

# State Bank of India | BUY

## Investor meeting takeaways - on a strong footing

We recently hosted management team of State Bank of India (SBIN) at JM Financial India Conference (Singapore) 2024 where management exuded confidence on sustaining its strong performance into FY25 as well. Given strong macro environment, management remains confident of achieving 15% loan growth which is emanating from its comfortable LDR ratio (~67% domestic) despite systemic pressures on deposits. Key highlights of the call include: i) Wholesale credit demand is picking up momentum and will be driven by private sector to drive 15% loan growth in FY25E, ii) Mgmt remains confident of sustaining margins and does not expect meaningful inch up in MCLR's iii) Provisions against wage revisions and pension rationalization were one-time expenses and thus employee costs would normalize from FY25E onwards with slight uptick, iv) GNPA's likely to improve further and thus credit costs would remain contained, and v) aims to deliver RoAs of 1-1.1% with RoEs of 15-18%. We believe SBIN remains well positioned to navigate the tight systemic liquidity given its strong liability franchise and as growth visibility increases, we believe SBIN could re-rate higher. Our earnings estimates for SBIN are 8.1%/6.1% above consensus for FY25E/FY26E and we value SBIN's core banking business at 1.25x FY26E BVPS to arrive at our SoTP-based TP of INR 860. Maintain BUY. Sharp decline in interest rates and relapse of asset quality pressures are key risks to our call.

- **Well positioned to deliver ~15% growth in FY25E:** SBI remains confident of delivering ~15% loan growth in FY25E. Given that SBI's domestic LDR ratio remains comfortable at ~67%; management believes that growth aspirations are realistic despite systemic pressure on deposits. Retail loans are expected to continue healthy growth momentum, (15% YoY in 3QFY24) while SME segment is likely to outperform other segments (17-18% YoY growth). Within agri segments too, SBI intends to focus more on SME segment. Management also highlighted that the capex momentum has started picking up as it has ~INR4.5trln worth of credit proposals in pipeline out of which ~70% are from the private sector (indicating a shift in corporate demand towards private sector). This should aid in wholesale growth to accelerate in FY25E from current levels of 10.7% YoY in 3QFY24 (for domestic corporate loans). Given that capacity utilisation for the system is at ~80%, the management believes growth trajectory will accelerate post general elections and corporate credit could grow at ~15% in FY25E.
- **Margins to remain stable; some moderation in fees likely:** SBI indicated that NIMs are likely to remain stable around current levels (domestic NIMs at 3.34% in Q3FY24) and does not expect any further deposit rate hikes going forward. It believes that CD ratio will inch up to ~68-69% by FY24-end. The bank also indicated that MCLR's should also be stable (~37.5% of the book is currently linked to MCLR). With respect to other income, SBI indicated some pressure on the government-led business given increased competition and the bank's strategy to not charge customers for liability fees. To offset the same, SBI is taking efforts to grow its forex business. We expect SBIN to deliver NII growth of 12% CAGR over FY24-26E and estimate overall net revenues to grow at 10% CAGR over the same period.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	860
Upside/(Downside)	11.4%
Previous Price Target	800
Change	7.5%

### Key Data – SBIN IN

Current Market Price	INR772
Market cap (bn)	INR6,890.3/US\$83.1
Free Float	33%
Shares in issue (mn)	8,924.6
Diluted share (mn)	
3-mon avg daily val (mn)	INR13,963.9/US\$168.5
52-week range	778/502
Sensex/Nifty	73,872/22,406
INR/US\$	82.9

### Price Performance

%	1M	6M	12M
Absolute	18.8	34.1	37.6
Relative*	16.0	19.2	11.4

\* To the BSE Sensex

### Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit	3,16,760	5,02,325	5,49,974	6,94,457	7,40,161
Net Profit (YoY) (%)	55.2%	58.6%	9.5%	26.3%	6.6%
Assets (YoY) (%)	10.1%	10.6%	12.2%	11.9%	11.8%
ROA (%)	0.7%	1.0%	0.9%	1.1%	1.0%
ROE (%)	13.0%	18.1%	17.1%	18.7%	17.3%
EPS	35.5	56.3	61.6	77.8	82.9
EPS (YoY) (%)	55.2%	58.6%	9.5%	26.3%	6.6%
<b>PE (x)</b>	<b>21.8</b>	<b>13.7</b>	<b>12.5</b>	<b>9.9</b>	<b>9.3</b>
BV	288	336	385	448	514
BV (YoY) (%)	11.5%	16.8%	14.7%	16.2%	14.8%
<b>P/BV (x)</b>	<b>2.68</b>	<b>2.30</b>	<b>2.00</b>	<b>1.73</b>	<b>1.50</b>

Source: Company data, JM Financial. Note: Valuations as of 04/Mar/2024

JM Financial Institutional Securities Limited

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- **Employee costs to normalize as wage revision concludes at 17%:** While opex in 3QFY24 was impacted by higher wage costs, the management aspires to achieve 48-49% cost-income ratio over the medium term. Total impact of wage revisions and pension provisions stood at ~INR180bn. With respect to wage revision provisions, SBI has taken impact of ~INR 71bn in 3QFY24 and will take ~INR 54bn impact in 4QFY24 as wage increment was finalized at 17% against earlier anticipation of 15%. From FY25, employee costs per month would be higher by INR 5bn. The management has guided for employee costs to range around INR 660bn in FY25 vs ~INR 770bn in FY24. At the same time, other opex is likely to grow 10% YoY. We build cost-to-avg assets at 1.8% over FY25E/FY26E for SBIN.
- **Valuation and view:** SBI's core fundamentals continue to be stable while delivery on the growth front along with sustained margins and controlled credit costs (expecting GNPA to reduce further from current levels of 2.4%) should drive healthy return ratios of 15-18% RoEs and 1-1.1% RoAs; though the aspirational target is set at 1.2% RoAs. Management expects CET1 to reach ~11% by Mar'24 (from current levels of 9.1%) driven by strong profitability in FY24E (currently considering 9MFY24 PAT, CET-1 stands at 10.4%). We value SBIN's core banking business at 1.25x FY26E BVPS to arrive at our SoTP-based target price of INR 860. Maintain BUY.

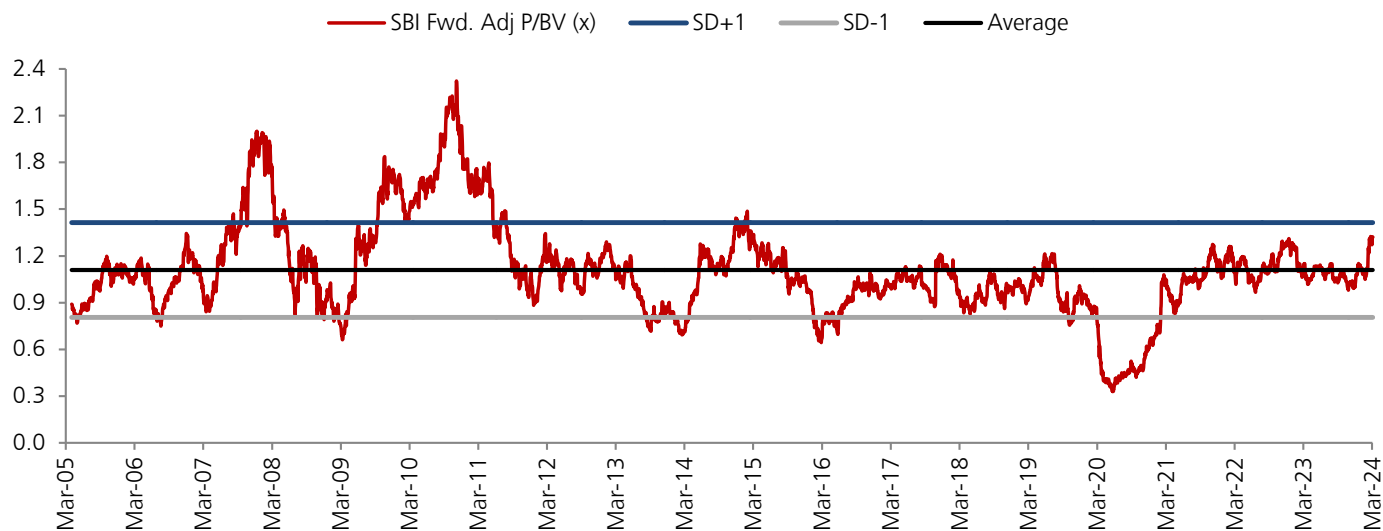
## Valuation Summary

### Exhibit 1. SOTP based valuation summary

SBI SOTP	Holding (%)	Valuation Methodology	Value per Share	Contribution to TP (%)
<b>SBI Bank - Parent</b>	<b>100.0%</b>	<b>1.25x FY26E BVPS</b>	<b>642</b>	<b>75%</b>
<b>Non-Bank Subs and investments</b>			<b>240</b>	<b>28%</b>
SBI Life	55.4%	Based on market cap less 20% holdco discount	77	9%
SBI General	70.0%	Based on recent transaction less 20%	19	2%
SBI AMC	62.6%	35x FY26E EPS	56	7%
UTI MF	10.0%	Based on market cap	1	0%
SBI Caps	100.0%	15x FY23EPS	12	1%
SBI DFHI	72.2%	1x book value	1	0%
SBI Cards	68.9%	Based on market cap less 20% holdco discount	42	5%
NSE	7.6%	Based on Past Deals	15	2%
Yes Bank stake	26.1%	Based on market cap	17	2%
<b>Less: Cost of Investments</b>			<b>-22</b>	<b>-3%</b>
<b>Total (Rs.)</b>			<b>860</b>	<b>100%</b>

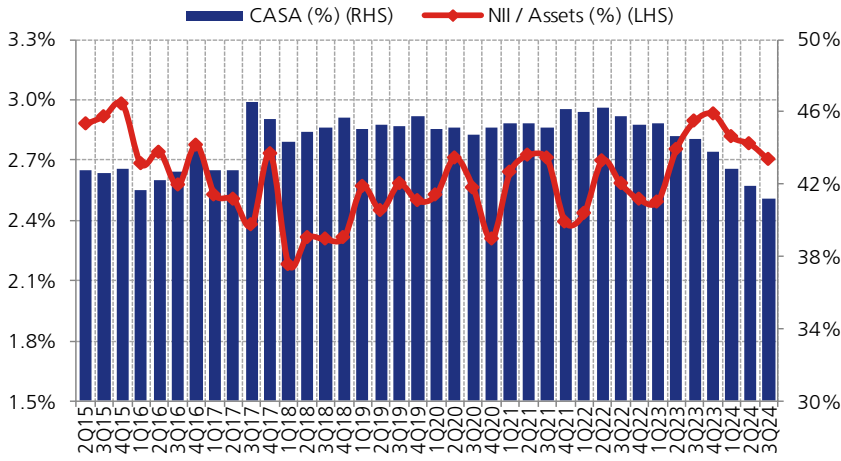
Source: Company, JM Financial

### Exhibit 2. SBIN (banking business): One year forward Price/Book



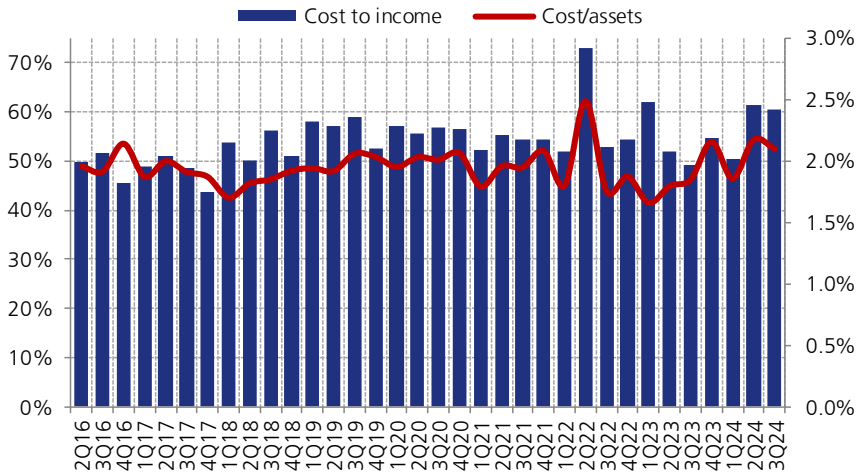
Source: Company, JM Financial

Exhibit 3. Trends for CASA and NII / Assets



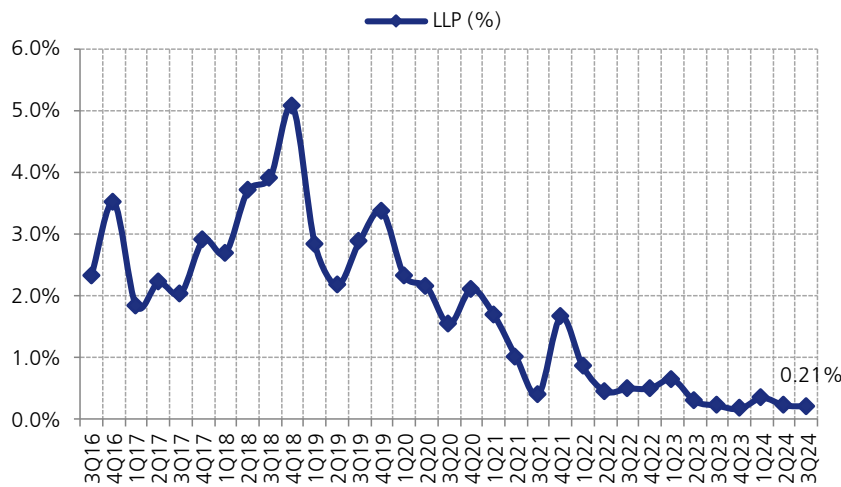
Source: Company, JM Financial

Exhibit 4. Trends in opex ratios



Source: Company, JM Financial, 2Q22 impacted by one-time employee pension liability revision impact

Exhibit 5. Trend in specific credit costs



Source: Company, JM Financial

## Financial Tables (Standalone)

Profit & Loss					
	(INR bn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Interest Income	1,207	1,448	1,606	1,792	2,024
Profit on Investments	32	-14	90	50	35
Exchange Income	35	53	48	55	61
Fee & Other Income	339	327	345	382	407
<b>Non-Interest Income</b>	<b>406</b>	<b>366</b>	<b>483</b>	<b>487</b>	<b>503</b>
<b>Total Income</b>	<b>1,613</b>	<b>1,815</b>	<b>2,089</b>	<b>2,279</b>	<b>2,527</b>
Operating Expenses	934	977	1,235	1,186	1,321
<b>Pre-provisioning Profits</b>	<b>679</b>	<b>837</b>	<b>854</b>	<b>1,093</b>	<b>1,206</b>
Loan-Loss Provisions	188	148	61	167	219
Provisions on Investments	34	15	-6	0	0
Others Provisions	22	2	-8	0	0
<b>Total Provisions</b>	<b>245</b>	<b>165</b>	<b>47</b>	<b>167</b>	<b>219</b>
<b>PBT</b>	<b>434</b>	<b>672</b>	<b>806</b>	<b>926</b>	<b>987</b>
Tax	117	170	185	231	247
<b>PAT (Pre-Extraordinaries)</b>	<b>317</b>	<b>502</b>	<b>621</b>	<b>694</b>	<b>740</b>
Extra ordinaries (Net of Tax)	0	0	-71	0	0
<b>Reported Profits</b>	<b>317</b>	<b>502</b>	<b>550</b>	<b>694</b>	<b>740</b>
Dividend paid	63	101	110	139	148
<b>Retained Profits</b>	<b>253</b>	<b>401</b>	<b>440</b>	<b>556</b>	<b>592</b>

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (YoY) (%)</b>					
Deposits	10.1%	9.2%	12.5%	12.0%	12.0%
Advances	11.6%	17.0%	14.0%	14.0%	13.0%
Total Assets	10.1%	10.6%	12.2%	11.9%	11.8%
NII	9.0%	20.0%	10.9%	11.6%	12.9%
Non-interest Income	-3.3%	-9.7%	31.9%	0.8%	3.4%
Operating Expenses	13.0%	4.7%	26.4%	-4.0%	11.4%
Operating Profits	-3.1%	23.3%	2.0%	28.0%	10.3%
Core Operating profit	-1.3%	31.6%	-10.2%	36.6%	12.3%
Provisions	-44.4%	-32.5%	-71.5%	254.4%	31.1%
Reported PAT	55.2%	58.6%	9.5%	26.3%	6.6%
<b>Yields / Margins (%)</b>					
Interest Spread	2.68%	2.87%	2.82%	2.76%	2.73%
NIM	2.76%	2.99%	2.97%	2.94%	2.94%
<b>Profitability (%)</b>					
Non-IR to Income	25.2%	20.2%	23.1%	21.4%	19.9%
Cost to Income	57.9%	53.9%	59.1%	52.0%	52.3%
ROA	0.67%	0.96%	0.94%	1.06%	1.01%
ROE	13.0%	18.1%	17.1%	18.7%	17.3%
<b>Assets Quality (%)</b>					
Slippages	1.04%	0.68%	0.70%	0.85%	0.90%
Gross NPA	3.98%	2.78%	2.00%	1.73%	1.66%
Net NPAs	1.02%	0.67%	0.51%	0.44%	0.42%
Provision Coverage	75.0%	76.4%	75.0%	75.0%	75.0%
Specific LLP	0.54%	0.31%	0.07%	0.32%	0.40%
Net NPAs / Networth	10.9%	7.2%	5.4%	4.6%	4.3%
<b>Capital Adequacy (%)</b>					
Tier I	11.42%	12.06%	12.00%	12.12%	12.14%
CAR	13.83%	14.68%	14.35%	14.24%	14.05%

Source: Company, JM Financial

Balance Sheet					
	(INR bn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Equity Capital	9	9	9	9	9
Reserves & Surplus	2,558	2,990	3,430	3,985	4,577
Deposits	40,515	44,238	49,767	55,740	62,428
Borrowings	4,260	4,931	5,542	6,187	6,861
Other Liabilities	2,299	2,725	2,861	3,004	3,154
<b>Total Liabilities</b>	<b>49,642</b>	<b>54,892</b>	<b>61,608</b>	<b>68,925</b>	<b>77,029</b>
Investments	14,814	15,704	16,627	18,301	20,864
Net Advances	27,340	31,993	36,472	41,578	46,983
Cash & Equivalents	3,946	3,079	4,299	4,798	5,353
Fixed Assets	143	146	274	307	343
Other Assets	3,399	3,971	3,937	3,941	3,487
<b>Total Assets</b>	<b>49,642</b>	<b>54,892</b>	<b>61,608</b>	<b>68,925</b>	<b>77,029</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
NII / Assets	2.55%	2.77%	2.76%	2.75%	2.77%
Other Income / Assets	0.86%	0.70%	0.83%	0.75%	0.69%
Total Income / Assets	3.40%	3.47%	3.59%	3.49%	3.46%
Cost / Assets	1.97%	1.87%	2.12%	1.82%	1.81%
PBP / Assets	1.43%	1.60%	1.47%	1.67%	1.65%
Provisions / Assets	0.52%	0.32%	0.08%	0.26%	0.30%
PBT / Assets	0.92%	1.29%	1.38%	1.42%	1.35%
Tax rate	27.1%	25.3%	23.0%	25.0%	25.0%
ROA	0.67%	0.96%	0.94%	1.06%	1.01%
RoRWAs	1.34%	1.91%	1.84%	2.04%	1.91%
Leverage	19.3	18.3	17.9	17.3	16.8
ROE	13.0%	18.1%	17.1%	18.7%	17.3%

Source: Company, JM Financial

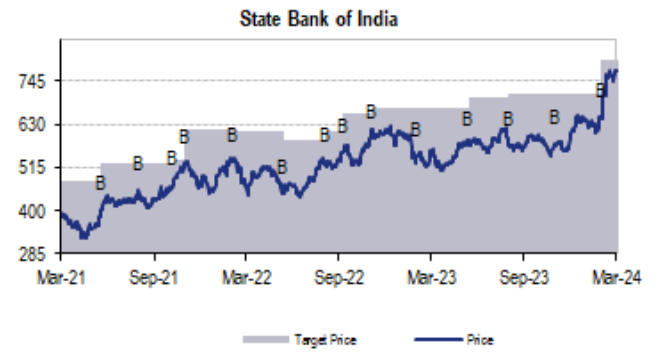
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	8.9	8.9	8.9	8.9	8.9
EPS (INR)	35.5	56.3	61.6	77.8	82.9
EPS (YoY) (%)	55.2%	58.6%	9.5%	26.3%	6.6%
PER (x)	21.8	13.7	12.5	9.9	9.3
BV (INR)	288	336	385	448	514
BV (YoY) (%)	11.5%	16.8%	14.7%	16.2%	14.8%
ABV (INR)	288	336	385	448	514
ABV (YoY) (%)	14.1%	16.8%	14.7%	16.2%	14.8%
P/BV (x)	2.68	2.30	2.00	1.73	1.50
P/ABV (x)	2.68	2.30	2.00	1.73	1.50
DPS (INR)	7.1	11.3	12.3	15.6	16.6
Div. yield (%)	0.9%	1.5%	1.6%	2.0%	2.1%

Source: Company, JM Financial

## History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Jun-20	Buy	220	
2-Aug-20	Buy	230	4.5
27-Aug-20	Buy	300	30.4
4-Nov-20	Buy	300	0.0
11-Jan-21	Buy	350	16.7
4-Feb-21	Buy	480	37.1
21-May-21	Buy	525	9.4
4-Aug-21	Buy	525	0.0
11-Oct-21	Buy	535	1.9
3-Nov-21	Buy	615	15.0
5-Feb-22	Buy	610	-0.8
15-May-22	Buy	590	-3.3
7-Aug-22	Buy	610	3.4
11-Sep-22	Buy	660	8.2
6-Nov-22	Buy	675	2.3
3-Feb-23	Buy	675	0.0
18-May-23	Buy	700	3.7
6-Aug-23	Buy	710	1.4
5-Nov-23	Buy	710	0.0
4-Feb-24	Buy	800	12.7

## Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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