



India

ADD (no change)

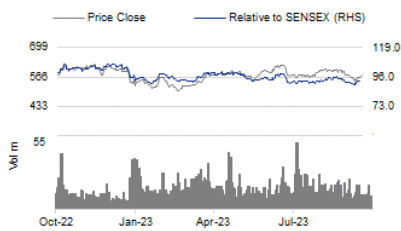
Consensus ratings*: Buy 47 Hold 3 Sell 2

Current price:	Rs578
Target price:	Rs750
Previous target:	Rs800
Up/downside:	29.8%
InCred Research / Consensus:	4.5%
Reuters:	SBI.NS
Bloomberg:	SBIN IN
Market cap:	US\$61,953m
	Rs5,159,765m
Average daily turnover:	US\$118.8m
	Rs9895.9m
Current shares o/s:	8,924.6m
Free float:	40.0%

*Source: Bloomberg

Key changes in this note

- We have added SBI to our high-conviction stocks list due to the bank's rising retail market share & well-managed asset quality.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.4)	0.8	(2.7)
Relative (%)	1.1	3.0	(7.8)

Major shareholders	% held
Central Government	57.6
LIC	8.3
	0.0

Analyst(s)



Jignesh SHIAL

T (91) 22 4161 1547

E jignesh.shial@incredcapital.com

Mayank AGARWAL

T (91) 22 4161 0000

E mayank.agarwal@incredcapital.com

State Bank of India

New addition to our high-conviction list

- SBI posted an in-line 2QFY24 PAT of Rs143.3bn, despite a sequential fall in margins and elevated staff costs (due to one-offs), amid improved credit costs.
- The margin dip was due to the growth in deposits (+3.5% qoq) & a rise in the cost of deposits (+10bp) while staff costs included one-off provision of Rs36bn.
- We have added SBI to our high-conviction stocks list due to rising retail market share & well-managed asset quality. Retain ADD with a lower TP of Rs750.

Volatile credit growth because of corporate & overseas loan portfolio

State Bank of India or SBI's gross advances in 2QFY24 grew by ~12.4% yoy/~3.3% qoq to Rs34.1tr backed by healthy traction in retail advances (+3.3% qoq) (including home loans) whereas domestic corporate and international advances witnessed a weak trend. Management remains confident of a healthy growth momentum (13-15%) in the coming fiscal year led by focused retail penetration, capex-driven corporate loan book growth and by taking a lead in international syndications. SBI's diversified product profile across lenders (retail/corporate) & improved reach will keep it relevant, even in a slowing demand scenario. We are building in ~13.3% CAGR in advances over FY23-25F vs.~17% in FY23.

Margin decline is almost over; surge in opex is one-off in nature

SBI reported a sequential dip of ~2bp in margins to ~331bp (the entire bank) because of the domestic and international operations equally in 2QFY24. We believe the margin decline is fully factored in and a further fall is unlikely as any more rise in costs would be passed on to the end-customers. However, considering a repricing of the existing deposits at higher rates, we continue to build in some compression in 2HFY24F on a conservative basis. The steep sequential surge in opex is attributable to one-off employee wage hike provision of Rs36bn, which should normalize over the coming quarters.

Asset quality healthy; no negative surprise from unsecured portfolio

Headline NPAs of SBI declined sequentially, with GNPAAs at 2.55% & NNPAAs at 0.64% and the coverage at ~75.5%. The trend in fresh slippages and recoveries remained encouraging, with no negative surprises from the unsecured retail portfolio of the bank, mainly comprising public sector companies' employees/high-rated corporates' employees.

Valuation

The standalone SBI, with +1% RoA and an improving asset quality trend, is available at ~0.8x FY25F BV which, we believe, is attractive. We are adding SBI to our high-conviction ADD stocks list amid the bank's rising retail market share and well-managed asset quality. We valued SBI on sum-of the parts (SOTP) basis, with the standalone bank valued at ~1.2x FY25F ABV and the subsidiaries contributing Rs200/share. Accordingly, we arrived at a lower target price of Rs750 (Rs800 earlier), or 1.8x FY25F P/ABV, with RoA at ~1% and RoE at ~17% for FY24F. Downside risks: Weak growth and a 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	1,598,118	1,809,213
Total Non-Interest Income (Rsm)	434,966	405,639	366,156	435,512	490,008
Operating Revenue (Rsm)	1,542,066	1,612,715	1,814,561	2,033,630	2,299,221
Total Provision Charges (Rsm)	(440,130)	(244,521)	(165,073)	(81,513)	(164,502)
Net Profit (Rsm)	204,107	316,760	502,325	604,861	628,657
Core EPS (Rs)	22.87	35.49	56.29	67.77	70.44
Core EPS Growth	26%	82%	35%	20%	4%
FD Core P/E (x)	25.28	16.29	10.27	8.53	8.21
DPS (Rs)	4.00	7.10	11.30	16.95	19.38
Dividend Yield	0.69%	1.23%	1.95%	2.93%	3.35%
BVPS (Rs)	284.5	313.8	367.1	417.9	469.0
P/BV (x)	2.03	1.84	1.57	1.38	1.23
ROE	8.4%	14.6%	16.5%	17.3%	15.9%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

Figure 1: Quarterly results summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	311,959	351,834	380,686	403,925	389,050	395,000	12.3%	1.5%
<i>Domestic NIM (% of AUM)</i>	2.9%	3.2%	3.3%	3.4%	3.2%	3.2%		
Fee-Based Income	23,122	88,743	114,677	139,614	120,634	107,906	21.6%	-10.6%
Operating Expenses	207,556	229,377	243,171	297,328	256,714	308,740	34.6%	20.3%
Operating Profit	127,526	211,200	252,193	246,211	252,969	194,166	-8.1%	-23.2%
Provisions	43,924	30,387	57,606	33,157	25,013	1,153	-96.2%	-95.4%
<i>% of operating profit</i>	34.4%	14.4%	22.8%	13.5%	9.9%	0.6%		
Exceptional Items	-	-	-	-	-	-		
PBT	83,602	180,814	194,587	213,054	227,956	193,013	6.7%	-15.3%
Tax	-22,921	-48,168	-52,534	-46,109	-59,113	-49,713	3.2%	-15.9%
<i>Tax rate (%)</i>	-27.4%	-26.6%	-27.0%	-21.6%	-25.9%	-25.8%		
PAT	60,681	132,645	142,053	166,945	168,843	143,300	8.0%	-15.1%
Gross NPL	1,132,717	1,068,041	983,465	909,278	913,278	869,741	-18.6%	-4.8%
GNPL (% of loans)	3.9%	3.5%	3.1%	2.8%	2.8%	2.6%		
Net NPL	282,579	235,722	234,843	214,666	229,954	213,524	-9.4%	7.1%
NNPL (% of loans)	1.0%	0.8%	0.8%	0.7%	0.7%	0.6%		
Provision Coverage (%)	75.1%	77.9%	76.1%	76.4%	74.8%	75.4%		
Advances (Rs m)	28,152	29,513	30,582	31,993	32,350	33,452	13.3%	3.4%
Deposits (Rs bn)	40,457	41,903	42,136	44,238	45,312	46,892	11.9%	2.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

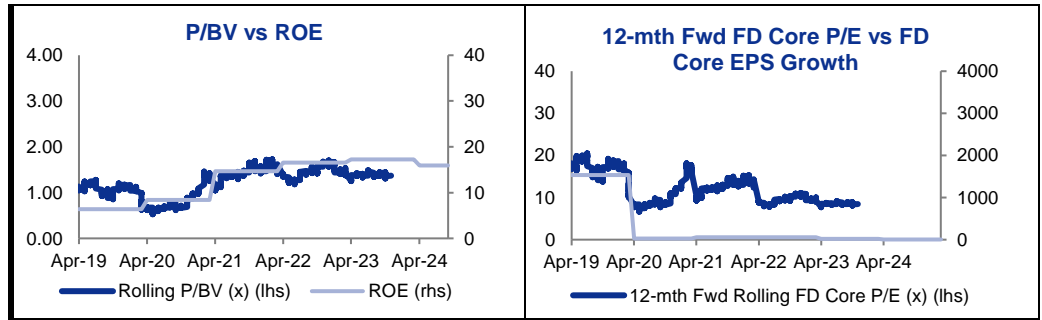
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	1,653,114	1,598,118	-3.3%	1,793,380	1,809,213	0.9%	2,018,774	2,052,386	1.7%
Non-Interest Income	435,512	435,512	0.0%	490,008	490,008	0.0%	551,879	551,879	0.0%
PPOP	999,986	896,690	-10.3%	1,065,773	1,011,749	-5.1%	1,211,539	1,143,330	-5.6%
PAT	634,211	604,861	-4.6%	652,676	628,657	-3.7%	741,306	700,801	-5.5%
EPS (Rs)	71.1	67.8	-4.6%	73.1	70.5	-3.7%	83.1	78.5	-5.5%
BV (Rs)	420.5	418.0	-0.6%	473.5	469.1	-0.9%	531.7	524.1	-1.4%

SOURCE: INCRED RESEARCH

Conference-call highlights

- The Xpress personal loans of SBI are safe as they are given only to salaried customers. Only 12% of total Xpress loans are to 'A'-rated corporates' employees and the remaining to the armed forces and government employees.
- Management expects a further margin compression of 3-5bp, which would be due to the impact of deposit costs only.
- Wage revision provision is being made at a rate factoring 14%. If the rate is finalized at 15%, then the additional provision cost would be Rs1bn monthly.
- Proposals in the pipeline are worth Rs4tr while Rs1.4tr of projects have been sanctioned but pending for disbursement. These projects are related to the domestic economy and thus, there would be no impact from the global economic uncertainty.
- Yields in Xpress loans are lower than those of SME loans. Some of the banks are willing to lend to a few corporates at lower rates.
- SBI, in its budget, has factored in a 1.2% RoA.
- Small and medium enterprises' (SME) non-performing assets or NPAs are in less than Rs5m loans. These low-ticket SME loans have a 70% share in SME NPAs. These micro kinds of borrowers are prone to stress and many of them pull back. Rs12bn slippage of the last quarter was pulled back in 2QFY24.

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	1,598,118	1,809,213
Total Non-Interest Income	434,966	405,639	366,156	435,512	490,008
Operating Revenue	1,542,066	1,612,715	1,814,561	2,033,630	2,299,221
Total Non-Interest Expenses	(793,347)	(827,305)	(944,459)	(1,088,766)	(1,238,892)
Pre-provision Operating Profit	715,544	752,924	837,130	896,690	1,011,749
Total Provision Charges	(440,130)	(244,521)	(165,073)	(81,513)	(164,502)
Operating Profit After Provisions	275,413	508,402	672,056	815,176	847,247
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	275,413	508,402	672,056	815,176	847,247
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	275,413	508,402	672,056	815,176	847,247
Exceptional Items		(74,184)			
Pre-tax Profit	275,413	434,219	672,056	815,176	847,247
Taxation	(71,307)	(117,459)	(169,732)	(210,316)	(218,590)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	204,107	316,760	502,325	604,861	628,657
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	204,107	316,760	502,325	604,861	628,657
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%	98.5%	100.8%
Avg Loans/Avg Deposits	95.3%	92.3%	96.4%	98.6%	99.7%
Avg Liquid Assets/Avg Assets	35.3%	37.5%	35.7%	33.5%	32.7%
Avg Liquid Assets/Avg IEAs	41.7%	44.5%	41.8%	38.9%	38.1%
Net Cust Loans/Assets	54.0%	54.8%	58.0%	58.9%	59.6%
Net Cust Loans/Broad Deposits	90.5%	93.9%	98.7%	98.5%	100.8%
Equity & Provns/Gross Cust Loans	10.4%	10.2%	10.2%	10.3%	10.2%
Asset Risk Weighting	51.9%	52.5%	51.9%	51.2%	51.2%
Provision Charge/Avg Cust Loans	1.84%	0.94%	0.56%	0.24%	0.43%
Provision Charge/Avg Assets	1.04%	0.51%	0.31%	0.14%	0.25%
Total Write Offs/Average Assets					

SOURCES: 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	36,264,628	40,842,960
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	52,933,416	58,840,872
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	38,012,028	42,154,120	47,696,356	52,933,416	58,840,872
Intangible Assets					
Other Non-Interest Earning Assets	3,517,687	3,399,249	3,970,616	4,476,995	5,059,886
Total Non-Interest Earning Assets	3,901,879	3,776,331	4,394,434	4,904,207	5,487,045
Cash And Marketable Securities	3,430,387	3,945,523	3,078,996	3,697,559	4,194,597
Long-term Investments					
Total Assets	45,344,296	49,875,972	55,169,784	61,535,180	68,522,512
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	3,729,730	4,185,507
Minority Interests					
Total Equity	2,538,752	2,800,881	3,276,085	3,729,730	4,185,507

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Income Growth	12.9%	9.0%	20.0%	10.3%	13.2%
Operating Profit Growth	4.8%	4.9%	10.8%	8.6%	12.2%
Pretax Profit Growth	10%	58%	55%	21%	4%
Net Interest To Total Income	71.8%	74.8%	79.8%	78.6%	78.7%
Cost Of Funds	5.42%	4.85%	5.45%	6.41%	5.81%
Return On Interest Earning Assets	7.4%	6.9%	7.4%	8.1%	7.7%
Net Interest Spread	1.98%	2.02%	1.94%	1.64%	1.88%
Net Interest Margin (Avg Deposits)	4.42%	4.30%	4.71%	4.62%	4.68%
Net Interest Margin (Avg RWA)	4.88%	4.86%	5.29%	5.32%	5.43%
Provisions to Pre Prov. Operating Profit	62%	32%	20%	9%	16%
Interest Return On Average Assets	2.61%	2.54%	2.76%	2.74%	2.78%
Effective Tax Rate	25.9%	27.1%	25.3%	25.8%	25.8%
Net Dividend Payout Ratio	17.5%	16.2%	20.1%	25.0%	
Return On Average Assets	0.48%	0.82%	0.96%	1.04%	0.97%

SOURCES: 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.