

Results in line with expectations, however, increased cost impacted profitability

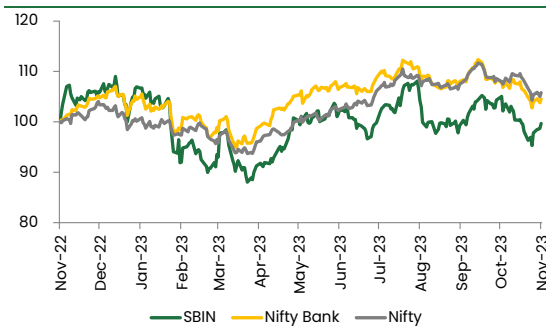
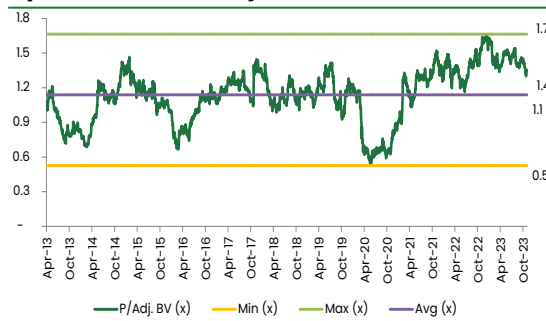
Q2FY24 Result Update | Sector: Bank | November 06, 2023

BUY

CMP (Rs)	578
Target Price (Rs)	677
Potential Upside	17%
Sensex	64,364
Nifty	19,231
Key Stock data	
BSE Code	500112
NSE Code	SBIN
Bloomberg	SBIN:IN
Shares o/s, Cr (FV 1)	892.5
Market Cap (Rs Cr)	515,976
3M Avg Volume	16,269,889
52 week H/L	630/499

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	8.2	8.2	8.2
FII	49.1	52.0	53.0
DII	32.0	29.9	29.0
Public	10.8	9.9	9.8

1 year relative price performance

1 year forward P/Adj. BV (x)

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Top-line remained moderate: State Bank of India (SBI) reported net interest income growth of 1.5% QoQ/12.3% YoY to Rs 39,500 Cr in Q2FY24 mainly due to increase in cost of deposits by 10bps QoQ/81bps YoY to 4.7%. Due to the increase in cost of deposits, interest expended increased by 8.4% QoQ/38.5% YoY to Rs 61,879 Cr putting downward pressure on net interest income.

Margins continue to remain under pressure: Net interest margin declined by 4bps QoQ/12bps YoY to 3.4% mainly due to increase in cost of deposits. The management expects cost of funds to remain elevated and NIMs may see a decline of 3-5bps going forward. International NIMs may continue to remain at current levels.

Decline in profit growth: PAT during the quarter increased by 8% YoY to Rs 14,330 Cr, however, it declined by 15.1% QoQ mainly due to increase in operating costs. Employee cost increased by 14% QoQ/47.1% YoY owing to the revision in wage provisions by the bank. The increase in wage provision is leading to incremental cash outflows by the bank. Due to this, cost to income ratio remained elevated for the bank at 61.4% increasing by 1102bps QoQ/933bps YoY.

Loan growth in line with the industry: Domestic advances increased by 13.2% YoY to Rs 28,240 Bn was mainly driven by retail/SME growth of 15.7%/22.8% YoY. Corporate growth remains sluggish at growth of 6.6% YoY. In retail loans auto/personal continue to growth with 20.2%/17.8% YoY. The bank is seeing traction in the SME and expects growth in the segment to sustain in estimates. Credit to deposits ratio improved by 32bps YoY to 72.7%. SBI's market share in home loans and auto loans stood at 27.4% and 19.3%, respectively. The growth in advances is expected to be in the range of 12-14% by FY24.

Term deposit led deposits growth: Domestic deposits grew by 11.8% YoY to Rs 45,033.4 Cr, it was led by term deposits growth of 17.4% YoY. The increase in term deposit was mainly attributable due to increase in cost of deposit and the bank's strong franchise. CASA deposits remained subdued with a growth of 4.9% YoY. Consequently, CASA ratio stood at 41.9% declined by 100bps QoQ/275bps YoY.

Asset quality continue to improve: Asset quality of the bank continues to improve as GNPA/NNPA saw a decline across sectors. Slippage during the quarter declined by 24bps QoQ/16bps YoY to 0.7%. The bank restructuring book continues to remain low at 0.62% declining by 8bps QoQ/31bps YoY/. GNPA/NNPA declined by 97bps/16bps YoY to 2.6%/0.6%. The bank remains confident of its underwriting practices and sees no stress in any of its loan segment.

Valuation: We remain positive on SBI as the bank is seeing credit growth in line with the industry while deposit is seeing traction due to retail deposits. While the margin is expected to remain subdued, credit demand will continue to drive growth for the bank. The bank's asset quality continues to improve and its underwriting practices remain strong. We estimate is NII/PPOP/PAT to growth at a CAGR of 17.8%/11.9%/13.5% over FY23-25E. We maintain **Buy** with the target price of **Rs 677** valuing the standalone bank at 1.3x of its FY25E Adj. BV.

Financial Summary - standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net interest income	120,708	144,841	171,300	201,041
Total income	316,021	368,719	420,916	478,479
Operating profit/(loss)	75,292	83,713	94,285	104,826
Margin (%)	23.8	22.7	22.4	21.9
Profit before tax	50,840	67,206	78,041	88,707
Margin (%)	16.1	18.2	18.5	18.5
Profit after tax	31,676	50,232	56,970	64,756
Margin (%)	11.5	13.6	13.5	13.5
EPS (Rs)	35.5	56.3	63.8	72.6
ABVPS (Rs)	292.5	344.8	377.9	421.8
RoE(%)	13.9	19.4	16.6	17.1
P/ABV (x)	2.0	1.7	1.5	1.4

Source : RBL Research

Con-call highlights: 1) The bank expects NIMs to have pressure of 3-5bps due to increasing cost of funds. 2) Yields on SME book is slightly lower as compared to the Xpress Credit. 3) Investment growth is mainly due to investment in G-Sec and SDLs. 4) The bank expects growth in corporate loan segment going forward. 5) It is focused on increasing the CASA deposits, especially current account. 6) During H1FY24, Rs 10,000 Cr loans were digitally processed. 7) The bank opened ~40 Lakhs savings account during the quarter and it does not see the need to increase interest rates on savings account deposits. 8) In the SME book, working capital loans saw 57% YoY increase while term loan and supply chain finance increased by 25%/29% YoY. The bank is making efforts to increase during in the segment with 2000 relationship managers and setting up 900 branches especially for the purpose of SME business.

Quarterly statement - standalone

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Interest earned	101,379	79,860	26.9	95,975	5.6
Other income	10,791	8,874	21.6	12,063	-10.6
Total income	112,169	88,734	26.4	108,039	3.8
Interest expended	61,879	44,676	38.5	57,071	8.4
Net interest income	39,500	35,183	12.3	38,905	1.5
Margin (%)	35.2	39.7	-444bps	36.0	-80bps
Operating expenses	30,874	22,938	34.6	25,671	20.3
Total expenditure	92,753	67,614	37.2	82,742	12.1
Operating profit before prov.& cont. (PPOP)	19,417	21,120	-8.1	25,297	-23.2
Provisions and contingencies	115	3,039	-96.2	2,501	-95.4
Profit before tax	19,301	18,081	6.7	22,796	-15.3
Tax	4,971	4,817	3.2	5,911	-15.9
Profit after tax	14,330	13,265	8.0	16,884	-15.1
Margin (%)	12.8	14.9	-217bps	15.6	-285bps
EPS (Rs)	16.1	14.9	8.1	18.9	-15.1

Source : RBL Research

Ratios (%) - standalone

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
Net interest margin	3.4	3.6	-12bps	3.5	-4bps
Yield on Investments	6.9	6.3	61bps	6.8	7bps
Cost of Deposits	4.7	3.8	81bps	4.6	10bps
Cost to assets	2.2	1.8	38bps	1.9	31bps
Cost to income ratio	61.4	52.1	933bps	50.4	1102bps
RoE	22.6	16.1	647bps	24.4	-185bps
RoA	1.0	0.8	25bps	1.2	-21bps

Source : RBL Research

Balance sheet - standalone

Particulars, Rs cr	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
Advances	3,411,251	3,035,071	12.4	3,303,731	3.3
Deposits	4,689,218	4,190,254	11.9	4,531,237	3.5
Business	8,100,469	7,225,325	12.1	7,834,968	3.4
Credit-to-deposit ratio (%)	72.7	72.4	32bps	72.9	-16bps
CASA ratio (%)	41.9	44.6	-275bps	42.9	-100bps

Source : RBL Research

Net interest income increased by 1.5% QoQ/12.3% YoY in Q2FY24

Profit after tax declined by 15.1% QoQ mainly due to increase in operating expenses

Net interest margin declined by 4bps QoQ/12bps YoY

Cost to income ratio increased by 1102bps QoQ/933bps YoY due to increase in operating costs

Advances/deposits increased by 12.4%/11.9% YoY

CASA ratio declined by 100bps QoQ/275bps YoY to 41.9%

Asset quality improved as GNPA (%) / NNPA (%) declined by 97bps/16bps YoY

Asset quality – standalone

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
GNPA	86,974.00	106,804	-18.6	91,328	-4.8
GNPA (%)	2.6	3.5	-97bps	2.8	-21bps
NNPA	21,352	23,572	-9.4	22,995	-7.1
NNPA (%)	0.6	0.8	-16bps	0.7	-7bps
PCR (%)	75.45	77.9	-248bps	74.8	63bps

Source : RBL Research

Capital ratios (%) – standalone

Particulars	Q2FY24	Q2FY23	Y-o-Y (bps)	Q1FY24	Q-o-Q (bps)
CET-1	9.9	9.5	41bps	10.2	-25bps
Additional tier - 1	1.8	1.6	25bps	1.8	6bps
Tier - 1	11.8	11.1	66bps	12.0	-19bps
Tier - 2	2.5	2.4	11bps	2.6	-8bps
Capital adequacy ratio	14.3	13.5	77bps	14.6	-28bps

Source : RBL Research

Profit and loss statement – standalone

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (bps)	Q1FY24	Q-o-Q (bps)
Income on investments	27,002	23,670	14.1	25,007	8.0
Interest on balances with RBI others	1,291	736	75.4	1,359	-5.1
Interest/discount on advances/bills	70,260	52,383	34.1	67,128	4.7
Others	2,826	3,071	-8.0	2,481	13.9
Interest earned	101,379	79,860	26.9	95,975	5.6
Other income	10,791	8,874	21.6	12,063	-10.6
Total income	112,169	88,734	26.4	108,039	3.8
Interest expended	61,879	44,676	38.5	57,071	8.4
Net interest income	39,500	35,183	12.3	38,905	1.5
Margin (%)	35.2	39.7	-444bps	36.0	-80bps
Payment to provisions for employees	18,926	12,867	47.1	16,601	14.0
Other operating expenses	11,948	10,070	18.6	9,071	31.7
Operating expenses	30,874	22,938	34.6	25,671	20.3
Total expenditure	92,753	67,614	37.2	82,742	12.1
Operating profit before prov.& cont. (PPOP)	19,417	21,120	-8.1	25,297	-23.2
Margin (%)	17.3	23.8	-649bps	23.4	-610bps
Provisions and contingencies	115	3,039	-96.2	2,501	-95.4
Profit before tax	19,301	18,081	6.7	22,796	-15.3
Tax	4,971	4,817	3.2	5,911	-15.9
Tax rate (%)	25.8	26.6	-88bps	25.9	-18bps
Profit after tax	14,330	13,265	8.0	16,884	-15.1
Margin (%)	12.8	14.9	-217bps	15.6	-285bps

Source : RBL Research

Interest expenses increased by 8.4% QoQ/38.5% YoY due to increase in cost of deposits

Provisions for employees grew by 14% QoQ/47.1%YoY

PPOP saw a decline of 23.2% QoQ/8.1% YoY mainly due to increase in operating expenses

We maintain Buy rating on SBI with a target price of Rs 677 valuing the standalone bank at 1.3x of its FY25E Adj. BV

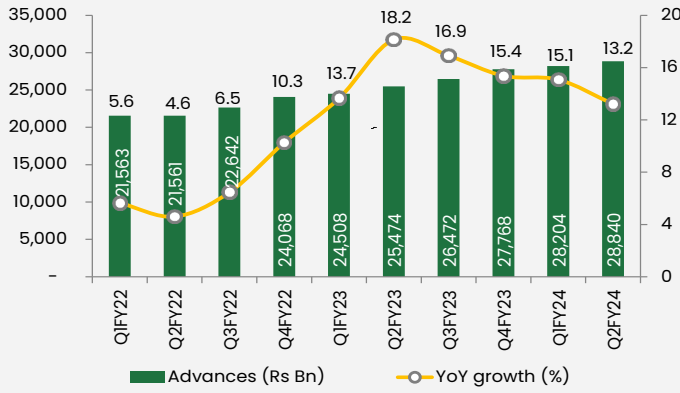
SBI's SOTP Valuation

Name	Stake (%)	Value per share (Rs.)	Valuation Basis
SBI Standalone (A)		527	1.3x Mar-25E ABV (adj. for investments)
Value of Subsidiaries			
SBI Life Insurance Company	55.5%	81	M-cap
SBI Cards	69.2%	65	33.0x on FY25E PAT
SBI Funds Management Pvt Ltd	62.6%	32	28.0x on FY25E PAT
Yes Bank	30.0%	1	1.0x Investment in Subsidiary
SBI General Insurance	70.0%	4	25.0x on FY25E PAT
SBI Capital Markets	100.0%	3	3.0x on FY25E 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)		677	
Current Market Price		578	
Upside		17%	
Contribution of subs to TP (%)		22%	

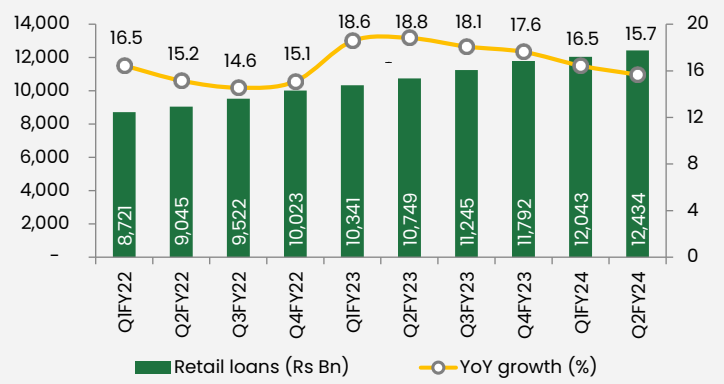
Source : RBL Research

Story in charts

Advances increased by 13.2% YoY in Q2FY24

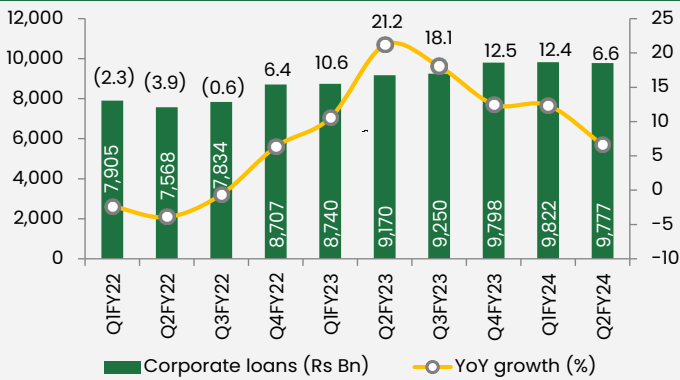


Retail loans grew by 15.7% YoY in Q2FY24

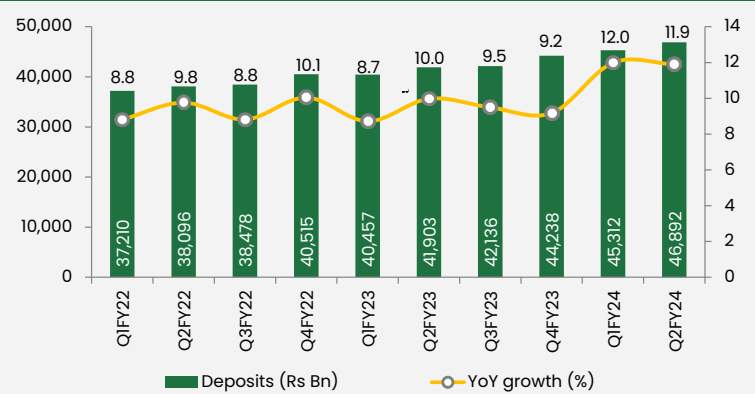


Source : RBL Research

Corporate loans expected to pickup up

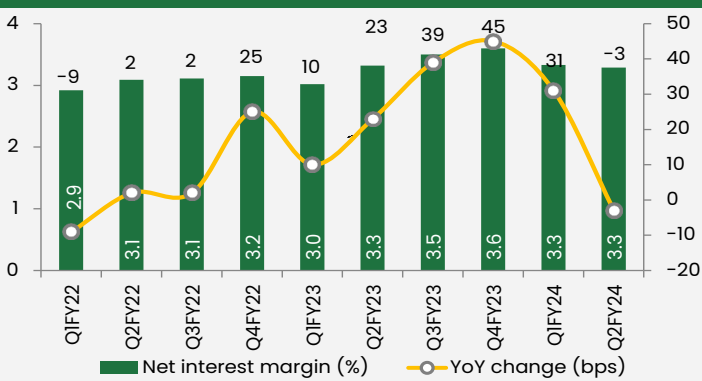


Deposits grew by 11.9% YoY in Q2FY24 led by term deposits

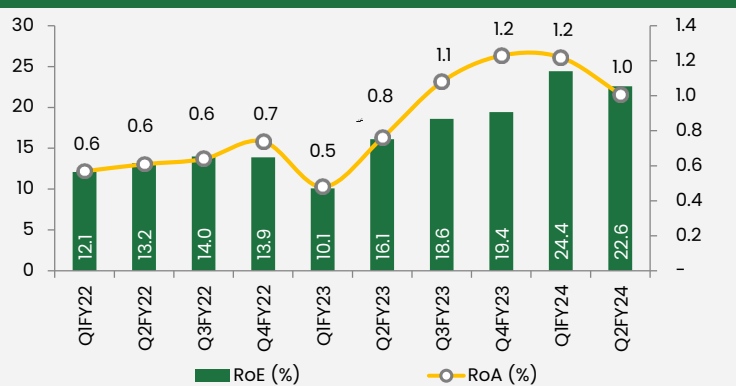


Source : RBL Research

Net interest margin declined by 3bps on YoY basis

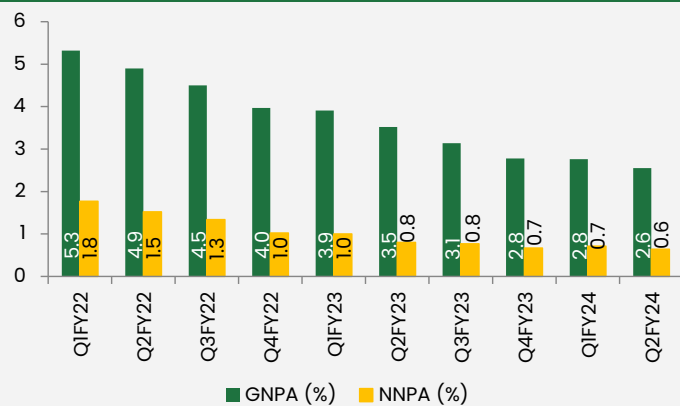


RoA/RoE declined due to one-off expenses

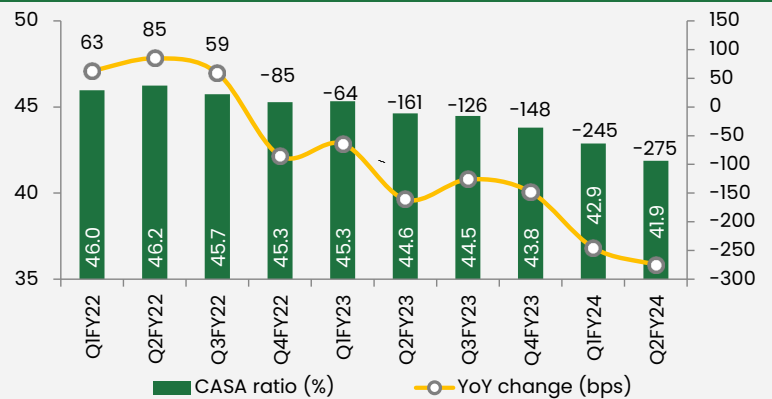


Source : RBL Research

Asset quality improved as GNPA/NNPA declined



CASA ratio declined as term loans increased



Source : RBL Research

Income Statement – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Interest earned	275,457	332,103	382,258	439,123
Interest expended	154,750	187,263	210,958	238,082
Net interest income	120,708	144,841	171,300	201,041
Other income	40,564	36,616	38,657	39,356
Total income	316,021	368,719	420,916	478,479
Operating expenses	85,979	97,743	115,672	135,571
Total expenditure	240,729	285,006	326,630	373,653
Operating profit/(loss)	75,292	83,713	94,285	104,826
Provisions and contingencies	24,452	16,507	16,244	16,119
Profit before tax	50,840	67,206	78,041	88,707
Tax	11,746	16,973	21,071	23,951
Profit after tax	31,676	50,232	56,970	64,756

Source : RBL Research

DuPont Analysis – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Interest earned	275,457	332,103	382,258	439,123
Interest expended	154,750	187,263	210,958	238,082
Other income	40,564	36,616	38,657	39,356
Total income	316,021	368,719	420,916	478,479
Operating expenses	85,979	97,743	115,672	135,571
Provisions and contingencies	24,452	16,507	16,244	16,119
Profit before tax	50,840	67,206	78,041	88,707
Tax	11,746	16,973	21,071	23,951
RoA(%)	0.7	1.0	1.0	1.0
RoE(%)	13.9	19.4	16.6	17.1

Source : RBL Research

Balance Sheet – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	892	892	892	892
Reserves and Surplus	279,196	326,716	357,285	397,642
Net worth	280,088	327,608	358,177	398,534
Deposits	4,051,534	4,423,778	4,874,493	5,398,367
Borrowings	426,043	493,135	537,340	578,460
Other Liabilities & Provisions	229,932	272,457	313,326	354,058
Total Equities & Liabilities	4,987,597	5,516,979	6,083,336	6,729,419
Total cash balances	394,552	307,900	233,575	228,101
Investments	1,481,445	1,570,366	1,682,579	1,826,044
Advances	2,733,967	3,199,269	3,741,657	4,263,417
Net Block	37,708	42,382	42,698	43,034
Other Assets	339,925	397,062	382,828	368,824
Total Assets	4,987,597	5,516,979	6,083,336	6,729,419

Source : RBL Research

Efficiency Ratios – standalone

Particulars	FY22	FY23	FY24E	FY25E
Loans/Deposits(x)	0.1x	0.1x	0.1x	0.1x
CASA ratio (%)	45.3	43.8	42.4	41.3
Cost Income Ratio (%)	53.3	53.9	55.2	54.2
Credit/Deposits (%)	67.5	72.3	76.8	79.0
Incremental loans/Deposits (%)	10.5	18.0	9.8	7.8
Interest Expended / Interest earned (%)	56.2	56.4	55.2	54.2
Interest income / Total funds (%)	5.5	6.6	6.9	7.0
Operating Costs to Assets (%)	1.9	1.8	1.9	2.0
PATM (%)	11.5	13.6	13.5	13.5
ABVPS Growth (%)	10.8	17.9	9.6	11.6
Investment/Deposit (%)	36.6	35.5	34.5	33.8
Valuation ratio (x)				
P/E	13.9	10.2	9.0	7.9
P/B	1.8	1.6	1.4	1.3
P/ABV	2.0	1.7	1.5	1.4

Source : RBL Research

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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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