



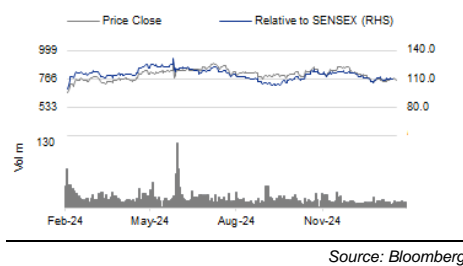
India

ADD (no change)

Consensus ratings*: Buy 39 Hold 6 Sell 5	
Current price:	Rs752
Target price:	Rs1,000
Previous target:	Rs1,100
Up/downside:	33.0%
InCred Research / Consensus:	3.6%
Reuters:	SBI.NS
Bloomberg:	SBIN IN
Market cap:	US\$92,454m
	Rs6,713,546m
Average daily turnover:	US\$152.4m
	Rs11068.9m
Current shares o/s:	8,924.6m
Free float:	40.0%
*Source: Bloomberg	

Key changes in this note

- Stretched LDR will either lead to a slowdown in credit or will keep the overall cost of deposits elevated, at least in the near term.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.1)	(12.0)	15.7
Relative (%)	(3.2)	(9.4)	7.0

Major shareholders	% held
Central Government	57.6
LIC	9.1

State Bank of India

Keep an eye on growth & margin

- SBI posted an in-line 3Q PAT of Rs168.9bn as ~4bp dip in margin/rise in forex losses were offset by lower provision amid reversal in standard asset provision.
- Deposit growth remains a challenge, with YTD LDR at ~96% vs. static ~77% with SME/agri segments driving advances while unsecured retail was sluggish.
- Liquidity/steady asset quality is an advantage, but soft CASA/ surge in the cost of funds to weigh over margin. Retain high-conviction ADD with Rs1,000 TP.

Credit growth led by agri/SME segments; CASA remains a challenge

State Bank of India (SBI) reported ~3.8% qoq growth in 3QFY25 advances to Rs40.6tr (+13.5% yoy) mainly contributed by agri/SME/foreign corporate loan segments while retail loans, mainly unsecured retail (Xpress Credit), up 2.8% YoY and 1% QoQ, witnessed a sluggish trend. Overall deposit growth remained subdued at ~2.2% sequentially (+9.8% yoy) despite SBI's rising presence and focus on new customer acquisition, indicating system-wide tighter liquidity impact. Though current accounts maintain their momentum (+14.2% YoY), savings accounts continue to remain a laggard (+3% YoY). Though we remain comfortable with liquidity positioning of SBI with static LDR at 77%, the incremental loan-to-deposit ratio (LDR) for the bank since Mar 2024 remains stretched at ~96%. We believe this will either lead to a further slowdown in the credit growth momentum for SBI or else will keep the overall cost of deposits elevated, at least in the near term.

Rangebound NIM, lowest CET 1/highest RWA in the past five years

The entire bank's NIM contracted by ~6bp qoq to 3.12% on the back of ~4bp QoQ rise in the cost of deposits as well as sequentially weak CASA. Also, domestic yields remained flat; however, foreign bank yields witnessed ~32bp sequential decline amid weak exchange rates. Considering the tight system liquidity as well as continued repricing of older deposits, margin to remain rangebound (~310-320bp) in the coming quarters. The CET ratio for SBI at ~9.5% is the lowest whereas RWA density at ~53.9% is the highest in the past five years. This may require SBI to raise capital in any format (QIP/stake sale) soon.

Steady asset quality, utilization of existing pool aided provisioning

Fresh loan slippage during the quarter witnessed a QoQ fall while there was a sequential improvement in credit costs to ~24bp from ~38bp in 2Q. Overall provisioning dipped by ~80% QoQ as SBI utilized a provision of Rs13.3bn from its existing pool of provisions (standard & restructured assets), as one large corporate moved out of restructured assets.

Outlook and valuation

We retain our high-conviction ADD rating on SBI with a lower target price of Rs1,000 (Rs1,100 earlier) or ~1.8x FY26F P/ABV. However, weak credit growth & pressure on margin are an issue. Downside risks: Weaker growth and a surge in non-performing assets or NPAs.

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Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	1,448,405	1,598,758	1,660,532	1,953,466	2,253,513
Total Non-Interest Income (Rsm)	366,156	516,822	498,147	519,671	578,862
Operating Revenue (Rsm)	1,814,561	2,115,580	2,158,680	2,473,137	2,832,375
Total Provision Charges (Rsm)	(165,073)	(49,142)	(128,854)	(179,443)	(231,555)
Net Profit (Rsm)	502,325	610,766	695,340	789,420	895,191
Core EPS (Rs)	56.29	68.44	77.91	88.45	100.31
Core EPS Growth	35%	32%	5%	14%	13%
FD Core P/E (x)	13.36	10.99	9.66	8.50	7.50
DPS (Rs)	11.30	13.70	19.48	24.32	30.09
Dividend Yield	1.50%	1.82%	2.59%	3.23%	4.00%
BVPS (Rs)	367.1	422.7	481.1	545.3	615.5
P/BV (x)	2.05	1.78	1.56	1.38	1.22
ROE	16.5%	19.3%	17.2%	17.2%	17.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings estimates

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)
Net Interest Income	3,89,050	3,95,000	3,98,157	4,16,552	4,11,255	4,16,195	4,14,455	4.1%	-0.4%
Domestic NIM (% of AUM)	3.2%	3.2%	3.1%	3.1%	3.1%	3.1%	2.9%		
Fee-Based Income	1,20,634	1,07,906	1,14,589	1,73,693	1,11,619	1,52,706	1,10,408	-3.6%	-27.7%
Operating Expenses	2,56,714	3,08,740	3,09,386	3,02,769	2,58,387	2,75,964	2,89,355	-6.5%	4.9%
Operating Profit	2,52,969	1,94,166	2,03,361	2,87,476	2,64,486	2,92,937	2,35,508	15.8%	-19.6%
Provisions	25,013	1,153	6,879	16,098	34,494	45,057	9,111	32.5%	-79.8%
% of Operating Profit	9.9%	0.6%	3.4%	5.6%	13.0%	15.4%	3.9%		
Exceptional Items	-	-	(71,000)	-	-	-	-		
PBT	2,27,956	1,93,013	1,25,482	2,71,378	2,29,992	2,47,880	2,26,398	80.4%	-8.7%
Tax	-59,113	-49,713	-33,843	-64,394	-59,640	-64,566	-57,483	69.9%	-11.0%
Tax Rate (%)	-25.9%	-25.8%	-27.0%	-23.7%	-25.9%	-26.0%	-25.4%		
PAT	1,68,843	1,43,300	91,640	2,06,984	1,70,352	1,83,314	1,68,914	84.3%	-7.9%
Gross NPL	9,13,278	8,69,741	8,67,488	8,42,763	8,42,260	8,33,692	8,43,604	-2.8%	1.2%
GNPL (% of Loans)	2.8%	2.6%	2.4%	2.2%	2.2%	2.1%	2.1%		
Net NPL	2,29,954	2,13,524	2,24,084	2,10,511	2,15,547	2,02,943	2,13,776	-4.6%	5.3%
NNPL (% of Loans)	0.7%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%		
Provision Coverage (%)	74.8%	75.4%	74.2%	75.0%	74.4%	75.7%	74.7%		
Advances (Rs m)	32,350	33,452	35,195	37,040	37,491	38,574	40,046	13.8%	3.8%
Deposits (Rs bn)	45,312	46,892	47,622	49,161	49,017	51,173	52,294	9.8%	2.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

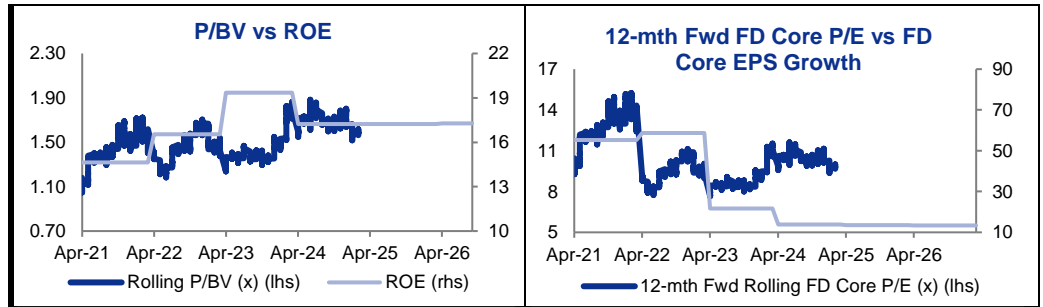
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest income	16,95,146	16,60,532	-2.0%	19,29,175	19,53,466	1.3%	19,29,175	19,53,466	1.3%
Non-Interest Income	5,14,188	4,98,147	-3.1%	5,47,105	5,19,671	-5.0%	5,47,105	5,19,671	-5.0%
PPOP	11,45,994	10,59,698	-7.5%	12,93,528	12,36,230	-4.4%	12,93,528	12,36,230	-4.4%
PAT	7,30,111	6,95,340	-4.8%	8,20,806	7,89,420	-3.8%	8,20,806	7,89,420	-3.8%
EPS (Rs)	81.8	77.9	-4.7%	92.0	88.5	-3.8%	92.0	88.5	-3.8%
BV (Rs)	484.1	481.1	-0.6%	550.7	545.3	-1.0%	550.7	545.3	-1.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Earnings call highlights

- The gross non-performing assets or GNPA ratio under Xpress Credit facility is high as loan growth in the segment was lower due to the shift to digital sourcing of loans through the YONO app. This is more of a denominator effect, as the GNPA ratio will come down as growth comes back on track.
- There was a provision reversal on one of the standard assets.
- Forex income was low as the mark-to-market or MTM gains declined due to adverse derivative positions in the currency market.
- SMA-2 was high as one of the accounts was observed having a higher risk, but the account has been fully reversed from SMA-2 in Jan 2025.
- There is a higher rate of lower bucket deposits, as compared to private banks, because there is short-term liquidity adjustment requirement at the bank due to higher salary accounts, which have high inflows at the beginning of the month while there are more outflows in the latter half of the month. It's more of an asset-liability management or ALM improvement activity.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	1,448,405	1,598,758	1,660,532	1,953,466	2,253,513
Total Non-Interest Income	366,156	516,822	498,147	519,671	578,862
Operating Revenue	1,814,561	2,115,580	2,158,680	2,473,137	2,832,375
Total Non-Interest Expenses	(944,459)	(1,144,089)	(1,065,943)	(1,175,724)	(1,340,326)
Pre-provision Operating Profit	837,130	937,972	1,059,698	1,236,230	1,429,937
Total Provision Charges	(165,073)	(49,142)	(128,854)	(179,443)	(231,555)
Operating Profit After Provisions	672,056	888,830	930,844	1,056,787	1,198,382
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	672,056	888,830	930,844	1,056,787	1,198,382
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	672,056	888,830	930,844	1,056,787	1,198,382
Exceptional Items		(71,000)			
Pre-tax Profit	672,056	817,830	930,844	1,056,787	1,198,382
Taxation	(169,732)	(207,063)	(235,503)	(267,367)	(303,191)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	502,325	610,766	695,340	789,420	895,191
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	502,325	610,766	695,340	789,420	895,191
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits	98.7%	100.6%	103.5%	108.5%	113.1%
Avg Loans/Avg Deposits	96.4%	99.7%	102.1%	106.1%	110.9%
Avg Liquid Assets/Avg Assets	35.7%	33.0%	31.2%	29.6%	28.3%
Avg Liquid Assets/Avg IEAs	41.8%	38.1%	35.3%	32.8%	31.1%
Net Cust Loans/Assets	58.0%	59.9%	62.5%	64.3%	65.5%
Net Cust Loans/Broad Deposits	98.7%	100.6%	103.5%	108.5%	113.1%
Equity & Provns/Gross Cust Loans	10.2%	10.2%	10.2%	10.1%	9.9%
Asset Risk Weighting	51.9%	51.1%	51.9%	51.3%	50.8%
Provision Charge/Avg Cust Loans	0.56%	0.14%	0.33%	0.40%	0.45%
Provision Charge/Avg Assets	0.31%	0.08%	0.20%	0.25%	0.29%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	31,992,692	37,039,708	41,916,612	48,020,052	55,588,296
Liquid Assets & Invst. (Current)	15,703,662	16,713,397	18,315,136	19,805,140	21,748,552
Other Int. Earning Assets					
Total Gross Int. Earning Assets	47,696,356	53,753,104	60,231,744	67,825,192	77,336,848
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	47,696,356	53,753,104	60,231,744	67,825,192	77,336,848
Intangible Assets					
Other Non-Interest Earning Assets	3,970,616	4,509,642	4,328,411	4,676,854	5,215,819
Total Non-Interest Earning Assets	4,394,434	4,935,815	4,789,216	5,148,660	5,708,834
Cash And Marketable Securities	3,078,996	3,108,020	2,097,862	1,737,028	1,879,434
Long-term Investments					
Total Assets	55,169,784	61,796,940	67,118,824	74,710,880	84,925,120
Customer Interest-Bearing Liabilities	32,416,208	36,812,772	40,515,340	44,237,776	49,160,768
Bank Deposits					
Interest Bearing Liabilities: Others	3,146,556	4,172,977	4,260,434	4,931,352	5,975,609
Total Interest-Bearing Liabilities	35,562,764	40,985,748	44,775,776	49,169,128	55,136,376
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,631,101	1,819,797	2,299,318	2,724,572	2,888,097
Total Liabilities	37,193,864	42,805,544	47,075,092	51,893,700	58,024,476
Shareholders Equity	3,276,085	3,772,465	4,293,971	4,866,300	5,492,934
Minority Interests					
Total Equity	3,276,085	3,772,465	4,293,971	4,866,300	5,492,934

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	20.0%	10.4%	3.9%	17.6%	15.4%
Operating Profit Growth	10.8%	11.7%	12.5%	18.7%	15.0%
Pretax Profit Growth	55%	22%	14%	14%	13%
Net Interest To Total Income	79.8%	75.6%	76.9%	79.0%	79.6%
Cost Of Funds	5.45%	6.67%	6.94%	6.43%	6.11%
Return On Interest Earning Assets	7.4%	8.2%	8.1%	7.8%	7.5%
Net Interest Spread	1.94%	1.51%	1.19%	1.34%	1.38%
Net Interest Margin (Avg Deposits)	4.71%	4.62%	4.29%	4.61%	4.83%
Net Interest Margin (Avg RWA)	5.29%	5.31%	5.00%	5.34%	5.54%
Provisions to Pre Prov. Operating Profit	20%	5%	12%	15%	16%
Interest Return On Average Assets	2.76%	2.73%	2.58%	2.75%	2.82%
Effective Tax Rate	25.3%	25.3%	25.3%	25.3%	25.3%
Net Dividend Payout Ratio	20.1%	17.9%			
Return On Average Assets	0.96%	1.17%	1.08%	1.11%	1.12%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.