

# STATE BANK OF INDIA

Strong growth & Flat NII; One-off dents profitability

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## Result and Price Analysis

State Bank of India (SBIN) has delivered a lukewarm operating performance, however, a strong show in credit growth and assets quality front. It's reported GNPA (2.42% v/s 2.55% in 2QFY24) and NNPA (0.64% v/s 0.64% in 2QFY24) holds steady with stable PCR (incl. AUCA) of 92%. Furthermore SMA1&2 (12bps) is sound sequentially. The bank has witnessed better than expected advance growth (14.5% YoY & 5.1% QoQ) led by growth across segment and steady deposit base (13% YoY & 1.6% QoQ) sequentially with better liquidity position. Moreover, the PPOP up 4.7% sequentially despite high operating cost (C/I: 61.3%). The net profit declined by 35.5% YOY and 36.1% QOQ on the back of one-off of ₹71bn towards provision for pension liability. On the other hand muted NII growth (Domestic NIMs: 3.34%) and high opex (mainly staff cost) dent the profitability further. The 3QFY24 calculated ROA and ROE stood at 0.62% and 9.94% respectively; nonetheless, 9MFY24 ROE is above target ROE of 15%. The bank has established total standard asset and contingent provision of ~₹335bn (95bps of net advances) as on 3QFY24. With ample contingent buffer (against ECL provisions) and strong growth outlook, we believe the annual ROE target of 15% is achievable in FY24E/25E. Therefore, we recommend BUY with target price of ₹746.

## Gazing the core

**One-off and high staff cost dragged profitability:** Domestic NIMs (3.34%) down by 9bps sequentially and the CD ratio is comfortable at 73.9%, while the bank believes there is scope to raise MCLR rates further. Overall, the bank doesn't see much risk to the current margin levels in the coming quarters. YOA and COD stood at 8.88% and 4.75% against 8.86% and 4.65% in the previous quarter. Overall NIMs down by 9bps to 3.22%. It translated in 0.8% sequential growth in NII (398bn). Non – interest income up by 6.2% sequentially. However, operating expenses ratio improved (C/I: 60.3% v/s 61.4% in 2QFY24) resulted in the PPOP growth of 4.7% sequentially. The bank reported exceptional item (one-off) of ₹71bn towards provision for adverse judgment on pension liability.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	1,107,100	1,207,076	1,448,505	1,581,716	1,813,649
Operating Profit	715,542	678,740	837,230	771,591	972,474
Reported Profits	204,105	316,760	502,425	552,290	678,146
Net Worth	2,302,978	2,567,102	2,998,522	3,550,812	4,228,958
Loan & Advances	24,494,978	27,339,666	31,992,693	36,951,560	42,863,810
Int. Bearing Liabilities	40,985,748	44,775,775	49,169,129	54,827,343	61,939,936

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIM's	2.9	2.8	3.0	2.9	3.0
C/I Ratio	53.6	57.9	53.9	58.4	57.9
Gross NPA Ratio	5.0	4.0	2.8	2.3	2.1
PCR (%)	70.9	75.0	76.4	74.2	73.0
Adj. RoA Ratio	0.5	0.7	1.0	0.7	1.0
Adj. RoE Ratio	8.4	11.9	16.5	11.5	16.2

Rating	BUY
Current Market Price (₹)	643
12M Price Target (₹)	746
Potential upside (%)	16

## Stock Data

Sector:	PSU Banking
Face Value (₹) :	1
Total Market Cap (₹ bn) :	5,739
Free Float Market Cap (₹ bn) :	2,468
52-Week High / Low (₹) :	661 / 499
BSE Code / NSE Symbol :	500112 / SBIN
Bloomberg :	SBIN IN

## Shareholding Pattern

(%)	Dec-23	Sep-23	Jun-23	Mar-23
GOI	57.49	57.49	57.47	57.49
FPIs	10.92	10.72	10.36	9.89
MFs	11.75	11.98	12.54	13.05
Insurance	10.48	10.48	10.48	10.33
Others	9.36	9.33	9.15	9.24

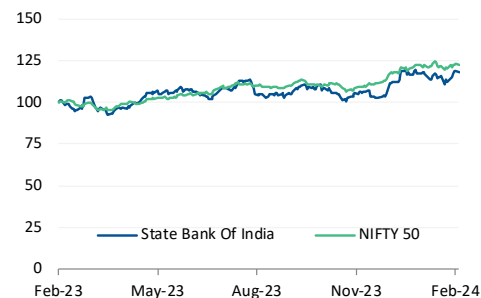
Source: BSE

## Price Performance

(%)	1M	3M	6M	12M
SBI	0.2%	11.2%	12.1%	17.9%
Nifty 50	0.3%	13.2%	11.6%	22.6%

\* To date / current date : February 5, 2024

## SBI vs Nifty 50



In next quarter (4QFY24), the bank may make the provision of ₹54bn on the account of wage amendment bill (wage rate of 17%). Total Provision expenses were sequentially higher because of standard asset provision build up. However, Loan loss provision (~₹17.6bn v/s ~₹18.2bn in 2QFY24) were lower. Hence the net profit witnessed declined of 35.5% YoY and 36.1% sequentially. The bank's ROA/ROE (calculated, annualized) stood at 0.62% and 9.94% respectively.

**Sound credit growth; ~15% growth expected in FY25E:** The bank's net advances stood at ~₹35.2tn; grew healthy by 14.5% YOY and 5.1% QOQ. Retail (36.2% contribution) and Agriculture (8.1% contribution) grew by 4.25% and 6.53% sequentially. Corporate (28.6% contribution) 4.7% QoQ. The management guided FY25E credit growth of ~15% and interest rate margin to be at same level. Moreover, the bank's investments are ~₹16.9tn of which ₹11tn are HTM and ₹5.8tn are AFS with modified duration of 1.9. The bank's deposit stood at ~₹47.6tn grew steadily by 13% YOY and 1.6% QoQ amid tight liquidity and slower retail demand. CASA ratio down to 41.2%. In 3QFY24, the bank's CRAR stood at 13.05% vs. 14.28% in the previous quarter with CET 1 of 9.09%. The RBI guidelines on increased risk weight has impacted 70bps on CRAR and ~50bps on CET 1. The RWA to assets stood at 52.6% with comfortable LCR (~131%), well above the regulatory requirement.

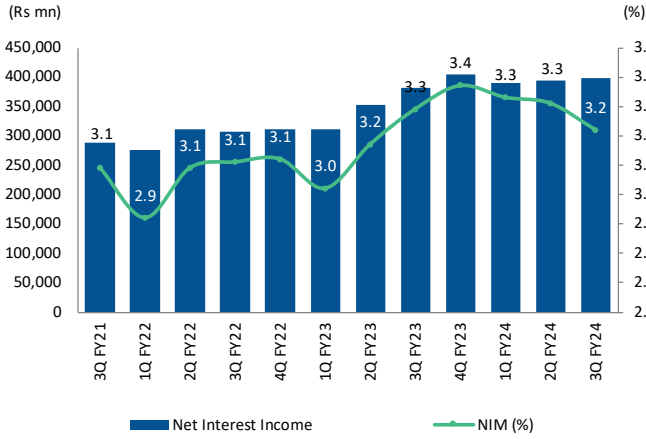
**Asset Quality improvement continues:** The bank's slippages were higher sequentially at ₹49.6bn (v/s ₹38.3bn) and recoveries (₹18bn v/s ₹40bn) were lower. Moreover, bulky write-offs (₹34.7bn) led to improvement in GNPA ratio at 2.42% v/s 2.55% in the previous quarter. The bank's asset quality improved sequentially as reported GNPA/NNPA/PCR ratio stood at 2.42%/0.64%/92% against 2.55%/0.64%/92% in 2QFY24. GNPA ratio of retail, agriculture, SME and corporate segment stood at 2.77%, 10.1%, 4.06%, and 2.87% respectively. Additionally, The Bank's SMA 1 (₹20.7bn, 6bps) and SMA 2 (₹20.6bn, 6bps) stood stable. Moreover, BB & below book marginally up to 11% of wholesale book. The restructured pool came down to ₹189bn (54bps of net advances) from ₹208bn (62bps) in the previous quarter. Management expects the pool to stay stable in near term. On total restructuring, retail book accounted for ~63%. The provisioning expenses of ₹6.9bn (Credit cost: 0.21% v/s 0.22% in 2QFY24) was up sequentially, however, below the historical range. The loan loss provision stood ₹17.6bn (v/s ₹18.2bn in 2QFY24). Standard asset provisions build up worth ₹1.8bn reported in 3QFY24. Moreover, the bank has provided ₹2.4bn for AIF investments. The bank has established total provision outside PCR of ~₹335bn (95bps of net advances) as on 3QFY24.

### Outlook & Valuations

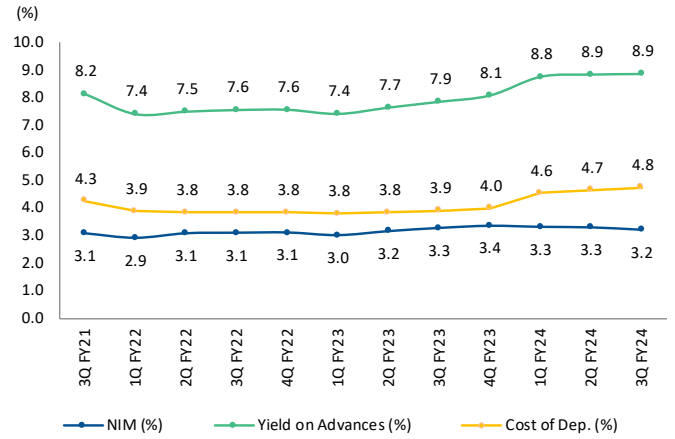
Under base case scenario, we expect the bank to post a ROA/ROE of 1%/16.2% by FY25E led by healthy balance sheet growth along with higher PCR and stable Asset Quality. We recommend BUY with target price of ₹746 (potential upside of 16%). We value the standalone bank with PBV of 1.3x FY25E Adj. BVPS of ₹461 and value of subsidiaries per share of ₹146.

Quarterly story in charts

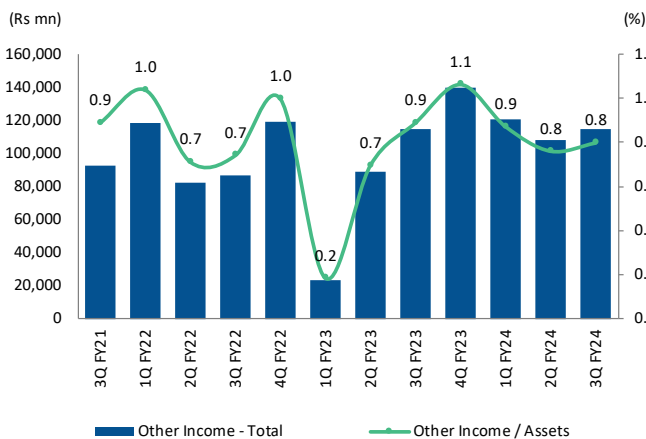
**NII trend**



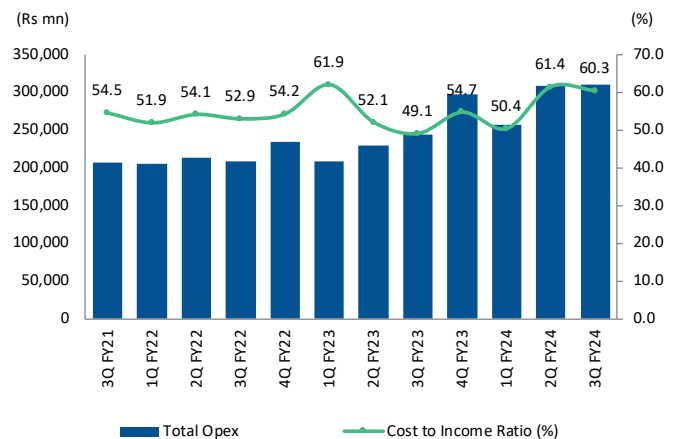
**Yields & margin trend**



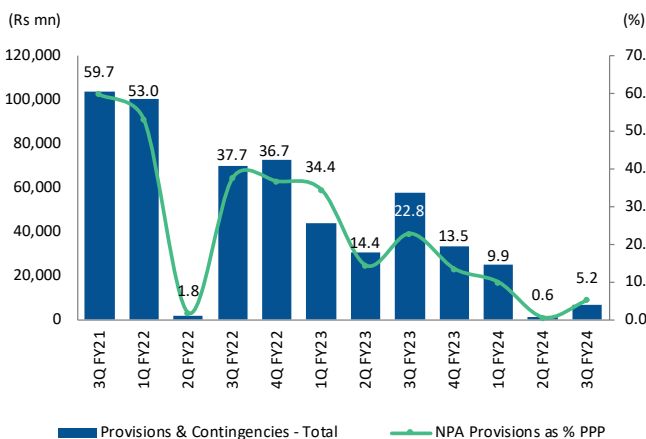
**Other income trend**



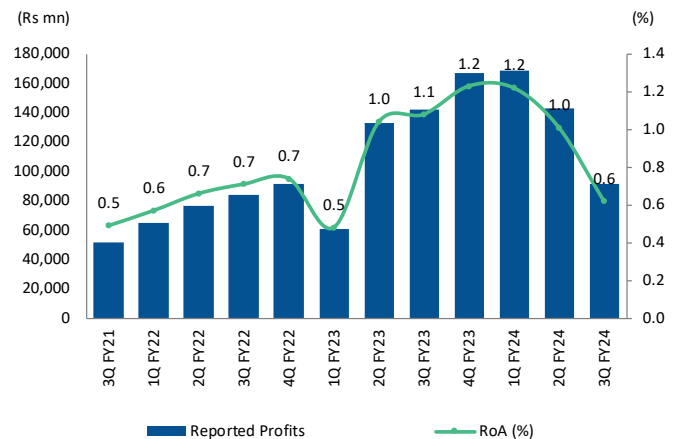
**Total OPEX trend**



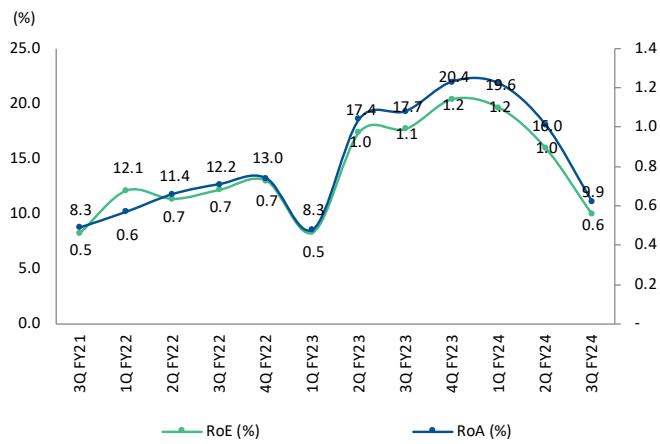
**Provision expenses trend**



**Reported profit trend**



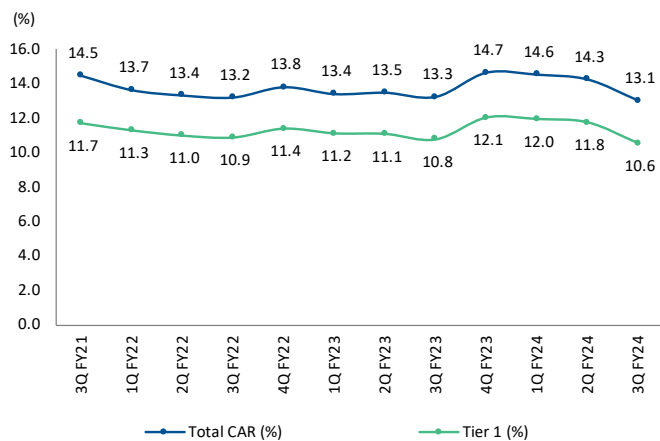
**Return ratio trend**



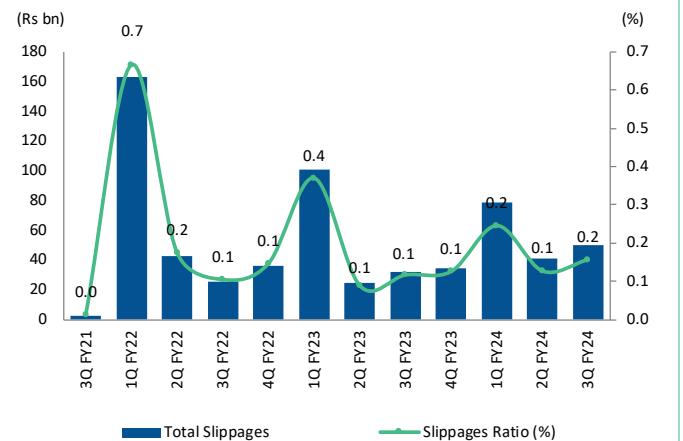
**Loan book trend**



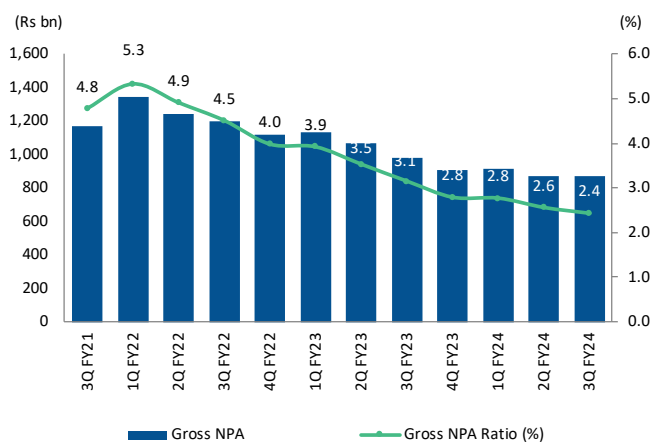
**CRAR & Tier 1 ratio trend**



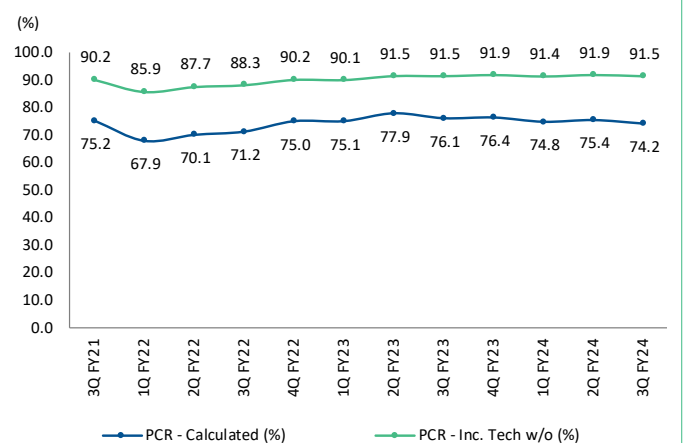
**Slippages trend**



**Gross NPA trend**



**PCR Trend**



## Recent Performance at a glance

## Exhibit 1 : Income Statement Analysis

(₹ mn)	3Q FY24	2Q FY24	% yoy / bps	3Q FY23	% qoq / bps	FY23	FY22	% yoy / bps
Interest Inc.	1,067,338	1,013,788	5.3	866,160	23.2	3,321,031	2,754,573	20.6
Interest Expenses	669,180	618,788	8.1	485,470	37.8	1,872,526	1,547,497	21.0
Net Interest Income	398,157	395,000	0.8	380,686	4.6	1,448,505	1,207,076	20.0
NII to Net Operative Income	77.7	78.5	(89)	76.8	80	79.8	74.8	497
NIM (%)	3.22	3.3	(9)	3.3	(7)	3.0	2.8	23
Other Income - Total	114,589	107,906	6.2	114,677	(0.1)	366,156	405,639	(9.7)
Other Inc to Net Oper. Income (%)	22.3	21.5	89	23.2	(80)	20.2	25.2	(497)
Net Operating Revenue	512,746	502,906	2.0	495,364	3.5	1,814,661	1,612,715	12.5
Employee Expenses	193,618	189,264	2.3	147,567	31.2	572,918	575,620	(0.5)
Other Opex	115,767	119,476	(3.1)	95,604	21.1	404,513	358,355	12.9
Total Opex	309,386	308,740	0.2	243,171	27.2	977,431	933,975	4.7
Cost to Income Ratio (%)	60.3	61.4	(105)	49.1	1,125	53.9	57.9	(405)
Pre Provision Profits	203,361	194,166	4.7	252,193	(19.4)	837,230	678,740	23.4
Provisions & Contingencies - Total	6,879	1,153	496.7	57,606	(88.1)	165,073	244,521	(32.5)
NPA Provisions as % PPP	5.2	0.6	460	22.8	(1,765)	19.7	36.0	(1,631)
Profit Before Tax	125,482	193,013	(35.0)	194,587	(35.5)	672,156	434,219	54.8
Tax	33,843	49,713	(31.9)	52,534	(35.6)	169,732	117,459	44.5
Effective Tax Rate (%)	27.0	25.8	121	27.0	(3)	25.3	27.1	(180)
Reported Profits	91,640	143,300	(36.1)	142,053	(35.5)	502,425	316,760	58.6
RoA (%)	0.6	1.0	(39)	1.1	(46)	1.0	0.7	29
RoE (%)	9.9	16.0	(602)	17.7	(776)	16.5	11.9	467

Source: Company, LKP Research

## Exhibit 2 : Balance Sheet Analysis

(₹ mn)	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	QoQ % / bps	YoY % / bps
Net Worth	3,049,128	3,212,037	3,276,085	3,444,416	3,592,273	3,689,539	2.7	14.9
RoE (%)	17.4	17.7	20.4	19.6	16.0	9.9	(602)	(776)
Tier 1 (%)	11.1	10.8	12.1	12.0	11.8	10.6	(120)	(22)
Total CAR (%)	13.5	13.3	14.7	14.6	14.3	13.1	(123)	(22)
RWA - Total	26,128,999	26,940,062	27,833,157	27,981,446	28,700,444	31,355,279	9.3	16.4
Advances - Total	29,512,875	30,581,770	31,992,693	32,350,227	33,451,673	35,195,143	5.2	15.1
Investments	15,553,219	15,692,020	15,703,662	15,726,297	16,926,169	16,894,063	(0.2)	7.7
Total Assets	51,998,008	53,241,229	55,169,785	55,430,757	58,263,183	59,656,163	2.4	12.0
RoA (%)	1.04	1.08	1.23	1.22	1.01	0.62	(39)	(46)
Deposits	41,902,549	42,135,571	44,237,778	45,312,367	46,892,185	47,622,207	1.6	13.0
CASA Deposits	17,977,510	18,006,770	18,629,040	18,660,590	18,860,140	18,812,970	(0.3)	4.5
CASA Ratio (%)	44.6	44.5	43.8	42.9	41.9	41.2	(70)	(330)
Interest Bearing Liabilities - Total	46,788,633	47,636,981	49,169,129	49,435,883	52,019,313	53,147,096	2.2	11.6

Source: Company, LKP Research

## Exhibit 3: Funding Profile Analysis

(₹ mn)	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	QoQ % / bps	YoY % / bps
Interest Bearing Liabilities - Total	46,788,633	47,636,981	49,169,129	49,435,883	52,019,313	53,147,096	2.2	11.6
Global Deposits	41,902,549	42,135,571	44,237,778	45,312,367	46,892,185	47,622,207	1.6	13.0
CASA Deposits	17,977,510	18,006,770	18,629,040	18,660,590	18,860,140	18,812,970	(0.3)	4.5
Saving Deposit	15,651,740	15,729,670	15,814,660	16,078,270	16,330,390	16,317,590	(0.1)	3.7
Current Deposit	2,325,770	2,277,100	2,814,380	2,582,320	2,529,750	2,495,380	(1.4)	9.6
Dom. Term Deposits	23,925,039	24,128,801	25,608,738	26,651,777	28,032,045	28,809,237	2.8	19.4
Borrowings	4,886,084	5,501,410	4,931,352	4,123,516	5,127,128	5,524,889	7.8	0.4

Source: Company, LKP Research

## Exhibit 4: Asset Quality Analysis

(₹ mn)	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	QoQ % / bps	YoY % / bps
Total Slippages	24,410	32,100	34,580	78,720	40,810	50,460	23.6	57.2
Slippages Ratio (%)	0.09	0.12	0.13	0.25	0.13	0.16	3	4
Gross NPA	1,068,041	983,465	909,278	913,278	869,741	867,488	(0.3)	(11.8)
Gross NPAs Ratio (%)	3.52	3.14	2.78	2.76	2.55	2.42	(13)	(72)
PCR - Calculated (%)	77.9	76.1	76.4	74.8	75.4	74.2	(128)	(195)
Net NPA	235,722	234,843	214,666	229,954	213,524	224,084	4.9	(4.6)
Net NPAs Ratio (%)	0.80	0.77	0.67	0.71	0.64	0.64	-	(13)
Standard Restructured	273,360	260,350	243,020	226,660	208,540	188,800	(9.5)	(27.5)
Std. Rest. Adv. as % of Advances	0.9	0.9	0.76	0.70	0.62	0.54	(9)	(31)

Source: Company, LKP Research

## Annual Projections

### Exhibit 5: Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Int. Income / Opr. Revenue	2,651,506	2,754,573	3,321,031	4,111,296	4,653,862
Interest Expenses	1,544,406	1,547,497	1,872,526	2,529,580	2,840,213
Net Interest Income	1,107,100	1,207,076	1,448,505	1,581,716	1,813,649
NIM (%)	2.85	2.76	2.99	2.95	3.01
Other Income - Total	434,964	405,639	366,156	445,106	495,069
Net Operating Revenue	1,542,064	1,612,715	1,814,661	2,026,822	2,308,719
Employee Exp.	509,360	575,620	572,918	742,502	853,878
Other Opex	317,162	358,355	404,513	441,728	482,367
Total Opex	826,522	933,975	977,431	1,184,230	1,336,245
C/I Ratio (%)	53.60	57.91	53.86	58.43	57.88
Pre Provision Profits	715,542	678,740	837,230	842,591	972,474
PPP Growth (yoy %)	5.0	(5.1)	23.4	0.6	15.4
Provisions & Contingencies - Total	440,130	244,521	165,073	40,082	74,267
Credit Cost (As % of Op. AUM)	1.76	0.09	0.06	0.12	0.20
Profit Before Tax	275,411	434,219	672,156	731,510	898,207
Tax	71,307	117,459	169,732	179,220	220,061
Effective Tax Rate (%)	25.9	27.1	25.3	24.5	24.5
Reported Profits	204,105	316,760	502,425	552,290	678,146
PAT Growth (yoy %)	40.9	55.2	58.6	9.9	22.8

### Exhibit 6 : Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	8,925	8,925	8,925	8,925	8,925
Reserves (ex Revel. Reserve)	2,294,054	2,558,177	2,989,597	3,541,887	4,220,033
Net Worth - Ex Revaluation	2,302,978	2,567,102	2,998,522	3,550,812	4,228,958
Deposits	36,812,771	40,515,341	44,237,778	49,328,509	55,727,754
Borrowings	4,172,977	4,260,434	4,931,352	5,498,834	6,212,182
Interest Bearing Liabilities (₹ mn)	40,985,748	44,775,775	49,169,129	54,827,343	61,939,936
Other Lia. & Prov.	1,819,797	2,299,318	2,724,572	2,924,945	3,456,155
<b>Total Liabilities</b>	<b>45,344,296</b>	<b>49,875,974</b>	<b>55,169,785</b>	<b>61,584,251</b>	<b>69,941,147</b>
<b>Assets</b>					
Cash & Cash Equivalent	3,430,387	3,945,523	3,078,996	2,692,811	3,053,125
Investments	13,517,052	14,814,455	15,703,662	16,904,667	18,198,692
Loan & Advances (₹ mn)	24,494,978	27,339,666	31,992,693	36,951,560	42,863,810
Growth (yoy %)	5.3	11.6	17.0	15.5	16.0
Fixed Assets	384,192	377,082	423,818	429,298	482,659
Other Assets	3,517,687	3,399,249	3,970,616	4,605,914	5,342,861
<b>Total Assets</b>	<b>45,344,296</b>	<b>49,875,974</b>	<b>55,169,785</b>	<b>61,584,251</b>	<b>69,941,147</b>

## Exhibit 7: Detail RoA Tree (%)

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Yields / Margins</b>					
Yield on Advance	7.2	6.6	7.5	8.5	8.5
Yield on Funds	6.8	6.3	6.9	7.7	7.7
Cost of Funds (CoF)	4.0	3.6	4.0	4.9	4.9
Interest Spread	2.8	2.7	2.9	2.8	2.8
NIM's	2.9	2.8	3.0	2.9	3.0
Interest Income / Assets	6.2	5.8	6.3	7.0	7.1
Interest Exp. / Assets	3.6	3.3	3.6	4.3	4.3
NII / Assets	2.6	2.5	2.8	2.7	2.8
Fee Income / Assets	0.6	0.5	0.4	0.5	0.5
Other Non Core Income / Assets	0.1	0.1	0.1	0.1	0.1
Other Income / Assets	1.0	0.9	0.7	0.8	0.8
Net Operating Income / Assets	3.6	3.4	3.5	3.5	3.5
<b>Operating Ratios</b>					
NII to Net Operative Income	71.8	74.8	79.8	78.0	78.6
Other Income to Net Operative Income	28.2	25.2	20.2	22.0	21.4
Empl. Cost/Oper. Exps.	61.6	61.6	58.6	62.7	63.9
Other Op. Exps./Oper. Exps.	38.4	38.4	41.4	37.3	36.1
C/I Ratio (%)	53.6	57.9	53.9	58.4	57.9
Provisions as % PPP	28.5	15.2	9.1	2.0	3.2
Credit Cost (As % of Op. AUM)	1.8	0.1	0.1	0.1	0.2
Effective Tax Rate (%)	25.9	27.1	25.3	24.5	24.5
Employee Exp. / Assets	1.2	1.2	1.1	1.3	1.3
Other Opex/ Assets	0.7	0.8	0.8	0.8	0.7
Total Opex / Assets	1.9	2.0	1.9	2.0	2.0
Operating Profits / Assets	1.7	1.4	1.6	1.4	1.5
Exceptional Items / Assets	-	-	-	(0.1)	-
Op Profit ex Except Items / Assets	1.7	1.4	1.6	1.3	1.5
Provisions / Assets	1.0	0.5	0.3	0.1	0.1
Profit Before Tax / Assets	0.6	0.9	1.3	1.3	1.4
Tax Expenses / Assets	0.2	0.2	0.3	0.3	0.3
RoA	0.5	0.7	1.0	0.9	1.0
Leverage (x)	19.7	19.4	18.4	17.3	16.5
RoE	8.4	11.9	16.5	15.5	16.2
Adj. RoA	0.5	0.7	1.0	0.7	1.0
Adj. RoE	8.4	11.9	16.5	11.5	16.2



**Exhibit 8: Per share data**

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Face Value (₹)	1	1	1	1	1
Adjusted Share O/S (mn)	8,925	8,925	8,925	8,925	8,925
Earnings Per Share (₹)	22.9	35.5	56.3	61.9	76.0
EPS (% YoY)	40.9	55.2	58.6	9.9	22.8
P/E (x)	28.1	18.1	11.4	10.4	8.5
Book Value (₹)	258.0	287.6	336.0	397.9	473.9
BVPS (% YoY)	10.6	11.5	16.8	18.4	19.1
P/BV (x)	2.5	2.2	1.9	1.6	1.4
Adj. BV (₹)	237.4	272.0	324.0	385.3	461.3
Adj. BV (% YoY)	16.2	14.6	19.1	18.9	19.7
P/ABV (x)	2.7	2.4	2.0	1.7	1.4

**Exhibit 9: Balance Sheet Ratios**

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Credit / Deposit Ratio	66.5	67.5	72.3	74.9	76.9
Incremental C/D Ratio	28.3	76.8	125.0	97.4	92.4
Investment Deposit Ratio	36.7	36.6	35.5	34.3	32.7
Dom. SLR Investment / Deposits	29.6	29.6	28.8	27.9	26.7
CASA Ratio	46.8	46.0	43.5	43.5	43.5

**Exhibit 10: Credit Quality**

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Slippage Ratio (%)	1.2	1.0	0.7	0.7	0.6
Gross NPA	1,263,890	1,120,234	909,278	868,010	907,367
Gross NPAs Ratio (%)	5.0	4.0	2.8	2.3	2.1
PCR (%)	70.9	75.0	76.4	74.2	73.0
Net NPA	368,097	279,657	214,666	224,162	244,902
Net NPAs Ratio (%)	1.5	1.0	0.7	0.6	0.6
Total Impaired Loans	1,263,890	1,120,234	909,278	868,010	907,367
Impaired Loan as % of Loan / AUM	4.7	3.8	2.6	2.2	2.0
Total Risk Reserves	895,793	840,577	694,611	643,848	662,465
Total Risk As % of Loan Book	3.3	2.8	2.0	1.6	1.4

**Exhibit 11: Key Assumptions & Forecasts**

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Loan & Advances (₹ mn)	24,494,978	27,339,666	31,992,693	36,951,560	42,863,810
Growth (yoy %)		11.6	17.0	15.5	16.0
Interest Bearing Liabilities (₹ mn)	40,985,748	44,775,775	49,169,129	54,827,343	61,939,936
Growth (yoy %)		9.2	9.8	11.5	13.0
Yield on Funds	6.8	6.3	6.9	7.7	7.7
Cost of Funds (CoF)	4.0	3.6	4.0	4.9	4.9
Interest Spread	2.8	2.7	2.9	2.8	2.8
NIM's	2.9	2.8	3.0	2.9	3.0
Other Income Growth	(3.8)	(6.7)	(9.7)	21.6	11.2
C/I Ratio (%)	53.6	57.9	53.9	58.4	57.9
Effective Tax Rate (%)	25.9	27.1	25.3	24.5	24.5
<b>Return Ratios</b>					
Adj. RoA	0.5	0.7	1.0	0.7	1.0
Adj. RoE	8.4	11.9	16.5	11.5	16.2
<b>Asset Quality Metrics</b>					
Credit Cost (As % of Op. AUM)	1.8	0.1	0.1	0.1	0.2
Gross NPAs Ratio (%)	5.0	4.0	2.8	2.3	2.1
Net NPAs Ratio (%)	1.5	1.0	0.7	0.6	0.6

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