

India

HOLD (no change)

Consensus ratings*: Buy 40 Hold 9 Sell 1

Current price: Rs800
 Target price: ▲ Rs875
 Previous target: Rs795
 Up/downside: 9.4%
 InCred Research / Consensus: -5.3%

Reuters: SBI.NS
 Bloomberg: SBIN IN
 Market cap: US\$84,432m
 Rs7,139,696m
 Average daily turnover: US\$115.0m
 Rs9720.4m
 Current shares o/s: 1,027.8m
 Free float: 0.0%

*Source: Bloomberg

Key changes in this note

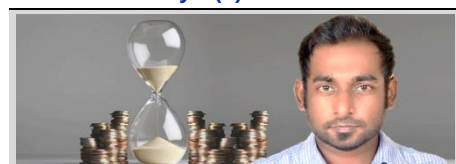
- We revisit our estimates to build margin factoring in ~50bp repo rate cut.
- We cut the risk-free rate by 25bp.
- We introduce FY28F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.1	4.4	(3.6)
Relative (%)	(3.5)	1.5	(11.6)

Major shareholders	% held
PRESIDENT OF INDIA	0.6
LIC	9.1
SBI MF	3.2

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State Bank of India

Lumpy one-off drives beat on profitability

- 4Q PAT beat was led by strong treasury gains (partly one-offs). Core performance muted as healthy core revenue growth was offset by higher costs.
- Despite reasonable valuation, lack of core earnings visibility amid the rate cut cycle keeps us on the sidelines. We continue to prefer private banks over SOE.
- We increased our target price to Rs875 (9% upside) as we cut the risk-free rate by 25bp. The current valuation appears fair at 1x FY27F core BV.

SBI clocks RoA of 1.1% aided by treasury gains and one-off

State Bank of India or SBI posted 4QFY25 PAT of Rs186bn (annualized RoA of 1.1%), beating street/our estimates meaningfully. This was led by strong treasury gains (Rs69bn vs. Rs12bn last quarter), which includes provision reversal from government-backed security receipts (SRs) (Rs34bn). Asset quality was steady, although NPA credit costs inched up to ~40bp, partly owing to ageing provisioning. Core revenue growth was better than expected (+7% YoY), owing to better NII (+6% YoY; 2% above estimates) and strong core fee income (+13% YoY; 3% above estimates). The headline margin was steady QoQ at 3.00% while NII growth was driven by avg. balance sheet growth (+4% QoQ; +13% YoY). Opex growth was higher than expected (+18% YoY), led by performance-linked incentive to staff & an uptick in staff-related provision. Deposit growth was at +9% YoY (+3% QoQ), partly led by strong seasonal CA flows (+27% QoQ). Loan growth moderated to 12% YoY (vs. 14% in 3Q). SBI revised its loan growth guidance to 12-13% for FY26F, from 15% earlier. Avg. LCR ratio, although moderated, stays healthy at 133% (vs. 136% last quarter). Avg. retail deposit (per LCR) growth was healthy at +3% QoQ (+10% YoY).

Core margin could be closer to 2.95% during 4QFY25

Net interest income most likely includes favorable one-offs interest income (of Rs5bn; ~4bp). Adjusted for which, the margin would be close to ~2.95%. The headline margin was flat QoQ as the rise in deposit costs (+8bp QoQ) was largely offset by higher yields (+14bp QoQ; partly helped by MCLR repricing). On a full-year basis, we have assumed margin moderation of ~17bp to ~2.9% for FY26F, which then improves by ~10bp to 3% in FY27F. From exit of 4QFY25, margin dip is ~10bp during FY26F (assuming a 50bp repo rate cut).

Expect RoA to moderate; RoE to dip to ~14-15% over FY26F-27F

The average RoE of ~17% delivered over the past few years by SBI appears unsustainable. We expect its RoE to moderate to ~14-15% (during F26F-27F) as credit costs normalize (to ~50bp from ~40bp in FY25) and core earnings get impacted by the repo rate cut cycle. We expect RoA to moderate to 0.9% over FY26F-27F, from ~1.1% in FY25. Leverage at 16x will drive a sharper decline in RoE. We revisited our earnings estimates and built in a ~50bp rate cut. We increased our target price on SBI to Rs875 (Rs795 earlier) as we cut the risk-free rate by 25bp. Retain our HOLD rating on it. Core valuation at 1x FY27F core BV appears reasonable. Upside risk: Benign credit costs for a longer span and better margin. Downside risks: Further repo rate cut & higher staff costs.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	1,578,358	1,669,644	1,744,249	2,037,978	2,355,746
Total Non-Interest Income (Rsm)	537,222	616,831	598,004	615,545	636,753
Operating Revenue (Rsm)	2,115,580	2,286,474	2,342,252	2,653,524	2,992,499
Total Provision Charges (Rsm)	(49,142)	(153,083)	(212,806)	(243,473)	(309,686)
Net Profit (Rsm)	681,766	708,994	625,993	729,129	813,296
Core EPS (Rs)	76.39	79.44	70.14	81.70	91.13
Core EPS Growth	36%	4%	(12%)	16%	12%
FD Core P/E (x)	10.47	10.07	11.41	9.79	8.78
DPS (Rs)	13.70	15.90	13.70	15.90	18.00
Dividend Yield	1.71%	1.99%	1.71%	1.99%	2.25%
BVPS (Rs)	422.7	494.3	548.6	616.6	691.8
P/BV (x)	1.89	1.62	1.46	1.30	1.16
ROE	19.3%	17.3%	13.5%	14.0%	13.9%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	4QFY24	3QFY25	4QFY25	YoY (%)	QoQ (%)
Net Interest Income	416,552	414,455	427,746	3%	3%
Adj. Net Interest Income	403,552	414,455	427,746	6%	3%
Other Income	173,693	110,408	242,099	39%	119%
--Core Fee	87,240	72,670	98,960	13%	36%
--Treasury Income	34,630	11,940	68,790	99%	476%
--Misc. Income	51,823	25,798	74,349	43%	188%
-----o/w Recovery From w/off	26,070	22,830	23,750	-9%	4%
Total income	590,244	524,863	669,845	13%	28%
--Core Revenue	490,792	487,125	526,706	7%	8%
Operating Expenses	302,769	289,355	356,985	18%	23%
--Staff Expenses	163,481	160,737	180,052	10%	12%
--Other Operating Expenses	139,288	128,617	176,933	27%	38%
Operating Profit	287,476	235,508	312,860	9%	33%
--Core PPOP	188,023	197,771	169,722	-10%	-14%
Provisions	16,098	9,111	64,417	300%	607%
PBT	271,378	226,398	248,444	-8%	10%
Tax	64,394	57,483	62,018	-4%	8%
PAT	206,984	168,914	186,426	-10%	10%
EPS	23	19	21		
Advances	37,039,709	40,045,669	41,633,121	12%	4%
Deposits	49,160,768	52,293,845	53,821,895	9%	3%
LD Ratio	75%	77%	77%		
CASA Ratio	40%	38%	38%		
Margins (%)	3.30	3.01	3.00	-0.30	-0.01
Adj. Margins (%)	3.20	3.01	3.00	-0.20	-0.01
Overall provisions (in bps)	18	9	63		
---Credit cost (in bps)	18	9	59		
-----NPA provisions	36	23	39		
GNPA	842,763	843,604	768,802	-9%	-9%
GNPA Ratio (%)	2.24%	2.07%	1.82%		
NNPA	210,511	213,776	196,669	-7%	-8%
NNPA Ratio (%)	0.57	0.53	0.47		
PCR	632,253	629,827	572,133	-10%	-9%
PCR Ratio (%)	75%	75%	74%		
Slippages	39,840	41,460	43,190	8%	4%
--% of trailing loans	0.5%	0.5%	0.5%		
CET-1 Ratio (%)	10.4%	11.0%	10.8%		
RoA	1.4%	1.0%	1.1%		
RoE	22.2%	15.8%	17.0%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Rs bn	New Estimates				Old Estimates		Change	
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY26F	FY27F
Net Interest Income	1,670	1,744	2,038	2,356	1,753	2,046	-1%	0%
--Growth YoY	235%	4%	17%	16%	5%	17%		
Non-Interest Income	617	598	616	637	525	558	14%	10%
--Growth YoY	174%	-3%	3%	3%	-15%	6%		
Total Income	2,286	2,342	2,654	2,992	2,279	2,605	3%	2%
--Growth YoY	216%	2%	13%	13%	0%	14%		
Opex	1,181	1,293	1,435	1,596	1,267	1,407	2%	2%
--Growth YoY	235%	9%	11%	11%	7%	11%		
PPOP	1,106	1,050	1,218	1,397	1,012	1,198	4%	2%
--Growth YoY	198%	-5%	16%	15%	-8%	18%		
Provision	153	213	243	310	245	282	-13%	-14%
--as a % of avg. loans	60	48	49	54	54	54		
PBT	953	837	975	1,087	767	916	9%	6%
Tax	244	211	246	274	193	231	-8%	-6%
PAT	709	626	729	813	574	685	9%	6%
--Growth YoY	185%	-12%	16%	12%	-19%	19%		
Advances	41,633	46,613	53,205	61,324	48,462	55,855	-4%	-5%
--Growth YoY	331%	12%	14%	15%	16%	15%		
Deposits	53,822	60,571	69,163	78,973	60,617	69,617	0%	-1%
--Growth YoY	404%	13%	14%	14%	13%	15%		
Book Value	580	667	771	893	661	761	1%	1%
--Growth YoY	19%	15%	15%	16%	14%	15%		
EPS	85	88	106	125	86	103	3%	3%
--Growth YoY	6%	3%	21%	18%	1%	20%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

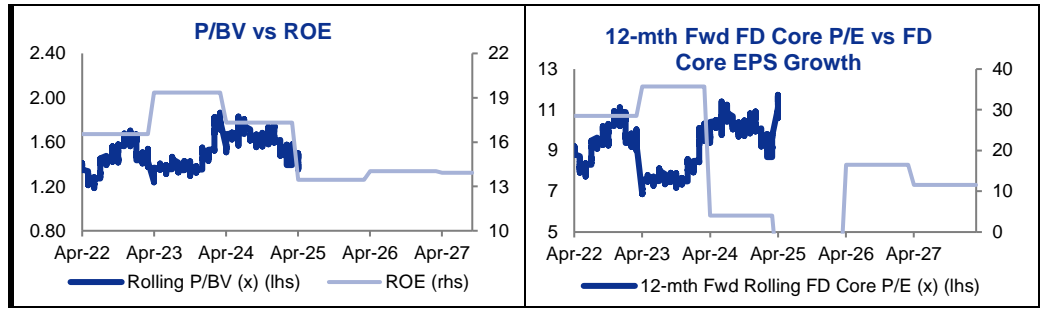
Key highlights

- SBI's slippage (net of intra-quarter recovery) was steady at Rs43bn (1.9% annualized) vs. Rs41.5bn last quarter. Recovery and upgrade were healthy (Rs17bn vs. Rs 12bn last quarter) and included a sum of Rs5bn on account of sale to asset reconstruction companies or ARCs. The write-offs were higher QoQ (Rs101bn vs. Rs19.5bn), mainly from the corporate segment.
- Headline GNPA's declined by 9% QoQ to Rs769bn and the GNPA ratio moderated QoQ to 1.82% vs. 2.07% last quarter. PCR remains healthy at 74%. Net NPL ratio was at 0.47%.
- Domestic loans grew by +12% YoY (4% QoQ), mainly led by the SME segment (+17% YoY; 2% QoQ) and the agri segment (+14% YoY; 4% QoQ). Retail loans grew by 11% YoY (+4% QoQ) and corporate loans grew by 9% YoY (+5% QoQ). Overseas loan book grew by 15% YoY (+1% QoQ) and was driven by India-linked corporates (primarily through external commercial borrowings or ECBs).
- **Margin trajectory to be better than peers, as per the bank** – SBI indicated a relatively better margin trajectory in the current downcycle vs. peers, given the lower share of repo-rate loans (~29%). This will also be helped by repricing benefits on MCLR. Moreover, the bank guided to protect margins at 3%, even though there will be some quarters where margin pressure will be acute.
- **No plans to cut savings account (SA) rates immediately** – Management indicated that it does not look to reduce SA rates immediately vs. a 25bp cut witnessed at large private sector banks over the past one month. However, SBI will continue to evaluate its stance depending on further rate cuts by RBI.
- **Xpress Credit growth to improve** – Xpress Credit growth was muted in FY25 vs. 15% YoY growth in FY24. SBI noted that it is seeing strong traction in the addition of corporate salaried customers opting for Xpress Credit. The bank is hopeful of reviving the growth to mid-teens over the next few years.
- **Recovery from written-off accounts should sustain in the range of Rs15bn to Rs20bn per quarter** – Management noted that there are not many lumpy corporate accounts left in the written-off pool. Also, a decent portion of the current recovery is from granular retail and SME segments. This was a result of the bank's focus on the recovery and re-organization of channels.
- **Capital raising will be contingent on needs and environment** - Management noted that it has taken an enabling resolution to raise equity capital of Rs250bn (i.e. 0.7% of RWA). Currently, SBI remains comfortable with the CET-1 at 10.8% to clock up to mid-teens growth. Management highlighted that the decision to raise capital would be contingent on business needs and market conditions.

Figure 3: Financial summary

State Bank of India									
Profit and Loss Statement					Per Share Data and Valuations				
Rs M (Year-end March)	FY25	FY26F	F27F	F28F	Year end-March	FY25	FY26F	F27F	F28F
Interest Income	4,624,894	4,987,717	5,614,340	6,388,273	Per Share Data (Rs)				
Interest Expense	2,955,250	3,243,469	3,576,362	4,032,527	EPS (Reported)	79.4	70.1	81.7	91.1
Net Interest Income	1,669,644	1,744,248	2,037,978	2,355,746	Book Value	494	549	617	692
---Fee Income	309,190	340,109	374,120	411,532	Book Value (Core)	466	518	582	653
---Forex Income	43,790	47,074	50,605	54,400	DPS	15.9	13.7	15.9	18.0
---Capital Gains	153,030	100,000	80,000	60,000	Core PPOP	76.4	76.4	76.4	76.4
---Dividend Income	0	0	0	0	Valuations				
---Miscellaneous Inc.	110,821	110,821	110,821	110,821	P/E	10.1x	11.4x	9.8x	8.8x
Total Non-Interest Income	616,831	598,004	615,545	636,753	P/BV	1.6x	1.5x	1.3x	1.2x
Total Operating Income	2,286,474	2,342,252	2,653,523	2,992,499	Dividend Yield	2.0%	1.7%	2.0%	2.3%
---Employee Exp	643,522	692,507	745,222	801,952	PE (Core)	7.2x	8.1x	7.0x	6.3x
---Other Expenses	537,168	600,050	690,057	793,566	Price to Book (Core)	1.2x	1.1x	1.0x	0.9x
Total Operating Expenses	1,180,690	1,292,556	1,435,279	1,595,518	Price to PPOP (Core)	7.5x	7.5x	7.5x	7.5x
Operating Profit	1,105,784	1,049,696	1,218,244	1,396,981					
---Prov. For Investment Dep.	5,150	0	0	0					
---Loan Loss Provisions	147,933	212,806	243,473	309,686					
Total provisions	153,083	212,806	243,473	309,686					
Profit Before Tax	952,701	836,889	974,771	1,087,295					
Provision for Tax	243,706	210,896	245,642	273,998					
PAT (Reported)	708,994	625,993	729,129	813,296					
Balance Sheet Data					Ratio Analysis				
Rs M (Year-end March)	FY25	FY26F	F27F	F28F	Year end-March	FY25	FY26F	F27F	F28F
Shareholders' equity	4,411,621	4,895,713	5,502,575	6,173,970	Spread Analysis				
Deposits	53,821,895	60,571,307	69,163,052	78,973,493	Average yield on assets	7.8%	7.7%	7.7%	7.7%
Borrowings	5,635,725	6,015,277	6,425,193	6,867,903	Cost of earning assets	5.0%	5.0%	4.9%	4.9%
Other Liabilities & Prov.	2,891,291	3,180,420	3,498,462	3,848,308	Net Interest Margin (NIM)	3.1%	2.9%	3.0%	3.1%
Total Liabilities	66,760,533	74,662,718	84,589,282	95,863,674	Growth Ratios				
Cash & Balances with RBI	2,272,175	2,544,609	2,888,607	3,280,432	Net Interest Income	6%	4%	17%	16%
Balances with Banks	1,130,122	1,293,990	1,481,618	1,696,453	Non Interest Income	15%	-3%	3%	3%
Investments	16,905,728	18,789,239	20,910,073	22,686,585	Operating expenses	0%	9%	11%	11%
Advances	41,633,121	46,613,395	53,205,329	61,323,530	Core Operating Profit	17%	-1%	23%	20%
Fixed Assets	441,076	452,102	463,405	474,990	Net Profit	16%	-12%	16%	12%
Other Assets	4,378,312	4,969,384	5,640,251	6,401,685	EPS	16%	-12%	16%	12%
Total Assets	66,760,533	74,662,718	84,589,282	95,863,674	Deposits	9%	13%	14%	14%
Earning Assets	61,941,145	69,241,232	78,485,627	88,987,000	Advances	12%	12%	14%	15%
Asset Quality					Total Assets	8%	12%	13%	13%
Credit Costs / Advances (bps)	38	48	49	54	Profitability Ratios				
Gross NPL	768,783	878,783	1,038,783	1,198,783	Return On Equity (Core)	18.4%	14.3%	14.9%	14.8%
Net NPL	196,669	269,038	318,735	371,770	Return on Assets (Core)	1.1%	0.9%	0.9%	0.9%
Reserve Coverage	572,114	609,745	720,048	827,013	Efficiency Ratios				
Gross NPL Ratio	1.8%	1.9%	1.9%	1.9%	Cost Income Ratio	51.6%	55.2%	54.1%	53.3%
Net NPL Ratio	0.5%	0.6%	0.6%	0.6%	Expenses/Avg Assets	1.8%	1.8%	1.8%	1.8%
Source:Company Data, InCred Research					Capital Ratios				
E= InCred Research Estimates					CET 1 Ratio	10.8%	10.9%	10.8%	10.6%
					Tier 1 Ratio	12.1%	12.0%	11.8%	11.5%
					Tier 2 Ratio	2.1%	1.9%	1.7%	1.5%
					Capital Adequacy Ratio	14.3%	14.0%	13.5%	12.9%
					SOURCE: INCRED RESEARCH, COMPANY REPORTS				

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	1,578,358	1,669,644	1,744,249	2,037,978	2,355,746
Total Non-Interest Income	537,222	616,831	598,004	615,545	636,753
Operating Revenue	2,115,580	2,286,474	2,342,252	2,653,524	2,992,499
Total Non-Interest Expenses	(1,177,608)	(1,180,690)	(1,292,557)	(1,435,279)	(1,595,518)
Pre-provision Operating Profit	937,972	1,105,784	1,049,696	1,218,244	1,396,981
Total Provision Charges	(49,142)	(153,083)	(212,806)	(243,473)	(309,686)
Operating Profit After Provisions	888,830	952,701	836,889	974,771	1,087,295
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	888,830	952,701	836,889	974,771	1,087,295
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	888,830	952,701	836,889	974,771	1,087,295
Exceptional Items					
Pre-tax Profit	888,830	952,701	836,889	974,771	1,087,295
Taxation	(207,063)	(243,706)	(210,896)	(245,642)	(273,998)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	681,766	708,994	625,993	729,129	813,296
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	681,766	708,994	625,993	729,129	813,296
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	73.9%	76.4%	77.1%	76.9%	77.3%
Avg Liquid Assets/Avg Assets	92.0%	92.4%	92.8%	92.8%	92.8%
Avg Liquid Assets/Avg IEAs	106.1%	105.8%	105.8%	105.9%	105.9%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	0.14%	0.39%	0.48%	0.49%	0.54%
Provision Charge/Avg Assets	0.08%	0.24%	0.30%	0.31%	0.34%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	37,039,708	41,633,120	46,613,396	53,205,328	61,323,528
Liquid Assets & Invst. (Current)	16,713,397	16,905,728	18,789,238	20,910,072	22,686,586
Other Int. Earning Assets					
Total Gross Int. Earning Assets	53,753,104	58,538,848	65,402,632	74,115,400	84,010,112
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	53,753,104	58,538,848	65,402,632	74,115,400	84,010,112
Intangible Assets					
Other Non-Interest Earning Assets	4,509,642	4,378,312	4,969,384	5,640,251	6,401,685
Total Non-Interest Earning Assets	4,935,815	4,819,388	5,421,487	6,103,656	6,876,675
Cash And Marketable Securities	3,108,020	3,402,297	3,838,598	4,370,226	4,976,885
Long-term Investments					
Total Assets	61,796,940	66,760,532	74,662,720	84,589,280	95,863,672
Customer Interest-Bearing Liabilities	49,160,768	53,821,896	60,571,308	69,163,048	78,973,496
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	55,136,376	59,457,620	66,586,584	75,588,248	85,841,392
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	2,888,097	2,891,291	3,180,420	3,498,462	3,848,308
Total Liabilities	58,024,476	62,348,912	69,767,008	79,086,704	89,689,704
Shareholders Equity	3,772,465	4,411,621	4,895,714	5,502,575	6,173,971
Minority Interests					
Total Equity	3,772,465	4,411,621	4,895,714	5,502,575	6,173,971

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	10.7%	5.8%	4.5%	16.8%	15.6%
Operating Profit Growth	12.0%	17.9%	(5.1%)	16.1%	14.7%
Pretax Profit Growth	32%	7%	(12%)	16%	12%
Net Interest To Total Income	74.6%	73.0%	74.5%	76.8%	78.7%
Cost Of Funds	4.89%	5.16%	5.15%	5.03%	5.00%
Return On Interest Earning Assets	8.1%	8.2%	8.0%	8.0%	8.1%
Net Interest Spread	3.25%	3.08%	2.90%	3.02%	3.08%
Net Interest Margin (Avg Deposits)	3.38%	3.24%	3.05%	3.14%	3.18%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	5%	14%	20%	20%	22%
Interest Return On Average Assets	2.70%	2.60%	2.47%	2.56%	2.61%
Effective Tax Rate	23.3%	25.6%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	17.9%	20.0%	19.5%	19.5%	19.8%
Return On Average Assets	1.17%	1.10%	0.89%	0.92%	0.90%

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.

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.