

Healthy credit demand, however, margin continue to fall

Q3FY24 Result Update | Sector: Bank | February 05, 2024

BUY

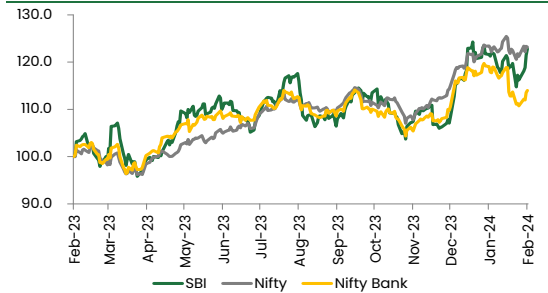
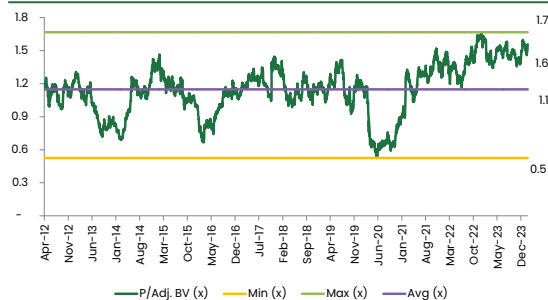
CMP (Rs)	650
Target Price (Rs)	755
Potential Upside	16.2%
Sensex	72,086
Nifty	21,854

Key Stock data

BSE Code	500112
NSE Code	SBIN
Bloomberg	SBIN:IN
Shares o/s, Cr (FV 1)	892.5
Market Cap (Rs Cr)	579,787
3M Avg Volume	16,379,856
52 week H/L	660/499

Shareholding Pattern

(%)	Jun-23	Sep-23	Dec-23
Promoter	57.5	57.5	57.5
FII	10.4	10.7	10.9
DII	24.9	24.4	24.2
Public	7.3	7.4	7.4

1 year relative price performance

1 year forward P/Adj. BV (x)

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Flat top-line growth due to increase in interest costs: SBI Net Interest Income (NII) for Q3FY24 remained flat growing marginally by 0.8% QoQ/4.6% YoY to Rs 39,816 Cr. The flattish NII was mainly due to sharp increase in interest expended which increased by 8.1% QoQ/37.8% YoY to Rs 66,918 Cr despite interest income grew at a healthy rate of 5.3% QoQ/23.2% YoY. Pre-provisions operating profit (PPOP) declined by 19.4% YoY mainly due to employee expenses.

Decline in profitability due to one-offs: PAT during quarter declined by 36.1% QoQ/35.5% YoY mainly due to the exceptional item reported by the company worth Rs 7,100 Cr. The company provided for the welfare of the employees by increasing pension and addressing anomaly worth Rs 5,400 Cr along with dearness liability utilization of Rs 1,700 Cr. However, the management indicated that such provisioning is a one-off item and expects FY25E profit growth to remain stable.

Broad based advances growth: Advances during the quarter increased by 5.1% QoQ/14.4% YoY mainly in line with the industry. The growth in advances was broad as the bank saw growth from segment such as retail personal (4.3% QoQ/15.3% YoY), Agri (6.5% QoQ/18.1% YoY) and SME (7.5% QoQ/19.2% YoY). However, corporate segment remained sluggish with a growth of 4.7% QoQ/10.7% YoY. However, the bank remains positive on the growth of corporate loans going ahead as it has loans worth Rs 4.6 Lakhs Cr in the pipeline. Overall, the management remains positive of the credit growth going forward and expect growth in the range of 14-15% and expects SBI to grow in similar range.

Term led deposits growth: Deposits increased in line with the industry by 1.6% QoQ/13% YoY to Rs 47.6 Lakhs Cr. The growth in the deposits was mainly led by term deposits which increased by 2.6% QoQ/19.5% YoY. CASA deposits growth remained muted with growth of 4.5% YoY. Due to this, CASA ratio declined by 70bps QoQ/330bps YoY to 41.2%. The bank credit to deposits ratio inched upwards to 252bps QoQ/90bps YoY to 75.3% which remains healthy as compared to peers. Going ahead, the management expects industry deposits to grow at 12-13% YoY and SBI to grow in similar line.

Decline in margins: Domestic NIMs during the quarter declined by 2bps QoQ/28bps YoY to 3.4%. The decline in margins was mainly due to the increase of deposits 10bps QoQ/85bps YoY. However, the management specified that the repricing of deposits has been done and expects margin to decline marginally by 2-3bps in coming quarters.

Valuation and outlook: We remain positive on SBI on the back of its healthy credit growth in-line with the industry. The bank is expected to increase its profits going forward driven by healthy asset quality, stabilizing margins and growing efficiency. We expect NII/PPOP/PAT to grow at a CAGR of 20.3%/16.8%/20.1% over FY23-26E. We maintain **Buy** on SBI and revise our target price upwards to **Rs 755** valuing the bank at 1.3x of its FY26E Adj. BV

Financial Summary - standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Net interest income	144,841	168,493	204,779	252,326
Total income	368,719	420,899	478,419	542,580
Operating profit/(loss)	83,713	91,479	108,564	133,489
Margin (%)	22.7	21.7	22.7	24.6
Profit before tax	67,206	77,143	94,919	119,213
Margin (%)	18.2	18.3	19.8	22.0
Profit after tax	50,232	56,314	69,291	87,026
Margin (%)	13.6	13.4	14.5	16.0
EPS (Rs.)	56.3	63.1	77.6	97.5
ABVPS (Rs.)	344.8	377.2	425.7	491.8
RoE (%)	19.4	16.4	18.2	20.1
P/ABV (x)	1.7	1.5	1.3	1.2

Source : RBL Research

Asset quality remained intact: SBI's asset quality remained healthy as the gross NPA and net NPA continue to decline by 72bps QoQ/13bps YoY to 2.4%/0.6%. During the quarter, slippages remained under control declining by 3bps QoQ/5bps YoY to 0.7% while credit costs declined by 2bps QoQ/12bps YoY to 0.3%. The decline in credit cost and slippages indicate that asset remained healthy and bank expects credit quality to remain stable going forward.

Concall highlights: 1) In the retail savings account, 59% of the accounts are sourced through Yono app. Also, Rs 950 Bn of the loans were generated through digital side with a growth of 30% YoY. 2) The management maintains that all the bank's subsidiaries are performing well. 3) Regarding pension provisioning, the management highlighted that some pensioners were getting pension at 40% and others at 50%, hence, they took one time hit of Rs 71 Bn for a universal pension of 50% and Rs 17 Bn for pension liabilities. 4) As per management, instead of Rs 840 Bn of the employee expenses next year due to its provisioning for wage hike including pension and pension liabilities, it will amount to Rs 660 Bn in FY25 for 2,35,000 employees and 3,00,000 pensioners. 5) The bank took a wage revision of Rs 127.2 Bn with a 17% rate hike. Due to this, it will see a minor Rs 5 Bn/month amounting to Rs 60 Bn for next year as an increase for employees salaries. 6) The management indicated that as long as the RoE of the bank is growing faster than the credit growth, it believes that the CAR will remain healthy and steady. However, the management has identified way to raise capital if needed. 7) The bank maintained that the credit cost of SBI has been the best over more than decade and clarified that most of the deposits re-pricing has been done and hence, margin dilution won't be more than 2-3bps going forward. 8) It's productivity has increased from ~Rs 190 Cr in 2019 to ~Rs 290 Cr. 9) The bank is passing on 49bps of increase in cost of capital towards incremental unsecured portfolio of NBFCs including express credit portfolio for public sector salaried customers. 10) It has identified the renewables sector and does not feel they have missed out in any opportunity to lend. 11) The loan book is segregated as - MCLR - 37.6%, EBLR - 27.4% and fixed rate 20.9%

Financial summary - standalone

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Interest earned	106,734	86,616	23.2	101,379	5.3
Other income	11,459	11,468	-0.1	10,791	6.2
Total income	118,193	98,084	20.5	112,169	5.4
Interest expended	66,918	48,547	37.8	61,879	8.1
Net interest income	39,816	38,069	4.6	39,500	0.8
Margin (%)	33.7	38.8	-513bps	35.2	-153bps
Operating expenses	30,939	24,317	27.2	30,874	0.2
Total expenditure	97,857	72,864	34.3	92,753	5.5
Operating profit before prov.& cont. (PPOP)	20,336	25,219	-19.4	19,417	4.7
Provisions and contingencies	688	5,761	-88.1	115	496.7
Profit before tax	19,648	19,459	1.0	19,301	1.8
Tax	3,384	5,253	-35.6	4,971	-31.9
Profit after tax	9,164	14,205	-35.5	14,330	-36.1
Margin (%)	7.8	14.5	-673bps	12.8	-502bps
EPS (Rs)	10.3	15.9	-35.5	16.1	-36.1

Source : RBL Research

Net interest income remained flat with growth of 0.8% QoQ/4.6% YoY

PPOP increased sequentially by 4.7% QoQ, however, declined by 19.4% YoY

PAT declined by 36.1% QoQ/35.5% YoY owing to exceptional items

Net interest margin declined by 2bps QoQ/28bps YoY to 3.4%

RoE (%) / RoA (%) during the quarter stood at 19.5%/0.9%

Advances/deposits increased by 14.4%/13% YoY in Q3FY24

CASA ratio declined by 70bps QoQ/330bps YoY to 41.2%

Asset quality improved as GNPA/NNPA declined by 72bps/13bps YoY

Ratio (%) - standalone

Particular	Q3FY24	Q3FY23	Y-o-Y (bps)	Q2FY24	Q-o-Q (bps)
Net interest margin	3.4	3.7	(28.0)	3.4	(2.0)
Yield on Investments	7.0	6.4	55.0	6.9	5.0
Cost of Deposits	4.8	3.9	85.0	4.7	10.0
Cost to assets	2.2	1.8	44.0	2.2	3.0
Cost to income ratio	62.0	49.1	1,292.0	61.4	62.0
RoE	19.5	18.6	90.0	22.6	(307.0)
RoA	0.9	1.1	(14.0)	1.0	(7.0)

Source : RBL Research

Balance sheet - standalone

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Advances	3,584,253	3,133,565	14.4	3,411,251	5.1
Deposits	4,762,221	4,213,557	13.0	4,689,218	1.6
Business	8,346,474	7,347,122	13.6	8,100,469	3.0
Credit-to-deposit ratio (%)	75.3	74.4	90bps	72.7	252bps
CASA ratio (%)	41.2	44.5	-330bps	41.9	-70bps

Source : RBL Research

Asset quality - standalone

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
GNPA	86,749	98,347	-11.8	86,974	-0.3
GNPA (%)	2.4	3.1	-72bps	2.6	-13bps
NNPA	22,408	23,484	-4.6	21,352	4.9
NNPA (%)	0.6	0.8	-13bps	0.6	0bps
PCR (%)	74.17	76.1	-195bps	75.5	-128bps

Source : RBL Research

Capital ratios (%)	Q3FY24	Q3FY23	YoY (bps)	Q2FY24	QoQ (bps)
CET-1	9.1	9.3	(17.0)	9.9	(85.0)
Additional tier - 1	1.5	1.5	(5.0)	1.8	(35.0)
Tier - 1	10.6	10.8	(22.0)	11.8	(120.0)
Tier - 2	2.5	2.5	-	2.5	(3.0)
Capital adequacy ratio	13.1	13.3	(22.0)	14.3	(123.0)

Source : RBL Research

Interest earned reported a growth of 5.3% QoQ/23.2% YoY

Payment to provisions for employees increased by 2.3% QoQ/31.2% YoY in Q3FY24

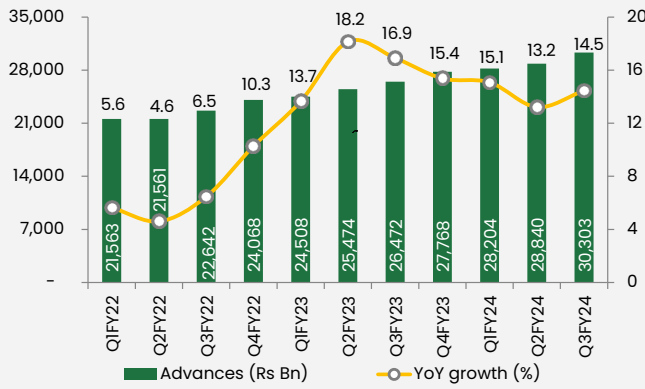
Profit and loss statement – standalone

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Income on investments	28,431	24,525	15.9	27,002	5.3
Interest on balances with RBI	1,275	732	74.1	1,291	-1.2
Interest/discount on advances/bills	73,517	58,865	24.9	70,260	4.6
Others	3,512	2,493	40.8	2,826	24.2
Interest earned	106,734	86,616	23.2	101,379	5.3
Other income	11,459	11,468	-0.1	10,791	6.2
Total income	118,193	98,084	20.5	112,169	5.4
Interest expended	66,918	48,547	37.8	61,879	8.1
Net interest income	39,816	38,069	4.6	39,500	0.8
Margin (%)	33.7	38.8	-513bps	35.2	-153bps
Payment to provisions for employees	19,362	14,757	31.2	18,926	2.3
Other operating expenses	11,577	9,560	21.1	11,948	-3.1
Operating expenses	30,939	24,317	27.2	30,874	0.2
Total expenditure	97,857	72,864	34.3	92,753	5.5
Operating profit before prov. & cont. (PPOP)	20,336	25,219	-19.4	19,417	4.7
Margin (%)	17.2	25.7	-851bps	17.3	-10bps
Provisions and contingencies	688	5,761	-88.1	115	496.7
Profit before tax	19,648	19,459	1.0	19,301	1.8
Tax	3,384	5,253	-35.6	4,971	-31.9
Tax rate (%)	17.2	27.0	-977bps	25.8	-853bps
Profit after tax	9,164	14,205	-35.5	14,330	-36.1
Margin (%)	7.8	14.5	-673bps	12.8	-502bps

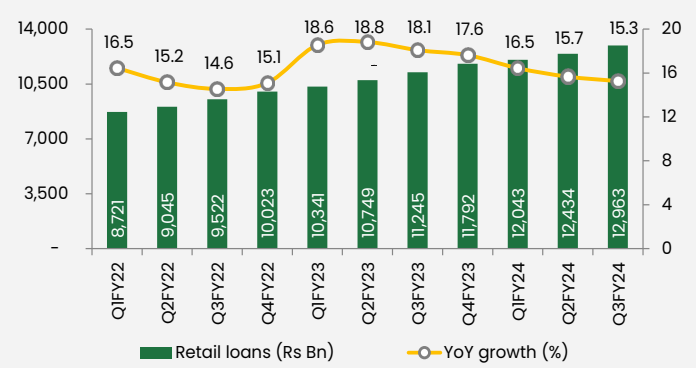
Source : RBL Research

Story in charts

Advances increased by 5.1% QoQ/14.5% YoY

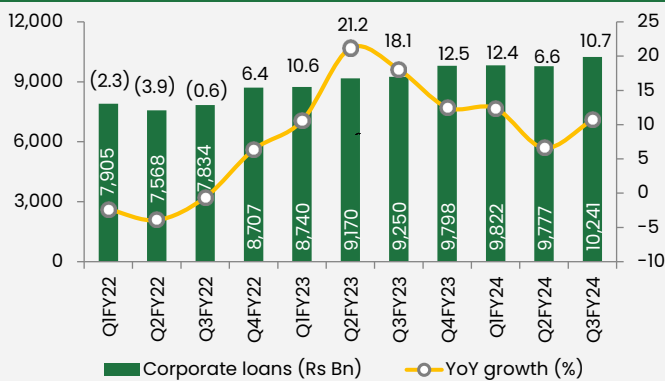


Retail loans remained healthy at 15.3% YoY

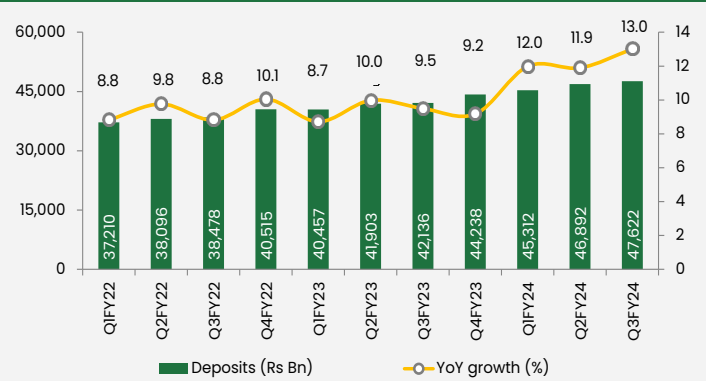


Source : RBL Research

Healthy growth in corporate loans by 10.7% YoY

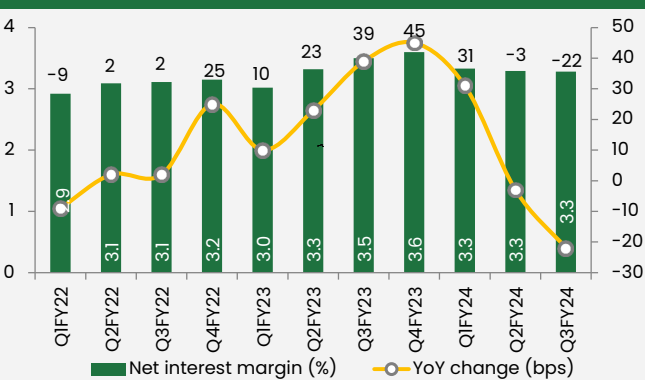


Deposits grew by 13% YoY led by term deposits

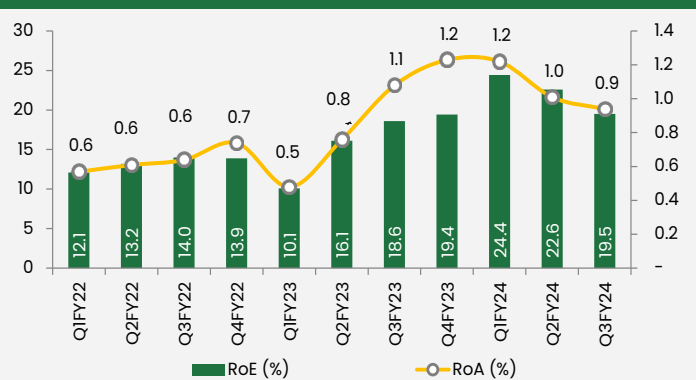


Source : RBL Research

NIMs declined by 1bps QoQ/22bps YoY to 3.3%

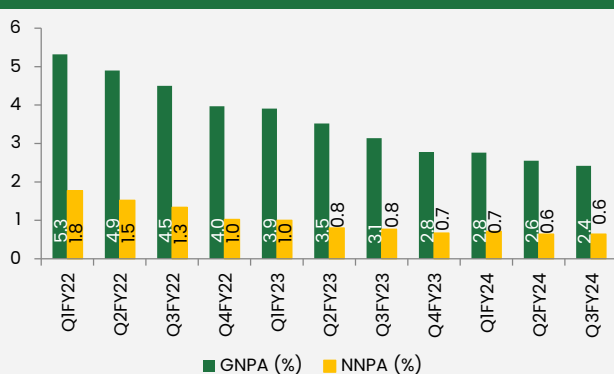


RoE/RoA declined marginally at 19.5%/0.9%

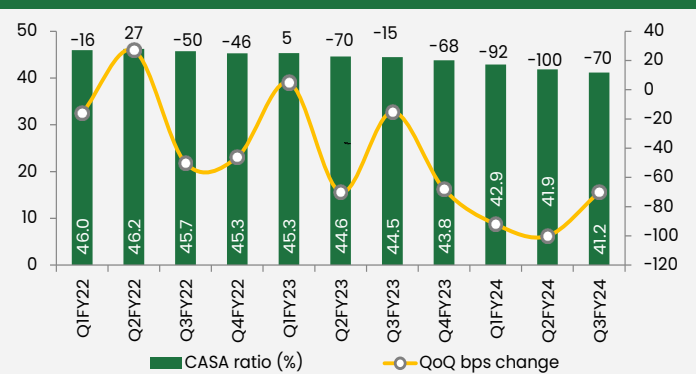


Source : RBL Research

Asset quality improved as GNPA/NNPA declined



CASA ratio declined by 70 bps QoQ due to increase in term deposits



Source : RBL Research

Income statement – standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Interest earned	332,103	382,242	439,063	502,513
Interest expended	187,263	213,749	234,284	250,187
Net interest income	144,841	168,493	204,779	252,326
Other income	36,616	38,657	39,356	40,067
Total income	368,719	420,899	478,419	542,580
Operating expenses	97,743	115,672	135,571	158,904
Total expenditure	285,006	329,421	369,856	409,091
Operating profit/(loss)	83,713	91,479	108,564	133,489
Provisions and contingencies	16,507	14,336	13,645	14,276
Profit before tax	67,206	77,143	94,919	119,213
Tax	16,973	20,829	25,628	32,188
Profit after tax	50,232	56,314	69,291	87,026

Source : RBL Research

DuPont Analysis – standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Interest earned	332,103	382,242	439,063	502,513
Interest expended	187,263	213,749	234,284	250,187
Other income	36,616	38,657	39,356	40,067
Total income	368,719	420,899	478,419	542,580
Operating expenses	97,743	115,672	135,571	158,904
Provisions and contingencies	16,507	14,336	13,645	14,276
Profit before tax	67,206	77,143	94,919	119,213
Tax	16,973	20,829	25,628	32,188
RoA(%)	1.0	1.0	1.0	1.2
RoE (%)	19.4	16.4	18.2	20.1

Source : RBL Research

Valuations (x) – standalone

Particulars	FY23	FY24E	FY25E	FY26E
P/E	10.2	9.1	7.4	5.9
P/B	1.6	1.4	1.3	1.1
P/ABV	1.7	1.5	1.3	1.2

Source : RBL Research

Balance Sheet – standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Share Capital	892	892	892	892
Reserves and Surplus	326,716	356,727	401,120	461,296
Net worth	327,608	357,619	402,012	462,189
Deposits	4,423,778	5,015,702	5,647,650	6,342,012
Borrowings	493,135	537,340	578,460	622,726
Other Liabilities &	272,457	313,326	354,058	400,086
Total Equities &	5,516,979	6,223,987	6,982,179	7,827,013
Total cash balances	307,900	374,653	481,980	560,670
Investments	1,570,366	1,682,579	1,826,044	1,981,741
Advances	3,199,269	3,741,230	4,262,298	4,885,862
Net Block	42,382	42,698	43,034	43,407
Other Assets	397,062	382,828	368,824	355,332
Total Assets	5,516,979	6,223,987	6,982,179	7,827,013

Source : RBL Research

Yields and cost ratio (%) – standalone

Particulars	FY23	FY24E	FY25E	FY26E
Loans/Deposits (x)	0.1	0.1	0.1	0.1
CASA ratio (%)	43.8	41.3	39.3	37.6
Cost Income Ratio (%)	53.9	55.9	53.4	49.8
Credit/Deposits (%)	72.3	74.6	75.5	77.0
Incremental loans/ Deposits (%)	18.0	7.5	6.5	6.4
Interest Expended / Interest earned (%)	56.4	55.9	53.4	49.8
Interest income / Total funds (%)	6.6	6.7	6.9	6.9
Operating Costs to Assets (%)	1.8	1.9	1.9	2.0
PATM (%)	13.6	13.4	14.5	16.0
ABVPS Growth (%)	17.9	9.4	12.8	15.5
Investment/Deposit (%)	35.5	33.5	32.3	31.2

Source : RBL Research

SBI's SOTP Valuation

Company	Stake (%)	Value per share (Rs)	Valuation Basis
SBI Standalone (A)		605	1.3x Mar-26E ABV
Value of Subsidiaries			
SBI Life Insurance Company	55.5%	81	M-cap
SBI Cards	69.2%	65	31.0x on FY26E PAT
SBI Funds Management Pvt Ltd	62.6%	32	25.0x on FY26E PAT
Yes Bank	30.0%	1	1.0x Investment in Subsidiary
SBI General Insurance	70.0%	4	23.0x on FY26E PAT
SBI Capital Markets	100.0%	3	3.0x on FY26E PAT
UTI AMC	10.0%	1	1.0x Investment in Subsidiary
Value of non-banking business		187	
Holding Discount (20%)		37	
Value post discount (B)		150	
Value of SBI Bank (A+B)		755	
Current Market Price		650	
Upside (%)		16.2	
Contribution of subs to TP (%)		19.8	

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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