

CMP: ₹ 574

Target: ₹ 725 (26%)

Target Period: 12 months

BUY

May 19, 2023

## Surging quarterly profits, bar set for higher return ratios

**About the stock:** SBI is a public sector bank and also the largest bank in India with a balance sheet size of over ~ ₹ 55 lakh crore.

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

**Q4FY23 Results:** SBI reported a stellar performance in spite of higher expenses.

- GNPA, NNPA improved 36 bps, 10 bps QoQ respectively; slippage ratio at 0.41%
- Though NII was up 29% YoY, other income grew 17% YoY, higher opex on employee provisions dented operating profit growth. NIMs improved QoQ by 10 bps
- Lower provisions & healthy topline resulted in PAT growth of 83% YoY at ₹ 16695 crore
- Gross advances up 16% YoY, deposits up 9.2% YoY; CASA dipped to 43.8% vs 44.5%

**What should investors do?** SBI has demonstrated its strength in the last few quarters both on core operating performance and asset quality. Management confidence on growth, maintenance of margins and return ratios reaching > 1% RoA in coming years too warrant a re-rating, which is long due and should see strong positive momentum. Plough-back of profits leading to improving RoE of ~16-17% further adds to valuation.

- We reiterate **BUY** rating on the stock

**Target Price & Valuation:** We value the bank at ~1.2x FY25E ABV and subsidiaries at ~₹ 163/share to arrive at a revised target price of ₹ 725 from ₹ 700 earlier.

### Key triggers for future price performance:

- The management provided credit growth guidance of ~12-16%, with NIMs to be maintained
- Healthy recoveries trend to continue in the coming quarter (to the tune of ₹ 3000-3500 crore)
- Management is comfortable on ECL provisions and adequate buffer to aid healthy earnings and, thus, RoA trajectory of > 1% to continue
- 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 IndusInd Bank.

- Robust business growth, uptick in NIM, moderation in provision seen enabling the bank to generate RoA of ~1.9% in FY24-25E
- BUY with a target price of ₹ 1450

### Key Financial Summary

₹ Bn	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
NII	981	1107	1207	1448	14%	1788	1984	17%
PPP	681	716	753	837	7%	1014	1236	22%
PAT	145	204	317	502	51%	614	712	19%
ABV (₹)	203.2	243.3	282.6	343.2		411.0	484.9	
P/E	35	25	16	10		8	7	
P/ABV	2.8	2.4	2.0	1.7		1.4	1.2	
RoA	0.4	0.5	0.7	1.0		1.1	1.1	
RoE	6.4	8.4	11.9	16.5		17.2	16.9	

Source: Company, ICICI Direct Research



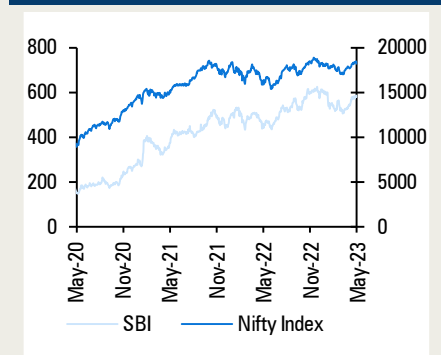
### Particulars

Particulars	Amount
Market Capitalisation	₹ 512406 Crore
52 week H/L	629/430
Networth	₹ 327600 Crore
Face value	₹ 1

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	57.6	57.6	57.5	57.5	57.5
FII	10.0	9.6	10.0	10.1	9.9
DII	24.7	25.1	25.4	25.4	25.2
Others	7.8	7.7	7.1	7.0	7.4

### Price Chart



### Recent event & key risk

- NIMs up 10bps QoQ; R/s book at 0.74% of loans
- **Key Risk:** 1) Slower than expected growth in credit, 2) Higher opex could dent operating performance

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## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Bank continue its streak of stellar earnings with PAT beating estimates

- Net profit for FY23 crossed ₹ 50000 crore and was at ₹ 50,232 crore witnessing growth of 58.58% YoY
- Strong NII growth of 29.5 % YoY and 6% QoQ to ₹ 43092 crore, led by higher 16% YoY advances growth and further improvement in NIMs (up 10 bps QoQ) to 3.60%
- Overall gross credit reached ₹ 31.3 lakh crore. Domestic advances growth driven by retail personal advances (17.64% YoY) followed by SME Advances, which grew 17.59% YoY. Foreign loans were up 19.5% YoY at ₹ 4.92 lakh crore. Agri and corporate loans posted YoY growth of 13.31% and 12.52% respectively
- Deposits growth moderated and came in at 9.2% YoY to ₹ 44.23 lakh crore where CASA deposits grew just 4.99% YoY. CASA ratio continues to decline to 43.80% from 44.48% QoQ
- Asset quality improvement continues as GNPA ratio fell 37 bps QoQ to 2.77% while net NPA was down 10 bps QoQ to 0.67%. Fresh slippages came at ₹3185 crore for Q4FY23. Overall provisions declined 54% YoY to ₹ 3316 crore. Loan loss provisions declined from 1586 crore to ₹1278 crore
- Other income was up 17% YoY and 22% QoQ to ₹ 13961 crore led by higher profit on sale of investments and recovery as fee income remained flat
- Operating expenses surprised negatively rising 27% YoY and 22% QoQ mainly led by wage arrears provisions. Hence operating profit Led by lower credit costs and strong top-line, PAT grew 82% YoY and up 17% QoQ at ₹ 16695 crore

### Q4FY23 Earnings Conference Call highlights

- Management guidance for FY24 – Credit growth to be 12-14% YoY
- Management said there is still some headroom to increase MCLR and hence NIM will not dip significantly
- During FY23 cost of deposits went up ~16 bps (YoY) of which ~9 bps increased in Q4FY23
- Growth driver of fee income will be loan processing, income from cross selling of products & forex income
- Opex was higher on account of increased spends on tech, IT, GST related expenses etc. CI increased mainly due to wage revision expenses during the quarter (₹ 2500 crore from November 2022 to March 2023)
- Xpress credit - >83% customers are employed with armed forces and / or government employees, >12% are with reputed corporates
- Restructuring book (1+2) stood at ₹24302 crore vs 26035 crore in Q3FY23 and ₹30960 crore in Q4FY22.
- NBFC sector exposure was ₹3.57 lakh crore (well rated corporate groups) vs ₹2.71 lakh crore
- Bank has ₹4 lakh crore excess SLR to support credit growth and have ₹1.7 lakh crore projects in pipeline
- Bank is well prepared for ECL norms and does not see major impact on P&L

## 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(₹)			FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
BoB (BANBAR)	180	220	Buy	933	14.0	27.3	29.8	33.7	12.8	6.6	6.0	5.3	1.3	1.0	0.8	0.8	0.6	1.0	1.0	1.0	8.9	15.0	13.9	13.8
SBI (STABAN)	574	725	Buy	5,124	35.5	56.3	68.8	79.8	16.2	10.2	8.3	7.2	2.0	1.7	1.4	1.2	0.7	1.0	1.1	1.1	11.9	16.5	17.2	16.9
Axis Bank (AXIBAN)	914	1,100	Buy	2,815	42.4	31.1	88.9	106.1	21.5	29.4	10.3	8.6	2.6	2.4	1.8	1.6	1.2	0.8	1.9	2.0	12.0	8.0	19.1	18.4
HDFC Bank (HDFBAN)	1,645	2,050	Buy	9,194	66.7	79.1	93.3	108.3	24.7	20.8	17.6	15.2	3.9	3.3	2.9	2.5	1.9	1.9	2.0	2.0	16.7	17.0	17.3	17.1
Kotak Bank (KOTMAH)	1,927	2,290	Buy	3,829	43.0	55.2	64.8	74.3	44.8	34.9	29.7	25.9	5.4	4.6	4.0	3.7	2.1	2.4	2.4	2.4	12.6	14.0	14.3	14.6

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	40,393	38,501	31,197	29.5	38,069	6.1	Led by strong credit growth and NIMs expansion
NIM (%)	3.6	2.7	3.2	45 bps	3.5	10 bps	
Other Income	13,961	10,300	11,880	17.5	11,468	21.7	Aided by healthy fee income growth
Net Total Income	54,354	48,801	43,077	26.2	49,536	9.7	
Operating expense	29,733	24,013	23,361	27.3	24,317	22.3	Higher opex partly due to wage arrear provisions
PPP	24,621	24,787	19,716	24.9	25,219	-2.4	
Provision	3,315	4,500	7,237	-54.2	5,760	-42.4	Credit cost improved by 5bps QoQ to 0.16%
PBT	21,306	20,287	12,479	70.7	19,459	9.5	
Tax Outgo	4,611	5,173	3,366	37.0	5,253	-12.2	
PAT	16,695	15,114	9,113	83.2	14,206	17.5	Stellar earnings growth led by strong top line and lower credit cost

**Key Metrics**

GNPA	90,928	1,00,847	1,12,023	-18.8	98,347	-7.5	Improvement in GNPA by 36 bps QoQ
NNPA	21,467	25,084	27,966	-23.2	23,484	-8.6	
Advances	3199269	3159097	2733967	17.0	3058177	4.6	Domestic growth was driven by retail segment
Deposits	4423778	4440481	4051534	9.2	4213557	5.0	CASA deposits grew ~5% YoY
GNPA %	2.8	3.1	4.0	-119 bps	3.1	-36 bps	
NNPA %	0.7	0.8	1.0	-35 bps	0.8	-10 bps	

Source: Company, ICICI Direct Research

**Exhibit 3: Change in Estimates**

₹ crore	FY24E			FY25E		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	164241	178786	8.9	181676	198383	9.2
Pre Provisions Profit	94204	101372	7.6	108649	123585	13.7
NIM (%)	3.0	3.3	25.6	3.0	3.3	26.7
PAT	52068	61384	17.9	60017	71168	18.6
ABV per share (₹)	393	411	4.4	455	485	6.6

Source: Company, ICICI Direct Research

**Exhibit 4: Change in Assumption**

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
Credit growth (%)	15.4	14.4	15.4	14.4
Deposit Growth (%)	10.9	10.0	10.9	10.0
Cost to income ratio (%)	54.0	49.6	54.5	52.2
GNPA ratio (%)	2.4	2.3	2.9	2.8
NNPA ratio (%)	0.6	0.6	0.6	0.6

Source: Company, ICICI Direct Research

**Exhibit 5: SOTP Valuation**

	FY25E / Share
SBI (merged banks)	563
SBI AMC	42
SBI Life	81
SBI cards	66
SBI General Insurance	2
<b>Value per share</b>	<b>754</b>
Holding company discount for subsidiaries @15%	29
<b>Value per share post discount</b>	<b>725</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 6: Profit and loss statement				
	₹ bn			
(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	2,755	3,321	3,843	4,252
Interest Expended	1,547	1,873	2,055	2,268
Net Interest Income	1,207	1,448	1,788	1,984
% growth	9.0	19.9	23.5	11.0
Non Interest Income	406	367	417	468
Net Income	1613	1815	2204	2452
Employee cost	501	573	634	729
Other operating Exp.	358	405	556	487
Operating Income	753	837	1014	1236
Provisions	245	165	190	281
PBT	508	672	824	955
Exceptional Items	-74	0	0	0
Taxes	117	170	210	244
Net Profit	317	502	614	712
% growth	55	59	22	16
EPS	35.5	56.3	68.8	79.8

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
No. of Equity Shares (Crore)	892.0	892.0	892.0	892.0
EPS (₹)	35.5	56.3	68.8	79.8
BV (₹)	314.0	367.3	434.1	511.9
ABV (₹)	282.6	343.2	411.0	484.9
P/E	16.2	10.2	8.3	7.2
P/BV	1.8	1.6	1.3	1.1
P/ABV	2.0	1.7	1.4	1.2
<b>Yields &amp; Margins (%)</b>				
Net Interest Margins (calculated)	2.8	3.0	3.3	3.3
Yield on avg earning assets	6.3	6.8	7.0	7.0
Avg. cost on funds	3.6	4.0	3.9	3.9
Avg. cost of Deposits	3.7	3.9	4.1	4.1
Yield on average advances	6.6	7.2	7.1	7.1
<b>Quality and Efficiency (%)</b>				
Cost / Total net income	53.3	53.9	54.0	49.6
Credit/Deposit ratio	67.5	72.3	75.2	78.3
GNPA	4.0	2.8	2.4	2.3
NNPA	1.0	0.7	0.6	0.6
RoE	11.9	16.5	17.2	16.9
ROA	0.7	1.0	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ bn			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Sources of Funds</b>				
Capital	8.9	8.9	8.9	8.9
Reserves and Surplus	2792	3267	3863	4557
Networth	2801	3276	3872	4566
Deposits	40515	44238	49052	53936
Borrowings	4260	4931	5381	5888
Other Liabilities & Provisions	2299	2725	3053	3425
Total	49876	55170	61358	67815
<b>Application of Funds</b>				
Fixed Assets	377	424	449	470
Investments	14814	15704	16334	17003
Advances	27340	31993	36907	42208
Other Assets	3399	3971	2900	3191
Cash with RBI & call money	3946	3079	4767	4943
Total	49876	55170	61358	67815

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Total assets	10.0	10.6	11.2	10.5
Advances	11.6	17.0	15.4	14.4
Deposits	10.1	9.2	10.9	10.0
Total Income	2.4	16.7	15.5	10.8
Net interest income	9.0	19.9	23.5	11.0
Operating expenses	0.4	1.4	2.2	0.2
Operating profit	5.2	11.2	21.1	21.9
Net profit	55.2	58.6	22.2	15.9
Book value	10.3	17.0	18.2	17.9
EPS	55.2	58.6	22.2	15.9

Source: Company, ICICI Direct Research

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