



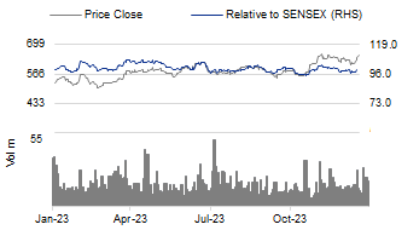
India

ADD (no change)

Consensus ratings*: Buy 44 Hold 4 Sell 3	
Current price:	Rs650
Target price: ▲	Rs800
Previous target:	Rs750
Up/downside:	23.1%
InCred Research / Consensus:	11.5%
Reuters:	SBI.NS
Bloomberg:	SBIN IN
Market cap:	US\$69,917m Rs5,797,874m
Average daily turnover:	US\$123.3m Rs10226.4m
Current shares o/s:	8,924.6m
Free float:	40.0%
*Source: Bloomberg	

Key changes in this note

► With a large workforce (0.24m active & 0.3m retired), overall opex may remain higher despite SBI management's focus on improving employee productivity.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.6	13.6	23.0
Relative (%)	1.5	1.4	3.8

Major shareholders	% held
Central Government	57.6
LIC	8.3

Research Analyst(s)



Jignesh SHIAL
T (91) 22 4161 1547
E jignesh.shial@incredresearch.com

Mayank AGARWAL
T (91) 22 4161 0000
E mayank.agarwal@incredresearch.com

Rishabh JOGANI
T (91) 22 4161 0000
E rishabh.jogani@incredresearch.com

State Bank of India

Steady 3Q performance; one-off dents profit

- SBI posted a lower 3Q PAT of Rs91.6bn (InCred est: Rs140.8bn), despite consistent operational performance, amid a one-off Rs71bn pension provision.
- With a large workforce (0.24m active & 0.3m retired), overall opex may remain high despite SBI management's focus on improving employee productivity.
- Consistent delivery of +1% RoA/ +15% RoE to command a valuation premium. Retain our high-conviction ADD rating with a higher target price of Rs800.

Credit momentum across segments; deposit growth disappoints

State Bank of India or SBI's gross advances grew by ~14.5% yoy/~5.1% qoq in 3QFY24 to Rs35.8tr backed by demand across segments, including corporate and international loans. Although retail/SME/agri loans remain growth engines, the sequential pick-up (+5.1% qoq) in corporate/international loans surprises positively. On the contrary, deposit growth continues to disappoint at ~13% yoy/~1.6% qoq amid tight liquidity and declining retail demand. Though the additional Rs4tr in the form of liquid investments (over and above the Statutory Liquidity Ratio or SLR) along with a healthy liquidity coverage ratio of ~131% provides some comfort, we prefer to keep a close eye on further developments.

Sequential decline in margins continue amid repricing of deposits

SBI reported a sequential dip of ~3bp in margins to ~328bp (whole bank) amid consistent repricing of low-cost deposits of previous years. We expect the margin trend to remain softer amid continuation of deposit repricing as well as the easing CASA trend.

Trend of elevated operating expenses continues including one-off

SBI has been reporting elevated operating expenses (+28.6% yoy in 9MFY24), mainly led by the spurt in employee charges. The bank also had a one-off charge of Rs77bn during the quarter pertaining to a probable adverse judgement on pension liabilities as well as for neutralization of dearness allowance growth. SBI has a workforce comprising 0.235m & 0.3m retired employees with an attrition level of ~1%, which may keep overall opex higher despite management's focus on improving employee productivity to negate the impact.

Asset quality healthy; no negative surprise on fresh slippage

Headline NPAs of SBI declined sequentially, with GNPA's at 2.4% and NNPA's at 0.62% and the coverage at ~75.5%. The trend in fresh slippage and recoveries was encouraging, resulting in an annualized credit cost of ~25bp, which is sustainable in the near term.

Valuation

The standalone SBI with +1% RoA & with growth diversity and improving asset quality trend to command a valuation premium. We retain our high-conviction ADD rating on it with a higher target price of Rs800 (Rs750 earlier) or ~1.8x FY25F P/ABV. We have valued SBI on a sum-of-the parts (SOTP) basis, with the standalone bank valued at ~1.4x FY25F ABV and the subsidiaries contributing Rs200/share. Downside risks: Weaker growth and surge in non-performing assets or NPAs.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income (Rsm)	1,107,100	1,207,076	1,448,405	1,594,772	1,921,663
Total Non-Interest Income (Rsm)	434,966	405,639	366,156	476,547	463,132
Operating Revenue (Rsm)	1,542,066	1,612,715	1,814,561	2,071,318	2,384,795
Total Provision Charges (Rsm)	(440,130)	(244,521)	(165,073)	(41,900)	(159,674)
Net Profit (Rsm)	204,107	316,760	502,325	545,771	621,768
Core EPS (Rs)	22.87	35.49	56.29	61.15	69.67
Core EPS Growth	26%	82%	35%	19%	4%
FD Core P/E (x)	28.41	18.30	11.54	10.62	9.32
DPS (Rs)	4.00	7.10	11.30	15.29	19.16
Dividend Yield	0.62%	1.09%	1.74%	2.35%	2.95%
BVPS (Rs)	284.5	313.8	367.1	412.9	463.5
P/BV (x)	2.28	2.07	1.77	1.57	1.40
ROE	8.4%	14.6%	16.5%	17.7%	15.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Net Interest Income	3,11,959	3,51,834	3,80,686	4,03,925	3,89,050	3,95,000	3,98,157	4.6%	0.8%
Domestic NIM (% of AUM)	2.9%	3.2%	3.3%	3.4%	3.2%	3.2%	3.1%		
Fee-Based Income	23,122	88,743	1,14,677	1,39,614	1,20,634	1,07,906	1,14,589	-0.1%	6.2%
Operating Expenses	2,07,556	2,29,377	2,43,171	2,97,328	2,56,714	3,08,740	3,09,386	27.2%	0.2%
Operating Profit	1,27,526	2,11,200	2,52,193	2,46,211	2,52,969	1,94,166	2,03,361	-19.4%	4.7%
Provisions	43,924	30,387	57,606	33,157	25,013	1,153	6,879	-88.1%	496.7%
% of operating profit	34.4%	14.4%	22.8%	13.5%	9.9%	0.6%	3.4%		
Exceptional Items	-	-	-	-	-	-	(71,000)		
PBT	83,602	1,80,814	1,94,587	2,13,054	2,27,956	1,93,013	1,25,482	-35.5%	-35.0%
Tax	-22,921	-48,168	-52,534	-46,109	-59,113	-49,713	-33,843	-35.6%	-31.9%
Tax rate (%)	-27.4%	-26.6%	-27.0%	-21.6%	-25.9%	-25.8%	-27.0%		
PAT	60,681	1,32,645	1,42,053	1,66,945	1,68,843	1,43,300	91,640	-35.5%	-36.1%
Gross NPL	11,32,717	10,68,041	9,83,465	9,09,278	9,13,278	8,69,741	8,67,488	-11.8%	-0.3%
GNPL (% of loans)	3.9%	3.5%	3.1%	2.8%	2.8%	2.6%	2.4%		
Net NPL	2,82,579	2,35,722	2,34,843	2,14,666	2,29,954	2,13,524	2,24,084	-4.6%	4.9%
NNPL (% of loans)	1.0%	0.8%	0.8%	0.7%	0.7%	0.6%	0.6%		
Provision Coverage (%)	75.1%	77.9%	76.1%	76.4%	74.8%	75.4%	74.2%		
Advances (Rs m)	28,152	29,513	30,582	31,993	32,350	33,452	35,195	15.1%	5.2%
Deposits (Rs bn)	40,457	41,903	42,136	44,238	45,312	46,892	47,622	13.0%	1.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Oor revised earnings estimates

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	15,98,118	15,94,772	-0.2%	18,09,213	19,21,663	6.2%	20,52,386	22,17,925	8.1%
Non Interest Income	4,35,512	4,76,547	9.4%	4,90,008	4,63,132	-5.5%	5,51,879	5,12,166	-7.2%
PPOP	8,96,690	8,48,440	-5.4%	10,11,749	9,97,635	-1.4%	11,43,330	11,55,511	1.1%
PAT	6,04,861	5,45,771	-9.8%	6,28,657	6,21,768	-1.1%	7,00,801	7,02,162	0.2%
EPS (Rs)	67.8	61.2	-9.8%	70.5	69.7	-1.1%	78.5	78.7	0.2%
BV (Rs)	418.0	413.0	-1.2%	469.1	463.6	-1.2%	524.1	518.6	-1.0%

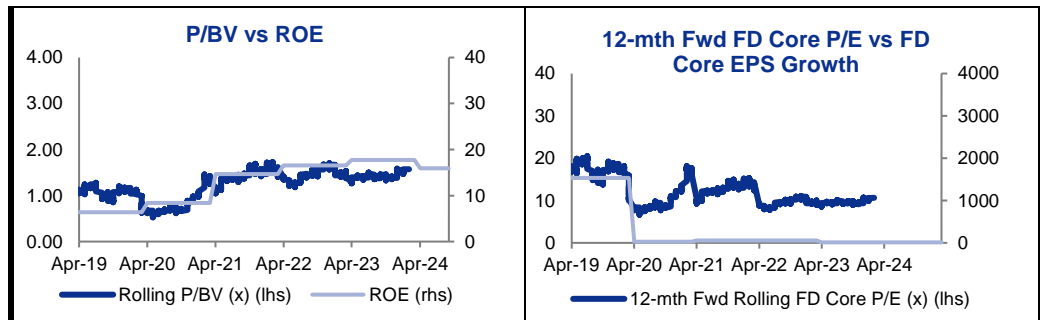
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- SBI is open to raising funds, but not at the cost of growth, as the bank can grow its loan book by Rs7.5tr by way of incremental funds from a higher RoE against loan book growth, which is 5% incrementally.
- FY25F guidance on loan book growth is around 15% and the interest rate margin to be at the same level.
- Growth in advances and deposits is expected at a similar level.
- The fall in the net interest margin or NIM is due to repricing of products and higher deposit rates.
- Management expects an interest rate cut in 2Q or 3Q of the next financial year.
- Excluding the impact of Reserve Bank of India or RBI guidelines on increased risk weight, CRAR would have been at 13.75%, higher by 70bp, and CET-1 would have been at 9.58%, higher by 49bp (excluding Rs9m profit).
- There is enough liquidity as the liquidity coverage ratio is at 131% and the credit- deposit ratio is at 66%.
- Credit costs are at lower levels in 15-20 years and they are due to the healthy economic growth in the country and the investments in strengthening the mechanism to underwrite the risk.
- An exceptional item of Rs71bn comprises two components – firstly, an anomaly in the pension fund at 40% for some employees and at 50% in the case of other employees for which Rs54bn has been provided while the balance amount of Rs 17bn is towards dearness relief neutralization. Tax benefit on the provision is available.
- The provision to be made in 4QFY24F on account of the hike in the wage rate to 17% stands at Rs54bn. It will increase the cost-to-income ratio of the bank.
- The cost-to-income ratio of the bank stands at 57.35%, including wage hike provision and excluding the impact of a one-time exceptional item of pension liabilities and dearness relief neutralization.

- The impact of the wage hike in the next financial year will be around Rs5bn per month, which is around Rs60bn overall.
- Management is leveraging data analytics, which has brought about a significant business of Rs950bn that was sourced through analytical leads, showing a growth of 37% YoY.
- In the loan book, 37.4% is linked to MCLR, 27.4% is linked to EBLR and 20.7% are fixed-rate loans.
- Recoveries from retail branches stood at Rs15.37bn and from specialized wings they were at Rs27.58bn. The biggest recovery in the case of major loans is Rs2bn and in the case of small loans it is Rs0.33bn. No recoveries from NCLT cases during the quarter.
- Rural infrastructure development fund stands at Rs2,670bn.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income	1,107,100	1,207,076	1,448,405	1,594,772	1,921,663
Total Non-Interest Income	434,966	405,639	366,156	476,547	463,132
Operating Revenue	1,542,066	1,612,715	1,814,561	2,071,318	2,384,795
Total Non-Interest Expenses	(793,347)	(827,305)	(944,459)	(1,174,703)	(1,338,580)
Pre-provision Operating Profit	715,544	752,924	837,130	848,440	997,635
Total Provision Charges	(440,130)	(244,521)	(165,073)	(41,900)	(159,674)
Operating Profit After Provisions	275,413	508,402	672,056	806,540	837,962
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	275,413	508,402	672,056	806,540	837,962
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	275,413	508,402	672,056	806,540	837,962
Exceptional Items		(74,184)		(71,000)	
Pre-tax Profit	275,413	434,219	672,056	735,540	837,962
Taxation	(71,307)	(117,459)	(169,732)	(189,769)	(216,194)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	204,107	316,760	502,325	545,771	621,768
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	204,107	316,760	502,325	545,771	621,768
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Gross Loans/Cust Deposits	90.5%	93.9%	98.7%	100.8%	105.4%
Avg Loans/Avg Deposits	95.3%	92.3%	96.4%	99.8%	103.2%
Avg Liquid Assets/Avg Assets	35.3%	37.5%	35.7%	32.6%	30.5%
Avg Liquid Assets/Avg IEAs	41.7%	44.5%	41.8%	37.4%	34.6%
Net Cust Loans/Assets	54.0%	54.8%	58.0%	60.6%	62.2%
Net Cust Loans/Broad Deposits	90.5%	93.9%	98.7%	100.8%	105.4%
Equity & Provns/Gross Cust Loans	10.4%	10.2%	10.2%	9.9%	9.7%
Asset Risk Weighting	51.9%	52.5%	51.9%	51.3%	51.1%
Provision Charge/Avg Cust Loans	1.84%	0.94%	0.56%	0.12%	0.40%
Provision Charge/Avg Assets	1.04%	0.51%	0.31%	0.07%	0.25%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Gross Loans	24,494,978	27,339,666	31,992,692	37,115,288	42,702,076
Liquid Assets & Invst. (Current)	13,517,052	14,814,454	15,703,662	16,668,787	17,997,912
Other Int. Earning Assets					
Total Gross Int. Earning Assets	38,012,028	42,154,120	47,696,356	53,784,076	60,699,988
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	38,012,028	42,154,120	47,696,356	53,784,076	60,699,988
Intangible Assets					
Other Non-Interest Earning Assets	3,517,687	3,399,249	3,970,616	4,487,203	5,082,195
Total Non-Interest Earning Assets	3,901,879	3,776,331	4,394,434	4,914,415	5,509,354
Cash And Marketable Securities	3,430,387	3,945,523	3,078,996	2,524,735	2,450,124
Long-term Investments					
Total Assets	45,344,296	49,875,972	55,169,784	61,223,224	68,659,464
Customer Interest-Bearing Liabilities	27,063,432	29,113,860	32,416,208	36,812,772	40,515,340
Bank Deposits					
Interest Bearing Liabilities: Others	3,621,421	4,030,171	3,146,556	4,172,977	4,260,434
Total Interest-Bearing Liabilities	30,684,854	33,144,030	35,562,764	40,985,748	44,775,776
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,671,381	1,455,978	1,631,101	1,819,797	2,299,318
Total Liabilities	32,356,234	34,600,008	37,193,864	42,805,544	47,075,092
Shareholders Equity	2,538,752	2,800,881	3,276,085	3,685,413	4,136,194
Minority Interests					
Total Equity	2,538,752	2,800,881	3,276,085	3,685,413	4,136,194

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Income Growth	12.9%	9.0%	20.0%	10.1%	20.5%
Operating Profit Growth	4.8%	4.9%	10.8%	3.0%	16.7%
Pretax Profit Growth	10%	58%	55%	9%	14%
Net Interest To Total Income	71.8%	74.8%	79.8%	77.0%	80.6%
Cost Of Funds	5.42%	4.85%	5.45%	6.71%	5.82%
Return On Interest Earning Assets	7.4%	6.9%	7.4%	8.2%	7.7%
Net Interest Spread	1.98%	2.02%	1.94%	1.49%	1.90%
Net Interest Margin (Avg Deposits)	4.42%	4.30%	4.71%	4.61%	4.97%
Net Interest Margin (Avg RWA)	4.88%	4.86%	5.29%	5.31%	5.78%
Provisions to Pre Prov. Operating Profit	62%	32%	20%	5%	16%
Interest Return On Average Assets	2.61%	2.54%	2.76%	2.74%	2.96%
Effective Tax Rate	25.9%	27.1%	25.3%	25.8%	25.8%
Net Dividend Payout Ratio	17.5%	16.2%	20.1%	22.1%	
Return On Average Assets	0.48%	0.82%	0.96%	1.06%	0.96%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in 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	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.