

One-off retirement provisions hurt profitability

BFSI - Banks ▶ Result Update ▶ February 4, 2024

TARGET PRICE (Rs): 750

SBI reported near in-line PPOP, but higher staff cost, including one-off retirement provision (Rs71bn) due to adverse court judgement in 2022 case, led to 37% PAT miss at Rs91.6bn/1% RoA. Credit growth improved 15% YoY/5% QoQ, leading to higher LDR at 75%, but higher funding cost led to a 7bps QoQ decline in NIM to 3.2%. Despite higher slippages QoQ because of recognition of BGR Energy, headline NPAs continued to trend down to 2.4%. Going forward, the bank expects growth to remain range-bound, while margin should stabilize, aided by better LDR and recent rate hike. Staff cost could remain elevated in Q4 due to pending wage revision/retirement provision of Rs54bn. SBI's CET-1 stands low at 10.4% (incl. 9M profits) and, thus, it has now indicated to raise capital soon. We trim our FY24 estimates by 6%, factoring in higher staff cost, but we have revised upward FY25/26 estimates by 3%/9% due to better margins, treasury performance, and sustained lower LLP. We retain BUY with a revised TP of Rs750, rolling forward on Dec-25E standalone Bank ABV, and have revised subsidiaries/investments value at Rs210/share (vs. Rs185).

State Bank of India: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	390,943	502,325	585,792	685,955	771,498
Loan growth (%)	11.6	17.0	14.5	13.2	15.0
NII growth (%)	9.0	20.0	9.5	9.8	10.8
NIM (%)	2.8	3.0	3.0	2.9	2.9
PPOP growth (%)	5.2	11.2	(0.5)	32.6	15.4
Adj. EPS (Rs)	43.8	56.3	65.6	76.9	86.4
Adj. EPS growth (%)	91.5	28.5	16.6	17.1	12.5
Adj. BV (INR)	245.2	297.0	347.0	403.3	465.7
Adj. BVPS growth (%)	17.3	21.2	16.8	16.2	15.5
RoA (%)	0.8	1.0	1.0	1.1	1.1
RoE (%)	16.1	18.1	18.1	18.4	17.8
P/E (x)	10.0	7.8	6.7	5.7	5.1
P/ABV (x)	1.8	1.5	1.3	1.1	0.9

Source: Company, Emkay Research

Growth trajectory improves, but NIMs dip a bit

SBI reported better growth in Q3 at 15% YoY/5% QoQ, led by improved corporate, SME, and agri growth. Within retail, Xpress credit book continued to expand at a faster pace, but the bank has raised lending rates due to higher risk weights being directed by the RBI. Deposit growth was largely in line with systematic growth at 13% YoY/1.6% QoQ, leading to better LDR at 75%. However, higher cost of funds led to a 7bps decline in NIM to 3.2%. Going forward, the bank expects growth to remain range-bound, while margin is expected to stabilize, aided by better LDR and the recent rate hike. Staff cost could remain elevated in Q4 due to pending wage revision/retirement provision of Rs54bn and, thus, overall staff cost for FY24E would be at Rs770bn, but it should moderate at Rs660bn in FY25E as catch-up wage revision provisions are absent, thereby leading to lower cost/income ratio.

NPA ratio continues to trend down

Gross slippages inched up a bit during the quarter to Rs50.5bn/0.6% of loans mainly due to recognition of BGR Energy as per RBI's diktat, but better growth led to a sustained decline in GNPA ratio to 2.4%. The restructured pool decelerated further to Rs188bn/0.5% of loans vs. 0.6% in Q2. The bank once again reassured that its retail book, including PL, remains better off, given the loans being mainly extended to captive customers. That said, we believe the bank should be cautious in sourcing portfolios via NBFCs amid rising asset-quality noise.

Retain BUY with a revised TP of Rs750

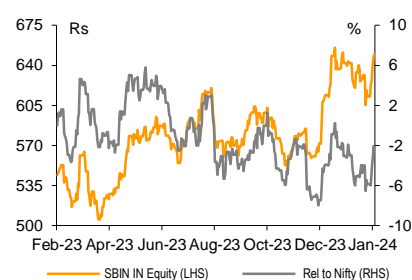
SBI's CET-1 stands low at 10.4% (incl. 9M profit). Thus, the bank has now indicated to raise capital soon. We have trimmed our FY24 estimates by 6%, factoring in higher staff cost, but we have revised upwards our FY25/26 estimates by 3%/9% due to better margins, treasury performance, and sustained lower LLP. We retain BUY with a revised TP of Rs750/share, rolling forward on Dec-25E standalone Bank ABV, and have revised subsidiaries/investments value at Rs210/share (vs. Rs185). **Key risks:** Severe macro dislocation and a prolonged elevated-rate environment hurting margins and leading to growth/asset-quality disruption.

Target Price – 12M	Dec-24
Change in TP (%)	7.1
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	15.4
CMP (02-Feb-24) (Rs)	649.7

Stock Data	Ticker
52-week High (Rs)	661
52-week Low (Rs)	502
Shares outstanding (mn)	8,924.6
Market-cap (Rs bn)	5,798
Market-cap (USD mn)	69,917
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	17
ADTV-3M (Rs mn)	10,433.9
ADTV-3M (USD mn)	125.8
Free float (%)	43.0
Nifty-50	21,854
INR/USD	82.9
Shareholding, Dec-23	
Promoters (%)	56.9
FPIs/MFs (%)	10.8/23.9

Price Performance			
(%)	1M	3M	12M
Absolute	1.6	13.6	23.0
Rel. to Nifty	0.7	(0.6)	(0.9)

1-Year share price trend (Rs)



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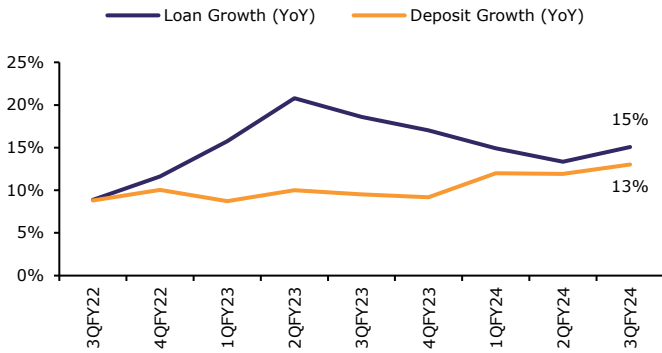
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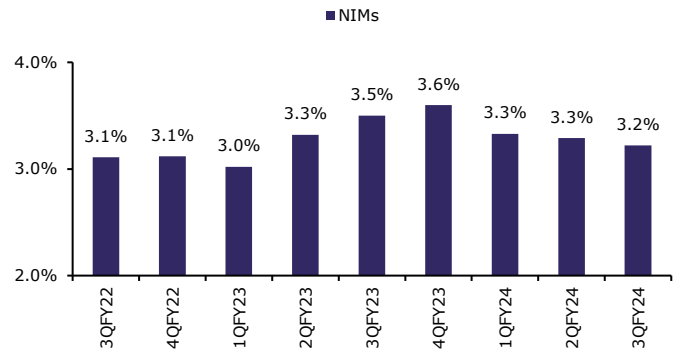
Story in Charts

Exhibit 1: Credit growth improves in Q3, led by traction in corporate, SME, and agri book



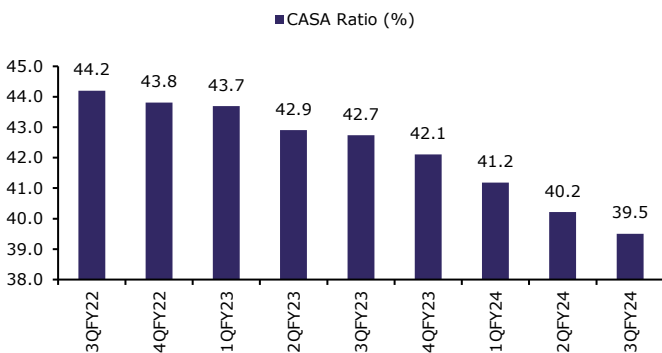
Source: Company, Emkay Research

Exhibit 2: NIM takes a slight dip owing to rising CoFs



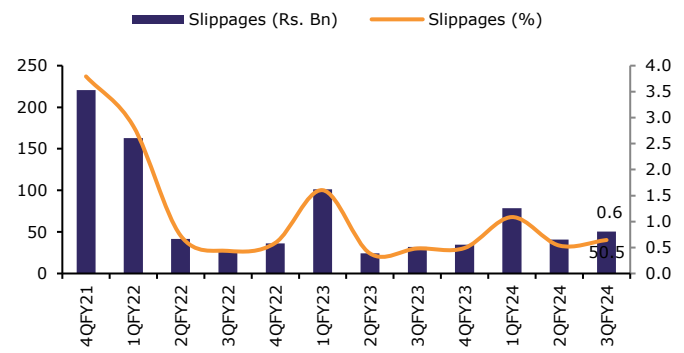
Source: Company, Emkay Research

Exhibit 3: CASA cannibalization continues, but the bank does not plan any increase in SA rate



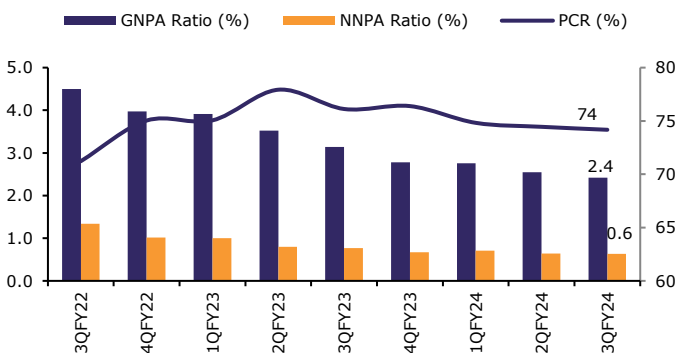
Source: Company, Emkay Research

Exhibit 4: Slippages were up a bit QoQ due to the recognition of a corporate a/c



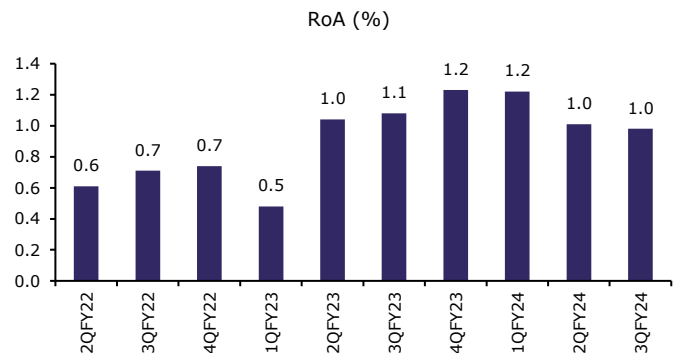
Source: Company, Emkay Research

Exhibit 5: GNPA ratio continued to trend down



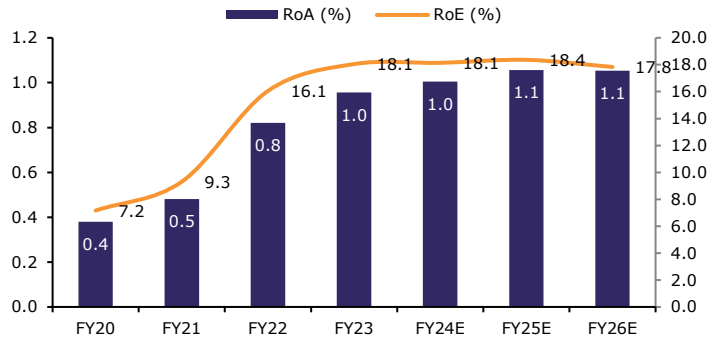
Source: Company, Emkay Research

Exhibit 6: Higher staff cost contained RoA at 1%



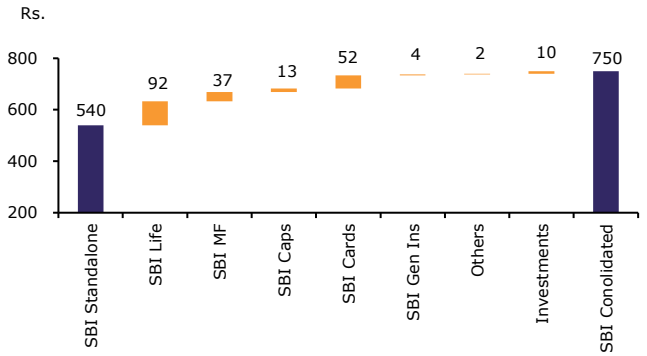
Source: Company, Emkay Research

Exhibit 7: SBI to report a healthy RoA/RoE trajectory (without factoring in capital raise)



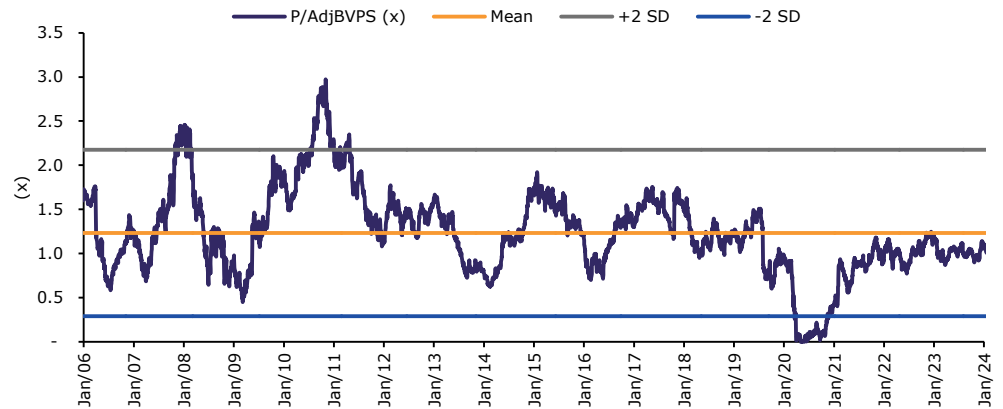
Source: Emkay Research

Exhibit 8: We value the standalone bank at 1.2x Dec-25E ABV and subsidiaries/investments at Rs210/share



Source: Emkay Research

Exhibit 9: The stock currently trades at 1.2x its one-year forward ABV



Source: Company, Emkay Research

Exhibit 10: Actuals vs. Estimates (Q3FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	512,746	516,489	477,869	-1%	7%	Slight compression in NIMs led to a slight miss
PPOP	132,361	204,191	236,012	-35%	-44%	One-off staff expenses led to a miss
PAT	91,640	145,127	145,758	-37%	-37%	Lower PPOP partly offset by lower provisions led to a miss

Source: Company, Emkay Research

Exhibit 11: Quarterly Summary

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	866,160	929,511	959,755	1,013,788	1,067,338	23	5	3,321,031	4,153,693	25
Interest Exp.	485,474	525,586	570,705	618,788	669,181	38	8	1,872,626	2,568,243	37
Net Interest Income	380,686	403,925	389,050	395,000	398,157	5	1	1,448,405	1,585,450	9
Global NIM (Reported)	3.50	3.60	3.33	3.29	3.22	-28bps	-7bps	3.01	2.97	-4bps
Non-interest Income	114,677	139,614	120,634	107,906	114,589	0	6	366,156	476,065	30
Operating Expenses	243,171	297,328	256,714	308,740	380,386	56	23	977,431	1,228,468	26
Pre Provisioning Profit	252,193	246,211	252,969	194,166	132,361	-48	-32	837,130	833,048	0
Provision and Contingencies	57,606	33,157	25,013	1,153	6,879	-88	497	165,073	49,904	-70
PBT	194,587	213,054	227,956	193,013	125,482	-36	-35	672,057	783,144	17
Income Tax Expense (Gain)	52,534	46,109	59,113	49,713	33,843	-36	-32	169,732	197,352	16
Net Profit/(Loss)	142,053	166,945	168,843	143,300	91,640	-35	-36	502,325	585,792	17
Gross NPA (%)	3.14	2.78	2.76	2.55	2.42	-72bps	-13bps	2.78	2.26	-53bps
Net NPA (%)	0.77	0.67	0.71	0.64	0.64	-13bps	0bps	0.67	0.57	-10bps
Deposits (Rs bn)	42,136	44,238	45,312	46,892	47,622	13	2	44,238	49,275	11
Net Advances (Rs bn)	30,582	31,993	32,350	33,452	35,195	15	5	31,993	36,633	15

Source: Company, Emkay Research

Exhibit 12: Revision in Estimates

Y/E March (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net interest income	1,587,813	1,585,450	-0.1%	1,801,844	1,741,136	-3.4%	2,001,409	1,928,882	-3.6%
PPOP	910,059	833,048	-8.5%	1,057,283	1,104,925	4.5%	1,215,705	1,275,477	4.9%
PAT	620,000	585,792	-5.5%	667,538	685,955	2.8%	707,643	771,498	9.0%
EPS (Rs)	69.5	65.6	-5.5%	74.8	76.9	2.8%	79.3	86.4	9.0%
BV (Rs)	391.5	387.6	-1.0%	451.3	449.5	-0.4%	514.5	519.9	1.0%

Source: Emkay Research

Exhibit 13: Key Assumptions

(%)	FY23A	FY24E	FY25E	FY26E
Loan Growth	17.0	14.5	13.2	15.0
Deposit Growth	9.2	11.4	13.6	16.0
NIM	3.0	3.0	2.9	2.9
GNPA	2.8	2.3	2.1	2.2
Credit Cost	0.5	0.3	0.5	0.6

Source: Emkay Research

Exhibit 14: Key Ratios and Trends

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Loans (Rs bn)	25,784	27,340	28,152	29,513	30,582	31,993	32,350	33,452	35,195
Loan growth (YoY)	8.9	11.6	15.8	20.8	18.6	17.0	14.9	13.3	15.1
Loan growth (QoQ)	5.5	6.0	3.0	4.8	3.6	4.6	1.1	3.4	5.2
Loan composition (%)									
Corporate	30.4	31.8	31.0	31.1	30.2	30.6	30.4	29.2	29.1
Retail	36.9	36.7	36.7	36.4	36.8	36.9	37.2	37.2	36.8
SME	11.9	11.2	11.1	10.7	11.5	11.2	11.4	11.6	11.9
Overseas	15.5	15.0	16.0	16.5	15.9	15.4	14.9	15.7	15.7
Agri	5.3	5.3	5.1	5.3	5.6	5.9	6.1	6.2	6.5
Liability Profile and Margins (%)									
CASA	44.2	43.8	43.7	42.9	42.7	42.1	41.2	40.2	39.5
CA	5.9	6.5	5.8	5.6	5.4	6.4	5.7	5.4	5.2
SA	38.3	37.3	37.9	37.4	37.3	35.7	35.5	34.8	34.3
Global NIM (%)	3.11	3.12	3.02	3.32	3.50	3.60	3.33	3.29	3.22
Domestic NIM (%)	3.35	3.36	3.23	3.39	3.69	3.58	3.47	3.43	3.34
Asset Quality									
GNPA (%)	4.5	4.0	3.9	3.5	3.1	2.8	2.8	2.6	2.4
NNPA (%)	1.3	1.0	1.0	0.8	0.8	0.7	0.7	0.6	0.6
PCR (%)	71.2	75.0	75.1	77.9	76.1	76.4	74.8	74.5	74.2
Slippages (Rs bn)	26	36	101	24	32	35	79	41	50
Slippages (%)	0.4	0.6	1.7	0.4	0.5	0.5	1.1	0.6	0.7
Capital Adequacy									
CAR (%)	13.2	13.8	13.4	13.5	13.3	14.7	14.6	14.3	13.1
Tier I (%)	10.9	11.4	11.2	11.1	10.8	12.1	12.0	11.8	10.6
CET 1 (%)	10.3	9.9	9.7	9.5	9.3	10.3	10.2	9.9	9.1
ROE decomposition on total assets (%)									
NII	2.6	2.5	2.5	2.8	2.9	3.0	2.8	2.8	2.7
Other Income (Ex Treasury)	0.7	1.0	0.7	0.7	0.6	0.9	0.6	0.6	0.6
Treasury	0.0	0.0	-0.5	0.0	0.2	0.1	0.3	0.1	0.2
Opex	1.8	1.9	1.7	1.8	1.8	2.2	1.9	2.2	2.6
PPOP	1.6	1.6	1.0	1.7	1.9	1.8	1.8	1.4	0.9
Provisioning Cost	0.6	0.6	0.4	0.2	0.4	0.2	0.2	0.0	0.0
PBT	1.0	1.0	0.7	1.4	1.5	1.6	1.6	1.4	0.9
Tax	0.3	0.3	0.2	0.4	0.4	0.3	0.4	0.3	0.2
ROA	0.7	0.7	0.5	1.0	1.1	1.2	1.2	1.0	0.6
Leverage (x)	17.5	17.6	17.5	17.1	16.8	16.7	16.5	16.2	16.2
ROE	12.4	13.1	8.5	17.8	18.2	20.6	20.1	16.3	10.1

Source: Company, Emkay Research

State Bank of India: Standalone Financials and Valuations

Profit and Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	2,754,573	3,321,031	4,153,693	4,505,705	4,887,747
Interest Expense	1,547,497	1,872,626	2,568,243	2,764,569	2,958,864
Net interest income	1,207,076	1,448,405	1,585,450	1,741,136	1,928,882
NII growth (%)	9.0	20.0	9.5	9.8	10.8
Other income	405,639	366,156	476,065	534,579	612,738
Total Income	1,612,715	1,814,561	2,061,515	2,275,715	2,541,620
Operating expenses	859,792	977,431	1,228,468	1,170,790	1,266,143
PPOP	752,923	837,130	833,048	1,104,925	1,275,477
PPOP growth (%)	5.2	11.2	(0.5)	32.6	15.4
Core PPOP	720,705	850,674	715,482	956,543	1,109,558
Provisions & contingencies	244,521	165,073	49,904	187,873	244,062
PBT	508,402	672,057	783,144	917,052	1,031,415
Extraordinary items	0	0	0	0	0
Tax expense	117,459	169,732	197,352	231,097	259,917
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	390,943	502,325	585,792	685,955	771,498
PAT growth (%)	91.5	28.5	16.6	17.1	12.5
Adjusted PAT	390,943	502,325	585,792	685,955	771,498
Diluted EPS (Rs)	35.5	56.3	65.6	76.9	86.4
Diluted EPS growth (%)	55.2	58.6	16.6	17.1	12.5
DPS (Rs)	7.1	11.3	14.0	15.0	16.0
Dividend payout (%)	16.2	20.1	21.3	19.5	18.5
Effective tax rate (%)	23.1	25.3	25.2	25.2	25.2
Net interest margins (%)	2.8	3.0	3.0	2.9	2.9
Cost-income ratio (%)	53.3	53.9	59.6	51.4	49.8
Shares outstanding (mn)	8,924.6	8,924.6	8,924.6	8,924.6	8,924.6

Source: Company, Emkay Research

Asset Quality and Other M					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	1,120,233.7	909,281.5	840,315.4	886,123.8	1,047,727.4
Net NPLs	279,660.9	214,667.3	210,078.8	248,114.7	314,318.2
GNPA ratio (%)	4.0	2.8	2.3	2.1	2.2
NNPA ratio (%)	1.0	0.7	0.6	0.6	0.7
Provision coverage (%)	75.0	76.4	75.0	72.0	70.0
Gross slippages	250,212.3	192,230.0	231,033.9	315,808.4	411,603.6
Gross slippage ratio (%)	0.9	0.6	0.6	0.8	0.9
LLP ratio (%)	10.1	6.6	5.6	5.8	6.3
NNPA to networth (%)	1.0	0.7	0.6	0.6	0.7
Capital adequacy					
Total CAR (%)	13.8	14.7	14.1	13.7	13.2
Tier-1 (%)	11.4	12.1	11.8	11.6	11.3
CET-1 (%)	9.9	10.3	10.2	10.3	10.1
RWA-to-Total Assets (%)	55.0	50.5	53.0	55.0	57.0
Miscellaneous					
Total income growth (%)	2.4	16.7	25.6	8.9	9.1
Opex growth (%)	4.0	13.7	25.7	(4.7)	8.1
Core PPOP growth (%)	10.0	18.0	(15.9)	33.7	16.0
PPOP margin (%)	23.8	22.7	18.0	21.9	23.2
PAT/PPOP (%)	51.9	60.0	70.3	62.1	60.5
LLP-to-Core PPOP (%)	33.9	19.4	7.0	19.6	22.0
Yield on advances (%)	6.7	7.5	8.5	8.2	7.8
Cost of funds (%)	3.6	4.0	4.9	4.7	4.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	8,925	8,925	8,925	8,925	8,925
Reserves & surplus	2,791,956	3,267,160	3,728,007	4,280,092	4,908,796
Net worth	2,800,881	3,276,085	3,736,932	4,289,017	4,917,720
Deposits	40,515,341	44,237,778	49,274,613	55,954,612	64,892,775
Borrowings	4,260,434	4,931,352	5,566,249	5,871,560	5,711,031
Interest bearing liab.	44,775,775	49,169,129	54,840,862	61,826,172	70,603,806
Other liabilities & prov.	2,299,318	2,724,571	2,810,733	2,442,165	2,436,100
Total liabilities & equity	49,875,974	55,169,785	61,388,527	68,557,354	77,957,626
Net advances	27,339,666	31,992,693	36,633,294	41,469,780	47,690,548
Investments	14,814,455	15,703,662	17,079,061	18,678,306	20,644,065
Cash, other balances	3,945,523	3,078,996	2,742,043	3,091,309	3,883,209
Interest earning assets	27,339,666	31,992,693	36,633,294	41,469,780	47,690,548
Fixed assets	377,082	423,818	482,201	529,307	581,049
Other assets	3,399,249	3,970,616	4,451,928	4,788,653	5,158,754
Total assets	49,875,974	55,169,785	61,388,527	68,557,354	77,957,626
BVPS (Rs)	268.6	315.0	366.7	426.4	494.6
Adj. BVPS (INR)	245.2	297.0	347.0	403.3	465.7
Gross advances	28,180,239	32,687,307	37,263,530	42,107,789	48,423,957
Credit to deposit (%)	67.5	72.3	74.3	74.1	73.5
CASA ratio (%)	44.5	42.7	39.8	39.0	39.0
Cost of deposits (%)	3.7	3.8	4.8	4.6	4.5
Loans-to-Assets (%)	54.8	58.0	59.7	60.5	61.2
Net advances growth (%)	11.6	17.0	14.5	13.2	15.0
Deposit growth (%)	10.1	9.2	11.4	13.6	16.0
Book value growth (%)	12.0	17.3	16.4	16.3	16.0

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	10.0	7.8	6.7	5.7	5.1
P/B (x)	1.6	1.4	1.2	1.0	0.9
P/ABV (x)	1.8	1.5	1.3	1.1	0.9
P/PPOP (x)	5.2	4.7	4.7	3.6	3.1
Dividend yield (%)	1.1	1.7	2.2	2.3	2.5
DuPont-RoE split (%)					
NII/avg assets	2.5	2.8	2.7	2.7	2.6
Other income	0.9	0.7	0.8	0.8	0.8
Fee income	0.7	0.5	0.7	0.8	0.8
Opex	1.8	1.9	2.1	1.8	1.7
PPOP	1.6	1.6	1.4	1.7	1.7
Core PPOP	1.5	1.6	1.2	1.5	1.5
Provisions	0.5	0.3	0.1	0.3	0.3
Tax expense	0.2	0.3	0.3	0.4	0.4
RoA (%)	0.8	1.0	1.0	1.1	1.1
Leverage ratio (x)	19.6	18.9	18.0	17.4	16.9
RoE (%)	16.1	18.1	18.1	18.4	17.8
Quarterly data					
Rs mn, Y/E Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
NII	380,686	403,925	389,050	395,000	398,157
NIM (%)	3.5	3.6	3.3	3.3	3.2
PPOP	252,193	246,211	252,969	194,166	132,361
PAT	142,053	166,945	168,843	143,300	91,640
EPS (Rs)	15.92	18.71	18.92	16.06	10.27

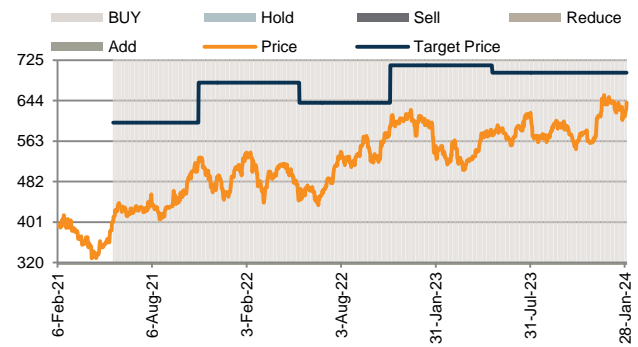
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	565	700	Buy	Anand Dama
05-Nov-23	578	700	Buy	Anand Dama
05-Aug-23	573	700	Buy	Anand Dama
19-May-23	575	700	Buy	Anand Dama
19-May-23	575	700	Buy	Anand Dama
09-Mar-23	559	715	Buy	Anand Dama
04-Feb-23	544	715	Buy	Anand Dama
05-Nov-22	594	715	Buy	Anand Dama
06-Aug-22	531	640	Buy	Anand Dama
15-May-22	445	640	Buy	Anand Dama
24-Mar-22	487	680	Buy	Anand Dama
06-Feb-22	530	680	Buy	Anand Dama
03-Nov-21	528	680	Buy	Anand Dama
05-Jul-21	433	600	Buy	Anand Dama
23-May-21	401	600	Buy	Anand Dama
05-Feb-21	393	460	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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