

CMP: ₹ 530

Target: ₹ 615 (16%)

Target Period: 12 months

August 7, 2022

BUY

MTM mars overall earnings; outlook steady...

About the stock: SBI is a public sector bank and also the largest bank in India with a balance sheet size of over ~ ₹ 50 lakh crore.

- Strength in retail portfolios and best operating metrics in the PSU banking space
- Large subsidiaries, strong outlook adding value to the banks

Q1FY23 Results: MTM mars overall earnings; NPA largely steady QoQ.

- GNPA & NNPA steady at 3.9% & 1.0%; slippages marginally higher at 1.38%
- NII up 12.9% YoY, NIMs declined QoQ by 13 bps
- Provision down 56% YoY. Treasury loss of ₹ 6550 crore impacted earnings. Due to MTM impact PPOP de grew 32.8% YoY. However, excluding MTM impact PPOP grew 14.4% YoY. PAT down 6.7% YoY at ₹ 6068 crore
- Gross advances up 14.9% YoY and deposits up 8.7% YoY; CASA at 45.3%

What should investors do? SBI's share price has surged over 1.8x in the past five years. We believe overall strength in lending franchise, provision buffers and healthy guidance are positives. Improving return ratios with RoE at ~12% and RoA at ~0.7-0.8%, offers long term comfort on the stock.

- We retain our **BUY** rating on the stock

Target Price & Valuation: We value the bank at ~1.2x FY24E ABV and subsidiaries at ~₹ 192/share to arrive at a revised target price of ₹ 615 from ₹ 605 earlier.

Key triggers for future price performance:

- Credit growth guidance of ~14-15% on the back of healthy demand pipeline to aid business growth and overall performance
- Gradual improvement in margin, steady operational efficiency coupled with adequate provision buffer to aid earning momentum
- Improving RoE trajectory to aid improvement in valuations
- Continued traction in customer & business accretion via "Yono". Unlocking of subsidiaries value to act as positive surprise

Alternate Stock Idea: Besides SBI, in our coverage we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with a target price of ₹ 970



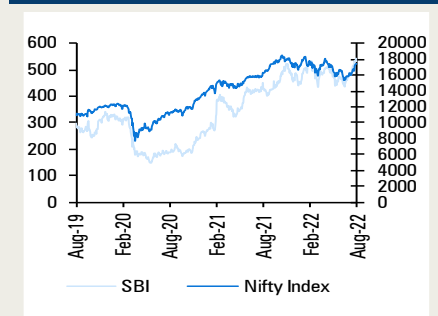
Particulars

Particulars	Amount
Market Capitalisation	₹ 473584 Crore
52 week H/L	549/401
Networth	₹ 291363 Crore
Face value	₹ 1

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-21	Jun-22
Promoter	57.6	57.6	57.6	57.6	57.6
FII	10.3	10.6	10.4	10.0	9.6
DII	24.2	24.2	24.1	24.7	25.1
Others	7.8	7.7	7.9	7.8	7.7

Price Chart



Recent event & key risk

- GNPA down 6 bps QoQ to 3.9%, R/s book at 0.99% of loans
- **Key Risk:** 1) Slower growth to impact earning momentum, 2) higher competition on liabilities to impact margins

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Pravin Mule
pravin.mule@icicisecurities.com

Key Financial Summary

₹ Bn	FY19	FY20	FY21	FY22	3 Year CAGR (FY19-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
NII	883	981	1107	1207	11%	1365	1649	17%
PPP	539	681	716	679	8%	748	968	19%
PAT	9	145	204	317	232%	344	394	11%
ABV (₹)	174.0	203.2	243.3	282.6		320.8	361.6	
P/E	564	33	23	15		14	12	
P/ABV	3.0	2.6	2.2	1.9		1.7	1.5	
RoA	0.0	0.4	0.5	0.7		0.7	0.7	
RoE	0.5	6.4	8.4	11.9		11.6	11.9	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: NII growth moderates; NPA largely steady QoQ

- Operational performance was below estimates with NII growth at 12.9% YoY and flat QoQ to ₹ 31196 crore, due to lower NIMs (13 bps decline QoQ). Other income was impacted significantly due to MTM loss and came in at ₹ 2312 crore, ~5x lower compared with Q1FY22 and Q4FY22
- Operating expenses declined 11.2% QoQ and was largely flat YoY. Provisions declined QoQ, YoY to ₹ 4392 crore but loan loss provisions increased from ₹ 3262 crore in Q4FY22 to ₹ 4268 crore in Q1FY23. Despite lower provisions and opex, PAT de-grew 6.7% YoY (33.6% QoQ) at ₹ 6068 crore, mainly due to a sluggish topline
- Asset quality largely steady as GNPA ratio fell 6 bps QoQ to 3.9% while net NPA was down 2 bps QoQ to 1%. Fresh slippages increased to ₹ 9740 crore from ₹ 2845 crore in Q4FY22. Thus, slippage ratio was at 1.38%. Watch-list (SMA1 and SMA2) is now at ₹ 6983 crore vs. ₹ 3544 crore QoQ, respectively
- The bank reported overall gross credit growth at 14.9% YoY to ₹ 29 lakh crore, led by 18.6% YoY growth in retail segment. Corporate loans were up 10.6% YoY. Foreign loans were up 22.4% YoY at ₹ 4.49 lakh crore. Deposits growth came in at 8.73% YoY to ₹ 40.5 lakh crore where CASA deposits grew 6.5% YoY. Thus, CASA ratio declined slightly from 45.9% to 45.3% QoQ

Q1FY23 Earnings Conference Call highlights

- The management would continue to focus on credit offtake, maintaining its leadership position and improving CASA ratio (via customer acquisition and strengthening relationship with existing customers). Credit growth guidance at ~15% YoY. Margins to witness uptick from Q2 FY23, Q3FY23 onwards
- Growth in foreign loans was primarily led by syndicated loans and trade finance (in the US and UK)
- AFS book was at ₹ 6.31 lakh crore with 60% in G-sec & 23% in highly rated corporate bonds. MTM booked until ~7.45%. In FY23, the bank has redemption of ₹ 83000 crore from AFS book and total redemption of ₹ ~1.5 lakh crore
- MTM losses impacted RoA which declined by 9bps YoY to 0.48% and RoE declined by 203bps YoY to 10.1%. Excluding MTM impact, notional RoA and RoE would be 2.9% and 18.6% respectively.
- Standard assets provisions negative due to write back ₹ 1595 crore on account of Covid restructuring
- Personal loans average ticket size is ₹ 5.79 lakh of which 95% is given to customers maintaining salary account (of which 85% is government employees, 5% would be large corporate)
- Total ₹ 9700 crore slippages breakup: SME ₹ 3000 crore, Agri ₹ 2700 crore, retail ₹ 2353 crore. Of total slippages, ₹ 2800 crore has been recovered till now
- In Q4FY22, the bank had interest on income tax refund of ₹ 600 crore, which was not there in Q1FY23. This had an impact on margin trajectory
- Most of the EBLR loans are linked to repo rate. It gets re priced on first of the following month. Share of BB & below book increased QoQ to 13% as majority of them are state government loans, which are not rated

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
BoB (BANBAR)	118	135	Buy	609	-18.9	14.0	18.1	21.4	-6.2	8.4	6.5	5.5	1.1	0.8	0.7	0.6	-13.1	8.9	10.2	10.6
SBI (STABAN)	531	605	Buy	4,735	22.9	35.5	38.6	44.1	23	14.9	13.7	12.0	2.2	1.9	1.7	1.5	8.4	11.9	11.6	11.9
Axis Bank (AXIBAN)	728	970	Buy	2237	21.5	42.4	53.2	65.4	33.9	17.2	13.7	11.1	2.4	2.1	1.8	1.7	7.1	12.0	13.3	15.1
HDFC Bank (HDFBAN)	1,426	1,650	Buy	7,928	56.4	66.7	77.1	93.7	25.3	21.4	18.5	15.2	3.9	3.4	2.9	2.7	16.6	16.7	16.6	17.9
IndusInd Bank (INDBA)	1036	1,150	Buy	803	36.7	59.5	90.2	107.3	28.3	17.4	11.5	9.7	1.9	1.8	1.6	1.4	7.3	10.1	14.0	15.0
Kotak Bank (KOTMAH)	1,834	2,200	Buy	3,640	35.1	43.0	48.5	54.7	52.2	42.6	37.8	33.5	6.0	5.2	4.6	4.0	12.4	12.6	12.6	12.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	QFY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	31,196	32,258	27,638	12.9	31,198	0.0	Flat QoQ due to decline in margins
NIM (%)	3.0	2.7	2.9	10 bps	3.2	-13 bps	
Other Income	2,312	8,527	11,803	-80.4	11,880	-80.5	Mainly impacted due to MTM loss
Net Total Income	33,508	40,786	39,441	-15.0	43,078	-22.2	
Operating expense	20,756	20,894	20,466	1.4	23,361	-11.2	
PPP	12,753	19,892	18,975	-32.8	19,717	-35.3	
Provision	4,392	9,500	10,052	-56.3	7,212	-39.1	Credit cost improved by 18bps YoY at 0.61%
PBT	8,361	10,392	8,923	-6.3	12,504	-33.1	
Tax Outgo	2,292	2,650	2,419	-5.2	3,366	-31.9	
PAT	6,068	7,742	6,504	-6.7	9,139	-33.6	MTM mars overall earnings

Key Metrics

GNPA	1,13,272	1,11,523	1,34,259	-15.6	1,12,023	1.1	NPA steady sequentially
NNPA	28,258	29,566	43,153	-34.5	27,966	1.0	
Advances	2815249	2734240	2431908	15.8	2733966.59	3.0	Driven by retail & corporate segment
Deposits	4045696	4093086	3720987	8.7	4051534.12	-0.1	CASA up 6.5% YoY at 45.3%

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

₹ crore	FY23E			FY24E		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	136469	136543	0.1	157677	164863	4.6
Pre Provisions Profit	88606	74831	-15.5	105756	96775	-8.5
NIM (%)	2.9	2.8	-6.7	3.1	3.1	0.7
PAT	39593	34433	-13.0	47056	39353	-16.4
ABV per share (₹)	329	321	-2.5	384	362	-5.8

Source: Company, ICICI Direct Research

Exhibit 4: Change in Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	13.4	13.0	10.3	11.0
Deposit Growth (%)	8.9	9.4	8.3	9.4
Cost to income ratio (%)	57.5	53.4	51.1	48.8
GNPA ratio (%)	3.7	3.7	3.7	3.5
NNPA ratio (%)	0.9	0.8	0.9	0.7

Source: Company, ICICI Direct Research

Exhibit 5: SOTP Valuation

	FY24E / Share
SBI (merged banks)	423
SBI AMC	42
SBI Life	93
SBI cards	78
SBI General Insurance	13
Value per share	649
Holding company discount for subsidiaries @15%	34
Value per share post discount	615

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				₹ Bn
(Year-end March)	FY21	FY22	FY23E	FY24E
Interest Earned	2,652	2,755	3,319	3,783
Interest Expended	1,544	1,547	1,953	2,135
Net Interest Income	1,107	1,207	1,365	1,649
% growth	12.9	9.0	13.1	20.7
Non Interest Income	435	406	394	430
Net Income	1542	1613	1759	2078
Employee cost	509	576	622	671
Other operating Exp.	317	358	389	439
Operating Income	716	679	748	968
Provisions	440	245	286	440
PBT	275	434	462	528
Exceptional Items	-105	-36.0	0	0
Taxes	71	117	118	135
Net Profit	204	317	344	394
% growth	41	55	9	14
EPS	22.9	35.5	38.6	44.1

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Valuation				
No. of Equity Shares (Crore)	892.0	892.0	892.0	892.0
EPS (₹)	22.9	35.5	38.6	44.1
BV (₹)	284.6	314.0	350.6	392.7
ABV (₹)	243.3	282.6	320.8	361.6
P/E	23.2	14.9	13.7	12.0
P/BV	1.9	1.7	1.5	1.4
P/ABV	2.2	1.9	1.7	1.5
Yields & Margins (%)				
Net Interest Margins (calculated)	2.9	2.8	2.8	3.1
Yield on avg earning assets	6.9	6.3	6.9	7.1
Avg. cost on funds	4.0	3.6	4.2	4.2
Avg. cost of Deposits	4.1	3.7	4.4	4.4
Yield on average advances	7.2	6.6	7.1	7.2
Quality and Efficiency (%)				
Cost / Total net income	53.6	57.9	57.5	53.4
Credit/Deposit ratio	66.5	67.5	70.3	72.6
GNPA	5.0	4.0	3.7	3.7
NNPA	1.5	1.0	0.9	0.8
RoE	8.4	11.9	11.6	11.9
ROA	0.5	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				₹ Bn
(Year-end March)	FY21	FY22	FY23E	FY24E
Sources of Funds				
Capital	8.9	8.9	8.9	8.9
Reserves and Surplus	2530	2792	3118	3494
Networth	2539	2801	3127	3503
Deposits	36813	40515	44106	48261
Borrowings	4173	4260	4497	4758
Other Liabilities & Provisions	1820	2299	2487	2698
Total	45344	49876	54217	59220
Application of Funds				
Fixed Assets	384	377	399	423
Investments	13517	14814	15400	16019
Advances	24495	27340	31000	35031
Other Assets	3518	3399	3049	2899
Cash with RBI & call money	3430	3946	4370	4847
Total	45344	49876	54217	59220

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				(%)
(Year-end March)	FY21	FY22	FY23E	FY24E
Total assets	14.7	10.0	8.7	9.2
Advances	5.3	11.6	13.4	13.0
Deposits	13.6	10.1	8.9	9.4
Total Income	2.0	2.4	17.5	13.5
Net interest income	12.9	9.0	13.1	20.7
Operating expenses	1.0	1.3	0.8	1.0
Operating profit	5.0	-5.1	10.2	29.3
Net profit	40.8	55.2	8.7	14.3
Book value	8.9	10.3	11.7	12.0
EPS	40.8	55.2	8.7	14.3

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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