

One-off dent earnings; outlook remains steady...

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

Q3FY24 Performance: SBI reported healthy performance in Q3FY24, while optically earnings were marred by one-time provisions during the quarter. Business growth remained healthy both on advances (+14.4% YoY) and deposits (+13.02% YoY) with continued focus on retail loans and term deposits. Slippages came higher sequentially at ~67 bps, however, steady trajectory with below 1% accretion provides comfort. GNPA witnessed continued decline at 2.42% (-13 bps QoQ). Margins declined ~9 bps QoQ at 3.34%, resulting in 4.6% YoY growth in NII. Earnings declined 36% YoY to ₹ 9164 crore, owing to one-time expense of ₹7100 crore (₹1700 related to dearness allowance and ₹5400 crore on account of uniform pension liability) and provision for wage revision.

Investment Rationale

- Advance growth expected in-line with industry:** Loan growth remained healthy at 14.4% YoY, driven by retail & SME segment. Healthy pipeline of corporate sanctions and continued focus on retail segment (including unsecured loans) is seen to keep credit growth broadly in-line with the industry. Expects advance growth at 13-15% CAGR in FY25-26E.
- Steady margins & efficiency improvement to aid RoA ahead:** Decline in margins and one-time wage & pension related provision marred earnings in Q3FY24. Healthy liabilities franchise with repricing largely done 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% ahead. Treasury gains (with anticipation of downward movement in yield) and any substantial recovery from stressed pool could act as a positive surprise.
- Asset quality to remain benign:** Asset quality continued to remain resilient with slippages below 1% and PCR at ~75%. Expect slippages to remain steady keeping credit cost at ~50 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 ahead. With normalization in staff cost, expect RoA to remain at ~1% in FY25-26E. Gains on treasury and recovery from existing stressed book could act as positive surprise. We value the bank at ~1.3x FY26E ABV and subsidiaries at ~₹179/share to arrive at a revised target price of ₹800.



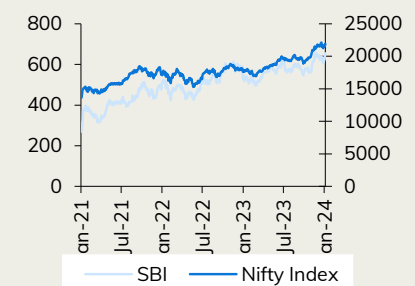
Particulars

Particulars	Amount
Market	₹ 573808 Crore
52 week H/L	661/502
Networth	₹ 327600 Crore
Face value	1.0
DII Holding (%)	24.2
FII Holding (%)	10.9

Shareholding pattern

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

Price Chart



Key risks

- Deceleration in business growth
- Increase in slippages

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Key Financial Summary

₹ Bn	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	FY26E	2 Year CAGR (FY24-26E)
NII	981	1107	1207	1448	14%	1589	1693	1840	8%
PPP	681	716	753	837	7%	769	994	1088	9%
PAT	145	204	317	502	51%	536	606	654	9%
ABV (I)	203.2	243.3	282.6	343.2		359.5	414.7	474.2	
P/E	41	29	19	12		11	10	9	
P/ABV	3.3	2.8	2.4	2.0		1.9	1.6	1.4	
RoA	0.4	0.5	0.7	1.0		0.9	0.9	0.9	
RoE	6.4	8.4	11.9	16.5		15.3	15.3	14.6	

Q3FY24 Earnings Conference Call highlights

Balance Sheet

- Management expects advance growth at 14-15% and deposit accretion at 12-13%
- Healthy corporate pipeline of ₹4.6 lakh crore and continued focus on retail segment (including unsecured loans) is expected to drive credit growth
- Advance mix: EBLR – 27%, MCLR – 37% and fixed – 21%

Income Statement

- Bank looking to issue bonds to shore up capital adequacy to ensure smooth business growth.
- With deposit repricing largely over and excess SLR of ₹4 lakh crore is seen to support margin trajectory. Management expects margin pressure not to exceed ~2-3 bps in Q4FY24E.
- The bank provided one-time additional provision of ₹5400 crore related to pension liabilities at a uniform rate of 50% to do away with anomaly in the existing pension structure.
- The bank also provided ₹1700 crore towards neutralization of dearness relief.
- Bank will provide further ₹5409 crore in Q4FY24E related to wage revision and pension liabilities.
- Bank expects staff expense to normalize in FY25E at ~₹66000 crore

Exhibit 1: Q3FY24 Earnings Table

	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comments
NII	39,816	38,069	4.6	39,500	0.8	Healthy credit growth offset by decline in NIM
NIM (%)	3.3	3.3	-1 bps	3.3	-3 bps	10 bps QoQ increase in CoD impacted NIM
Other Income	11,459	11,468	-0.1	10,791	6.2	
Net Total Income	51,275	49,536	3.5	50,291	2.0	
Operating expense	38,039	24,317	56.4	30,874	23.2	Higher opex partly due to wage arrear provisions
PPP	13,236	25,219	-47.5	19,417	-31.8	
Provision	687	5,760	-88.1	115	497.4	Credit cost benign
PBT	12,549	19,459	-35.5	19,302	-35.0	
Tax Outgo	3,384	5,253	-35.6	4,971	-31.9	
PAT	9,165	14,206	-35.5	14,331	-36.0	Wage & pension related provision impacted PAT

Key Metrics

GNPA	86,749	98,347	-11.8	86,974	-0.3	Improvement in GNPA by 13 bps QoQ
NNPA	22,408	23,484	-4.6	21,352	4.9	
Advances	3519514	3058177	15.1	3345167	5.2	Domestic growth was driven by retail segment
Deposits	4762221	4213557	13.0	4689218	1.6	
GNPA %	2.4	3.1	-72 bps	2.6	-13 bps	
NNPA %	0.6	0.8	-13 bps	0.6	0 bps	

Source: Company, ICICI Direct Research

Exhibit 2: SOTP Valuation

	FY26E / Share
SBI (merged banks)	621
SBI AMC	42
SBI Life	100
SBI Cards	66
SBI General Insurance	2
Value per share	831
Holding company discount for subsidiaries @15%	32
Value per share post discount	800

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24E	FY25E	FY26E
Interest Earned	3,321	4,129	4,494	4,900
Interest Expended	1,873	2,540	2,801	3,060
Net Interest Income	1,448	1,589	1,693	1,840
% growth	19.9	9.7	6.6	8.7
Non Interest Income	367	475	513	564
Fees and advisory	265	292	321	353
Treasury Income and sale of I	-3	70	70	80
Other income	105	114	122	132
Net Income	1815	2064	2206	2405
Employee cost	573	827	703	760
Other operating Exp.	405	467	509	557
Operating Income	837	769	994	1088
Provisions	165	50	181	211
PBT	672	720	813	877
Exceptional Items	0	0	0	0
Taxes	170	183	207	224
Net Profit	502	536	606	654
% growth	59	7	13	8
EPS	56.3	60.1	67.9	73.3

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E
No. of Equity Shares (Crore)	892.0	892.0	892.0	892.0
EPS (I)	56.3	60.1	67.9	73.3
BV (I)	367.3	385.5	441.2	501.2
ABV (I)	343.2	359.5	414.7	474.2
P/E	11.9	11.1	9.9	9.1
P/BV	1.8	1.7	1.5	1.3
P/ABV	2.0	1.9	1.6	1.4
Yields & Margins (%)				
Net Interest Margins (calculated)	3.0	2.9	2.8	2.7
Yield on avg earning assets	6.8	7.6	7.4	7.3
Avg. cost on funds	4.0	4.8	4.8	4.6
Avg. cost of Deposits	3.9	4.9	4.9	4.7
Yield on average advances	7.2	8.0	7.8	7.6
Quality and Efficiency (%)				
Cost / Total net income	53.9	62.7	55.0	54.7
Credit/Deposit ratio	72.3	74.1	75.1	76.2
GNPA	2.8	2.3	2.1	2.0
NNPA	0.7	0.6	0.6	0.5
RoE	16.5	15.3	15.3	14.6
ROA	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24E	FY25E	FY26E
Sources of Funds				
Capital	8.9	8.9	8.9	8.9
Reserves and Surplus	3267	3707	4203	4739
Networth	3276	3716	4212	4748
Deposits	44238	49518	55843	63010
Borrowings	4931	5381	5888	6459
Other Liabilities & Provisions	2725	3053	3425	3848
Total	55170	61667	69368	78065
Application of Funds				
Fixed Assets	424	449	480	512
Investments	15704	16334	17003	17907
Advances	31993	36689	41955	47998
Other Assets	3971	3428	4987	6512
Cash with RBI & call money	3079	4767	4943	5136
Total	55170	61667	69368	78065

Source: Company, ICICI Direct Research

Exhibit 6: Growth ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E
Total assets	10.6	11.8	12.5	12.5
Advances	17.0	14.7	14.4	14.4
Deposits	9.2	11.9	12.8	12.8
Total Income	16.7	24.8	8.8	9.1
Net interest income	19.9	9.7	6.6	8.7
Operating expenses	1.4	3.2	-0.6	0.9
Operating profit	11.2	-8.1	29.2	9.5
Net profit	58.6	6.7	13.0	7.9
Book value	17.0	13.4	13.4	12.7
EPS	58.6	6.7	13.0	7.9

Source: Company, ICICI Direct Research

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