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Q2FY23 result review,
earnings and TP
revision

Banking

Target price: Rs805

Earnings revision

(%)	FY23E	FY24E
PAT	↑ 15	↑ 6

Target price revision:

Rs805 from Rs673

Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	57.6	57.6	57.6
Institutional investors	34.6	34.7	34.1
MFs and others	13.2	13.2	13.3
FIs/Banks	0.0	0.0	0.0
Insurance Cos.	10.1	10.4	10.5
FII	11.3	11.1	10.3
Others	7.8	7.7	8.3

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	48	51	3
Environment	27	34	7
Social	33	34	1
Governance	85	85	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

State Bank of India

BUY

Maintained

Firing on all cylinders, RoAs cross 1% mark;
sustenance to drive further rerating

Rs594

State Bank of India's (SBI) Q2FY23 earnings surpassed expectations by a wide margin and beat was across operating metrics crossing 1% RoA and 17% RoE mark. PAT of Rs132.6bn, ahead of I-Sec (Rs106bn) and consensus (~Rs100bn) estimates, was supported by: i) NIMs soaring 30bps QoQ led by repricing benefit and contained deposit cost, ii) net advances growth of 21% YoY/5% QoQ, iii) slippages at mere 33bps, credit cost of <50bps, net NPAs now at 0.8% with 78% coverage, iv) treasury gains of Rs4.6bn against a loss of Rs65bn QoQ provided further incremental delta. We expect NIM trajectory to sustain with repricing of lending book offsetting any deposit cost rise. Credit growth of 18% / 16%, stable NIMs, operating profit growth of 22% / 19% and credit cost of 0.8% / 0.9% will drive RoE to 18%/ 17% by FY23E/FY24E, respectively. This will help SBI command 1.7x FY24E core banking business book (earlier 1.5x Sep'23E). We revise our SoTP-based target price to Rs805 (earlier: Rs673). Maintain BUY. Key risks: I) Equity raise to boost CET (at 9.5%) may dilute interim RoEs; II) competitive pressure and deposit acceleration may weigh on NIM expansion.

► **NIMs soar 30bps QoQ and NII was up 12.8% QoQ (much ahead of expectations):** Domestic NIMs were up 32bps QoQ to 3.55% as yields expanded >45bps to 7.9% and cost of deposits was up mere 8bps to 3.88%. Overseas business NIMs were up 24bps QoQ to 1.56% and overall NIMs, thereby, was up 30bps QoQ to 3.32%. Net interest income was up 12.8% QoQ as well as YoY to Rs352bn against our expectations of Rs344bn. It was also supported by C/D ratio expansion of 85bps QoQ to 70.4%.

Nearly 41% of SBI's lending portfolio is linked to MCLR, 34% is EBLR linked, 21% is fixed rate and rest is BPLR, base rate etc. Bulk of the MCLR-linked portfolio is with 6-month reset. Also, within EBLR-linked book, 11% is T-bill linked that reprices with a quarter lag. Given this profile, while partial benefit of rate transmission was reflected in Q2FY23, the entire benefit should be visible in H2FY23. This repricing is likely to more than offset any deposit cost pressure and NIMs should further widen. Also, SBI has Rs3.5trn liquidity lying in treasury which is due for redemption in H1FY23 and can be utilised for advances growth. On a steady-state basis, we expect margins (calculated) to stabilise around 3.0% in FY23E-FY24E.

Market Cap	Rs5301bn/US\$64.2bn	Year to Mar	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	SBI.BO/SBIN IN	NII (Rs bn)	1,107	1,207	1,477	1,700
Shares Outstanding (mn)	8,924.6	Net Profit (Rs bn)	204	391	510	568
52-week Range (Rs)	594/435	EPS (Rs)	23	35	57	64
Free Float (%)	42.4	% Change YoY	(1)	55	61	11
FII (%)	11.1	P/E (x)	18	12	7	7
Daily Volume (US\$'000)	84,670	P/BV (x)	1.7	1.5	1.2	1.0
Absolute Return 3m (%)	11.4	P/ABV (x)	2.0	1.7	1.4	1.1
Absolute Return 12m (%)	13.7	GNPA (%)	5.0	4.0	3.2	2.9
Sensex Return 3m (%)	4.9	RoA (%)	0.5	0.7	1.0	0.9
Sensex Return 12m (%)	2.8	RoE (%)	9.5	13.3	18.5	17.2

Please refer to important disclosures at the end of this report

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- ▶ **Slippages at mere 33bps; GNPA down 39bps QoQ:** Slippages post inter quarter adjustments were sharply down to Rs24bn (vs Rs97.4bn QoQ) translating into an annualised run-rate of 0.33%. Of the total slippages, Rs6.31bn (vs Rs27bn QoQ) was from agri, Rs4.08bn (vs Rs30bn QoQ) from SME, Rs3.3bn from retail segment, Rs9.56bn (40%) from corporate, and Rs0.74bn (3%) from international book.

Recoveries and upgrades were Rs52bn (Rs52bn/ Rs67.6bn in Q1FY23/ Q4FY22) and coupled with write-offs of Rs47bn (Rs36.3bn/ Rs49bn), resulted in a sharp decline in GNPA to 3.52% (3.91%/ 3.97%/ 4.5%/ 4.9% in Q1FY23/ Q4FY22/ Q3FY22/ Q2FY22) with net NPA at mere 0.8% (vs 1% QoQ).

GNPA in retail (ex-agri) was down 12bps to 0.71%, agri NPA was down 70bps to 12.25%, SME NPA too was down 54bps to 6.03% and corporate NPA was down 64bps to 5.32%. Home loans GNPA at 0.75% (vs 0.84%), auto loans at 0.58% (vs 0.76%), X-press credit at 0.65% (vs 0.76%) as well as gold loan GNPA was at 0.16% (vs 0.35%).

Overall, given the lower than anticipated slippages pool in Q2FY23, we are now looking at a slippage run-rate of 1.2%/ 1.3%, and gross NPA settling at 3.2%/ 2.9% in FY23E/FY24E, respectively.

- ▶ **Credit cost restricted to 0.28%; investment depreciation of mere Rs50mn:** Provisioning came in Rs30.4bn (vs Rs43.9bn QoQ), lower than our estimate with loan loss related being Rs20bn (~28bps), standard asset provisions of Rs1.25bn, investment depreciation at Rs50mn and other provisions at Rs9bn (particularly on restructured pool as SBI has now provided 30% towards restructuring). Provisioning coverage, thereby, improved QoQ to 77.9% (vs 75%) with legacy book being well provided. Non-NPA provisions were steady at Rs298bn (vs Rs293bn/ Rs306bn in Q1FY23/ Q4FY22) with standard asset provisioning at Rs188bn (Rs187bn/ Rs200bn), provision on restructured pool at Rs83bn (Rs78bn/ Rs79bn) and other loan related provisions of Rs26.6 (Rs28bn/ Rs27.4bn). Overall, we are building in credit cost of 0.8%/ 0.9% for FY23E/ FY24E, respectively.

- ▶ **Restructuring moderated to 1.06% of domestic advances, while SMA-1 pool up QoQ:** Restructuring pool moderated to Rs273bn in Q2FY23 (1.06% of domestic advances) from Rs288bn/ Rs310bn/ Rs329bn in Q1FY23/ Q4FY22/ Q3FY22 - decline was largely led by the corporate segment. This included Rs82bn (vs Rs92bn QoQ) under OTR 1.0 and Rs192bn (vs Rs196bn QoQ) under OTR 2.0). Currently, ~9% of this is under SMA-1/ SMA-2 category and by business segment, 1.4% of retail (Rs150bn), 3.5% of SME (Rs110bn) and only 0.14% of corporate book (Rs13bn) is in restructured pool. Restructured accounts have maximum 24 months moratorium and as of now, only a small portion of the retail/SME book has moved out of moratorium. Perhaps, early FY24 may witness a large part of retail/SME restructured pool moving out of the moratorium.

SMA-1 has risen to Rs65.6bn (Rs52bn/Rs30bn) and SMA-2 at Rs19.2bn (Rs18bn/Rs5.6bn) is equivalent to 29bps of advances (vs 25bps QoQ). Rise in SMA-1 was due to one large corporate account, which was however pulled back later.

- ▶ **Net advances up 5% QoQ and 21% YoY primarily led by robust growth in corporate, retail and overseas:** Domestic advances grew 18% YoY/4% QoQ. Growth was visible across segments with corporate book growing 21% YoY and 5% QoQ (now 36.0% of advances vs 35.1% YoY), retail up 19% YoY and 4% QoQ, SME up 13% YoY and 1% QoQ while agri was up 11% YoY and 4% QoQ. Overseas advances were up 8% QoQ / 30% YoY while in dollar terms, growth was 18% YoY. It now constitutes 16.1% of total loans vs 14.8% YoY. Overall, CD ratio expanded 85bps QoQ and 630bps YoY to 70.4%.

Demand in corporate segment largely flowed from petroleum, infra, renewables, NBFCs, IT services etc. As of Q2FY23, SBI had loans worth Rs3.7trn in the pipeline, which are either already sanctioned or proposals are under progress for the same. Overseas advances primarily include local lending and trade financing with lending towards well-rated Indian corporates. Its operations were concentrated in USA, UK, Singapore and Hong Kong.

X-press credit book grew at a robust 30% YoY (5% QoQ) to Rs2.7trn, personal gold loans were up 21% YoY (7% QoQ), auto loans were up 17% YoY (6% QoQ), home loans were up 15% YoY (3% QoQ) and other retail loans were up 19% YoY 2% QoQ). As per SBI, its latest market share in home loans is 32.9% (33.3% QoQ) and that in auto loans is 19.2% (19.3% QoQ). Overall, strong loan pipeline coupled with high single digit GDP growth outlook gives confidence that credit growth is likely to pick further momentum in FY23E. We are building in loan growth of 18%/ 16% for FY23E/ FY24E, respectively, and the management had guided for loan growth in the range of 14-16% for FY23.

- ▶ **Treasury gain of Rs4.6bn; core fee income up 10% YoY; modest miscellaneous income drags non-interest income:** Non-interest income was up 8% YoY and 3.8x QoQ on a low base. It reported treasury gain of Rs4.6bn (vs loss of Rs65.5bn QoQ). AFS/HFT portfolio is 40% (vs 42.3%) with modified duration of 1.94 years (vs 2.08 years) and yields on investments at 6.92% (vs 6.16%). Core fee income was up 10% YoY (albeit down 6% QoQ) supported by processing fees growth of 23%, commission on government business up 13% and cross-sell up 33%. Forex income grew more than 3x YoY (down 5% QoQ). Miscellaneous income remained modest at Rs5.6bn (vs Rs4.75bn).
- ▶ **Operating expenses up 7.6% QoQ and 10.5% YoY; cost to assets at 1.79% (among the best in the industry):** In Q2, staff cost was up 6.8% QoQ and 2.3% YoY while overhead cost was up 15% YoY as well as QoQ. Surge in QoQ growth in overheads was led by ATM/CDM/debit card/other tech expenses, rent, printing & stationery, repairs & maintenance and travel. Break up of opex for H1FY23 is as under: 42.6% towards salary, 43.0% towards overheads and 14.4% towards retiral benefits and other provisions (due to >40-50bps rise in 10Y G-Sec in H1FY23). The management indicated that incremental cost due to wage revision would be Rs5.8bn/month for 12% hike or Rs4.77bn/month for 10% hike. The provision will be effective Q3FY23 onwards. Overall, we expect 'cost to income' ratio to settle at 51%/49% in FY23E/FY24E and 'opex to assets' to settle around 1.8%/1.8% during the same period, respectively.
- ▶ **Capital inching closer to threshold levels:** In Q2FY23, CET-I stood at 9.53% (vs minimum requirement of 8.6%) while overall capital adequacy ratio was healthy at 13.51% (vs minimum requirement of 12.1%). Tier-2 ratio stood at

2.39%. SBI is of the view that it has raised AT-1 and AT-2 at the most competitive rates and it will look to evaluate capital requirements post Q4FY23 earnings. Internal accruals can support growth in the interim and therefore, it will look to raise capital at an appropriate time.

- **YONO expanding rapidly and aiding cross-sell:** YONO has acquired 54.4mn customers since inception and created a significant value for the bank. In Q2FY23, SBI disbursed Rs113.4bn Krishi agri gold loans and Rs41.2bn pre-approved personal loans through YONO app. During the quarter, it opened 23.3k saving accounts per day via YONO. There were also 98k average daily cardless cash withdrawals through the app. YONO is adding cross-sell and as a result, SBI was able to procure MF gross sales of Rs6.5bn.

In order to accelerate digital agenda, YONO 2.0 will focus on sleek customer-centric design, quick response time, modern tech stack, innovative product offerings, hyper personalised, omni-channel presence, partnership-enhanced proposition and leveraging AI/LM/analytics and cloud.

Table 1: SoTP valuation suggests >30% upside

Subsidiary	Valuation method	Company value (Rs mn)	SBI stake	SBI stake value (Rs mn)	SoTP value (Rs per share)
SBI	1.7x P/ABV FY24E	56,11,247	NA	56,11,247	629
SBI Life Insurance	25x NBAP	13,86,000	56	7,69,230	86
SBI General Insurance	25x PE	1,42,550	70	99,785	11
SBI Mutual Fund	7.5% of AUM	4,62,252	63	2,90,664	33
SBI Cards	Market Cap	8,97,237	70	6,27,169	70
SBI Caps	15x PE	1,72,750	100	1,72,750	19
Others	0.5x PB	28,800	35	10,080	1
Value of subsidiaries					221
Value of subsidiaries after hold co discount of 20%					177
SBI Value					805

Source: I-Sec research

Table 2: Q2FY23 result review*(Rs mn, year ending March 31)*

Particulars	Q2FY23	Q2FY22	% Change YoY	Q1FY23	% Change QoQ
Net Interest Income	3,51,834	3,11,839	12.8	3,11,959	12.8
% Growth	12.8	10.7		12.9	(0.4)
Fee income	59,420	53,910	10.2	63,720	(6.7)
Add: Other income	29,323	28,166	NA	(40,598)	NA
Total Net Income	4,40,577	3,93,915	11.8	3,35,081	31.5
% Growth	11.8	7.3		(15.0)	
Less: Operating Expenses	(2,29,377)	(2,13,124)	7.6	(2,07,556)	10.5
Pre-provision operating profit	2,11,200	1,80,791	16.8	1,27,526	65.6
NPA Provisions	(20,109)	(26,993)	(25.5)	(42,681)	(52.9)
Other provisions	(10,278)	25,105	(140.9)	(1,243)	727.2
Exceptional Item	-	(74,160)	NA	-	NA
PBT	1,80,814	1,04,743	72.6	83,602	116.3
Less: taxes	(48,178)	(28,454)	69.3	(22,921)	110.2
PAT	1,32,645	76,290	73.9	60,681	118.6
Balance sheet (Rs mn)					
Advances	2,95,12,875	2,44,31,942	20.8	2,81,52,492	4.8
Deposits	4,19,02,549	3,80,96,299	10.0	4,04,56,956	3.6
Asset quality					
Gross NPA	10,68,041	12,39,418	(13.8)	11,32,717	(5.7)
Net NPA	2,35,722	3,71,186	(36.5)	2,82,579	(16.6)
Gross NPA ratio (Change bps)	3.52	4.90	(138)	3.91	(39)
Net NPA ratio (Change bps)	0.80	1.52	(72)	1.00	(20)
Credit cost (Change bps)	0.4	0.0	38	0.6	(20)
Coverage ratio (Change bps)	78	70	788	75	288
Business ratio					
			Change bps		Change bps
RoA	1.0	0.7	38	0.5	55
RoE	17.8	11.5	627	8.5	930
CASA	44.6	46.2	(161)	45.3	(70)
Credit / Deposit Ratio	70.4	64.1	630	69.6	85
Cost-Income ratio	52.1	54.1	(204)	61.9	(988)
Earnings ratios					
			Change bps		Change bps
Yield on advances (Reported)	7.66	7.51	15	7.43	23
Cost of deposits (Reported)	3.84	3.84	-	3.80	4
NIM (Reported)	3.32	3.24	8	3.02	30

Source: Company data

Table 3: Slippages moderates to mere 33bps

Movement of GNPA (Rs bn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Opening balance	1,343	1,239	1,200	1,120	1,133
Additions	43	23	28	97	24
Reductions	146	62	109	85	89
Closing balance	1,239	1,200	1,120	1,133	1,068

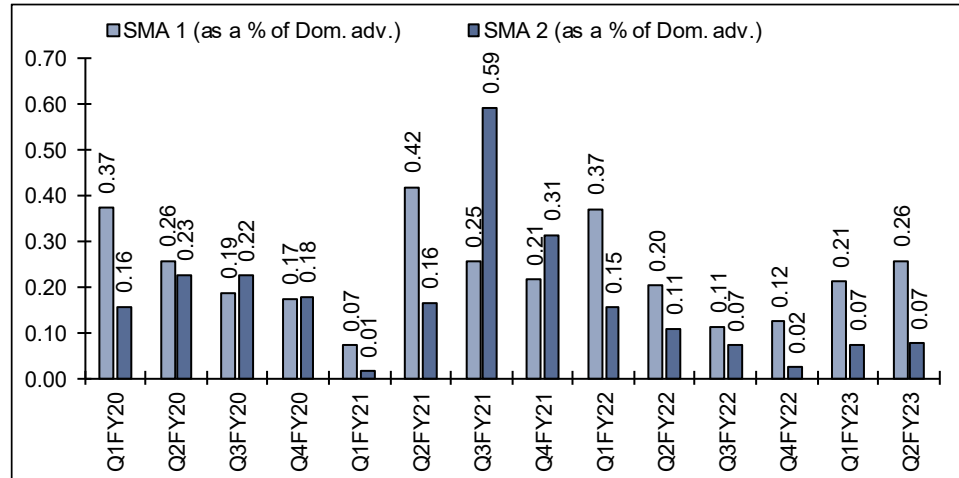
Source: Company data, I-Sec research

Table 4: Restructured pool at 1.06% of domestic advances

	Retail Personal	Corporate	SME	Total
Restructuring as of Q2FY23 (Rs bn)				
Restructuring 1.0	28	13	41	82
Restructuring 2.0	122	-	70	192
Total	150	13	110	273
Domestic advances	10,749	9,170	3,169	25,692
% of domestic advances	1.40%	0.14%	3.49%	1.06%
Restructuring as of Q1FY23 (Rs bn)				
Restructuring 1.0	29	19	44	92
Restructuring 2.0	123	-	73	196
Total	152	19	117	288
Domestic advances	10,343	8,740	3,128	24,508
% of domestic advances	1.47%	0.22%	3.75%	1.17%

Source: Company data, I-Sec research

Chart 1: SMA-1 up QoQ; SMA-2 flat QoQ



Source: Company data, I-Sec research

Table 5: Total provision not included in PCR at 1.01% of advances

Particulars	(Rs bn)
Provisions on standard assets at end of Q2FY23	188.38
Additional Provision for Restructured Standard Account	83.09
Other loan related provisions	26.62
Total provision not included in PCR at end of Q2FY23	298.09
As a % of net advances	1.01%
As a % of net NPA	126.5%

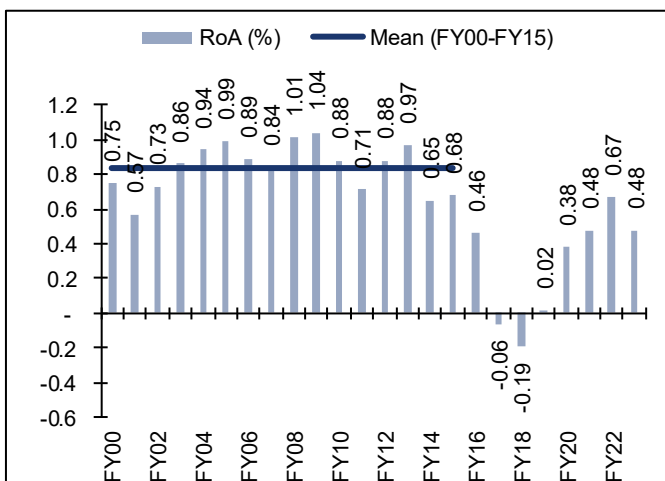
Source: Company data, I-Sec research

Table 6: Growth led by corporate and overseas advances

Particulars (Rs bn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	% Change YoY	% Change QoQ
Agriculture	2,150	2,215	2,282	2,299	2,386	11.0	3.8
Retail	9,045	9,522	10,023	10,343	10,749	18.8	3.9
Housing	5,187	5,385	5,617	5,751	5,943	14.6	3.3
Mortgage	746	774	791	820	872	16.9	6.3
Xpress Credit	2,096	2,287	2,477	2,595	2,718	29.7	4.7
SME	2,798	3,072	3,055	3,128	3,169	13.2	1.3
Corporate	7,568	7,834	8,707	8,740	9,170	21.2	4.9
International	3,747	4,004	4,119	4,498	4,877	30.1	8.4
Total net advances	24,432	25,784	27,340	28,152	29,513	20.8	4.8

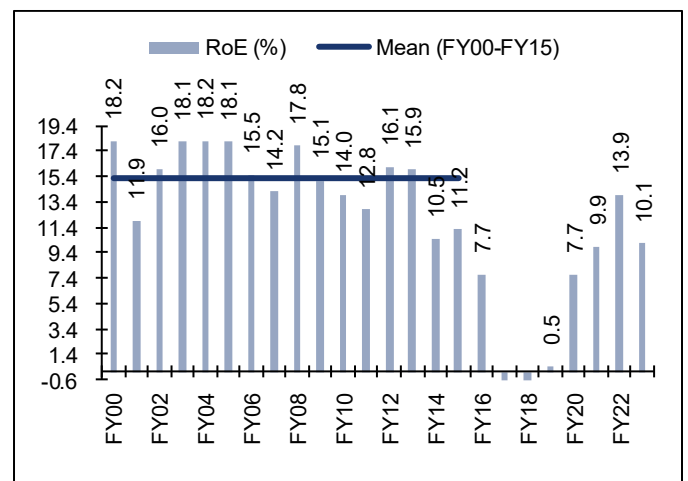
Source: Company data, I-Sec research

Chart 2: RoA above 1% in Q2 and 0.76% in H1



Source: Company data, I-Sec research

Chart 3: RoE above 16% in H1



Source: Company data, I-Sec research

Q2FY23 earnings call takeaways

Opening remarks

- Global economic activity is experiencing broad-based and expected than faster slowdown
- Cost of living crisis, tightening financial conditions, Russia invasion of Ukraine and Covid-19 pandemic weigh heavy on outlook. However, Indian economy has shown resilience.
- **Indicators of aggregate demand and several high frequency indicators remain upbeat**
- Opening up of economy aided travel, hospitality and construction sector too
- Electricity sector has picked up and rural demand showing healthy sign
- **2W, 3W and motor cycle sales remain healthy and domestic tractor sales at 11-months high in September suggests pick-up in rural economy**

Margins

- **Domestic NIMs were up 32bps QoQ to 3.55% as yields expanded >45bps to 7.9% and cost of deposits were up mere 8bps to 3.88%.**
- Overseas business NIMs were up 24bps QoQ to 1.56% and overall NIMs thereby was up 30 bps QoQ to 3.32%.
- **Bank doesn't have any margin threshold as of now**
- Rs5bn is interest on IT refund vs. Rs19bn YoY

Rate transmission

- **75% book linked to EBLCR and MCLR (of that, 41% is MCLR and remaining is EBLR linked), 21% is fixed and rest is BPLR, base rate etc.**
- **Bulk of MCLR linked book is linked to 6-month MCLR linked**
- 11% of book is T-bill linked (included in EBLR) which is 91day linked and hence is linked once in a quarter
- **Full benefit of rate transmission should be seen in H2**
- **Transmission of repo rate change is on immediate basis**
- How liabilities are stacked up, ALM management and expected growth are the key factors which each bank is considering while deciding SA and TD rates
- **Raised TD rates by 4 times since May 2022 and it has been raised by as high as 80bps in 1-2years segment**

Credit growth

- Domestic advances grew by 21% YoY/5% QoQ
- Growth was visible across segments with corporate book growing 21% YoY, retail up 19% YoY, SME up 13% YoY and Agri up 11% YoY leading to 18% growth in domestic advances.

- Growth was also visible in SME and agri segment
- Working capital utilisation improved 4% YoY
- Despite rates going up, home loan demand has not tapered off
- **Rs3.7trn loans in pipeline (loans already sanctioned or proposals under progress)**
- **Credit growth expected to be 14-16% for FY23**
- **Rs3.5trn liquidity lying in treasury which will redeem in H2FY23**

Overseas advances

- International book was up 30% YoY, which now forms 16.1% of total loans vs. 14.8% YoY
- **Overseas book growth in dollar term is 18% YoY, while in INR terms it is 30% YoY**
- On overseas, bank is essentially into USA, UK, Singapore and HongKong
- ECBs are unlikely to pick-up significantly going ahead in bank's view
- Overseas advances are usually to well rated Indian corporates
- Overseas growth is coming from local lending, trade finance and sector-wise it is from OMCs, Banking and Financial Services and IT

Capital adequacy

- Bank has raised AT-1 and AT-2 at the most competitive rates. Bank has sufficient capital to chase growth.
- Bank will look to raise capital at the appropriate time
- **Bank will look to analyse capital requirements post Q4FY23 results, after looking at claw back of annual PAT**
- Capital adequacy is fairly OK as per management and internal accruals would take care of current growth run-rate

Asset quality

- **Rs9bn other provisions are towards restructuring, since bank has provided 30% towards restructuring**
- **Slippages break-up of Rs 23.99bn:**
 - **Domestic Rs 23.25bn**
 - **Retail Rs 13.69bn**
 - **SME Rs 4.08bn**
 - **Agri Rs6.31bn**
 - **Personal Rs 3.3bn**
 - **Corporate Rs 9.56bn**
 - **International Rs0.74bn**

- As of now, book seems to be in good shape and bank has built enough cushion in its balance sheet

Restructuring

- **Restructuring pool moderated to Rs273bn in Q2FY23 and 9% of current exposure under SMA-1/SMA-2 category**
- Restructured accounts have maximum 24months moratorium and as of now, very small book moratorium has ended. Perhaps early FY24, Retail/SME accounts should come out of moratorium.

Fee income and opex

- **Monthly adhoc provisions required to be provided for 36 months due to wage revision: If estimated increase in wages is 10%, then Rs 4.77bn per month and Rs5.2bn per month if estimated increase in wages is 12%**
- Rs18.23bn is recoveries from written-off accounts (offset against derivative losses) vs. Rs 13.44bn YoY
- Core fee income was up 10% YoY (albeit down 6% QoQ) supported by processing fees growth of 23%, commission on government business up 13% and cross-sell up 33%.
- Company has not booked any treasury gains in current quarter and has kept it as a reserve

Subsidiaries

- Subsidiaries are also performing well and continue to create
- Most of the subsidiaries are leader in their respective segments

Miscellaneous

- 10 offers have been made under NARCL amounting to ~Rs240bn of which SBI share is ~Rs30bn

Q1FY23 earnings call takeaways

Opening remarks

- Economy is also back on track but volatile geo political conditions pose downside risk
- RBI raised repo rate by 140bps in current FY in order to control inflation. **Further hike in interest rates and tightening of liquidity can't be ruled out in order to control inflation**
- GST collections at Rs1.49trn in Jul'22 is the 2nd highest ever

MTM loss of Rs65.49bn

- **It reported treasury loss of Rs65.5bn. Don't see any actual loss in this book and as the rate softens, MTM losses would be written-back**

- **MTM losses booked to the extent of 7.45% yield**
- There has been transfer of securities from AFS to HFT, but bank could not take much benefit since thereafter RBI raised repo rates post the transfer.
- AFS portfolio is likely to come down from current levels

Margins

- Net interest income were just flat QoQ at Rs312bn up 13% YoY
- Margins up 8bps YoY to 3.23%. Interest on income tax refund of Rs6bn in Q4FY22 which resulted in lower margins QoQ
- **Interest rate is reset on 1st of every month. Most of the EBLR loans are repo linked loans.**
- Yields should start increasing from July onwards
- **Margin outlook - hoping to be in-line with the trend seen in the past. Bank would expect margins to improve from current level of 3.23%.**

Asset quality

- **Slippages break-up:**
 - **Rs30bn SME**
 - **Rs27bn Agri**
 - **Rs23.53bn Retail**
 - **Rs3.2bn Corporate**
 - **Rs13.35bn CCG**
- **Out of slippages during the quarter, Rs28bn has already been recovered.**
- **Restructuring saw a reduction of Rs40bn QoQ of which Rs20bn was due to slippages and rest Rs20bn can be attributed to repayments**
- **ECLGS total disbursements stood at Rs410bn of which 1.91% has slipped into NPA**
- There was write-back of covid restructuring provision to the extent of Rs15.95bn, while bank made additional standard asset provision of Rs3bn towards credit growth which resulted in net standard asset provision write-back of Rs12.95bn
- There is always an element of uncertainty on credit cost due to macro, but bank will try to bring it down as much as possible
- Rs78bn is provision available for restructured assets
- **During Q1, there are some peculiar behaviour among the customers. Of this, Rs20bn has been pulled back. Hence, considering the pullback of Rs20bn, SMA1/2 are similar to Dec'21 levels.**

Loan book

- Retail loans were up 3% QoQ/18.6% YoY
- Balance sheet crossed milestone of Rs50trn during the quarter

- **Individual mortgage portfolio registered highest growth ever in Q1**
- With economy picking up, loan book is expected to grow well over the coming quarters
- X-press credit rise in GNPA is an aberration due to salary not paid on time by some state government entities
- **Rs575k is average ticket size and maximum ticket size is Rs2-2.5mn for personal loans**
- 95% is given to customers who are maintaining salary account with the bank. Of this 95%, ~90% would be quasi government employees.
- **Quite hopeful that 15% credit growth would sustain for current FY**
- **Bank has under-utilisation of Rs2.5trn in corporate working capital limits, under-utilisation of Rs2.5trn in corporate term loans and remaining Rs1.2trn corporate loans are in pipeline.** Not seen demand tapering off in retail and have decent visibility of demand
- For SME, also there is reasonable visibility of demand
- Irrespective of rate hike, bank expects decent growth going ahead from retail as well. Bank expect better traction in corporate book in FY23 as well and even SME is also focus area for the bank in FY23.
- Under Agri, focus would be on high value agri loans

Overseas loans

- Overseas advances were up 9% QoQ/22% YoY
- **Major growth in international book is from syndicated loans and trade financing.** USA/UK have seen decent trade financing growth.
- Bank had introduced a factoring product for overseas loans almost 2 years back and that is helping bank participate in various platforms in USA and UK.

Liquidity

- Sufficient liquidity in terms of excess SLR
- **LCR at 130% and excess SLR stands at Rs3.8trn**
- Rs830bn worth of AFS portfolio is due for redemption in current FY
- Rs1.5trn is due for redemption from AFS and HTM book during the current FY. This redemption is due in normal course of business and bank doesn't see any loss to be booked due to this redemption.

Non-interest income (ex-treasury) and opex

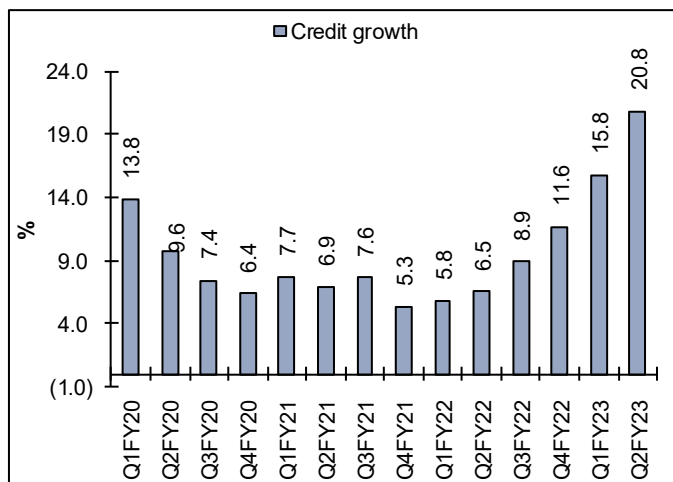
- Non-interest income was down 80% YoY as well as QoQ.
- **Miscellaneous income too contracted 78% QoQ/86% YoY to as low as Rs4.75bn. This was because Q4 has dividend income of Rs5bn, recovery of Rs14bn from Kingfisher and income from derivatives**

- **Business acquisition expense is largely commission towards home loans and premium paid towards PSLC.** For Xpress credit, bank is not using any outsourcing agents for sourcing them.
- Bank is trying to shore up income which should help to reduce cost to income ratio

Miscellaneous

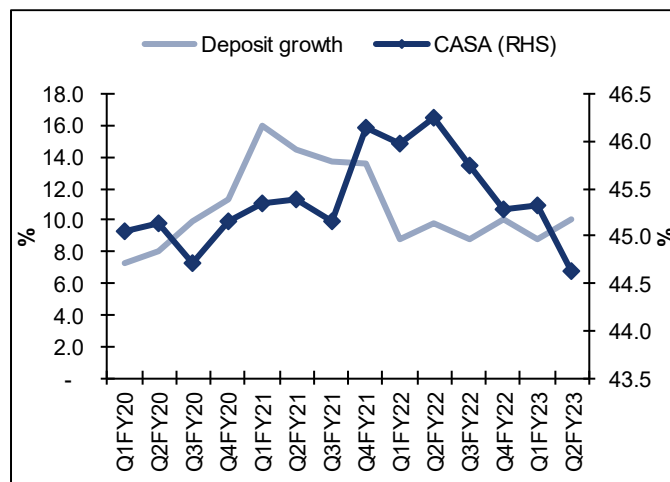
- RoE would have been >18%, excluding MTM hit
- **Digital adoption is increasing wherein more than 96.6% of transactions are routed through alternate channels**
- **52.5mn YONO users - which has created significant value for the bank**
- Focus is on increasing CASA with more emphasis on CA balance
- Bank’s endeavour would be to increase CASA as much as possible with the help of relationship strategy and acquisition strategy
- **Despite the increase in repo by 140bps till date in current FY, bank doesn’t expect rise in SA cost as of now**
- **Bank has board approval to raise Rs110bn of AT-1 and AT-2, of which Rs20bn already raised.** Will closely evaluate options to be tapped for shoring up capital adequacy.

Chart 4: Net advances up 5% QoQ



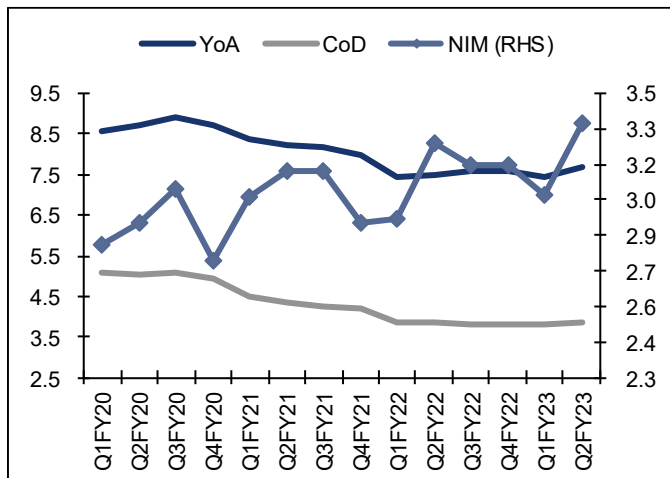
Source: Company data, I-Sec research

Chart 5: Deposit growth lags loan growth



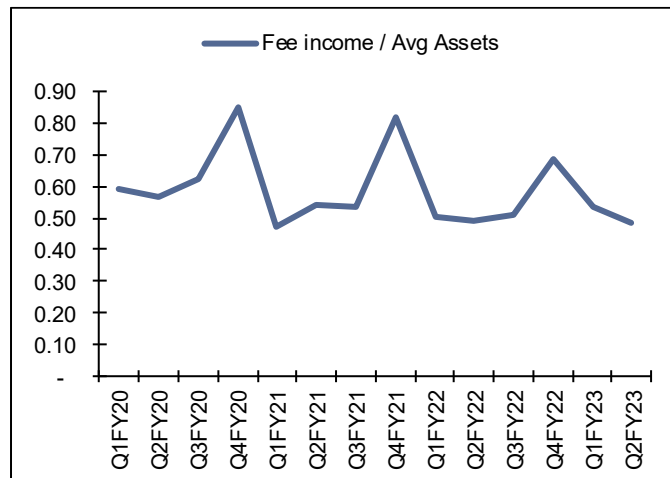
Source: Company data, I-Sec research

Chart 6: Yields up QoQ led by transmission



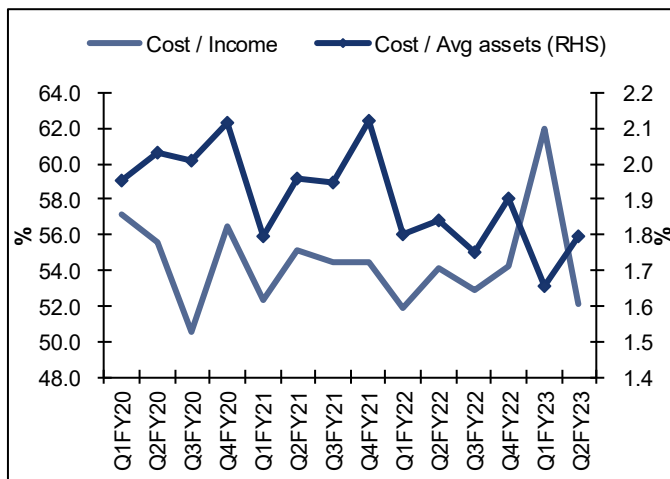
Source: Company data, I-Sec research

Chart 7: Core fee income up 10%



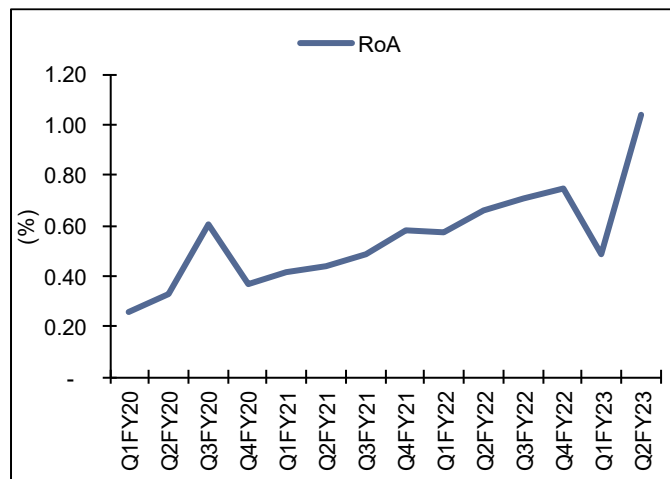
Source: Company data, I-Sec research

Chart 8: Operating expenses up 10.5% YoY and 7.6% QoQ



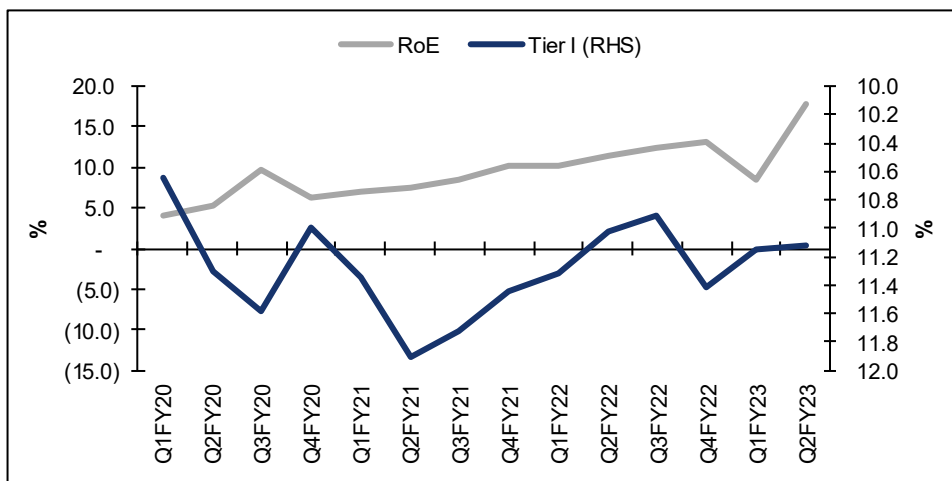
Source: Company data, I-Sec research

Chart 9: RoA in Q2FY23 above its FY24 target of 1%



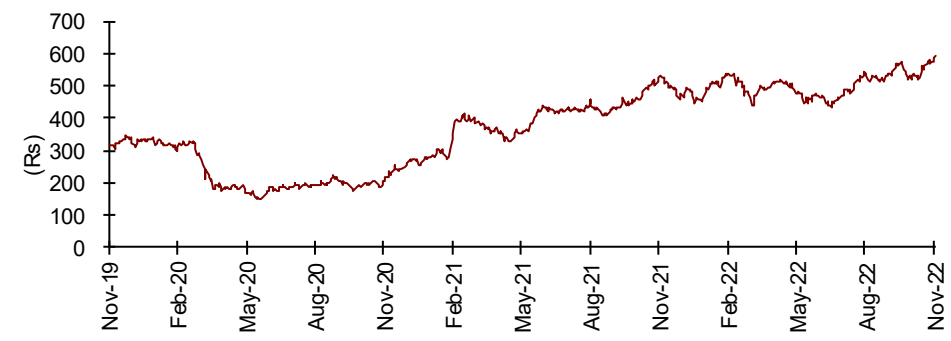
Source: Company data, I-Sec research

Chart 10: RoE above its FY24 target of 15%



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 7: Profit and loss statement
(Rs mn, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Interest Income	7,51,990	7,48,537	8,83,489	9,80,848	11,07,106	12,07,063	14,77,122	17,00,116
% Growth	31	(0)	18	11	13	9	22	15
Fee income	2,13,890	2,29,968	2,33,039	2,37,250	2,35,180	2,45,640	2,70,204	3,08,033
Add: Other income	2,12,480	1,61,677	1,34,710	2,14,964	1,84,386	1,59,999	1,19,037	1,52,653
Total Net Income	11,78,360	11,40,182	12,51,238	14,33,062	15,26,673	16,12,702	18,66,364	21,60,802
% Growth	39	(3)	10	15	7	6	16	16
Less: Operating Expenses	(5,83,770)	(5,99,434)	(7,29,000)	(7,51,737)	(8,26,659)	(8,59,791)	(9,45,770)	(10,67,147)
Pre-provision operating profit	5,94,590	5,40,748	5,22,237	6,81,325	7,00,014	7,52,911	9,20,593	10,93,655
NPA Provisions	(5,54,210)	(7,13,742)	(5,45,291)	(4,27,760)	(2,72,444)	(1,40,869)	(2,18,717)	(3,14,729)
Other provisions	(53,030)	(36,650)	7,005	(2,950)	(1,67,690)	(1,03,660)	(20,000)	(20,000)
Exceptional item	(38,420)	54,362	15,606	62,156	15,397	-	-	-
PBT	(51,070)	(1,55,283)	(443)	3,12,772	2,75,277	5,08,382	6,81,876	7,58,927
Less: taxes	(5,410)	89,808	(7,453)	(1,05,747)	(71,177)	(1,17,459)	(1,71,628)	(1,91,022)
Reported profit	(56,480)	(65,475)	(7,896)	2,07,026	2,04,101	3,90,924	5,10,248	5,67,905
% Growth	(157)	16	(88)	(2,722)	(1)	92	31	11

Source: Company data, I-Sec research

Table 8: Balance sheet
(Rs mn, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	8,110	8,925	8,925	8,925	8,925	8,925	8,925	8,925
Reserve & Surplus	21,10,016	21,82,361	22,00,214	23,11,150	25,29,827	27,91,956	33,02,204	38,70,109
Deposits	2,58,53,203	2,70,63,433	2,91,13,860	3,24,16,207	3,68,12,771	4,05,15,341	4,61,87,489	5,31,15,612
Borrowings	33,21,057	36,21,421	40,30,171	31,46,557	41,72,977	42,60,434	46,47,531	51,27,595
Other liabilities	17,56,232	16,71,381	14,55,973	16,31,101	18,19,797	22,99,319	24,14,284	25,34,999
Total liabilities	3,30,48,618	3,45,47,520	3,68,09,143	3,95,13,939	4,53,44,296	4,98,75,974	5,65,60,433	6,46,57,239
Cash & Bank Balances	27,08,617	19,18,986	22,24,901	25,10,970	34,30,387	39,45,523	38,41,291	39,74,463
Investment	93,29,267	1,06,09,867	96,70,220	1,04,69,545	1,35,17,052	1,48,14,455	1,66,66,262	1,89,16,207
Advances	1,86,89,626	1,93,48,802	2,18,58,769	2,32,52,896	2,44,94,978	2,73,39,666	3,22,79,854	3,75,16,854
Fixed Assets	4,99,064	3,99,923	3,91,976	3,84,393	3,84,192	3,77,082	3,80,852	3,84,661
Other Assets	18,22,043	22,69,942	26,63,277	28,96,136	35,17,687	33,99,249	33,92,174	38,65,055
Total Assets	3,30,48,618	3,45,47,520	3,68,09,143	3,95,13,939	4,53,44,296	4,98,75,974	5,65,60,433	6,46,57,239
% Growth	46.3	4.5	6.5	7.3	14.8	10.0	13.4	14.3

Source: Company data, I-Sec research

Table 9: DuPont analysis
(%, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest income	8.1	6.5	6.8	6.7	6.2	5.8	6.1	6.3
Interest expense	(5.3)	(4.3)	(4.3)	(4.2)	(3.6)	(3.3)	(3.3)	(3.5)
NII	2.7	2.2	2.5	2.6	2.6	2.5	2.8	2.8
Other income	0.8	0.5	0.4	0.6	0.4	0.3	0.2	0.3
Fee income	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.5
Total income	4.2	3.4	3.5	3.8	3.6	3.4	3.5	3.6
Operating expenses	(2.1)	(1.8)	(2.0)	(2.0)	(1.9)	(1.8)	(1.8)	(1.8)
Operating profit	2.1	1.6	1.5	1.8	1.6	1.6	1.7	1.8
NPA provision	(2.0)	(2.1)	(1.5)	(1.1)	(0.6)	(0.3)	(0.4)	(0.5)
Total provisions	(0.2)	(0.1)	0.0	(0.0)	(0.4)	(0.2)	(0.0)	(0.0)
PBT	(0.0)	(0.6)	(0.0)	0.7	0.6	1.1	1.3	1.3
Tax	(0.0)	0.3	(0.0)	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)
PAT	(0.1)	(0.4)	(0.1)	0.4	0.4	0.8	1.0	0.9

Source: Company data, I-Sec research

Table 10: Key ratios*(Year ending Mar 31)*

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS – Diluted (Rs)	-7.2	-7.3	-2.6	23.2	22.9	43.8	57.2	63.6
% Growth	-156	1	-64	-980.9	-1.4	91.5	61.1	11.3
DPS (Rs)	-	-	(0.50)	-	-	7.1	10.86	12.09
Book Value per share (BVPS) (Rs)	201	218	215	227	252	281	338	402
% Growth	6.7	8.4	-1.3	5.8	10.8	11.7	20.3	18.8
Adjusted BVPS (Rs)	82	112	147	171	209	245	306	370
% Growth	-20	37	31	16	22	18	25	21
Valuations								
Price / Earnings (x)	-57.7	-56.9	-158.5	18.0	18.3	11.8	7.3	6.6
Price / Book (x)	2.1	1.9	1.9	1.8	1.7	1.5	1.2	1.0
Price / Adjusted BV (x)	5.1	3.7	2.8	2.4	2.0	1.7	1.4	1.1
Asset Quality								
Gross NPA (Rs mn)	17,78,660	22,34,270	17,27,500	14,90,920	12,63,890	11,20,234	10,69,072	11,28,350
Gross NPA (%)	9.1	10.9	7.5	6.2	5.0	4.0	3.2	2.9
Net NPA (Rs mn)	9,69,780	11,08,548	6,58,948	5,18,710	3,68,100	2,79,657	2,37,141	2,35,533
Net NPA (%)	5.2	5.7	3.0	2.2	1.5	1.0	0.7	0.6
NPA Coverage ratio (%)	45	50	62	65	71	75	78	79
Gross Slippages (%)	7.7	5.1	1.9	2.4	1.2	1.1	1.2	1.3
Credit Cost (%)	3.5	3.8	2.5	1.8	1.8	0.9	0.8	0.9
Net NPL/Net worth	46	51	30	22	14	10	7	6
Business ratios (%)								
ROAA	(0.2)	(0.2)	(0.1)	0.5	0.5	0.7	1.0	0.9
ROAE	(3.8)	(3.7)	(1.2)	10.5	9.5	13.3	18.5	17.2
ROAA (Excl. Exceptional item)	(0.1)	(0.4)	(0.1)	0.4	0.4	0.8	1.0	0.9
ROAE (Excl. Exceptional item)	(1.1)	(6.5)	(1.2)	10.5	9.5	13.3	18.5	17.2
Credit Growth	27.7	3.5	13.0	6.4	5.3	11.6	18.1	16.2
Deposits Growth	49.4	4.7	7.6	11.3	13.6	10.1	14.0	15.0
CASA	43.7	44.5	44.2	43.5	44.7	43.8	44.8	45.5
Credit / Deposit Ratio	72.3	71.5	75.1	71.7	66.5	67.5	69.9	70.6
Cost-Income ratio	49.5	53	59	52	54	53	51	49
Operating Cost / Avr. Assets	2.1	1.8	2.0	2.0	1.9	1.8	1.8	1.8
Fee Income / Total Income	18	20	19	17	15	15	14	14
Earnings ratios								
Yield on Advances	9.3	7.4	7.8	8.0	7.2	6.6	7.0	7.2
Yield on Earning Assets	8.6	7.0	7.4	7.4	6.8	6.3	6.6	6.8
Cost of Deposits	6.4	5.1	5.0	4.8	4.1	3.7	3.8	4.0
Cost of Funds	6.1	4.9	4.9	4.7	4.1	3.6	3.7	4.0
NIM	2.9	2.4	2.7	2.8	2.9	2.8	3.0	3.0
Capital Adequacy (%)								
RWA (Rs mn)	1,76,71,185	1,89,00,948	1,92,69,586	2,09,89,805	2,31,40,217	2,54,50,512	2,91,46,255	3,36,19,823
Tier I	10.1	10.4	10.7	11.0	10.2	10.3	10.6	10.8
CAR	12.9	12.6	12.7	13.1	13.3	11.2	11.5	11.7

Source: Company data, I-Sec research

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