

# State Bank of India (SBIN)

Banking | NBIE Investor Conference Update

**BUY**

**CMP: Rs565 | Target Price (TP): Rs709 | Upside: 26%**

**November 29, 2023**

## Minimal impact of RBI circular; Loan growth key

### Key Points

- We hosted the management of State Bank of India (SBI), represented by Ms. Saloni Narayan, DMD (Finance) at NBIE Investor Conference held on November 21, 2023.
- The bank is confident of clocking double-digit loan growth in FY24, in line with system credit growth, with its key focus areas being SME, Secured Retail, Agriculture, Mid-corporate segments and financing EVs, Solar Power and Green Energy in the private sector. For maintaining/improving NIMs in the long term, it will focus on improving C/D ratio, CASA growth and share of higher yielding Retail/SME loans. It is also looking at shoring up its fee and forex income, which will be RoA accretive in the long term.
- After adjusting for the 50bps impact of the RBI circular on higher risk weights and 109bps addition of 1HFY24 profit, the CET-1 remains comfortable at 10.5%. It will hike its lending rates in the affected segments, in line with industry trend. As per its disclosures, while the bank has already slowed down on Xpress credit growth, after our observation of the NBFC & trading segment exposure from its Basel III disclosures (part of which is impacted by RBI circular) growing at 23.5% YoY, we are of the view that it may have to slow down a bit on lending to some NBFCs impacted by the circular.
- We have marginally tweaked our earnings estimates for SBI by 1.1%/3.4% for FY24E/FY25E on assumption of 12% loan growth in FY24E vs 13.1% loan growth estimated earlier and 3bps decline in NIM in 3QFY24. Keeping our target valuation constant at 1.1x its Sept. 2025E ABV and adding subsidiary valuation of Rs 198/share, we revise our target price (TP) from Rs714 earlier to Rs709. Maintain BUY.

**Well prepared to take on macro challenges:** In light of headwinds in the global economy and risks emerging domestically in the unsecured loan space, according to management, it is well prepared to tackle the same given the bank's good capital position and an improved risk management framework.

With respect to the impact of RBI circular on increase in risk weights for unsecured retail loans and lending to NBFCs for the industry, it expects loans provided through digital lenders for short-term consumption to witness a slowdown. However, in case of SBI, there will be minimal impact on growth in unsecured personal loans, as it has already slowed down on growth in Xpress credit loans (*forming 9.4% of SBI's loan book; 95% of which are to the government salaried segment*) from 42.8% in 1QFY20 to 17.8% in 2QFY24. The GNPA's of this segment are under control at 0.69%. It is not present in unsecured personal loans of ticket size below Rs50,000.

Est Change	Downwards
TP Change	Downwards
Rating Change	Maintain

### Company Data and Valuation Summary

Reuters	SBI.BO
Bloomberg	SBIN IN Equity
Mkt Cap (Rsbn/US\$bn)	5,037.5 / 60.4
52 Wk H / L (Rs)	630 / 499
ADTV-3M (mn) (Rs/US\$)	8,433.8 / 101.4
Stock performance (%) 1M/6M/1yr	0.6 / (3.7) / (7.3)
Nifty 50 performance (%) 1M/6M/1yr	4.0 / 2.8 / 6.8

Shareholding	4QFY23	1QFY24	2QFY24
Promoters	57.5	57.5	57.5
DII's	25.2	24.9	24.4
FII's	9.9	10.4	10.7
Others	7.4	7.3	7.4
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

Particulars (Rsmn)	FY22	FY23	FY24E	FY25E
NII	12,07,076	14,48,405	16,14,375	18,16,078
% growth	9.0	20.0	11.5	12.5
NIM %	2.8	3.0	3.0	3.0
C/I Ratio %	57.9	53.9	53.5	50.6
Operating Profit	6,78,740	8,37,130	10,02,223	11,42,534
% growth	(5.1)	23.3	19.7	14.0
Adjusted PAT	3,16,760	5,02,324	6,56,385	7,36,817
% growth	55.2	58.6	30.7	12.3
ABVPS (INR /share)	287	347	406	473
P/ABV	2.0	1.6	1.4	1.2
RoA (%)	0.7	1.0	1.1	1.1
Leverage (x)	17.8	17.3	16.5	15.9
RoE (%)	11.9	16.5	18.5	18.0

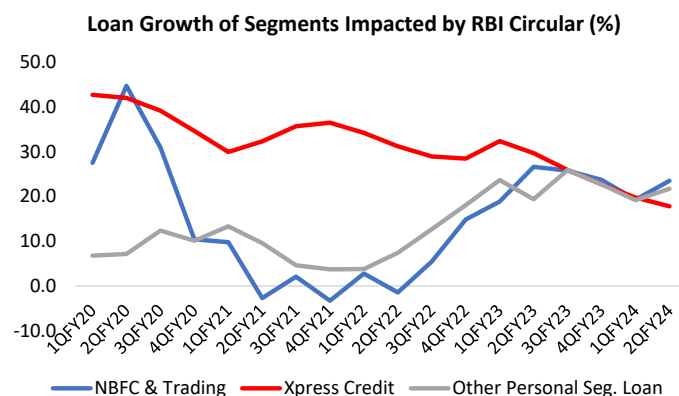
Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

**Key Links-** [2QFY24 presentation](#)

Please refer to the disclaimer towards the end of the document.

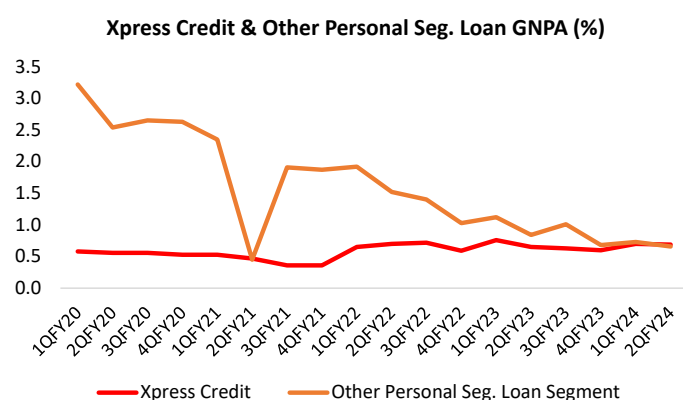
In case of pre-approved loans through YONO app, it sanctions loans to corporate salary customers who fit the criteria. In case of other personal loans (3.4% of SBI's loan book), which are a mix of loans impacted/not-impacted by the RBI circular, the GNPA has declined from 3.22% in 1QFY20 to 0.66% in 2QFY24. As per our observation from the bank's latest Basel III disclosures, the exposure to NBFC and other services segment, which forms 16.7% of SBI's loan book, continues to grow by 23.5% YoY, which may see some slowdown in case of NBFCs impacted by the circular.

**Exhibit 1: Growth of segments impacted by RBI circular on risk weight increase**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Personal loan GNPA trend**



Source: Company, Nirmal Bang Institutional Equities Research

**CET-1 adjusted for RBI circular impact at ~10.5%:** As per SBI's internal assessment, the impact of RBI circular on increase in risk weights is expected to be 30bps on its CAR for rated NBFCs (excluding HFCs) and 40bps in case of unsecured personal loans, taking the total impact on CAR to 70bps (CAR at 14.28% in 2QFY24). In case of its CET-1, which without 1HFY24 PAT added to it was 9.94%, the overall impact is expected to be 50bps. After addition of 1HFY24 profit impact at 109bps, the CET-1 still remains strong at 10.5%, which is 2.5% above regulatory requirements. With the risk density in terms of RWA/assets having improved from a peak of 68% in FY11 to 49.3% in 2QFY24 (as the bank de-risked its balance sheet in past bad loan cycle and ploughed back capital due to improved profitability on account of decline in credit costs), the bank does not have any immediate requirement of raising equity capital. It has the Board's approval for raising Rs200bn Tier-1 capital in FY24, out of which, it has already raised Rs31bn in July 2023 at a coupon rate of 8.1%. It plans to raise another Rs50bn through AT-1 bonds in the coming months. In Tier-II capital, it has raised Rs100bn so far in FY24.

**Domestic NIM to largely remain stable for the remainder of FY24:** In order to make up for the impact of RBI circular, the bank plans to hike rates in the affected segments, in line with industry trends. However, due to the cost of funds being under pressure in the near term, SBI expects an impact of 2-3bps on its domestic NIM (2.45% in 2QFY24) this quarter. In the long term, in order to maintain/improve NIM, the bank plans to focus on three areas – (1) Improve C/D ratio, which was at 71.3% in 2QFY24 (2) Growing higher yielding Retail and SME loans and (3) Increase CASA growth. In case of non-government current accounts, it has grown better than industry at 11%.

**Subsidiaries' stake:** As the bank is adequately capitalized, it has no plans to divest stake in subsidiaries. SBI will divest some stake in SBI General Insurance at an appropriate time in future when valuation is good.

**Confident of double-digit growth in line with system:** The bank has maintained its loan growth guidance of 12-14% for FY24, which will be in line with system credit growth. Its key focus areas for growth are SME, Agriculture, Home Loans, Auto Loans and Education Loans. On the corporate side, besides demand from Infrastructure, including roads, it is also financing EVs, Solar Power and Green Energy in the private sector. Its proposals pipeline stood at Rs3.4tn in 2QFY24, part of which is expected to get converted into sanctions in future and sanctioned loans pipeline was Rs1.4tn, which is likely to get disbursed in the coming quarters. The undisbursed portion of term loans stands at 17.5%. Although the sanctions for working capital loans have been good, the utilization is lower at 53%. The bank is increasingly focusing on the commercial client's group i.e the mid/small corporate segment which has better yields.

**SME to be the new growth engine:** SBI's SME loan book grew by 22.8% YoY in 2QFY24 after the revamp that has happened in the past few years. The bank had hired an external consultant to advise it on the segment. Earlier, the bank was focusing more on lower ticket sizes and later it opted for higher ticket loans in this segment. The TAT has been improved; the ecosystem of vendors and distributors of its own corporate clients is being tapped; in case of current account customers in SMEs, it also started pre-approved business loans through YONO app; it also worked on cluster financing. As against a purely collateral based lending traditionally followed by banks earlier, the bank is now able to underwrite SME loans based on cash flows of the customers. Within its vast network of 22,400 branches, 65,000 ATMs, 65mn YONO app users and 70,000 business correspondents, it also has 860 SME intensive branches and 2,000 RMs for SMEs.

**Shoring up of fee-based income to be RoA accretive in long term:** For improving fee-based income and other sources of non-interest income, SBI is focusing on three areas: (1) Credit linked fee income (2) Cross selling and (3) Forex income. The key driver here will be cross selling income, which should reach US\$0.5bn by FY24-end (in line with medium term target of US\$1bn). The Insurance JVs contribute 60% to bankassurance business. It wants to leverage all its 22,400 branches to cross sell its Mutual Fund and Insurance products and aims to take the contribution to 90% in all JVs. In the Forex business, it has new retail forex offerings through YONO app. With respect to the corporate fee income, the government business from pension payments and other receipts is seeing a slowdown. So instead, the bank is focusing on providing customized solutions to government in order to bring in fee income. It is also looking at autonomous bodies for current accounts as well as related fee income. *In our view, as the bank's fee + forex income as a % of average assets is at 0.6%, which is half of top 4 private sector banks (1.2-1.5% of their income comes from these sources), SBI has enough scope to improve on fee-based income, which will be RoA accretive in the long term.*

**Additional Rs40bn to be provided for wage revision by March 2024:** After providing Rs34bn for wage revision expectation of 14% in 2QFY24, it expects to provide Rs40bn more in 2HFY24. On the opex side, it has recently set up an operations support subsidiary, which provides support services and business correspondent services to SBI branches and retail asset credit centres in rural and semi-urban areas. This will free up branch resources for more productive activities.

**IND-AS impact:** SBI has made non-specific provisions of Rs337.9bn, forming ~1% of its loan book, which is more than adequate to cover the impact of shift to IND-AS in future. It may need to write-back provisions if needed post shift to ECL provision norms.

**Exhibit 3: SOTP valuation**
**Calculation of September 2025E ABV**

September 2025E Networth (Rsmn)	4769912.2
Revaluation Reserves (Rsmn)	277562.6
September 2025E NNPA (Rsmn)	206412.4
Cost of investment in subsidiaries	140502.3
September 2025E Adj. Networth	4145435.0
<b>September 2025E ABV (Rs)</b>	<b>464.5</b>

Entity	Valuation Methodology	Holding	Value per share (INR)
Standalone Bank	1.1x September 2025E ABV		510.9
SBI Life Insurance	2.4x FY25E P/EV (x)	55.4%	99.6
SBI Cards	Current Mcap	68.9%	54.8
SBI General Insurance	2.5x Latest BV	74.0%	8.3
SBI Capital Markets	15.0x Latest PAT	100.0%	12.2
SBI AMC	10% AUM	63.0%	58.3
Holding co. discount (%)			15%
Value of key subsidiaries (INR per share)			198.2
Target Price (Rs)			709.2

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Financial summary**

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	11,07,100	12,07,076	14,48,405	16,14,375	18,16,078
Operating profit	7,15,542	6,78,740	8,37,130	10,02,223	11,42,534
PAT	2,04,105	3,16,760	5,02,324	6,56,385	7,36,817
EPS (Rs)	23	35	56	74	83
BV (Rs)	284	314	367	426	492
P/E (x)	24.7	15.9	10.0	7.7	6.8
P/BV (x)	2.0	1.8	1.5	1.3	1.1
GNPAs (%)	5.0	4.0	2.8	2.4	2.2
NNPAs (%)	1.5	1.0	0.7	0.6	0.5
RoA (%)	0.5	0.7	1.0	1.1	1.1
RoE (%)	8.4	11.9	16.5	18.5	18.0

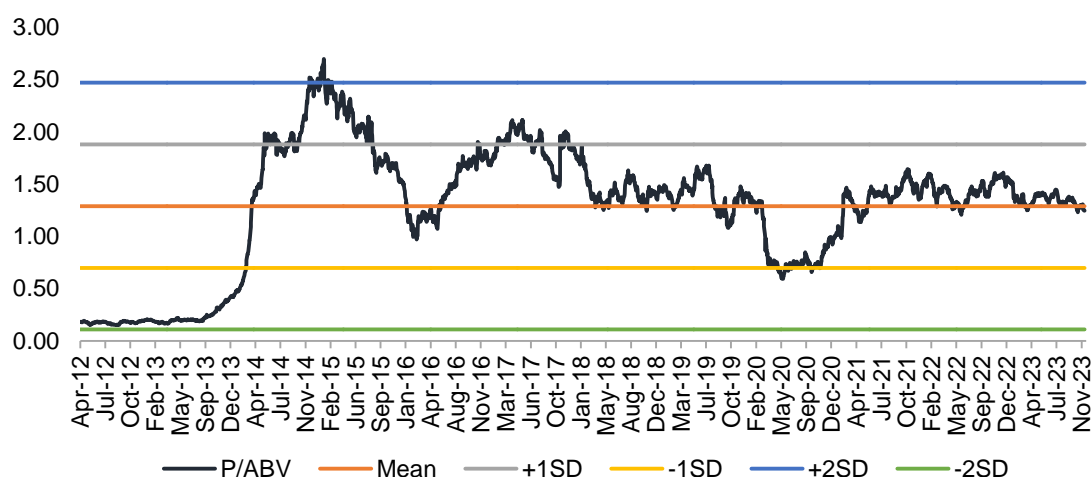
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Change in our estimates**

	Revised Estimate		Earlier Estimate		% Revision	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income (Rsmn)	16,14,375	18,16,078	16,25,648	18,55,119	-0.7	-2.1
NIMs (%)	2.99	3.01	3.00	3.04	-1bps	-3bps
Operating Profit (Rsmn)	10,02,223	11,42,534	10,11,907	11,79,000	-1.0	-3.1
Profit after tax (Rsmn)	6,56,385	7,36,817	6,63,622	7,63,084	-1.1	-3.4
Loan Book (Rsbn)	35,833	40,509	36,178	40,899	-1.0	-1.0
ABVPS (Rs)	406	473	407	476	-0.2	-0.6

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: One-year forward P/ABV**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 7: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	26,51,506	27,54,573	33,21,031	40,98,636	44,94,716
Interest expense	15,44,406	15,47,497	18,72,626	24,84,261	26,78,638
<b>Net interest income</b>	<b>11,07,100</b>	<b>12,07,076</b>	<b>14,48,405</b>	<b>16,14,375</b>	<b>18,16,078</b>
Non-interest income	4,34,964	4,05,639	3,66,156	5,39,645	4,98,440
<b>Net Revenue</b>	<b>15,42,064</b>	<b>16,12,715</b>	<b>18,14,561</b>	<b>21,54,020</b>	<b>23,14,518</b>
Operating Expense	8,26,522	9,33,975	9,77,431	11,51,797	11,71,984
-Employee Exp	5,09,360	5,75,620	5,72,918	7,02,101	6,75,454
-Other Exp	3,17,162	3,58,355	4,04,513	4,49,696	4,96,530
<b>Operating profit</b>	<b>7,15,542</b>	<b>6,78,740</b>	<b>8,37,130</b>	<b>10,02,223</b>	<b>11,42,534</b>
Provisions	4,40,130	2,44,521	1,65,073	1,22,264	1,60,111
<b>PBT</b>	<b>2,75,411</b>	<b>4,34,219</b>	<b>6,72,056</b>	<b>8,79,958</b>	<b>9,82,423</b>
Taxes	71,307	1,17,459	1,69,732	2,23,574	2,45,606
<b>PAT</b>	<b>2,04,105</b>	<b>3,16,760</b>	<b>5,02,324</b>	<b>6,56,385</b>	<b>7,36,817</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	8,925	8,925	8,925	8,925	8,925
Reserves & Surplus	25,29,827	27,91,956	32,67,160	37,96,313	43,85,767
<b>Shareholder's Funds</b>	<b>25,38,752</b>	<b>28,00,881</b>	<b>32,76,084</b>	<b>38,05,238</b>	<b>43,94,692</b>
<b>Deposits</b>	<b>3,68,12,771</b>	<b>4,05,15,341</b>	<b>4,42,37,778</b>	<b>4,92,55,551</b>	<b>5,51,51,466</b>
Borrowings	41,72,977	42,60,434	49,31,352	54,92,180	60,60,896
Other liabilities	18,19,797	22,99,318	27,24,571	32,40,551	33,85,462
<b>Total liabilities</b>	<b>4,53,44,296</b>	<b>4,98,75,974</b>	<b>5,51,69,785</b>	<b>6,17,93,520</b>	<b>6,89,92,516</b>
Cash/Equivalent	34,30,387	39,45,523	30,78,996	36,72,814	41,12,451
<b>Advances</b>	<b>2,44,94,978</b>	<b>2,73,39,666</b>	<b>3,19,92,693</b>	<b>3,58,33,432</b>	<b>4,05,09,444</b>
Investments	1,35,17,052	1,48,14,455	1,57,03,662	1,75,32,971	1,90,80,162
Fixed Assets	3,84,192	3,77,082	4,23,818	4,66,200	5,12,820
Other assets	35,17,687	33,99,249	39,70,616	42,88,103	47,77,639
<b>Total assets</b>	<b>4,53,44,296</b>	<b>4,98,75,974</b>	<b>5,51,69,785</b>	<b>6,17,93,520</b>	<b>6,89,92,516</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Key ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E
<b>Growth (%)</b>					
NII growth	12.9	9.0	20.0	11.5	12.5
Pre-provision profit growth	5.0	-5.1	23.3	19.7	14.0
PAT growth	40.9	55.2	58.6	30.7	12.3
<b>Business (%)</b>					
Deposit growth	13.6	10.1	9.2	11.3	12.0
Advance growth	5.3	11.6	17.0	12.0	13.0
CD	66.5	67.5	72.3	72.8	73.5
CASA	45.4	44.5	42.7	41.9	42.9
<b>Operating efficiency (%)</b>					
Cost-to-income	53.6	57.9	53.9	53.5	50.6
Cost-to-assets	1.9	2.0	1.9	2.0	1.8
<b>Spreads (%)</b>					
Yield on advances	7.2	6.6	7.5	8.4	8.2
Yield on investments	6.7	6.0	6.3	6.5	6.4
Cost of deposits	4.1	3.7	3.8	4.7	4.5
Yield on assets	6.8	6.3	6.9	7.6	7.4
Cost of funds	4.0	3.6	4.0	4.8	4.6
NIMs	2.9	2.8	3.0	3.0	3.0
<b>Capital adequacy (%)</b>					
Tier I	11.4	11.4	12.1	12.3	12.4
Tier II	2.3	2.4	2.6	2.7	2.5
Total CAR	13.7	13.8	14.7	15.0	14.9
<b>Asset Quality (%)</b>					
Gross NPA	5.0	4.0	2.8	2.4	2.2
Net NPA	1.5	1.0	0.7	0.6	0.5
Provision coverage	70.9	75.0	76.4	75.9	76.9
Slippage	1.1	0.9	0.6	0.1	0.1
Credit-cost	1.8	0.9	0.6	0.4	0.4
<b>Return (%)</b>					
ROE	8.4	11.9	16.5	18.5	18.0
ROA	0.5	0.7	1.0	1.1	1.1
RORWA	0.9	1.3	1.9	2.2	2.2
<b>Per share</b>					
EPS	23	35	56	74	83
BV	284	314	367	426	492
ABV	249	287	347	406	473
<b>Valuation</b>					
P/E	24.7	15.9	10.0	7.7	6.8
P/BV	2.0	1.8	1.5	1.3	1.1
P/ABV	2.3	2.0	1.6	1.4	1.2

Source: Company, Nirmal Bang Institutional Equities Research



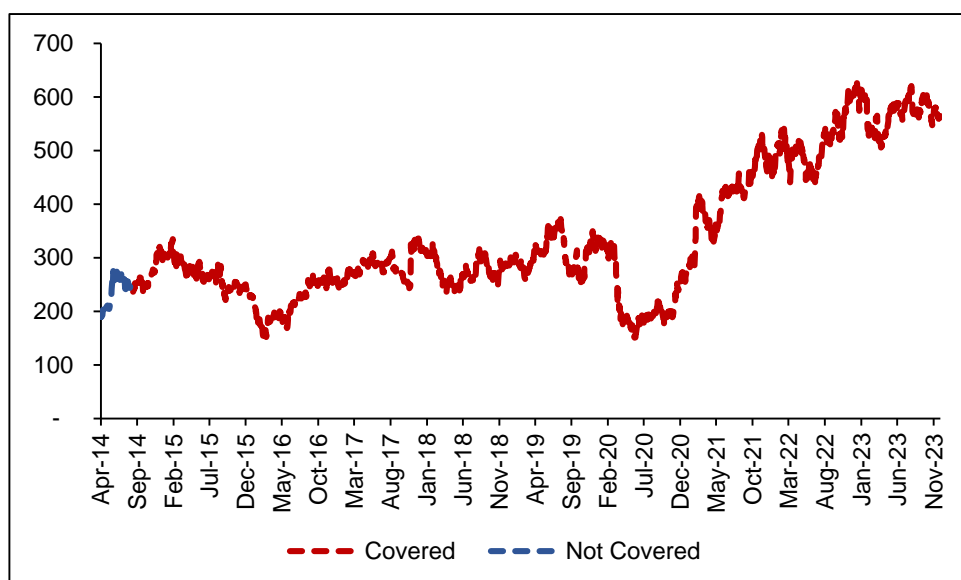
## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
14 August 2014	Buy	2,418	2,915
8 October 2014	Buy	2,411	2,915
17 November 2014	Buy	2,785	3,200
22 December 2014	Buy	304	363
8 January 2015	Buy	301	363
16 February 2015	Buy	308	375
25 May 2015	Buy	282	375
12 August 2015	Buy	268	375
9 November 2015	Buy	244	375
12 February 2016	Buy	155	220
30 May 2016	Buy	201	240
16 August 2016	Buy	244	280
15 November 2016	Buy	272	315
13 February 2017	Buy	275	315
14 February 2017	Buy	272	335
22 May 2017	Buy	309	355
14 August 2017	Buy	280	325
13 November 2017	Buy	333	386
12 February 2018	Buy	296	364
23 May 2018	Buy	254	331
13 August 2018	Buy	304	353
9 October 2018	Buy	266	329
6 November 2018	Buy	295	347
13 December 2018	Buy	285	344
4 February 2019	Buy	284	347
8 April 2019	Buy	317	366
13 May 2019	Buy	308	373
8 July 2019	Buy	371	430
5 August 2019	Buy	308	370
7 October 2019	Buy	250	354
29 October 2019	Buy	282	365
8 January 2020	Buy	320	377
1 February 2020	Buy	318	377
27 March 2020	Buy	192	315
9 April 2020	Buy	183	315
8 June 2020	Buy	189	274
9 July 2020	Buy	192	227
3 August 2020	Buy	196	326
23 September 2020	Buy	186	328
7 October 2020	Buy	192	324
5 November 2020	Buy	206	323
26 November 2020	Buy	243	348

08 January 2021	Buy	288	384
5 February 2021	Buy	355	423
21 February 2021	Buy	399	495
23 May 2021	Buy	404	519
05 August 2021	Buy	457	536
26 September 2021	Buy	441	574
03 November 2021	Buy	531	617
06 February 2022	Buy	529	639
15 May 2022	Buy	441	626
07 August 2022	Buy	532	678
19 September 2022	Buy	562	723
06 November 2022	Buy	594	718
05 February 2023	Buy	545	667
22 March 2023	Buy	523	680
19 May 2023	Buy	576	664
06 August 2023	Buy	573	698
06 November 2023	Buy	578	714
29 November 2023	Buy	560	709

Coverage was transferred to Rati J Pandit with effect from August 6, 2023

## Rating track graph





## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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