MIRAE ASSET Sharekhan

State Bank of India

On strong footing

Banks	Sharekhan code: SBIN
Reco/View: Buy ⇔	CMP: **Rs. 850** Price Target: **Rs. 1,050** ↑

↑ Upgrade ⇔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

Company details

Market cap:	Rs. 7,58,414 cr
52-week high/low:	Rs. 912 / 601
NSE volume: (No of shares)	147.8 lakh
BSE code:	500112
NSE code:	SBIN
Free float: (No of shares)	383.8 cr

Shareholding (%)

Promoters	57.5
FII	10.7
DII	24.1
Others	7.7

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	4.4	8.6	1.3	31.2
Relative to Sensex	0.1	11.4	-3.5	18.0

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- SBI is reasonably confident to deliver ~15% loan growth and RoE of 16-18% in the near to medium term.
- The bank is well positioned to manage sectoral headwinds, given surplus liquidity and comfortable LDR at ~75%, while the overall impact on margins would not be significant if the rate cuts cycle starts as it has levers to restrict the impact.
- The asset quality is holding up well and the portfolio is still not showing worrying signs, including unsecured retail loans despite the slowdown in growth. Normalisation of credit costs will be gradual, keeping credit cost still far lower than the long-term averages.
- The stock trades at 1.3x/1.1x/0.9x its FY2025E/FY2026E/FY2027E core BV estimates. We maintain BUY with a revised PT of Rs. 1,050. The stock remains our top pick in the PSU bank basket.

SBI is expected to sustain its steady performance in terms of growth and profitability in the near to medium term. Asset quality is holding up well and the portfolio is still not showing worrying signs, including unsecured retail loans despite the slowdown in growth. We believe normalisation of credit cost is expected to be gradual until we see a major economic downturn. Despite sectoral headwinds, there is no challenge on the liquidity side (led by healthy LCR, excess SLR, and a comfortable CD ratio). The bank expects improved traction in deposit growth in H2FY2025, expecting double-digit growth. CASA franchise remains strong, though there has been a decline in the past few quarters. The term deposit rate for the bank in the one-to-two-year maturity bucket is now broadly in line with peers. The margin impact would not be significant if the rate cuts cycle starts, as it has levers to restrict the impact. The bank has guided for ~15% loan growth in FY2025E, which is expected to be broad based, and expect to sustain RoA over ~1%.

- **Focus on delivering steady growth and stable NIM:** The bank expects domestic NIM to remain broadly rangebound as re-pricing of deposits is largely done. Overall, the impact on margins would not be significant if the rate cuts cycle starts, as it has levers to restrict the impact. The impact of the rate cuts will be felt in the loan book, especially on the loans linked to repo and external benchmarks. While ~40% of the loan book is linked to MCLR, this may be less volatile in response to immediate rate adjustments. Additionally, short-term loans in the portfolio can be repriced quickly. On the growth front, the bank believes that loan growth is much more diversified. Demand from the corporate sector is robust and the competitive environment is comfortable to deliver ~15% loan growth in FY2025E and is expected to be broad based.
- **Credit cost to remain lower:** Normalisation of credit cost is expected to be very gradual until we see a major economic downturn. The bank has non-NPA provisions of ~0.8% of loans outside the PCR. The asset quality is holding up well and the portfolio is still not showing worrying signs, including unsecured retail loans despite the slowdown in growth. The corporate balance sheet is already de-leveraged. Moreover, the customer segment that the bank has focus on is holding up well on income and leverage. Thus, credit cost is expected to remain lower.
- **Capital raise:** The bank has a relatively lower CET-1 capital vs. peers i.e., excluding H1FY2025 profit, CET-1 is at ~9.95% (minimum regulatory requirement of ~8.6%), but internal accruals look sufficient to fund near-term envisaged credit growth.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 1,050 – SBI trades at 1.3x/1.1x/0.9x its FY2025E/FY2026E/FY2027E core book value estimates, respectively. We believe the bank is likely to sustain ROE of 16-18% in the near to medium term, led by healthy loan growth and stable asset quality. The bank has additional non-NPA provisions of ~0.8% of loans outside the PCR to take care of any uncertain future events. NIM impact would not be significant if the rate cuts cycle starts, as it has levers to restrict the impact. The high share of MCLR book (~42%) and marginal uptick in credit-deposit ratio should limit the NIM decline. Focus is also on ramping up other avenues of productivity (mainly fee income).

Key Risks

Economic slowdown can lead to slower loan growth and higher-than-anticipated credit costs.

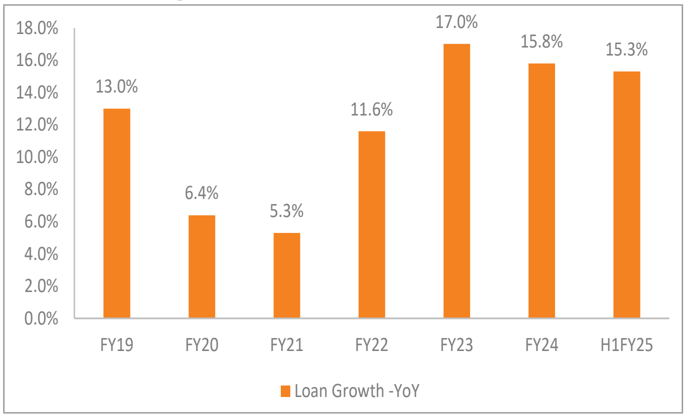
Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
NII	1,44,841	1,59,876	1,70,841	1,99,167	2,31,010
PAT	50,232	61,077	66,372	75,035	82,032
EPS (Rs.)	56.3	68.4	74.4	84.1	91.9
P/E (x)	11.1	9.2	8.4	7.5	6.8
P/core BV (x)	1.7	1.5	1.3	1.1	0.9
RoE (%)	16.5	17.3	16.2	15.6	14.7
RoA (%)	1.0	1.0	1.0	1.0	1.0

Source: Company; Mirae Asset Sharekhan estimates

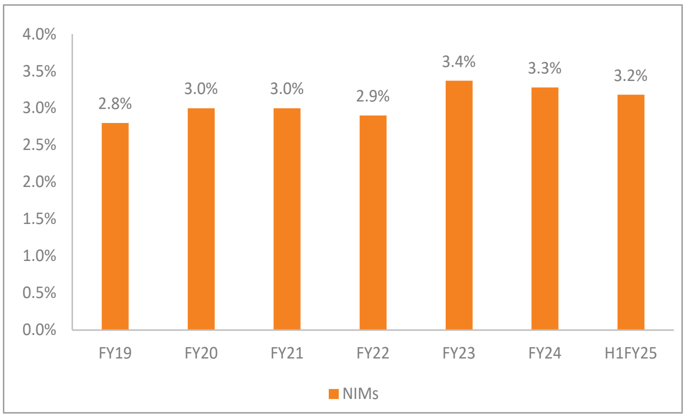
Financials in charts

Trend in Loan growth



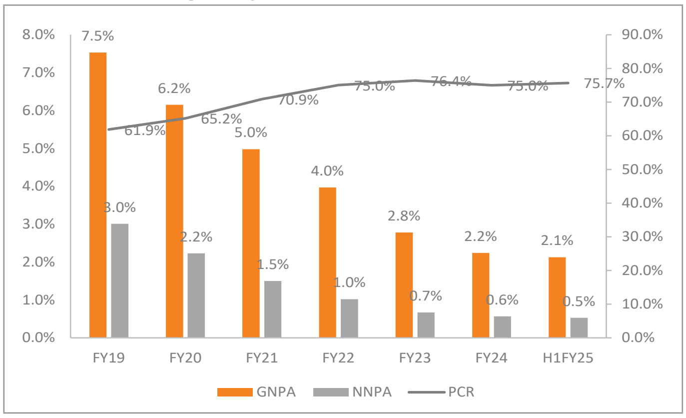
Source: Company; Mirae Asset Sharekhan Research

Trend in NIMs



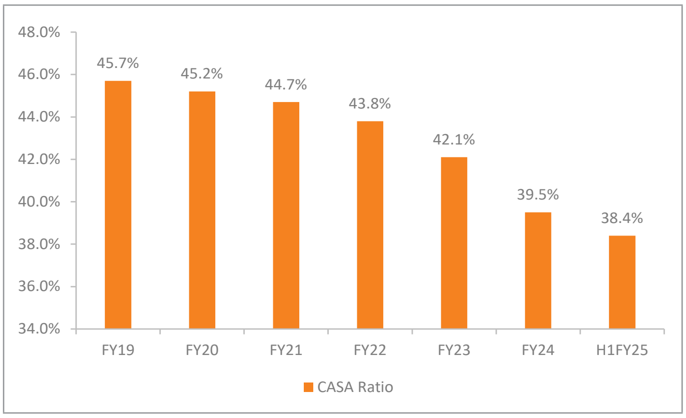
Source: Company; Mirae Asset Sharekhan Research

Trend in Asset quality



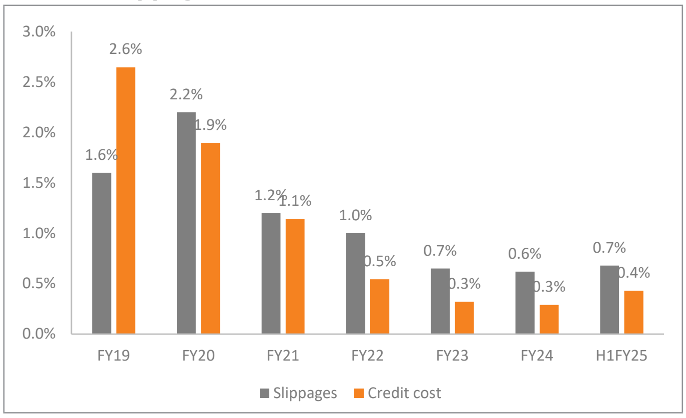
Source: Company; Mirae Asset Sharekhan Research

Trend in CASA



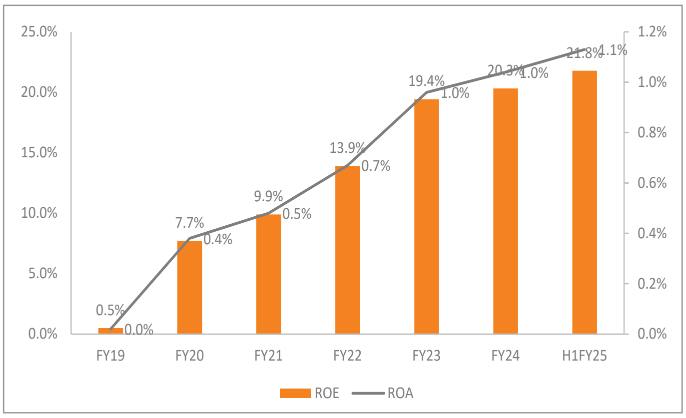
Source: Company; Mirae Asset Sharekhan Research

Trend in Slippages & Core Credit cost



Source: Company; Mirae Asset Sharekhan Research

Trend in Return ratio



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation and asset quality to be in focus

System credit growth is slowing and has declined to ~10.6% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth and a high credit-deposit ratio. Deposit growth at 10.8% has started to outpace loan growth marginally. However, deposit growth continues to remain range bound and is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to elevated cost of term deposits, while a reversal in the rate cycle should further lead to yield pressure. Overall, the asset-quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Riding the strong investment cycle

SBI is an attractive play in the fast-growing Indian economy, with a healthy balance sheet and strong liability franchise. In recent times, the results indicate its inherent business strength and the bank has worked on improving operating metrics along with strong sector tailwinds. We believe credit growth would be broad-based, driven by retail, SME, and corporate segments. We believe improved performance should be sustained in the near to medium term. Overall, the asset quality outlook is stable.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,050

SBI trades at 1.3x/1.1x/0.9x its FY2025E/FY2026E/FY2027E core book value estimates, respectively. We believe the bank is likely to sustain ROE of 16-18% in the near to medium term, led by healthy loan growth and stable asset quality. The bank has additional non-NPA provisions of ~0.8% of loans outside the PCR to take care of any uncertain future events. NIM impact would not be significant if the rate cuts cycle starts, as it has levers to restrict the impact. The high share of MCLR book (~42%) and marginal uptick in credit-deposit ratio should limit the NIM decline. Focus is also on ramping up other avenues of productivity (mainly fee income).

SOTP Valuation

Subsidiary/Associate	Per share value (Rs.)
A. SBI Life Insurance	115
B. SBI Cards	73
C. SBI MF	52
D. SBI Caps	20
E. Others	20
Valuation of subs. and associates (A+B+C+D+E)	**279**
(less) holding co. discount (20%)	56
F. Value of subs/associates post holdco discount	**223**
G. Core Bank Value	827
Total SOTP Valuation (Rs.) (F+G)	**1,050**

Source: Company; Mirae Asset Sharekhan Research

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
State Bank of India	850	7,58,414	8.4	7.5	1.3	1.1	16.2	15.6	1.0	1.0
Bank of Baroda	256	1,32,387	6.7	6.0	1.0	0.9	16.2	14.2	1.2	1.1

Source: Company; Mirae Asset Sharekhan Research

About the company

SBI is the largest public-sector bank in terms of assets, deposits, branches, number of customers, and employees having a pan-India presence. The bank has been designated by the RBI as a domestic systemically important bank (D-SIB), which means that its continued functioning is critical for the economy. The bank is well-placed to gain market share, driven by strong balance sheet strength.

Investment theme

SBI enjoys a dominant position and market share in the Indian banking sector. SBI has a strong presence in both retail liabilities as well as retail asset side along with its corporate relationships (due to size, history, and market knowledge), which are key differentiators for it. In recent times, its results indicate the inherent business strength and past few years' efforts that have enabled the bank to move towards improving operating metrics along with strong sector tailwinds. Overall, the asset-quality outlook continues to remain stable to positive. We believe improved performance should sustain in the near to medium term.

Key Risks

Economic slowdown can lead to slower loan growth and higher-than-anticipated credit costs.

Additional Data

Key management personnel

C.S. Setty	Chairman
Ashwini Kumar Tewari	Managing Director
Vinay M. Tonse	Managing Director
Rana Ashutosh Kumar Singh	Managing Director

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	56.92
2	Life Insurance Corp of India	9.22
3	SBI Funds Management Ltd.	3.18
4	ICICI Prudential Asset Management	1.41
5	HDFC Asset Management Co. Ltd.	1.40
6	NPS Trust A/c Uti Retirement Solutions	1.32
7	Nippon Life India Asset Management	1.11
8	Kotak Mahindra AMC Ltd.	0.95
9	Goldman Sachs Group Inc.	0.84
10	BlackRock Inc	0.73

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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