

## Sustained RoA trajectory to aid valuation...

**About the stock:** SBI is a public sector bank and also the largest bank in India with a balance sheet size of over ~ ₹63 lakh crore.

- SBI has showcased strength in retail portfolios, best operating metrics in the PSU banking space. Large subsidiaries, strong outlook adds value.

**Q2FY25 Performance:** SBI reported steady performance, wherein asset quality remained steady while other income aided earnings. Advances growth came at 14.9% YoY to ₹39.2 lakh crore, backed by corporate (18.4% YoY), agri (17.7% YoY) & SME (17.4% YoY) segments. Within retail segment (12.3% YoY), home (13.7% YoY) & personal gold loans (28.3% YoY) remained healthy, while Xpress credit witnessed slowdown at 6.6% YoY. Deposit accretion came at 9.1% YoY to ₹51.2 lakh crore, led by term deposit (12.5% YoY) while CASA ratio stood at 40.03%. Asset quality was stable with 8 bps QoQ/4 bps QoQ improvement in GNPA/NNPA to 2.13%/0.53%, & credit cost at 0.38%. Increased cost of deposits led to 8 bps QoQ decline in margins at 3.14%. Other income surged 41.5% YoY due to treasury gains (130% YoY) and recovery from written-off accounts. Thus, operating profit saw a sharp rise of 51% YoY, and PAT rose 28% YoY (7.6% QoQ) to ₹18,331 crore.

### Investment Rationale

- Optimistic credit growth in focus:** Loan growth remained healthy at 14.9% YoY, driven by across segment except retail, which witnessed moderation in Xpress segment. Healthy pipeline of corporate sanctions (₹6 lakh crore vs earlier ₹4.5 lakh crore), utilization of working capital limits & traction in retail loans amid festival season is expected to keep credit growth momentum steady. Management expects advance growth at 14-16% CAGR in FY25E.
- Slippages and credit cost in-line with unchanged guidance:** Slippages moderated at 51 bps (84 bps in Q1FY25), broadly in-line with management guidance. SMA 1 & 2 surged in Q2FY25, however, factoring normalization of one government account (exposure of ₹9000 crore), trend remains steady. Broad NPA numbers have remained stable with GNPA at 2.13% and NNPA at 0.53%, while PCR continue to remain steady at ~75%. Management remains confident of sustained recoveries and credit cost guidance remains unchanged at ~50 bps for FY25E.
- Levers to sustain margins thereby supporting RoA at 1%:** While deposit accretion remains a challenge, relatively lower CD ratio at ~75% provides cushion to mitigate impact of rising cost of deposits. Hike in MCLR to play out post Q3FY25 providing a cushion of ~20 bps, thus keeping margins steady. With steady margins, benign credit cost and focus on maintaining operational efficiency, expect RoA to remain steady at ~1% in FY25-26E.

### Rating and Target Price

- SBI has demonstrated its strength in the last few quarters both on core operating performance and asset quality. Management remains confident on growth, maintenance of margins and steady RoA. Sustained balance sheet growth (13-15%), strong liabilities franchise and prudent asset quality is expected to aid RoA at ~1% in FY25-26E. Rolling to FY27E, we value standalone bank at ~1.3x FY27E BV and subsidiaries at ~₹200/share, thus maintaining our target at ₹1000 and Buy rating on the stock.

### Key Financial Summary

₹ Bn	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
NII	1107	1207	1448	1599	13%	1672	1884	2106	10%
PPP	716	753	837	867	7%	1049	1181	1326	15%
PAT	204	317	502	611	44%	651	714	798	9%
ABV (₹)	243.3	282.6	343.2	399.3		425.0	488.1	558.7	
P/E	37	24	15	12		12	11	9	
P/ABV	3.5	3.0	2.5	2.1		2.0	1.7	1.5	
RoA	0.5	0.7	1.0	1.0		1.0	1.0	1.0	
RoE	8.4	11.9	16.5	17.3		16.1	15.5	15.3	



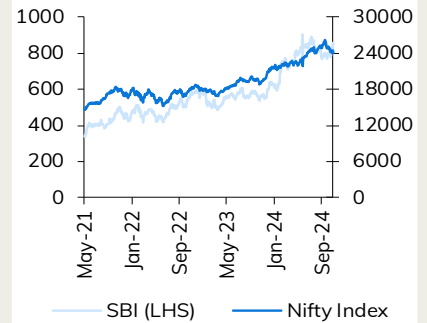
#### Particulars

Particulars	Amount
Market	₹ 7,52,479 Crore
52 week H/L	912 / 555
Networth	₹ 4,14,939 Crore
Face value	1.0

#### Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	57.5	57.5	57.5	57.5
FII	10.9	11.1	11.2	10.7
DII	24.2	24.0	23.6	24.0
Others	7.5	7.4	7.7	7.8

#### Price Chart



#### Key risks

- Volatility in margins
- Moderation in deposit accretion could impact business growth

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## Concall Highlights and Outlook

- SBI's market share in savings bank deposits stood at 26.51%. The bank prioritizes to maintain its market share in deposits between 22-23% with an aim to grow liabilities at 10-11% for FY25E.
- The bank's market share in advances stood at 19%. Guidance for credit growth is 14-16% for FY25E, supported by a corporate pipeline worth ₹ 6 lakh crore.
- Slippages ratio stood at 0.51%, of which retail personal slippages were at 0.31%. Credit cost for Q2FY25 came at 0.38%, within the broad guidance of 50 bps.
- LCR for the quarter (on standalone basis) stood at 129%.
- Bank aims to keep RoE (21.78% for H1FY25) ahead of credit growth over the medium term.
- Among retail personal banking portfolio, Xpress credit (avg. lifecycle of 14 months) grew slower at 6.6% YoY owing to slack season where repayments outpaced disbursements, with uptick expected in next quarter with good traction witnessed in October 2024 coinciding with festive season.
- Treasury gains surged as yield on investments came at 7.21%. Management expects yield trajectory to remain range bound between 6.6-6.9%. Forex income surged to ₹1,111 crore, benefiting from volatility aiding proprietary derivative book.
- Home loans grew at 13.66% YoY with management anticipating growth rate to be maintained between 13-14% in this segment, where the bank holds a market share of 27%.
- Auto segment witnessed slowdown in growth at ~12% YoY compared to 16.63% in Q1FY25 with the bank's market share in the segment dipping 40 bps to 19.2%.
- The bank aims to maintain broadly RWA density (RWA to total assets) at current levels of 54%.
- Management maintains RoA guidance of ~1% and above.
- The bank does not have any plans to monetize their stake in YES Bank at present.
- The bank aims to maintain NIM at current levels, but recognizes that macroeconomic factors may impact this target. Targets to keep margins at current level with minimal variation, expecting it to stabilize from here on assuming cost of deposits to have peaked.
- The management anticipates impact of rate cut on margins to be offset by hike in MCLR, which would improve yield on advances (currently at 8.87%).
- Operating expenses were controlled leading to a 91bps QoQ rise in cost efficiency to 48.51%.
- Provisions for loan losses doubled YoY to ₹ 3,631 crore in Q2FY25 primarily due to regulatory requirements for ageing stressed assets.
- The bank is cautious about funding airlines and will avoid major investments in the sector, following orders for Jet Airways' liquidation, emphasizing funding based on ownership and operational criteria.
- Management expressed confidence in terms of current capital adequacy of 13.76% with a CET-1 ratio of 9.95% and a tier-1 ratio of 11.32%. Board approval to raise additional ₹ 20,000 crore via infrastructure bonds.
- The bank plans to open 600 branches in FY25E, of which 550 have approval and 135 are already operational.
- The bank registered a firm growth in its digital business wherein 61% of SA were opened through YONO - the bank's mobile app.

**Exhibit 1: Variance Analysis**

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	41,620	39,500	5.4	41,125	1.2	Steady credit growth offset by margins
NIM (%)	3.2	3.3	-13 bps	3.2	-4 bps	Sequential decline due to higher cost of deposits
Other Income	15,271	10,791	41.5	11,162	36.8	Surge in trading gains and recoveries from written-off accounts
Net Total Income	56,890	50,291	13.1	52,287	8.8	
Operating expense	27,596	30,874	-10.6	25,839	6.8	C/I ratio improved 91 bps QoQ to 48.51%
PPP	29,294	19,417	50.9	26,449	10.8	
Provision	4,506	115	3,818.3	3,450	30.6	Credit cost in-line with guidance
PBT	24,788	19,302	28.4	22,999	7.8	
Tax Outgo	6,457	4,971	29.9	5,964	8.3	
PAT	18,331	14,331	27.9	17,035	7.6	Earnings momentum attributable to other income

**Key Metrics**

GNPA	83,369	86,974	-4.1	84,226	-1.0	Improvement in GNPA by 8 bps QoQ to 2.13%
NNPA	20,294	21,352	-5.0	21,555	-5.8	
Advances	38,57,423	33,45,167	15.3	37,49,139	2.9	Domestic growth driven by across segment
Deposits	51,17,285	46,89,218	9.1	49,01,726	4.4	CASA ratio is steady above 40%
GNPA %	2.1	2.6	-42 bps	2.2	-8 bps	
NNPA %	0.5	0.6	-11 bps	0.6	-4 bps	

## Financial Summary

### Exhibit 2: Profit and loss statement

	₹ bn				
(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	3,321	4,151	4,578	5,004	5,619
Interest Expended	1,873	2,553	2,906	3,121	3,513
Net Interest Income	1,448	1,599	1,672	1,884	2,106
% growth	20.0	10.4	4.6	12.7	11.8
Non Interest Income	366	517	497	516	560
Fees and advisory	262	281	301	331	364
Treasury Income and sale of Invnt	-14	118	69	48	48
Other income	117	117	127	137	148
Net Income	1815	2116	2169	2400	2666
Employee cost	573	783	627	689	758
Other operating Exp.	405	465	494	529	581
Operating Income	837	867	1049	1181	1326
Provisions	165	49	175	223	255
PBT	672	818	874	958	1071
Exceptional Items	-74	0	0	0	0
Taxes	170	207	223	244	273
Net Profit	502	611	651	714	798
% growth	59	22	7	10	12
EPS	56.3	68.5	73.0	80.0	89.5

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

	₹ bn				
(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
No. of Equity Shares (Crore)	892.0	892.0	892.0	892.0	892.0
EPS (₹)	56.3	68.5	73.0	80.0	89.5
BV (₹)	367.3	422.9	451.7	517.3	590.7
ABV (₹)	343.2	399.3	425.0	488.1	558.7
P/E	15.0	12.3	11.6	10.5	9.4
P/BV	2.3	2.0	1.9	1.6	1.4
P/ABV	2.5	2.1	2.0	1.7	1.5
<b>Yields &amp; Margins (%)</b>					
Net Interest Margins (calculated)	3.0	3.0	2.8	2.8	2.8
Yield on avg earning assets	6.9	7.7	7.7	7.5	7.5
Avg. cost on funds	4.0	4.9	5.0	4.8	4.8
Avg. cost of Deposits	3.8	4.7	5.0	4.8	4.8
Yield on average advances	7.5	8.3	7.9	7.7	7.7
<b>Quality and Efficiency (%)</b>					
Cost / Total net income	53.9	59.0	51.6	50.8	50.2
Credit/Deposit ratio	72.3	75.3	78.2	78.6	79.3
GNPA	2.8	2.2	2.1	2.0	1.9
NNPA	0.7	0.6	0.6	0.5	0.5
RoE	16.5	17.3	16.1	15.5	15.3
RoA	1.0	1.0	1.0	1.0	1.0

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet

	₹ bn				
(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
<b>Sources of Funds</b>					
Capital	8.9	8.9	8.9	8.9	8.9
Reserves and Surplus	3267	3764	4297	4882	5537
Networth	3276	3772	4306	4891	5546
Deposits	44238	49161	54121	61189	69214
Borrowings	4931	5976	6185	6885	7696
Other Liabilities & Provisions	2725	2888	3146	3432	3750
Total	55170	61797	67757	76397	86206
<b>Application of Funds</b>					
Fixed Assets	423	427	467	506	546
Investments	15704	16713	17638	19475	21518
Advances	31993	37040	42335	48121	54880
Other Assets	3971	4509	4058	4872	5664
Cash with RBI & call money	3079	3108	3260	3423	3600
Total	55170	61797	67757	76397	86206

Source: Company, ICICI Direct Research

### Exhibit 5: Growth ratios

	₹ bn				
(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Total assets	10.6	12.0	9.6	12.8	12.8
Advances	17.0	15.8	14.3	13.7	14.0
Deposits	9.2	11.1	10.1	13.1	13.1
Total Income	16.7	16.6	2.5	10.6	11.1
Net interest income	20.0	10.4	4.6	12.7	11.8
Operating expenses	13.7	27.7	-10.3	8.8	9.9
Operating profit	11.2	21.7	6.8	9.6	11.9
Net profit	58.6	21.6	6.6	9.6	11.9
Book value	17.0	15.2	6.8	14.5	14.2
EPS	58.6	21.6	6.6	9.6	11.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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