ANANDRATHI

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

6 February 2025

State Bank of India

Miss on PPOP, asset quality improves further; retaining a Buy

Rating: **Buy**
Target Price (12-mth): Rs.930
Share Price: Rs.752

State Bank of India saw a soft Q3 on subdued NII and miss in other income. The bank's dominant market position, best-in-class management and strong digital abilities would aid in maintaining its market share, while delivering healthy profitability. At our revised TP of Rs930, the stock will trade at 1.2x FY27e P/BV (earlier 1.4x FY26e). We value the subsidiaries at Rs191/share and retain a Buy rating.

Gaining market shares in SME and international advances. Loan growth at 4% q/q was moderate. Corporate loans grew 1.7% q/q, while the SME business rose 8.7% q/q. The international business continued to grow at 3.9% q/q. Management also believes in down-selling loans to generate fee income. The domestic credit-deposit ratio increased 120bps q/q to 76.6%. Management believes that this can further move north. As a result, we believe NIM would remain stable at ~3.3% over the next two years.

Non-interest income falls sharply, asset quality improves. Non-interest income declined sharply on the drop in treasury (down 52% y/y) and forex incomes (down 95% y/y). This primarily led to the earnings miss. Recurring fee income grew across the board. Slippages were benign at 43bps annualised, better than those of private and public peers, with improvement across the board. Management is confident regarding asset quality. We estimate 40bp credit cost over FY26-27.

Valuation. Our Rs930 TP stems from the multi-stage DDM model. This implies a ~1.2x P/BV on its FY27e book, with subsidiaries valued at Rs191/share.

Risks: Lumpy slippages in the corporate book, less-than-expected credit growth.

Key financials (YE Mar) (Rs bn)	FY23	FY24	FY25e	FY26e	FY27e
Net interest income	1,448	1,599	1,680	1,882	2,101
Pre-provisioning profit	837	867	979	1,117	1,259
PAT	502	611	647	713	762
EPS (Rs)	56.3	68.4	72.4	79.9	85.4
NIM (%)	3.2	3.1	2.9	2.9	2.9
Cost-Income (%)	53.9	59.0	55.6	54.2	53.1
RoE (%)	16.5	17.3	16.1	15.8	15.0
RoA (%)	1.0	1.0	1.0	1.0	0.9
Advances growth (%)	17.0	15.8	13.5	13.0	14.0
GNPA (%)	2.8	2.2	2.1	2.0	1.8
CRAR (%)	14.7	14.3	14.8	14.7	14.5
P / E (x)	15.0	12.3	11.6	10.6	9.9
P / BV (x)	2.3	2.0	1.8	1.6	1.4
P / ABV (x)	2.4	2.1	1.8	1.6	1.4

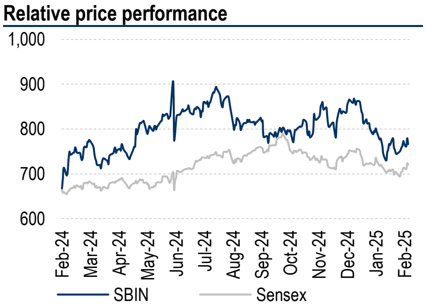
Source: Company, Anand Rathi Research

Key data	SBIN IN
52-week high / low	Rs912 / 638
Sensex / Nifty	78058 / 23603
3-m average volume	$115m
Market cap	Rs6714bn / $76654m
Shares outstanding	8925m

Shareholding pattern (%)	Dec'24	Sep'24	Jun'24
Promoters			
- *of which, Pledged*	57.4	57.5	57.5
Free float			
- Foreign institutions	42.6	42.5	42.5
- Domestic institutions	*10.3*	*10.7*	11.16
- Public	*24.9*	*24.1*	*23.6*

Estimates revision (%)	FY25e	FY26e	FY27e
Net interest income	(5.2)	(3.6)	(2.7)
Pre-provisioning profit	(13.0)	(6.9)	(3.6)
PAT	(7.9)	(5.6)	(4.1)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net interest income	1,448	1,599	1,680	1,882	2,101
NII growth (%)	*20.0*	*10.4*	*5.1*	*12.0*	*11.7*
Non-interest income	366	517	523	557	586
Income	1,815	2,116	2,202	2,439	2,687
Income growth (%)	*12.5*	*16.6*	*4.1*	*10.7*	*10.2*
Operating expenses	977	1,249	1,224	1,322	1,427
PPoP	837	867	979	1,117	1,259
PPoP growth (%)	11.2	3.6	12.9	14.1	12.7
Provisions	165	49	105	166	244
PBT	672	818	874	951	1,016
Tax	170	207	227	238	254
PAT	502	611	647	713	762
PAT growth (%)	*28.5*	*21.6*	*5.9*	*10.3*	*6.8*
EPS (Rs)	56.3	68.4	72.4	79.9	85.4
DPS (Rs)	11.3	13.7	18.1	20.0	21.3

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs bn)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	9	9	9	9	9
Reserves & surplus	3,267	3,764	4,248	4,783	5,355
Deposits	44,238	49,161	54,077	60,566	68,440
Borrowings	4,931	5,976	7,470	8,963	10,308
Other Liabilities & Prov.	2,725	2,888	2,830	1,925	1,162
Total liabilities	**55,170**	**61,797**	**68,634**	**76,247**	**85,273**
Advances	31,993	37,040	42,040	47,505	54,156
Investments	15,704	16,713	17,883	19,314	20,859
Cash & bank balance	3,079	3,108	3,528	3,986	4,544
Fixed & other assets	4,394	4,936	5,183	5,442	5,714
Total assets	**55,170**	**61,797**	**68,634**	**76,247**	**85,273**
No. of shares (m)	8,925	8,925	8,925	8,925	8,925
Deposits growth (%)	*9.2*	*11.1*	*10.0*	*12.0*	*13.0*
Advances growth (%)	*17.0*	*15.8*	*13.5*	*13.0*	*14.0*

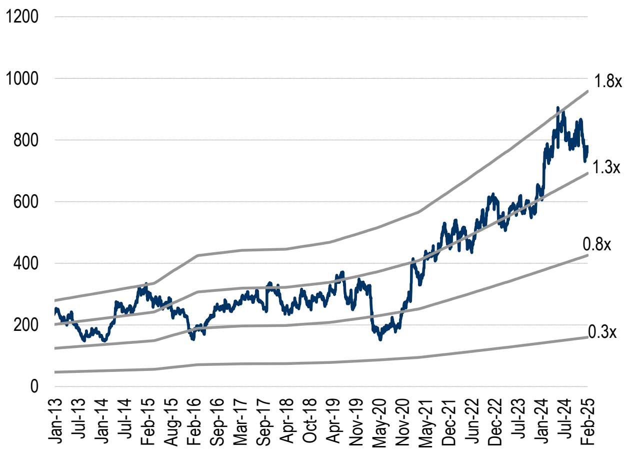
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis, %

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
NIM	3.2	3.1	2.9	2.9	2.9
Other inc. / total inc.	20.2	24.4	23.7	22.8	21.8
Cost-income	53.9	59.0	55.6	54.2	53.1
DPS (Rs)	11.3	13.7	18.1	20.0	21.3
Credit-deposit	72.3	75.3	77.7	78.4	79.1
Investment-deposit	35.5	34.0	33.1	31.9	30.5
Gross NPA	2.8	2.2	2.1	2.0	1.8
Net NPA	0.7	0.6	0.5	0.5	0.4
Provision coverage	76.4	75.0	76.0	76.0	76.0
BV (Rs)	367.1	422.7	477.0	537.0	601.0
Adj. BV (Rs)	350.2	406.2	460.4	519.4	582.4
CRAR (%)	14.7	14.3	14.8	14.7	14.5
- Tier 1	12.1	11.9	12.6	12.8	12.7
RoE	16.5	17.3	16.1	15.8	15.0
RoA	1.0	1.0	1.0	1.0	0.9

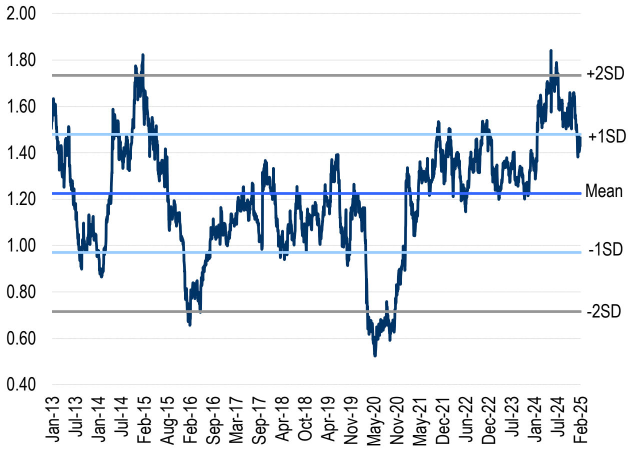
Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



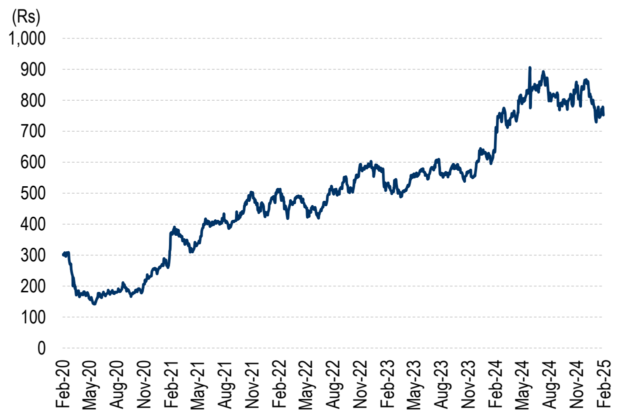
Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Earnings Call KTAs

Guidance

- CASA ratio to be maintained at 40% for FY26.
- NIM to sustain at 3% in FY26.
- Improvement in forex income expected in Q4 FY25.

Elevated cost of resources

- SBI highlighted the impact of elevated cost of resources, driven by a behavioural shift among depositors from savings accounts to fixed deposits, thereby affecting the CASA ratio.
- Despite this shift, the bank remains confident regarding its strong deposit franchise and is actively enhancing customer outreach, particularly through the acquisition of high-quality salary accounts.
- With 0.95m customer accounts added, it aims to maintain a CASA ratio of 40% while strategically working to reduce the overall cost of resources.
- It acknowledged a rise in the overall cost of resources, driven by a shift in depositor behaviour from savings to fixed deposits.
- Consequently, the cost of deposits increased 7-8bps, reflecting a changing funding mix. The bank remains focused on optimizing its deposit base while ensuring sustainable funding costs.

Retail deposits

- SBI reported strong growth in retail deposits, with no anticipated decline over the next two months.
- The bank continues to witness healthy expansion across key segments, with agricultural loans growing at 15% y/y, SME advances at 19% y/y, and retail home loans (REHB) maintaining a steady growth rate of 14-15%.
- Overall, it is on track with its targeted growth trajectory.

SME portfolio

- The bank highlighted key developments in its SME portfolio, emphasizing reclassification of larger exposures that may receive priority sector benefits under the budget.
- By FY26, modifications in the micro-enterprise definition under PSL norms will necessitate meeting specific microcredit targets.
- Additionally, MSME levers such as reclassification and coverage of export-oriented units investing Rs200m are expected to drive growth.
- The bank has revamped its SME lending strategy by introducing cashflow-based lending, leveraging internal and external databases, and implementing a rule engine that enables disbursals within 3-4 days, significantly improving turnaround time and performance.

Asset quality

- The bank provided insight into its asset quality, noting a resolution in its SMA-2 portfolio.

- A significant account, which had previously contributed to stress in this category, has now been fully rectified, bringing the outstanding SMA-2 exposure down to Rs37bn.
- The borrower has also made advance payments, ensuring that the account does not slip further into the SMA classification.
- This proactive resolution reflects SBI's strong monitoring and recovery mechanism, minimizing the risk of further asset quality deterioration.
- It continues to be vigilant towards stressed assets, leveraging early warning systems and timely interventions to mitigate potential slippages.
- The bank reported an abnormally low credit cost, which it attributes to a favourable asset quality cycle and its transition towards digital lending.
- It remains confident of maintaining strong asset quality, aided by improved underwriting standards and a risk management framework.
- The bank emphasized that it does not compromise on credit quality while expanding its loan book.
- It reported an increase in **Express Credit GNPA to 1.11%**, primarily due to the **base effect (denominator impact)** rather than a deterioration in loan quality.
- While the growth rate of this segment has moderated, the bank does not foresee any major asset quality concerns.
- The bank expects GNPA in Express Credit to decline as digital lending stabilizes. Although the sentiment around personal loans has been impacted in the short term, growth is expected to rebound, with the current portfolio at Rs4,080m.

Margins

- NIM fell 13bps q/q on lower treasury gains compared to Q2, though the bank remains focused on qualitative loan growth.
- NIM is expected to stay above 3%, with a potential "shadow rate cut cycle" anticipated. However, the bank does not foresee a major impact on NIM, as the proportion of repo-linked loans in the portfolio remains low.
- Any significant rate cut would require careful resource management to mitigate transmission effect through deposits.

Life insurance business

- The bank has placed strong emphasis on "right selling" in its life insurance segment, ensuring that products sold through its banker channel align with customer needs and financial goals.
- Significant efforts have been made to enhance the appropriateness of product recommendations, reinforcing customer trust and reducing instances of mis-selling.

Forex income

- Forex income was adversely impacted by mark-to-market (MTM) losses due to unfavourable movements in the US dollar reference rate, particularly affecting derivative holdings.

- However, the bank considers this impact to be transitory and expects a correction ahead.
- It anticipates better forex income in Q4 as market conditions stabilize.

Branch expansion

- The bank continues to enhance its branch network to improve customer service and expand its outreach.
- Currently, it is operating 22,800 branches, with 277 new ones added in the quarter, with a target of 400 by year-end and ultimately 425-430 branches.
- Significant efforts are being made to strengthen customer engagement and improve service delivery across its network.

In summary, SBI remains focused on maintaining strong asset quality, optimizing funding costs, expanding its digital lending capabilities, and strategically growing its retail and SME portfolios. The bank continues to enhance its distribution network and treasury operations, while ensuring disciplined risk management and pricing strategies.

Key Highlights

Quarterly snapshot

Fig 7 – Income statement

(Rs bn)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Interest income	1,014	1,067	1,110	1,115	1,139	1,174
Interest expense	619	669	694	704	723	760
NII	**395**	**398**	**417**	**411**	**416**	**414**
Y/Y growth	*12.3*	*4.6*	*3.1*	*5.7*	*5.4*	*4.1*
Non-interest income	108	115	174	112	153	110
Total Income	**503**	**513**	**590**	**523**	**569**	**525**
Y/Y growth	*14.1*	*3.5*	*8.6*	*2.6*	*13.1*	*2.4*
Operating expenses	309	309	303	258	276	289
Of which, staff cost	*189*	*194*	*163*	*155*	*148*	*161*
PPoP	**194**	**203**	**287**	**264**	**293**	**236**
Y/Y growth	*-8.1*	*-19.4*	*16.8*	*4.6*	*50.9*	*15.8*
Total provisions	1	7	16	34	45	9
PBT	**193**	**125**	**271**	**230**	**248**	**226**
Tax	50	34	64	60	65	57
PAT	**143**	**92**	**207**	**170**	**183**	**169**
Y/Y growth	*8.0*	*-35.4*	*24.0*	*0.9*	*27.9*	*84.3*

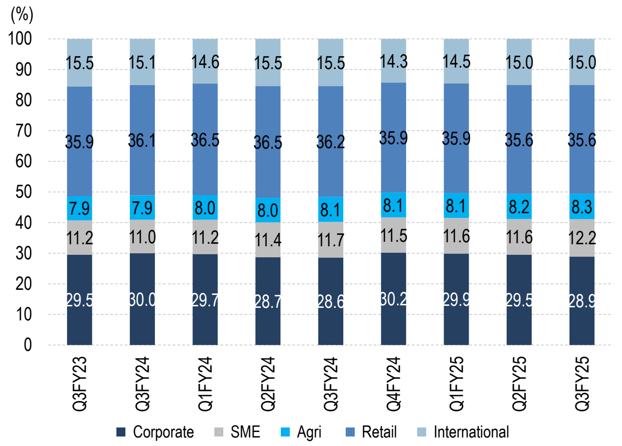
Source: Company, Anand Rathi Research

Fig 8 – Balance sheet

(Rs bn)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Equity capital	9	9	9	9	9	9
Reserves & Surplus	3,583	3,681	3,764	3,965	4,187	4,345
Deposits	46,892	47,622	49,161	49,017	51,173	52,294
Borrowings	5,127	5,525	5,976	5,857	5,588	7,091
Other liabilities	2,652	2,820	2,888	3,064	2,458	2,467
Total Liabilities	**58,263**	**59,656**	**61,797**	**61,912**	**63,415**	**66,207**
Deposits y/y growth	*11.9*	*13.0*	*11.1*	*8.2*	*9.1*	*9.8*
Deposits q/q growth	*3.5*	*1.6*	*3.2*	*-0.3*	*4.4*	*2.2*
Cash and cash balances	3,497	2,672	3,108	2,866	3,361	3,363
Advances	33,452	35,195	37,040	37,491	38,574	40,046
Investments	16,926	16,894	16,713	16,288	16,655	18,086
Other assets	4,389	4,895	4,936	5,266	4,824	4,712
Total Assets	**58,263**	**59,656**	**61,797**	**61,912**	**63,415**	**66,207**
Advances y/y growth	*13.3*	*15.1*	*15.8*	*15.9*	*15.3*	*13.8*
Advances q/q growth	*3.4*	*5.2*	*5.2*	*1.2*	*2.9*	*3.8*

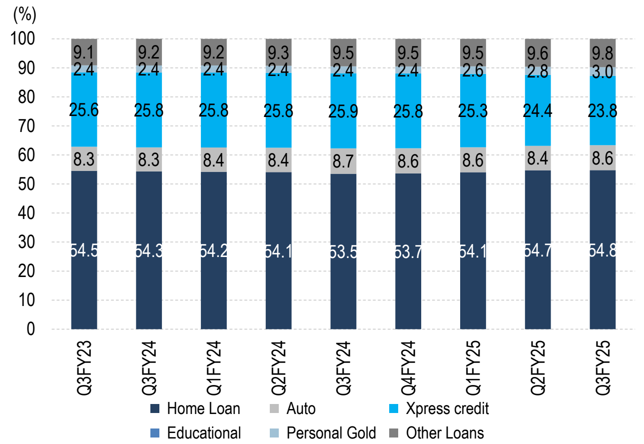
Source: Company, Anand Rathi Research

Fig 9 – Loan break-up (%)



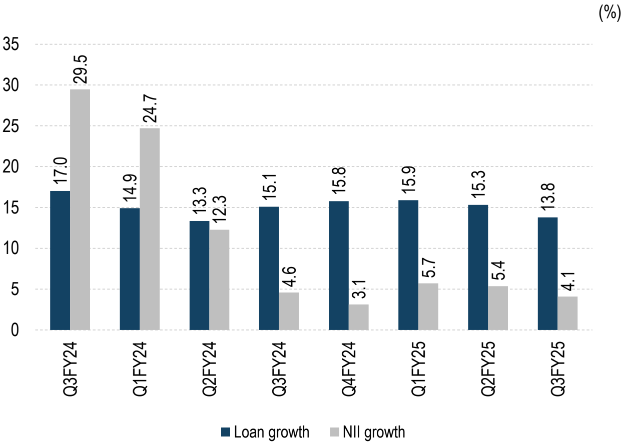
Source: Company, Anand Rathi Research

Fig 10 – Retail portfolio break-up (%)



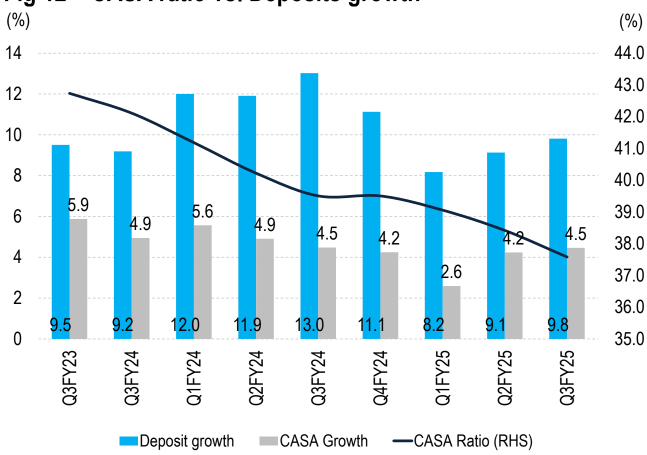
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM (%)



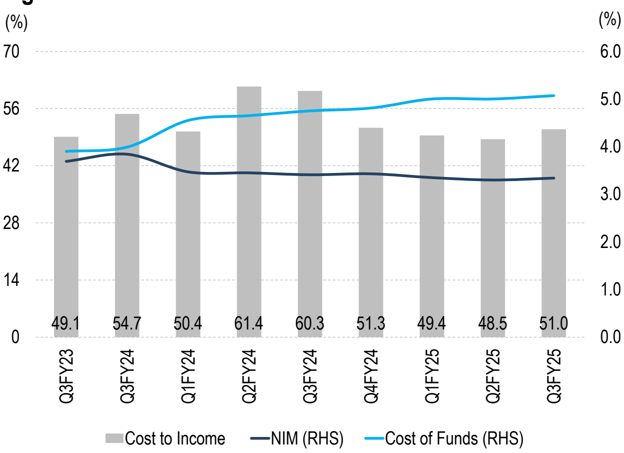
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposits growth



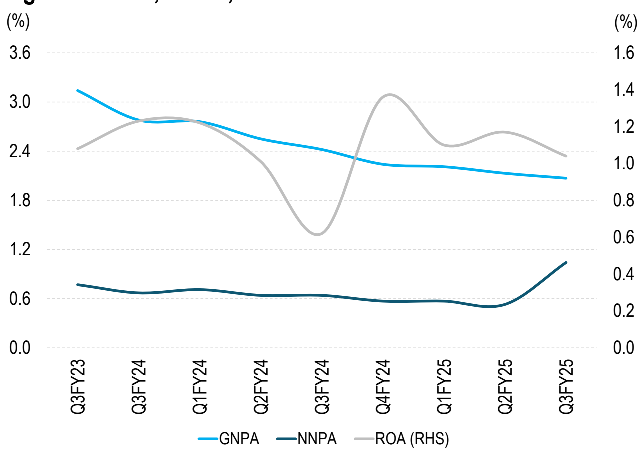
Source: Company, Anand Rathi Research

Fig 13 – C/I vs. NIM vs. Cost of funds



Source: Company, Anand Rathi Research

Fig 14 – GNPA, NNPA, RoA



Source: Company, Anand Rathi Research

Valuation

State Bank of India saw a soft Q3. Asset quality improved sequentially. The bank's dominant market position, best-in-class management and strong digital abilities would aid in maintaining its market share, while delivering healthy profitability. We raise our estimates on higher productivity. At our revised TP of Rs930, the stock will trade at 1.2x FY27e P/BV. We value the subsidiaries at Rs191/share and retain a Buy rating on the stock.

Fig 15 – du Pont analysis

(%)	FY23	FY24	FY25e	FY26e	FY27e
Interest Income / Assets	6.3	7.1	7.1	7.1	7.0
Interest Expense / Assets	3.6	4.4	4.5	4.5	4.4
Net interest income / Assets	2.8	2.7	2.6	2.6	2.6
Non-interest income / Assets	0.7	0.9	0.8	0.8	0.7
Net revenues / Assets	3.5	3.6	3.4	3.4	3.3
Operating expense / Assets	1.9	2.1	1.9	1.8	1.8
PPoP / Assets	1.6	1.5	1.5	1.5	1.6
Provision / Assets	0.3	0.1	0.2	0.2	0.3
Taxes / Assets	0.3	0.4	0.3	0.3	0.3
RoA	1.0	1.0	1.0	1.0	0.9
RoAE	16.5	17.3	16.1	15.8	15.0

Source: Company, Anand Rathi Research

Fig 16 – Estimates revision

	FY25e			FY26e			FY27e		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Net interest income (Rs bn)	1,680	1,772	(5.2)	1,882	1,952	(3.6)	2,101	2,160	(2.7)
Pre-provisioning profit (Rs bn)	979	1,126	(13.0)	1,117	1,200	(6.9)	1,259	1,306	(3.6)
PAT (Rs bn)	647	702	(7.9)	713	755	(5.6)	762	794	(4.1)

Source: Anand Rathi Research

Risks

- Lumpy slippages from the corporate book. Though unexpected, these would mar our forecasts.
- Less-than-expected credit growth could eat into our estimates.

Appendix

Analyst Certification

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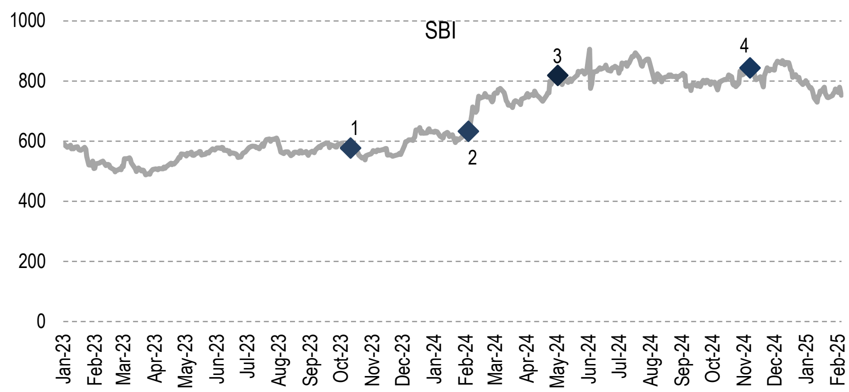
Rating and Target Price History (as of 6 February 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	16-Oct-23	**Buy**	701	576
2	4-Feb-24	**Buy**	750	650
3	9-May-24	**Buy**	942	819
4	8-Nov-24	**Buy**	971	845

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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