

State Bank of India

10 May 2024

RESULT UPDATE

Sector: Banks	Rating: BUY
CMP: Rs 820	Target Price: Rs 950

Stock Info

Sensex/Nifty	72,404 / 21,958
Bloomberg	SBIN IN
Equity shares	8925mn
52-wk High/Low	Rs 840/543
Face value	Rs 1
M-Cap	Rs 7,316bn/ USD 88bn
3-m Avg value	USD 179mn

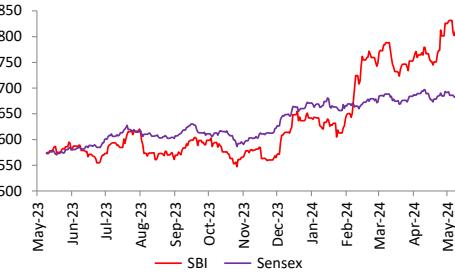
Financial Snapshot (Rs bn)

Y/E March	FY24	FY25E	FY26E
NII	1,599	1,793	2,011
PPP	867	1,096	1,253
PAT	611	694	774
EPS (Rs)	68	78	87
EPS Gr. (%)	22	14	11
BV/Sh (Rs)	392	454	523
Adj. BV/Sh (Rs)	374	436	503
Ratios			
NIM (%)	3.0	3.0	3.0
C/I ratio (%)	59.0	52.3	51.2
RoA (%)	1.0	1.1	1.1
RoE (%)	18.8	18.4	17.7
Payout (%)	20.0	20.0	20.0
Valuations			
P/E (x)	9.2	9.1	7.27
P/BV (x)	1.6	1.4	1.2
P/Adj. BV (x)	1.7	1.4	1.3
Div. Yield (%)	1.7	1.9	2.1

Shareholding pattern (%)

	Sep'23	Dec'23	Mar'24
Promoter	57	57	58
-Pledged	-	-	-
FII	11	11	11
DII	24	24	24
Others	7	7	7

Stock Performance (1-year)



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Quarterly earnings outshine other PSU banking peers.

State Bank of India reported 4QFY24 earnings of Rs 207bn (+126% qoq, +24% yoy) which beat our estimates due to higher-than-expected other income, lower opex and lower provisions. The quality of its earnings coupled with the strong guidance, for FY25, was in stark contrast to those of its peer PSU banks like Canara Bank and Punjab National Bank, which have seen superior share outperformance vs. SBI during the last year.

The key result highlights were: (1) Gross advances growth of 5% qoq and 15% yoy was higher than guidance of 12-14% growth in FY24 and was led by strong growth of 11% qoq in corporate advances. The bank guided for 13-15% loan growth in FY25. (2) Considering the bank's low domestic C-D ratio of 68%, deposits mobilization was modest at 3% qoq, 11% yoy. (3) On calculated basis, 4QFY24 NIM increased by +5bps qoq supported by Rs 13bn (9bps of IEA) benefit from IT refund while cost of funds increased by +4bps qoq. (4) Other income increased by 1.5x qoq due to higher TWO recovery, higher dividends from subsidiaries and seasonally higher fee income. (5) FY24 employee costs of Rs 712bn were 7% lower than guidance of Rs 770bn (ex of pension and dearness relief related one-offs) due to MTM gains on pension and provident fund and reversal of excess gratuity provisions. Further, with catch-up provisions completed in FY24, the bank guided for FY25 wage bill to decline to Rs 650bn-700bn. (6) GNPA / NNPA declined to 2.2% / 0.6% (-18bp / -7bp qoq) as gross and net slippage ratios declined to 0.46% / 0.22% vs 0.61% / 0.39% qoq. (7) FY24 RoA was 1.04%, in-line with guidance and RoE was 20.32%. (8) CET-1 increased to 10.36% (ex FY24 profits) vs 9.09% in 3Q (ex 9M profits). The bank states it is open to raising capital, if required.

We retain our BUY rating with a revised Mar'26 TP of Rs 950 (from Rs 770 earlier) valuing the standalone bank at 1.5x Mar'26 adj BVPS (vs 1.2 earlier) and assign a value of Rs 190 per share to the subsidiaries. We increase the credit growth estimates to 14% (from 13%) with deposits expected to increase at a sector average rate of 12%. Domestic CDR is estimated to creep up from 68% to 71.2% over FY25/26E. NIMs are expected to remain broadly stable with core fee income CAGR at 15% vs asset CAGR of 12% driven by higher processing and distribution fees. Our non-core other income estimates remain conservative offering upside potential to numbers. Coming off the 12th Bipartite wage settlement, in FY24, operating expense growth is expected to increase at a modest 3% CAGR with employee expenses estimated to de-grow 13% in FY25. The resulting positive operating jaws, with operating income CAGR at 10%, will result in a PPOP CAGR of 20% over FY24/26E. We conservatively estimate credit costs normalizing to an average 47bps, over FY25/26E, vs. 27bps in FY24, resulting in an earnings CAGR of 13%. As such, over FY25/26E, we estimate the bank to deliver average RoA of 1.1% (up 10bps vs earlier estimate) and RoE of 18%.

Loan growth led by strong growth in corporate advances: Gross Advances growth of 5% qoq and 15% yoy was higher than guidance of 12-14% growth in FY24. Growth was led by strong growth of 11% qoq in corporate advances while retail, agri and SME advances increased by 4-5% qoq. RAM mix declined to 55.5% (-50bps qoq). Retail growth of 4% qoq, 15% yoy was mainly led by 5% qoq growth in home loans. Auto loan growth was weak at 3% qoq while other personal loans increased by 4% qoq with unsecured xpress credit growth strong at 4% qoq. **Going forward, the bank**

Investors are advised to refer disclosures made at the end of the research report.

guided for 13-15% loan growth in FY25 with corporate growth to be in-line with overall growth. It remains open to raising growth capital if credit demand remains strong.

Weaker deposit mobilization as C-D ratio remains comfortable: Given the low domestic C-D ratio of 68.34% as compared to large private bank peers having C-D ratios of 80%+, deposits mobilization was relatively lower at 3% qoq, 11% yoy. Growth was broad based with CASA growth of 3% qoq and term deposit growth of 4% qoq. Domestic CASA ratio remained broadly stable qoq at 41.1%. Consequently, C-D ratio increased to 75.3% (+144bps qoq). **Domestic C-D ratio at 68.3% remains lower vs bank's comfort zone of 75%.**

Margins to remain stable going forward: On calculated basis, 4QFY24 NIM increased by +5bps qoq as yield on funds increased by +10bps qoq with Rs 13bn (9bps of IEA) benefit from IT refund while cost of funds increased by +4bps qoq. On reported basis, FY24 NIM of 3.28% (-9bps yoy) was lower than guidance of FY24 NIM to be around FY23 levels of 3.4%. While domestic FY24 NIM declined by -15bps yoy, overseas NIM increased by +47bps yoy. **Going forward, with cost of deposits plateauing, the bank guided for FY25 NIMs to remain stable around current levels.**

Better than expected PPOP growth led by higher other income and lower opex: Other income increased by 1.5x qoq due to higher miscellaneous income (Rs 50bn in 4Q vs 18bn in 3Q) led by higher TWO recovery (Rs 10bn higher qoq), higher dividends from subsidiaries and seasonally higher fee income (fee income % avg assets increased to 57bps vs 42 bps in qoq). CIR at 51.3% was lower vs 74.2% due to one-offs (Rs 710bn) related to pension and dearness relief in the previous quarter. FY24 employee costs of Rs 712bn were 7% lower than guidance of Rs 770bn (ex pension and dearness relief related one-offs) due to Rs 39bn of MTM gains on pension and provident fund and reversal of excess gratuity provisions post final ratification of the wage settlement bill due to lower increase in basic pay. **Further, with catch-up provisions completed in FY24, the bank guided for FY25 wage bill to decline to Rs 650bn-700bn.** Consequently, while NII (+5% qoq, +3% yoy) was 3% above estimates, PPOP was ~40% above estimates mainly due to better-than-expected other income and lower than expected opex.

Asset quality continues to remain benign: GNPA / NNPA declined to 2.2% / 0.6% (-18bp / -7bp qoq). PCR increased to 75% (+85bps qoq) as Gross and Net slippage ratios declined to 0.46% / 0.22% vs 0.61% / 0.39% qoq. While calculated credit costs increased to 0.36% vs 0.2% in qoq due to slightly higher write-offs (50bps of net advances in 4Q vs 42bps in 3Q), the impact was offset by floating provision reversals due to (i) reversal of Rs 9bn of regulatory provision on NPI (ii) improvement in asset quality of the restructured book. Restructured assets have reduced to 0.48% vs 0.55% qoq, 0.78% yoy). **Going forward, the bank does not expect any major lumpy recoveries from the AUCA accounts.** While overall GNPA ratios declined across all the RAM sub-segments as well as corporate, Xpress credit GNPA has increased to 0.77% vs 0.73% qoq, 0.6% yoy.

Valuation & recommendation: We retain our BUY rating with a revised Mar'26 TP of Rs 950 (from Rs 770 earlier) valuing the standalone bank at 1.5x Mar'26 adj BVPS (vs 1.2 earlier) and assign a value of Rs 190 per share to the subsidiaries. We increase the credit growth estimates to 14% (from 13%) with deposits expected to increase at a sector average rate of 12%. Domestic CDR is estimated to creep up from 68% to 71.2% over FY25/26E. NIMs are expected to remain broadly stable with core fee income CAGR at 15% vs asset CAGR of 12% driven by higher processing and distribution fees. Our non-core other income estimates remain conservative offering

upside potential to numbers. Coming off the 12th Bipartite wage settlement, in FY24, operating expense growth is expected to increase at a modest 3% CAGR with employee expenses estimated to de-grow 13% in FY25. The resulting positive operating jaws, with operating income CAGR at 10%, will result in a PPOP CAGR of 20% over FY24/26E. We conservatively estimate credit costs normalizing to an average 47bps, over FY25/26E, vs. 27bps in FY24, resulting in an earnings CAGR of 13%. As such, over FY25/26E, we estimate the bank to deliver average RoA of 1.1% (up 10bps vs earlier estimate) and RoE of 18%.

Key takeaways from 4QFY24 earnings call:

Balance Sheet

- The bank anticipates advance growth of 13-15% FY25.
- LCR was 124% as of Mar'24.
- The bank has excess SLR of Rs 3.7trn
- Given other key large private peers remaining cautious on growing the corporate advances, the bank will grow the corporate book and down-sell the corporate portfolio which will also drive fee income
- The bank shall focus on increasing the domestic CD ratio to 75%.
- CASA growth of 3% qoq was led by 15% qoq growth in CA deposits. Also, 61% of SA is opened through YONO application

P&L

- Loan book mix: MCLR linked at 36%, Fixed rate at 21%, EBLR linked at 27% and others at 16%.
- The bank aims to maintain NIMs at current levels.
- With the revised investment norms, MTM gains and losses will not have much impact.
- In 4QFY24 business and development costs were Rs 2bn.
- FY24 CIR excluding wage revision and one-time item is 49% (vs 55.66% actual) with the bank's focus being to lower CIR by improving income growth along with operating leverage leading to reduction in other overheads

Asset Quality

- Agriculture NPA reduced from 11.47% as of Mar'23 to 9.58% as of Mar'24; target to bring down further to 6-8%.
- W.r.t draft RBI norms on project financing, the bank is yet to evaluate the impact. However, the management informed it remains well placed to absorb the impact of additional provisioning considering the 3-year time frame and will also pass on some of the additional impact in terms of price increases. Further, the bank has approx. Rs1.1tn of project finance loans.

Subsidiaries

- No plans to list SBI general in near term.
- SBI Wealth is undergoing revamp and has launched 2 segments. The focus is to garner NTB customers across the country and not just limited to metro cities. The bank plans to hire a new head for the wealth business.

Exhibit 1: Quarterly performance

(INR, Bn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Interest income	1,110	930	19%	1,067	4.0%
Interest expenses	694	526	32%	669	3.7%
NII	417	404	3%	398	4.6%
Other income	174	140	24%	115	51.6%
Operating income	590	544	9%	513	15.1%
Operating expenses	303	297	2%	380	-20.4%
- Staff expenses	163	176	-7%	265	-38.2%
PPOP	287	246	17%	132	117.2%
Provisions	16	33	-51%	7	134.1%
PBT	271	213	27%	125	116.3%
Taxes	64	46	40%	34	90.3%
PAT	207	167	24%	92	125.9%
<hr/>					
Key Ratios (%)	4QFY24	4QFY23	YoY (bps)	3QFY24	QoQ (bps)
Domestic CASA Ratio	41.1%	43.8%	-269 bp	41.2%	-8 bp
CD Ratio	75.3%	72.3%	302 bp	73.9%	144 bp
NIM (reported)	3.3%	3.4%	-9 bp	3.3%	0 bp
Cost to Income	51.3%	54.7%	-341 bp	74.2%	-2289 bp
Credit costs	0.4%	0.2%	20 bp	0.2%	16 bp
GNPA (%)	2.2%	2.8%	-54 bp	2.4%	-18 bp
NNPA (%)	0.6%	0.7%	-10 bp	0.6%	-7 bp
PCR (%)	75.0%	76.4%	-137 bp	74.2%	85 bp
CAR	14.3%	14.7%	-40 bp	13.1%	123 bp
Tier-I	11.9%	12.1%	-13 bp	10.6%	135 bp

Source: Company, Systematix Institutional Research

Exhibit 2: DuPont analysis

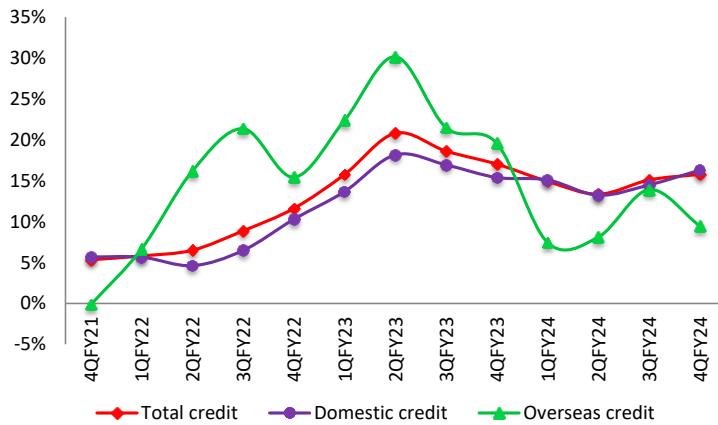
Du Pont (% of average assets)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Net interest income	3.0%	2.8%	2.8%	2.7%	2.7%
Other income	1.0%	0.9%	0.8%	0.8%	1.1%
Total income	4.0%	3.7%	3.5%	3.5%	3.9%
Operating expenses	2.2%	1.9%	2.2%	2.6%	2.0%
Employee expenses	1.3%	1.2%	1.3%	1.8%	1.1%
PPOP	1.8%	1.8%	1.4%	0.9%	1.9%
Provisions	0.2%	0.2%	0.0%	0.0%	0.1%
PBT	1.6%	1.6%	1.4%	0.9%	1.8%
PAT (RoAA)	1.2%	1.2%	1.0%	0.6%	1.4%
Leverage	15.92	15.68	15.41	15.44	15.53
ROE	19.6%	19.1%	15.5%	9.6%	21.2%

Source: Company, Systematix Institutional Research

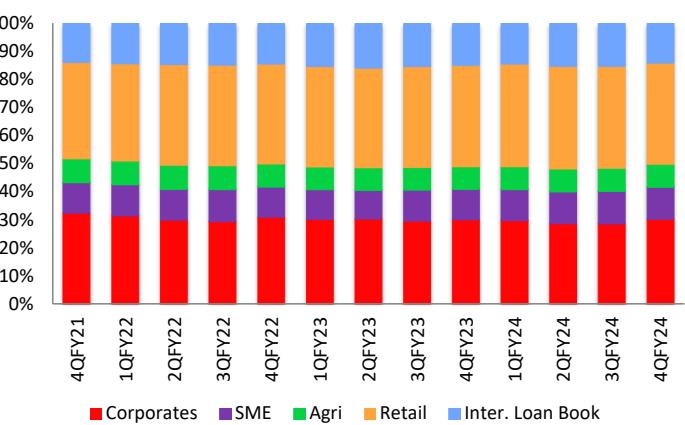
Exhibit 3: Earnings Revision

(INR, Bn)	FY25E			FY26E		
	New	Old	% chg	New	Old	% chg
Advances	42,226	42,264	-0.1%	48,139	47,968	0.4%
Deposits	55,054	55,085	-0.1%	61,641	61,235	0.7%
NII	1,793	1,794	0.0%	2,011	1,966	2.3%
Opex	1,202	1,186	1.4%	1,316	1,298	1.4%
PPOP	1,096	1,114	-1.6%	1,253	1,212	3.5%
Provisions	166	187	-10.9%	218	262	-16.9%
PAT	694	691	0.5%	774	708	9.3%
EPS	78	77	0.5%	87	79	9.3%
Adj. BVPS	436	423	2.9%	503	484	3.9%

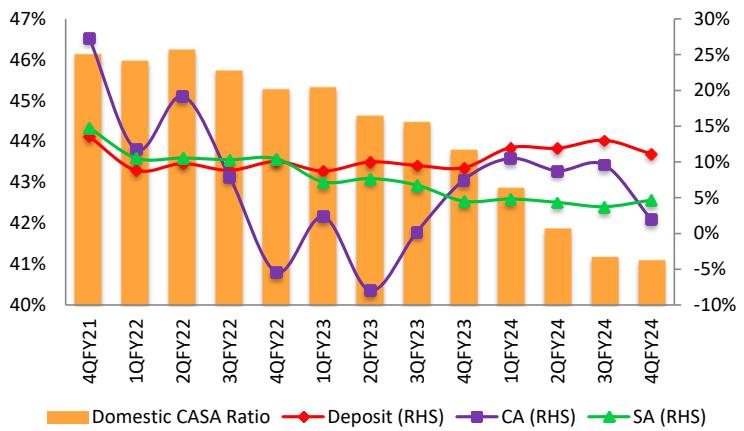
Source: Company, Systematix Institutional Research

Exhibit 4: Strong domestic credit growth....

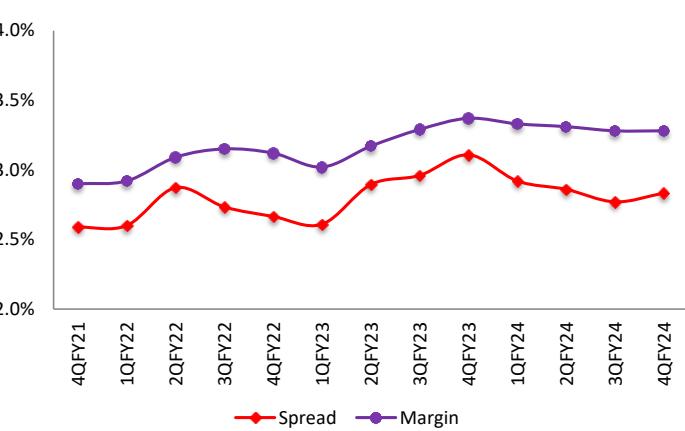
Source: Company, Systematix Institutional Research

Exhibit 5: mainly led by strong growth in corporate advances

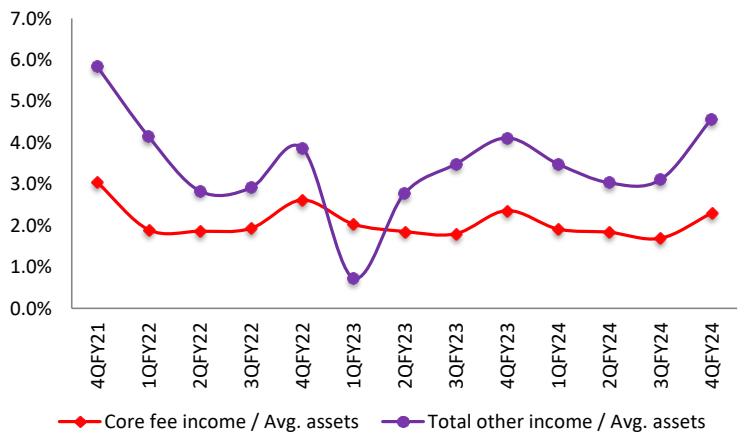
Source: Company, Systematix Institutional Research

Exhibit 6: Domestic CASA ratio remains broadly stable

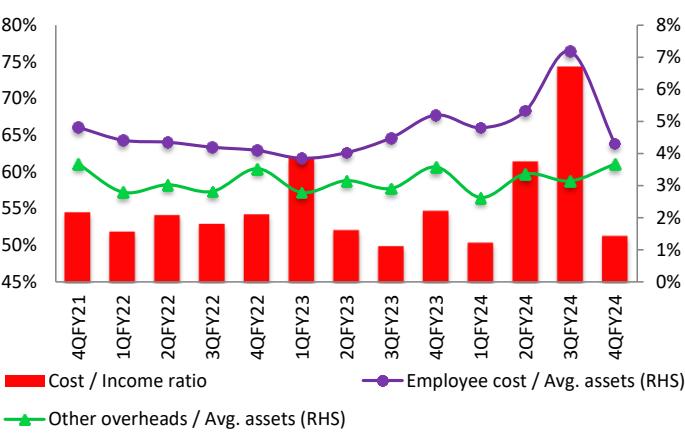
Source: Company, Systematix Institutional Research

Exhibit 7: Margin to remain around current levels going forward

Source: Company, Systematix Institutional Research

Exhibit 8: Core fee income improved on seasonality

Source: Company, Systematix Institutional Research

Exhibit 9: CIR lower due to one-offs in the previous quarter

Source: Company, Systematix Institutional Research

Exhibit 10: Credit costs inched up marginally on slightly higher write-offs

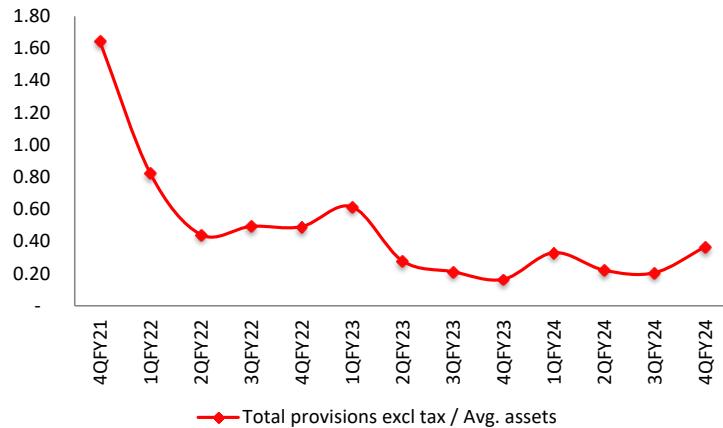


Exhibit 11: Asset quality remains largely stable.

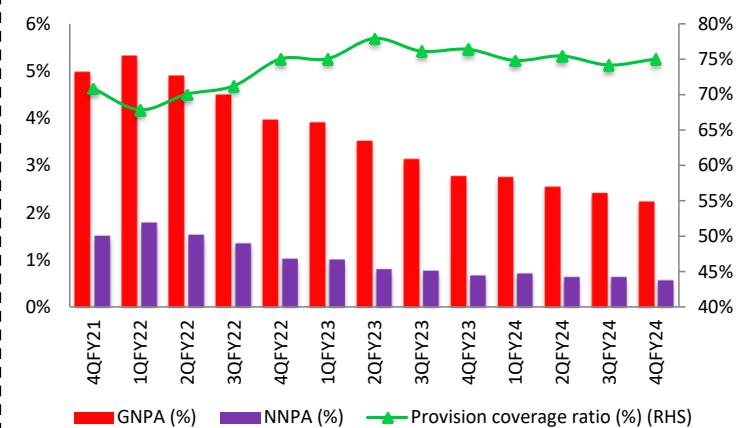


Exhibit 12: CAR at 14.28% and Tier-1 at 11.93%

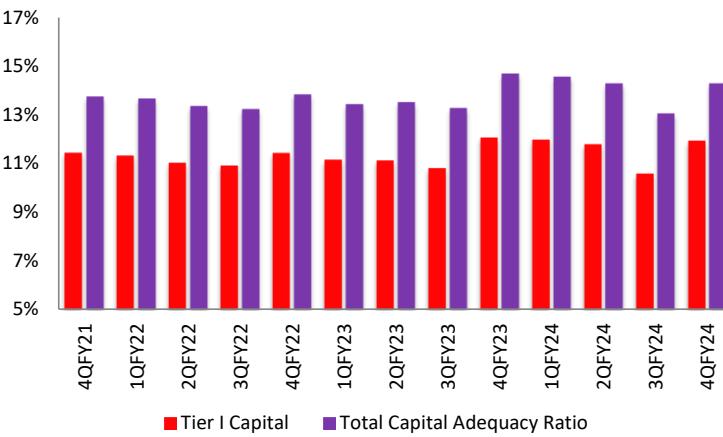


Exhibit 13: FY24 RoA of 1.04% was in-line with guidance

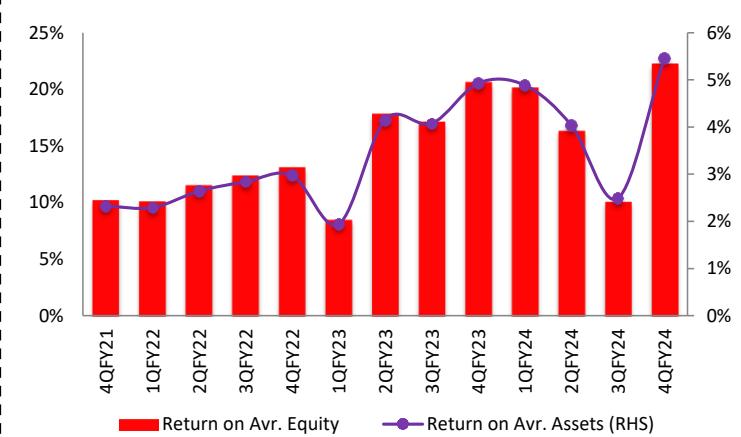


Exhibit 14: 1-year forward P/ABV (x) trajectory

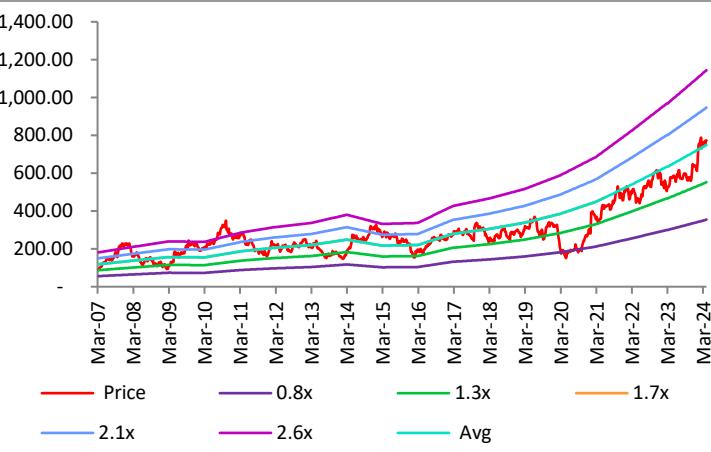
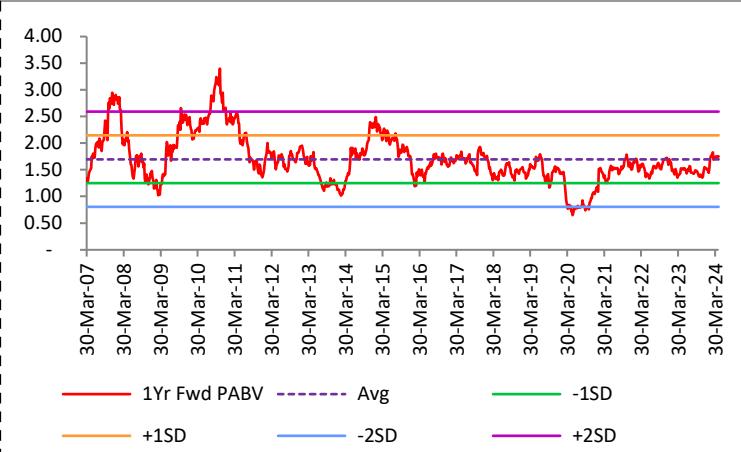


Exhibit 15: SBIN trades around long-term average forward multiple



FINANCIALS

Profit & Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	2,755	3,321	4,151	4,813	5,370
Interest Expenses	1,547	1,873	2,553	3,020	3,359
Net Interest Income	1,207	1,448	1,599	1,793	2,011
Change (%)	9	20	10	12	12
Commission, Ex. & Br. Inc.	246	262	281	323	372
Add: Other income	160	104	236	181	186
Net Income	1,613	1,815	2,116	2,298	2,569
Change (%)	5	13	17	9	12
Operating Expenses	934	977	1,249	1,202	1,316
Operating Profit	679	837	867	1,096	1,253
Change (%)	(5)	23	4	26	14
Provisions	245	165	49	166	218
PBT	434	672	818	929	1,036
Tax	117	170	207	235	262
Tax Rate (%)	27	25	25	25	25
PAT	317	502	611	694	774
Change (%)	55	59	22	14	11
Proposed Dividend	63	100	122	139	155

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Capital	8.9	8.9	8.9	8.9	8.9
Reserves & Surplus	2,792	3,267	3,764	4,319	4,938
Net Worth	2,801	3,276	3,772	4,328	4,947
Change (%)	10	17	15	15	14
Deposits	40,515	44,238	49,161	55,054	61,641
Change (%)	10	9	11	12	12
CASA Ratio (%)	45	43	40	39	37
Borrowings	4,260	4,931	5,976	6,615	7,375
Other Liabilities	2,299	2,725	2,888	3,321	3,820
Total Liabilities	49,876	55,170	61,797	69,318	77,782
Change (%)	10	11	12	12	12
Investments	14,814	15,704	16,713	18,050	19,675
Cash & Bank balance	3,946	3,079	3,108	3,526	3,850
Loans	27,340	31,993	37,040	42,226	48,139
Change (%)	12	17	16	14	14
Fixed Assets	377	424	426	468	508
Other Assets	3,399	3,971	4,510	5,048	5,610
Total Assets	49,876	55,170	61,797	69,318	77,782

Source: Company, Systematix Institutional Research

Dupont

YE: Mar (%)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	5.8	6.3	7.1	7.3	7.3
Interest Expended	3.3	3.6	4.4	4.6	4.6
Net Interest Income	2.5	2.8	2.7	2.7	2.7
Commission, Ex. & Br. Inc.	0.5	0.5	0.5	0.5	0.5
Other Fee Income	0.3	0.1	0.3	0.2	0.2
Net Operating Income	3.3	3.4	3.5	3.4	3.4
Profit on sale of investment	0.1	0.1	0.1	0.1	0.1
Net Income	3.4	3.5	3.6	3.5	3.5
Operating Expenses	2.0	1.9	2.1	1.8	1.8
Operating Income	1.4	1.6	1.5	1.7	1.7
Provisions	0.5	0.3	0.1	0.3	0.3
PBT	0.9	1.3	1.4	1.4	1.4
Tax	0.25	0.32	0.35	0.36	0.36
PAT	0.7	1.0	1.0	1.1	1.1
Leverage	20	19	18	17	17
RoE	13.0	18.1	18.8	18.4	17.7

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)					
Yield on Advances	6.7	7.5	8.4	8.7	8.7
Yield on Earning Assets	6.3	6.9	7.7	8.0	7.9
Cost of Deposits	3.7	3.8	4.7	5.0	5.0
Cost of Funds	3.6	4.0	4.9	5.2	5.1
NIM	2.8	3.0	3.0	3.0	3.0
Profitability Ratios (%)					
Cost/Income	57.9	53.9	59.0	52.3	51.2
PPOP / Avg. assets	1.4	1.6	1.5	1.7	1.7
RoE	13.0	18.1	18.8	18.4	17.7
RoA	0.7	1.0	1.0	1.1	1.1
Asset Quality (%)					
GNPA (Rs bn)	1,120	909	843	872	978
NNPA (Rs bn)	280	215	211	218	244
GNPA	4.0	2.8	2.2	2.0	2.0
NNPA	1.0	0.7	0.6	0.5	0.5
PCR					
Capitalisation (%)					
CAR	13.8	14.7	15.1	15.1	15.3
Tier I	11.4	12.1	12.7	13.1	13.4
Tier II	2.4	2.6	2.4	2.0	1.9
Average Leverage on Assets (x)	19.6	18.9	18.0	17.4	16.9
Valuations					
Book Value (Rs)	286	332	392	454	523
Adj. Book Value (Rs)	265	318	374	436	503
Price-BV (x)	2.2	1.9	1.6	1.4	1.2
Price-Adj. BV (x)	2.4	2.0	1.7	1.4	1.3
EPS (Rs)	35	56	68	78	87
EPS Growth (%)	55	59	22	14	11
Price-Earnings (x)	17.8	11.2	9.2	8.1	7.3
Dividend (Rs)	7.1	11.3	13.7	15.6	17.3
Dividend Yield (%)	0.9	1.4	1.7	1.9	2.1

Source: Company, Systematix Institutional Research

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