

Pick of the week



State Bank of India

Recommendation

BUY

Time Period

12 Months

Current Price

₹ 431

Target Price

₹ 550

Potential Upside

28.0%

Investment Argument

- SBI is our top pick among PSU banks. It is well positioned to emerge from the pandemic stronger.
- Asset Quality held up well in Q1FY22. Fresh impairments in the quarter held up closer to best-in-class banks. The retail book that is tested currently has lower impact of impairment.
- The bank has a high coverage ratio and the risk of disappointment is low. It also has an additional provision buffer of ~1%. Any large slippage can be absorbed with less stress.
- We expect a much better translation of operating profit to net profit led by lower credit costs resulting in strong recovery in RoEs. We expect it to be more aggressive on growth from hereon.
- We value the bank at Rs. 550 - 1.3x (adj) book value and 8x FY23 EPS - for RoEs in the range of ~13-14%.