22 November 2022

the CornerOffice
Interaction with the CEO

Earnings momentum on track; margin outlook positive

Expects loan growth to sustain at 14-16% in FY23

We organized an interactive session with Mr. Dinesh Kumar Khara, Chairman, SBIN, to discuss the macro-economic environment, its growth and margin outlook, and the status of its stated objectives. Key insights from the discussion are highlighted below:

State Bank of India

Mr. Dinesh Kumar Khara
Chairman, SBIN

Mr. Khara joined SBIN as a Probationary Officer in CY84 and has over 37 years of experience in all facets of Banking. He completed his MBA from FMS New Delhi and his M.Com from Delhi School of Economics. He is also a Certified Associate of Indian Institute of Bankers (CAIIB)

Growth momentum to stay healthy; expects loan growth of 14-16% in FY23

Loan growth remains healthy, led by Retail loans and a pick-up in the Corporate segment. The Housing segment remains strong (disbursement up 35% YoY), with falling unsold inventory levels. SBIN has been selective in the SME segment and is underwriting loans in chosen segments. In the Corporate segment, working capital utilization/new sanctions grew 54%/46%, driven by term loans and loans to NBFCs, Oil majors and the Infrastructure sector (led by renewables which have been its major focus area). There has been some moderation in loan growth in 3QFY23. Nevertheless, it expects a loan growth of 14-16% in FY23, while growth in FY24 will depend on the global macro environment.

Prudent in growing its international book; receivable financing and syndicate loans to be key drivers

The bank's international book is growing at a healthy pace, led by receivables financing, syndicate loans, and ECB loans to well-rated Indian corporates. The demand for ECB loans is falling, given the volatility in the currency, and is likely to moderate ahead. SBIN has turned selective in underwriting its exposure and is cherry picking loans based on its risk appetite. In the large Corporate group, the bank has not raised its exposure through the overseas book. On the contrary, its exposure has been falling and is well within prudential limits. As Foreign Banks have a combined market share of 4-5% in India, they are incapable of supporting a growing economy. Hence, Indian Banks will have to address the banking requirements. Among key geographies, the situation in Europe is not very encouraging, while there are no concerns on operations and growth in the US.

Healthy mix of floating loans and a calibrated increase in deposit rates to aid the margin trajectory

Within advances, ~76% of the book is floating in nature, with 52%/24% linked to MCLR/EBLR. While the repo rate has risen by ~190bp, the increase in MCLR has been ~90bp till 30th Sep'22 and is likely to rise further in coming quarters. SBIN is sitting on excess SLR of INR2-3t, which provides ample opportunity to grow, without worrying about deposits. It has been selective in increasing term deposit rates and will continue to increase the same in a calibrated manner. Even in international loans, margin in trade financing has improved, while spreads are relatively higher in syndicate loans. Margin is likely to see a positive bias in coming quarters.

OPEX may remain elevated; remains committed to achieving its FY23 RoA/RoE guidance of 1%/15%

On the OPEX front, ~17% is towards retiral benefits. The greater proportion of retirees is higher will keep OPEX higher and limits the improvement it can achieve in cost ratios. However, the endeavor is to annually pare down cost ratios gradually by operating leverage. The management expects a PAT of INR400b and remains hopeful of achieving its RoA/RoE guidance of 1%/15% in FY23 v/s its initial guidance of FY24. As it feels that internal accruals are currently sufficient to fund its loan growth, it will not look to raise capital in the near term. If required, the sequence of preference will be an internal plough back, followed by AT-1, Tier II, capital raise, and divestment in subsidiaries.

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Other highlights

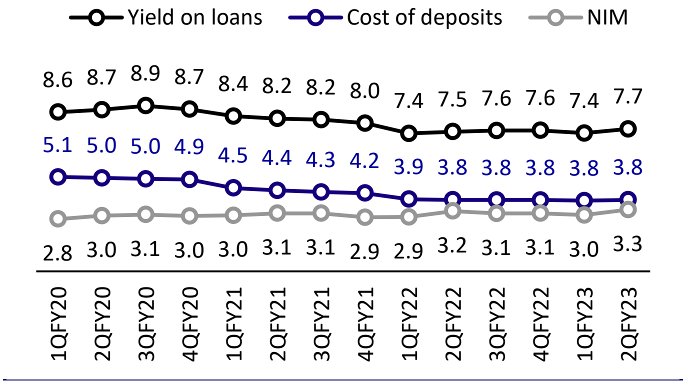
- Almost 94% of the bank's Home loans are to first-time buyers.
- Capex demand in Infrastructure is pegged ~INR111t over the next four-to-five years, of which ~INR21t is likely to be funded by Banks.
- IBC has ushered significant credit discipline, and Banks have also become cognizant of the risk.
- Average balance in the savings account (SA) stands ~INR50k across both digital and physically acquired customers. SA balance increases by ~50% within the first six months of opening an account.
- The bank is adding ~1.1m SA customers every month. In terms of SA market share, SBIN is not bothered with what some of the new age Banks are doing and is growing on a steady basis.
- The increase in the MD and CEO tenure of PSU Banks can usher stability, though it depends on other factors such as age at the time of appointment.
- The bank is looking to launch YONO 2.0 soon. This will be a digital bank that will offer all types of products and services.
- A recession, if any, will be shallow, and thus rates won't come down meaningfully.

Valuation and view

SBIN's robust performance has been aided by strong loan growth, margin expansion, and lower provisions. The improvement in its treasury performance (which supported other income) and controlled OPEX led to a healthy growth in core PPOP. A high mix of floating loans, which will benefit from the re-pricing of loans, will continue to aid NII and earnings, even as the cost of deposits may see some increase. Asset quality performance remains strong, with a continuous improvement in headline asset quality ratios, while the restructured book remains under control at 0.9%. We expect 32% earnings CAGR over FY22-24 and a FY24 RoA/RoE of 1%/17.3%. **We maintain our Buy rating with a TP of INR700 (1.4x FY24E ABV and INR192 for its subsidiaries). SBIN remains one of our preferred picks in the sector.**

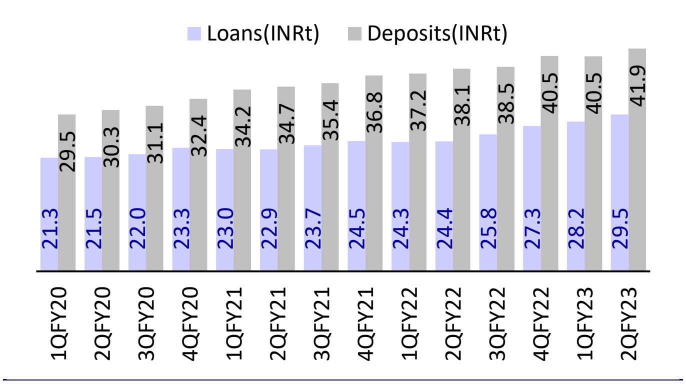
Story in charts

Exhibit 1: Globally, NIM expands by 30bp QoQ to 3.32% in 2QFY23



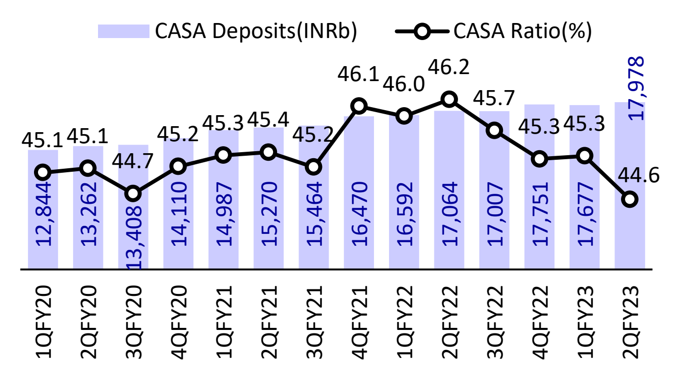
Source: MOFSL, Company

Exhibit 2: Loans up 21% YoY and 5% QoQ; deposits up 10% YoY in 2QFY23



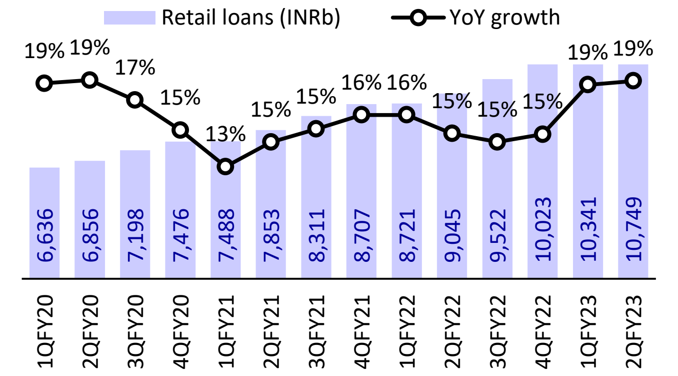
Source: MOFSL, Company

Exhibit 3: CASA ratio moderates QoQ to 44.6% in 2QFY23



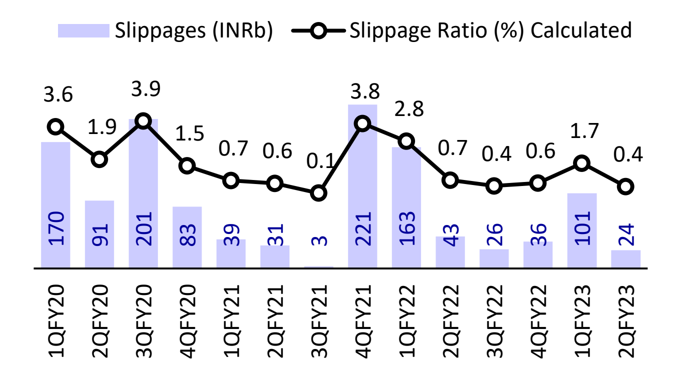
Source: MOFSL, Company

Exhibit 4: Retail loans up ~19% YoY in 2QFY23



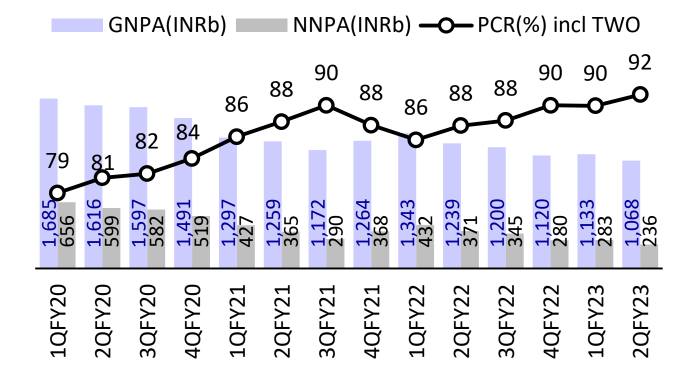
Source: MOFSL, Company

Exhibit 5: Slippages moderate to INR24b in 2QFY23 (annualized 0.4% of loans)



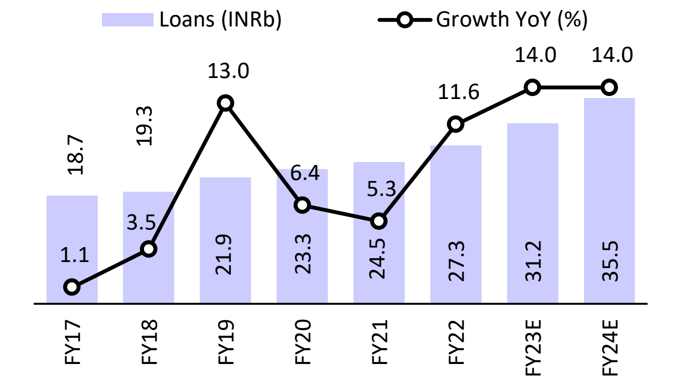
Source: MOFSL, Company

Exhibit 6: GNPA/NNPA ratio improves by 39bp/20bp QoQ to 3.5%/0.8%; PCR (including TWO) at 91.5%



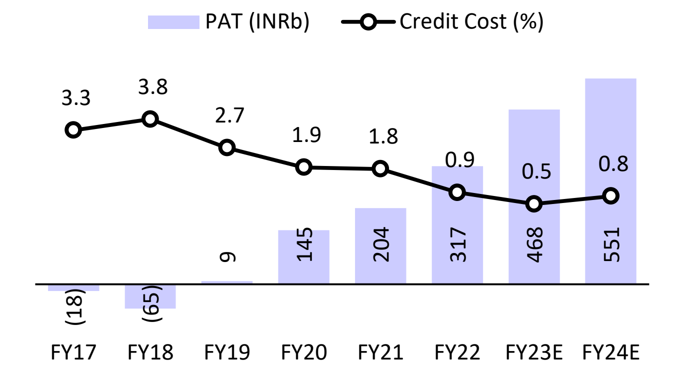
Source: MOFSL, Company

Exhibit 7: Expect loan growth to pick up and grow at 14% CAGR over FY22-24



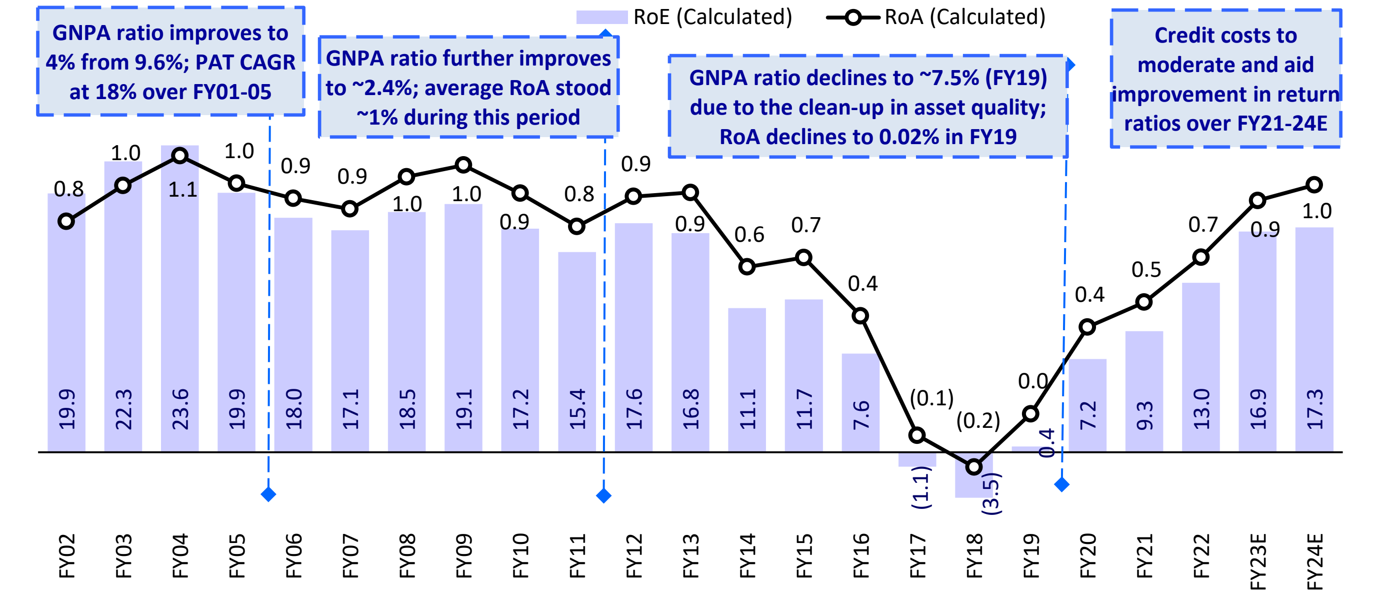
Source: MOFSL, Company

Exhibit 8: Credit cost to swiftly move towards normalization aiding PAT



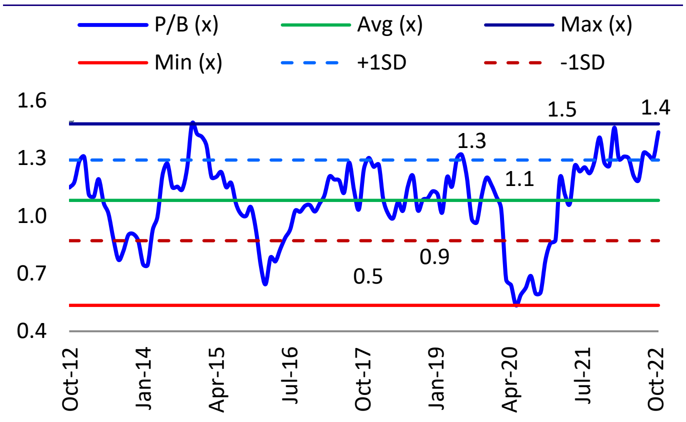
Source: MOFSL, Company

Exhibit 9: Return ratios set to head northwards; expect RoE to revert back to high double-digits over FY22-24



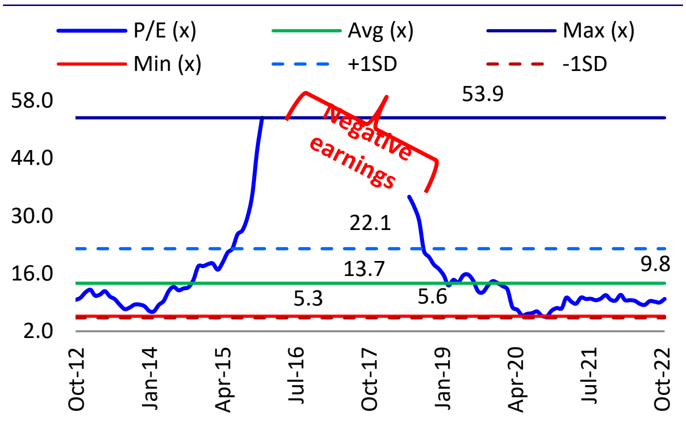
Source: MOFSL, Company

Exhibit 10: Evolution of the P/B multiple of the bank



Source: MOFSL, Company

Exhibit 11: Evolution of the P/E multiple of the bank



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR b)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Interest Income	2,205.0	2,428.7	2,573.2	2,651.5	2,754.6	3,242.3	3,792.4
Interest Expense	1,456.5	1,545.2	1,592.4	1,544.4	1,547.5	1,826.2	2,121.6
Net Interest Income	**748.5**	**883.5**	**980.8**	**1,107.1**	**1,207.1**	**1,416.1**	**1,670.8**
Change (%)	-0.5	18.0	11.0	12.9	9.0	17.3	18.0
Non-Interest Income	**446.0**	**367.7**	**452.2**	**435.0**	**405.6**	**336.7**	**404.0**
Total Income	**1,194.5**	**1,251.2**	**1,433.1**	**1,542.1**	**1,612.7**	**1,752.8**	**2,074.9**
Change (%)	1.4	4.7	14.5	7.6	4.6	8.7	18.4
Operating Expenses	599.4	696.9	751.7	826.5	859.8	931.2	1,032.8
Pre-Provision Profits	**595.1**	**554.4**	**681.3**	**715.5**	**752.9**	**821.7**	**1,042.1**
Change (%)	0.1	-6.8	22.9	5.0	5.2	9.1	26.8
Core Provision Profits	**460.9**	**522.9**	**595.6**	**655.2**	**720.7**	**805.6**	**1,022.8**
Change (%)	0.5	13.5	13.9	10.0	10.0	11.8	27.0
Provisions (excl. tax)	750.4	531.3	430.7	440.1	244.5	180.3	286.8
Exceptional Items (Expense)	NA	NA	NA	NA	74.2	NA	NA
PBT	**-155.3**	**23.1**	**250.6**	**275.4**	**434.2**	**641.4**	**755.3**
Tax	-89.8	14.5	105.7	71.3	117.5	173.2	203.9
Tax Rate (%)	57.8	62.6	42.2	25.9	27.1	27.0	27.0
PAT	**-65.5**	**8.6**	**144.9**	**204.1**	**316.8**	**468.2**	**551.3**
Change (%)	NA	NM	NM	40.9	55.2	47.8	17.8
Cons. PAT post MI	**-45.6**	**23.0**	**197.7**	**224.1**	**353.7**	**520.0**	**623.8**
Change (%)	NM	NM	NM	13.3	57.9	47.0	20.0

Balance Sheet							
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Share Capital	9	9	9	9	9	9	9
Reserves and Surplus	2,182	2,200	2,311	2,530	2,792	3,183	3,648
Net Worth	**2,191**	**2,209**	**2,320**	**2,539**	**2,801**	**3,192**	**3,657**
Deposits	**27,063**	**29,114**	**32,416**	**36,813**	**40,515**	**44,162**	**48,799**
Change (%)	4.7	7.6	11.3	13.6	10.1	9.0	10.5
of which CASA Deposits	**12,039**	**12,976**	**14,337**	**16,713**	**18,036**	**20,182**	**22,399**
Change (%)	0.4	7.8	10.5	16.6	7.9	11.9	11.0
Borrowings	3,621	4,030	3,147	4,173	4,260	4,581	5,026
Other Liab. and Prov.	1,671	1,456	1,631	1,820	2,299	2,529	2,757
Total Liabilities	**34,548**	**36,809**	**39,514**	**45,344**	**49,876**	**54,464**	**60,238**
Current Assets	1,919	2,225	2,511	3,430	3,946	3,897	4,011
Investments	**10,610**	**9,670**	**10,470**	**13,517**	**14,814**	**16,148**	**17,601**
Change (%)	13.7	-8.9	8.3	29.1	9.6	9.0	9.0
Loans	**19,349**	**21,859**	**23,253**	**24,495**	**27,340**	**31,167**	**35,531**
Change (%)	3.5	13.0	6.4	5.3	11.6	14.0	14.0
Fixed Assets	400	392	384	384	377	385	396
Other Assets	2,270	2,663	2,896	3,518	3,399	2,867	2,700
Total Assets	**34,548**	**36,809**	**39,514**	**45,344**	**49,876**	**54,464**	**60,238**

Asset Quality							
GNPA	2,234	1,728	1,491	1,264	1,120	998	952
NNPA	1,109	659	519	368	280	229	199
GNPA Ratio	10.91	7.53	6.15	4.98	3.98	3.1	2.6
NNPA Ratio	5.73	3.01	2.23	1.50	1.02	0.7	0.6
Slippage Ratio	8.4	1.6	2.2	1.2	1.0	1.0	1.0
Credit Cost	3.8	2.7	1.9	1.8	0.9	0.5	0.8
PCR (Excl. Tech. W/O)	50.4	61.9	65.2	70.9	75.0	77.1	79.1

Financials and valuations

Ratios							
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Yield and Cost Ratios (%)							
Avg. Yield on Earning Assets	**7.4**	**7.8**	**7.7**	**7.2**	**6.7**	**7.0**	**7.4**
Avg. Yield on loans	7.4	7.8	8.0	7.2	6.6	7.6	7.9
Avg. Yield on Investments	7.2	7.5	6.9	6.8	6.1	6.5	6.9
Avg. Cost on Int. Bear. Liab.	**4.9**	**4.8**	**4.6**	**4.0**	**3.6**	**3.9**	**4.1**
Avg. Cost of Deposits	5.1	5.0	4.8	4.1	3.7	3.9	4.2
Interest Spread	**2.5**	**2.9**	**3.1**	**3.1**	**3.0**	**3.1**	**3.2**
Net Interest Margin	**2.5**	**2.8**	**3.0**	**3.0**	**2.9**	**3.1**	**3.3**
Capitalization Ratios (%)							
CAR	12.7	12.8	13.3	14.0	14.0	13.6	13.0
Tier I	10.5	10.8	11.2	11.7	11.7	11.6	11.3
Tier II	2.2	2.1	2.1	2.3	2.4	2.0	1.7
Business and Efficiency Ratios (%)							
Loans/Deposit Ratio	71.5	75.1	71.7	66.5	67.5	70.6	72.8
CASA Ratio	44.5	44.6	44.2	45.4	44.5	45.7	45.9
Cost/Assets	1.7	1.9	1.9	1.8	1.7	1.7	1.7
Cost/Total Income	50.2	55.7	52.5	53.6	53.3	53.1	49.8
Cost/Core Income	56.5	57.1	55.8	55.8	54.4	53.6	50.2
Int. Expense./Int. Income	66.1	63.6	61.9	58.2	56.2	56.3	55.9
Fee Income/Total Income	26.1	26.9	25.6	24.3	23.2	18.3	18.5
Non Int. Inc./Total Income	37.3	29.4	31.6	28.2	25.2	19.2	19.5
Emp. Cost/Total Expense	55.3	58.9	60.8	61.6	58.3	57.6	57.7
Investment/Deposit Ratio	39.2	33.2	32.3	36.7	36.6	36.6	36.1
Profitability Ratios and Valuation							
RoE	-3.5	0.4	7.2	9.3	13.0	16.9	17.3
RoA	-0.2	0.0	0.4	0.5	0.7	0.9	1.0
RoRWA	-0.3	0.0	0.7	0.9	1.2	1.5	1.5
Consolidated RoE	-2.0	1.0	7.9	8.2	11.8	15.5	16.2
Consolidated RoA	-0.1	0.1	0.5	0.5	0.7	0.9	1.0
Book Value (INR)	230	232	245	270	299	343	395
Change (%)	-4.0	0.9	5.6	10.0	10.9	14.7	15.2
Price-to-BV (x)	**1.8**	**1.8**	**1.7**	**1.5**	**1.4**	**1.2**	**1.0**
Consol. BV (INR)	243	248	267	294	328	383	450
Change (%)	-2.0	2.0	7.7	10.3	11.5	16.9	17.3
Price-to-Consol. BV (x)	**2.5**	**2.4**	**2.2**	**2.0**	**1.8**	**1.6**	**1.3**
Adjusted BV (INR)	135	170	187	221	256	305	360
Price-to-ABV (x)	**3.0**	**2.4**	**2.2**	**1.8**	**1.6**	**1.3**	**1.1**
Adjusted Consol. BV	152	192	212	250	290	348	416
Price-to-Consol. ABV (x)	**3.6**	**3.1**	**2.8**	**2.4**	**2.1**	**1.7**	**1.4**
EPS (INR)	-7.7	1.0	16.2	22.9	35.5	52.5	61.8
Change (%)	NM	NM	NM	40.9	55.2	47.8	17.8
Price-to-Earnings (x)	**NM**	**NM**	**25.1**	**17.8**	**11.5**	**7.8**	**6.6**
Consol. EPS (INR)	-5.3	2.6	22.1	25.1	39.6	58.3	69.9
Change (%)	NM	NM	NM	13.3	57.9	47.0	20.0
Price-to-Consol. EPS (x)	**NM**	**NM**	**27.1**	**23.9**	**15.1**	**10.3**	**8.6**

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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