

CMP: INR 650

Rating: BUY

Target Price: INR 828

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)	661 / 502
Avg Yearly Vol (in 000')	15,044

Shareholding Pattern %

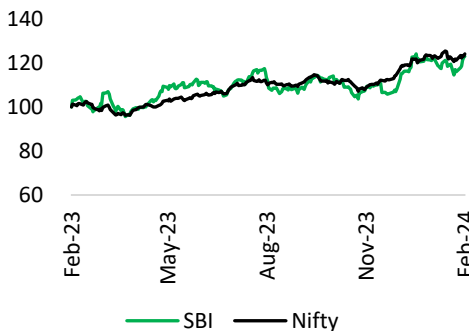
(As on Dec, 2023)

Promoters	57.73
Public & Others	42.51

Stock Performance (%)

	1m	6m	12m
SBIN	0.7	9.7	19.1
Nifty 50	1.6	12.8	22.4

SBIN Vs Nifty



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SBI reported a net profit of INR 91.6 bn v/s INR 143.3 bn in Q2FY24 and INR 142.1 bn in Q3FY23. The bank has reported profit degrowth of 35.5% YoY/down 36.1% QoQ led by increase in Cost of Deposits to 4.75%, up by 85 bps YoY/10 bps QoQ along with the bank provisioning for wage growth by INR 127.18 bn for full year and Pension provisioning of INR 71 bn as a one-time impact during Q3FY24. NII grew by 4.6% YoY/0.8% QoQ to INR 398.2 bn, driven by advances growth of 10% YoY/5.2% QoQ. NIM for the overall bank stood at 3.22%, declining by 28bps YoY/7 bps QoQ. GNPA improved further by 72bps YoY/13 bps QoQ to 2.42%, whereas NNPA also decreased by 13 bps YoY/flat QoQ to 0.64%. Slippages ratio decreased from 0.7% to 0.67% on a sequential basis and Credit cost too came down to new best levels at 0.25%.

NIMs declined sequentially, led by increasing cost of deposits: Net Interest Income during the quarter stood at INR 398.2 bn (v/s INR 395 bn in Q2FY24), up by 0.8% QoQ, led by increase in interest expenses. The interest expenses increased by 37.8% YoY/8.1% QoQ to INR 669.2 bn, whereas interest income increased only by 23.2% YoY/5.3% QoQ at INR 1,067.3 bn. Domestic NIM declined by 9bps QoQ at 3.34% (v/s 3.43% in Q2FY24). NIM for whole bank stood at 3.22% v/s 3.29% in Q2FY24 (down 7 bps QoQ). Cost of deposits increased by 10bps QoQ at 4.75% during the quarter v/s 4.65% in Q2FY24. Further, CASA ratio declined by 245 bps YoY/15 bps QoQ at 42.03%. Yield on advances improved by 101 bps YoY/2 bps QoQ at 8.88%.

Loan growth moderated as repricing and higher risk weightage on unsecured loans & exposure to NBFCs was passed on: Advances growth for the quarter stood at INR 35.2 tn growing by 10% YoY/5.2% QoQ. Some moderation seen RAM segment as Retail Personal loans grew by 15.3% YoY (~42.8% of domestic portfolio). SME advances growth was robust at 19.2% YoY and Agri book grew by 18.1% YoY, while corporate advances increased marginally by 10.7% YoY. Within retail, Home loan segment increased by 13.16% YoY, Xpress Credit book was up by 16.4% and other Personal segment loan were up 19.7% YoY. Deposits growth was modest at 7.7% YoY/1.1% QoQ to INR 47.6 tn. CASA ratio on the other hand increased from 41.88% in Q2FY24 to 42.03% sequentially.

Slippage ratio & Credit Cost fell sequentially: Bank has reported fresh slippages of INR 49.6 bn vs. INR 38.31 bn QoQ while slippage ratio came down to 0.67% from 0.70% in the previous quarter. Recoveries and upgrades came down to INR 17.98 bn vs INR 40.15 bn in Q2FY24. GNPA improved a notch further by 72bps YoY/13 bps QoQ to 2.42%, whereas NNPA went down by 13 bps YoY/flat QoQ to 0.64%. Total Restructuring book of the bank declined from INR 208 bn as of Sept 2023 to INR 188.8 bn in Dec 2023. SMA 1&2 book (>5 cr) increased marginally from INR 39.6 bn in Q2FY24 to INR 41.3 bn in Dec 2023.

Valuation & View: SBI has posted one of the best asset quality among large PSU Banks with Credit costs at decadal best levels. While the Provisioning for wage hike by 17% and Pension Provisioning impacted the Q3FY24 Profits, we believe the FY25 Profits would increase more significantly with both being taken care of within FY24. We don't see the NIMs deteriorating much further from current levels and Cost of deposits to also normalize below 5% as CASA is expected to hold above 40% levels in future as well. We trust the bank's risk mitigation frameworks and don't see any substantial risk to the Asset quality, specially the large corporate account slippages in current Macro economic scenario. Hence, we revise our FY25 & FY26 estimates on account of Prudent Provisioning taken by the bank and maintain our stance on SBI at BUY rating based on upgraded P/ABV multiple of 1.2x (earlier 1.1x) on FY26E ABV of INR 561 to an intrinsic value of INR 689 (standalone) and valuing its subsidiaries at INR 139 (at 40% hold co discount) to arrive at a Target Price of INR 828.

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	987	1,075	1,270
PAT	317	502	579	702	854
BVPS (INR / Share)	313.8	367.1	431.4	509.6	604.8
RoA (%)	0.6%	0.9%	0.9%	1.0%	1.1%
RoE (%)	11.3%	15.3%	15.0%	15.4%	15.8%
P/ABV (x)	2.3	1.9	1.6	1.4	1.2

Source: Arihant Research, Company Filings

Q3FY24 - Quarterly Performance (Standalone)

Quarterly Result Update (INR Bn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Interest Income	1,067.3	1,013.8	866.2	5.3%	23.2%
Interest Expended	669.2	618.8	485.5	8.1%	37.8%
Net Interest Income	398.2	395.0	380.7	0.8%	4.6%
Other Income	114.6	107.9	114.7	6.2%	-0.1%
Operating Income	512.7	502.9	495.4	2.0%	3.5%
Operating Expenses	309.4	308.7	243.2	0.2%	27.2%
Employee Expenses	193.6	189.3	147.6	2.3%	31.2%
Other Operating Expenses	115.8	119.5	95.6	-3.1%	21.1%
PPOP	203.4	194.2	252.2	4.7%	-19.4%
Provisions	6.9	1.2	57.6	496.7%	-88.1%
PBT	125.5	193.0	194.6	-35.0%	-35.5%
Tax Expenses	33.8	49.7	52.5	-31.9%	-35.6%
Net Income	91.6	143.3	142.1	-36.1%	-35.5%
Balance Sheet Analysis					
Advances	35,195	33,452	31,993	5.2%	10.0%
Deposits	47,622	46,892	44,238	1.6%	7.7%
Total Assets	59,656	58,263	55,170	2.4%	8.1%
CASA Deposits	19,401	18,860	18,813	2.9%	3.1%
CASA (%)	42.03%	41.88%	44.48%	15bps	-245bps
CAR (%)	13.05%	14.28%	13.27%	-123bps	-22bps
Spreads					
NIMs (%)	3.22%	3.29%	3.50%	-7bps	-28bps
Cost of Deposits	4.75%	4.65%	3.90%	10bps	85bps
Yield on Average Advances	8.88%	8.86%	7.87%	2bps	101bps
Asset Quality					
GNPA	867.49	869.74	983.47	-0.3%	-11.8%
NNPA	224.08	213.52	234.84	4.9%	-4.6%
GNPA (%)	2.42%	2.55%	3.14%	-13bps	-72bps
NNPA (%)	0.64%	0.64%	0.77%	0bps	-13bps
Credit Costs	0.21%	0.22%	0.21%	-1bps	0bps
Provision Coverage Ratio	74.17%	75.45%	76.12%	-128bps	-195bps
Returns & Expenses					
RoA	0.62%	1.01%	1.08%	-39bps	-46bps
RoE	9.94%	15.96%	17.34%	-602bps	-741bps
Cost / Income Ratio	60.34%	61.39%	49.09%	-105bps	1125bps

Source: Arianth Research, Company Filings

Q3FY24 – Key Concall Highlights

Guidance:

- **The Chairman expects for the entire banking sector's All Scheduled Commercial Bank's Advances growth to be in the range of 14-15% in the future, and that of Deposits growth to be between 12-13%. The Chairman expressed confidence that SBI will see similar lines of growth for themselves.**

Key Highlights:

- Retail Personal loans grew by 15.3% YoY, Agri loans grew by 18.1% YoY and SME Portfolio by 19.2% YoY. Corporate Advances grew by 10.7% YoY and Foreign Loans grew by 13.9% YoY.
- 59% of Retail Savings Accounts in Q3FY24 were opened through Yono. Around INR 950 bn of loans were generated by through the digital side, which is up 30% YoY.
- Slippage ratio for Q3FY24 improved by 5bps YoY/3bps QoQ to 0.67%. Credit Cost for Q3FY24 stood at 0.25%, down 12 bps YoY/2bps QoQ.
- For Q3FY24, PCR excl. AUCA was steady at 91.5% and incl. AUCA stood at 74.2%.
- The Management expressed comfort that all the bank's subsidiaries are performing very well.
- As for the Pension Provisioning that the bank took, the Management explained that some Pensioners were getting Pensions at 40% and others at 50%, and the matter was pending in Court since 2002. Hence, they took the one time hit this year for a universal Pension of 50%, took INR 71 bn one time hit, incl, INR 54 bn of Pension Provision, and INR 17 bn of Pension Liabilities.
- Hence, as per the Management, instead of having INR 840 bn of employee expenses next year, due to the bank's prudent Provisioning for Wage hike incl. Pension & Pension Liabilities, it will only be INR 660 bn in FY25.
- The Bank took a wage revision of INR 127.18 bn of during the current financial year at the rate of 17% rate hike. Hence, the bank will see a minor INR 5 bn per month of impact amounting to INR 60 bn for next year as an increase for employee salaries.
- The Management says that next year's Wage bill will be around INR 660 bn for 235K employees and 300K Pensioners.
- The Management says that as long as the RoE of the bank is growing faster than the Credit growth, they believe that CAR will remain healthy & steady. However, the Management has identified ways to raise Capital if the bank requires.
- The Management believes the Credit Cost of SBI has been the best over more than a decade.
- The Bank clarifies that most of the Deposit repricing has been done, and margin dilution won't be more than 2-3 bps in future.
- The Productivity of the Bank's per employee has increased from INR ~190 Cr in 2019 to INR 290 mn currently.
- The Chairman says had they not had to Provision for the Wage hike and Pensions, the bank would have had posted a Profit of INR 600 bn for the full year, and the Chairman acknowledges his dream of seeing SBI posting Profits of INR 1 tn per year soon.
- The bank says no Private Bank has come to them to sell their Portfolio as of now, but if it happens, they will be happy to take such an opportunity if it suits their risk appetite.
- The bank is passing on 49 bps of Cost of Capital increase towards incremental unsecured Portfolio and NBFCs, including the Express Credit Profolio for Public sector salaried customers.
- The Bank has identified the Renewables sector, and does not feel they have missed out on any opportunity to lend towards the Power sector.
- The Bank does not have any large lumpy account for recovery, and the AUCA which has been INR 49 bn for the 9MFY24 is only a collection of small NPA accounts. The largest lumpy account recovery that has happened is only INR 2 bn and second is INR 330 mn.
- The bank has a network of 22,494 branches at the end of Dec 2023.
- The Loan book is segregated in MCLR 37.6%, EBLR is 27.4% and Fixed Rate 20.9%

Key Financials

Profit & Loss Statement (INR Bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest Income	2,755	3,321	3,692	4,001	4,359
Interest Expended	1,548	1,873	2,010	2,222	2,457
Net Interest Income	1,207	1,448	1,682	1,780	1,902
Other Income	406	366	492	524	647
Operating Income	1,613	1,815	2,174	2,303	2,549
Operating Expenses	860	977	1,187	1,228	1,278
Employee Expenses	501	573	597	665	741
Other Operating Expenses	358	405	590	563	538
PPOP	753	837	987	1,075	1,270
Provisions	245	165	163	162	160
PBT	508	672	752	913	1,110
Tax Expenses	117	170	174	211	256
Net Income	317	502	579	702	854

Balance Sheet (INR Bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity & Liabilities					
Share Capital	9	9	9	9	9
Reserves & Surplus	2,792	3,267	3,841	4,539	5,388
Net Worth	2,801	3,276	3,850	4,548	5,397
Deposits	40,515	44,238	49,456	54,976	61,122
Borrowings	4,260	4,931	5,178	5,437	5,709
Other Liabilities and Provisions	2,299	2,725	2,947	3,250	3,742
Total Capital & Liabilities	49,876	55,170	61,431	68,210	75,970
Assets					
Cash & Balances with RBI	2,579	2,471	2,842	3,139	3,451
Balances with Other Banks & Call Money	1,367	608	763	824	913
Investments	14,814	15,704	15,861	16,019	16,179
Advances	27,340	31,993	35,512	39,596	44,347
Fixed Assets	377	424	466	513	564
Other Assets	3,399	3,971	5,987	8,120	10,515
Total Assets	49,876	55,170	61,431	68,210	75,970

Source: Arianth Research, Company Filings

Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
Growth rates					
Advances (%)	11.6%	17.0%	11.0%	11.5%	12.0%
Deposits (%)	10.1%	9.2%	11.8%	11.2%	11.2%
Total assets (%)	10.0%	10.6%	11.3%	11.0%	11.4%
NII (%)	9.0%	20.0%	16.1%	5.8%	6.9%
Pre-provisioning profit (%)	7.5%	11.2%	17.9%	8.9%	18.2%
PAT (%)	55.2%	58.6%	15.2%	21.4%	21.6%
Balance sheet ratios					
Credit/Deposit (%)	67.5%	72.3%	71.8%	72.0%	72.6%
CASA (%)	43.8%	44.8%	45.1%	45.7%	46.3%
Advances/Total assets (%)	54.8%	58.0%	57.8%	58.0%	58.4%
Leverage (x) (Asset/Shareholder's Fund)	17.81	16.84	15.96	15.00	14.08
CAR (%)	14.1%	14.0%	14.9%	15.8%	16.8%
CAR - Tier I (%)	13.4%	13.3%	14.3%	15.3%	16.3%
Operating efficiency					
Cost/income (%)	53.3%	53.9%	54.6%	53.3%	50.2%
Opex/total assets (%)	1.7%	1.8%	1.9%	1.8%	1.7%
Opex/total interest earning assets	1.1%	1.2%	1.1%	1.2%	1.2%
Profitability					
NIM (%)	2.8%	3.0%	3.2%	3.1%	3.1%
RoA (%)	0.6%	0.9%	0.9%	1.0%	1.1%
RoE (%)	11.3%	15.3%	15.0%	15.4%	15.8%
Asset quality					
Gross NPA (%)	4.1%	3.6%	3.4%	3.2%	3.0%
Net NPA (%)	1.0%	0.9%	0.9%	0.9%	0.9%
PCR (%)	75.0%	74.4%	73.0%	71.6%	70.2%
Credit cost (%)	0.6%	0.4%	0.3%	0.3%	0.3%
Per share data / Valuation					
EPS (INR)	35	56	65	79	96
BVPS (INR)	314	367	431	510	605
ABVPS (INR)	283	334	395	470	561
P/E (x)	18.3	11.5	10.0	8.3	6.8
P/BV (x)	2.1	1.8	1.5	1.3	1.1
P/ABV (x)	2.3	1.9	1.6	1.4	1.2
Profitability					
Return on Equity	11.3%	15.3%	15.0%	15.4%	15.8%

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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