State Bank of India

BSE SENSEX	S&P CNX
57,596	17,223

CMP: INR487 **TP: INR675 (+39%)** **Buy**

Well on track to achieve profitability goals

Asset quality robust; treasury performance to remain resilient

- **SBIN continues to strengthen its Balance Sheet and improve its return ratios. The management's focus has been on building a granular, high-quality loan portfolio, while maintaining a strong focus on underwriting, which has aided a sustained turnaround in operating performance. SBIN remains well positioned to withstand MTM losses in its treasury portfolio as the rate environment hardens further.**
- **Retail growth is likely to remain strong. This, along with a pick-up in the SME and Corporate book (as the un-utilized limit continues to moderate to 40% v/s 53% a couple of quarters ago), will support loan growth. Improving margin, deployment of surplus liquidity, and reversal in the rate cycle (as ~70% of loans are floating in nature) will enable a recovery in NII. We estimate NII to grow at 12% CAGR over FY22-24, led by ~11% loan book CAGR over FY22-24.**
- **On the digital front, YONO continues to set new records with ~80m downloads and more than 45m registered users, with average daily logins of ~10m. SBIN has a leadership position with a market share of 14.5% in POS terminals, 27.7% in Debit Card spends, and 23.2% in mobile banking (by value).**
- **Asset quality has been resilient over the past few quarters, aided by improved underwriting and significant mobilization in customer engagement by the recovery team. PCR has improved to 71% (89% in the Corporate book). This, coupled with controlled restructuring (1.2%) and a low SMA book (0.2%), will drive a sustained reduction in credit cost (below its long-term average).**
- **SBIN has reported a RoE (calculated) of ~12.7% in 3QFY22 – the highest since AQR commenced in FY16 – and appears well positioned to surpass 15% RoE in the medium term. We maintain our Buy rating with a TP of INR675/share (1.3x FY24E ABV + INR210 from its subsidiaries).**

Focused approach in building a granular and high quality portfolio

The focus has been on building a granular and high-quality loan portfolio, with Retail being a key growth driver. Its Retail portfolio has been growing ~15% YoY (led by Home loans/Xpress credit) v/s flattish trend in the Corporate book as the focus remains on increasing the share of higher-quality/rated borrowers. Overall, the loan growth witnessed an improvement to 8.9% YoY (v/s 5.3% in FY21) and is likely to gain further traction led by strong trend in Retail growth and a pick-up in SME/Corporate book (as unutilized limit continues to moderate – 40% v/s 53% couple of quarters ago). We estimate loans to grow ~11% CAGR over FY22-24 while improving margin, deployment of surplus liquidity, and reversal in the rate cycle (~70% of loans being floating in nature) will enable a recovery in NII.

Treasury book relatively insulated in a rising rate environment

SBIN remains well positioned to withstand MTM losses in the treasury portfolio as the rate environment hardens further. It has booked relatively lower treasury gains over prior years (*Exhibit 19*) as bond yields stood benign and remains insulated to treasury losses till G-Sec yields do not surpass 6.9%. A conservative stance with respect to booking treasury gains ensured that the bank is better placed v/s peers in a rising rate environment while duration of the portfolio too has improved to 1.97 years in 3QFY22.

Stock Info

Bloomberg	SBIN IN
Equity Shares (m)	8,925
M.Cap.(INRb)/(USDb)	4346.3 / 56.9
52-Week Range (INR)	549 / 321
1, 6, 12 Rel. Per (%)	-3/15/18
12M Avg Val (INR M)	12991
Free float (%)	43.1

Financials Snapshot (INR b)

Y/E March	FY22E	FY23E	FY24E
NII	1,212	1,360	1,523
OP	767	891	1,024
NP	334	442	538
NIM (%)	3.0	3.0	3.0
EPS (INR)	37.4	49.5	60.3
EPS Gr. (%)	63.7	32.3	21.8
ABV (INR)	260	306	367
Cons. BV (INR)	332	383	445
Ratios			
RoE (%)	13.6	15.6	16.2
RoA (%)	0.7	0.9	0.9
Valuations			
P/BV (x) (Cons.)	1.5	1.3	1.1
P/ABV (x)	1.1	0.9	0.8
P/E (x)	7.4	5.6	4.6

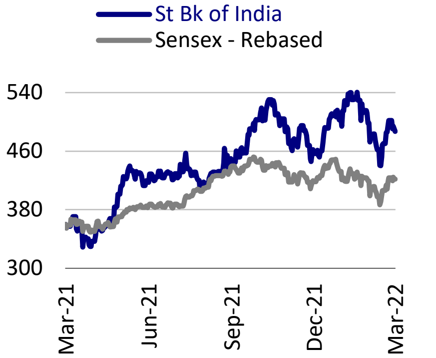
*Price adjusted for value of subs

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	56.9	56.9	56.9
DII	24.0	24.0	24.8
FII	11.4	11.6	10.9
Others	7.7	7.4	7.4

FII Includes depository receipts

Shareholding pattern (%)



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Digital capabilities to drive steady growth; YONO gains significant scale

SBIN has garnered major market share across multiple digital channels such as 14.5% in POS terminals, 27.7% in Debit Card spends, and 23.2% in mobile banking (by value). YONO continues to set new records, with ~80m downloads and over 45m registered users, with average daily logins of ~10m. Around 67% of eligible savings accounts were opened through YONO. The bank sanctioned Digital loans worth INR394b and pre-approved Personal loans worth INR142b via YONO in 9MFY22. About INR85b worth of Gold loans were sanctioned in 3QFY22 through YONO. The appointment of Mr. Nitin Chugh as Deputy MD and Head of Digital Banking will further bolster SBIN's digital capabilities as he has spent a large part of his career as Group Head of Digital Banking at HDFC Bank.

Improved underwriting to keep asset quality resilient; Slippages at ~1.2% beats private peers

SBIN has demonstrated strong asset quality performance with a sharp reduction in slippages aided by improved underwriting. Total recoveries (including AUCA book) remain strong, while fresh slippages moderated to a record low of INR222b in 9MFY22 (1.2% annualized) beating private peers. PCR has improved to 71% (89% of the Corporate book), which, along with controlled restructuring (1.2%) and an SMA pool of INR41.7b (0.2% of advances), provides further comfort on asset quality. This, coupled with additional COVID-related provisions of INR61.8b, will drive a sustained reduction in credit cost. We thus estimate GNPA/NNPA to moderate to 3.2%/1.1% and credit cost to moderate to 0.9% by FY24 (lower than the long term average). Restructured book is primarily dominated by the Retail and SME segment and the management expects this portfolio to behave well.

Subsidiaries at CMP add 34% to valuations; expect recovery as normalcy returns

SBIN's subsidiaries – SBI MF, SBI Life Insurance, SBI General Insurance, and SBICARD – have displayed a robust performance and evolved as market leaders in their respective segments. The contribution of subsidiaries to SoTP has risen significantly (~31% to our SoTP and ~34% at the CMP given the recent correction in Banking stocks). We expect the robust performance of its subsidiaries to continue and add value to overall SoTP. Value unlocking from SBI MF over 1HFY23 may result in further gains.

Valuation and view: Well on its way to achieve RoE goals

SBIN has been reporting strong overall performance led by a revival in loan growth, robust asset quality trends, and controlled funding costs. Deposit growth stood strong, led by healthy CASA trends, while loan growth is likely to recover gradually over FY22-23E. The asset quality outlook remains encouraging, with the slippage ratio lower than many Private Banks. The bank has prudently improved PCR to ~71% and holds unutilized COVID-related provisions of ~INR62b. It has reported a RoE of ~12.7% in 3QFY22 – the highest since AQR commenced in FY16 – and appears well positioned to surpass 15% RoE in the medium term. We estimate a FY24 RoA/RoE of ~0.9%/16.2% and reiterate SBIN as our top Buy, with a TP of INR675 (1.3x FY24E ABV + INR210 from its subsidiaries).

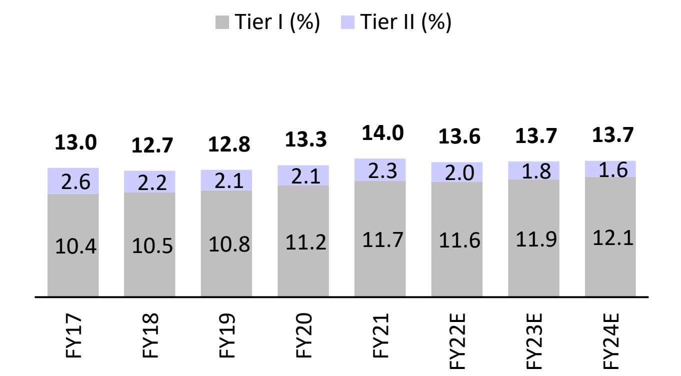
Robust Balance Sheet; SMAs/stressed loans stand at 1/6th of FY18 levels

Healthy capital ratio leaves headroom and risk appetite for credit growth

- SBIN saw a 70bp improvement in CAR to 14% in FY21. While Tier I ratio improved 50bp to 11.7%, Tier II saw a marginal improvement (20bp) to 2.3%.
- The management's focus on building a granular asset base has started to reap benefits. This is reflected by the resilience in asset quality witnessed over the past few quarters, along with a decline in RWA as a percentage of total assets. RWA to total assets has reduced to 49.6% in FY21 from 53.1% in FY20.
- SMA 1 and 2 pool is continuously declining and now stands at INR41.7b in 3QFY22 v/s INR179b in 3QFY21.
- Provision coverage ratio (PCR) has seen a steady build up over the last few years. In 3QFY22, PCR stood at 71% v/s 50% in FY18. Including AUCA, the same stood at 88% v/s 66%. This makes SBIN better prepared to absorb any shocks in the future.

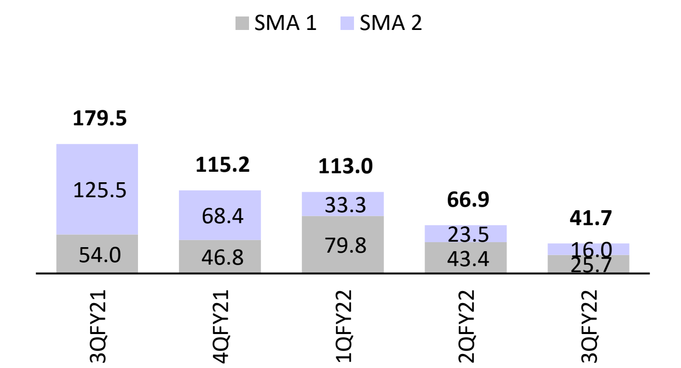
We expect a marginal drop (30bp) in capital ratio over the next two years due to strong loan growth

Exhibit 1: Healthy capital ratio



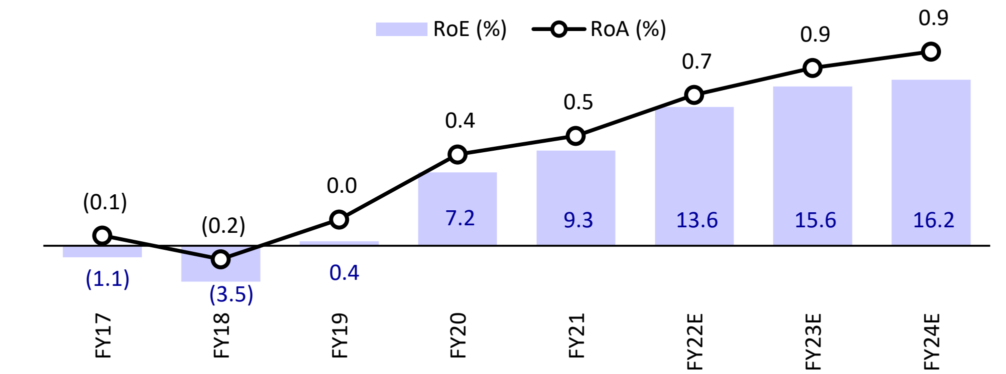
Source: MOFSL, Company

Exhibit 2: Sharp reduction in the SMA 1 and 2 pool



Source: MOFSL, Company

Exhibit 3: Return ratios set to head northwards



Source: MOFSL, Company

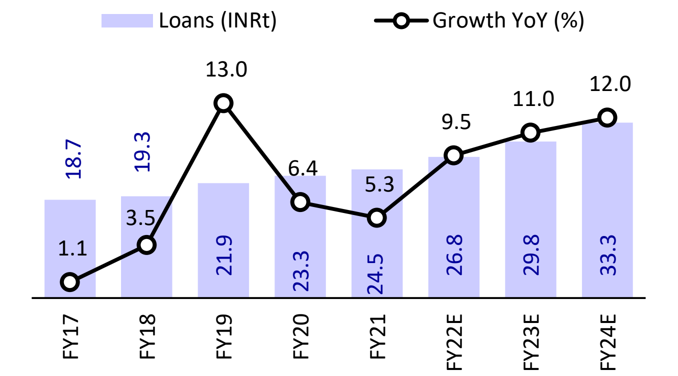
Loan growth gaining traction; expects 11% CAGR over FY22-24

Market share in Home loans stands at 35% in FY21; robust growth in Xpress Credit

Around 44% of Corporate loans are toward PSUs or government undertakings

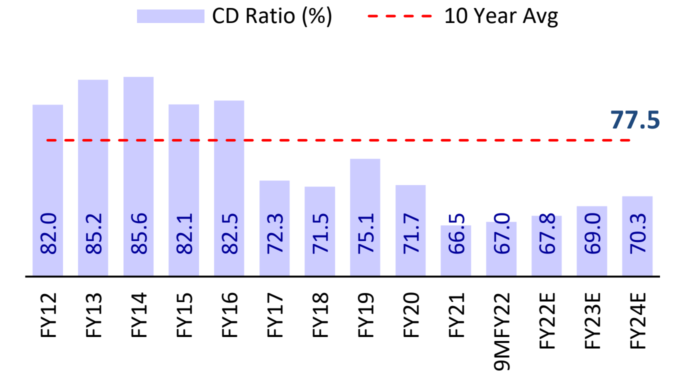
- The management's focus has been on building a granular and high-quality portfolio. The bank grew its net advances by 8.9%/5.3% YoY in 9MFY22/FY21, while the Retail business grew a strong 14.6%/16.5% YoY. The Retail segment remains the key growth driver and constitutes ~40% of the total domestic loan book (v/s ~36% in FY20)
- Within Retail loans, Xpress Credit remains the fastest growing segment (up 29% YoY in 9MFY22). **Growth in Xpress Credit is driven by the YONO platform and stood at INR2.29t.** Current penetration of Xpress Credit is a mere 30% of its Corporate salary deposit holder's base and leaves room for growth in the foreseeable future. The demand for Home loans remains robust, led by underlying demand. Home loans grew 11% to INR5.39t. We expect demand for Home loans to continue to stay robust. However, incremental demand will be driven by smaller towns and cities. **The Home loan and Xpress Credit portfolios constitute ~81% of the total Retail portfolio.** SBIN is the market leader in Home/Auto loans, with a market share of ~35%/~32% in FY21. Including NBFC credit, market share stands ~22%/12%. SBIN's market share in total new car sales rose to 16.5% in FY21 (v/s 14.4% in FY20). Growth in Gold loans has started to moderate as the base effect catches up. Despite this, it grew 26% YoY to INR220b.
- On the Wholesale front, Corporate loan growth stayed largely flat (-0.6% YoY) as the management's focus remains on increasing its share of higher quality/rated borrowers. Around **78% of its Corporate loan portfolio is rated A and above.**
- **In terms of risk profile, ~44% of Corporate loans are toward PSUs or government undertakings. Within Retail, 57% of the portfolio constitutes Home loans. Xpress loans are dominated by salaried accounts of government employees and constitute 24% of Retail loans. There is a significant improvement in granularity and profile of borrowers. This, in turn, will allow SBIN to deliver credit cost well below its long-term average.**

Exhibit 4: Expect loan growth to pick up and grow at 11% CAGR over FY22-24



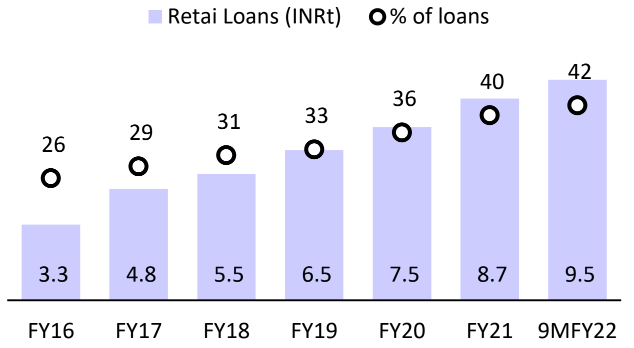
Source: MOFSL, Company

Exhibit 5: CD ratio is at the lowest level in the past 15 years, expect a gradual pick up to 70% by FY24



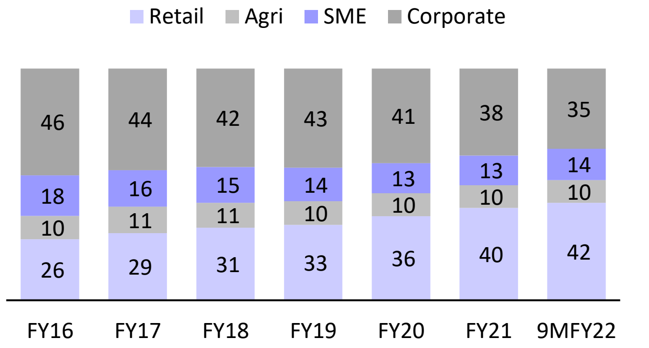
Source: MOFSL, Company

Exhibit 6: Retail grew at 22% CAGR over FY16-21



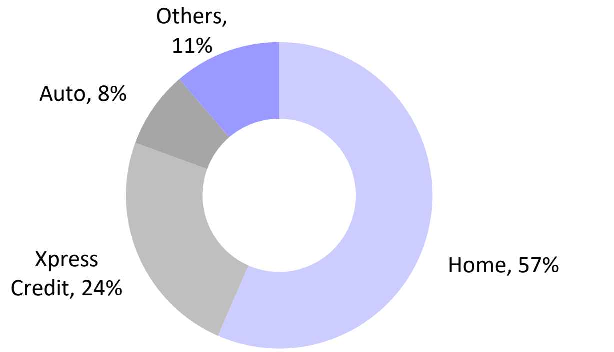
Source: MOFSL, Company

Exhibit 7: Increasing share of Retail in the loan mix



Source: MOFSL, Company

Exhibit 8: Retail geared towards Housing and Xpress Credit



Source: MOFSL, Company

Exhibit 9: Xpress Credit is the fastest growing sub-segment

QoQ growth (%)	4QFY21	1QFY22	2QFY22	3QFY22
Xpress Credit	8.7	1.7	6.9	9.1
Home loans	4.0	0.3	2.6	3.8
Retail loans	4.8	0.2	3.7	5.3
Agri loans	0.2	(2.2)	2.7	3.0
SME loans	(5.0)	1.9	(1.6)	9.8
Corporate loans	3.9	(3.4)	(4.3)	3.5
Total loans	**3.4**	**(0.7)**	**0.5%**	**5.5**

Source: MOFSL, Company

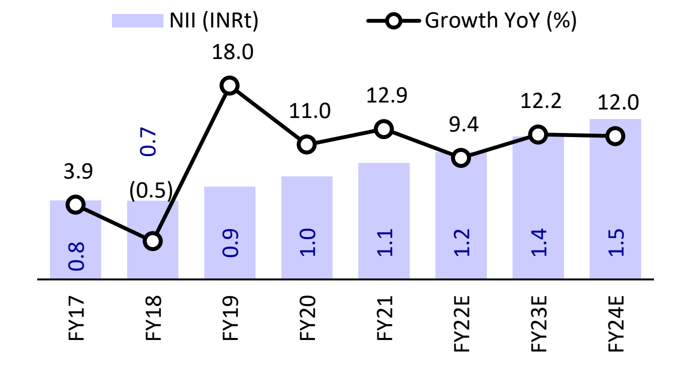
NII growth to recover on an improvement in loan growth, margin, and controlled funding costs

CD ratio ~66% – the lowest in 15 years, expect it to gradually inch up to 70%

We expect NII to grow at 12% CAGR over FY22-24, led by higher growth in loans and expansion in NIM

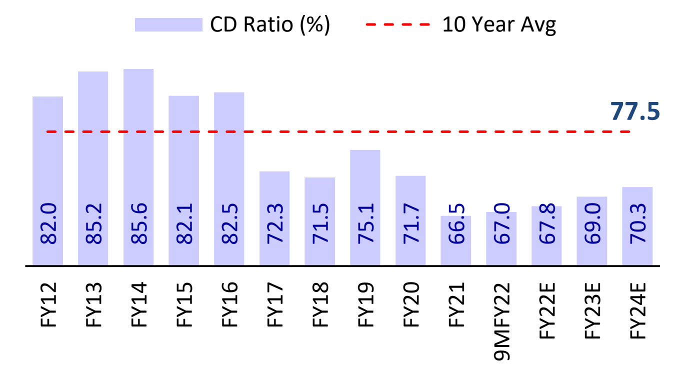
- We expect SBIN to post a healthy growth in net interest income, led by a rising interest rate environment and improving asset quality. While some benefits of rising rates will be passed on to deposit holders, bulk of the benefit will be enjoyed by the bank. At present, more than 70% of loans are linked to an external benchmark and will be re-priced as and when a hike is announced.
- CD ratio, at 66%, is the lowest that the bank has witnessed in the last 15 years. We expect this to gradually crawl up to 70% as growth in advances will be higher than the growth in deposits. This will further boost net income.

Exhibit 10: Expect healthy traction in NII growth, likely to grow at 12% CAGR over FY22-24



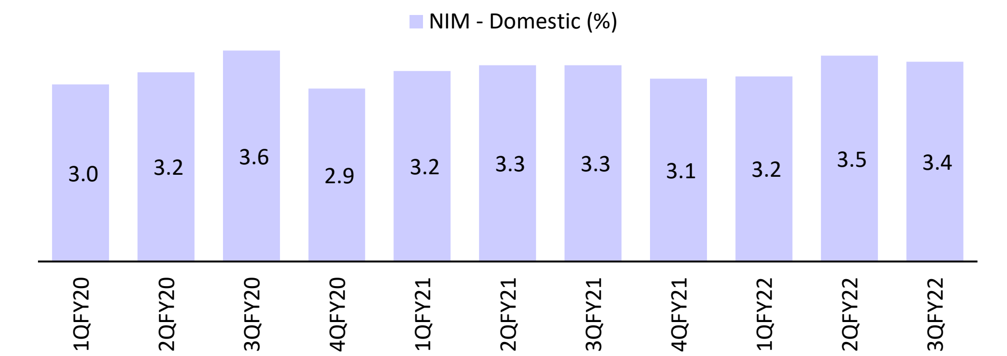
Source: MOFSL, Company

Exhibit 11: CD ratio at the lowest in the past 15 years, expect the same to pick up



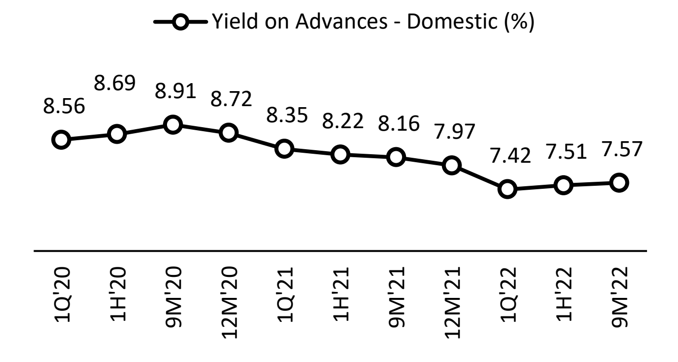
Source: MOFSL, Company

Exhibit 12: Gradual improvement in NIM led by traction in Retail loans and a decline in the cost of funds



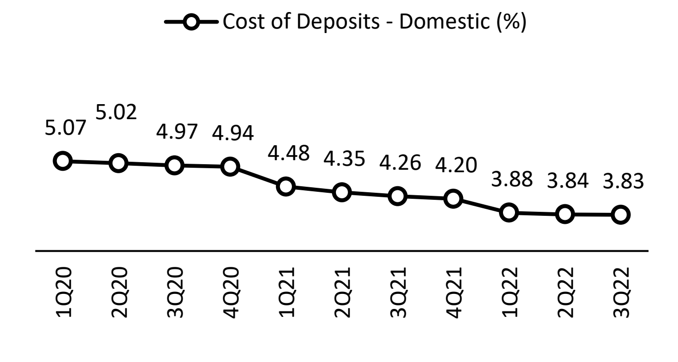
Source: MOFSL, Company

Exhibit 13: Rising domestic yields due to higher retail mix



Source: MOFSL, Company

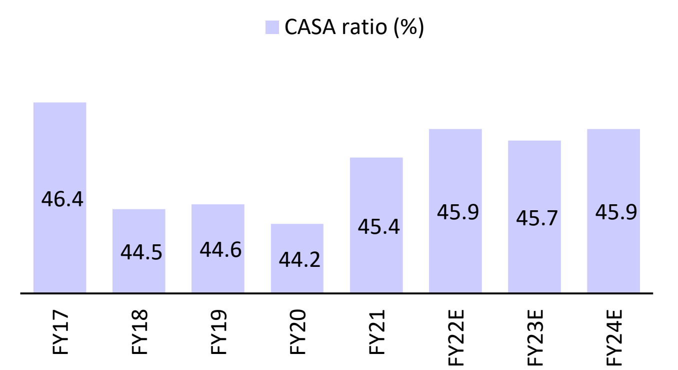
Exhibit 14: Steady decline in the cost of deposits



Source: MOFSL, Company

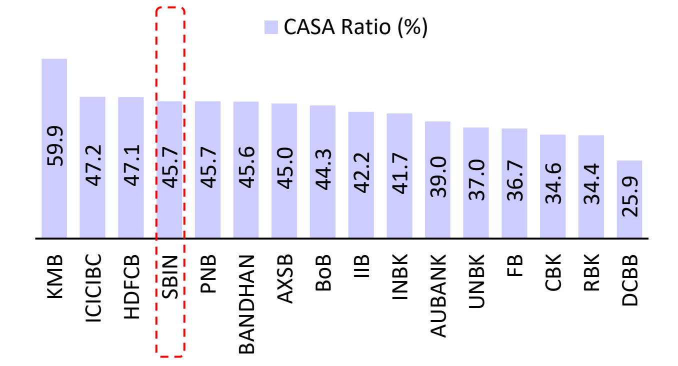
- SBIN has been steadily growing its deposit base. Deposits grew 9% YoY to INR38.4t in 9MFY22. Despite the higher rates offered by competition, the management does not foresee any challenges in garnering deposits, even at this base. The bank remains one of the leading liability franchises among large players, with a deposit market share of 23.3% in FY21. We expect deposits to grow at 9%/10% in FY23/FY24. The management's focus on garnering Retail deposits will result in a marginal improvement (50bp) in CASA ratio to 45.9% in FY24E from 45.4% in FY21. This puts it in a better position to manage pressure on yields and support margin to a large extent.
- As we are at the doors of an interest rate hardening cycle, we expect some benefit of rising rates to be shared with deposit holders. We have built in a marginal increase (20bp) in the cost of deposits to 4.1% over FY22-24E as we believe the bulk of the benefit will be retained by the bank.

Exhibit 15: Improving CASA trend to sustain in FY23-24E



Source: MOFSL, Company

Exhibit 16: SBIN is well placed on CASA ratio v/s its peers



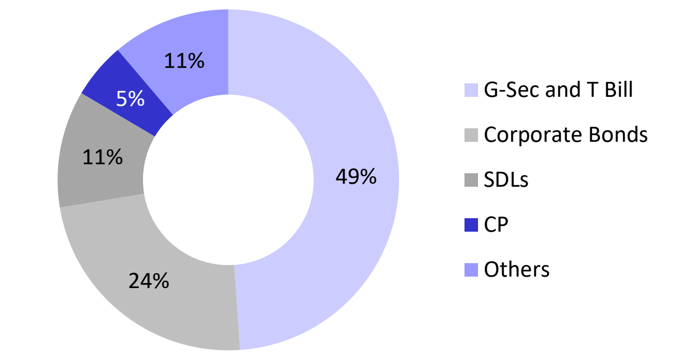
Source: MOFSL, Company

Treasury book relatively insulated in a rising rate environment

Well positioned to withstand MTM losses

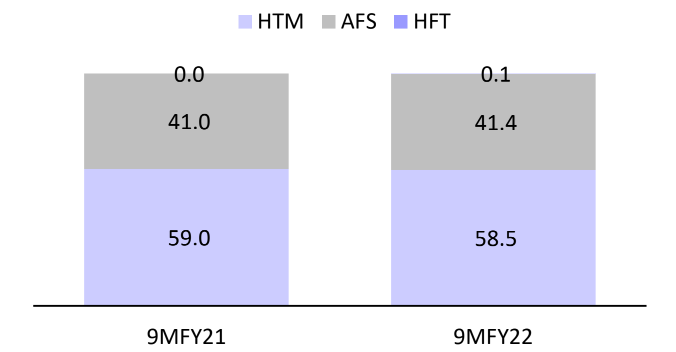
- SBIN remains well positioned to withstand MTM losses in its treasury portfolio as the rate environment hardens further. It has booked relatively lower treasury gains over the preceding years (*Exhibit 19*) as bond yields stood benign. The bank remains insulated to treasury losses till G-Sec yields do not cross 6.9%.
- A conservative stance adopted by the management in the past with respect to booking treasury gains ensured that the bank is better placed v/s peers in a rising rate environment.
- The bank's fixed income portfolio is dominated by G-Secs, T-Bills, and corporate bonds. More than 70% of its investments is locked in these securities.
- Duration of the portfolio has improved to 1.97 years in 3QFY22 from 2.0 years in 3QFY21.

Exhibit 17: Over 70% of SBIN's investments is in G-Secs, T-Bills, and corporate bonds



Source: Company, MOFSL

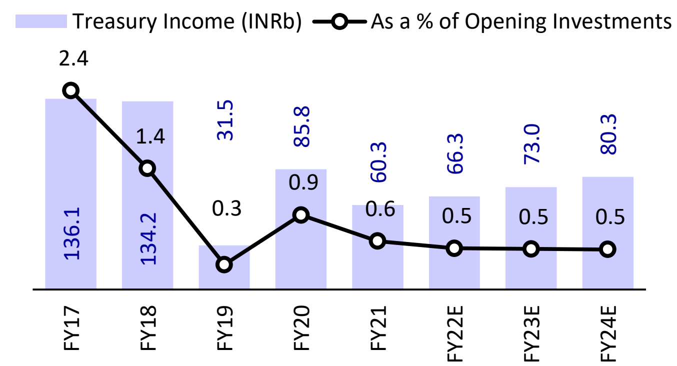
Exhibit 18: Breakup of domestic investments – HTM and AFS share relatively steady



Source: Company, MOFSL

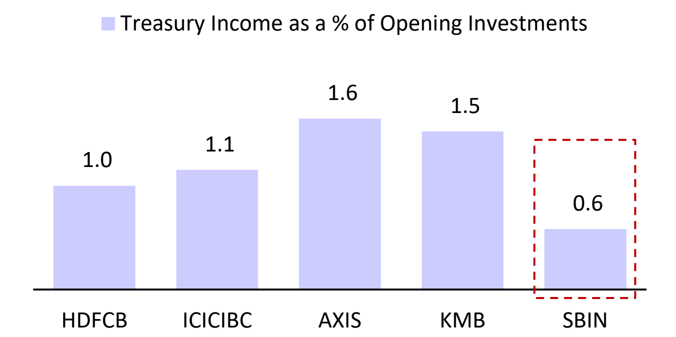
- The bank has been conservative in booking treasury income (Exhibit 20) compared to its private as well as public peers. This gives the bank room to absorb interest rate volatility without any significant disruption in earnings. We feel it is insulated from treasury losses till G-Secs yields do not cross 6.9%.

Exhibit 19: The management has a conservative approach in recognizing income



Source: MOFSL, Company

Exhibit 20: Treasury income v/s other Banks



Source: MOFSL, Company

SBIN's digital capabilities will enable sustainable growth; YONO making steady contributions

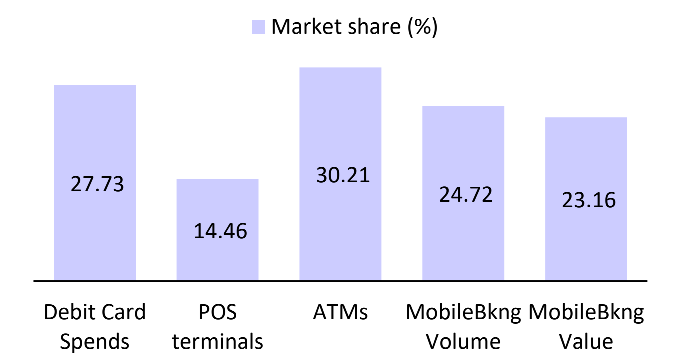
YONO rapidly gaining scale; launches to support further growth

- The YONO app – SBIN's flagship digital offering – is helping accelerate its digital focus across all areas of operations. The management sees immense potential in the app and is shifting higher resources and bandwidth to improve it.
- The primary objective of YONO is to create momentum in customer acquisition at a low cost and facilitate cross-sell opportunities to existing customers.
- YONO offers a one-stop shop for Financial Services and a gamut of investment, Insurance, and shopping solutions. It rolled out YONO Krishi for the Agriculture segment. It has also unveiled a similar offering for its Corporate customers with the aim to offer seamless services, while catering to their varied needs.
- YONO continues to set new records with over 45m registered users and average daily logins of more than 10m.
- Close to 29k savings accounts were opened digitally.
- Through YONO, the bank sanctioned Krishi Agri Gold loans of INR52b and disbursed INR63b worth of pre-approved Personal loans in 3QFY22.
- More than 1.7m PAI policies were sold through YONO. It also clocked a growth of 5x YoY in Mutual Fund sales to INR34b in 3QFY22.
- YONO is adding online partners across various categories as it seeks to deepen its relationship with existing partners. Over 100 merchant partners across more than 20 categories were live on its B2C marketplace. The platform has seen gross merchandise transactions worth INR4b in 3QFY22.
- The bank is boosting its digital focus in the Corporate segment with YONO.

Digital leadership across channels

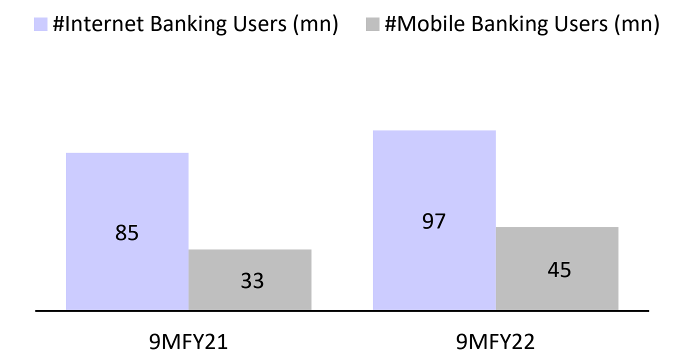
- SBIN has established leadership across Debit Card spends, POS terminals, ATMs, and mobile banking transactions (in number and value terms). Given its humungous customer base and focus on continuous improvement in its digital experience, it will continue to maintain its pole position across most segments.

Exhibit 21: Leadership position across channels



Source: Company, MOFSL

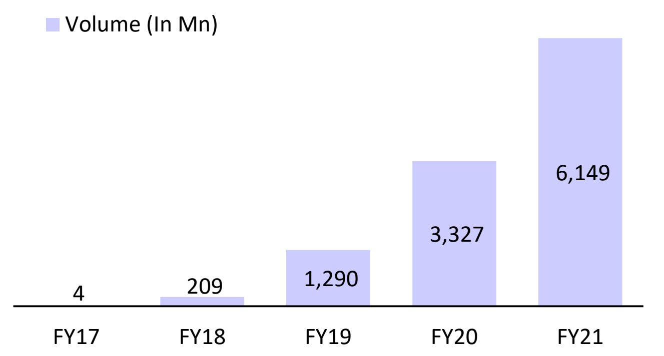
Exhibit 22: Digital adoption on an uptrend



Source: Company, MOFSL

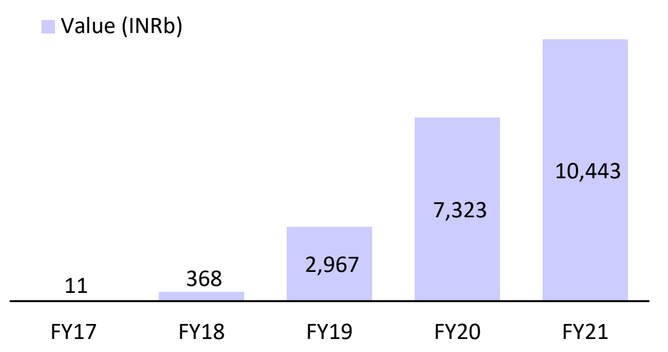
- The bank has the highest market share in remittances at 26%. It handled 175m UPI users and facilitated ~8.2b transactions in 9MFY22.

Exhibit 23: UPI transaction volume up ~1.8x in FY21



Source: Company, MOFSL

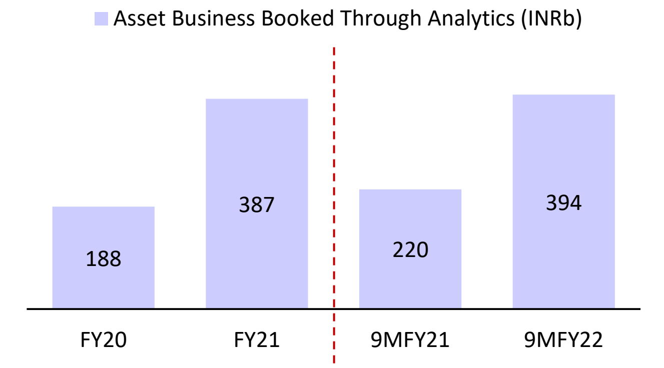
Exhibit 24: Value of UPI transactions up ~1.4x in FY21



Source: Company, MOFSL

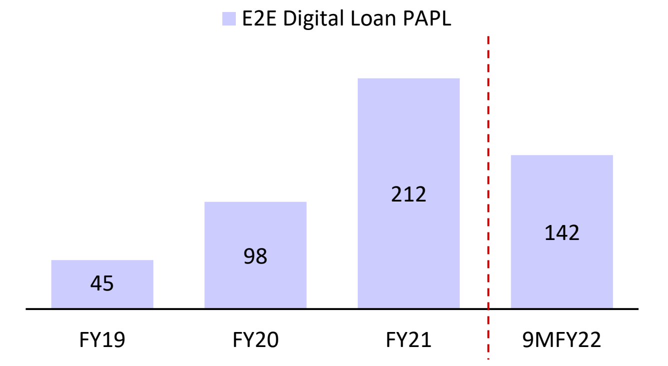
- Due to extensive use of analytics in the sourcing/generating business, the bank is continuously increasing the size of the book lent through these mechanisms.
- Pre-approved Personal loans (PAPL) are a focus area for the management as it allows for higher growth, with quality underwriting practices. Credit profiling too is relatively easier.
- Through YONO, it has started offering pre-approved digital Two-Wheeler loans.
- It aspires to increase the use of AI to identify PoS and overdraft needs of customers and generation of leads for Health, Life, and Motor Insurance cross-sell.

Exhibit 25: Robust growth in the analytics-led business



Source: Company, MOFSL

Exhibit 26: Focus remains on scaling up digital PAPL



Source: Company, MOFSL

- The bank has been increasingly adopting the use of analytics to offer Digital loans and Credit Cards to customers, with appropriate credit limits, based on the borrower's behavior.
- It has also bagged several awards for analytics in the area of pre-approved Credit Cards, digital SME lending, and migration of routine branch transactions to online.
- SBIN has appointed Mr. Nitin Chugh as Deputy MD and Head of Digital Banking. A career banker, Mr. Chugh has spent a large part of his career as Group Head of Digital Banking at HDFC Bank. He was previously associated with Ujjivan SFB as MD and CEO. His appointment showcases the bank's focus on making further strides in its digital ambitions and cementing its leadership position.

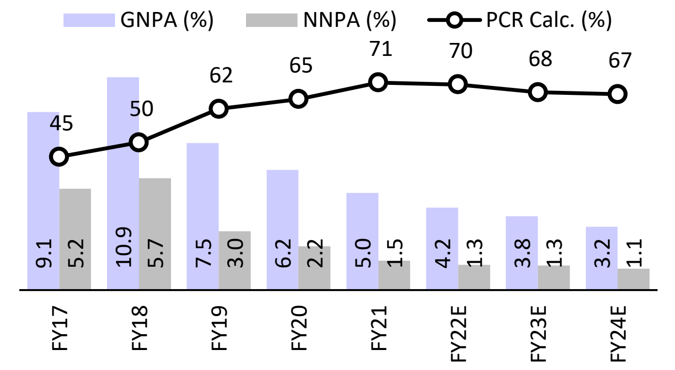
Asset quality continues to surprise; slippages remain the lowest in the past nine years

Slippage ratio among the lowest across large Banks

Slippage ratio at 1.2% – the lowest among top Banks, including private peers

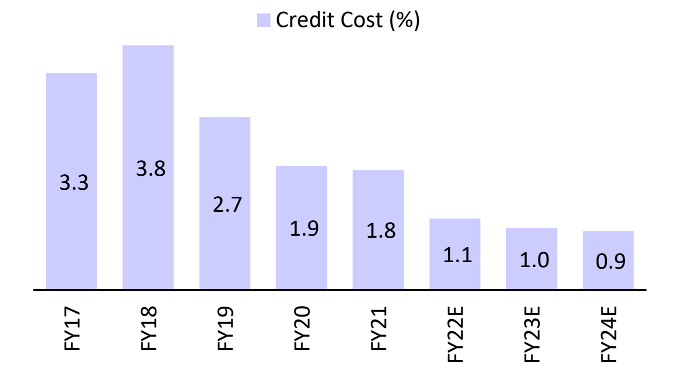
- Despite a challenging year, SBIN continues to report an improvement in asset quality as GNPA has declined further to 4.5% in 9MFY22 (from 10.9% in FY18). On the other hand, PCR rose to 71% v/s 50% in FY18 (89% in the Corporate book). Overall improvement in asset quality has been far higher v/s its peers, including private players. Even the slippage ratio stood **at 1.2% – the lowest among top Banks, including private peers.**
- **Restructuring:** Under the COVID-19 resolution plan, the bank has a restructured book of INR329b (1.2% of loans), a lion's share of which is from the Retail and SME segment. A of now, the bank has not noticed any unusual behavior signs. The management remains hopeful of these assets returning back to the normal pool as things settle down. SBIN carries additional COVID-related provision of INR61.8b.
- SBIN has prudently improved PCR in the last few years and has one of the lowest stressed assets among Corporate Banks. **This is further evident from the fact that the bank has relatively lower slippages v/s other Banks.** We expect GNPA/NNPA/credit cost to moderate to 3.2%/1.1%/0.9% by FY24E, which would be a key earnings driver.

Exhibit 27: Asset quality trends to improve further…



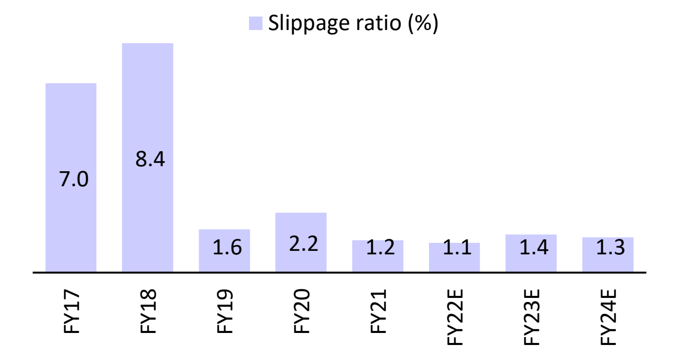
Source: Company, MOFSL

Exhibit 28: …coupled with a moderation in credit cost



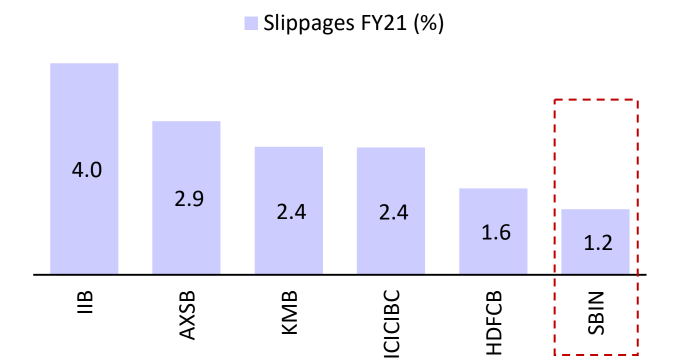
Source: Company, MOFSL

Exhibit 29: Significant improvement in slippages in the last few years; expect this to stabilize going forward



Source: Company, MOFSL

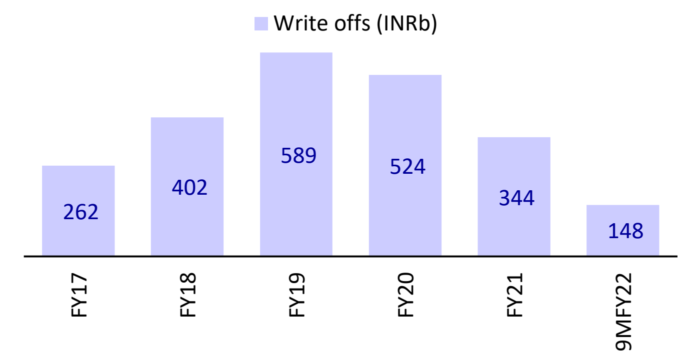
Exhibit 30: Slippage ratio among the lowest; even better than large Private Banks



Source: Company, MOFSL

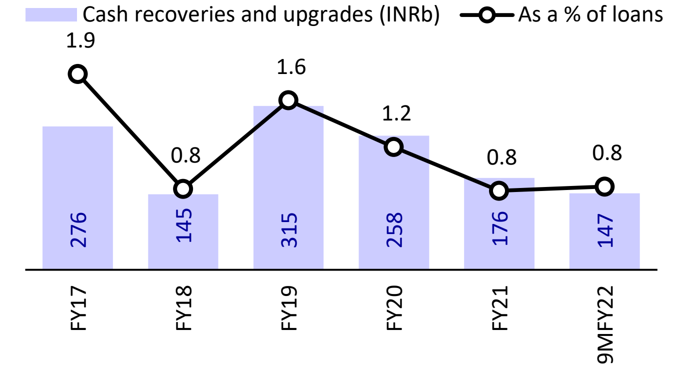
- The **AUCA book for SBIN stands at INR1.76t**, significantly higher than the GNPA pool, with recoveries historically between 6% and 9%. Over the past five years, it has recovered a significant amount from the AUCA book. We expect recovery trends to continue as the IBC process starts again after a long pause (due to COVID-related restrictions).
- SMA 1 and 2 for the bank stands at INR41.7b (0.2% of loans), much lower v/s peers, including large Private Banks. Its Power/Telecom exposure remains comfortable, with the bulk of the exposure toward PSU entities and better rated corporates. **Asset quality within the Retail segment has been stellar as well as comparable with its private peers, which provides further comfort.**

Exhibit 31: SBIN sees over INR2t in write-offs over the past five years



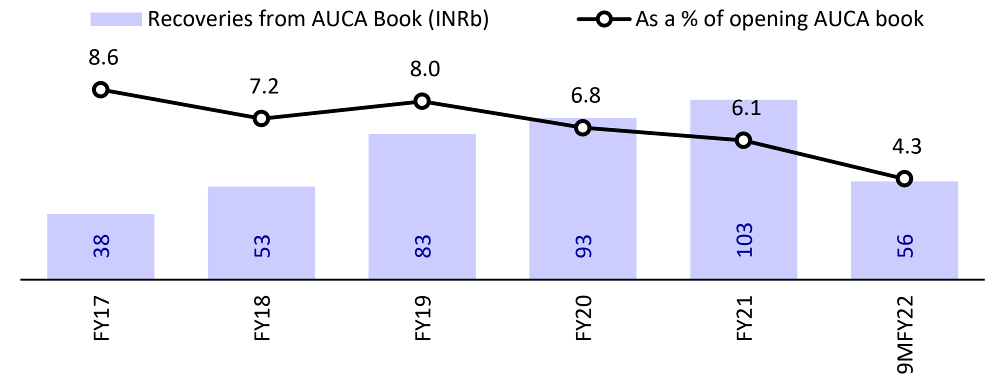
Source: Company, MOFSL

Exhibit 32: Healthy cash recoveries and upgrades



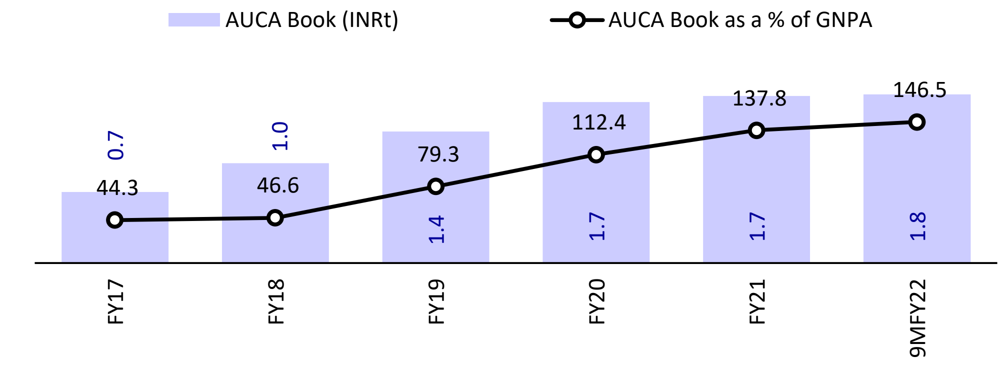
Source: Company, MOFSL

Exhibit 33: Moderation in recoveries from AUCA book



Source: Company, MOFSL

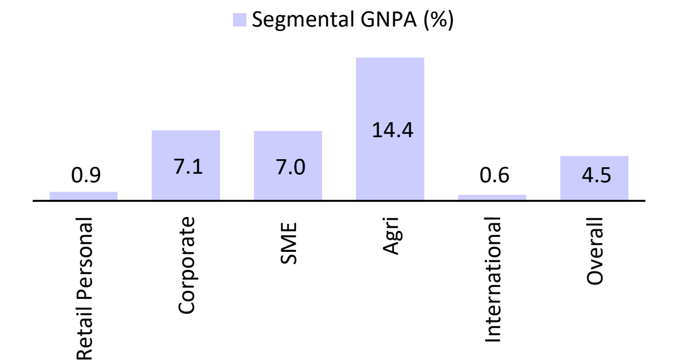
Exhibit 34: SBIN carries a large AUCA pool of INR1.8t



Source: Company, MOFSL

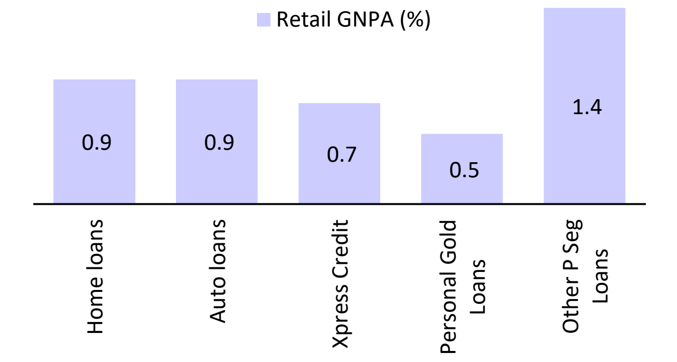
- A quick glance at segmental NPA reveals a broad based improvement in asset quality. However, the Agri book still needs to be monitored carefully.
- The bulk of the pain in the Corporate segment has been recognized and the book is much cleaner now. A higher PCR (89%) lends further comfort.
- The resilience in asset quality in Retail is heartening and reinforces our conviction on this segment.

Exhibit 35: All segments other than Agri report a robust improvement in GNPA in recent years



Source: Company, MOFSL

Exhibit 36: Segmental split within Retail shows good all-round control on asset quality



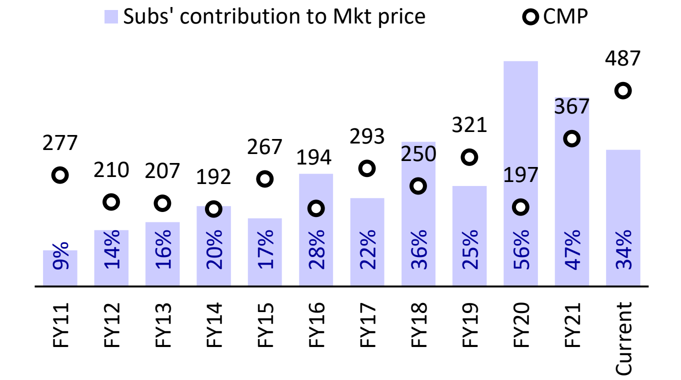
Source: Company, MOFSL

Subsidiaries contribute 34% to total valuations at its CMP; expect recovery as normalcy returns

Underscoring the importance of our SoTP-based valuation

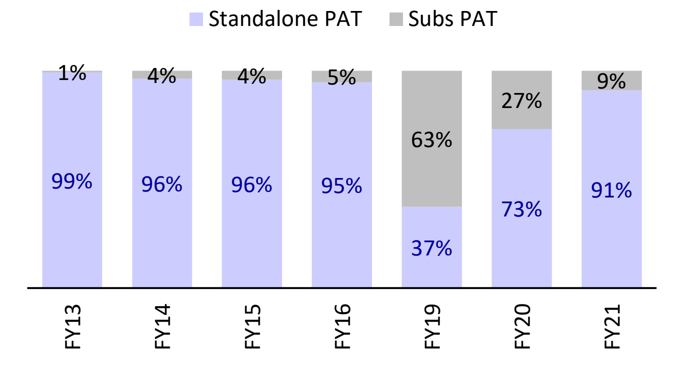
- For the past few years, increasing customer awareness about various financial products is reflected in the robust earnings of its subsidiaries. The latter has gained scale and market share and emerged as market leaders in their respective segments. This has led to strong expansion in their market multiples.
- Over time, SBIN has increasingly transformed into a SoTP-based play from a standalone play. The contribution of subsidiaries to the bank's SoTP valuation has increased significantly. Its subsidiaries now contribute ~31% to SoTP (~34% as a percentage of CMP). As these businesses gain further scale and market share, they will remain strong industry-leading compounding machines and continue to add value to SBIN's SoTP. Value unlocking from SBI MF and SBI General Insurance could result in further gains.

Exhibit 37: SBIN – subsidiaries contribution to CMP



Source: MOFSL, Company

Exhibit 38: SBIN – trend in composition of consolidated PAT



Source: MOFSL, Company

SBICARD – Operating metrics remain healthy; MDR uncertainty, a key overhang

SBICARD has gained the highest incremental market share of 23% over the past three years

- Over the past few years, SBICARD has delivered a strong performance in both customer acquisitions and earnings. It has gained the highest incremental market share of 23% over FY19-21 and had a market share of ~19% each in outstanding cards/spends, with a card base of 11.8m in FY21.
- SBICARD clocked 33% CAGR in card spends over FY16-21 (despite a 7% decline in FY21), while PAT CAGR over this period was 28% (despite a fall of 21% in FY21). Return ratios, though impacted due to the COVID-19 pandemic, remained healthy with RoE of ~17%.
- SBICARD posted an improvement in market share in cards/spends/transactions to 19.2%/19%/20% in 9MFY22. GNPA/NNPA improved sequentially. As a result, PAT grew 28% YoY to INR10b in 9MFY22.
- It seeks to expand by increasing its sourcing from banca customers via penetration into mid-tier cities. While its near-term performance may stay subdued due to the impact of the pandemic, we expect a quick recovery in momentum and a continued healthy performance over the medium term.

Exhibit 39: PAT/spends clock 28%/33% CAGR over the past five years

INR m	FY15	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22
Spends on cards (INRb)	212.8	291.4	438.5	770.2	1,036.0	1,314.5	1,224.2	1,322.2
Market share – spends (%)	11.1	12.0	13.2	16.6	17.1	17.8	19.4	19.0
Market share – card base (%)	15.0	14.8	15.3	16.7	17.6	18.3	19.1	19.3
Revenue	19,045	24,918	34,710	53,702	72,869	97,523	97,136	82,850
PAT	2,667	2,839	3,729	6,011	8,650	12,448	9,845	10,350
RoA (%)	4.9	4.0	4.0	4.5	4.8	5.5	3.8	4.8
RoE (%)	31.2	26.8	28.6	31.6	29.1	27.9	16.9	20.0
Net worth	9,656	11,550	14,488	23,531	35,878	53,412	63,020	73,960
GNPA (%)	1.9	2.0	2.3	2.8	2.4	2.0	5.0	2.4
Total assets	**62,573**	**78,803**	**1,07,650**	**1,56,860**	**201,462**	**253,028**	**270,129**	**321,050**

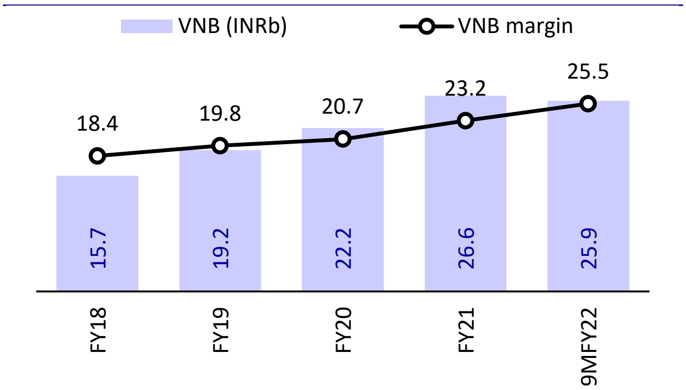
Source: MOFSL, Company

SBILIFE – Strong parentage, robust growth, and improving margin

Margin to be supported by a shift in product mix in favor of Non-PAR/ Protection, along with strong growth in APE. Persistency is seeing improving trends

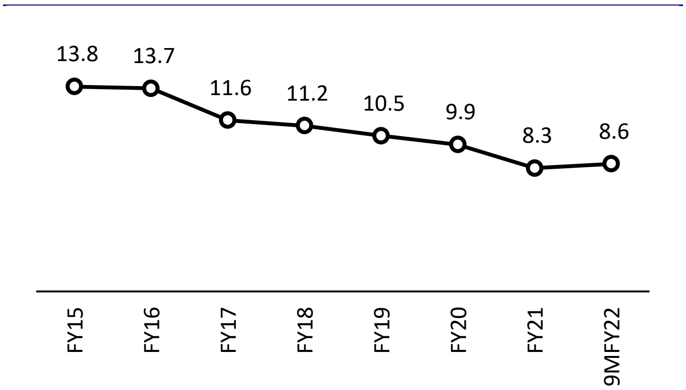
- SBILIFE delivered ~24%/18% CAGR in NBP/APE over FY16-21, led by a strong distribution network and healthy execution. Its distribution strength will continue to aid market share gains as the management's focus is on improving productivity of the banca channel. Growth in renewal premium remains strong (28% CAGR over FY16-21), supported by improved persistency across all cohorts.
- It has increased its focus on the Non-PAR Savings and Protection mix. Together these two now constitute 21% of APE v/s 6% in FY18. Due to this shift in the mix, SBILIFE has reported consistent improvement in new business margin to 22.1% in 3QFY22. This is backed by cost control, improving Protection/Non-PAR mix, and rising persistency levels.
- There has been a meaningful pickup in new business performance as distribution engines (especially banca) have started to fire. It maintained its private market leadership in 9MFY22 in terms of individual rated premium. NBP grew 30% YoY to INR188b in 9MFY22, along with a 470bp YoY improvement in VNB margin to 25.5% (effective tax rate basis).
- In addition to an optimal product mix, SBILIFE has one of the lowest cost structures among peers. The management is steadily building cost leadership by continuously reducing its total expenses, as a percentage of gross written premiums (GWP), led by higher growth, improving persistency, and focus on the digital ways of doing business.

Exhibit 40: Consistent improvement in margin



Source: MOFSL, Company

Exhibit 41: Steady improvement in cost ratios



Source: MOFSL, Company

Exhibit 42: Key operating metrics for SBILIFE

INR b	FY17	FY18	FY19	FY20	FY21	9M'FY22
Gross premium	210.2	253.5	329.9	406.3	502.5	412.5
New business premium	101.4	109.7	137.9	165.9	206.2	187.9
New business margin (ETR)	**NA**	**18.4%**	**19.8%**	**20.7%**	**23.2%**	**25.5%**
Net profit	**9.6**	**11.5**	**13.3**	**14.2**	**14.6**	**8.3**
AUM	977.4	1,162.6	1,410.2	1,603.6	2,208.7	2,568.7
Embedded Value (ETR)	**NA**	**201.7**	**237.3**	**276.4**	**364.0**	**NA**

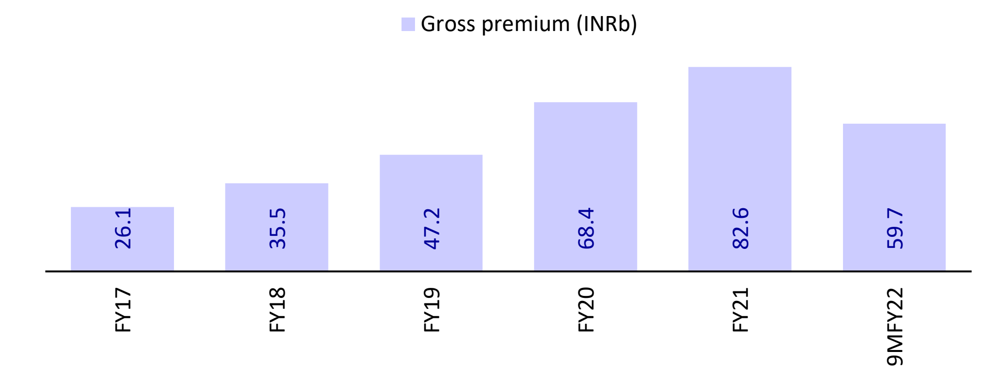
Source: MOFSL, Company

SBI General Insurance: Rapidly gaining scale, market share, and profitability

GWP clocked 32% CAGR over FY16-21; RoE improved to 22%

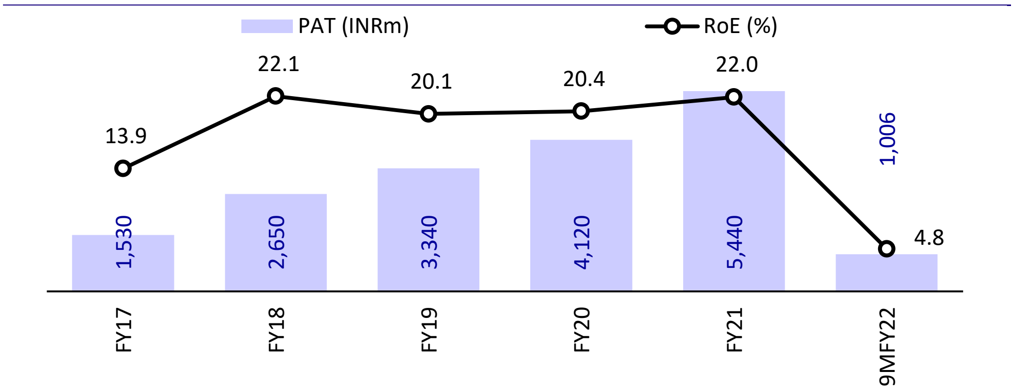
- The company delivered a robust performance, improving its market position and operational performance. In FY21, GWP grew 21% (much higher than the industry), ranking seventh among private insurers and 12th in the industry on the basis of GWP. Its market share improved to 4.16% in FY21 (from 2.77% in FY19).
- It delivered ~32% CAGR in GWP over FY16-21. PAT grew 32% YoY to INR5.4b in FY21 (37% CAGR over FY17-21), with RoE of 22%.
- GWP grew 13% YoY to INR60b in 9MFY22. Market share improved marginally (up 10bp YoY) to 3.7%. During this period, its operating performance suffered due to higher COVID-related claims. The loss ratio jumped 1,200bp to 89%. As a result, PAT declined by 74% to INR1b. As COVID-related claims recede, we expect the company to quickly bounce back to pre-COVID performance levels.
- Continuous improvement in process efficiencies, claims, and expenses led to improved operating ratios. A better growth rate in premiums, a well-diversified premium base, and the ability to leverage SBIN's mammoth branch network should help the company achieve superior operating metrics.

Exhibit 43: GWP clocks 32% CAGR over FY16-21



Source: MOFSL , Company

Exhibit 44: COVID-19 pandemic impacts PAT in 9MFY22



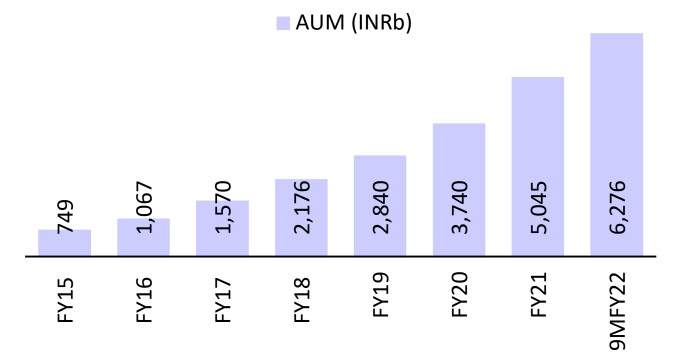
Source: MOFSL , Company

Strengthened its lead as the largest Mutual Fund, with QAAUM of ~INR6.3t

SBI Asset Management: Largest MF player with a market share of 16.4%

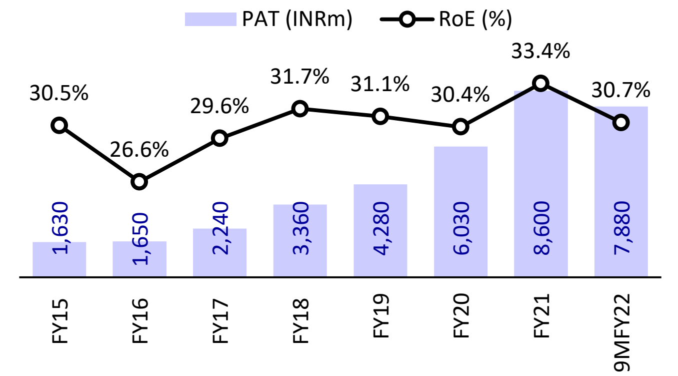
- SBI MF is the country's largest ETF provider and the largest Mutual Fund, with a total AUM of ~INR5t and market share of 15.7% as of FY21.
- AUM grew a robust 36% CAGR to INR5t in FY21 from INR1t in FY16. PAT grew by 39% CAGR over this period to INR8.6b in FY21, with a RoE of 33.4%.
- SBIMF continues to be a market leader, with a 45bp QoQ increase to 16.4% in 3QFY22. The SIP book increased by 48% YoY. QAAUM rose 37% YoY to INR6,276b. PAT grew 29% YoY to INR7.9b in 9MFY22, along with a RoE of 30.7%.
- SBI MF has a wide reach with ~6m Retail investors and over 5,000 Institutional investors. With higher inflows from SIP accounts and an increase in the financialization of savings, we expect SBI MF to continue to gain momentum and maintain its market share (up 870bp over FY15-21).

Exhibit 45: Clocks 36% CAGR in AUM over FY16-21



Source: MOFSL , Company

Exhibit 46: Posts 39% PAT CAGR over FY16-21



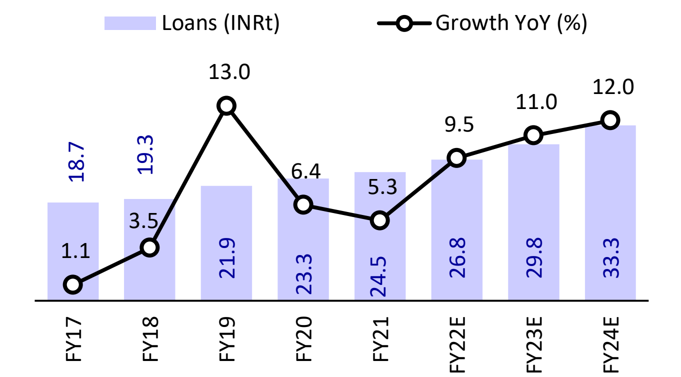
Source: MOFSL , Company

On its way to achieve 15% RoE goal

Return ratios set to move higher with a broad-based improvement

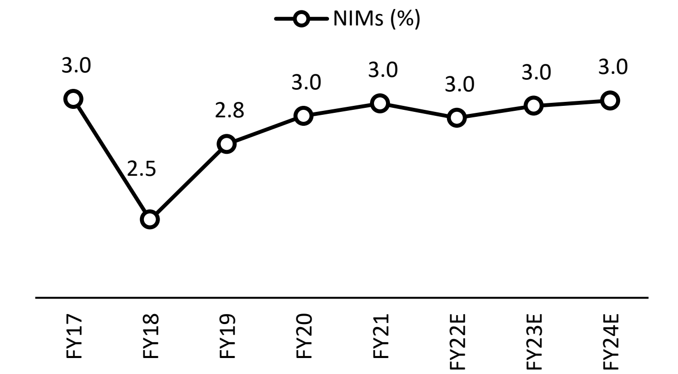
- SBIN reported a RoE (calculated) of ~12.7% in 3QFY22 – the highest since AQR commenced in FY16. From FY17 to FY19, it navigated through the difficult phase of corporate asset quality, which impacted profitability and return ratios. We believe the bulk of the corporate pain is over. It has adequate provisions on this portfolio (89% PCR in Corporate). It appears well positioned to surpass 15% RoE in the medium term.
- Growth in RoE is led by a broad-based improvement across parameters: loans, deposits, NIM, opex, and credit cost.
- We expect 11% loan CAGR over FY22-24 led by Retail and SME segments.
- Loan growth momentum will translate into strong NII growth. We estimate 12% CAGR in NII as NIM is likely to stay flat.
- The management's focus remains on digitization across business processes and is building YONO to further capture this momentum. This should benefit in the years to come as it expands its digital operations. We expect the cost/income ratio to improve to 49.4% in FY24 from 53.6% in FY21.
- Improvement in underwriting quality, along with higher recoveries, is driving credit costs lower. This improved underwriting is reflected in the resilient asset portfolio over the last few quarters. This will enable the bank to post credit costs well below its long term average.
- Led by these factors, return ratios are set to move northwards. We estimate RoE/RoA of 16.2%/0.9% by FY24.

Exhibit 47: Expect 11% loan CAGR over FY22-24



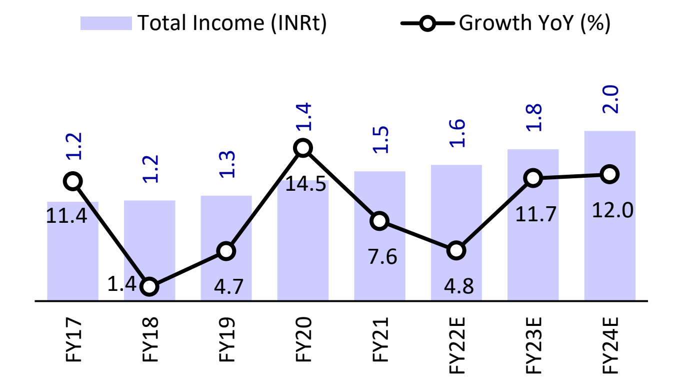
Source: MOFSL , Company

Exhibit 48: Expect NIM to remain flat at 3% in the long term



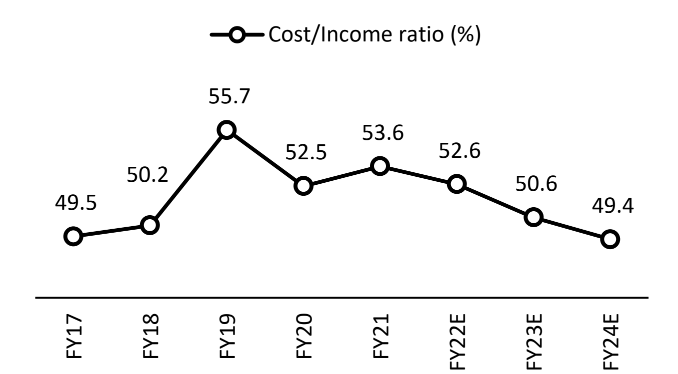
Source: MOFSL , Company

Exhibit 49: Robust growth in total income



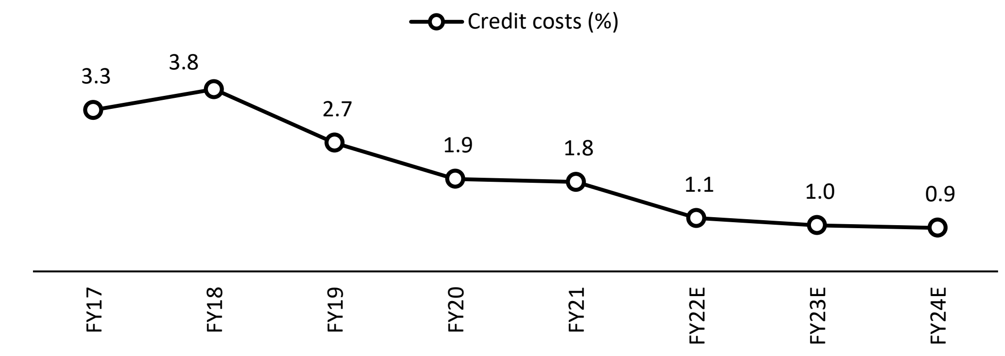
Source: MOFSL , Company

Exhibit 50: Growing digitization to benefit cost/income ratio



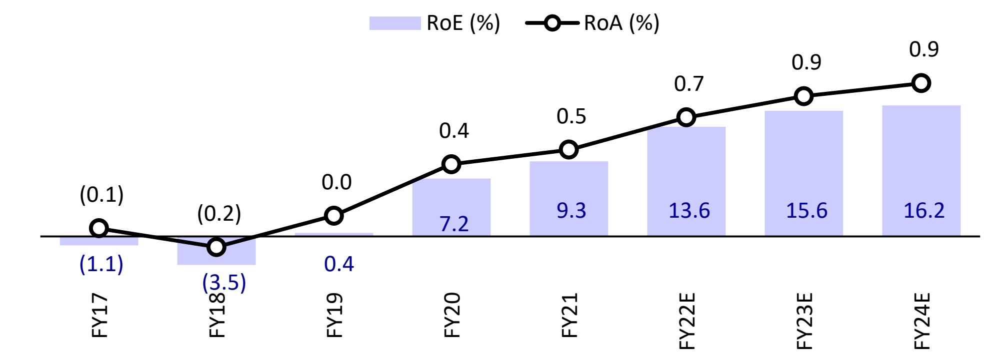
Source: MOFSL , Company

Exhibit 51: Credit cost to fall to the lowest level in the last 15 years by FY24E



Source: MOFSL, Company

Exhibit 52: Buoyed by the above factors, SBIN is on track to exceed its RoE guidance of 15%



Source: MOFSL, Company

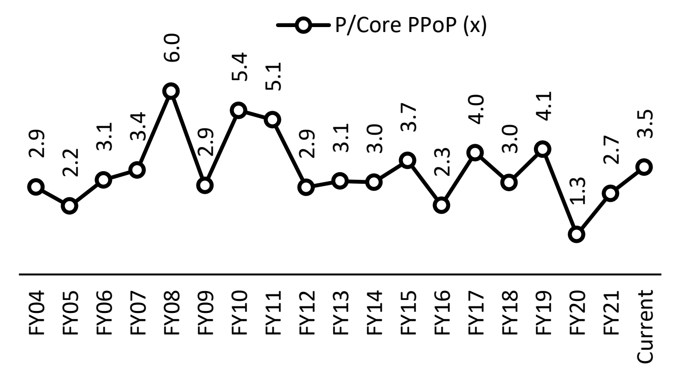
Valuation and view

- SBIN has been reporting a strong overall performance on the back of a revival in loan growth, robust asset quality, and controlled funding costs.
- Deposit growth stood strong, led by healthy CASA trends, while loan growth is likely to recover gradually over FY22-23E. The asset quality outlook remains encouraging, with a lower slippage ratio than most Private Banks.
- The bank has strengthened its Balance Sheet by creating higher provisions toward stressed accounts. It has prudently improved its PCR to ~71% and holds unutilized COVID-related provisions of ~INR62b. It also holds a higher (~89%) provision coverage on Corporate NPAs.
- It has one of the best liability franchises (CASA mix: ~46%) and hence is better positioned to manage the pressure on yields. A lower funding cost will continue to support margins to a large extent.
- Most subsidiaries – SBI MF, SBILIFE, and SBICARD – have reported robust performances for the past few years, supporting the bank's SoTP value. Value unlocking from SBI MF and SBI General Insurance could result in further gains.
- Asset quality witnessed a continuous improvement as fresh slippage moderated sharply to INR23.3b (0.4% of loans). This resulted in a 40bp/18bp QoQ decline in GNPA/NNPA ratio to 4.5%/1.3%. We expect slippages to moderate going forward and estimate credit cost of ~1% over FY22-24.
- Among PSU Banks, SBIN remains the best play on a gradual recovery in the Indian economy, with a healthy PCR (~71%), Tier I of ~11%, strong liability franchise, and improved core operating profitability.
- **Buy with a TP of INR675/share:** Despite a challenging environment, it reported a strong operating performance in 9MFY22 and FY21. Deposit growth stood strong, led by healthy CASA trends. Asset quality performance has been nothing less than incredible, easily beating the best of its peers. SBIN has been reporting continued traction in earnings every successive quarter, aided by controlled provisions. It has reported a strong acceleration in loan growth and guided at continued momentum as utilization levels improve, while Retail growth is likely to remain steady. Its asset quality outlook is strong as the restructured book remains in control at 1.2%, while the SMA pool has declined further to 16bp of loans. We estimate credit cost to moderate to 1%/0.9% over FY23/FY24, enabling 27% earnings CAGR over FY22-24. We expect it to deliver a FY24 RoA/RoE of ~1%/~16%. **The bank remains our conviction Buy in the sector. We revise our TP to INR675/share (1.3x FY24E ABV + INR210 from its subsidiaries).**

Exhibit 53: SoTP-based pricing

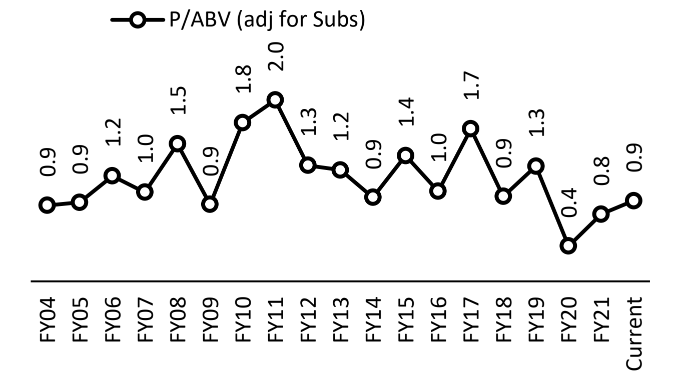
Name	Stake (%)	Value for SBIN (INR b)	Value/share at our TP	As a percentage of total value	Rationale	Value/share at the CMP	As a percentage of total value
SBIN	**100**	**4,149**	**465**	**69**	**1.3x FY24E ABV**	**323**	**66**
Life Insurance	55	892	100	15	2.7x FY24E EV	68	14
Cards	69	767	86	13	32x FY24E PAT	62	13
Asset Management	63	316	35	5	30x FY24E PAT	35	7
General Insurance	70	114	13	2	25x FY24E PAT	13	3
Yes Bank	30	103	12	2	Based on CMP	11	2
Capital market/DFHI/Others		150	17	2		17	3
Total value of its subsidiaries		**2,343**	**263**	**39**		**205**	**42**
Less: 20% holding discount		469	53	8		41	8
Value of subsidiaries (post holding discount)		**1,874**	**210**	**31**		**164**	**34**
Target price		**6,023**	**675**			**487**	

Exhibit 54: FY22E P/Core PPOP trading at 3.5x…



Source: MOFSL, Company

Exhibit 55: …while P/ABV (adjusted for subsidiaries) is trading at 0.9x FY23E



Source: MOFSL, Company

Exhibit 56: DuPont Analysis: Return ratios set to improve further

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	7.28	6.52	6.81	6.74	6.25	5.99	6.16	6.28
Interest Expense	4.83	4.31	4.33	4.17	3.64	3.44	3.54	3.62
Net Interest Income	**2.44**	**2.21**	**2.48**	**2.57**	**2.61**	**2.56**	**2.62**	**2.67**
Fee income	0.94	0.92	0.94	0.96	0.88	0.71	0.72	0.73
Trading and others	0.44	0.40	0.09	0.22	0.14	0.14	0.14	0.14
Non-Interest income	**1.39**	**1.32**	**1.03**	**1.19**	**1.03**	**0.85**	**0.86**	**0.87**
Total Income	**3.83**	**3.53**	**3.51**	**3.76**	**3.63**	**3.41**	**3.48**	**3.54**
Operating Expenses	**1.90**	**1.77**	**1.95**	**1.97**	**1.95**	**1.79**	**1.76**	**1.75**
Employee cost	1.10	0.98	1.15	1.20	1.20	1.10	1.07	1.06
Others	0.79	0.79	0.80	0.77	0.75	0.70	0.69	0.69
Operating Profit	**1.93**	**1.76**	**1.55**	**1.79**	**1.69**	**1.62**	**1.72**	**1.79**
Core Operating Profit	**1.49**	**1.36**	**1.47**	**1.56**	**1.54**	**1.48**	**1.58**	**1.65**
Provisions	**1.97**	**2.22**	**1.49**	**1.13**	**1.04**	**0.51**	**0.57**	**0.52**
NPA	1.80	2.11	1.53	1.13	0.64	0.60	0.52	0.50
Others	0.17	0.11	-0.04	0.00	0.39	-0.09	0.05	0.02
PBT	**-0.04**	**-0.46**	**0.06**	**0.66**	**0.65**	**0.95**	**1.15**	**1.27**
Tax	0.02	-0.27	0.04	0.28	0.17	0.25	0.30	0.33
RoA	**-0.06**	**-0.19**	**0.02**	**0.38**	**0.48**	**0.71**	**0.85**	**0.94**
Leverage (x)	17.6	18.0	18.3	18.9	19.4	19.2	18.2	17.2
RoE	**-1.0**	**-3.5**	**0.4**	**7.2**	**9.3**	**13.6**	**15.6**	**16.2**

Source: MOFSL, Company

Financials and valuations

Income Statement (INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	2,239.8	2,205.0	2,428.7	2,573.2	2,651.5	2,839.8	3,196.3	3,589.8
Interest Expense	1,487.8	1,456.5	1,545.2	1,592.4	1,544.4	1,628.1	1,836.6	2,066.3
Net Interest Income	**752.0**	**748.5**	**883.5**	**980.8**	**1,107.1**	**1,211.7**	**1,359.7**	**1,523.5**
Change (%)	3.9	-0.5	18.0	11.0	12.9	9.4	12.2	12.0
Non-Interest Income	**426.4**	**446.0**	**367.7**	**452.2**	**435.0**	**404.5**	**445.0**	**498.4**
Total Income	**1,178.4**	**1,194.5**	**1,251.2**	**1,433.1**	**1,542.1**	**1,616.2**	**1,804.7**	**2,021.8**
Change (%)	11.4	1.4	4.7	14.5	7.6	4.8	11.7	12.0
Operating Expenses	583.8	599.4	696.9	751.7	826.5	849.6	914.0	998.2
Pre Provision Profits	**594.6**	**595.1**	**554.4**	**681.3**	**715.5**	**766.6**	**890.7**	**1,023.6**
Change (%)	10.7	0.1	-6.8	22.9	5.0	7.1	16.2	14.9
Core Provision Profits	**458.5**	**460.9**	**522.9**	**595.6**	**655.2**	**700.3**	**817.7**	**943.3**
Change (%)	-4.3	0.5	13.5	13.9	10.0	6.9	16.8	15.4
Provisions (excl. tax)	607.2	750.4	531.3	430.7	440.1	241.0	293.5	296.2
Exceptional Items (Exp.)	NA	NA	NA	NA	NA	74	NA	NA
PBT	**-12.6**	**-155.3**	**23.1**	**250.6**	**275.4**	**451.5**	**597.2**	**727.4**
Tax	5.5	-89.8	14.5	105.7	71.3	117.4	155.3	189.1
Tax Rate (%)	-43.3	57.8	62.6	42.2	25.9	26.0	26.0	26.0
PAT	**-18.0**	**-65.5**	**8.6**	**144.9**	**204.1**	**334.1**	**441.9**	**538.3**
Change (%)	NM	NM	NM	NM	40.9	63.7	32.3	21.8
Cons. PAT post MI	**2.4**	**-45.6**	**23.0**	**197.7**	**224.1**	**361.0**	**479.6**	**591.0**
Change (%)	-98.0	NM	NM	NM	13.3	61.1	32.8	23.2

Balance Sheet

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	8	9	9	9	9	9	9	9
Reserves and Surplus	2,110	2,182	2,200	2,311	2,530	2,854	3,283	3,806
Net Worth	**2,118**	**2,191**	**2,209**	**2,320**	**2,539**	**2,863**	**3,292**	**3,815**
Deposits	**25,853**	**27,063**	**29,114**	**32,416**	**36,813**	**39,574**	**43,135**	**47,449**
Change (%)	15.4	4.7	7.6	11.3	13.6	7.5	9.0	10.0
of which CASA Dep.	**11,988**	**12,039**	**12,976**	**14,337**	**16,713**	**18,164**	**19,713**	**21,779**
Change (%)	39.3	0.4	7.8	10.5	16.6	8.7	8.5	10.5
Borrowings	3,321	3,621	4,030	3,147	4,173	4,994	5,684	6,434
Other Liab. and Prov.	1,756	1,671	1,456	1,631	1,820	2,002	2,162	2,335
Total Liabilities	**33,049**	**34,548**	**36,809**	**39,514**	**45,344**	**49,433**	**54,273**	**60,033**
Current Assets	2,709	1,919	2,225	2,511	3,430	3,459	3,584	3,708
Investments	**9,329**	**10,610**	**9,670**	**10,470**	**13,517**	**15,139**	**16,804**	**18,720**
Change (%)	51.6	13.7	-8.9	8.3	29.1	12.0	11.0	11.4
Loans	**18,690**	**19,349**	**21,859**	**23,253**	**24,495**	**26,822**	**29,772**	**33,345**
Change (%)	1.1	3.5	13.0	6.4	5.3	9.5	11.0	12.0
Fixed Assets	499	400	392	384	384	396	404	416
Other Assets	1,822	2,270	2,663	2,896	3,518	3,617	3,709	3,844
Total Assets	**33,049**	**34,548**	**36,809**	**39,514**	**45,344**	**49,433**	**54,273**	**60,033**

Asset Quality

GNPA	1,779	2,234	1,728	1,491	1,264	1,167	1,155	1,103
NNPA	970	1,109	659	519	368	347	375	365
GNPA Ratio	9.1	10.9	7.5	6.2	5.0	4.2	3.8	3.2
NNPA Ratio	5.2	5.7	3.0	2.2	1.5	1.3	1.3	1.1
Slippage Ratio	7.0	8.4	1.6	2.2	1.2	1.1	1.4	1.3
Credit Cost	3.3	3.8	2.7	1.9	1.8	1.1	1.0	0.9
PCR (Excl. Tech. W/O)	45.5	50.4	61.9	65.2	70.9	70.2	67.6	66.9

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Yield and Cost Ratios (%)								
Avg. Yield on Earning Assets	**9.0**	**7.4**	**7.8**	**7.7**	**7.2**	**6.9**	**7.0**	**7.1**
Avg. Yield on loans	9.3	7.4	7.8	8.0	7.2	7.5	7.7	7.8
Avg. Yield on Investments	8.5	7.2	7.5	6.9	6.8	6.3	6.3	6.3
Avg. Cost of Int. Bear. Liab.	**6.0**	**4.9**	**4.8**	**4.6**	**4.0**	**3.8**	**3.9**	**4.0**
Avg. Cost of Deposits	6.4	5.1	5.0	4.8	4.1	3.9	4.0	4.1
Interest Spread	**3.0**	**2.5**	**2.9**	**3.1**	**3.1**	**3.1**	**3.1**	**3.1**
Net Interest Margin	**3.0**	**2.5**	**2.8**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Capitalization Ratios (%)								
CAR	13.0	12.7	12.8	13.3	14.0	13.6	13.7	13.7
Tier I	*10.4*	*10.5*	*10.8*	*11.2*	*11.7*	*11.6*	*11.8*	*12.1*
Tier II	*2.6*	*2.2*	*2.1*	*2.1*	*2.3*	*2.0*	*1.8*	*1.6*
Business and Efficiency Ratios (%)								
Loans/Deposit Ratio	72.3	71.5	75.1	71.7	66.5	67.8	69.0	70.3
CASA Ratio	46.4	44.5	44.6	44.2	45.4	45.9	45.7	45.9
Cost/Assets	1.8	1.7	1.9	1.9	1.8	1.7	1.7	1.7
Cost/Total Income	49.5	50.2	55.7	52.5	53.6	52.6	50.6	49.4
Cost/Core Income	56.0	56.5	57.1	55.8	55.8	54.8	52.8	51.4
Int. Expense./Int. Income	66.4	66.1	63.6	61.9	58.2	57.3	57.5	57.6
Fee Income/Total Income	24.6	26.1	26.9	25.6	24.3	20.9	20.6	20.7
Non Int. Inc./Total Income	36.2	37.3	29.4	31.6	28.2	25.0	24.7	24.6
Empl. Cost/Total Expense	58.2	55.3	58.9	60.8	61.6	61.2	60.8	60.7
Investment/Deposit Ratio	36.1	39.2	33.2	32.3	36.7	38.3	39.0	39.5
Profitability Ratios and Valuation								
RoE	-1.1	-3.5	0.4	7.2	9.3	13.6	15.6	16.2
RoA	-0.1	-0.2	0.0	0.4	0.5	0.7	0.9	0.9
RoRWA	-0.1	-0.3	0.0	0.7	0.9	1.3	1.5	1.6
Consolidated RoE	0.1	-2.0	1.0	7.9	8.2	12.2	14.5	15.5
Consolidated RoA	0.0	-0.1	0.1	0.5	0.5	0.7	0.9	0.9
Consol. BV (INR)	248	243	248	267	294	332	383	445
Change (%)	11.6	-2.0	2.0	7.7	10.3	12.7	15.3	16.4
Price-to-Consol. BV ratio (x)	**1.8**	**1.8**	**2.0**	**1.8**	**1.7**	**1.5**	**1.3**	**1.1**
Adjusted BV (INR)	139	135	170	187	221	260	306	367
Price-to-ABV ratio (x)	**2.0**	**2.1**	**1.6**	**1.5**	**1.3**	**1.1**	**0.9**	**0.8**
EPS (INR)	-2.3	-7.7	1.0	16.2	22.9	37.4	49.5	60.3
Change (%)	NM	NM	NM	NM	40.9	63.7	32.3	21.8
Price-to-Earnings ratio (x)	**NM**	**NM**	**NM**	**17.1**	**12.1**	**7.4**	**5.6**	**4.6**

NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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