

**CMP: INR 445**

**Rating: Buy**

**Target Price: INR 660**

**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)	394,200
52w H/L (INR)	550 / 360
Avg Yearly Vol (in 000')	24,053

**Shareholding Pattern %**

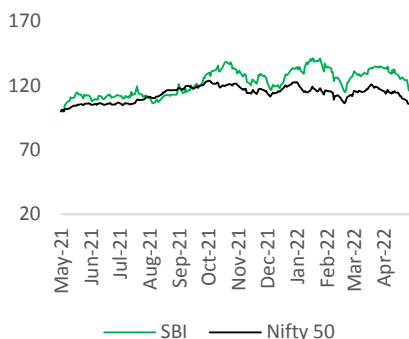
(As on March, 2022)

Promoters	57.6
FII	10.0
DII	24.6
Public & Others	7.8

**Stock Performance (%)**

	1m	3m	12m
SBI	-13.8	-13.7	23.3
Nifty 50	-9.6	-8.8	7.6

**SBI Vs Nifty**



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**State Bank of India (SBI) reported mixed performance during Q4FY22 with profit growth of 41% YoY to INR 9,114 cr was lower than our estimate of INR 10,152 cr, driven by 35% YoY decline in provisions. Operating profit growth was lower at 6.5% YoY to INR 19,717 cr was 7% below than our estimate, impacted due to high overhead cost and investment depreciation. NII for the quarter increased by 15% YoY/2% QoQ to INR 31,198 cr as against our expectations of INR 31,061 cr. NIM was flat QoQ at 3.4% as yield on advances sustained at 7.6% and cost of deposits was flat QoQ at 3.83%. Slippages ratio was curtailed at ~0.4% QoQ and GNPA improved by 53bps QoQ at 3.97% led by strong recoveries and upgrades. Overall, credit cost for Q4FY22 stood at 0.49% with rise in provisioning coverage to 75% (from 71% QoQ). On the business front, advances growth has gathered pace in Q4FY22 and recorded 11.6% YoY/6% QoQ growth led by 11% QoQ uptick in corporate segment.**

**Operating performance was impacted due to higher cost ratio:** Operating profit growth was lower at 6.5% YoY/flat QoQ was impacted due to higher cost ratio. OPEX for the quarter increased higher by 12% QoQ. Cost to income ratio increased from 52.9% to 54.2% QoQ. Other expenses (Overhead) was up by 29% QoQ/6% YoY due to higher increase in ATM/digital and debit card related charges (up 64% QoQ). Deposit & General Insurance cost was up by 16.3% QoQ and miscellaneous expense was up by 55% QoQ. Other income for the declined by 27% YoY while grew by 37% QoQ to INR 11,880 cr.

**Loan growth gained momentum:** Total advances of the bank grew by 11.6% YoY/6% QoQ, driven by retail loan growth of 15% YoY/5% QoQ and Corporate credit growth of 6% YoY/11% QoQ. Retail growth was driven by home loans growing at 4.3% QoQ / 11.5% YoY to INR 561,651 cr and Xpress Credit (up 8.3% QoQ / 28.5% YoY to INR 247,714 cr. Corporate book growth was higher sequentially. Management has stated that corporate portfolio would further gain pace with more utilization of limits. As of Q4FY22, it had working capital unutilised limit of INR 2.76 tn and term loan unutilised limit of INR 2.0 tn. Deposit growth was healthy at 10% YoY/5% QoQ driven by SA growth of 10% YoY and term deposits growth of 11.5% YoY. CASA ratio of the bank stood at 43.8% vs. 44.2% QoQ.

**Asset quality improved led by higher recoveries and upgrades:** Bank has reported slippages of INR 2,845 cr vs. INR 2,334 cr in the previous quarter (Slippage ratio at 0.42% vs 0.36% QoQ). Recoveries and upgrades was significantly higher at INR 6,756 cr vs. INR 2,306 cr in Q3FY22. This along with higher write off of INR 4,856 cr has pushed GNPA down by 53bps QoQ at 4%. Net NPA improved by 32bps QoQ at 1%. Restructuring book of the bank declined from 1.3% to 1.1% of advances at INR 30,960 cr (INR 10,866 cr under OTR 1.0 and INR 20,094 cr under OTR 2.0). SMA 1&2 book decreased further at INR 3,544 cr from INR 4,167 cr in Q3FY22. Bank holds a total non-specific provisions of INR 30,629 cr or 112bps of loans.

**Valuation & View:** SBI has reported better outcome in terms of asset quality and advances growth. Asset quality of the bank fared better with GNPA in FY22 stood at multi year low and RoA of the bank at its high. We continue to maintain our positive outlook and expect SBI to deliver RoA/RoE of 0.9%/14.5% by FY24E driven by strong liability franchise, healthy balance sheet growth and improving asset quality metrics. We maintain our Buy rating on the stock with a revised target price of INR 660, based on SOTP valuation.

State Bank of India (Rs Cr)	FY21A	FY22	FY23E	FY24E
NII	110,710	120,706	140,671	152,567
PPOP	70,014	75,291	88,583	99,790
PAT	20,411	31,675	46,525	55,109
BVPS (INR / Share)	284.5	313.8	365.5	426.7
RoA (%)	0.5%	0.6%	0.9%	0.9%
RoE (%)	8.0%	11.3%	14.3%	14.5%
P/ABV (x)	1.8	1.6	1.3	1.1

## Q4FY22 - Quarterly Performance (Standalone)

Quarterly Result Update (Rs Cr)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Interest Income	70,733	69,678	65,102	1.5%	8.7%
Interest Expended	39,535	38,991	38,035	1.4%	3.9%
<b>Net Interest Income</b>	<b>31,198</b>	<b>30,687</b>	<b>27,067</b>	<b>1.7%</b>	<b>15.3%</b>
Other Income	11,880	8,673	16,225	37.0%	-26.8%
Operating Income	43,078	39,361	43,292	9.4%	-0.5%
<b>Operating Expenses</b>	<b>23,361</b>	<b>20,839</b>	<b>23,592</b>	<b>12.1%</b>	<b>-1.0%</b>
Employee Expenses	12,556	12,471	13,383	0.7%	-6.2%
Other Operating Expenses	10,805	8,368	10,209	29.1%	5.8%
<b>PPOP</b>	<b>19,717</b>	<b>18,522</b>	<b>19,700</b>	<b>6.5%</b>	<b>0.1%</b>
Provisions	7,237	6,974	11,051	3.8%	-34.5%
PBT	12,479	11,548	8,649	8.1%	44.3%
Tax Expenses	3,366	3,116	2,198	8.0%	53.1%
<b>Net Income</b>	<b>9,114</b>	<b>8,432</b>	<b>6,451</b>	<b>8.1%</b>	<b>41.3%</b>
<b>Balance Sheet Analysis</b>					
Advances	27,33,967	25,78,386	24,49,498	6.0%	11.6%
Deposits	40,51,534	38,47,794	36,81,277	5.3%	10.1%
Total Assets	49,87,597	48,21,869	45,34,430	3.4%	10.0%
CASA Deposits	17,75,084	17,00,688	16,46,974	4.4%	7.8%
CASA (%)	43.8%	44.2%	44.7%	-39bps	-93bps
CAR (%)	13.8%	13.2%	13.7%	60bps	9bps
<b>Spreads</b>					
NIMs (%)	3.40%	3.40%	3.11%	0bps	29bps
Cost of Funds	3.58%	3.64%	3.78%	-5bps	-20bps
Yield on Average Advances	6.72%	6.97%	6.68%	-25bps	4bps
<b>Asset Quality</b>					
GNPA	1,12,023	1,20,029	1,26,389	-6.7%	-11.4%
NNPA	27,966	34,540	36,810	-19.0%	-24.0%
GNPA (%)	3.97%	4.50%	4.98%	-53bps	-101bps
NNPA (%)	1.02%	1.34%	1.50%	-32bps	-48bps
Credit Costs	0.49%	0.49%	1.12%	0bps	-63bps
Provision Coverage Ratio	90.20%	88.32%	87.75%	188bps	245bps
<b>Returns &amp; Expenses</b>					
RoA	0.73%	0.70%	0.57%	3bps	16bps
RoE	13.02%	12.19%	10.16%	83bps	285bps
Cost / Income Ratio	54.23%	52.94%	54.49%	129bps	-26bps

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

## Q4FY22 – Key Concall Highlights

- Heightened geopolitical conditions pose risk to India’s GDP growth for FY23.
- Bank maintained its leadership position in Home loan and Auto loans.
- There was INR 1.54 trn disbursements in Q4FY22 which is spread out across the segment.
- Working capital unutilised limit stood at INR 2.76 tn (from Rs 3.10trn QoQ) as of Q4FY22.
- Business from co-lending will see pick-up in FY23 and bank is aiming at a target of INR 100 bn for FY23 via co-lending.
- ~74% of the loan book is linked - to MCLR (41%), EBLR mainly repo (23%).
- Deposit interest rates will move with a lag and considering 74% of book is linked to either MCLR/EBLR/T-bill, bank should see improvement in margins.
- Yields was stable QoQ but are likely to improve in coming quarters due to interest rate hike and significant portion of loans being floating in nature.
- Domestic NIM for Q4FY22 increased by 29 bps YoY at 3.40%.
- Bank do not see any pressure on pricing in SME segment.
- Net NPA for the quarter was close to 1% and bank was able to contain credit cost at 0.55% for FY22.
- There was net decline seen in retail portfolio across the segment. For MSME, run-rate of slippages is lesser than pre-covid levels.
- Slippages break-up: INR 28.45 bn - INR 12bn corporate, INR 12 bn agri and remaining is retail and MSME (includes one large corporate wherein bank has provided fully).
- Bank has made 100% provisioning against SREI as well as Future group exposure.
- There was no MTM provision as of 31st March 2022.
- Bank has reported highest ever profit in a single financial year. RoE for FY22 stood at 11.3% including exceptional loss. Adjusted RoE for FY22 stood at 14%.

## Sum of the Parts Valuation

Entity	Valuation methodology	Holding	Intrinsic Value per Share
SBI - Standalone banking business / Parent	1.3x FY24E ABV	100.0%	508
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%	52
Others (Overseas subsidiaries)			8
Holding co. discount (%)			20.0%
<b>Value of subs (INR per share)</b>			<b>153</b>
<b>Value of total (INR per share)</b>			<b>660</b>

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

## Key Financials

Profit & Loss Statement (in INR Cr)	FY20A	FY21A	FY22	FY23E	FY24E
Interest Income	257,324	265,151	275,457	326,218	352,865
Interest Expended	159,239	154,441	154,751	185,547	200,298
<b>Net Interest Income</b>	<b>98,085</b>	<b>110,710</b>	<b>120,706</b>	<b>140,671</b>	<b>152,567</b>
Other Income	39,006	41,957	40,564	42,776	49,468
Operating Income	137,091	152,667	161,270	183,447	202,035
Operating Expenses	75,174	82,652	85,979	94,864	102,246
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
<b>PPOP</b>	<b>61,917</b>	<b>70,014</b>	<b>75,291</b>	<b>88,583</b>	<b>99,790</b>
Provisions	43,070	44,013	24,452	26,408	26,144
PBT	18,847	26,001	50,839	62,175	73,645
Tax Expenses	10,575	7,131	11,746	15,649	18,537
<b>Net Income</b>	<b>14,488</b>	<b>20,411</b>	<b>31,675</b>	<b>46,525</b>	<b>55,109</b>

Balance Sheet (in INR Cr)	FY20A	FY21A	FY22	FY23E	FY24E
<b>Equity &amp; Liabilities</b>					
Share Capital	892	892	892	892	892
Reserves & Surplus	231,115	252,983	279,196	325,275	379,937
Net Worth	232,007	253,875	280,088	326,167	380,830
Deposits	3,241,621	3,681,277	4,051,534	4,449,741	4,945,559
Borrowings	314,656	417,298	426,043	447,346	469,713
Other Liabilities and Provisions	163,110	181,980	229,932	236,142	255,444
<b>Total Capital &amp; Liabilities</b>	<b>3,951,394</b>	<b>4,534,430</b>	<b>4,987,597</b>	<b>5,459,396</b>	<b>6,051,545</b>
<b>Assets</b>					
Cash & Balances with RBI	166,736	213,202	257,859	284,839	327,670
Balances with Other Banks & Call Money	84,361	129,837	136,693	174,920	219,457
Investments	1,046,955	1,351,705	1,481,445	1,525,889	1,541,148
Advances	2,325,290	2,449,498	2,733,967	3,021,033	3,353,347
Fixed Assets	38,439	38,419	37,708	41,479	45,627
Other Assets	289,614	351,769	339,925	411,235	564,297
<b>Total Assets</b>	<b>3,951,394</b>	<b>4,534,430</b>	<b>4,987,597</b>	<b>5,459,396</b>	<b>6,051,545</b>

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

Ratios	FY20A	FY21A	FY22	FY23E	FY24E
<b>Growth rates</b>					
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%	9.5%	10.8%
NII (%)	11.0%	12.9%	9.0%	16.5%	8.5%
Pre-provisioning profit (%)	10.2%	13.1%	7.5%	17.7%	12.7%
PAT (%)	1580.3%	40.9%	55.2%	46.9%	18.4%
<b>Balance sheet ratios</b>					
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%	55.3%	55.4%
Leverage (x) (Asset/Shareholder's Fund)	17.03	17.86	17.81	16.74	15.89
CAR (%)	13.3%	13.7%	14.1%	14.6%	15.5%
CAR - Tier I (%)	12.6%	11.4%	13.4%	14.0%	14.9%
<b>Operating efficiency</b>					
Cost/income (%)	54.8%	54.1%	53.3%	51.7%	50.6%
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%
<b>Profitability</b>					
NIM (%)	2.8%	2.9%	2.8%	2.9%	2.9%
RoA (%)	0.4%	0.5%	0.6%	0.9%	0.9%
RoE (%)	6.2%	8.0%	11.3%	14.3%	14.5%
<b>Asset quality</b>					
Gross NPA (%)	5.0%	5.0%	4.0%	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%
<b>Per share data / Valuation</b>					
EPS (INR)	16	23	35	52	62
BVPS (INR)	260	284	314	365	427
ABVPS (INR)	202	243	283	333	390
P/E (x)	27.4	19.5	12.5	8.5	7.2
P/BV (x)	1.7	1.6	1.4	1.2	1.0
P/ABV (x)	2.2	1.8	1.6	1.3	1.1
<b>Profitability</b>					
Return on Equity	6.2%	8.0%	11.3%	14.3%	14.5%

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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