27th Nov '24 - SBI Q2FY25 - Why should SBI and ICICI Bank be your preferred picks?

Q2FY25 results review: (results were announced on 8th Nov 2024)

1. NII (Net Interest Income) rises 5% YoY to ₹41,620 crore.
    a. Loan growth was slower due to the rise in the cost of deposits outpacing the yield on advances.
    b. Total Interest Income grew by 12.3% YoY to ₹1.14 lakh crore.
2. Other Income grew by 41.5% YoY to ₹15,270 crore.
3. PPOP (Pre-Provision Operating Profit) rises by 51% YoY to ₹29,294 crore.
4. NIMs (Net Interest Margins) declined by 15 bps YoY to 3.14%
    a. The management says the NIM compression has been contained.
5. Net Profit rises 28% YoY to ₹18,331 crore.
6. Asset Quality:
    a. GNPA improved to 2.13%
    b. NNPA improved to 0.53%
7. Provision Coverage Ratio improved by 21 bps YoY to 75.66%. CAR (Capital Adequacy Ratio) stood at 13.76%.
8. Deposits:
    a. Deposits grew by 9% YoY to ₹51.17 lakh crore. The management says they are targeting 12-13% deposit growth but will probably not be able to reach that by FY25.
    b. Current Account deposits (up 10% YoY) stood at ₹2.78 lakh crore whereas Savings Account deposits (up 3.3% YoY) stood at ₹16.88 lakh crore.
    c. Domestic CD ratio is at 67.8%. The management says they'll focus on increasing the share of CASA.
    d. Deposit growth for the system is expected at 11-13%. Interest rates on deposits have peaked as well.
9. Advances:
    a. Gross advances grew by 15% YoY to ₹39.2 lakh crore.
    b. Domestic corporate loan book increased to ₹11.57 lakh crore. SME credit grew by 17.3%. The management says they have a corporate pipeline of ₹6 lakh crore.

c. Credit Costs rose by 16 bps YoY to 0.38%
d. Credit growth for the system is expected at 13-14%.

Intrinsic Value (as on 27th November 2024)
State Bank of India (SBIN) has continued to outperform every Nifty Bank index constituent. SBI and ICICI Bank are better positioned to navigate the stress regarding declining NIMs, rising defaults in unsecured lending and the tightening from the RBI. Both these banks have managed to improve their NPAs.

The management of SBIN is also expecting some ease in the operating environment going forward. Given SBI's sheer size, leading market share, improved return ratios and decade best asset quality ratios, SBI commands a premium valuation.

The current valuation of the SBIN stock stands at ₹852 per share at 10.4x Current TTM EPS including a well deserved 10% premium. The current price of the stock is ₹838 per share.

The SBIN stock looks good for a target of ₹966 per share based on 10.4x FY25E EPS including the premium citing many tailwinds in action and its outperformance of all its PSU peers and many private banks.

Analysts Recommendations:

1. Nomura
   Buy with a target of ₹1,050 (earlier ₹980)

2. Jefferies
   Buy with a target of ₹1,030 (earlier ₹1,000)
   They say SBI has been able to sustain a strong quality of retail book, including unsecured loans. SBI's plans to improve deposit growth will aid earrings in H2FY25. It also emphasises improvements in LDR.

3. Prabhudas Lilladher
   Buy with a SOTP target of ₹1,025 (earlier ₹960) based on 1.5x Sep '26 Book Value.

4. Sharekhan
   Buy with an unchanged target of ₹975 based on 1.2x FY25E Book Value
   They say SBI is confident to deliver 14 - 16% loan growth and sustain RoA of 1%.

5. KR Choksey
   Buy with a target of ₹1,020 (earlier ₹1,010) based on 1.5x FY26E Book Value.

6. Motilal Oswal
   Buy with a target of ₹1,000 based on 1.5x FY26E Book Value.
   They expect SBI to maintain earnings and estimate FY26 RoA and RoE of 1.1% and 17.4% respectively. SBI remains their preferred stock in the PSU banking space.

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