

State Bank of India (STABAN)

CMP: ₹ 817

Target: ₹ 1000 (22%)

Target Period: 12 months

May 10, 2024

BUY

One-off aid RoA; core performance remains healthy

About the stock: SBI is a public sector bank and also the largest bank in India with a balance sheet size of over ~ ₹62 lakh crore.

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

Q4FY24 performance: State Bank of India reported healthy earnings at ₹20698 crore, up ~24% YoY, led by higher other income and lower provision during the quarter. Operational performance remained steady with NII growth at 3.1% YoY, led by ~16% YoY growth in advances. Margins witnessed a sequential uptick of 8 bps at 3.3% (domestic NIM up 13 bps at 3.47%). Strong other income (up 24.4% YoY) backed by treasury gains and miscellaneous income aided operating profit. Post wage revision in Q3FY24, Opex normalized in Q4FY24, while credit cost remained lower at 17 bps (annualized). Liabilities accretion remained healthy at 11.1% YoY, primarily led by term deposits. Asset quality continued to improve with slippages at 62 bps and 18 bps QoQ decline in GNPA at 2.24%.

Investment Rationale

- In-line industry credit growth to aid performance:** Loan growth remained healthy at 15% YoY, driven by across segment – retail (15%), SME (21%), though corporate segment witnessed higher growth at 11% QoQ. Healthy pipeline of corporate sanctions and continued focus on retail segment is expected to keep credit growth broadly in-line with the industry. Management expects advance growth at 13-15% CAGR in FY25-26E.
- Steady margins amid increase in CD ratio & efficiency improvement to aid RoA ahead:** Margins inched up 8 bps QoQ in Q4FY24 at 3.3%, aided by increase in CD ratio & IT refund of ₹1340 crore. Healthy liabilities franchise with repricing largely done and scope to increase CD ratio further is expected to keep margin steady while normalization in opex coupled with benign credit cost at ~0.4-0.6% is seen to drive earnings and keep RoA at ~1%. Treasury gains (with anticipation of reversal in interest rates) and any substantial recovery from stressed pool could act as a positive surprise.
- Asset quality to remain prudent:** Asset quality continued to remain resilient with slippages at 0.4% and PCR at ~75%. Expect slippages to remain steady with credit cost inching towards ~40 bps in FY25-26E supporting earnings trajectory ahead.

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 improvement in RoA. Sustained balance sheet growth (13-15%), strong liabilities franchise and prudent asset quality is expected to aid RoA at ~1% in FY25-26E. Gains on treasury and recovery from existing stressed book to act as catalyst. Valuing the bank at ~1.6x FY26E BV and subsidiaries at ~₹184/share, we revise our target price at ₹1000 (from ₹800). Maintain Buy.

Key Financial Summary

₹ Bn	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	2 Year CAGR (FY24-26E)
NII	1107	1207	1448	1598	13%	1744	1933	10%
PPP	716	753	837	938	9%	1040	1170	12%
PAT	204	317	502	611	44%	637	712	8%
ABV (I)	243.3	282.6	343.2	359.5		417.8	483.0	
P/E	36	23	15	14		11	10	
P/ABV	3.4	2.9	2.4	2.3		2.0	1.7	
RoA	0.5	0.7	1.0	0.9		1.0	1.0	
RoE	8.4	11.9	16.5	15.3		16.0	15.7	

Source: Company, ICICI Direct Research



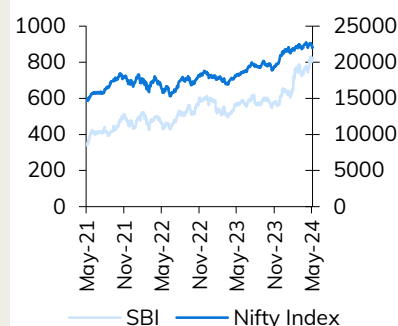
Particulars

Particulars	Amount
Market	₹ 7,34,540 Crore
52 week H/L	840 / 543
Networth	₹ 3,77,246 Crore
Face value	1.0
DII Holding (%)	24.0
FII Holding (%)	11.1

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	57.5	57.5	57.5	57.5	57.5
FII	9.9	10.4	10.7	10.9	11.1
DII	25.2	24.8	24.4	24.2	24.0
Others	7.4	7.3	7.4	7.5	7.4

Price Chart



Key risks

- Deceleration in business growth
- Increase in slippages

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Concall highlights and outlook

- The management being appreciative about their results credited the profit growth to the enormous size and reach of the bank, boasting a customer base of 50 crore+ that calculates to 35% of the entire country's population
- Bank delivered on various financial metrics, beating market estimates and expectations
- There are no one-off gains during the period, the profit growth was fueled by aggressive banking operations, rise in fee incomes and other miscellaneous sources
- The bank is focusing on gaining market share, increasing credit and deposits primarily through digital platforms and aims to further amplify its digital ecosystem for improved profitability

Financial Highlights

- Interest on IT refund stood at ₹1340 crore in Q4FY24 vs ₹700 crore in Q3FY24
- Non-interest income for FY24 showed a significant rise of 27% this was aided due to increase in loan processing charges 16% YoY growth, cross selling 7% YoY growth and misc income
- There is a huge leap in Miscellaneous income in Q4FY24, showing a 174% growth over Q3FY24. This is primarily due to increased AUCA recoveries as they form a part of misc. income, various dividends and commissions from group companies and elevated account maintenance charges which tend to be higher in the last quarter of the year.
- The management guided that it cost of deposits have plateaued, and thus doesn't expect any change in NIMs for FY25E and hope to keep it in the same range of 3% despite of liquidity concern and instability
- The bank incurred a onetime wage revision expense for the year which amounts to ₹ 13,387 crores.
- Staff expenses to be around ₹ 65,000- ₹ 70,000 crore going ahead which is in line with previous guidance. The company estimates around ₹ 500 crore per month increase in staff expenses which amounts to ₹ 6,000 crore annually
- Corporate credit grew by 16% YoY from ₹ 27,76,802 crore in FY23 to ₹ 32,28,448 crore in FY24. The management expects this to go up to 20% in medium term horizon
- **Credit growth to be in the range of 13 - 15% for FY25E**, pegging with GDP growth + inflation + a 2% increase
- RoE improved from 19.43% in FY23 to 20.32% in FY24. Guidance for RoE in FY25E is at >15%
- Bank has reversed ₹900 crore of standard provision.

Other remarks

- Management expressed no concern on RBI's provisioning guidelines ₹ 32,000 crore non-NPA provision provides confidence to absorb any additional provision burden. Exposure to project loans stood at ₹1.2 lakh crore.
- Management is planning to revamp subsidiary - SBI Wealth, focusing on younger customer base and premium wealth banking, targeting AUM of ₹1 lakh crore. Opened offices in Bangalore and Mumbai on pilot basis.
- The bank provided guidance to gather a capital base for further growth in the next 3 years
- Raising of AT-1 capital supported by strong Capital adequacy and CET-1
- Ploughing back of profits made by the company
- Raising equity at the right price, if necessary
- Digital Journey has been in forefront focus. There is extensive use of data analytics and AI to improve customer experience.
- YONO platform has been very successful as 61% of new SBI accounts have been opened through YONO, serving ~7.4 crore customers
- The growth guidance is subject to macroeconomic and regulatory conditions and stability

Exhibit 1: Variance Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
NII	41,655	40,393	3.1	39,816	4.6	Healthy credit growth supports NII
NIM (%)	3.3	3.6	-30 bps	3.2	8 bps	8 bps QoQ uptick in margins led by increase in CD ratio
Other Income	17,369	13,961	24.4	11,459	51.6	Treasury gains & misc income drive other income
Net Total Income	59,024	54,354	8.6	51,275	15.1	
Operating expense	37,377	29,733	25.7	30,939	20.8	Wage provision came lower than expected
PPP	21,647	24,621	-12.1	20,336	6.4	
Provision	-5,490	3,315	-265.6	7,787	-170.5	Credit cost benign
PBT	27,137	21,306	27.4	12,549	116.3	
Tax Outgo	6,439	4,611	39.6	3,384	90.3	
PAT	20,698	16,695	24.0	9,165	125.8	Lower provision & opex boosted earnings

Key Metrics

GNPA	84,276	90,928	-7.3	86,749	-2.9	Improvement in GNPA by 18 bps QoQ
NNPA	21,005	21,467	-2.2	22,408	-6.3	
Advances	3703971	3199269	15.8	3519514	5.2	Domestic growth driven by corporate segment
Deposits	4916077	4423778	11.1	4762221	3.2	
GNPA %	2.2	2.8	-54 bps	2.4	-18 bps	
NNPA %	0.6	0.7	-10 bps	0.6	-7 bps	

Financial Summary

Exhibit 2: Profit and loss statement

₹ bn

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	2,755	3,321	4,151	4,544	5,011
Interest Expended	1,547	1,873	2,553	2,801	3,079
Net Interest Income	1,207	1,448	1,598	1,744	1,933
% growth	9.0	19.9	10.4	9.8	10.8
Non Interest Income	406	367	517	513	564
Fees and advisory	246	265	281	321	353
Treasury Income and sale of I	35	-3	118	70	80
Other income	125	105	117	122	132
Net Income	1613	1815	2115	2257	2497
Employee cost	501	573	712	703	760
Other operating Exp.	358	405	465	514	567
Operating Income	753	837	938	1040	1170
Provisions	245	165	49	184	214
PBT	508	672	818	855	956
Exceptional Items	-74	0	71	0	0
Taxes	117	170	207	218	244
Net Profit	317	502	611	637	712
% growth	55	59	21.6	19	12
EPS	35.5	56.3	68.5	71.4	79.8

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
No. of Equity Shares (Crore)	892.0	892.0	892.0	892.0	892.0
EPS (₹)	35.5	56.3	68.5	71.4	79.8
BV (₹)	314.0	367.3	385.5	444.1	509.6
ABV (₹)	282.6	343.2	359.5	417.8	483.0
P/E	23.0	14.5	13.6	11.4	10.2
P/BV	2.6	2.2	2.1	1.8	1.6
P/ABV	2.9	2.4	2.3	2.0	1.7
Yields & Margins (%)					
Net Interest Margins (calculated)	2.8	3.0	2.9	2.9	2.9
Yield on avg earning assets	6.3	6.8	7.6	7.5	7.4
Avg. cost on funds	3.6	4.0	4.8	4.8	4.6
Avg. cost of Deposits	3.7	3.9	4.9	4.9	4.7
Yield on average advances	6.6	7.2	8.0	7.8	7.6
Quality and Efficiency (%)					
Cost / Total net income	53.3	53.9	62.7	53.9	53.1
Credit/Deposit ratio	67.5	72.3	74.1	76.0	76.8
GNPA	4.0	2.8	2.3	2.1	1.9
NNPA	1.0	0.7	0.6	0.6	0.5
RoE	11.9	16.5	15.3	16.0	15.7
RoA	0.7	1.0	0.9	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet

₹ bn

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Sources of Funds					
Capital	8.9	8.9	8.9	8.9	8.9
Reserves and Surplus	2792	3267	3763	4229	4813
Networth	2801	3276	3772	4238	4822
Deposits	40515	44238	49161	55843	63651
Borrowings	4260	4931	5976	5888	6459
Other Liabilities & Provisions	2299	2725	2888	3425	3848
Total	49876	55170	61797	69394	78781
Application of Funds					
Fixed Assets	377	424	426	480	512
Investments	14814	15704	16714	17885	19786
Advances	27340	31993	37039	42456	48875
Other Assets	3399	3971	4509	5127	5984
Cash with RBI & call money	3946	3079	3109	3446	3624
Total	49876	55170	61797	69394	78781

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Total assets	10.0	10.6	12.0	12.3	13.5
Advances	11.6	17.0	15.8	14.6	15.1
Deposits	10.1	9.2	11.1	13.6	14.0
Total Income	2.4	16.7	6.1	2.4	4.1
Net interest income	9.0	19.9	10.4	9.1	10.8
Operating expenses	0.4	1.4	20.5	3.4	9.0
Operating profit	5.2	11.2	21.7	4.6	11.8
Net profit	55.2	58.6	21.6	4.3	11.8
Book value	10.3	17.0	5.0	15.2	14.7
EPS	55.2	58.6	21.6	4.3	11.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

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