

### Banking Sector Nov 06, 2023

CMP **578**

Sensex **64,364**

#### Stock Statistics

Reuters code SBI.NS  
Bloomberg code SBIN IN

Equity Cap (INR cr) **892.5**  
Face Value (INR) **1.0**  
INR / USD **82.1**  
Market cap (INR cr) **515,842**  
Market cap (USD bn) **62.91**  
52 Wk High/Low (INR) **630/499**

#### Shareholding Pattern (%) – Sep'23

Promoter 57.49  
Foreign Institutional Investor 10.72  
MF / FI / UTI / Banks 24.36  
Public & Others 6.91  
Bodies & Corporate 0.52

### State Bank of India Stock Update Q2FY24 Results

#### Operational Performance

- SBI posted positive results with in-line with expectations performance on the Operating side, but Asset Quality wise the performance was impressive with not only lower slippages and sequential improvement in GNPA/NNPA but overall the NIMs stable and the outlook on growth and margins continued to be bright.
- Net Interest Income (NII) came in at Rs 39,500 crores, up 12.3% YoY / 1.5% QoQ, helped by largely balanced impact of rates on YoA and CoD.
- The NII came in line with expectations (on back of marginal NIM contraction of 2BPS QoQ to 3.45% domestic book). However, there was wage revision provision impact on the Q2 due to which the Opex grew to 34.6% YoY / 20.3% QoQ.
- However, the control on its credit cost continued and SBI had utilised a writeback of provisions, due to which net Provisions were only Rs 115 crores. This offset, resulted in in-line with expectations PAT figures of Rs 14,330 crores, up 8% YoY and down by 15% QoQ.
- While there was a writeback of the provisions, the overall total provisions (not included in PCR) at the end of Q2 FY2024 stood at Rs 33,794 crores, which is ~1% of the Gross Advances and 158% of the NNPA's as on Q2 FY2024.
- Hence, we believe that the asset quality was well in control. The headline parameters of GNPA/NNPA stood at 2.55% / 0.64% down by 21BPS / 7BPS on QoQ basis. Also, the gross slippages was within tolerance range, and was sequentially down at Rs 4081 crores, compare to 7872 crore seen in Q1.

#### Business Performance:

- Overall loan portfolio, including the international branches portfolio, grew by 12.4% YoY and 3.3% QoQ. The domestic loan portfolio grew by 13.2% YoY / 2.3% QoQ at Sep 30, 2023.
- Within domestic, the retail loan portfolio grew by 15.7% YoY and 3.3% QoQ. The retail portfolio was 36% of the total portfolio and 43% of the Domestic Portfolio. The Corporate & Commercial banking portfolio grew by 6.6% YoY and down 0.5% QoQ. The SME portfolio grew by 22.8% YoY and 5.2% QoQ.
- The Overseas portfolio grew by 8.1% YoY and by 9.1% QoQ, as the bank chose to grow in selective geographies in this book which would have been taken on prudent basis considering the Global environment.
- Total deposits grew by 11.9% YoY and 2.4% QoQ. Within deposits, the Term deposits (TD) increased by 17.2% year-on-year and 5.2% sequentially. During the quarter, the total CASA (Current and Savings account) deposits grew by 4.9% YoY and 1.1% QoQ.

#### Valuations

- At CMP the stock is available at 9x / 8.4x FY2024E / FY2025E EPS and at 1.6x / 1.4x FY2024E / FY2025E ABVPS. We believe that the valuations have potential for upsides, both on re-rating and sustained improvement in the earnings trajectory part. We opine the valuations are attractive at these levels

## Key Conference Call Highlights

- **Guidance:**
  - Had maintained the guidance of growing by ~14% YOY on Credit growth, however, indicated it would be surprising on the positive side
  - Expect NIMs to be stable around Q2 FY2024 levels for FY2024; but for Q3 may see 3-5 BPS compression.
  - Deposit pricing has yet to have some impact which is why saying NIMs will have 3-5 BPS compression
  - Guidance of 1.2% ROA for the bank.
- **Operating Expenses rise due to change in wage revision assumption:**
  - The Opex was as per earlier wage revision assumption of 10%, which were now changed to 14% wage increase (with back dated effect from Nov 2022 have been taken in account) due to which additional provision of Rs 3417 crores done in Q2.
  - Due to this the Opex has risen and the PPOP has been impacted.
  - If the wage revision is higher by 1% than the bank will have to provide Rs 400 crores per month or Rs 1200 crores per quarter increase in the wage bill
  - Wage Negotiation is still in progress and the bank will accordingly respond to the same.
- **Concerning Unsecured Credit health:**
  - Recently there has been concerns on the unsecured credit portfolio health of the banking sector.
  - SBI underscored the fact that the health of the Xpress credit product is still sound and it is the safest product of SBI. It has 82.6% with Armed forces and other Govt employees and nearly 12% are with reputed corporates and hence is the safest product portfolio of SBI.
  - GNPA of only 0.69% for the Xpress Credit product
- **Deposits:** Deposits are franchise which needs to run continuously, and don't want to grow it only when advances demand comes up, which if done will be less effective.
- **Asset Quality:**
  - GNPA is lowest in the last 10 years. Slippages ratio for H1 has improved
  - SBI has strong analytics-based response centre etc which uses voice based calls and other to respond fast to perceived weakness in the PL etc portfolio
- **LDR and Investment book:**
  - CD ratio of 72% is still very conservative, but don't want to take up unnecessary risks on the lending, and also don't want to take un attractive pricing.
  - That is why the Investment book has increased. Investment book has mostly in GSecs and SLR securities.
- **Provisions:** Have a policy of providing on expected stress and when the bank is sure that the stress is no more, then it reverses the provisions.
- **SME and Business Loans:**
  - Had given a guidance of reaching SME and Business Loans to Rs 4 Tn by FY2024 and have already reached Rs 3.87 trn size by H1 FY2024. So have built the growth with clearly designed products.
  - Have Introduced Pre approved Business Loans (new product) which is seeing good traction and

which is totally analytics based, the yields on SME loans are slightly lower than Xpress Loans but these are better yielding loans than the Mid Corporate loans.

- SME book have some WC book and Term Loans and Sly chain Loans and CGTMSE loans. Have 2000 relationship managers and 900 dedicated SME branches and have 2 types of processing cells. One type for only Sly chains business.
  - SME of ticket size of <Rs 50 Lakh are more prone to NPAs due to market vagaries. However, many of them are also pull back candidates during the quarter. Behaviour of the loans also depends on the connect on the growth and their NPA levels have come down YOY.
  - Have fintech partners also contributing the inflows and Bank is well on the way to achieve the mandated Rs 4 trn SME business target
- **Funding Cost:**
    - SBI has not raised its Bulk deposit rates materially for last 2-3 quarters, and the total re-pricing will be complete the same in Q3
    - Expects ~3-4 BPS NIMs impact due to the deposit re-pricing, but the overall impact may be offset by LDR based levers which will help maintain the NIMs.
  - **Credit Cards Business:**
    - SBI Cards has different underwriting principle and their business behaviour will be different from the SBI. Almost 50% of SBI Cards customer business is from the market, not from SBI.
    - SBI cards have higher yields and also higher risk appetite and their collection mechanism is also very different from that of SBI.
  - **Corporate Loan Book Outlook:**
    - Utilisation of the sanctions have improved for term loans, and there is sanctions pipeline of Rs 3.4 trn.
    - Corporate Book growth outlook will improve and expect it to be lower 2 digit number for FY2024E
  - **International Book Outlook:** International book growth, being selective in terms of country exposure and hence will be slower from here. Will be able to maintain the overseas book margins at present levels.
  - **Deposits:** Due to high deposit rates and hence the SA accounts also move their business to higher yields. Have opened 40Lakh new SA accounts in the quarter
  - **Capital Raise:** Will be raising tier 1 expect by year end will be at 11% of CET-1 by FY2024 end.
  - **Fixed and Floating Rate Loan mix:** MCLR linked is 38% and EBLR linked is 27%.

## Quarterly Financial Statement

(INR mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY(%)	QoQ(%)
<b>Profit &amp; Loss</b>							
Interest Income	7,98,596	8,66,160	9,29,511	9,59,755	10,13,788	26.9%	5.6%
Interest Expenses	4,46,762	4,85,474	5,25,586	5,70,705	6,18,788	38.5%	8.4%
<b>Net Interest Income</b>	<b>3,51,834</b>	<b>3,80,686</b>	<b>4,03,925</b>	<b>3,89,050</b>	<b>3,95,000</b>	<b>12.3%</b>	<b>1.5%</b>
Other Income	88,743	1,14,677	1,39,614	1,20,634	1,07,906	21.6%	-10.6%
<i>Treasury Income</i>	4,573	29,380	18,000	38,470	20,210	341.9%	-47.5%
Operating Expenses	2,29,377	2,43,171	2,97,328	2,56,714	3,08,740	34.6%	20.3%
<i>Staff Cost</i>	1,28,674	1,47,567	1,76,164	1,66,007	1,89,264	47.1%	14.0%
<i>Other opex</i>	1,00,703	95,604	1,21,164	90,707	1,19,476	18.6%	31.7%
<b>Operating Profit</b>	<b>2,11,200</b>	<b>2,52,193</b>	<b>2,46,211</b>	<b>2,52,969</b>	<b>1,94,166</b>	<b>-8.1%</b>	<b>-23.2%</b>
Provisions	30,387	57,606	33,157	25,013	1,153	-96.2%	-95.4%
<i>NPA Provisions</i>	20,110	15,860	12,780	26,519	18,149	-9.8%	-31.6%
<b>Profit Before Tax</b>	<b>1,80,814</b>	<b>1,94,587</b>	<b>2,13,054</b>	<b>2,27,956</b>	<b>1,93,013</b>	<b>6.7%</b>	<b>-15.3%</b>
Tax	48,168	52,534	46,109	59,113	49,713	3.2%	-15.9%
<b>Reported PAT</b>	<b>1,32,645</b>	<b>1,42,053</b>	<b>1,66,945</b>	<b>1,68,843</b>	<b>1,43,300</b>	<b>8.0%</b>	<b>-15.1%</b>
Equity	8,925	8,925	8,925	8,925	8,925	-	-
<b>EPS</b>	<b>14.9</b>	<b>15.9</b>	<b>18.7</b>	<b>18.9</b>	<b>16.1</b>	<b>8.0%</b>	<b>-15.1%</b>
<b>Ratios</b>							
Yield On Advances (%)	7.43	7.87	8.10	8.78	8.86	143bps	7bps
Cost of Deposits (%)	3.80	3.90	3.99	4.55	4.65	85bps	10bps
<b>NIM (%)</b>	<b>3.17</b>	<b>3.29</b>	<b>3.37</b>	<b>3.33</b>	<b>3.31</b>	<b>14bps</b>	<b>-3bps</b>
Cost - Income Ratio (%)	43.0	35.1	38.4	30.7	36.3	-673bps	559bps
Tax Rate (%)	26.6	27.0	21.6	25.9	25.8	-89bps	-18bps
Credit / Deposit (%)	72.4	74.4	73.9	72.9	72.7	31bps	-17bps
CASA (%)	42.9	42.7	42.1	41.2	40.2	-269bps	-97bps
<b>Balance Sheet Details</b>							
Advances	3,03,50,710	3,13,35,650	3,26,92,420	3,30,37,310	3,41,12,520	12.4%	3.3%
Deposits	4,19,02,549	4,21,35,570	4,42,37,778	4,53,12,367	4,68,92,180	11.9%	3.5%
<b>Business Volumes</b>	<b>7,22,53,259</b>	<b>7,34,71,220</b>	<b>7,69,30,198</b>	<b>7,83,49,677</b>	<b>8,10,04,700</b>	<b>12.1%</b>	<b>3.4%</b>
CASA	1,79,77,510	1,80,06,770	1,86,29,040	1,86,60,590	1,88,60,140	4.9%	1.1%
<b>CAR (%)</b>	<b>13.5</b>	<b>13.3</b>	<b>14.7</b>	<b>14.6</b>	<b>14.3</b>	<b>76bps</b>	<b>-29bps</b>
<i>CAR - Tier - I</i>	11.1	10.8	12.1	12.0	11.8	66bps	-19bps
<b>Asset Quality</b>							
Gross NPA	10,68,041	9,83,470	9,09,278	9,13,288	8,69,741	-18.6%	-4.8%
Net NPA	2,35,722	2,34,843	2,14,666	2,29,954	2,13,524	-9.4%	-7.1%
Gross NPA (%)	3.52	3.14	2.78	2.76	2.55	-97bps	-21bps
Net NPA (%)	0.80	0.77	0.67	0.71	0.64	-16bps	-8bps
Provision Coverage (Calc)	77.93	76.12	76.39	74.82	75.45	-248bps	62bps
Provision Coverage (Rep)	92	92	92	91	92	39bps	52bps
Slippage	24,410	32,090	34,580	78,720	40,810	67.2%	-48.2%
Slippage (%)	0.32	0.41	0.42	0.95	0.48	15bps	-48bps

Source: Company and Anvil Research

## Profit & Loss Statement

Y/E March (INR mn)	FY2021	FY2022	FY2023	FY2024E	FY2025E
Interest Income	26,51,506	27,54,573	33,21,031	38,86,931	43,43,645
Interest Expenses	15,44,406	15,47,490	18,72,626	23,52,539	26,45,445
<b>Net Interest Income</b>	<b>11,07,100</b>	<b>12,07,083</b>	<b>14,48,405</b>	<b>15,34,392</b>	<b>16,98,200</b>
Other Income	4,34,964	4,05,639	3,66,156	4,31,600	4,68,455
<b>Operating Income</b>	<b>15,42,064</b>	<b>16,12,722</b>	<b>18,14,561</b>	<b>19,65,992</b>	<b>21,66,655</b>
Operating Expenses	8,26,522	9,33,975	9,77,431	10,59,637	11,31,049
<b>Operating Profit</b>	<b>7,15,542</b>	<b>6,78,747</b>	<b>8,37,130</b>	<b>9,06,355</b>	<b>10,35,606</b>
Provisions and Contingencies	4,40,130	2,44,521	1,65,073	1,45,580	2,16,828
<b>Profit before Tax</b>	<b>2,75,411</b>	<b>4,34,226</b>	<b>6,72,056</b>	<b>7,60,774</b>	<b>8,18,778</b>
Provision for Tax	71,307	1,17,459	1,69,732	1,94,758	2,09,607
<b>Profit after Tax</b>	<b>2,04,105</b>	<b>2,42,583</b>	<b>5,02,324</b>	<b>5,66,016</b>	<b>6,09,171</b>

Source: Company and Anvil Research

## Balance Sheet

Y/E March (INR mn)	FY2021	FY2022	FY2023	FY2024E	FY2025E
<b>Sources of Funds</b>					
Equity Capital	8,925	8,925	8,925	8,925	8,925
Reserves & Surplus	25,29,827	27,91,956	32,67,160	37,57,998	42,91,991
<b>Net Worth</b>	<b>25,38,752</b>	<b>28,00,881</b>	<b>32,76,084</b>	<b>37,66,923</b>	<b>43,00,916</b>
Deposits	3,68,12,771	4,05,15,341	4,42,37,778	4,97,56,412	5,59,64,235
Borrowings	34,89,788	35,40,438	40,40,026	45,85,429	52,04,462
Other Liabilities	25,02,986	30,19,314	36,15,897	40,24,645	44,94,633
<b>Total Liabilities</b>	<b>4,53,44,296</b>	<b>4,98,75,974</b>	<b>5,51,69,785</b>	<b>6,21,33,409</b>	<b>6,99,64,246</b>
<b>Application of Funds</b>					
Cash & Balance with RBI	21,32,015	25,78,592	24,70,876	25,45,002	26,21,352
Bal. with Banks/ Short Notice	12,98,372	13,66,931	6,08,120	33,69,473	54,17,512
Advances	2,44,94,978	2,73,39,666	3,19,92,693	3,64,71,670	4,19,42,420
Investments	1,35,17,052	1,48,14,455	1,57,03,662	1,58,60,699	1,60,19,306
Fixed Assets	3,84,192	3,77,082	4,23,818	4,07,007	4,19,448
Other Assets	35,17,687	33,99,249	39,70,616	34,79,558	35,44,209
<b>Total Assets</b>	<b>4,53,44,296</b>	<b>4,98,75,974</b>	<b>5,51,69,785</b>	<b>6,21,33,409</b>	<b>6,99,64,246</b>

Source: Company and Anvil Research

## Key Ratios

Y/E March (INR mn)	FY2021	FY2022	FY2023	FY2024E	FY2025E
<b>Valuation</b>					
EPS (INR)	23	27	56	63	68
Core Book Value (INR)	269	298	351	406	466
Core Adj. Book Value (INR)	217	257	313	362	406
P/E (x)	25.3	21.3	10.3	9.1	8.5
P/Core BV (x)	2.2	1.9	1.6	1.4	1.2
P/Core ABV (x)	2.7	2.2	1.8	1.6	1.4
<b>Profitability (%)</b>					
RoANW	8.4	9.1	16.5	16.1	15.1
RoAA	0.5	0.5	1.0	1.0	0.9
Cost / Income Ratio	53.6	57.9	53.9	53.9	52.2
Cost / Avg. Earning Assets	1.7	1.4	1.6	1.5	1.6
Avg. yield on Advances	7.2	6.6	7.5	8.1	8.0
Avg. yield on Investments	6.7	6.0	6.3	6.1	6.1
Avg. cost on Deposits	4.1	3.7	3.8	4.4	4.4
Spread	2.6	2.5	2.6	2.4	2.4
Net Interest Margin	2.7	2.7	2.9	2.7	2.7
<b>Growth (%)</b>					
Net Interest Income	12.9	9.0	20.0	5.9	10.7
Other Income	(3.8)	(6.7)	(9.7)	17.9	8.5
Operating Profit	5.0	(5.1)	23.3	8.3	14.3
Net Profit	40.9	18.9	107.1	12.7	7.6
Credit	5.3	11.6	17.0	14.0	15.0
Deposit	13.6	10.1	9.2	12.5	12.5
C/D ratio	66.5	67.5	72.3	73.3	74.9
Investment / Deposit Ratio	36.7	36.6	35.5	31.9	28.6
<b>Asset Quality</b>					
Gross NPA (INR mn)	12,63,891	11,20,234	9,15,153	9,73,576	12,08,218
Net NPA (INR mn)	3,68,098	2,70,496	3,19,927	2,55,302	4,02,647
Gross NPA to Adv (%)	5.0	4.0	2.8	2.6	2.8
Net NPAs to Adv (%)	1.5	1.0	1.0	0.7	1.0
<b>Dividend</b>					
DPS (Rs)	4.0	7.1	7.2	7.2	7.2
<b>Capital Adequacy (%)</b>					
CAR	13.7	13.8	12.2	12.2	12.2
- Tier - I	11.4	11.4	10.3	10.6	10.7
<b>Efficiency</b>					
Avg. Business per Emp. (INR mn)	249.6	277.8	323.2	361.6	427.4
Avg Profit per Emp. (INR mn)	0.8	1.0	2.1	2.4	2.7

Source: Company and Anvil Research

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