Equity Research

August 6, 2022

BSE Sensex: 58388

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Q1FY23 result review and earnings revision

Banking

Target price Rs673

Earnings revision

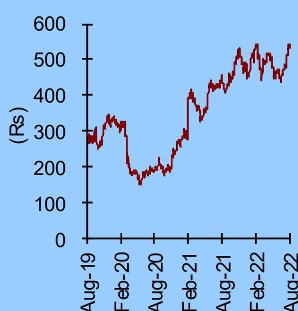
(%)	FY23E	FY24E
PAT	↓ 2	↓ 2

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	57.6	57.6	57.6
Institutional investors	34.5	34.6	34.7
MFs and others	12.9	13.2	13.2
FIs/Banks	0.0	0.0	0.0
Insurance Cos.	10.0	10.1	10.4
FIIs	11.6	11.3	11.1
Others	7.9	7.8	7.7

Source: BSE

Price chart



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INDIA

State Bank of India

BUY

Maintained

Earnings dragged by treasury loss; NIMs too moderate QoQ

Rs531

State Bank of India's (SBI) Q1FY23 earnings were dragged by treasury loss of Rs65.5bn, contraction in miscellaneous income and lower other interest income. Operationally too NIM decline of 13bps QoQ, flat NII, and slippages at 1.38% surprised negatively. Offsetting metrics were lower credit cost at 61bps, flat opex and core fee income growth of 18% YoY. All in all, reported PAT of Rs60.7bn (down 7% YoY / 33% QoQ) was lower than our and consensus estimates. Advances increased 16% YoY / 3% QoQ led by growth in retail and overseas books. We expect NIM trajectory to improve with repricing of the lending book faster than deposits. Credit growth of 13% / 15%, stable NIMs, operating profit growth of 16% / 19% and credit cost of 0.9% / 0.9%, for FY23E/FY24E, will drive RoE to >16% by FY23E/FY24E. Maintain BUY with an unchanged SoTP-based target price of Rs673.

- **Slippages marginally higher than expectations at 1.38%; GNPAs moderated by 6bps QoQ:** Slippages came in higher than expected at Rs97.4bn *vs* Rs157bn YoY (annualised run-rate of 1.38%) - primarily flowing from SME (Rs30bn), agri (Rs27bn) and retail (Rs23.5bn) segments. Slippages in corporate book were contained at Rs3.2bn. Recoveries and upgrades amounting to Rs52bn (Rs67.6bn QoQ) and write-offs at Rs36.3bn (Rs49bn QoQ), supported decline in GNPAs to 3.91% (3.97%/4.5%/4.9% in Q4/Q3/Q2FY22). Net NPAs were steady at 1.0% with coverage being flat QoQ. Management indicated that, of the slippages of Rs97.4bn, the bank has already recovered Rs28bn as of now.

  GNPAs in retail (ex-agri) were sequentially up 9bps to 0.83% offset by decline in agri NPAs (to 12.95% *vs* 13.33% QoQ). GNPAs in home loans increased to 0.84% (from 0.79% QoQ), auto loans to 0.76% (*vs* 0.69% QoQ) and *Xpress* credit also inched up to 0.76% (*vs* 0.59% QoQ). Management indicated that the rise in personal loan GNPA is an aberration due to deferred salary receipts and should normalise in coming quarters. In the other segments, namely SME and corporate, GNPAs were broadly stable at 5.96% and 6.57% respectively. Overall, given the elevated slippages pool in Q1FY23, we are now looking at a slippage run-rate of 1.4%/1.3%, and gross NPA settling at 3.5%/3.2% in FY23E/FY24E respectively.

Market Cap	Rs4739bn/US$59.9bn
Reuters/Bloomberg	SBI.BO/SBIN IN
Shares Outstanding (mn)	8,924.6
52-week Range (Rs)	542/407
Free Float (%)	42.4
FII (%)	11.1
Daily Volume (US$'000)	1,06,592
Absolute Return 3m (%)	12.4
Absolute Return 12m (%)	22.1
Sensex Return 3m (%)	5.6
Sensex Return 12m (%)	8.4

Year to Mar	FY21	FY22	FY23E	FY24E
NII (Rs bn)	1,107	1,207	1,390	1,610
Net Profit (Rs bn)	204	391	443	537
EPS (Rs)	23	44	50	60
% Change YoY	(1)	92	13	21
P/E (x)	15	8	7	6
P/BV (x)	1.4	1.3	1.1	0.9
P/ABV (x)	1.7	1.4	1.2	1.0
GNPA (%)	5.0	4.0	3.5	3.2
RoA (%)	0.5	0.8	0.8	0.9
RoE (%)	9.5	16.4	16.2	16.7

- **Credit cost at 0.61% and investment depreciation at Rs15bn partially offset by standard asset provision write-back of Rs13bn:** Provisioning came in at Rs43.9bn (lower than our expectations) with loan-loss provision at Rs42.7bn (61bps) and investment depreciation at Rs15.0bn. However, there was a reversal of standard asset provision of Rs13.0bn (~18bps) and other provision reversal of Rs0.8bn. AFS/HFT portfolio is at 42.3% (39.3% in Q4FY22) with modified duration of 2.08 years (2.08 years in Q4FY22). Given rise in 10Y g-sec by ~60bps during the quarter, SBI reported treasury loss of Rs65.5bn as against gain of Rs1.8bn in Q4FY22 and Rs21.0bn gain in Q1FY22. Provisioning coverage was steady QoQ at 75% with the legacy book being well provided. Non-NPA provisions reduced to Rs293bn (*vs* Rs306bn) with standard asset provisioning at Rs187bn (Rs200bn), provision on restructured pool at Rs78bn (Rs79bn) and other loan-related provisions of Rs28bn (Rs27.4bn). Overall, we are building-in credit cost at 0.9% / 0.9% for FY23E / FY24E, respectively.

- **Restructured pool moderates while SMA-2/SMA-1 pools are up QoQ:** SBI's outstanding restructured exposure moderated a tad to Rs92bn (*vs* Rs109bn QoQ) under OTR 1.O and Rs196bn (*vs* Rs201bn QoQ) under OTR 2.0. Overall, restructured pool thereby stands at Rs288bn (Rs310bn), equivalent to 1.17% of domestic advances. By business segment, 1.5% of retail (Rs152bn), 3.8% of SME (Rs117bn) and only 0.2% of corporate book (Rs19bn) is in restructured pool. Management highlighted that reduction in restructured book is partially led by repayment and partially due to slippages into NPA. SMA-2 pool (above Rs50mn), after declining for four quarters, rose sharply to Rs18.14bn. This works out to 7bps of domestic advances (*vs* Rs5.55bn / Rs16.0bn / Rs23.5bn / Rs33bn / Rs68bn in Q4FY22 / Q3FY22 / Q2FY22 / Q1FY22 / Q4FY21) and SMA-1 pool at Rs51.7bn (Rs29.9bn in Q4FY22), which translates to 21bps of domestic advances.

- **NIMs down 13bps QoQ as yields moderated and NII was just flat QoQ (lower than expectations):** Domestic NIMs were down 17bps QoQ to 3.23% as yields moderated 15bps to 7.43% and cost of deposits was marginally down 3bps to 3.8%. Overseas business NIMs were up 25bps QoQ to 1.32%; overall NIMs thereby were down 13bps QoQ to 3.02%. Net interest income was flat QoQ at Rs312bn, up 13% YoY, as against our expectations of Rs325bn. This is despite C/D ratio expansion by >200bps QoQ to 69.6% suggesting competitive pricing to grow advances. What really dragged was other interest income, which was down 23% QoQ / 14% YoY.

  In terms of loan mix, 75% of lending book is linked to MCLR/EBR or T-Bills and reset happens on 1st of the next month. As deposits will reprice with a lag, management expects NIMs to further improve. Bank has sufficient liquidity with LCR at 130% and excess SLR at 3.8%. Also, Rs1.5trn of HTM and AFS portfolio is due for redemption and can be utilised for advances growth. On a steady-state basis, we expect margins (calculated) to stabilise around 2.9% for FY23E-FY24E.

- **Advances grew 3% QoQ primarily led by retail and overseas advances:** Credit growth of 3.0% QoQ / 15.8% YoY was led by 3.2% QoQ / 18.6% YoY growth in retail advances, 9.2% QoQ / 22.4% YoY growth in overseas advances, and 2.4% QoQ / 10.0% YoY growth in SME segment. Individual mortgage portfolio registered its all-time high growth in Q1. *X-press* credit book grew at a robust 32% YoY to Rs2.6trn and other personal loans were up 24% YoY to Rs928bn. Personal gold loans have risen 16% YoY to Rs246bn. As per the bank, its latest market share in home loans is 33.3% (35.3% QoQ) and that in auto loans is 19.3% (23.7% QoQ). Overall, given the buoyant growth in retail, its mix has also inched up by 434bps YoY and 133bps QoQ to 42.2% in the overall domestic portfolio.

- **Domestic corporate advances flat QoQ; overseas advances grew 9.2% QoQ / 22.4% YoY:** Domestic corporate advances were flat QoQ and up 10% YoY. Textiles & petroleum advances were down QoQ. As of Q1FY23, SBI had unutilized working capital limit of Rs2.5trn and term loan unutilised limit of Rs2.5trn. SME book was up 2% QoQ / 10% YoY. Overseas advances were up 9% QoQ / 22% YoY primarily led by loan syndication and trade financing. Bank had introduced a factoring product for overseas markets, which is now helping it participate on various platforms in the US/UK. Overall, utilisation of sanctioned limits coupled with high-single digit GDP growth outlook gives confidence that credit growth is likely to pick further momentum in FY23E. Overall, we are building-in credit growth at 13%/15% for FY23E/FY24E respectively.

- **Treasury loss and contraction in miscellaneous income drags non-interest income; core fee income up 18% YoY:** Non-interest income was down 80% YoY as well as QoQ. Treasury loss was at Rs65.5bn. AFS/HFT portfolio was at 42.3% with modified duration of 2.08 years and yields on investments at 6.16%. Miscellaneous income too slumped 78% QoQ / 86% YoY to as low as Rs4.75bn. Core fee income was up 18% YoY (albeit down 20% QoQ due to seasonality) supported by processing fees, commission on government business and cross-sell. Forex income more than doubled YoY and was also up 32% QoQ.

- **Operating expenses were flat YoY / down 11% QoQ; 'cost to assets' thereby settled at 1.66%:** Staff cost was down 4% QoQ as well as YoY due to lower retirement liability-related provision. Overhead cost was up 10% YoY (due to costs of printing & stationery, travel and deposit insurance). Overall, we are looking at 'cost to income' ratio to settle at 52%/51% in FY23E/FY24E and 'opex to assets' too to settle around 1.8%/1.8% in the two years respectively.

- **Capital sufficient to meet near-term growth visibility:** For Q1FY23, CET-I stood at 9.72% (*vs* minimum requirement of 8.6%) while overall capital adequacy ratio was healthy at 13.43% (*vs* minimum requirement of 12.1%). Tier-2 ratio stood at 2.28%. Board has recently approved capital raising of Rs110bn via AT-1 and AT-2 bonds, of which Rs20bn has already been raised. Bank will closely evaluate options to be tapped for further shoring up capital adequacy.

- **YONO expanding rapidly and aiding cross-sell:** YONO has acquired 51.1mn customers since inception and created significant value for the bank. During the quarter, SBI disbursed Rs44bn (Rs24.2bn YoY) pre-approved personal loans and Rs1.0bn (Rs0.2bn YoY) Insta home top-up via YONO. During the quarter, it opened 1.68mn saving accounts vs. 0.88mn a year ago via YONO. There were also 104k average daily cardless cash withdrawals during Q1FY23 and Rs128.81bn *Krishi Agri Gold* loans were sanctioned through YONO.

  Also, YONO is adding cross-sell and as a result, SBI was able to procure MF gross sales of Rs6.5bn (Rs2.7bn YoY), SBI cards sourced 0.6mn cards vs. 0.46mn a year ago, SBI Life garnered premium of Rs1.1bn vs. Rs0.1bn a year ago and SBI General garnered premium of Rs1.0bn vs. Rs0.3bn a year ago through the YONO app.

Table 1: SOTP valuation

Subsidiary	Valuation method	Company value (Rs mn)	SBI stake	SBI stake value (Rs mn)	SoTP value (Rs per share)
SBI	**1.5x P/ABV**	**44,32,726**	**-**	**44,32,726**	**497**
SBI Life Insurance	25x NBAP	13,86,000	56	7,69,230	86
SBI General Insurance	25x PE	1,42,550	70	99,785	11
SBI Mutual Fund	7.5% of AUM	4,62,252	63	2,90,664	33
SBI Cards	Market Cap	8,97,237	70	6,27,169	70
SBI Caps	15x PE	1,72,750	100	1,72,750	19
Others	0.5x PB	28,800	35	10,080	1
Value of subsidiaries					**221**
Value of subsidiaries after hold co discount of 20%					**177**
SBI Value					**673**

Source: I-Sec research

Table 2: Q1FY23 result review

(Rs mn, year ending March 31)

Particulars	Q1FY23	Q1FY22	% Change YoY	Q4FY22	% Change QoQ
Net Interest Income	3,11,959	2,76,384	12.9	3,11,979	(0.0)
% Growth	12.9	3.7		15.3	(15.7)
Fee income	63,720	54,030	17.9	80,230	(20.6)
Add: Other income	(40,598)	63,997	NA	38,572	NA
Total Net Income	3,35,081	3,94,412	(15.0)	4,30,780	(22.2)
% Growth	(15.0)	14.0		(0.5)	
Less: Operating Expenses	(2,07,556)	(2,04,664)	1.4	(2,33,612)	(11.2)
Pre-provision operating profit	1,27,526	1,89,748	(32.8)	1,97,168	(35.3)
NPA Provisions	(42,681)	(50,298)	(15.1)	(32,617)	30.9
Other provisions	(1,243)	(50,222)	(97.5)	(39,758)	(96.9)
Exceptional Item	-	-	NA	-	NA
PBT	83,602	89,229	(6.3)	1,24,794	(33.0)
Less: taxes	(22,931)	(24,189)	(5.2)	(33,659)	(31.9)
PAT	**60,681**	**65,040**	**(6.7)**	**91,135**	**(33.4)**
Balance sheet (Rs mn)					
Advances	2,81,52,492	2,43,19,081	15.8	2,73,39,666	3.0
Deposits	4,04,56,956	3,72,09,870	8.7	4,05,15,341	(0.1)
Asset quality					
Gross NPA	11,32,717	13,42,595	(15.6)	11,20,234	1.1
Net NPA	2,82,579	4,31,525	(34.5)	2,79,657	1.0
Gross NPA ratio (Change bps)	3.91	5.32	(141)	3.97	(6)
Net NPA ratio (Change bps)	1.00	1.77	(77)	1.02	(2)
Credit cost (Change bps)	0.6	1.6	(97)	1.1	(44)
Coverage ratio (Change bps)	75	68	719	75	2
Business ratio			**Change bps**		**Change bps**
RoA	0.5	0.6	(9)	0.7	(26)
RoE	8.5	10.1	(161)	13.1	(460)
CASA	45.3	46.0	(64)	45.3	5
Credit / Deposit Ratio	69.6	65.4	423	67.5	211
Cost-Income ratio	61.9	51.9	1,005	54.2	771
Earnings ratios			**Change bps**		**Change bps**
Yield on advances (Reported)	7.43	7.42	1	7.58	(15)
Cost of deposits (Reported)	3.80	3.88	(8)	3.83	(3)
NIM (Reported)	3.02	2.92	10	3.15	(13)

Source: Company data

Table 3: Slippages marginally higher than expectations at 1.38%; GNPAs moderate 6bps QoQ

Movement of GNPA (Rs bn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Opening balance	1,264	1,343	1,239	1,200	1,120
Additions	163	43	23	28	97
Reductions	84	146	62	109	85
Closing balance	**1,343**	**1,239**	**1,200**	**1,120**	**1,133**

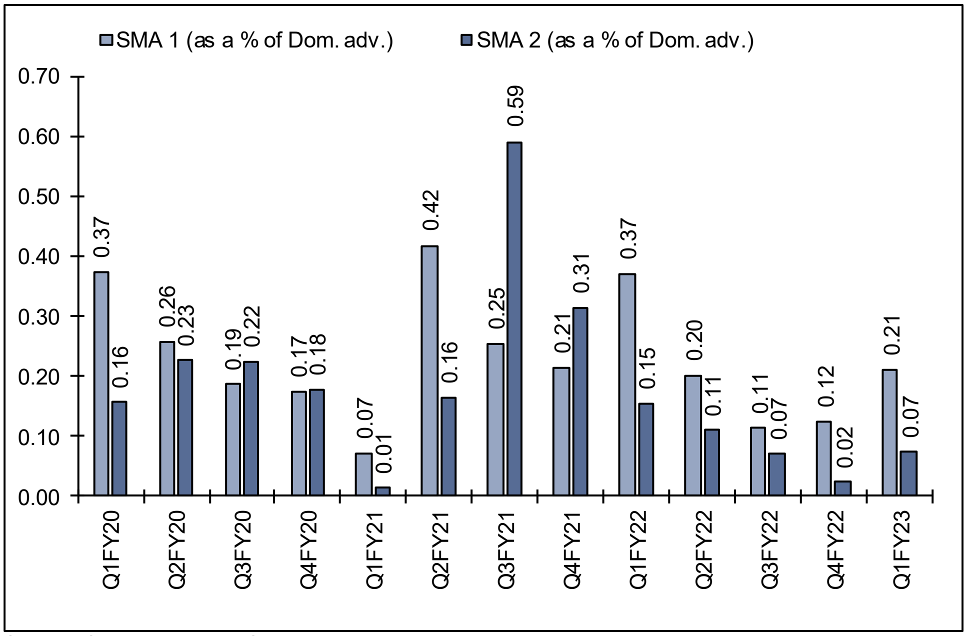
Source: Company data, I-Sec research

Table 4: Restructured pool at 1.17% of domestic advances

	Retail Personal	Corporate	SME	Total
Restructuring as of Q1FY23 (Rs bn)				
Restructuring 1.0	29	19	44	92
Restructuring 2.0	123	-	73	196
Total	**152**	**19**	**117**	**288**
Domestic advances	**10,343**	**8,740**	**3,128**	**24,508**
% of domestic advances	**1.47%**	**0.22%**	**3.75%**	**1.17%**
Restructuring as of Q4FY22 (Rs bn)				
Restructuring 1.0	30	30	48	109
Restructuring 2.0	125	-	76	201
Total	**155**	**30**	**124**	**310**
Domestic advances	**10,023**	**8,707**	**3,055**	**24,068**
% of domestic advances	**1.55%**	**0.35%**	**4.07%**	**1.29%**

Source: Company data, I-Sec research

Chart 1: SMA-2/SMA-1 pool is up QoQ



Source: Company data, I-Sec research

Table 5: Total provision not included in PCR at 1.04% of advances

Particulars	**(Rs bn)**
Provisions on standard assets at end of Q1FY23	186.76
Additional Provision for Restructured Standard Account	78.00
Other loan related provisions	27.96
Total provision not included in PCR at end of Q1FY23	**292.72**
As a % of net advances	***1.04%***
As a % of net NPA	***103.6%***

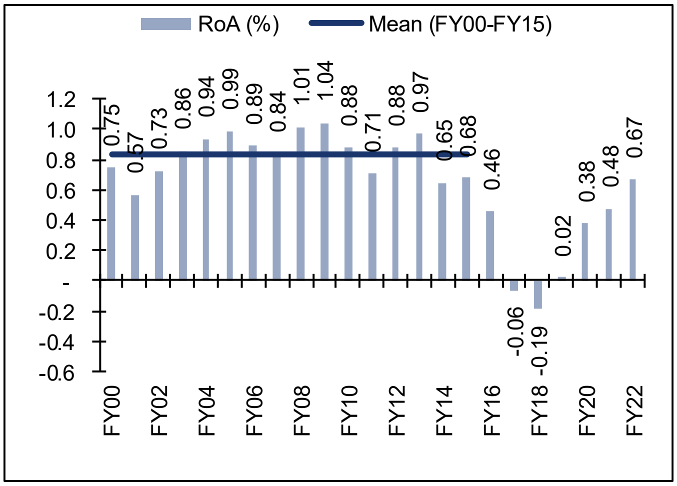
Source: Company data, I-Sec research

Table 6: Growth led by retail and overseas advances

Particulars (Rs bn)	**Q1FY22**	**Q2FY22**	**Q3FY22**	**Q4FY22**	**Q1FY23**	**% Change YoY**	**% Change QoQ**
Agriculture	2,094	2,150	2,215	2,282	2,299	9.8	0.7
Retail	8,721	9,045	9,522	10,023	10,343	18.6	3.2
Housing	*5,055*	*5,187*	*5,385*	*5,617*	*5,751*	*13.8*	*2.4*
Mortgage	*743*	*746*	*774*	*791*	*820*	*10.5*	*3.6*
Xpress Credit	*1,960*	*2,096*	*2,287*	*2,477*	*2,595*	*32.4*	*4.8*
SME	2,843	2,798	3,072	3,055	3,128	10.0	2.4
Corporate	7,905	7,568	7,834	8,707	8,740	10.6	0.4
International	3,675	3,747	4,004	4,119	4,498	22.4	9.2
Total net advances	**24,319**	**24,432**	**25,784**	**27,340**	**28,152**	**15.8**	**3.0**

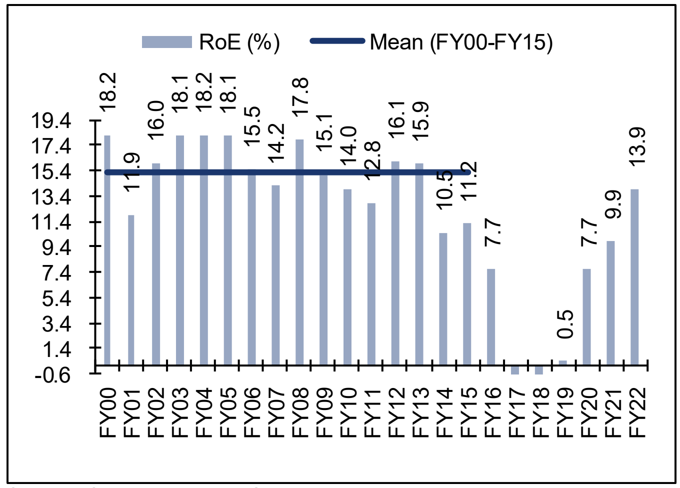
Source: Company data, I-Sec research

Chart 2: RoA to normalise to historical average of ~84bps



Source: Company data, I-Sec research

Chart 3: New normal credit cost trajectory and chunky corporate recoveries to drive RoE higher



Source: Company data, I-Sec research

Q1FY23 earnings call takeaways

Opening remarks

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

MTM loss of Rs65.49bn

- ***It reported treasury loss of Rs65.5bn. Don't see any actual loss in this book and as the rate softens, MTM losses would be written-back***
- ***MTM losses booked to the extent of 7.45% yield***
- There has been transfer of securities from AFS to HFT, but bank could not take much benefit since thereafter RBI raised repo rates post the transfer.
- AFS portfolio is likely to come down from current levels

Margins

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

Asset quality

- ***Slippages break-up:***
  - ***Rs30bn SME***
  - ***Rs27bn Agri***
  - ***Rs23.53bn Retail***
  - ***Rs3.2bn Corporate***
  - ***Rs13.35bn CCG***
- ***Out of slippages during the quarter, Rs28bn has already been recovered.***
- ***Restructuring saw a reduction of Rs40bn QoQ of which Rs20bn was due to slippages and rest Rs20bn can be attributed to repayments***
- ***ECLGS total disbursements stood at Rs410bn of which 1.91% has slipped into NPA***

- There was write-back of covid restructuring provision to the extent of Rs15.95bn, while bank made additional standard asset provision of Rs3bn towards credit growth which resulted in net standard asset provision write-back of Rs12.95bn
- There is always an element of uncertainty on credit cost due to macro, but bank will try to bring it down as much as possible
- Rs78bn is provision available for restructured assets
- ***During Q1, there are some peculiar behaviour among the customers. Of this, Rs20bn has been pulled back. Hence, considering the pullback of Rs20bn, SMA1/2 are similar to Dec'21 levels.***

Loan book

- Retail loans were up 3% QoQ/18.6% YoY
- Balance sheet crossed milestone of Rs50trn during the quarter
- ***Individual mortgage portfolio registered highest growth ever in Q1***
- With economy picking up, loan book is expected to grow well over the coming quarters
- X-press credit rise in GNPA is an aberration due to salary not paid on time by some state government entities
- ***Rs575k is average ticket size and maximum ticket size is Rs2-2.5mn for personal loans***
- 95% is given to customers who are maintaining salary account with the bank. Of this 95%, ~90% would be quasi government employees.
- ***Quite hopeful that 15% credit growth would sustain for current FY***
- ***Bank has under-utilisation of Rs2.5trn in corporate working capital limits, under-utilisation of Rs2.5trn in corporate term loans and remaining Rs1.2trn corporate loans are in pipeline.*** Not seen demand tapering off in retail and have decent visibility of demand
- For SME, also there is reasonable visibility of demand
- Irrespective of rate hike, bank expects decent growth going ahead from retail as well. Bank expect better traction in corporate book in FY23 as well and even SME is also focus area for the bank in FY23.
- Under Agri, focus would be on high value agri loans

Overseas loans

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

Liquidity

- Sufficient liquidity in terms of excess SLR

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

Non-interest income (ex-treasury) and opex

- Non-interest income was down 80% YoY as well as QoQ.
- ***Miscellaneous income too contracted 78% QoQ/86% YoY to as low as Rs4.75bn. This was because Q4 has dividend income of Rs5bn, recovery of Rs14bn from Kingfisher and income from derivatives***
- ***Business acquisition expense is largely commission towards home loans and premium paid towards PSLC.*** *For Xpress credit, bank is not using any outsourcing agents for sourcing them.*
- *Bank is trying to shore up income which should help to reduce cost to income ratio*

Miscellaneous

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

Q4FY22 earnings call takeaways

Opening remarks

- FY23 GDP forecast possible upside could come from government thrust on capex, domestic demand
- ***Heightened geopolitical conditions pose risk to India's GDP growth for FY23***

FY22 performance

- ***Highest ever profit in a single financial year***
- ***RoE at 13.92%, up 398bps YoY for FY22***

Asset quality

- Net NPA close to 1% and bank was able to contain credit cost at 0.55% for FY22
- Smaller segment loan book (loans below Rs 50mn) has seen improvement in asset quality
- Seen net decline in NPA across retail portfolio during Q4
- For MSME, run-rate of slippages is lesser than pre-covid levels
- ***Rs 70bn is restructuring apart from Restructuring 1.0 and 2.0 of Rs 300bn***
- ***ECLGS outstanding at Rs 320bn and slippages is less than 2%***
- ***Slippages break-up: Rs 28.45bn - Rs 12bn corporate, Rs 12bn agri and remaining is retail and MSME (includes one large corporate wherein bank has provided fully)***
- ***ARC Sale:*** 8 accounts totaling to recovery of Rs 2.97bn for Q4FY22 and 23 accounts totaling to recovery of Rs 11.88bn for FY22 (Cash Rs 11.05bn and SR of Rs 0.83bn)
- ***Security receipts are now fully provided for the current stock of security receipts (Rs 20bn investment depreciation for Q4 is on account of SRs)***
- *89% of corporate book is into investment grade*
- 15 accounts identified for NARCL totaling to Rs 500bn
- *AUCA recoveries at Rs 78bn for FY22. General run-rate of AUCA recoveries is Rs 80-100bn and company is targeting similar number for FY23 as well*

Provisioning

- ***100% provision made on Srei as well as Future group on debt as well as investment exposure***
- ***Contingent provisions against covid have now been applied towards restructured accounts***
- Coverage ratio improved to 75% - as a matter of policy, bank believes that it will like to insulate its portfolio from any future shocks
- ***Other provisions of Rs 14.95bn includes provisions towards non-fund based***
- ***There was no MTM provision as of 31st March 2022***

Loan book growth

- Maintained leadership position in home loans and auto loans
- ***Working capital unutilised limit of Rs 2.76trn (from Rs 3.10trn QoQ) as of Q4 and this situation is improving constantly***
- ***On term loans, untilised limit is Rs 2trn vs Rs 2.1trn QoQ***
- ***Rs 1.54 trn disbursements in Q4FY22*** which is spread out across the quarter and there are no instances of one-off
- *Business from co-lending should see pick-up in FY23 and bank is aiming at a target of Rs 100bn for FY23 via co-lending*
- SME book has seen a stronger growth when compared to FY20 levels
- ***USD 1bn assistance to Sri Lanka is fully guaranteed by Govt of India.***
- With respect to Xpress credit, 17.2mn is the customer universe of which only 27% is penetrated.

Margins

- ***~74% of loan book is linked to MCLR (41%), EBLR mainly repo (23%) or T-bill (11%)***
- ***Deposit interest rates move with a lag and considering 74% of book is linked to either MCLR/EBLR/T-bill, bank should see improvement in margins***
- Savings rate has not taken a call on 2.5% current offering. Will see how competition moves
- Domestic NIM for Q4FY22 increased by 29 bps YoY at 3.40%
- Domestic margins up 10bps for FY22 vs. FY21
- Yields were stable QoQ but are likely to improve in coming quarters due to interest rate hike and significant portion of loans being floating in nature
- Don't see any pressure on pricing as far as SME book is concerned

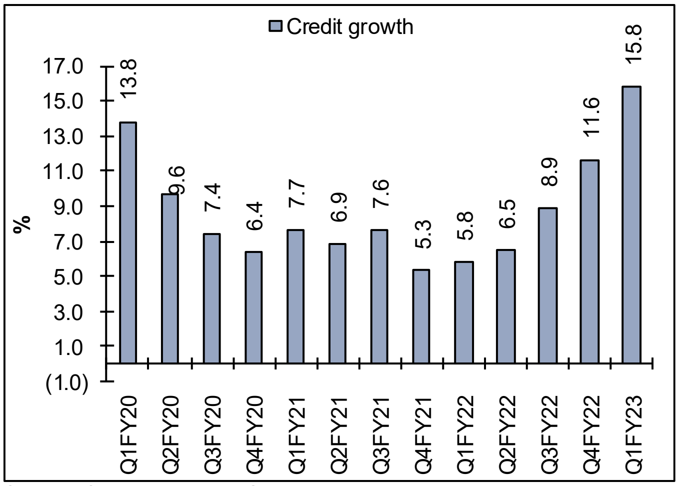
Opex and fee income

- Fee income - one very important lever which is forex income was up 89% YoY and even cross-selling income also saw 35% YoY growth
- Forex income of Rs 15bn was broad based, granular and there was no one-off
- Loan processing fees saw 66% QoQ growth due to renewal of loans during last quarter, which resulted in higher loan processing charges

Miscellaneous

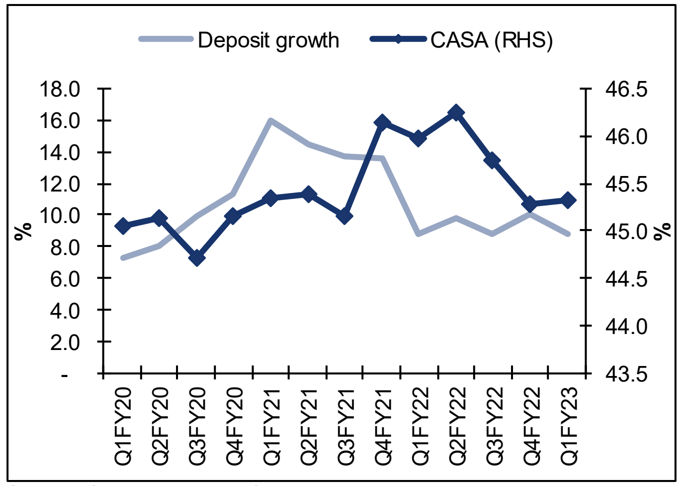
- ***Of ~Rs 40trn treasury, AFS is Rs 5.6trn and duration is 2.08, while rest is HTM***
- ~26k SA on a daily basis were opened through YONO in Q4
- YONO has 48.3mn registered customers and have created a significant business value for the bank

Chart 4: Advances grew 3% QoQ and 15.8% YoY primarily led by retail and overseas advances



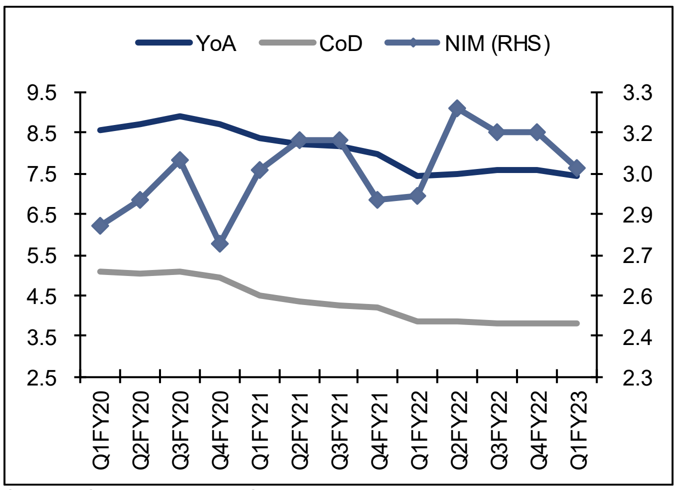
Source: Company data, I-Sec research

Chart 5: Deposit growth moderates



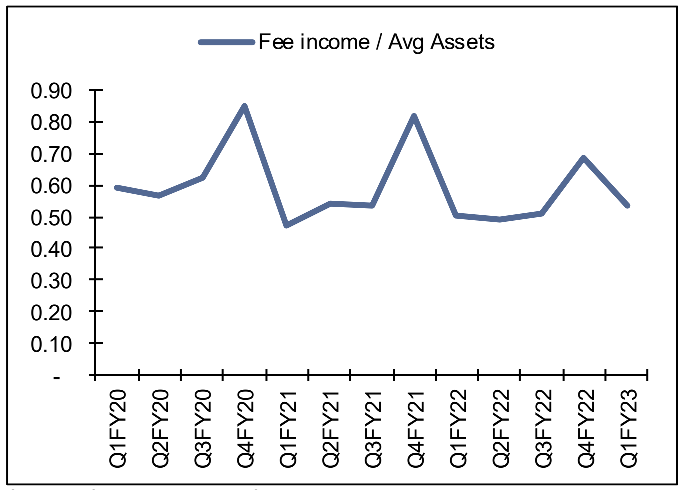
Source: Company data, I-Sec research

Chart 6: NIMs down 13bps QoQ as yield moderate and NII was just flat QoQ



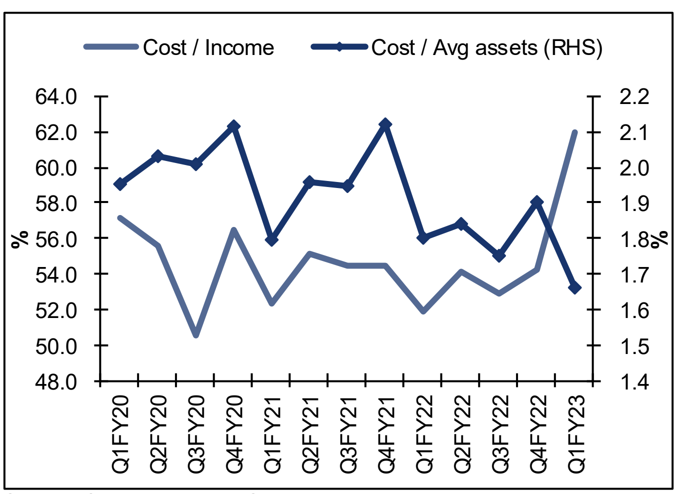
Source: Company data, I-Sec research

Chart 7: Fee income hover at 50-70 bps of assets



Source: Company data, I-Sec research

Chart 8: Opex was flat YoY/down 11% QoQ; cost to assets thereby settled at 1.66%



Source: Company data, I-Sec research

Chart 9: RoA to inch higher gradually

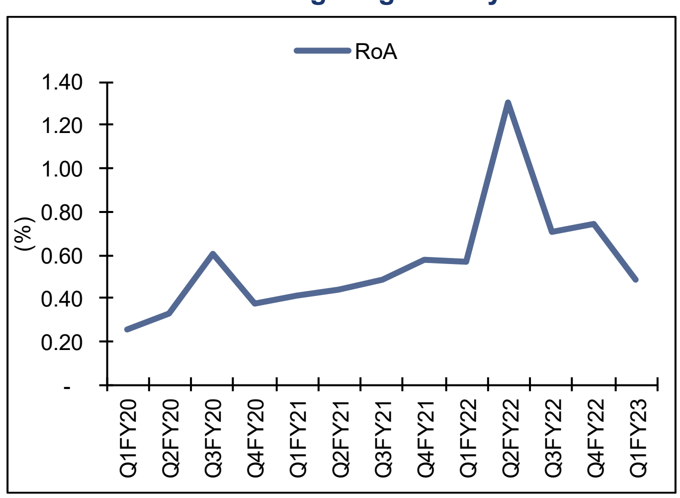
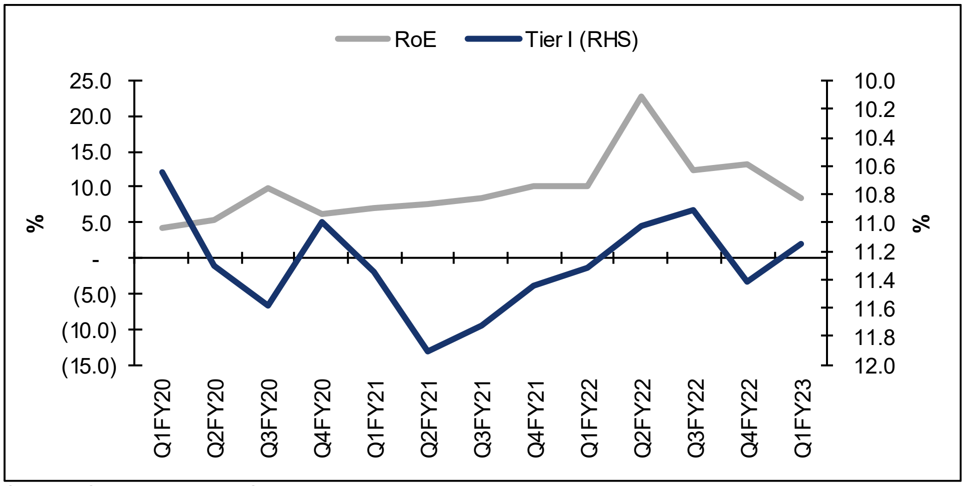


Chart 10: RoE dragged by MTM loss



Source: Company data, I-Sec research

Financial summary

Table 7: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Interest Income	7,51,990	7,48,537	8,83,489	9,80,848	11,07,106	12,07,063	13,90,121	16,10,232
% Growth	31	(0)	18	11	13	9	15	16
Fee income	2,13,890	2,29,968	2,33,039	2,37,250	2,35,180	2,45,640	2,75,117	3,13,633
Add: Other income	2,12,480	1,61,677	1,34,710	2,14,964	1,84,386	1,59,999	1,52,757	1,83,548
Total Net Income	**11,78,360**	**11,40,182**	**12,51,238**	**14,33,062**	**15,26,673**	**16,12,702**	**18,17,994**	**21,07,413**
% Growth	39	(3)	10	15	7	6	13	16
Less: Operating Expenses	(5,83,770)	(5,99,434)	(7,29,000)	(7,51,737)	(8,26,659)	(8,59,791)	(9,45,770)	(10,67,147)
Pre-provision operting profit	**5,94,590**	**5,40,748**	**5,22,237**	**6,81,325**	**7,00,014**	**7,52,911**	**8,72,224**	**10,40,267**
NPA Provisions	**(5,54,210)**	**(7,13,742)**	**(5,45,291)**	**(4,27,760)**	**(2,72,444)**	**(1,40,869)**	**(2,59,727)**	**(3,02,075)**
Other provisions	(53,030)	(36,650)	7,005	(2,950)	(1,67,690)	(1,03,660)	(20,000)	(20,000)
Exceptional item	(38,420)	54,362	15,606	62,156	15,397	-	-	-
PBT	**(51,070)**	**(1,55,283)**	**(443)**	**3,12,772**	**2,75,277**	**5,08,382**	**5,92,497**	**7,18,191**
Less: taxes	(5,410)	89,808	(7,453)	(1,05,747)	(71,177)	(1,17,459)	(1,49,132)	(1,80,769)
Reported profit	**(56,480)**	**(65,475)**	**(7,896)**	**2,07,026**	**2,04,101**	**3,90,924**	**4,43,366**	**5,37,423**
% Growth	(157)	16	(88)	(2,722)	(1)	92	13	21

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	8,110	8,925	8,925	8,925	8,925	8,925	8,925	8,925
Reserve & Surplus	21,10,016	21,82,361	22,00,214	23,11,150	25,29,827	27,91,956	32,35,322	37,72,744
Deposits	2,58,53,203	2,70,63,433	2,91,13,860	3,24,16,207	3,68,12,771	4,05,15,341	4,51,74,605	5,10,47,304
Borrowings	33,21,057	36,21,421	40,30,171	31,46,557	41,72,977	42,60,434	45,41,323	49,30,755
Other liabilities	17,56,232	16,71,381	14,55,973	16,31,101	18,19,797	22,99,319	24,14,284	25,34,999
Total liabilities	**3,30,48,618**	**3,45,47,520**	**3,68,09,143**	**3,95,13,939**	**4,53,44,296**	**4,98,75,974**	**5,53,74,459**	**6,22,94,726**
Cash & Bank Balances	27,08,617	19,18,986	22,24,901	25,10,970	34,30,387	39,45,523	36,87,541	37,64,549
Investment	93,29,267	1,06,09,867	96,70,220	1,04,69,545	1,35,17,052	1,48,14,455	1,66,66,262	1,89,16,207
Advances	1,86,89,626	1,93,48,802	2,18,58,769	2,32,52,896	2,44,94,978	2,73,39,666	3,09,82,061	3,57,20,238
Fixed Assets	4,99,064	3,99,923	3,91,976	3,84,393	3,84,192	3,77,082	3,80,852	3,84,661
Other Assets	18,22,043	22,69,942	26,63,277	28,96,136	35,17,687	33,99,249	36,57,742	35,09,072
Total Assets	**3,30,48,618**	**3,45,47,520**	**3,68,09,143**	**3,95,13,939**	**4,53,44,296**	**4,98,75,974**	**5,53,74,459**	**6,22,94,726**
% Growth	46.3	4.5	6.5	7.3	14.8	10.0	11.0	12.5

Source: Company data, I-Sec research

Table 9: DuPont analysis

(%, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest income	8.1	6.5	6.8	6.7	6.2	5.8	6.0	6.2
Interest expense	(5.3)	(4.3)	(4.3)	(4.2)	(3.6)	(3.3)	(3.3)	(3.4)
NII	**2.7**	**2.2**	**2.5**	**2.6**	**2.6**	**2.5**	**2.6**	**2.7**
Other income	0.8	0.5	0.4	0.6	0.4	0.3	0.3	0.3
Fee income	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.5
Total income	**4.2**	**3.4**	**3.5**	**3.8**	**3.6**	**3.4**	**3.5**	**3.6**
Operating expenses	(2.1)	(1.8)	(2.0)	(2.0)	(1.9)	(1.8)	(1.8)	(1.8)
Operating profit	**2.1**	**1.6**	**1.5**	**1.8**	**1.6**	**1.6**	**1.7**	**1.8**
NPA provision	**(2.0)**	**(2.1)**	**(1.5)**	**(1.1)**	**(0.6)**	**(0.3)**	**(0.5)**	**(0.5)**
Total provisions	(0.2)	(0.1)	0.0	(0.0)	(0.4)	(0.2)	(0.0)	(0.0)
PBT	**(0.0)**	**(0.6)**	**(0.0)**	**0.7**	**0.6**	**1.1**	**1.1**	**1.2**
Tax	(0.0)	0.3	(0.0)	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)
PAT	**(0.1)**	**(0.4)**	**(0.1)**	**0.4**	**0.4**	**0.8**	**0.8**	**0.9**

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS – Diluted (Rs)	-7.2	-7.3	-2.6	23.2	22.9	43.8	49.7	60.2
% Growth	-156	1	-64	-980.9	-1.4	91.5	13.4	21.2
DPS (Rs)	-	-	(0.50)	-	-	7.1	9.4	11.4
Book Value per share (BVPS) (Rs)	201	218	215	227	252	281	331	391
% Growth	6.7	8.4	-1.3	5.8	10.8	11.7	17.7	18.2
Adjusted BVPS (Rs)	82	112	147	171	209	245	296	357
% Growth	-20	37	31	16	22	18	21	20
Valuations								
Price / Earnings (x)	-49.0	-48.3	-134.6	15.3	15.5	8.1	7.1	5.9
Price / Book (x)	1.8	1.6	1.6	1.6	1.4	1.3	1.1	0.9
Price / Adjusted BV (x)	4.3	3.2	2.4	2.1	1.7	1.4	1.2	1.0
Asset Quality								
Gross NPA (Rs mn)	17,78,660	22,34,270	17,27,500	14,90,920	12,63,890	11,20,234	11,23,752	11,57,956
Gross NPA (%)	9.1	10.9	7.5	6.2	5.0	4.0	3.5	3.2
Net NPA (Rs mn)	9,69,780	11,08,548	6,58,948	5,18,710	3,68,100	2,79,657	2,62,139	2,57,969
Net NPA (%)	5.2	5.7	3.0	2.2	1.5	1.0	0.8	0.7
NPA Coverage ratio (%)	45	50	62	65	71	75	77	78
Gross Slippages (%)	7.7	5.1	1.9	2.4	1.2	1.1	1.4	1.3
Credit Cost (%)	3.5	3.8	2.5	1.8	1.8	0.9	0.9	0.9
Net NPL/Net worth	46	51	30	22	14	10	8	7
Business ratios (%)								
ROAA	(0.2)	(0.2)	(0.1)	0.5	0.5	0.8	0.8	0.9
ROAE	(3.8)	(3.7)	(1.2)	10.5	9.5	16.4	16.2	16.7
ROAA (Excl. Exceptional item)	(0.1)	(0.4)	(0.1)	0.4	0.4	0.8	0.8	0.9
ROAE (Excl. Exceptional item)	(1.1)	(6.5)	(1.2)	10.5	9.5	16.4	16.2	16.7
Credit Growth	27.7	3.5	13.0	6.4	5.3	11.6	13.3	15.3
Deposits Growth	49.4	4.7	7.6	11.3	13.6	10.1	11.5	13.0
CASA	43.7	44.5	44.2	43.5	44.7	43.8	44.8	45.5
Credit / Deposit Ratio	72.3	71.5	75.1	71.7	66.5	67.5	68.6	70.0
Cost-Income ratio	49.5	53	59	52	54	53	52	51
Operating Cost / Avr. Assets	2.1	1.8	2.0	2.0	1.9	1.8	1.8	1.8
Fee Income / Total Income	18	20	19	17	15	15	15	15
Earnings ratios								
Yield on Advances	9.3	7.4	7.8	8.0	7.2	6.6	6.8	6.9
Yield on Earning Assets	8.6	7.0	7.4	7.4	6.8	6.3	6.4	6.6
Cost of Deposits	6.4	5.1	5.0	4.8	4.1	3.7	3.8	3.9
Cost of Funds	6.1	4.9	4.9	4.7	4.1	3.6	3.7	3.8
NIM	2.9	2.4	2.7	2.8	2.9	2.8	2.9	2.9
Capital Adequacy (%)								
RWA (Rs mn)	1,76,71,185	1,89,00,948	1,92,69,586	2,09,89,805	2,31,40,217	2,54,50,512	2,85,68,258	3,20,96,040
Tier I	10.1	10.4	10.7	11.0	10.2	10.3	10.6	11.0
CAR	12.9	12.6	12.7	13.1	13.3	11.2	11.5	11.9

Source: Company data, I-Sec research

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