

CMP: INR 578

Rating: BUY

Target Price: INR 746

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)	511,559
52w H/L (INR)	630 / 499
Avg Yearly Vol (in 000')	15,044

Shareholding Pattern %

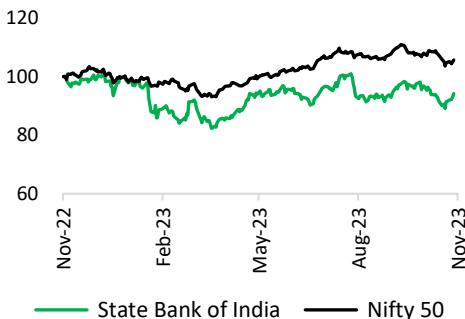
(As on Sept, 2023)

Promoters	57.5
Public & Others	42.5

Stock Performance (%)

	1m	6m	12m
SBIN	-2.2	0.5	-5.7
Nifty 50	-1.6	6.43	5.6

SBIN Vs Nifty



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SBI reported a net profit of INR 143.3 bn v/s INR 168.8 bn in Q1FY24 and INR 132.6 bn in Q2FY23. The bank has reported profit growth of 8% YoY/down 15.1% QoQ led by increase in Cost of Deposits to 4.65%, up by 81 bps YoY/10 bps QoQ. NII grew by 12.3% YoY/ 1.5% QoQ to INR 395 bn, driven by advances growth of 13.3% YoY/3.4% QoQ. Domestic NIM declined by 4bps QoQ at 3.43%, largely due to 81bps YoY increase in cost of deposits at 4.65%. NIM for the overall bank stood at 3.29%, declining by 3bps YoY/4 bps QoQ. GNPA improved further by 97bps YoY/21 bps QoQ to 2.55%, whereas NNPA also decreased by 16 bps YoY/7 bps QoQ to 0.64%. Slippages ratio decreased from 0.94% to 0.70% on a sequential basis and Credit cost too came down to new best levels at 0.27%.

NIMs declined sequentially, led by increasing cost of deposits: Net Interest Income during the quarter stood at INR 395 bn (v/s INR 389 bn in Q1FY24), up by 1.5% QoQ, led by increase in interest expenses. The interest expenses increased by 38.5% YoY/8.4% QoQ to INR 619 bn, whereas interest income increased only by 26.9% YoY/5.6% QoQ at INR 1,014 bn. Domestic NIM declined by 4bps QoQ at 3.43% (v/s 3.47% in Q1FY24). NIM for whole bank stood at 3.29% v/s 3.33% in Q1FY24 (down 4 bps QoQ). Cost of deposits increased by 10bps QoQ at 4.65% during the quarter v/s 4.55% in Q1FY24. Further, CASA ratio declined by 275 bps YoY/100 bps QoQ at 41.88%. Yield on advances improved by 120 bps YoY/8 bps QoQ at 8.86%.

Loan growth momentum remained strong: Advances growth for the quarter stood at INR 33.4 tn growing by 13.3% YoY/3.4% QoQ in a seasonally slow quarter. This was led by strong momentum in RAM segment. Retail Personal loanbook grew by 15.68% YoY(~42% of domestic portfolio). SME advances growth was robust at 22.7% YoY and Agri book grew by 14.8% YoY, while corporate advances increased by marginally 6.6% YoY. Within retail, Home loan segment increased by 13.1% YoY, Xpress Credit book was up by 20.2% and other Personal segment loan were up 21.7% YoY. Deposits growth was modest at 11.9% YoY/3.5% QoQ to INR 46.9 tn. Although, CASA ratio declined from 42.88% in Q1FY24 to 41.88% sequentially.

Slippages increased sequentially: Bank has reported fresh slippages of INR 38.31 bn vs. INR 76.59 bn QoQ as the slippage ratio came down to 0.7% from 0.94% in the previous quarter. Recoveries and upgrades increased to INR 40.15 bn vs INR 36.07 bn in Q1FY24. GNPA improved a notch further by 97bps YoY/21 bps QoQ to 2.55%, whereas NNPA went down by 16 bps YoY/7 bps QoQ to 0.64%. Total Restructuring book of the bank declined from INR 243 bn in March 2023 to INR 208 bn as of Sept 2023. SMA 1&2 book (>5 cr) also decreased from INR 72.2 bn in Q1FY24 to INR 39.6 bn QoQ.

Valuation & View: SBI has posted one of the best asset quality among large PSU Banks despite good growth. We don't see the NIMs deteriorating any further from current levels while the wage revision impact will be a one-off amount. We trust the bank's risk mitigation frameworks and don't see any substantial risk to the Asset quality. Hence, **we upgrade SBI to a BUY rating based on P/ABV multiple of 1.1x on FY26E ABV of INR 557 to an intrinsic value of INR 604 (standalone) along side valuing the subsidiaries at INR 141 (at 40% hold co discount) to arrive at a Target Price of INR 746 per share.**

Exhibit 1: Financial Performance

State Bank of India (INR Bn)	FY22A	FY23A	FY24E	FY25E	FY26E
NII	1,207	1,448	1,682	1,780	1,902
PPOP	753	837	990	1,040	1,192
PAT	317	502	636	675	793
BVPS (INR / Share)	313.8	367.1	437.8	513.0	601.3
RoA (%)	0.6%	0.9%	1.0%	1.0%	1.0%
RoE (%)	11.3%	15.3%	16.3%	14.7%	14.8%
P/ABV (x)	2.0	1.7	1.4	1.2	1.0

Source: Arihant Research, Company Filings

Q2FY24 - Quarterly Performance (Standalone)

Quarterly Result Update (INR Bn)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Interest Income	1,013.79	959.75	798.60	5.6%	26.9%
Interest Expended	618.79	570.71	446.76	8.4%	38.5%
Net Interest Income	395.00	389.05	351.83	1.5%	12.3%
Other Income	107.91	120.63	88.74	-10.6%	21.6%
Operating Income	502.91	509.68	440.58	-1.3%	14.1%
Operating Expenses	308.74	256.71	229.38	20.3%	34.6%
Employee Expenses	189.26	166.01	128.67	14.0%	47.1%
Other Operating Expenses	119.48	90.71	100.70	31.7%	18.6%
PPOP	194.17	252.97	211.20	-23.2%	-8.1%
Provisions	1.15	25.01	30.39	-95.4%	-96.2%
PBT	193.01	227.96	180.81	-15.3%	6.7%
Tax Expenses	49.71	59.11	48.17	-15.9%	3.2%
Net Income	143.30	168.84	132.65	-15.1%	8.0%
Balance Sheet Analysis					
Advances	33,452	32,350	29,513	3.4%	13.3%
Deposits	46,892	45,312	41,903	3.5%	11.9%
Total Assets	58,263	55,431	51,998	5.1%	12.0%
CASA Deposits	18,860	18,661	17,978	1.1%	4.9%
CASA (%)	41.88%	42.88%	44.63%	-100bps	-275bps
CAR (%)	14.28%	14.56%	13.51%	-28bps	77bps
Spreads					
NIMs (%)	3.29%	3.33%	3.32%	-4bps	-3bps
Cost of Funds	4.65%	4.55%	3.84%	10bps	81bps
Yield on Average Advances	8.86%	8.78%	7.66%	8bps	120bps
Asset Quality					
GNPA	869.74	913.28	1,068.04	-4.8%	-18.6%
NNPA	213.52	229.95	235.72	-7.1%	-9.4%
GNPA (%)	2.55%	2.76%	3.52%	-21bps	-97bps
NNPA (%)	0.64%	0.71%	0.80%	-7bps	-16bps
Credit Costs	0.22%	0.32%	0.28%	-10bps	-6bps
Provision Coverage Ratio	75.45%	74.82%	77.93%	63bps	-248bps
Returns & Expenses					
RoA	1.01%	1.22%	1.04%	-21bps	-3bps
RoE	15.96%	19.61%	17.40%	-365bps	-144bps
Cost / Income Ratio	61.39%	50.37%	52.06%	1102bps	933bps

Source: Arianth Research, Company Filings

Q2FY24 – Key Concall Highlights

Management Guidance:

- Expects 16-17% credit growth in FY24 of the banking sector.
- **Loan growth for the bank to be around 14% YoY (Chairman says he is being conservative).**
- **Domestic Margins to see 3-5 bps compression for the next 2-3 quarters.**
- **Chairman expressed confidence of achieving a 1.2% RoA annually, and wage hike Provisioning is a one-off thing.**

Key Highlights:

- Chairman acknowledged soft external macroeconomic demand.
- Additional Provisions of INR 34 bn taken due to back dated (Nov 2022) interest levied.
- The GNPA of the Retail Portfolio only at 0.69%.
- Slippage ratio improved by 16 bps for the H1FY24, at 0.70%.
- PCR for the Corporate book stood at 99.5%.
- 61% of Savings Account have been sourced through YONO.
- Full impact of interest hike is reflected now for the MCLR linked accounts.
- INR 12 bn per quarter of wage revision impact to come at a rate of INR 4 bn per month once wage revision happens.
- The Investment book has increased 8.2% to INR 20.7 tn (of consolidated book) on a QoQ basis as the Bank has been parking some SLR liquidity from the market borrowings.
- **For the SME book, the bank is on track to achieve INR 4 tn (earlier guidance) by FY24 end, and is at INR 3.88 tn as of Q2FY24.**
- Yields on the SME book (maximum INR 0.5 bn ticket size) are slightly lower than the Xpress Credit book (for Salaried people from PSU companies). The Bank is committed to grow SME loans to achieve their guidance. Bank keeps a close tab on the Cash Flows of the SME borrowers in order to maintain better asset quality.
- Repricing of loans and improvement of LDR, will be helping their margins.
- **Corporate book to see growth going ahead in lower teens range INR 3.4 tn of proposals are currently with the bank.**
- Company to see good growth in the Mortgage segment in the current year going ahead despite the highly competitive market, as they are confident of their Analytics and sourcing mechanisms. The Bank has added 150 Central Processing Centres over the last year.
- The Bank is seeing lower growth in the Savings account deposits in the amounts in individual accounts. However, they have opened around +4 million accounts during the quarter. In order to derisk from being relying on the Government entities having their accounts with the bank, they are now focussing more on the Current Account Deposits growth from other sources.
- The Wage negotiation is still in process and is expected to come with a 14% YoY increase for the bank's employees.
- The bank is doing both Pre-approved Personal loans as well as Business loans.
- **MCLR linked loans form 38% while Fixed Rate loans form 31% of the Advances.**
- **The Bank does not sanction any loan of less than INR 50,000 ticket size, so no question of stress of that ticket size of loans arises for the bank.** However, its the repayment of the decreased Xpress Credit loans where the recovery amount can sometimes be of lesser than INR 50,000 amount.

Key Financials

Profit & Loss Statement (INR Bn)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Interest Income	2,652	2,755	3,321	3,692	4,001	4,359
Interest Expended	1,544	1,548	1,873	2,010	2,222	2,457
Net Interest Income	1,107	1,207	1,448	1,682	1,780	1,902
Other Income	420	406	366	492	524	647
Operating Income	1,527	1,613	1,815	2,174	2,303	2,549
Operating Expenses	827	860	977	1,184	1,264	1,357
Employee Expenses	509	501	573	716	811	918
Other Operating Expenses	317	358	405	468	453	439
PPOP	700	753	837	990	1,040	1,192
Provisions	440	245	165	163	162	160
PBT	260	508	672	827	878	1,032
Tax Expenses	71	117	170	191	203	238
Net Income	204	317	502	636	675	793

Balance Sheet (INR Bn)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Equity & Liabilities						
Share Capital	9	9	9	9	9	9
Reserves & Surplus	2,530	2,792	3,267	3,898	4,569	5,358
Net Worth	2,539	2,801	3,276	3,907	4,578	5,367
Deposits	36,813	40,515	44,238	49,456	54,976	61,122
Borrowings	4,173	4,260	4,931	5,178	5,437	5,709
Other Liabilities and Provisions	1,820	2,299	2,725	2,947	3,250	3,742
Total Capital & Liabilities	45,344	49,876	55,170	61,488	68,240	75,940
Assets						
Cash & Balances with RBI	2,132	2,579	2,471	2,842	3,139	3,451
Balances with Other Banks & Call Money	1,298	1,367	608	763	824	913
Investments	13,517	14,814	15,704	15,861	16,019	16,179
Advances	24,495	27,340	31,993	35,512	39,596	44,347
Fixed Assets	384	377	424	466	513	564
Other Assets	3,518	3,399	3,971	6,044	8,150	10,485
Total Assets	45,344	49,876	55,170	61,488	68,240	75,940

Source: Arianth Research, Company Filings

Ratios	FY21A	FY22A	FY23A	FY24E	FY25E
Growth rates					
Advances (%)	5.3%	11.6%	17.0%	11.0%	11.5%
Deposits (%)	13.6%	10.1%	9.2%	11.8%	11.2%
Total assets (%)	14.8%	10.0%	10.6%	11.5%	11.0%
NII (%)	12.9%	9.0%	20.0%	16.1%	5.8%
Pre-provisioning profit (%)	13.1%	7.5%	11.2%	18.3%	5.0%
PAT (%)	40.9%	55.2%	58.6%	26.6%	6.2%
Balance sheet ratios					
Credit/Deposit (%)	66.5%	67.5%	72.3%	71.8%	72.0%
CASA (%)	44.7%	43.8%	44.8%	45.1%	45.7%
Advances/Total assets (%)	54.0%	54.8%	58.0%	57.8%	58.0%
Leverage (x) (Asset/Shareholder's Fund)	17.86	17.81	16.84	15.74	14.91
CAR (%)	13.7%	14.1%	14.0%	15.1%	15.9%
CAR - Tier I (%)	11.4%	13.4%	13.3%	14.5%	15.4%
Operating efficiency					
Cost/income (%)	54.1%	53.3%	53.9%	54.5%	54.9%
Opex/total assets (%)	1.8%	1.7%	1.8%	1.9%	1.9%
Opex/total interest earning assets	1.3%	1.1%	1.2%	1.4%	1.4%
Profitability					
NIM (%)	2.9%	2.8%	3.0%	3.2%	3.1%
RoA (%)	0.5%	0.6%	0.9%	1.0%	1.0%
RoE (%)	8.0%	11.3%	15.3%	16.3%	14.7%
Asset quality					
Gross NPA (%)	5.3%	3.9%	3.6%	3.4%	3.2%
Net NPA (%)	1.5%	1.0%	0.9%	0.9%	0.9%
PCR (%)	70.9%	75.0%	74.4%	73.0%	71.6%
Credit cost (%)	1.2%	0.6%	0.4%	0.3%	0.3%
Per share data / Valuation					
EPS (INR)	23	35	56	71	76
BVPS (INR)	284	314	367	438	513
ABVPS (INR)	243	283	334	402	473
P/E (x)	25.1	16.1	10.2	8.0	7.6
P/BV (x)	2.0	1.8	1.6	1.3	1.1
P/ABV (x)	2.4	2.0	1.7	1.4	1.2
Profitability					
Return on Equity	8.0%	11.3%	15.3%	16.3%	14.7%

Source: Arianth Research, Company Filings

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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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