

CMP: ₹ 530

Target: ₹ 650 (23%)

Target Period: 12 months

February 7, 2022

BUY

Strong performance enthuses...

About the stock: SBI is a public sector bank and also the largest bank in India with a balance sheet size of ~ ₹ 48 lakh crore.

- Strong liability franchisee with trend setting abilities in terms of rates
- Best operating metrics in the PSU banking space

Q3FY22 Results: Healthy performance on the asset quality front and growth.

- GNPA down 40 bps QoQ to 4.5%, restructured book at 1.2% of loans
- NII up 6.5% YoY, NIM down 9 bps QoQ to 3.2%, C/I ratio at 52.9%
- Provisions at ₹ 6974 crore, PAT up 62.3% YoY at ₹ 8431 crore
- Gross advances up 8.5% YoY (higher than estimates) and deposits up 8.8% YoY, CASA at 45.7%

What should investors do? SBI's share price has surged over 2x in the past five years. We believe overall strength in liability franchisee, >9% guidance on growth and improving return ratios with RoE touching 12-13% should be positives for SBI.

- We retain our BUY rating on the stock.

Target Price and Valuation: We value the bank at ~1.22x FY24E ABV and subsidiaries at ~₹ 192 per share to arrive at a revised target price of ₹ 650.

Key triggers for future price performance:

- Strong performance on asset quality front is a positive
- Healthy pipeline to aid business growth and overall performance
- Healthy provisions worth around 1.1% provide comfort on earnings shock
- Improving RoE trajectory to aid improvement in valuations

Alternate Stock Idea: Besides SBI, in our coverage we also like Bank of Baroda

- Bank of Baroda is among leading PSU banks with a global exposure and relatively better operating metrics among PSBs
- BUY with a target price of ₹ 120



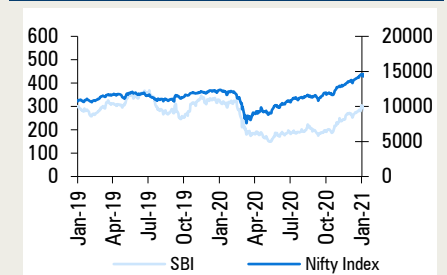
Particulars

Particulars	Amount
Market Capitalisation	₹ 473183 Crore
52 week H/L	546/321
Networth	₹ 276782 Crore
Face value	₹ 1

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	57.6	57.6	57.6	57.6	57.6
FII	9.8	9.9	10.3	10.6	10.4
DII	24.9	24.4	24.2	24.2	24.1
Others	7.7	8.0	7.8	7.7	7.9

Price Chart



Recent event & key risk

- GNPA down 40 bps QoQ to 4.5%, r/s book at 1.2% of loans
- **Key Risk:** 1) MTM loss led by hardening of yields, 2) high slippages from r/s pool

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Key Financial Summary

	FY19	FY20	FY21	CAGR (FY17-21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-24E)
NII	883	981	1107	10%	1219	1363	1524	11%
PPP	539	681	716	5%	767	865	987	11%
PAT	9	145	204	-	317	380	423	27%
ABV (₹)	174.0	203.2	243.3		279.5	325.0	373.8	
P/E	563	33	23		15	12	11	
P/ABV	3.0	2.6	2.2		1.9	1.6	1.4	
RoA	0.0	0.4	0.5		0.7	0.7	0.8	
RoE	0.5	6.4	8.4		11.8	12.6	12.4	

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Stress reduces sequentially

- Operational performance was mixed as NII was up 6.5% YoY but down 1.6% QoQ to ₹ 30687 crore (in line with estimates). This was mainly due to 10 bps sequential decline in domestic NIMs at 3.4%. Other income came in at ₹ 8673 crore, up 5.7% YoY, wherein fee income was up 6.6% QoQ and 7.4% YoY
- Opex was under control and down 2.2% QoQ as staff expenses were down 0.9% sequentially. Thus, C/I ratio improved from 54.1% to 52.9% QoQ. Provisions declined 8% QoQ to ₹ 6973 crore (taking into consideration previous quarter had one time pension related expenses), the bank has not utilised Covid provisions, which are now at ₹ 6183 crore. As a result, net profit for Q3FY22 was at ₹ 8432 crore, up 62.2% YoY and ahead of our estimates
- Asset quality performance was strong as GNPA ratio for the bank declined 40 bps sequentially to 4.50% while net NPA was down 18 bps QoQ to 1.34%. Slippages for the quarter were at multi-quarter low. Total restructuring is now at 1.2% of loans i.e. at similar levels to previous quarter. Watch-list (SMA1 and SMA2) is now at ₹ 4167 crore vs. ₹ 6690 crore QoQ
- Gross credit growth at 8.5% YoY to ₹ 26.6 lakh crore while sequential growth came in at 5.3%. Retail segment was up 14.5% YoY in which home loans were up 11% YoY. Corporate loans were up 3.5% QoQ and the bank has unutilised working capital lines of over ₹ 2 lakh crore. Deposits were up 8.8% YoY to ₹ 38.4 lakh crore wherein domestic CASA was up 10% YoY. Thus, CASA ratio increased from 45.1% to 45.7% YoY

Q3FY22 Earnings Conference Call highlights

- The bank has ₹ 30890 crore provision not included in net NPA
- Expect credit growth to be around 9% for FY22E
- ECLGS book is around ₹ 31000 crore
- Disbursement this quarter is ₹ 7000 crore in ECLGS
- The bank feels they are comfortable on capital for growth
- EBLR book is 22%, MCLR 49% and ~17% book is fixed rate
- No plan to increase interest rate on savings deposit
- International book growth mainly from trade finance
- Overall ₹ 8000 crore recoveries expected in FY22E
- Total ~₹ 8600 crore gross SR book and is provided 86%
- NIM expected to be around 3.2%
- Around ₹ 20000 crore could be transferred to NARCL

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP (₹)		Rating	M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	₹	TP(₹)			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BoB (BANBAR)	107	120	Buy	551	1.2	2.5	14.7	90.6	43.0	7.3	1.0	1.0	0.9	0.1	0.1	0.6	0.9	1.7	9.4
SBI (STABAN)	530	650	Buy	4732	22.9	35.5	42.6	23	14.9	12.5	2.2	1.9	1.6	0.5	0.7	0.7	8.4	11.8	12.6
Indian Bank (INDIBA)	168	180	Buy	210	26.6	32.9	46.7	6.3	5.1	3.6	0.8	0.8	0.7	0.6	0.6	0.8	9.9	10.4	13.5
Axis Bank (AXIBAN)	798	970	Buy	2449	21.5	45.1	53.9	37.1	17.7	14.8	2.6	2.3	2.0	0.7	1.3	1.4	7.1	12.8	13.5
City Union (CITUNI)	145	200	Buy	107	8.8	9.3	11.7	16.4	15.5	12.4	2.3	2.0	1.7	1.3	1.2	1.4	11.9	11.3	12.4
DCB Bank (DCB)	87	100	Hold	27	10.8	9.9	14.1	8.1	8.8	6.2	0.9	0.8	0.7	0.9	0.8	1.0	10.2	8.3	10.4
Federal Bank (FEDBAN)	99	120	Buy	208	8.0	8.8	10.6	12.4	11.3	9.3	1.4	1.3	1.2	0.8	0.9	1.0	10.4	10.9	11.9
HDFC Bank (HDFBAN)	1,524	2,000	Buy	8449	56.4	65.7	77.6	27.0	23.2	19.6	4.2	3.6	3.2	1.9	2.0	2.0	16.6	16.5	16.8
IndusInd Bank (INDBA)	956	1,150	Buy	740	36.7	58.0	72.3	26.1	16.5	13.2	1.8	1.7	1.6	0.8	1.2	1.3	7.3	10.1	11.8
Kotak Bank (KOTMAH)	1,884	2,500	Buy	3738	26.9	35.1	40.0	70.2	53.6	47.1	7.6	6.1	5.4	1.5	1.9	1.9	11.2	12.4	11.7
CSB Bank (CSBBAN)	260	320	Buy	45	12.6	24.6	27.6	20.6	10.6	9.4	2.4	2.0	1.7	0.1	1.0	1.8	10.5	17.9	16.9
Bandhan (BANBAN)	319	300	Hold	514	16.4	18.1	13.7	19.5	17.6	23.3	3.5	3.5	3.5	3.9	3.9	2.1	19.0	22.1	13.5
IDFC First (IDFBAN)	48	65	Buy	298	0.8	0.1	1.8	60.1	712.7	26.8	1.5	1.3	1.2	0.3	0.0	0.6	2.7	0.2	4.6

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
NII	30,687	30,685	28,820	6.5	31,184	-1.6	Business growth aided NII offset by higher disbursement to corporate segment
NIM (%)	3.2	2.7	3.1	3 bps	3.2	-9 bps	
Other Income	8,673	8,600	9,246	-6.2	8,208	5.7	Treasury income impacted other income trajectory
Net Total Income	39,360	39,285	38,066	3.4	39,392	-0.1	
Operating expense	20,839	21,197	20,733	0.5	21,312	-2.2	
PPP	18,521	18,087	17,333	6.9	18,079	2.4	
Provision	6,974	8,800	10,342	-32.6	7,607	-8.3	
PBT	11,547	9,287	6,991	65.2	10,472	10.3	
Tax Outgo	3,116	2,368	1,795	73.6	2,845	9.5	
PAT	8,431	6,919	5,196	62.3	7,627	10.5	Lower provision led uptick in PAT
Key Metrics							
GNPA	120,028	122,400	117,244	2.4	123,942	-3.2	Lower slippages led to improvement in NPA
NNPA	34,530	38,719	29,032	18.9	37,119	-7.0	
Advances	2578386	2526263	2368139	8.9	2443194.23	5.5	
Deposits	3847794	3853971	3535753	8.8	3809629.87	1.0	

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

₹ crore	FY22E			FY23E			FY24E
	Old	New	Change (%)	Old	New	Change (%)	Introduced
Net Interest Income	121354	121915	0.5	138932	136302	-1.9	152365
Pre Provisions Profit	76958	76712	-0.3	91390	86513	-5.3	98704
NIM (%)	2.9	2.9	0	3.0	3.0	-8	3.0
PAT	33267	31657	-4.8	39469	37964	-3.8	42271
ABV per share (₹)	282	280	-0.9	316	325	3.0	374

Source: Company, ICICI Direct Research

Exhibit 4: Change in Assumption

	Current			Earlier	
	FY22E	FY23E	FY24E	FY22E	FY23E
Credit growth (%)	8.5	10.0	11.0	9.7	10.0
Deposit Growth (%)	8.9	9.4	9.4	9.4	9.4
Cost to income ratio (%)	53.2	52.6	51.4	54.8	54.6
GNPA ratio (%)	4.3	4.0	3.8	4.8	4.4
NNPA ratio (%)	1.3	1.0	0.8	1.7	1.7

Source: Company, ICICI Direct Research

Exhibit 5: SOTP Valuation

	FY24E / Share
SBI (merged banks)	458
SBI AMC	42
SBI Life	84
SBI cards	87
SBI General Insurance	13
Value per share	684
Holding company discount for subsidiaries @15%	34
Value per share post discount	650

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ Bn			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Interest Earned	2,652	2,909	3,265	3,600
Interest Expended	1,544	1,690	1,902	2,077
Net Interest Income	1,107	1,219	1,363	1,524
% growth	12.9	10.1	11.8	11.8
Non Interest Income	435	421	461	507
Net Income	1542	1640	1824	2030
Employee cost	509	535	578	624
Other operating Exp.	317	338	382	419
Operating Income	716	767	865	987
Provisions	440	243	356	420
PBT	275	524	510	567
Exceptional Items	105	-74.2	0	0
Taxes	71	134	130	145
Net Profit	204	317	380	423
% growth	41	55	20	11

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Valuation				
No. of Equity Shares (Crore)	892.0	892.0	892.0	892.0
EPS (₹)	22.9	35.5	42.6	47.4
BV (₹)	284.6	318.1	358.7	404.1
ABV (₹)	243.3	279.5	325.0	373.8
P/E	23.2	14.9	12.5	11.2
P/BV	1.9	1.7	1.5	1.3
P/ABV	2.2	1.9	1.6	1.4
Yields & Margins (%)				
Net Interest Margins (calculated)	2.9	2.9	3.0	3.0
Yield on avg earning assets	6.9	6.8	7.1	7.2
Avg. cost on funds	4.0	3.9	4.1	4.1
Avg. cost of Deposits	4.1	4.2	4.3	4.3
Yield on average advances	7.2	7.1	7.2	7.2
Quality and Efficiency (%)				
Cost / Total net income	53.6	53.2	52.6	51.4
Credit/Deposit ratio	66.5	66.3	66.6	67.6
GNPA	5.0	4.3	4.0	3.8
NNPA	1.5	1.3	1.0	0.8
RoE	8.4	11.8	12.6	12.4
ROA	0.5	0.7	0.7	0.8

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ Bn			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Sources of Funds				
Capital	8.9	8.9	8.9	8.9
Reserves and Surplus	2530	2829	3190	3595
Networth	2539	2837	3199	3604
Deposits	36813	40095	43877	48018
Borrowings	4173	4398	4646	4920
Other Liabilities & Provisions	1820	1957	2111	2282
Total	45344	49288	53833	58824
Application of Funds				
Fixed Assets	384	402	430	463
Investments	13517	14122	14777	15488
Advances	24495	26582	29240	32445
Other Assets	3518	4398	5206	5800
Cash with RBI & call money	3430	3783	4180	4628
Total	45344	49288	53833	58824

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
(%)				
Total assets	14.7	8.7	9.2	9.3
Advances	5.3	8.5	10.0	11.0
Deposits	13.6	8.9	9.4	9.4
Total Income	2.0	7.9	11.9	10.2
Net interest income	12.9	10.1	11.8	11.8
Operating expenses	1.0	0.6	1.0	0.9
Operating profit	5.0	7.2	12.8	14.1
Net profit	40.8	55.1	19.9	11.3
Book value	8.9	11.8	12.8	12.7
EPS	40.8	55.1	19.9	11.3

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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