INSTITUTIONAL RESEARCH

State Bank of India

New moats emerge as game changers

While SBI always had the natural advantage of brand recognition and scale, the bank has gradually added other competitive moats in the form of a prolific sourcing edge, a YONO-powered digital stack, an unparalleled lean distribution model, and a potent combination of cross-sell focus and competencies. Although we argue that the Q1FY24 RoA (1.3%) and RoE (>20%) prints are exaggerated for regulatory forbearance (lower risk weights), lopsided pricing (lagged deposit repricing), and a benign credit cycle, we believe that the potent combination of traditional strengths and newly-added moats is reflecting in higher throughput, sustained efficiency gains (lean P&L), and high-quality new loan origination, translating into structurally lower credit costs and better return ratios. We raise our two-year explicit period forecasts by 6-8% each to factor in a superior asset profile and maintain BUY with a revised TP of INR790 (earlier INR750; standalone bank at 1.4x Mar-25 ABVPS).

- **Prolific sourcing edge:** Over the past five years, SBI has utilised its step-down subsidiary, SBI Securities, as an exclusive, open-market sourcing channel for home loans and auto loans. This channel now contributes ~1/4th of SBI's home loan disbursements and ~87% of auto loan disbursements, translating into quicker turnaround, higher throughput and a variable P&L with commission expenses averaging <75bps (for the origination of auto loans and home loans).
- **The YONO edge—a maturing digital stack:** YONO, SBI's flagship digital banking platform, has emerged as India's largest neo-banking channel; to put this in context, as of FY23, YONO powers nearly two-thirds of the savings accounts opened by SBI and one-third of the retail asset accounts.
- **Pre-approved rule engines power throughput gains**: SBI has extensively deployed pre-approved offers to its ETB customers (~10% of the personal loan disbursements are pre-approved), trimming the turnaround time on retail loans considerably, driving 16-18% CAGR improvement in productivity metrics over the past few years. However, we flag caution on the bank over-simplifying underwriting protocols in search of productivity gains.
- **NIM compression ahead as deposit repricing picks up**: While the loan-deposit ratio (at 73%) is comfortable to support SBI's growth appetite, we believe that repricing of existing deposits is likely to pick up pace and exert pressure on near-term NIMs, albeit marginally better than our earlier forecast.
- **Moderate upgrade; reiterate BUY:** Although we argue that the Q1FY24 RoA (1.3%) and RoE (>20%) prints cannot be straight-lined, we believe SBI is on track to deliver a 1%+ RoA on the back of a healthy core operating profitability run rate, driven by stable NIMs (despite near-term pressure), and sustained productivity and efficiency gains.

Financial Summary

(INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E
NII	980.8	1,107.1	1,207.1	1,448.4	1,606.5	1,772.6
PPOP	681.3	715.5	678.7	837.1	1,000.3	1,160.2
PAT	144.9	204.1	316.8	502.3	584.8	634.1
EPS (INR)	16.2	22.9	35.5	56.3	65.5	71.0
ROAE (%)	6.4	8.4	11.9	16.5	16.5	15.4
ROAA (%)	0.4	0.5	0.7	1.0	1.0	1.0
ABVPS (INR)	188.7	228.1	266.8	327.1	383.2	441.8
P/ABV (x)	3.1	2.6	2.2	1.8	1.5	1.3
P/E (x)	36.3	25.8	16.6	10.5	9.0	8.3

Source: Company, HSIE Research

BUY

CMP *(as on 13 Oct 2023)*	INR 576
Target Price	INR 790
NIFTY	19,751

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 750	INR 790
EPS %	FY24E	FY25E
	5.8%	4.1%

KEY STOCK DATA	
Bloomberg code	SBIN IN
No. of Shares (mn)	8,925
MCap (INR bn) / ($ mn)	5,142/62,874
6m avg traded value (INR mn)	10,534
52 Week high / low	INR 630/499

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(1.6)	8.1	10.5
Relative (%)	(2.7)	(1.6)	(5.3)

SHAREHOLDING PATTERN (%)	Mar-23	Jun-23
Promoters	57.5	57.5
FIs & Local MFs	25.2	24.8
FPIs	9.9	10.4
Public & Others	7.4	7.3
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

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Annual Report Dashboard

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Concentration metrics										
% Share of Top 20 advances	18.4%	15.9%	16.0%	11.6%	10.1%	13.2%	13.4%	12.9%	12.7%	12.6%
% Share of Top 20 exposures	16.9%	15.9%	14.9%	14.7%	12.1%	12.8%	13.9%	10.6%	11.1%	11.0%
% Share of Top 20 depositors	7.4%	6.4%	6.6%	6.1%	4.4%	3.1%	2.9%	3.7%	4.0%	4.0%
Sector-wise Advances (% of sector advances)										
Priority Sector	18.0%	20.7%	22.5%	21.6%	22.8%	24.2%	22.9%	23.6%	24.7%	22.2%
Industrial credit	6.6%	8.0%	11.2%	9.0%	9.9%	9.1%	8.7%	12.1%	15.6%	12.7%
Credit for services	14.8%	12.9%	14.5%	24.0%	25.2%	28.6%	27.5%	17.9%	20.1%	16.7%
Agricultural credit	84.4%	95.7%	95.7%	98.0%	98.0%	91.1%	98.9%	99.3%	99.0%	98.9%
Personal loans	31.6%	31.8%	26.2%	22.3%	18.8%	24.4%	22.1%	19.7%	18.7%	16.9%
Non-Priority Sector	82.0%	79.3%	77.5%	78.4%	77.2%	75.8%	77.1%	76.4%	75.3%	77.8%
Industrial credit	93.4%	92.0%	88.8%	91.0%	90.1%	90.9%	91.3%	87.9%	84.4%	87.3%
Credit for services	85.2%	87.1%	85.5%	76.0%	74.8%	71.4%	72.5%	82.1%	79.9%	83.3%
Agricultural credit	15.6%	4.3%	4.3%	2.0%	2.0%	8.9%	1.1%	0.7%	1.0%	1.1%
Personal loans	68.4%	68.2%	73.8%	77.7%	81.2%	75.6%	77.9%	80.3%	81.3%	83.1%
Sector-wise GNPAs (% of sector-wise net advances)										
Priority Sector	6.6%	6.9%	7.1%	6.3%	10.2%	8.7%	10.7%	9.4%	7.7%	5.7%
Industrial credit	6.4%	10.8%	12.7%	14.8%	16.1%	12.9%	18.5%	12.1%	8.5%	5.1%
Credit for services	9.0%	6.5%	5.4%	4.4%	9.9%	9.7%	6.3%	8.4%	6.5%	2.5%
Agricultural credit	9.4%	9.1%	7.8%	5.6%	11.1%	11.7%	15.9%	15.2%	13.4%	11.6%
Personal loans	2.1%	1.3%	1.2%	1.1%	3.2%	1.8%	1.9%	1.4%	1.1%	1.1%
Non-Priority Sector	3.4%	3.2%	6.3%	7.1%	11.1%	7.2%	4.8%	3.6%	2.8%	1.9%
Industrial credit	3.7%	4.1%	9.4%	10.4%	18.0%	11.5%	7.1%	7.0%	5.8%	4.0%
Credit for services	4.5%	2.3%	2.3%	3.9%	4.2%	3.2%	4.4%	3.1%	2.2%	1.8%
Agricultural credit	1.1%	4.0%	8.8%	3.7%	8.0%	0.5%	10.3%	13.2%	8.4%	6.8%
Personal loans	1.0%	0.6%	0.6%	0.4%	0.8%	0.8%	0.8%	0.7%	0.6%	0.5%
GNPA Mix %										
Sub standard	35.0%	31.6%	31.3%	24.7%	22.6%	15.1%	24.1%	15.7%	12.6%	13.9%
Doubtful 1	26.5%	22.3%	32.7%	25.1%	24.9%	20.0%	13.5%	24.7%	13.2%	12.8%
Doubtful 2	28.1%	35.9%	26.3%	39.8%	41.9%	45.0%	25.6%	20.9%	20.8%	23.8%
Doubtful 3	4.5%	5.8%	7.3%	8.2%	6.9%	14.4%	20.3%	19.1%	30.5%	20.0%
Loss	5.9%	4.3%	2.4%	2.2%	3.6%	5.5%	16.4%	19.6%	22.9%	29.6%
Bancassurance - % of Total Fee	2%	2%	3%	3%	4%	5%	5%	8%	10%	12%
PSLC Bought - % of previous year loans	NA	NA	NA	NA	2.3%	2.7%	4.0%	5.4%	5.6%	7.4%
PSLC Sold - % of previous year loans	NA	NA	NA	NA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operational Risk										
Frauds reported (#)	NA	NA	NA	837	581	2,616	6,964	5,724	4,192	2,755
Amount involved in frauds (INR bn)	NA	NA	NA	24	123	124	446	101	71	49
Provision for fraud (INR bn)	NA	NA	NA	24	123	124	446	101	71	49
Provision for fraud (% of PPOP)	NA	NA	NA	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%
Real Estate Exposure (% of net advances)										
Secured by residential mortgage	21%	25%	28%	34%	42%	45%	49%	56%	66%	76%
Individual housing loans	10%	13%	14%	15%	17%	21%	21%	29%	30%	34%
Secured by commercial mortgage	2%	3%	4%	5%	11%	5%	4%	8%	7%	7%
Exposure to NHBs and HFCs	2%	3%	4%	10%	12%	13%	15%	16%	13%	18%
LCR Disclosures										
LCR %	76%	81%	75%	144%	134%	126%	144%	159%	138%	147%
RSBD (% of total deposits on bank's BS)	NA	71%	74%	75%	75%	75%	72%	69%	67%	68%

New moats bolster traditional competitive advantage

While SBI always boasted the natural advantage of brand and scale, the bank has gradually added other competitive moats in the form of a prolific sourcing edge (87% of home loans and 25% of auto loans are originated by a step-down subsidiary), a maturing YONO-powered digital stack, an unparalleled lean distribution model, and an impressive combination of cross-sell focus and competencies ($500mn annualised cross-sell income).

- **Changing contours of sourcing—in-house DSA:** Over the past few years, SBI has pivoted to extensive use of its step-down subsidiary, SBI Securities, as a channel for open-market sourcing of home loans. This channel now contributes ~1/4th of the overall home loan disbursements and nearly 87% of auto loans for the bank.

Exhibit 1: SBI Securities—SBI's prolific sourcing channel for home loans and auto loans

	Units	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Home loans								
Locations	x			28	52	102	194	296
Disbursements	INR bn		79	150	228	262	307	437
LTV – Sanctions	%			69.7%	71.4%	76.1%	79.2%	
Contribution to SBI business	%			NA	20%	22%	23%	25%
Contribution to SBI business (Cities of presence)	%			NA	31%	34%	NA	NA
Business per Sales executive per month	INR mn			7.5	10.8	11.0	11.4	12.1
No. of Sales executives	x			1,785	2,337	NA	NA	NA
Auto loans								
Locations	x			105	152	406	396	503
Disbursements	INR bn		48	68	100	150	194	382
Contribution to SBI business	%			25%	41%	57%	72%	87%
Business per Sales executive per month	INR mn			12.4	11.9	12.3	12.6	17.4

Source: Company, HSIE Research

Exhibit 2: Extremely competitive blended pay-outs for auto loans and home loans

SBI Securities	Units	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Disbursements	INR bn	0	127	219	328	411	501	819
Distribution commission	INR mn	404	884	1,598	2,379	2,983	3,777	NA
Blended pay-outs	*%*		***0.70%***	***0.73%***	***0.73%***	***0.73%***	***0.75%***	***NA***

Source: Company, HSIE Research

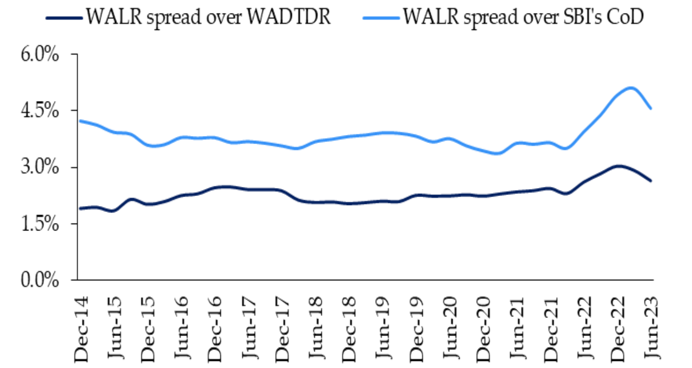
SBI Securities serves as SBI's in-house, captive sourcing channel for home and auto loans with commission pay-outs (blended 70-75bps for HL and auto loans) directly linked to disbursements and hence, purely variable in nature (inventive-driven). We believe that SBI's approach to route its retail loan originations to off-payroll employees, through its subsidiary, has improved its cost competitiveness vis-a-vis private peers and powers higher productivity and better cost efficiencies. Riding on the back of SBI's in-house customer analytics, the captive DSA channel also offers the additional comfort of better quality of sourcing and higher borrower stickiness (lower risk of balance transfer, or BT-out).

- **Improving overall economics:** Our analysis of SBI's home loan (HL) pricing over the past 12 years indicates healthy cross-cycle spreads (over one-year TD rates and repo rate), even during the pandemic when HL pricing was low (6.7%) and competitive intensity elevated.

  In fact, the sharp repo rate hikes in FY23 (+250bps) resulted in a further margin reflation for SBI's HL portfolio by 50bps (spread over one-year term deposit rates). While deposit repricing is yet to catch up fully, as a new normal, we believe SBI is likely to retain ~20bps of the recent margin expansion.

  On the other hand, SBI's auto loan book is a largely fixed-rate portfolio and, hence, unlikely to have witnessed similar reflation. However, we believe that SBI's new sourcing strategy has resulted in sustainable efficiency gains and helped power a substantial improvement in the overall economics of the HL and AL portfolios. For instance, our internal workings (based on segment-wise assumptions) suggest that SBI is generating a RoA > 1.2% and RoE in excess of 19% in its HL portfolio.

Exhibit 3: SBI's spread of weighted average lending rate for HL



Source: Company, HSIE Research

Exhibit 4: SBI's earnings profile for the HL portfolio (indicative workings)

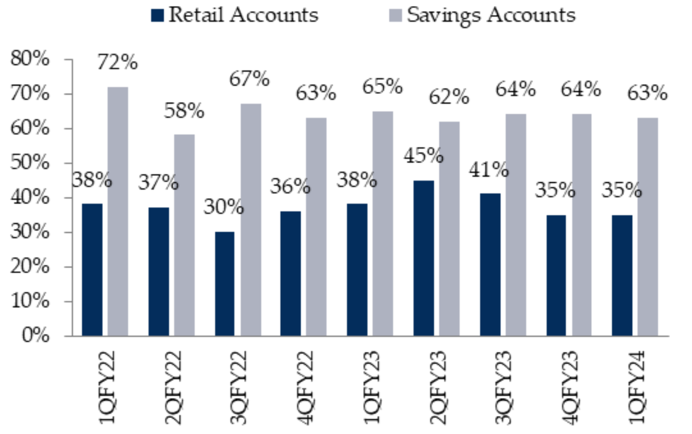
% of assets	SBIN
Interest earned	8.0%
Interest expended	4.7%
Net interest income	**3.2%**
Non-interest income	0.1%
Operating expenses	1.5%
Provisions	0.2%
ROAA	**1.2%**
Leverage (x)	16
ROAE	**18.9%**

Source: Company, HSIE Research

- **The YONO edge—a maturing digital stack:** YONO, SBI's flagship digital banking platform, launched in 2018, has emerged as India's largest neo-banking channel—to put this in context, as of FY23, YONO powers nearly two-thirds of the savings accounts opened by SBI and one-third of the retail asset accounts. Whilst the SB account acquisitions during the initial years were largely assisted digital journeys, our channel checks suggest that customer acquisitions over the past couple of years have been predominantly driven by DIY journeys.

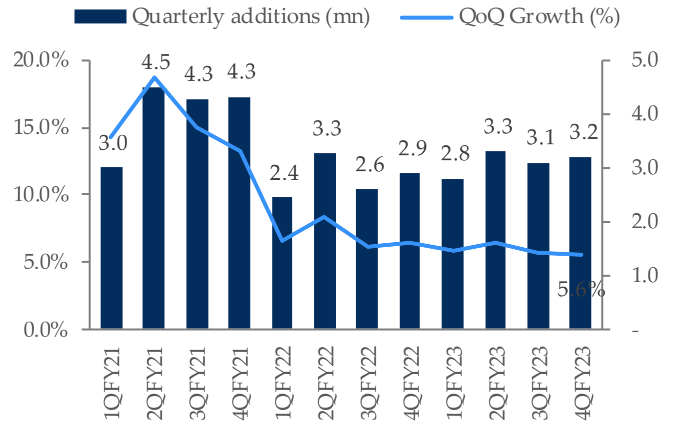
  More importantly, over the past few years, YONO has matured from a transaction-centred app to an end-to-end fulfilment platform, including an online marketplace and a financial superstore. SBI has gradually liberalised its customer funnel, ticket sizes (for HLs and ALs), borrower-wise exposure limits, and so on. For instance, the pre-approved limits for salaried personal loans were raised to INR3.5mn (from INR2mn earlier)—SBI also implemented a similar limit enhancement in its pension loans portfolio, driving portfolio value growth north of volumes.

Exhibit 5: Digital sourcing volumes through YONO



Source: Company, HSIE Research

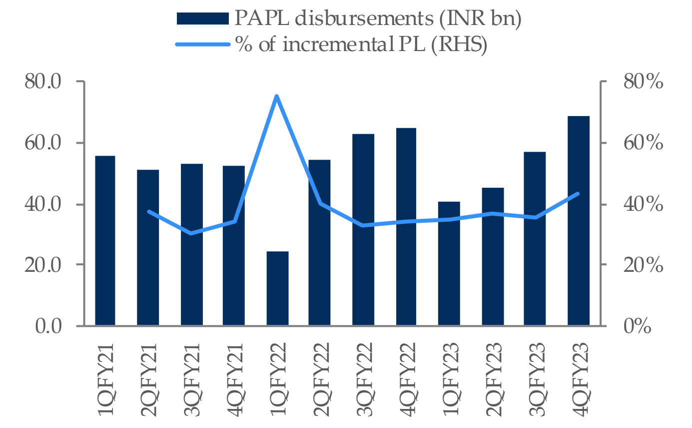
Exhibit 6: Client acquisition run rate



Source: Company, HSIE Research

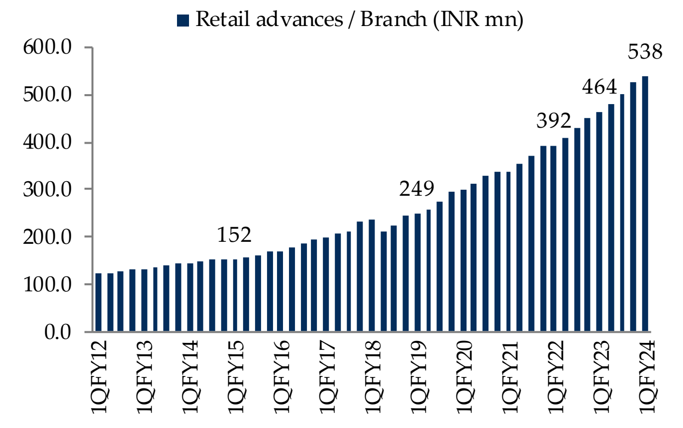
- **Pre-approved rule engines power throughput gains:** SBI, with its large captive customer base, has been powering its portfolio growth by focusing on existing customers (ETB) through pre-approved offers (productivity gains) and digital channels (efficiency gains). Since the launch of YONO in FY18, the bank has been prolific in deploying pre-approved offers for its ETB customers - for instance, ~10% of the personal loan disbursements are pre-approved and routed through YONO. Also, the launch of an end-to-end digital documentation journey has helped trim the turnaround time on personal loans to about 7-8 minutes, 5 days in the case of home loans (for cases with builder tie-ups) and less than 3 hours in the case of auto loans (select pockets and clusters). This has contributed to the sharp improvement in productivity ratios over the past few years (2-year CAGR in productivity metrics ranging between 16-18% for the past 4-5 years).

Exhibit 7: Momentum in pre-approved personal loans



Source: Company, HSIE Research

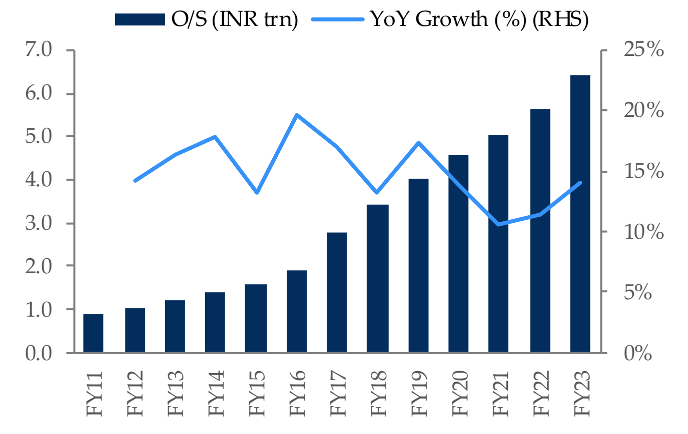
Exhibit 8: Sharp improvement in productivity metrics



Source: Company, HSIE Research

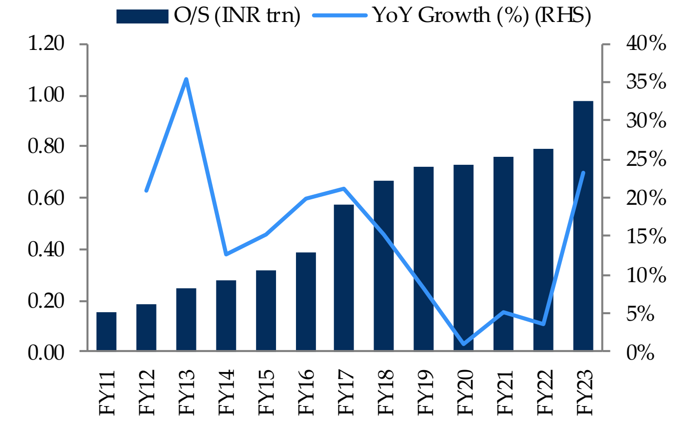
We believe that SBI's key retail businesses, especially home loans and auto loans, are now approaching a fully-optimised state. For instance, on the HL portfolio, SBI has consistently clocked a significant market share of 33% among ASCBs, with nearly one-third of the HL book being eligible for priority sector status. In order to provide an additional fillip to its home loan portfolio, SBI started onboarding projects under the Builder Tie-Up (BTU) route, thereby improving sourcing quality and turnaround time. To date, SBI has approved ~13K residential projects (+54% YoY) with a penetration of 29% in BTU projects.

Exhibit 9: Home loans - Sustained market share focus



Source: Company, HSIE Research

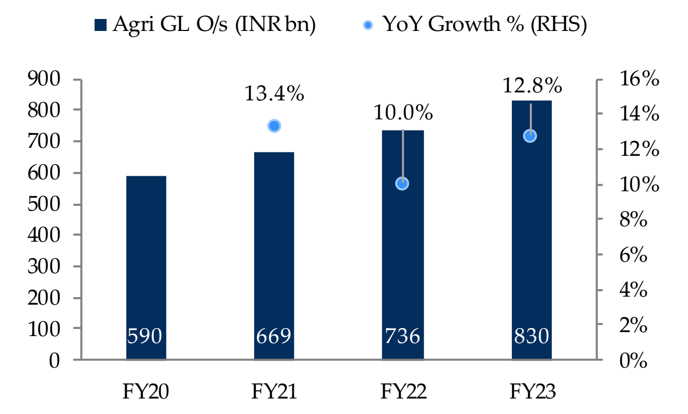
Exhibit 10: Auto loans - Throughput focus



Source: Company, HSIE Research

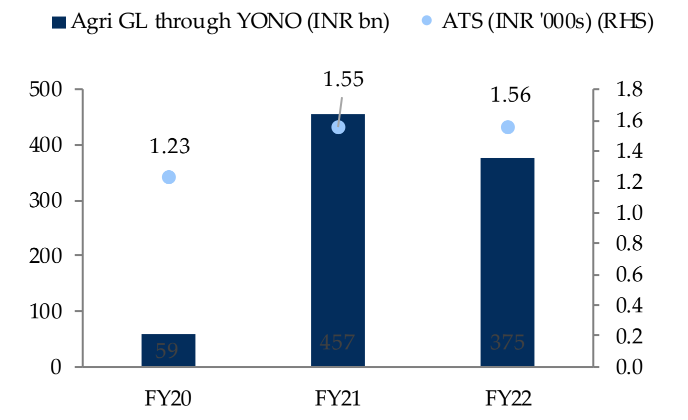
It has also forayed into high-value agri loans (40% of the book is in the form of agri gold loan), largely on the back of end-to-end digital gold loans (average ticket size < INR100k) by leveraging existing channels and processing capacities, with 45 credit processing centres (CPCs) functioning as of 2HFY23.

Exhibit 11: Gold loans—consistent double-digit growth



Source: Company, HSIE Research

Exhibit 12: Agri gold loans through YONO



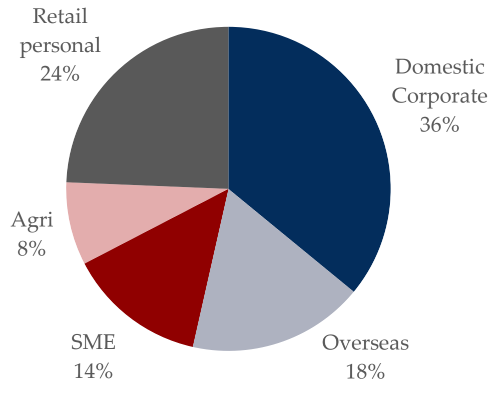
Source: Company, HSIE Research

On the flipside though, we believe that the pre-approved journeys have also meant an over-simplification of the underwriting protocols to an extent that all pricing decisions are now linked merely to a bureau score. We argue that the combination of such limited-parameter underwriting and simplistic risk-scoring in search of higher throughput may pose longer-term portfolio risks.

NIM compression ahead as deposit repricing picks pace

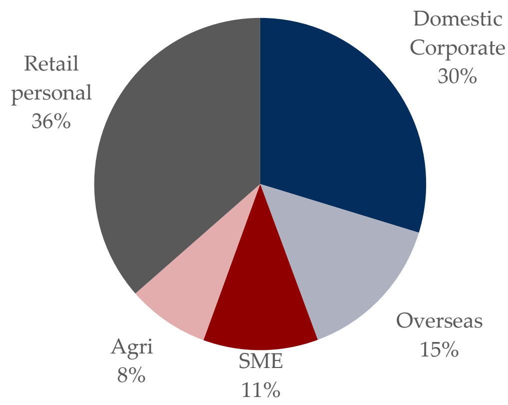
- **Yield differential not a severe handicap:** Historically, SBI used to run a corporate-heavy portfolio (FY17: 36% of loans) with the overseas business accounting for a meaningful share (FY17: 17% of loans), and the mix of retail loans lagging behind (FY17: 24%). Since FY17, the loan mix has witnessed a sharp 12 percentage point swing towards retail assets (FY23: 36%), corresponding to a 600bps dip in the mix of corporate loans (FY23: 30%) and a 300bps decline in the share of overseas loans.

Exhibit 13: Loan mix (FY17): Dominated by corporate loans



Source: Company, HSIE Research

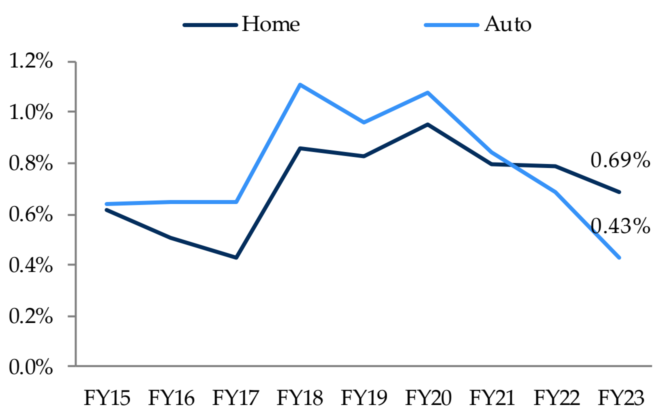
Exhibit 14: Loan mix (FY23): Dominated by retail



Source: Company, HSIE Research

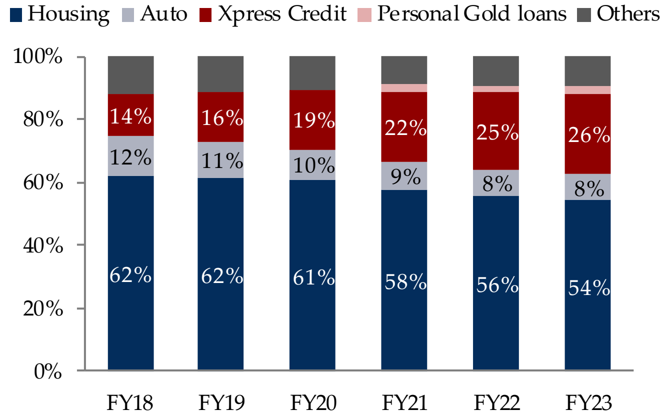
However, the share of retail in SBI's loan mix is still significantly lower than the corresponding share of retail in its private sector peers such as ICICI Bank (55%) and Axis Bank (45%).

Exhibit 15: Best-in-class asset quality outcomes



Source: Company, HSIE Research

Exhibit 16: Retail book composition



Source: Company, HSIE Research

Historically, this meant meaningfully lower yields for SBI compared to its peers. However, the yield discount has since narrowed, partly on account of accelerated growth in the Xpress Credit book, SBI's salaried personal loan portfolio. In fact, our analysis of segment-specific disclosures on volumes and pricing suggests that the Xpress Credit portfolio, by itself, has accounted for 25-40bps of NIM reflation.

Exhibit 17: Xpress Credit—Portfolio analysis

(INR bn)	FY18	FY19	FY20	FY21	FY22	FY23
Loans outstanding	745	1,049	1,412	1,928	2,477	3,040
% YoY	*NA*	*40.8%*	*34.6%*	*36.5%*	*28.5%*	*22.7%*
% of Total loans	*3.6%*	*4.6%*	*5.8%*	*7.6%*	*8.8%*	*9.3%*
Penetration				25%	27%	30%
Loans o/s (mn)				4.1	4.8	5.4
Average balance per customer (INR' 000)				465	513	564
Average yield (%)				10.50%	10.50%	11.50%
Interest income - Xpress credit				175	231	317
Yield on other loans (%) (derived)				6.65%	6.05%	6.85%
Blended yield - gross advances (%)		7.45%	7.62%	6.91%	6.41%	7.27%
Yield reflation due to Xpress Credit (bps)				**26**	**37**	**42**

Source: Company, HSIE Research

While the relatively lower mix of retail has contributed to the yield differential, the impact is also accentuated by the fact that the credit card portfolio resides on the SBI Card balance sheet instead of the standalone SBI balance sheet (unlike in the case of peers, where the cards portfolio resides on the banks' own balance sheets).

Exhibit 18: Yield on advances (derived) - SBI has always carried a handicap on blended yields

Yields on Advances (%)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
HDFCB	11.1%	10.8%	10.2%	10.3%	10.5%	10.1%	8.9%	7.9%	8.6%
ICICIBC	9.8%	9.5%	8.8%	8.4%	8.7%	9.3%	8.3%	8.0%	8.9%
AXSB	10.1%	9.7%	9.3%	8.4%	8.8%	9.1%	8.0%	7.5%	8.3%
KMB	12.5%	13.5%	10.5%	9.6%	9.8%	9.9%	8.4%	7.8%	9.1%
IIB	12.5%	11.8%	11.4%	10.6%	11.0%	12.2%	11.5%	11.1%	11.3%
FB	11.5%	10.4%	10.0%	9.1%	9.0%	9.2%	8.5%	7.8%	8.4%
RBK	11.6%	10.9%	10.4%	9.8%	10.7%	12.3%	11.2%	10.6%	11.0%
CUBK	12.7%	12.1%	11.5%	11.0%	10.5%	10.5%	10.0%	9.0%	9.4%
DCBB	11.8%	11.6%	11.5%	10.7%	11.2%	11.6%	10.9%	10.3%	10.7%
KVB	12.0%	11.5%	11.0%	10.3%	9.8%	9.9%	9.2%	8.6%	9.0%
SBIN	9.0%	8.4%	7.9%	8.1%	7.8%	8.0%	7.2%	6.6%	7.5%

Source: Company, HSIE Research | *Note: HDFC Securities is a subsidiary of HDFC Bank*

However, despite the yield differential, SBI is able to sustain competitive margins, largely on account of its gold-standard deposit franchise, which drives the stickiest deposit base and one of the lowest cost of funds.

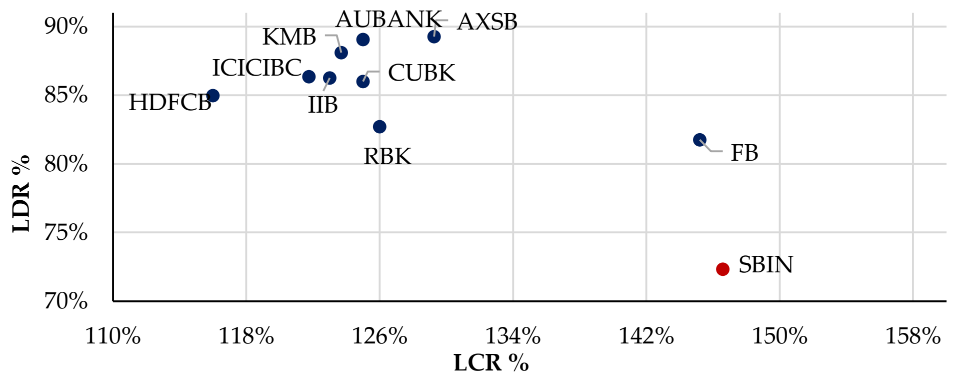
Exhibit 19: Cost of funds (calculated)

Cost of Funds (%)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
HDFCB	5.8%	6.0%	5.5%	4.9%	5.2%	5.0%	4.1%	3.5%	3.9%
ICICIBC	5.9%	5.6%	5.3%	4.6%	4.7%	4.7%	4.1%	3.5%	3.8%
AXSB	5.8%	5.6%	5.4%	4.8%	5.1%	5.0%	4.2%	3.7%	3.9%
KMB	6.9%	7.7%	5.7%	5.2%	5.3%	4.8%	3.8%	3.2%	3.5%
IIB	7.4%	6.9%	6.2%	5.8%	6.2%	6.6%	5.4%	4.9%	5.2%
FB	7.3%	6.8%	6.1%	5.4%	5.4%	5.6%	4.8%	4.1%	4.6%
RBK	7.1%	6.5%	6.4%	5.7%	6.1%	6.7%	5.6%	4.8%	5.0%
CUBK	8.1%	7.6%	6.8%	6.0%	5.9%	6.1%	5.2%	4.4%	4.6%
DCBB	7.3%	7.2%	7.0%	6.1%	6.6%	7.0%	6.4%	5.9%	5.9%
KVB	8.3%	7.3%	6.5%	5.9%	5.7%	6.0%	4.9%	4.2%	4.3%
SBIN	5.8%	5.7%	5.3%	5.4%	4.8%	4.6%	4.0%	3.6%	4.0%

Source: Company, HSIE Research | *Note: HDFC Securities is a subsidiary of HDFC Bank*

- **Favourable LDR offers margin(al) respite**: With one of the lowest loan-to-deposit ratio (LDR) among peers at ~73%, SBI may not need to chase aggressive growth in its deposit book in order to support its target loan growth of ~12-14%. However, we believe that repricing of existing deposits (back-book) is likely to pick up pace and exert downward pressure on near-term NIMs.

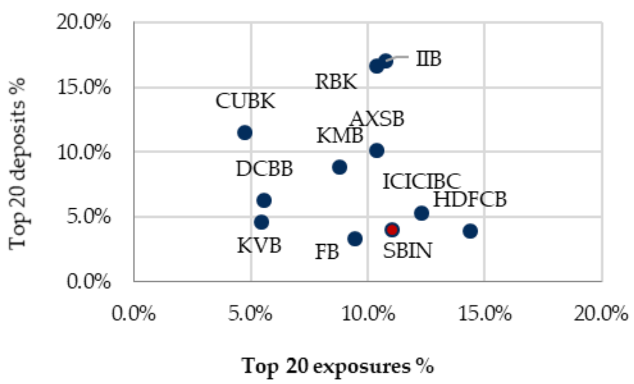
Exhibit 20: Banks—Loan-to-Deposit ratio vs. LCR ratio (FY23)



Source: Company, HSIE Research

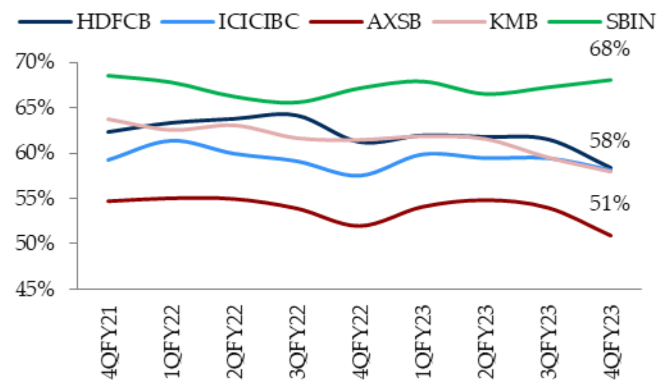
- **Granularity on both sides of the balance sheet:** SBI continues to maintain best-in-class granularity on exposure as well as deposit concentration (in terms of the top-20 accounts) at 11% and 4% respectively. Further, it stands distinguished in terms of its retail deposits with its RSBD being the highest at 68% as a % of its total deposits when compared to the large private peers.

Exhibit 21: Concentration - double axis—Peers



Source: Company, HSIE Research

Exhibit 22: RSBD as % of deposits

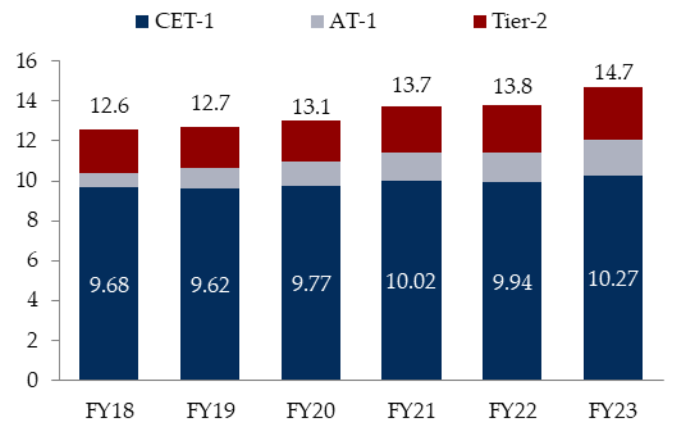


Source: Company, HSIE Research

Valuation and recommendation

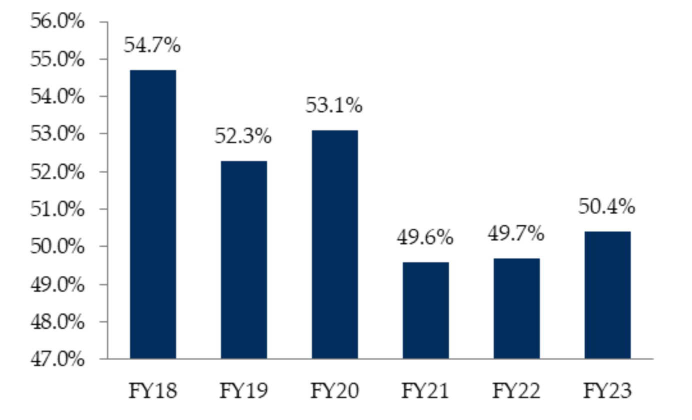
- **Internal accruals on the mend**: SBI's Common Equity Tier-1 (CET-1) ratio has been hovering close to 10% over the past few years, which we flagged as a matter of caution, given the combination of modest return ratios (sub-1% RoA) and a visible return of growth appetite (13% loan book CAGR). However, in recent quarters, we have been positively surprised by the core operating profitability run rate, thanks to reflating margins and improving efficiencies as elaborated in the earlier sections. Combined with low credit costs on the back of a benign credit cycle, SBI has shored up its CET-1 ratio organically to ~10.3%, which offers sufficient headroom for BAU business growth requirements.

Exhibit 23: Comfortable capital position



Source: Company, HSIE Research

Exhibit 24: RWA intensity moderating at the margin



Source: Company, HSIE Research

We believe SBI is well on track to continue delivering a consistent 1%+ RoA on the back of a healthy credit engine riding on comfortable LDR, modest deposit mobilisation, revamp in SME and steady growth in retail resulting in superior NIMs. While there are visible signs of a near-term NIM compression on the back of lagged deposit repricing, we believe that SBI has a few levers to offset some of the NIM compression. We raise our two-year explicit period forecasts by 6-8% each to factor in a superior asset profile and maintain BUY with a revised TP of INR790 (earlier INR750; standalone bank at 1.4x Mar-25 ABVPS).

Peer Set Comparison

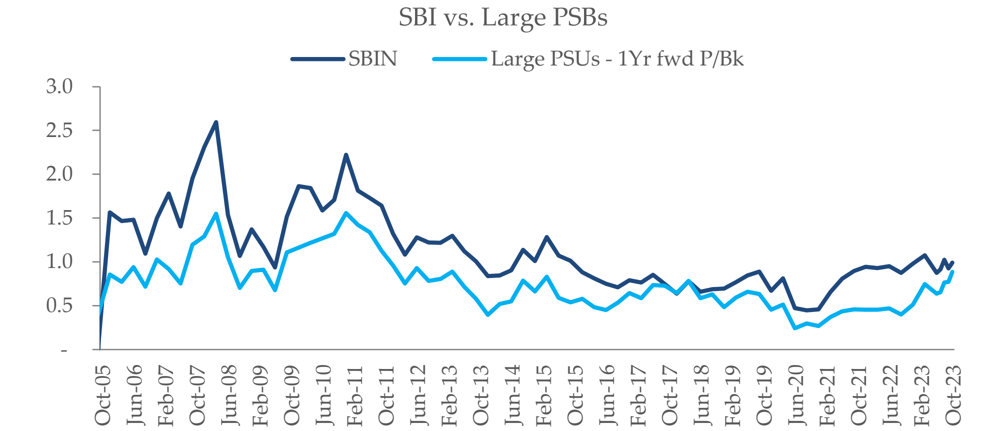
	CMP (INR)	Rating	TP	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
				FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
BANKS																		
AUBANK	719	REDUCE	580	160	185	215	33.6	28.3	22.0	4.5	3.9	3.3	15.5	14.4	15.9	1.8	1.7	1.8
AXSB#	1,022	BUY	1,150	388	453	539	31.4	12.0	10.8	2.5	2.1	1.8	8.0	18.4	18.2	0.8	1.8	1.8
BANDHAN	252	ADD	260	114	125	146	18.5	13.0	11.4	2.2	2.0	1.7	11.9	14.9	16.4	1.5	1.9	2.0
CUBK	138	BUY	160	87	100	112	10.9	10.3	9.2	1.6	1.4	1.2	13.3	12.5	12.8	1.5	1.4	1.5
DCBB	124	ADD	145	135	148	164	8.3	7.9	6.7	0.9	0.8	0.8	10.8	10.2	11.5	1.0	0.9	1.0
ICICIBC#	959	BUY	1,200	270	312	362	18.6	15.4	15.4	3.1	2.7	2.2	17.2	17.4	17.2	2.1	2.2	2.2
IIB	1,426	REDUCE	1,139	687	775	881	14.9	13.6	12.3	2.1	1.8	1.6	14.5	13.8	13.6	1.7	1.7	1.6
KMB#	1,769	ADD	2,205	398	453	515	22.9	19.2	25.8	3.2	2.6	2.1	14.0	13.8	13.5	2.4	2.3	2.2
KVB	134	ADD	145	101	115	128	9.7	7.9	6.7	1.3	1.2	1.0	13.7	15.0	15.3	1.3	1.4	1.4
SBIN#	594	BUY	790	327	383	442	8.0	6.6	8.4	1.4	1.1	0.9	16.5	16.5	15.4	1.0	1.0	1.0
UJJIVANS	59	ADD	37	21	27	32	10.5	9.1	5.8	2.7	2.2	1.8	31.4	26.9	24.4	3.9	3.4	3.1

Source: Company, HSIE Research | Note: **CMP as on 13-10-2023, # adjusted for subsidiaries*

	Cat-A	Cat-B					
FY23	**SBIN**	**BOB**	**CBK**	**BOI**	**PNB**	**INBK**	**UNBK**
Net advances (INR bn)	31,993	9,409	8,306	4,859	8,308	4,492	7,618
% YoY	17.0%	21.1%	18.1%	15.5%	14.1%	15.4%	15.2%
NIM	3.2%	3.3%	3.0%	3.0%	3.1%	3.4%	3.1%
NNPA (%)	**0.7%**	**0.9%**	**1.7%**	**2.3%**	**2.7%**	**0.9%**	**1.7%**
Restructured Book (%)	**0.8%**	**1.1%**	**1.7%**	**2.4%**	**1.3%**	**2.5%**	**2.3%**
C/D ratio	72.3%	78.2%	70.4%	72.6%	64.9%	72.3%	68.2%
Cost-to-income ratio	53.9%	47.7%	44.8%	51.1%	51.7%	44.2%	46.3%
CASA ratio	**42.7%**	**42.3%**	**33.5%**	**44.5%**	**43.0%**	**42.9%**	**35.3%**
SA/Branch (INR mn)	**709**	**449**	**413**	**430**	**460**	**389**	**373**
Opex/Branch (INR '000)	**43,627**	**29,981**	**25,308**	**27,139**	**23,924**	**20,905**	**25,561**
Tier I	12.1%	12.6%	13.7%	14.4%	12.7%	12.6%	12.3%
Retail + MSME (% of loans)	47.1%	31.8%	30.5%	32.1%	37.6%	38.4%	35.1%

	Cat-A	Cat-B					
FY23	**SBIN**	**BOB**	**CBK**	**BOI**	**PNB1**	**INBK**	**UNBK**
NII	2.8%	3.0%	2.4%	2.6%	2.5%	2.9%	2.7%
PPOP	1.6%	2.0%	2.2%	1.7%	1.6%	2.2%	2.1%
PAT	1.0%	1.1%	0.8%	0.5%	0.2%	0.8%	0.7%
ROE	16.5%	16.0%	15.2%	7.1%	2.6%	11.5%	11.5%
Vulnerable Book (%) - SMA1+SMA2+Restructured	0.9%	1.5%	2.1%	2.7%	1.5%	3.1%	2.8%
Slippages (%)	0.6%	1.3%	1.7%	1.8%	2.1%	1.6%	1.8%
Upgrades and Recoveries (%)	0.5%	1.2%	1.5%	1.6%	1.9%	1.4%	1.7%
PCR (%)	76.2%	77.2%	68.9%	78.6%	70.8%	85.7%	78.8%
Agri NPAs (% of agri loans)	11.5%	7.0%	3.5%	13.2%	18.4%	8.8%	9.8%
Retail NPAs (% of retail loans)	0.6%	6.3%	0.4%	2.2%	3.5%	3.5%	4.8%

Exhibit 25: Valuation spread over large PSBs at historically lowest levels



Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	25,73,236	26,51,506	27,54,572	33,21,030	37,52,690	42,13,408
Interest Expenses	15,92,388	15,44,406	15,47,496	18,72,625	21,46,234	24,40,820
Net Interest Income	**9,80,848**	**11,07,100**	**12,07,076**	**14,48,405**	**16,06,455**	**17,72,587**
Non-Interest income	4,52,215	4,34,964	4,05,639	3,66,156	4,52,677	5,42,968
Total income	14,33,063	15,42,064	16,12,715	18,14,561	20,59,132	23,15,556
Operating Expenses	7,51,737	8,26,522	9,33,973	9,77,459	10,58,872	11,55,311
Operating Profit	**6,81,326**	**7,15,542**	**6,78,742**	**8,37,102**	**10,00,260**	**11,60,244**
Provisions	4,30,698	4,40,130	2,44,521	1,65,072	2,18,484	3,12,537
PBT	2,50,628	2,75,411	4,34,221	6,72,030	7,81,777	8,47,707
Tax	1,05,747	71,307	1,17,459	1,69,732	1,97,008	2,13,622
PAT	**1,44,881**	**2,04,105**	**3,16,762**	**5,02,298**	**5,84,769**	**6,34,085**

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	2,50,628	2,75,411	4,34,221	6,72,030	7,81,777	8,47,707
Reserves	1,05,747	71,307	1,17,459	1,69,732	1,97,008	2,13,622
Net worth	**1,44,881**	**2,04,105**	**3,16,762**	**5,02,298**	**5,84,769**	**6,34,085**
Deposits	2,50,628	2,75,411	4,34,221	6,72,030	7,81,777	8,47,707
Borrowings	1,05,747	71,307	1,17,459	1,69,732	1,97,008	2,13,622
Current Liab	16,31,101	18,19,797	22,99,292	27,24,571	21,09,387	23,75,929
Total Liabilities & Equity	**3,95,13,939**	**4,53,44,296**	**4,98,75,943**	**5,51,69,781**	**6,05,21,196**	**6,75,23,111**
Cash balance	25,10,970	34,30,387	39,45,523	30,78,996	40,77,808	45,67,416
Advances	**2,32,52,896**	**2,44,94,978**	**2,73,39,665**	**3,19,92,693**	**3,61,05,180**	**4,08,40,636**
Investments	1,04,69,545	1,35,17,052	1,48,14,454	1,57,03,661	1,55,62,291	1,70,06,975
Fixed assets	3,84,393	3,84,192	3,77,082	4,23,817	4,40,770	4,58,401
Other assets	28,96,136	35,17,687	33,99,248	39,70,615	43,35,147	46,49,684
Total Assets	**3,95,13,939**	**4,53,44,296**	**4,98,75,943**	**5,51,69,781**	**6,05,21,196**	**6,75,23,111**

Source: Company, HSIE Research

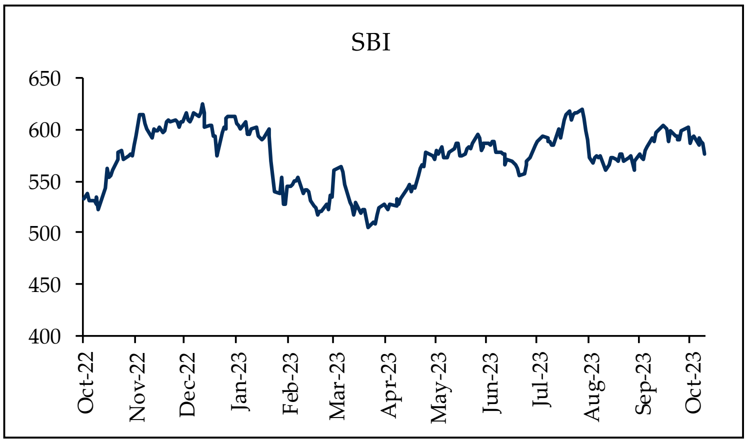
Key Ratios

	FY20	FY21	FY22	FY23	FY24E	FY25E
VALUATION RATIOS						
EPS (INR)	16	23	35	56	66	71
Earnings Growth (%)	1580%	41%	55%	59%	16%	8%
BVPS	260	284	314	367	428	494
Adj. BVPS	189	228	267	327	383	442
ROAA (%)	0.4%	0.5%	0.7%	1.0%	1.0%	1.0%
ROAE (%)	6.4%	8.4%	11.9%	16.5%	16.5%	15.4%
P/E (x)	36	26	17	10	9	8
P/ABV (x)	3.1	2.6	2.2	1.8	1.5	1.3
P/PPOP (x)	7.7	7.3	7.7	6.3	5.3	4.5
PROFITABILITY (%)						
Yield on loans	8.0%	7.18%	6.63%	7.46%	7.55%	7.60%
Cost of Funds	4.6%	4.04%	3.61%	3.99%	4.14%	4.23%
Cost of Deposits	4.8%	4.11%	3.65%	4.09%	4.25%	4.34%
Spread	3.2%	3.07%	2.98%	3.37%	3.30%	3.26%
NIM	2.9%	3.00%	2.91%	3.15%	3.16%	3.14%

	FY20	FY21	FY22	FY23	FY24E	FY25E
OPERATING EFFICIENCY						
Cost to average assets	1.97%	1.95%	1.96%	1.86%	1.83%	1.80%
Cost-income	52.46%	53.60%	57.91%	53.87%	51.42%	49.89%
BALANCE SHEET STRUCTURE RATIOS						
Loan Growth (%)	6.4%	5.3%	11.6%	17.0%	12.9%	13.1%
Deposits Growth (%)	11.3%	13.6%	10.1%	9.2%	11.4%	11.5%
Equity/Assets (%)	5.9%	5.6%	5.6%	5.9%	6.3%	6.5%
Equity/Loans (%)	10.0%	10.4%	10.2%	10.2%	10.6%	10.8%
CASA %	44.2%	45.4%	44.5%	42.7%	41.8%	41.0%
CRAR (%)	13.5%	14.0%	13.8%	14.7%	13.9%	14.0%
Tier I (%)	11.5%	11.7%	11.4%	12.1%	11.7%	12.1%
Asset quality						
Gross NPA	14,90,919	12,63,890	11,20,234	9,09,277	9,84,090	11,45,198
Net NPA	5,18,713	3,68,097	2,79,657	2,16,583	2,55,498	3,22,662
PCR	65.2%	70.9%	75.0%	76.2%	74.0%	71.8%
GNPA %	6.4%	5.2%	4.1%	2.8%	2.7%	2.8%
NNPA %	2.2%	1.5%	1.0%	0.7%	0.7%	0.8%
Slippages	2.2%	1.2%	1.0%	0.6%	1.0%	1.1%
Credit costs	1.9%	1.1%	0.5%	0.3%	0.6%	0.7%
ROAA Tree						
Net Interest Income	2.57%	2.61%	2.54%	2.76%	2.78%	2.77%
Non-Interest Income	1.19%	1.03%	0.85%	0.70%	0.78%	0.85%
Operating Cost	1.97%	1.95%	1.96%	1.86%	1.83%	1.80%
Provisions	1.13%	1.04%	0.51%	0.31%	0.38%	0.49%
Tax	0.28%	0.17%	0.25%	0.32%	0.34%	0.33%
ROAA	**0.38%**	**0.48%**	**0.67%**	**0.96%**	**1.01%**	**0.99%**
Leverage (x)	16.9	17.5	17.8	17.3	16.3	15.6
ROAE	6.40%	8.40%	11.86%	16.53%	16.49%	15.42%

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

State Bank of India: Company Update

Disclosure:

We, **Krishnan ASV, PGDM, Neelam Bhatia, PGDM & Akshay Badlani, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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