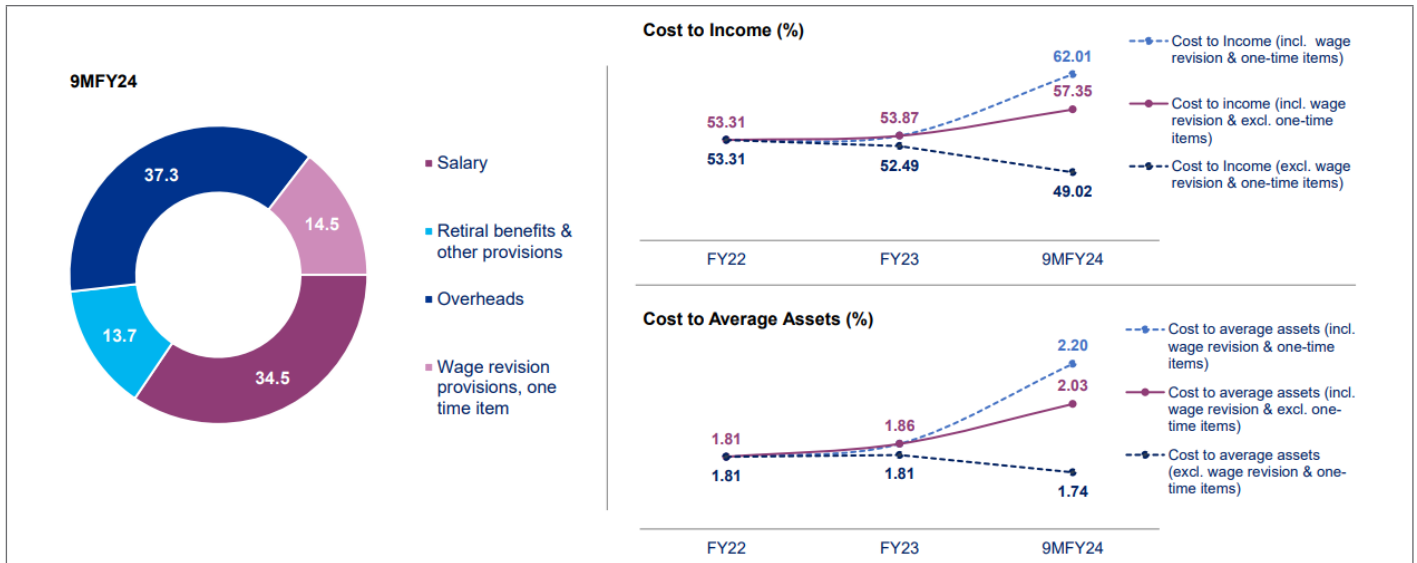
Economic slowdown can lead to slower loan growth and higher-than-anticipated credit cost.

Valuation (Standalone)

Particulars	Rs cr				
	FY22	FY23	FY24E	FY25E	FY26E
Nil	1,20,708	1,44,841	1,60,070	1,70,109	1,87,714
PAT	31,676	50,232	56,953	71,104	78,040
EPS (Rs)	35.5	56.3	63.8	79.7	87.4
P/E (x)	14.9	9.4	8.3	6.6	6.0
P/core BV (x)	1.7	1.4	1.2	1.0	0.9
RoE (%)	11.9	16.5	16.0	16.9	15.8
RoA (%)	0.7	1.0	1.0	1.1	1.1

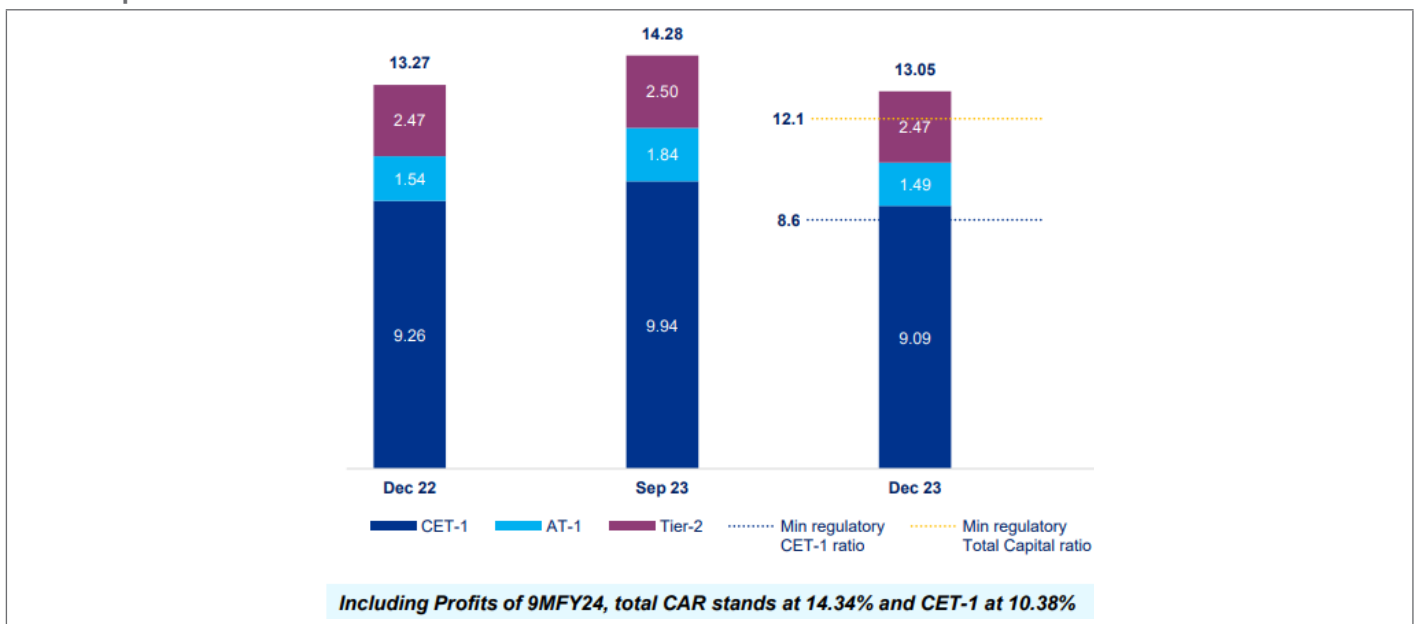
Source: Company; Sharekhan estimates

Cost ratios expected to normalise



Source: Company Presentation, Sharekhan Research

Trend in capital ratio



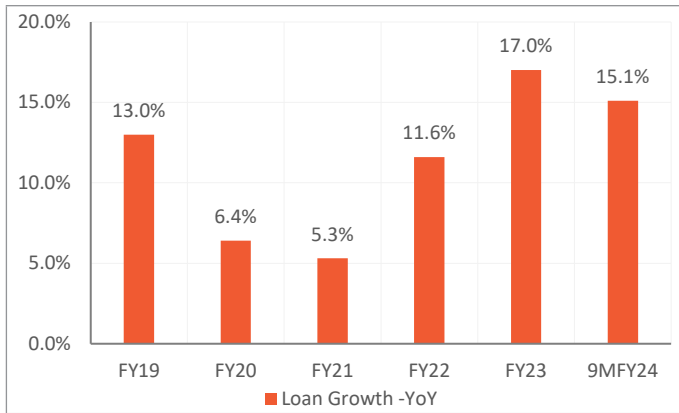
Source: Company Presentation, Sharekhan Research

SOTP Valuation

Subsidiary/Associate	Per share value (Rs.)
A. SBI Life Insurance	110
B. SBI Cards	70
C. SBI MF	45
D. SBI General Insurance	10
E. Others	40
Valuation of subs. and associates (A+B+C+D+E)	275
(less) holding co. discount (20%)	55
F. Value of subs/associates post holdco discount	220
G. Core Bank Value	695
Total SOTP Valuation (Rs.) (F+G)	915

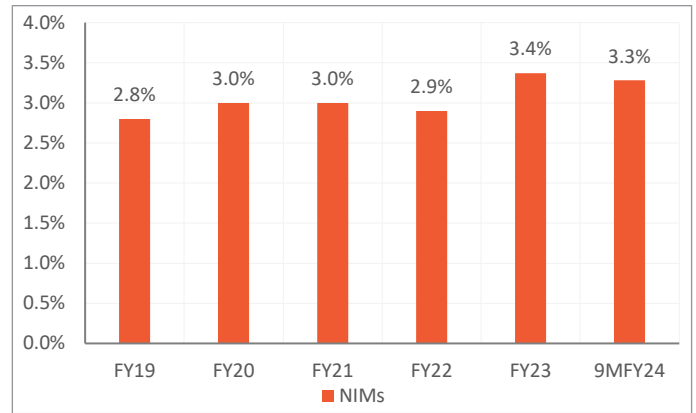
Financials in charts

Trend in Loan growth



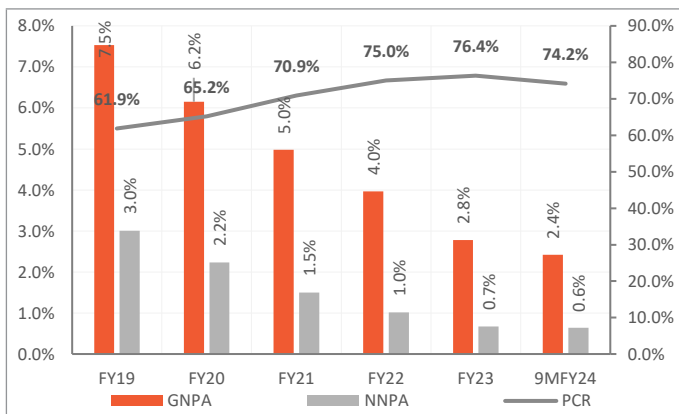
Source: Company, Sharekhan Research

Trend in NIMs



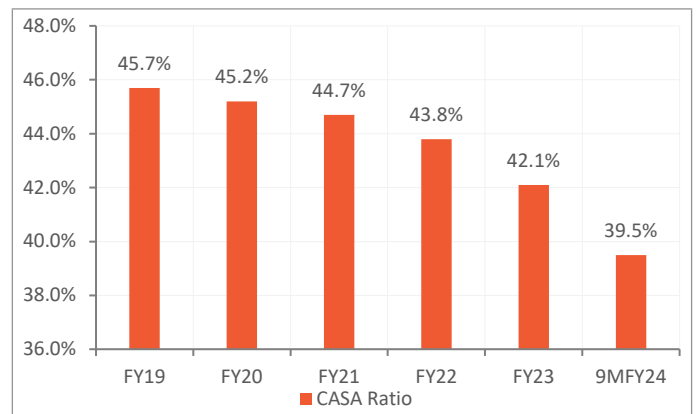
Source: Company, Sharekhan Research

Trend in Asset quality



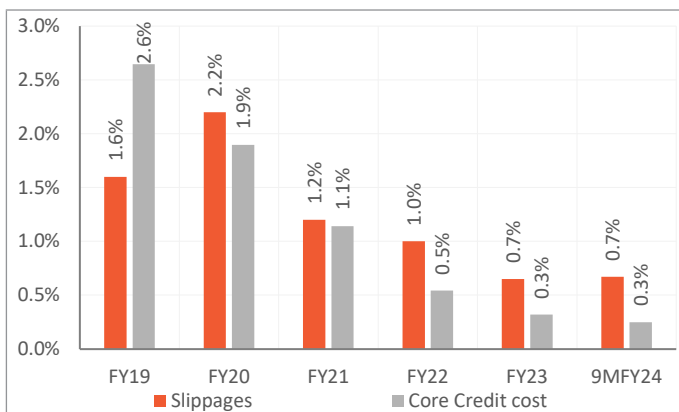
Source: Company, Sharekhan Research

Trend in CASA



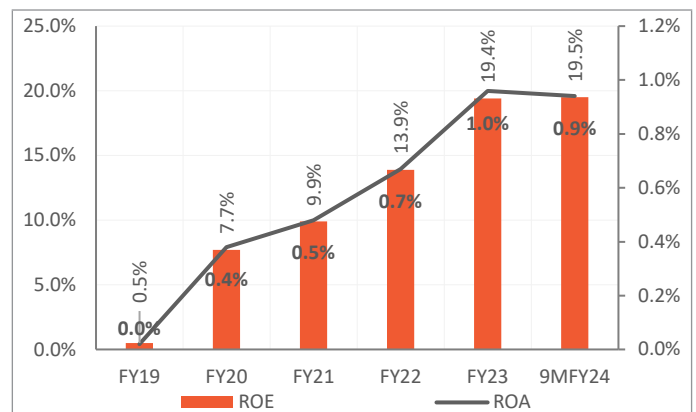
Source: Company, Sharekhan Research

Trend in Slippages & Core Credit cost



Source: Company, Sharekhan Research

Trend in Return ratio



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 ~20% y-o-y in the fortnight ending February 09, 2024, 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% y-o-y. The gap between advances and deposit growth is large. 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. 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 – Likely to sustain healthy return ratio

SBI is an attractive play on the fast-growing Indian economy, with a healthy balance sheet and strong liability franchise. In the post COVID-era, its results indicate its business strength and the bank has worked on improving operating metrics along with strong sector tailwinds. We believe that 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 a revised PT of Rs. 915

At CMP, SBI trades at 1.0x/0.9x its FY2025E/FY2026E core book value (BV) estimates, respectively. The performance on loan growth and asset quality remains healthy. Thus, we believe that the bank is likely to sustain RoA of ~1% in the near to medium term. We also acknowledge that the bank needs to ramp-up other avenues of productivity (fee income and opex) to drive RoA/RoE expansion, which would also help in building up higher capital buffers through internal accruals. The bank has an additional non-NPA provisions of ~1% of loans outside the PCR to take care of any uncertain future events, which is a key positive. We maintain a Buy rating on SBI with a revised price target (PT) of Rs. 915.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
State Bank of India	749	6,68,721	6.6	6.0	1.0	0.9	16.9	15.8	1.1	1.1
HDFC Bank	1,403	10,65,500	11.3	10.1	1.8	1.5	16.0	15.3	2.0	2.0
ICICI Bank	1,053	7,39,424	14.8	13.3	2.3	1.9	16.6	15.8	2.2	2.2

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. In post covid times the 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	8.93
3	SBI Funds Management Ltd	2.94
4	HDFC Asset Management Co Ltd	1.75
5	NPS Trust A/c Uti Retirement Solut	1.41
6	ICICI Prudential Asset Management	1.18
7	Republic of Singapore	1.10
8	Nippon Life India Asset Management	1.05
9	Kotak Mahindra Asset Management Co	0.84
10	Mirae Asset Global Investments Co	0.80

Source: Bloomberg

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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 deteriorating 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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