



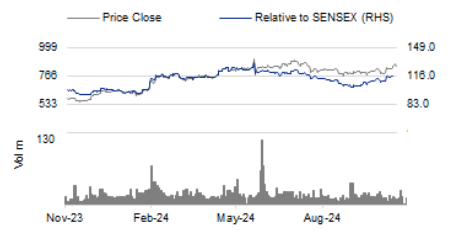
India

ADD (no change)

Consensus ratings*: Buy 39 Hold 5 Sell 5	
Current price:	Rs843
Target price:	Rs1,100
Previous target:	Rs1,100
Up/downside:	30.5%
InCred Research / Consensus:	17.6%
Reuters:	SBI.NS
Bloomberg:	SBIN IN
Market cap:	US\$103,626m
	Rs7,524,794m
Average daily turnover:	US\$208.6m
	Rs15144.0m
Current shares o/s:	8,924.6m
Free float:	42.5%
*Source: Bloomberg	

Key changes in this note

- Comfortable liquidity remains an advantage for managing growth, however margin remains range-bound amid softer CASA deposits & a surge in the cost of funds.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.9	4.3	45.3
Relative (%)	10.8	3.6	18.8

Major shareholders	% held
Central Government	57.5
LIC	9.3
SBI MF	3.2

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State Bank of India

Other income drives outperformance

- SBI posted a better-than-estimated 2Q PAT of Rs183.3bn, despite an 8bp margin decline qoq, on one-off investment gains due to a change in RBI policy.
- Comfortable liquidity remains an advantage for managing growth, however the margin remains range-bound amid softer CASA & a surge in the cost of funds.
- Consistent delivery of +1% RoA/ +16% RoE to command a valuation premium. Retain our high-conviction ADD rating with a TP of Rs1,100 or ~2x FY26F BV.

Growth momentum remains healthy; CASA remains a challenge

State Bank of India (SBI) reported ~2.9% qoq growth in advances to Rs38.5tr (+15.3% yoy) in 2QFY25, mainly due to agri/SME/corporate loans whereas retail loans witnessed seasonal weakness. Management remains firm on growing the loan book in the range of ~14-16% in the near term amid rising retail reach as well as rising corporate opportunities. Overall deposit growth picked up by ~4.4% qoq (+9.1% yoy), however the weak momentum in CASA deposits (+4.2% yoy), despite SBI's rising presence and focus on new customer acquisition, indicates system-wide tighter liquidity impact. Though current accounts witnessed some momentum, savings accounts continue to remain a laggard due to the availability of diversified investment opportunities available to account holders, including term deposits.

LDR leaves ample headroom for growth; margin to be range-bound

SBI's NIM contracted by 8bp qoq to 3.14% due to sequentially weak CASA momentum as deposit growth is mainly contributed by term deposits which, in turn, impacted the overall cost of funds. However, ample liquidity remains advantageous for SBI, with the loan-to-deposit ratio or LDR comfortable at 75% (domestic LDR is ~68%), lowest among peers. As a result, SBI continues to be a dominant player across lending segments without compromising on margin. However, considering the tight system liquidity impacting CASA deposits as well as continued repricing of older deposits at relatively expensive rates, the margin trajectory to remain range-bound (~315-325bp) in coming quarters.

Improving operating leverage; sturdy asset quality

Opex (-10.6% yoy/+6.8% qoq) was well-controlled, with lower employee expenses (-4.3% qoq/-21.8% yoy), which is attributable to mark-to-market gains on pension liabilities. The cost-to-income ratio of the bank improved further to ~48.5% and its management remains firm on maintaining the same at current levels. Headline NPA numbers improved with a reduction in the slippage ratio sequentially.

Outlook and valuation

We retain our high-conviction ADD rating on SBI with a target price of Rs1,100 or ~2x FY26F P/ABV. We have valued SBI on a sum-of-the parts (SOTP) basis, with the standalone bank valued at ~1.6x FY26F ABV and the subsidiaries contributing Rs200/share. Downside risks: Weaker growth and a surge in non-performing assets or NPAs.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	1,448,405	1,598,758	1,695,146	1,929,175	2,277,605
Total Non-Interest Income (Rsm)	366,156	516,822	514,188	547,105	610,190
Operating Revenue (Rsm)	1,814,561	2,115,580	2,209,334	2,476,279	2,887,795
Total Provision Charges (Rsm)	(165,073)	(49,142)	(168,602)	(194,725)	(263,777)
Net Profit (Rsm)	502,325	610,766	730,111	820,806	952,226
Core EPS (Rs)	56.29	68.44	81.81	91.97	106.70
Core EPS Growth	35%	32%	10%	12%	16%
FD Core P/E (x)	14.98	12.32	10.31	9.17	7.90
DPS (Rs)	11.30	13.70	20.45	25.29	32.01
Dividend Yield	1.34%	1.62%	2.43%	3.00%	3.80%
BVPS (Rs)	367.1	422.7	484.1	550.7	625.4
P/BV (x)	2.30	1.99	1.74	1.53	1.35
ROE	16.5%	19.3%	18.0%	17.8%	18.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Net Interest Income	3,89,050	3,95,000	3,98,157	4,16,552	4,11,255	4,16,195	5.4%	1.2%
Domestic NIM (% of AUM)	3.2%	3.2%	3.1%	3.1%	3.1%	3.1%		
Fee-Based Income	1,20,634	1,07,906	1,14,589	1,73,693	1,11,619	1,52,706	41.5%	36.8%
Operating Expenses	2,56,714	3,08,740	3,09,386	3,02,769	2,58,387	2,75,964	-10.6%	6.8%
Operating Profit	2,52,969	1,94,166	2,03,361	2,87,476	2,64,486	2,92,937	50.9%	10.8%
Provisions	25,013	1,153	6,879	16,098	34,494	45,057	3808.5%	30.6%
% of operating profit	9.9%	0.6%	3.4%	5.6%	13.0%	15.4%		
Exceptional Items	-	-	(71,000)	-	-	-		
PBT	2,27,956	1,93,013	1,25,482	2,71,378	2,29,992	2,47,880	28.4%	7.8%
Tax	-59,113	-49,713	-33,843	-64,394	-59,640	-64,566	29.9%	8.3%
Tax Rate (%)	-25.9%	-25.8%	-27.0%	-23.7%	-25.9%	-26.0%		
PAT	1,68,843	1,43,300	91,640	2,06,984	1,70,352	1,83,314	27.9%	7.6%
Gross NPL	9,13,278	8,69,741	8,67,488	8,42,763	8,42,260	8,33,692	-4.1%	-1.0%
GNPL (% of Loans)	2.8%	2.6%	2.4%	2.2%	2.2%	2.1%		
Net NPL	2,29,954	2,13,524	2,24,084	2,10,511	2,15,547	2,02,943	-5.0%	-5.8%
NNPL (% of Loans)	0.7%	0.6%	0.6%	0.6%	0.6%	0.5%		
Provision Coverage (%)	74.8%	75.4%	74.2%	75.0%	74.4%	75.7%		
Advances (Rs m)	32,350	33,452	35,195	37,040	37,491	38,574	15.3%	2.9%
Deposits (Rs bn)	45,312	46,892	47,622	49,161	49,017	51,173	9.1%	4.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

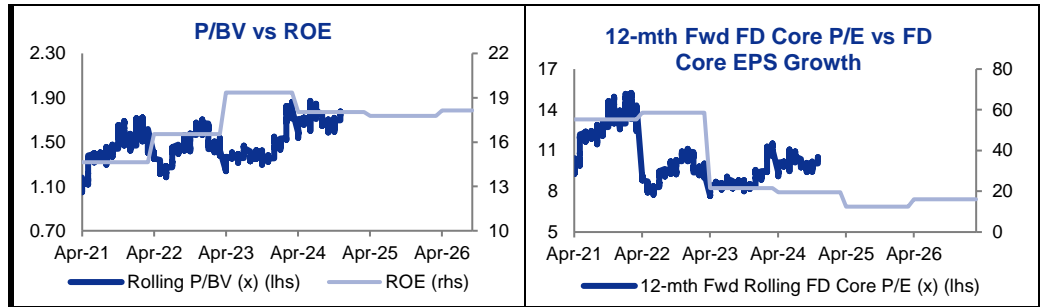
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	1,708,263	1,695,146	-0.8%	2,019,095	1,929,175	-4.5%	2,354,768	2,277,605	-3.3%
Non-Interest Income	514,188	514,188	0.0%	547,105	547,105	0.0%	618,504	610,190	-1.3%
PPOP	1,094,998	1,145,994	4.7%	1,316,974	1,293,528	-1.8%	1,548,207	1,538,511	-0.6%
PAT	721,643	730,111	1.2%	846,827	820,806	-3.1%	959,469	952,226	-0.8%
EPS (Rs)	80.9	81.8	1.2%	94.9	92.0	-3.1%	107.5	106.7	-0.8%
BV (Rs)	483.4	484.1	0.1%	552.2	550.7	-0.3%	627.4	625.4	-0.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY25 conference-call highlights ➤

- SBI reiterated its credit growth guidance of 14-16% with a higher deposit growth guidance of 10-10.5% yoy for FY25F.
- Within the retail book, home loans are indicated to grow by ~13-14% yoy, with a good growth pick-up in automobile loans and a double-digit loan growth in Xpress credit.
- The slowdown in Xpress credit (down ~1% qoq and up ~7% yoy) is largely attributable to higher repayment and slow demand during the quarter. However, there were no signs of stress.
- Growth in Xpress credit is indicated to improve to double digits yoy from 3Q/4QFY25F.
- The average life of Xpress credit is 14 months, with Rs16-170bn of repayment every month.
- Corporate loan growth to be in high double digits.
- The pipeline of corporate loans proposed and not disbursed or in the pipeline stood at ~Rs6tr, with higher working capital limits. Demand was seen from infrastructure, renewables, roads, thermal power, steel, petroleum, engineering, aviation, and services segments.
- Of the total loans, ~40% are linked to the MCLR, which will give some buffer in a declining interest rate environment.
- SBI has revised its MCLR rate upwards by ~20bp, which will play out after Dec 2024F and has a cushion to pass on another ~35bp.
- SBI has identified 100 potential growth centres for CASA deposits and also increased its focus on branches which show negative growth.
- SBI's retail loan book is ~95% skewed towards salaried customers with more high-ticket loans and has a low exposure to small-value loans of Rs50,000 – Rs0.1m, which is currently witnessing stress.
- The microfinance book stood at ~Rs110-120bn with largely stable asset quality.

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	1,695,146	1,929,175	2,277,605
Total Non-Interest Income	366,156	516,822	514,188	547,105	610,190
Operating Revenue	1,814,561	2,115,580	2,209,334	2,476,279	2,887,795
Total Non-Interest Expenses	(944,459)	(1,144,089)	(1,022,771)	(1,129,099)	(1,287,172)
Pre-provision Operating Profit	837,130	937,972	1,145,994	1,293,528	1,538,511
Total Provision Charges	(165,073)	(49,142)	(168,602)	(194,725)	(263,777)
Operating Profit After Provisions	672,056	888,830	977,391	1,098,803	1,274,734
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	672,056	888,830	977,391	1,098,803	1,274,734
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	672,056	888,830	977,391	1,098,803	1,274,734
Exceptional Items		(71,000)			
Pre-tax Profit	672,056	817,830	977,391	1,098,803	1,274,734
Taxation	(169,732)	(207,063)	(247,280)	(277,997)	(322,508)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	502,325	610,766	730,111	820,806	952,226
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	502,325	610,766	730,111	820,806	952,226
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%	104.4%	110.4%	115.2%
Avg Loans/Avg Deposits	96.4%	99.7%	102.6%	107.5%	112.9%
Avg Liquid Assets/Avg Assets	35.7%	33.0%	31.2%	29.6%	28.2%
Avg Liquid Assets/Avg IEAs	41.8%	38.1%	35.7%	33.7%	31.9%
Net Cust Loans/Assets	58.0%	59.9%	61.6%	63.0%	64.6%
Net Cust Loans/Broad Deposits	98.7%	100.6%	104.4%	110.4%	115.2%
Equity & Provns/Gross Cust Loans	10.2%	10.2%	10.2%	10.1%	9.9%
Asset Risk Weighting	51.9%	51.1%	51.3%	50.9%	50.9%
Provision Charge/Avg Cust Loans	0.56%	0.14%	0.43%	0.43%	0.50%
Provision Charge/Avg Assets	0.31%	0.08%	0.26%	0.27%	0.32%
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	42,278,632	48,823,140	56,622,416
Liquid Assets & Invst. (Current)	15,703,662	16,713,397	17,897,626	19,353,920	21,252,034
Other Int. Earning Assets					
Total Gross Int. Earning Assets	47,696,356	53,753,104	60,176,256	68,177,064	77,874,448
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	47,696,356	53,753,104	60,176,256	68,177,064	77,874,448
Intangible Assets					
Other Non-Interest Earning Assets	3,970,616	4,509,642	5,077,934	5,747,209	6,514,245
Total Non-Interest Earning Assets	4,394,434	4,935,815	5,531,209	6,219,015	7,007,260
Cash And Marketable Securities	3,078,996	3,108,020	2,957,142	3,096,931	2,835,045
Long-term Investments					
Total Assets	55,169,784	61,796,940	68,664,608	77,493,008	87,716,752
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	4,320,049	4,915,133	5,581,692
Minority Interests					
Total Equity	3,276,085	3,772,465	4,320,049	4,915,133	5,581,692

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	20.0%	10.4%	6.0%	13.8%	18.1%
Operating Profit Growth	10.8%	11.7%	22.1%	13.5%	18.8%
Pretax Profit Growth	55%	22%	20%	12%	16%
Net Interest To Total Income	79.8%	75.6%	76.7%	77.9%	78.9%
Cost Of Funds	5.45%	6.67%	6.84%	6.46%	6.08%
Return On Interest Earning Assets	7.4%	8.2%	8.1%	7.7%	7.5%
Net Interest Spread	1.94%	1.51%	1.28%	1.28%	1.38%
Net Interest Margin (Avg Deposits)	4.71%	4.62%	4.38%	4.55%	4.88%
Net Interest Margin (Avg RWA)	5.29%	5.31%	5.07%	5.17%	5.42%
Provisions to Pre Prov. Operating Profit	20%	5%	15%	15%	17%
Interest Return On Average Assets	2.76%	2.73%	2.60%	2.64%	2.76%
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%	1.12%	1.12%	1.15%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.
<i>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.</i>	
Sector Ratings	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.