

India

**ADD** (no change)

Consensus ratings\*: Buy 49 Hold 1 Sell 0

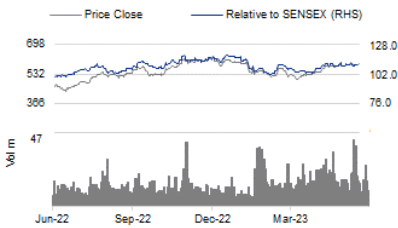
Current price: Rs589  
 Target price: Rs800  
 Previous target: Rs800  
 Up/downside: 35.8%  
 InCred Research / Consensus: 10.7%

Reuters:  
 Bloomberg: SBIN IN  
 Market cap: US\$72,415m  
 Rs5,258,382m  
 Average daily turnover: US\$131.0m  
 Rs9514.4m  
 Current shares o/s: 8,924.6m  
 Free float: 40.0%

\*Source: Bloomberg

**Key changes in this note**

- Fresh slippage ratio was the lowest in the past several years at ~0.6% of net advances, but write-offs accounted for ~61% of GNPA reduction in FY23.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.2	4.9	27.1
Relative (%)	0.0	0.3	10.5

Major shareholders	% held
Central Government	57.6
LIC	8.3

**Analyst(s)**



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# State Bank of India

## 2022-23 Annual Report: Key observations

- The 2022-23 Annual Report clearly articulates SBI's intention of growing unsecured retail business, but the rising share of PSU lending gives comfort.
- Sluggish deposit growth due to a healthy treasury portfolio but with Indian G-Secs' share at ~29.2% of deposits, margin surprise is likely in coming quarters.
- Fresh slippage was the lowest in the past several years at ~0.6% of net advances but keep a close eye on higher write-offs (~61% of GNPA reduction).

### Unsecured retail dominates advances, rise in PSU share comforting

State Bank of India or SBI witnessed a consistent rise in its unsecured retail loans, at ~29.1% of net advances against ~27.2% last year. To boost personal loan business further, SBI made several modifications to its personal loan products which include time-bound concession in the interest rate and waiver of prepayment/foreclosure charges. Interestingly, a significant rise in the share of public sector undertaking or PSU (+54.8% yoy, share rising to ~8.1% against ~6.1% last year) does provide comfort. On the contrary, priority sector lending witnessed sluggish growth of ~5.9% yoy with its overall share in domestic advances declining to ~21.8% against ~24.1% last year. Advances outside India witnessed a decent growth of ~19.6% yoy, led by bill purchases and syndicated loans.

### Deposit growth remains sluggish; elevated G-secs to aid margins

SBI's overall deposit growth has been sluggish for the past two years with a dip in CASA share. Borrowing in India remains well diversified, but its growth remained volatile. SBI has relied heavily on innovative perpetual debentures (IPD), which grew at ~28.4% CAGR over FY20-23. The investment book of SBI has remained flat (+6% yoy), with government securities (G-secs) continuing to dominate its overall portfolio. Indian G-secs, as a percentage of its of total deposits, remained comfortable at ~29.2%, flat compared to last year. SBI has invested significantly in foreign government securities as well, up by ~52.4% yoy, but the absolute quantum remains insignificant.

### Fresh slippage at a historical low but write-offs dominate recoveries

The fresh slippage ratio of SBI was the lowest in the past several years at ~0.6% of net advances, but recoveries and upgrades also remained muted on a yoy basis. Write-offs continue to be a key contributor to NPA reduction, with ~61% share in overall gross non-performing asset or GNPA reduction during the year. On the provisioning front, NPA provisioning remained low at ~30bp of net advances whereas standard asset provisioning was at ~20bp of net advances.

### Best among equals; maintain ADD rating on the stock

We have valued SBI on a sum-of the parts (SOTP) basis with the standalone bank valued at ~1.3x FY25F ABV and subsidiaries' contribution at Rs200/share. Accordingly, we have arrived at a target price of Rs800 or ~1.8x FY25F P/ABV with RoA of ~1% and RoE of ~17% for FY24F. Retain ADD rating. Downside risks: Weak growth and a surge in NPAs.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	1,207,076	1,448,405	1,611,746	1,811,350	2,065,158
Total Non-Interest Income (Rsm)	405,639	366,156	426,372	480,451	542,146
Operating Revenue (Rsm)	1,612,715	1,814,561	2,038,118	2,291,801	2,607,305
Total Provision Charges (Rsm)	(244,521)	(165,073)	(187,624)	(242,436)	(266,043)
Net Profit (Rsm)	316,760	502,325	588,084	644,288	750,336
Core EPS (Rs)	35.49	56.29	65.89	72.19	84.07
Core EPS Growth	82%	35%	17%	10%	16%
FD Core P/E (x)	16.60	10.47	8.94	8.16	7.01
DPS (Rs)	7.10	11.30	16.48	19.86	25.23
Dividend Yield	1.21%	1.92%	2.80%	3.37%	4.28%
BVPS (Rs)	313.8	367.1	416.5	468.8	527.7
P/BV (x)	1.88	1.61	1.41	1.26	1.12
ROE	14.6%	16.5%	16.8%	16.3%	16.9%

% Change In Core EPS Estimates  
 InCred Research/Consensus EPS (x)

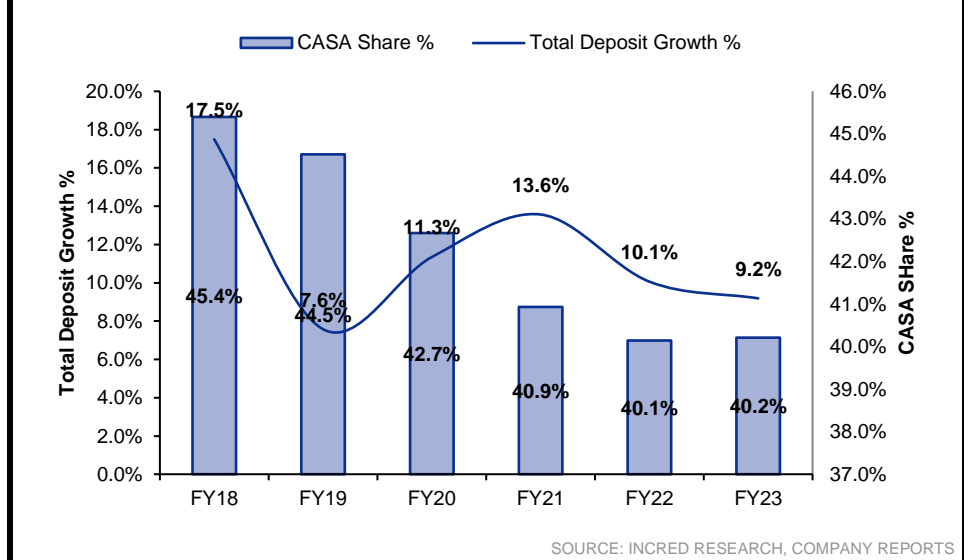
SOURCES: INCRED RESEARCH, COMPANY REPORTS

## 2022-23 Annual Report: Key observations

### Liabilities

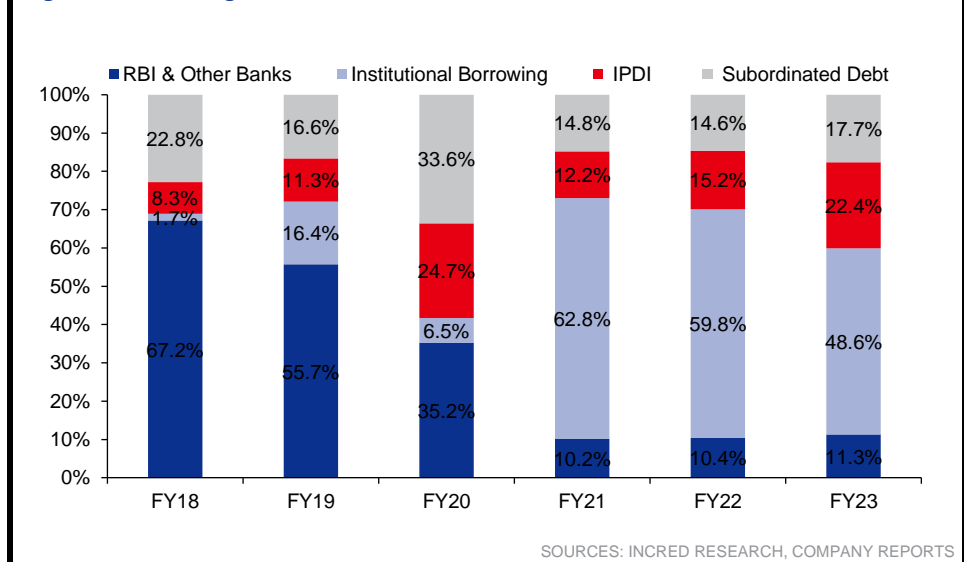
- Overall deposit growth has been easing for the past two years, with a fall in overall CASA share. The trend in term deposits remained steady, with the growth trajectory staying in the early teens.

Figure 1: Sluggish growth in deposits with a decline in CASA share



- Borrowing in India remained well diversified, but its growth remained volatile. Interestingly, SBI relied heavily on innovative perpetual debentures (IPD), which grew at ~28.4% CAGR over FY20-23.

Figure 2: Borrowing in India remains well diversified

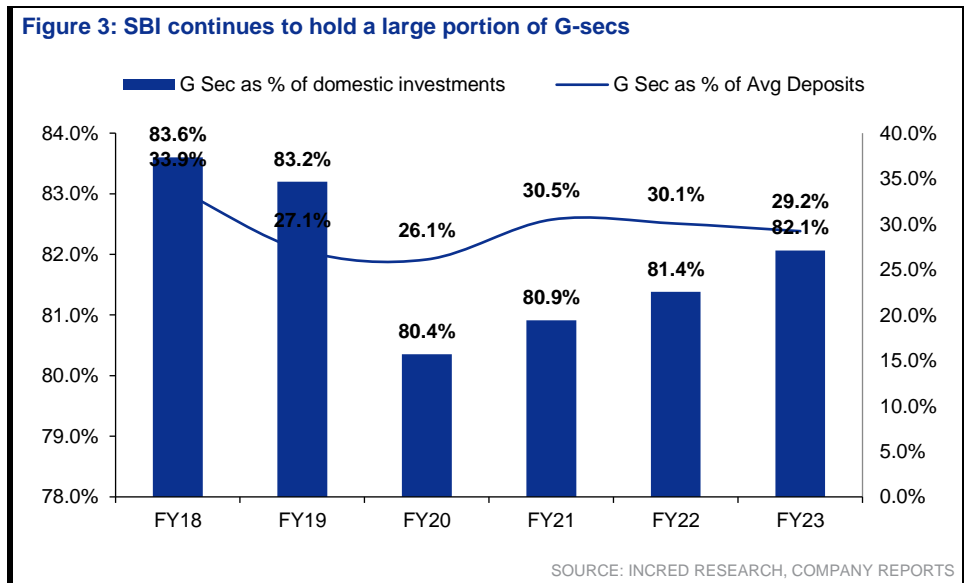


### Investments

- The investment book of SBI remained flat (+6% yoy), with government securities (G-secs) continuing to dominate the overall portfolio.
- Indian G-secs, as a percentage of total deposits, remained comfortable at ~29.2%, flat compared to last year.
- In the domestic investment portfolio, ~62.9% is in the HTM category while the rest is under AFS & HFT categories.

- SBI invested significantly in foreign government securities as well, up by ~52.4% yoy, but the absolute quantum remains insignificant compared to its total investment portfolio.

Figure 3: SBI continues to hold a large portion of G-secs



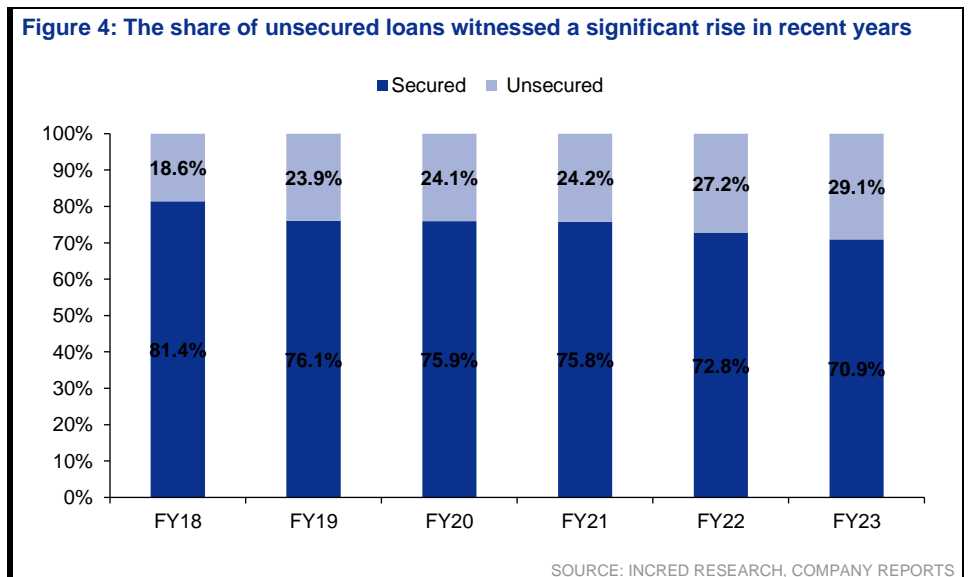
### Fixed assets

- The most interesting observation from the fixed-asset schedule was the revaluation reserves created by SBI during the year.
- SBI created gross revaluation reserves of Rs64.1bn during the year against its premises. Adjusting for depreciation, net revaluation reserves created by the bank stood at Rs45.8bn, which was added to reserves & surplus.
- Net revaluation reserves created stood at ~1.4% of the total net worth of SBI whereas overall revaluation reserves form ~8.5% of its total net worth.

### Advances

- SBI witnessed a significant rise in the share of PSU sector lending, which grew by ~54.8% yoy whereas the share of PSUs in its lending increased to ~8.1% from ~6.1% last year.
- On the contrary, priority sector lending witnessed a sluggish growth of ~5.9% yoy, with its overall share in domestic advances declining to ~21.8% against ~24.1% last year.
- SBI also witnessed a consistent rise in unsecured loans at ~29.1% of net advances against ~27.2% last year.

Figure 4: The share of unsecured loans witnessed a significant rise in recent years

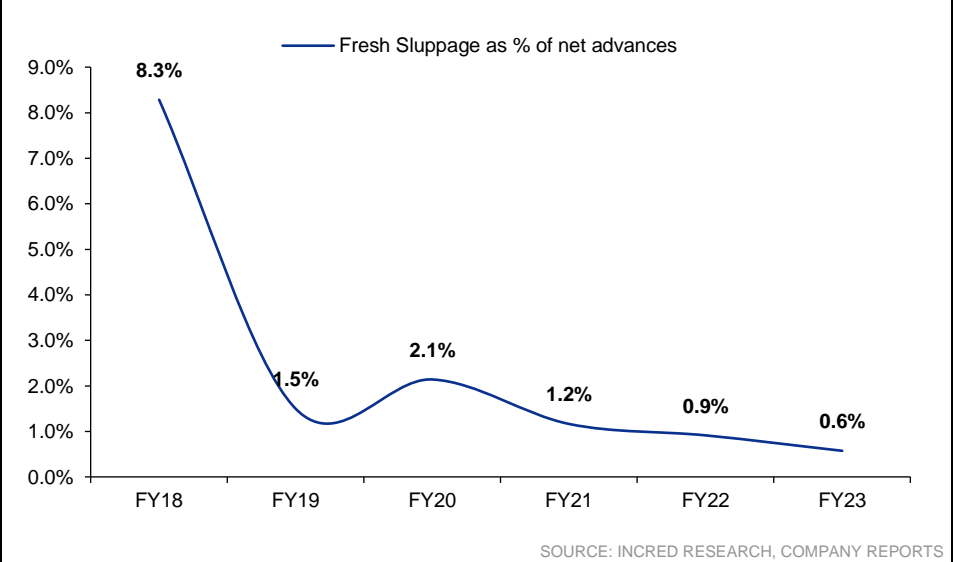


- Advances outside India witnessed a decent growth of ~19.6% yoy, led by bill purchases and syndicated loans. The share of overseas loans increased to ~15.3% against ~15% last year.
- Retail and SME segments continue to remain the key focus areas of the bank, but the share of corporate loans continues to remain at ~30% of overall advances.
- As of end-Mar 2023, SBI's market share in home loans and automobile loans stood at 33.1% and 19.4%, respectively.
- To boost personal loans further, SBI made several modifications to its personal loan products, which include time-bound concession in the interest rate and waiver of prepayment/foreclosure charges.

**Asset quality and provisions**

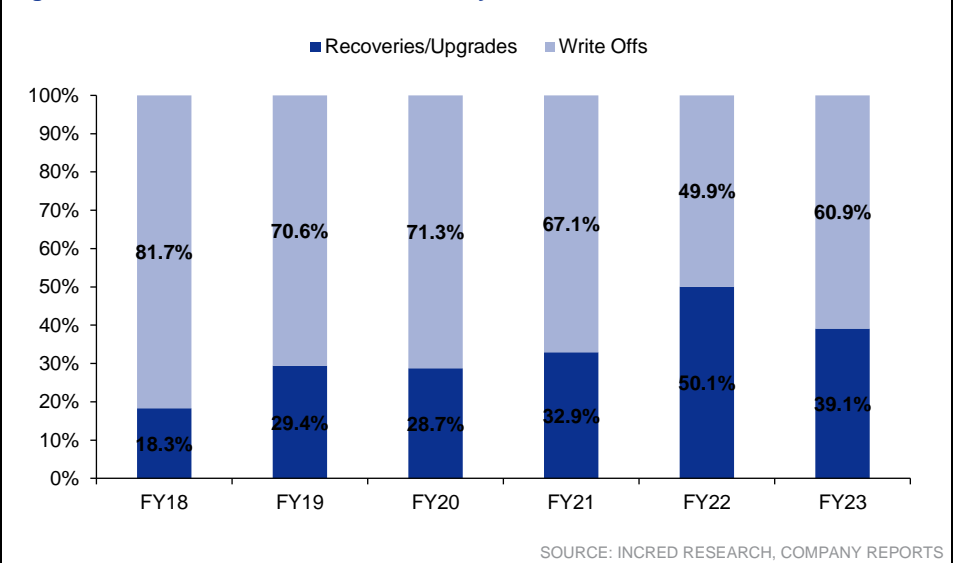
- The fresh slippage ratio of SBI was the lowest in the past several years at ~0.6% of net advances, but recoveries and upgrades also remained muted on a yoy basis.

**Figure 5: SBI reported the best-in-class slippage ratio in FY23**



- Write-offs continue to remain a key contributor to NPA reduction, with ~61% share in overall GNPA reduction during the year.

**Figure 6: Write-offs continue to remain a key contributor to GNPA reduction**



- On the provisioning front, NPA provision remained low at ~30bp of net advances whereas standard asset provision was flat on a yoy basis at ~20bp of net advances.

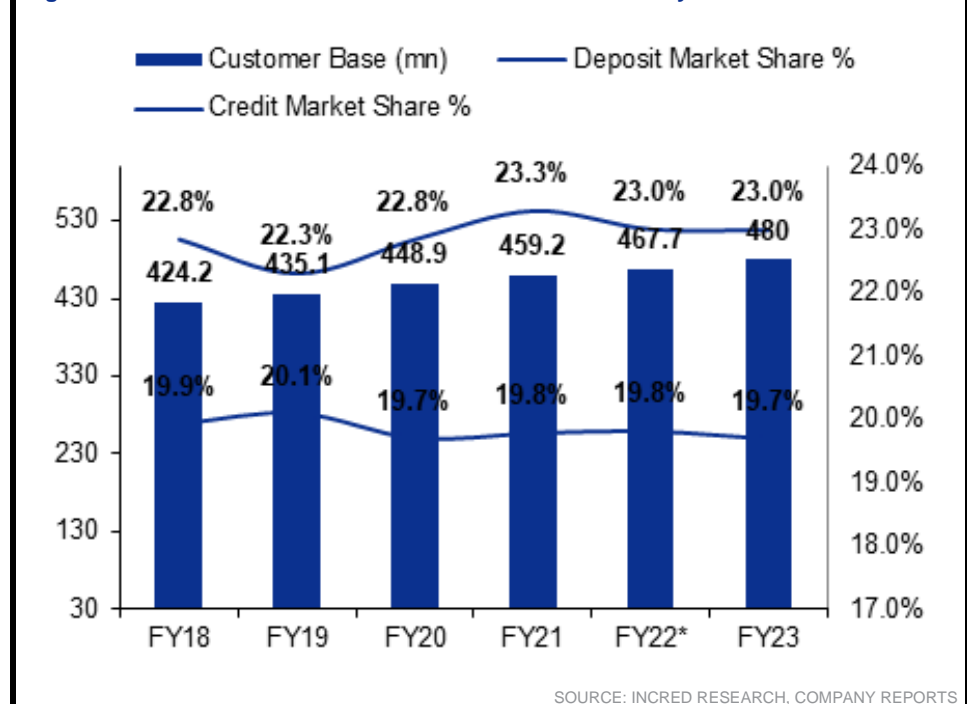
### Yields, cost of funds and margins

- Calculated yield on advances of SBI witnessed a rise of ~90bp during the year whereas the cost of deposits grew by ~20bp yoy and the cost of funds increased by ~30bp yoy, resulting in a sharp surge in calculated margins to ~322bp against ~301bp last year.

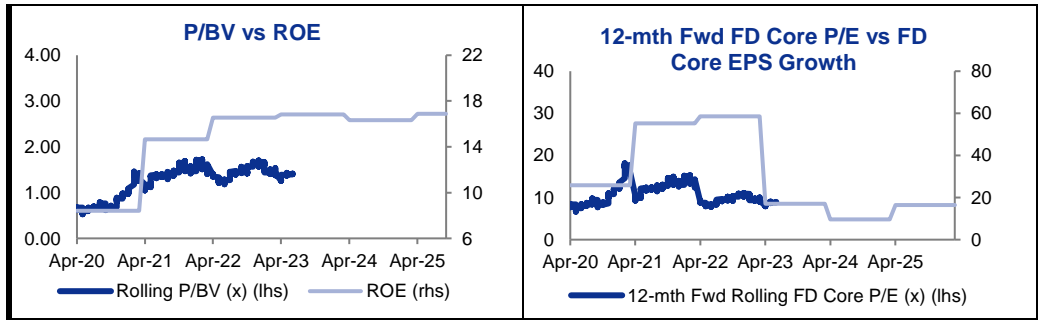
### Other income & expenses

- SBI continues to report sluggish commission and fee-based income, which grew by ~6.8% yoy to Rs262.4bn, but treasury income continued to perform well for the bank.
- On the operating expenses front, SBI witnessed flat employee expenses yoy, but the same is also attributed to pension liabilities charged by the bank last year.

Figure 7: Customer addition & market share remained healthy



BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	1,207,076	1,448,405	1,611,746	1,811,350	2,065,158
<b>Total Non-Interest Income</b>	<b>405,639</b>	<b>366,156</b>	<b>426,372</b>	<b>480,451</b>	<b>542,146</b>
Operating Revenue	1,612,715	1,814,561	2,038,118	2,291,801	2,607,305
<b>Total Non-Interest Expenses</b>	<b>(827,305)</b>	<b>(944,459)</b>	<b>(1,034,877)</b>	<b>(1,155,010)</b>	<b>(1,307,842)</b>
Pre-provision Operating Profit	752,924	837,130	976,998	1,107,253	1,273,205
<b>Total Provision Charges</b>	<b>(244,521)</b>	<b>(165,073)</b>	<b>(187,624)</b>	<b>(242,436)</b>	<b>(266,043)</b>
Operating Profit After Provisions	508,402	672,056	789,374	864,817	1,007,162
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	508,402	672,056	789,374	864,817	1,007,162
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	508,402	672,056	789,374	864,817	1,007,162
<b>Exceptional Items</b>	<b>(74,184)</b>				
Pre-tax Profit	434,219	672,056	789,374	864,817	1,007,162
Taxation	(117,459)	(169,732)	(201,290)	(220,528)	(256,826)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	316,760	502,325	588,084	644,288	750,336
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	316,760	502,325	588,084	644,288	750,336
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits	93.9%	98.7%	98.8%	101.1%	105.9%
Avg Loans/Avg Deposits	92.3%	96.4%	98.7%	100.0%	103.6%
Avg Liquid Assets/Avg Assets	37.5%	35.7%	33.6%	33.0%	32.1%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>44.5%</b>	<b>41.8%</b>	<b>38.9%</b>	<b>38.5%</b>	<b>37.3%</b>
Net Cust Loans/Assets	54.8%	58.0%	58.9%	59.2%	60.6%
<b>Net Cust Loans/Broad Deposits</b>	<b>93.9%</b>	<b>98.7%</b>	<b>98.8%</b>	<b>101.1%</b>	<b>105.9%</b>
Equity & Provns/Gross Cust Loans	10.2%	10.2%	10.2%	10.2%	10.1%
Asset Risk Weighting	52.5%	51.9%	51.1%	51.1%	51.1%
<b>Provision Charge/Avg Cust Loans</b>	<b>0.94%</b>	<b>0.56%</b>	<b>0.55%</b>	<b>0.63%</b>	<b>0.61%</b>
<b>Provision Charge/Avg Assets</b>	<b>0.51%</b>	<b>0.31%</b>	<b>0.32%</b>	<b>0.37%</b>	<b>0.36%</b>
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
<b>Total Gross Loans</b>	<b>27,339,666</b>	<b>31,992,692</b>	<b>36,352,820</b>	<b>40,961,484</b>	<b>46,854,728</b>
Liquid Assets & Invst. (Current)	14,814,454	15,703,662	16,759,780	18,224,484	20,157,378
Other Int. Earning Assets					
Total Gross Int. Earning Assets	42,154,120	47,696,356	53,112,600	59,185,968	67,012,104
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	42,154,120	47,696,356	53,112,600	59,185,968	67,012,104
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>3,399,249</b>	<b>3,970,616</b>	<b>4,478,054</b>	<b>5,061,308</b>	<b>5,733,891</b>
<b>Total Non-Interest Earning Assets</b>	<b>3,776,331</b>	<b>4,394,434</b>	<b>4,904,599</b>	<b>5,482,326</b>	<b>6,148,227</b>
Cash And Marketable Securities	3,945,523	3,078,996	3,716,195	4,486,903	4,188,129
<b>Long-term Investments</b>					
Total Assets	49,875,972	55,169,784	61,733,392	69,155,192	77,348,456
Customer Interest-Bearing Liabilities	29,113,860	32,416,208	36,812,772	40,515,340	44,237,776
Bank Deposits					
Interest Bearing Liabilities: Others	4,030,171	3,146,556	4,172,977	4,260,434	4,931,352
Total Interest-Bearing Liabilities	33,144,030	35,562,764	40,985,748	44,775,776	49,169,128
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,455,978	1,631,101	1,819,797	2,299,318	2,724,572
Total Liabilities	34,600,008	37,193,864	42,805,544	47,075,092	51,893,700
Shareholders Equity	2,800,881	3,276,085	3,717,148	4,184,257	4,709,492
<b>Minority Interests</b>					
Total Equity	2,800,881	3,276,085	3,717,148	4,184,257	4,709,492

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Income Growth	9.0%	20.0%	11.3%	12.4%	14.0%
Operating Profit Growth	4.9%	10.8%	15.3%	13.3%	14.3%
Pretax Profit Growth	58%	55%	17%	10%	16%
Net Interest To Total Income	74.8%	79.8%	79.1%	79.0%	79.2%
Cost Of Funds	4.85%	5.45%	5.25%	4.96%	4.65%
Return On Interest Earning Assets	6.9%	7.4%	7.2%	7.0%	6.7%
Net Interest Spread	2.02%	1.94%	1.93%	2.05%	2.08%
Net Interest Margin (Avg Deposits)	4.30%	4.71%	4.66%	4.68%	4.87%
Net Interest Margin (Avg RWA)	4.86%	5.29%	5.36%	5.41%	5.51%
Provisions to Pre Prov. Operating Profit	32%	20%	19%	22%	21%
Interest Return On Average Assets	2.54%	2.76%	2.76%	2.77%	2.82%
Effective Tax Rate	27.1%	25.3%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	16.2%	20.1%	25.0%		
Return On Average Assets	0.82%	0.96%	1.01%	0.98%	1.02%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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