

CMP: INR 531

Rating: Buy

Target Price: INR 667

Stock Info

BSE	500112
NSE	SBIN
Bloomberg	SBIN IN
Reuter	SBI.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	892
Mkt Cap (INR Cr)	473,941
52w H/L (INR)	549 / 401
Avg Yearly Vol (in 000')	18,455

Shareholding Pattern %

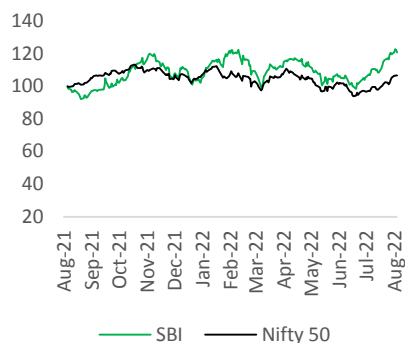
(As on June, 2022)

Promoters	57.6
FII	9.6
DII	25.1
Public & Others	7.7

Stock Performance (%)

	1m	3m	12m
SBIN	12.5	10.6	20.2
Nifty 50	10.0	4.3	6.8

SBIN Vs Nifty



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SBI reported miss on operating performance front largely due to sharp decline in other income on account of treasury loss and decline in margins. The bank has reported profit de-growth of 33% YoY/7% QoQ to INR 6,068 cr was lower than our estimate of INR 6,979 cr, impacted due to decline in PPOp growth. NII grew by 13% YoY/flat QoQ at INR 31,196 cr, driven by advances growth of 16% YoY. Domestic NIM declined by 17bps QoQ at 3.2%, largely due to 15bps decline in yields at 7.4%. However, we believe, NIM fall was transitory and expect NIM to improve going forward given the high share of floating book. Cost of deposits decreased marginally by 3bps QoQ at 3.8%. Slippages ratio increased from 0.4% to 1.4% on a sequential basis. Credit cost increased from 0.49% to 0.61% QoQ.

Higher treasury loss led to decline in PPOp: Bank has reported operating profit decline of 33% YoY/35% QoQ to INR 12,753 cr, impacted due to treasury loss. Treasury loss for the quarter was higher at INR 6,549 cr (vs. gain of INR 2,102 cr in Q1FY22), which has led to sharp decline in other income. Other income declined sharply by 80% YoY/81% QoQ to INR 2,312 cr. Fee income growth was healthy at 18% YoY. OPEX growth was lower at 1.4% YoY/-11.2% QoQ due to decline in employee cost and controlled other OPEX. CTI ratio increased from 54.2% to 62.0% QoQ due to lower other income.

Loan growth momentum remained strong: Advances growth for the quarter remained strong at 16% YoY/3% QoQ (vs. 12% YoY in Q4FY22), led by retail loan growth (~42% of domestic portfolio) of 19% YoY/3% QoQ. SME advances growth was healthy at 10% YoY/2.4% QoQ while corporate advances increased by 10.6% YoY/0.4% QoQ. Within retail, Home loan segment increased by 14% YoY/2% QoQ, Auto loans was up by 10.5% YoY/3.6% QoQ. Xpress credit growth continued to remain strong at 32% YoY/5% QoQ. Deposits growth was modest at 8.7% YoY/-0.1% QoQ. CASA ratio was largely stable at 43.7% QoQ. The management stated that they are confident of sustaining overall credit growth.

Slippages increased sequentially: Bank has reported slippages of INR 9,740 cr vs. INR 2,845 cr QOQ. Recoveries and upgrades remains healthy at 5,208 cr vs INR 6,756 cr, leading to net slippages of INR 1,248 cr. Asset quality of the bank improved as GNPA/NNPA declined from 3.97%/1.02% in Q4FY22 to 3.91%/1% in Q1FY23. Restructuring book of the bank declined from 1.1% to 1.0% of advances at INR 28,785 cr. SMA 1&2 book (>5 cr) increased from INR 3,544 cr to INR 6,983 cr QoQ. Bank holds a total non-specific provisions of INR 29,272 cr or 104bps of loans.

Valuation & View: SBI's Q1FY23 performance was modest due to higher MTM loss and decline in margins. However, core PPOP growth of the bank was healthy given the strong control on OPEX. Asset quality improved marginally and slippages ratio remained lower than the peers and we expect going ahead, credit cost to remain lower in the range of 60bps/55bps in FY23E/24E. Loan growth was strong and bank expects to sustain this growth momentum which along with higher mix of floating rates book will support NII and overall earnings growth. We continue to maintain our positive outlook and expect SBI to deliver RoA/RoE of 0.9%/14.6% by FY24E driven by strong liability franchise, healthy balance sheet growth and improving asset quality metrics with lower credit cost. We reduce our FY23E by 7% to factor in MTM loss and maintain our Buy rating on the stock with a revised target price of INR 667, based on SOTP valuation.

State Bank of India (Rs Cr)	FY20A	FY21A	FY22A	FY23E	FY24E
NII	98,085	1,10,710	1,20,706	1,40,671	1,52,567
PPOP	61,917	70,014	75,291	83,486	99,502
PAT	14,488	20,411	31,675	42,711	54,894
BVPS (INR / Share)	260.0	284.5	313.8	361.2	422.2
RoA (%)	0.4%	0.5%	0.6%	0.8%	0.9%
RoE (%)	6.2%	8.0%	11.3%	13.2%	14.6%
P/ABV (x)	2.6	2.2	1.9	1.6	1.4

Q1FY23 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Cr)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Interest Income	72,676	70,733	65,564	2.7%	10.8%
Interest Expended	41,480	39,535	37,926	4.9%	9.4%
Net Interest Income	31,196	31,198	27,638	0.0%	12.9%
Other Income	2,312	11,880	11,803	-80.5%	-80.4%
Operating Income	33,508	43,078	39,441	-22.2%	-15.0%
Operating Expenses	20,756	23,361	20,466	-11.2%	1.4%
Employee Expenses	12,051	12,556	12,538	-4.0%	-3.9%
Other Operating Expenses	8,704	10,805	7,928	-19.4%	9.8%
PPOP	12,753	19,717	18,975	-35.3%	-32.8%
Provisions	4,392	7,237	10,052	-39.3%	-56.3%
PBT	8,360	12,479	8,923	-33.0%	-6.3%
Tax Expenses	2,292	3,366	2,419	-31.9%	-5.2%
Net Income	6,068	9,114	6,504	-33.4%	-6.7%
Balance Sheet Analysis					
Advances	28,15,249	27,33,967	24,31,908	3.0%	15.8%
Deposits	40,45,696	40,51,534	37,20,987	-0.1%	8.7%
Total Assets	50,25,820	49,87,597	45,57,006	0.8%	10.3%
CASA Deposits	17,67,666	17,75,084	16,59,234	-0.4%	6.5%
CASA (%)	43.7%	43.8%	44.6%	-12bps	-90bps
CAR (%)	13.4%	13.8%	13.7%	-40bps	-23bps
Spreads					
NIMs (%)	3.23%	3.40%	3.15%	-17bps	8bps
Cost of Funds	3.69%	3.58%	3.69%	10bps	-1bps
Yield on Average Advances	6.70%	6.72%	6.74%	-2bps	-4bps
Asset Quality					
GNPA	1,13,272	1,12,023	1,34,259	1.1%	-15.6%
NNPA	28,258	27,966	43,153	1.0%	-34.5%
GNPA (%)	3.91%	3.97%	5.32%	-6bps	-141bps
NNPA (%)	1.00%	1.02%	1.77%	-2bps	-77bps
Credit Costs	0.61%	0.49%	0.79%	12bps	-18bps
Provision Coverage Ratio	90.14%	90.20%	85.93%	-6bps	421bps
Returns & Expenses					
RoA	0.48%	0.73%	0.57%	-25bps	-9bps
RoE	8.33%	13.02%	9.96%	-468bps	-163bps
Cost / Income Ratio	61.94%	54.23%	51.89%	771bps	1005bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q1FY23 – Key Concall Highlights

- The management stated that they are confident of sustaining overall credit growth going ahead.
- Overseas book of the bank grew by 22% YoY/9% QoQ, was driven by growth in syndicated loans and trade finance in USA and UK.
- Xpress credit growth ticket size is INR 6 lakhs with ~95% of borrowers are salaried customers of which 85% are government employees, 5% are quasi government employee and 5% are large corporate customers.
- Management remains confident of decent growth in SME portfolio going ahead driven by supply chain finance.
- The under utilisation of working capital limits in corporate loans is INR 2.5tn. Similarly, the unavailed term loans amount to INR 2.5 tn. Also, there are proposals worth INR 1.2 tn in the pipeline.
- There was decline in margins sequentially which is partly attributable to last quarter had interest on income tax refund amounting to INR 600 cr.
- NIM is expected to maintain or some improvement is expected going forward.
- Most of the book are linked with external benchmark. ~74% of the loan book is linked - to MCLR (41%), EBLR mainly repo (23%). EBLR loans are repriced/reset generally 1st of the subsequent month of interest rate action.
- Management has stated that from July onwards yield will start inching up.
- LCR was at 130%.
- Slippages break-up: Retail: INR 2,353 cr, SME: INR 3,000 cr, Corporate: INR 320 cr, Agri: INR 2,700 cr and INR 1,335 cr was from CCG. Out of this, bank has recovered INR 2,800 cr.
- The sequential rise in BB and below book from 11% to 13% share of corporate rated book is due to state government loans, which are not rated.
- The treasury book is cushioned till 7.45% rate and bank do not expect very high MTM loss going ahead.
- The bank has got the board approval to raise INR 11,000 cr through AT1 and AT2 bonds, of which, INR 2,000 already raised.

Sum of the Parts Valuation

Entity	Valuation methodology	Holding	Intrinsic Value per Share
SBI - Standalone banking business / Parent	1.3x FY24E ABV	100.0%	502
SBI Life Insurance	2.5x FY24E EV	55.5%	78
SBI General Insurance	20x FY24 PAT	70.0%	29
SBI Asset Management	5% of FY24E AUM	63.0%	19
SBI Cards & Payment	Based on current Mcap	69.4%	69
Others (Overseas subsidiaries)			8
Holding co. discount (%)			20.0%
Value of subs (INR per share)			165
Value of total (INR per share)			667

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Profit & Loss Statement (in INR Cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Interest Income	2,57,324	2,65,151	2,75,457	3,26,218	3,52,865
Interest Expended	1,59,239	1,54,441	1,54,751	1,85,547	2,00,298
Net Interest Income	98,085	1,10,710	1,20,706	1,40,671	1,52,567
Other Income	39,006	41,957	40,564	37,679	49,181
Operating Income	1,37,091	1,52,667	1,61,270	1,78,350	2,01,748
Operating Expenses	75,174	82,652	85,979	94,864	1,02,246
Employee Expenses	45,715	50,936	50,144	63,249	71,611
Other Operating Expenses	29,459	31,716	35,836	31,615	30,635
PPOP	61,917	70,014	75,291	83,486	99,502
Provisions	43,070	44,013	24,452	26,408	26,144
PBT	18,847	26,001	50,839	57,078	73,358
Tax Expenses	10,575	7,131	11,746	14,366	18,464
Net Income	14,488	20,411	31,675	42,711	54,894

Balance Sheet (in INR Cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Equity & Liabilities					
Share Capital	892	892	892	892	892
Reserves & Surplus	2,31,115	2,52,983	2,79,196	3,21,461	3,75,908
Net Worth	2,32,007	2,53,875	2,80,088	3,22,353	3,76,801
Deposits	32,41,621	36,81,277	40,51,534	44,49,741	49,45,559
Borrowings	3,14,656	4,17,298	4,26,043	4,47,346	4,69,713
Other Liabilities and Provisions	1,63,110	1,81,980	2,29,932	2,36,142	2,55,444
Total Capital & Liabilities	39,51,394	45,34,430	49,87,597	54,55,582	60,47,516
Assets					
Cash & Balances with RBI	1,66,736	2,13,202	2,57,859	2,84,839	3,27,670
Balances with Other Banks & Call Money	84,361	1,29,837	1,36,693	1,74,920	2,19,457
Investments	10,46,955	13,51,705	14,81,445	15,25,889	15,41,148
Advances	23,25,290	24,49,498	27,33,967	30,21,033	33,53,347
Fixed Assets	38,439	38,419	37,708	41,479	45,627
Other Assets	2,89,614	3,51,769	3,39,925	4,07,421	5,60,268
Total Assets	39,51,394	45,34,430	49,87,597	54,55,582	60,47,516

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Ratios	FY20A	FY21A	FY22A	FY23E	FY24E
Growth rates					
Advances (%)	6.4%	5.3%	11.6%	10.5%	11.0%
Deposits (%)	11.3%	13.6%	10.1%	9.8%	11.1%
Total assets (%)	7.3%	14.8%	10.0%	9.4%	10.9%
NII (%)	11.0%	12.9%	9.0%	16.5%	8.5%
Pre-provisioning profit (%)	10.2%	13.1%	7.5%	10.9%	19.2%
PAT (%)	1580.3%	40.9%	55.2%	34.8%	28.5%
Balance sheet ratios					
Credit/Deposit (%)	71.7%	66.5%	67.5%	67.9%	67.8%
CASA (%)	43.5%	44.7%	43.8%	44.6%	45.1%
Advances/Total assets (%)	58.8%	54.0%	54.8%	55.4%	55.4%
Leverage (x) (Asset/Shareholder's Fund)	17.03	17.86	17.81	16.92	16.05
CAR (%)	13.3%	13.7%	14.1%	14.5%	15.4%
CAR - Tier I (%)	12.6%	11.4%	13.4%	13.8%	14.7%
Operating efficiency					
Cost/income (%)	54.8%	54.1%	53.3%	53.2%	50.7%
Opex/total assets (%)	1.9%	1.8%	1.7%	1.7%	1.7%
Opex/total interest earning assets	1.3%	1.3%	1.1%	1.3%	1.4%
Profitability					
NIM (%)	2.8%	2.9%	2.8%	2.9%	2.9%
RoA (%)	0.4%	0.5%	0.6%	0.8%	0.9%
RoE (%)	6.2%	8.0%	11.3%	13.2%	14.6%
Asset quality					
Gross NPA (%)	5.3%	5.3%	3.9%	3.8%	3.6%
Net NPA (%)	2.2%	1.5%	1.0%	1.0%	1.0%
PCR (%)	65.2%	70.9%	75.0%	74.4%	72.9%
Credit cost (%)	1.3%	1.2%	0.6%	0.6%	0.6%
Per share data / Valuation					
EPS (INR)	16	23	35	48	62
BVPS (INR)	260	284	314	361	422
ABVPS (INR)	202	243	283	328	386
P/E (x)	32.7	23.2	15.0	11.1	8.6
P/BV (x)	2.0	1.9	1.7	1.5	1.3
P/ABV (x)	2.6	2.2	1.9	1.6	1.4
Profitability					
Return on Equity	6.2%	8.0%	11.3%	13.2%	14.6%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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