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CC/S&B/AND/2024-25/036

16.04.2024

Madam / Sir,

**Disclosure under Regulation 30 of SEBI (LODR) Regulations, 2015:
Fitch Credit Rating**

Pursuant to Regulation 30 and other applicable Regulations of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we advise that Fitch Ratings has affirmed State Bank of India's (SBI) Long-Term Issuer Default Rating (IDR) at '**BBB-**'. Fitch has also affirmed the bank's Viability Rating (VR) at '**bb**' and its Government Support Rating (GSR) at '**bbb-**'. The outlook on the SBI's rating remains **Stable**. (Report attached)

Particulars	To	From
Long-Term IDR	BBB-	BBB-
Short-Term IDR	F3	F3
Viability	bb	bb
Government Support	bbb-	bbb-
Long-Term IDR (xgs)	BB (xgs)	BB (xgs)
Short-Term IDR (xgs)	B (xgs)	B (xgs)
Senior unsecured: Long-term	BBB-	BBB-
Senior unsecured: Long-term (xgs)	BB (xgs)	BB (xgs)

This is for your information and record.

Yours faithfully,



(Aruna Nitin Dak)
AGM (Compliance & Company Secretary)
Encl: A/a

RATING ACTION COMMENTARY

Fitch Affirms State Bank of India at 'BBB-'; Outlook Stable

Tue 16 Apr, 2024 - 4:18 AM ET

Fitch Ratings - Singapore/Mumbai - 16 Apr 2024: Fitch Ratings has affirmed State Bank of India's (SBI) Long-Term Issuer Default Rating (IDR) at 'BBB-'. The Outlook is Stable. Fitch has also affirmed the bank's Viability Rating (VR) at 'bb' and Government Support Rating (GSR) of 'bbb-'. A full list of rating actions is below.

KEY RATING DRIVERS

Government Support Underpins IDR: SBI's IDR and GSR are at the same level as India's sovereign rating (BBB-/Stable), reflecting Fitch's view that SBI has the highest probability of extraordinary state support among Indian banks, if required. This takes into consideration SBI's market position as the largest Indian bank, the state's 56.9% controlling ownership and its broader policy role than peers. The Stable Outlook on the IDR mirrors that on the sovereign IDR.

Supportive Operating Environment: The operating environment (OE) score of 'bb+', which is higher than Fitch's implied score of 'b' category, takes into account our view of India's robust medium-term growth potential. Fitch expects GDP growth of 7% in 2024 and 6.5% in 2025, supported by investment prospects. The economy remains resilient as healthy business sentiment, buoyant financial markets and the government's capital spending buffered global economic headwinds and inflation. These factors are conducive for banks to sustain profitable business, provided risks are well-managed.

Dominant Presence: SBI's business profile score of 'bbb-' is the highest among Indian banks. This reflects our view of SBI's ability to generate business consistently through the cycle while managing risk better than peer state banks. It also reflects the competitive advantages of its dominant size and market share and unparalleled domestic reach that offset the sector's limited pricing power. Still, government influence can weigh on SBI's

traditional business model - loans are about 60% of assets - and even more so on its risk appetite, similar to other state banks.

Double-Digit Loan Growth: SBI's risk profile score of 'bb' takes into consideration its advantage over peers in portfolio selection due to scale, brand loyalty and widespread presence. We believe that the bank's appetite for risk has been higher than is typical for a bank with its market position - despite total loan growth slowing to 14.5% yoy in 9MFY24, from 16% in the financial year ended March 2023 (FY23). Its appetite for risk exacerbated the negative effects on financial metrics during the previous challenging OE, and can weigh on our assessment of the overall VR if new, untested risks are not managed well.

Lower Impaired-Loan Ratio: We have revised SBI's asset quality score to 'bb/stable', from 'bb-/positive', to reflect the bank's better impaired-loan ratio. We expect the impaired-loan ratio to improve to 2.0% by FY25, after falling to 2.4% in 9MFY24, from 2.8% in FY23, as recoveries and write-offs more than offset new bad loans, amid a growing loan base. Loan impairment charges should remain muted (9MFY24: 0.2%) given low levels of restructured loans (0.3% of loans) and overdue loans (30-90 days; 0.1% of loans).

Strengthened Core Profitability: Profitability has continued to improve, with the operating profit/risk-weighted asset (RWA) ratio reaching 2.6% in 9MFY24, from 2.4% in FY23. This was driven by a sharp drop in loan impairment charges, which more than offset a mild contraction in the net interest margin, higher wage and pension provisions and risk density. We expect profitability to be maintained around these levels to FY26.

Modest Capital Buffers: We expect SBI's common equity Tier 1 (CET1) ratio to remain broadly steady at around 10.5% over the next two years; 9MFY24 was 10.4% after including quarterly earnings. This leaves modest buffers over the required 8.6% minimum ratio. Risks to core capital ratios appear to have eased, as reflected in the single digit net impaired loans/CET1 ratio, but capital remains vulnerable to unexpected losses considering SBI's risk appetite. SBI has no immediate plans to raise fresh equity, however, its access to capital markets is strongest among peers, in Fitch's view.

Deposits Dominate Funding: SBI's funding and liquidity are strengths of its intrinsic credit profile. The share of customer deposits in total funding remained high at 90%. The loan/customer deposit ratio rose slightly to around 75% in 9MFY24 (per preliminary disclosures), from 74% at FYE23. Balance sheet liquidity is robust, considering the liquidity coverage ratio of 138% and net stable funding ratio of 113%.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

IDRs AND GOVERNMENT SUPPORT RATING

The IDR and GSR are most sensitive to Fitch's assessment of the government's propensity and ability to support SBI, based on the bank's size, systemic importance and linkage to the state. Weakening of the government's ability to provide extraordinary support - reflected by negative action on India's sovereign rating - would lead to similar action on the Long-Term IDR.

Negative action on the Long-Term IDR is also likely should Fitch perceive any material reduction in the government's propensity to extend timely support, in which case the agency will reassess the GSR and the bank's Long-Term IDR, although that is not our base case.

The Short-term IDR is mapped to the bank's Long-term IDR, in line with Fitch's criteria, and will lead to a negative action if the Long-term IDR is downgraded.

VIABILITY RATING

Fitch views SBI's VR - which reflects a moderate degree of financial strength - as reasonably stable in the near term, but it could be downgraded if there is significant deterioration in the OE, or if a heightened risk profile were to become a more binding constraint on the bank's moderate capital buffers.

Deterioration in the OE could manifest through a weakening in all of the following key financial metrics, assuming our assessment of the business profile remains unchanged:

- a drop in SBI's CET1 ratio below 10%, irrespective of its capital fungibility and flexibility, and without a credible plan to restore it above the 'bb' CET1 ratio threshold;
- four-year average of the impaired-loan ratio approaching 5% (FY23: average of 4.4%, but trending towards 2%); and
- four-year average of the operating profit/RWA ratio being sustained below 1.25% (FY23: average of 1.8%).

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

IDR AND GOVERNMENT SUPPORT RATING

Positive sovereign rating action would lead to corresponding changes to SBI's Long-Term IDR, provided the sovereign's propensity to support remains unchanged. An upgrade to SBI's GSR is more probable in the event of a sovereign upgrade than for the other large state banks.

SBI is significantly larger than the others and has a broader quasi-policy role, which makes it strategically important to the state. However, an upgrade of the sovereign rating appears unlikely in the near term.

The bank's Short-Term IDR may also be upgraded in the event that the sovereign's Short-Term IDR is upgraded. If the bank's Long-Term IDR is upgraded based on a strengthening of its VR, any upgrade of the bank's Short-Term IDR would be contingent on our assessment of the funding and liquidity score being at least 'bbb+', which is two notches above our current assessment. We do not foresee this possibility in the medium term.

VIABILITY RATING

A VR upgrade is likely if there is sustainable improvement in the bank's asset quality and capitalisation. It could manifest through the following stronger key financial metrics, assuming no changes to our assessment of the OE score:

- SBI sustaining a four-year average impaired-loan ratio closer to 1%;
- Fresh equity injection that supports the accumulation and sustaining of capital buffers at or above 15%.

At the same time, evidence that SBI can sustain recent reductions in its risk appetite and demonstrate an ability to generate stronger earnings, such as four-year operating profit/RWA ratio closer to, or above 2% on a sustained basis, without compromising its risk profile could be positive for its overall VR.

The VR could also move up if the OE score is revised up to 'bbb-', although we do not see it as likely in the near-future.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

The bank's medium-term note programme and senior notes are rated at the same level as the Long-Term IDR, in line with Fitch's criteria. The notes constitute direct, unsubordinated and unsecured obligations of the banks, and rank equally with all their other unsecured and unsubordinated obligations.

The Long-Term IDR (xgs) is driven by its VR, while its Short-Term IDR (xgs) is in accordance with its Long-Term IDR (xgs) and the short-term rating mapping outlined in Fitch's criteria. Senior unsecured long-term ratings (xgs) are assigned at the level of Long-Term IDR (xgs).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

SBI's programme rating and senior debt rating will move in tandem with the IDR. Both ratings would be downgraded if the Long-Term IDR is downgraded. They would be upgraded in the event the IDR is upgraded, although we view this to be unlikely in the near term.

SBI's Long-Term IDR (xgs) will move in tandem with the bank's VR. SBI's Short-Term IDR (xgs) is primarily sensitive to changes in the bank's Long-Term IDR (xgs) and would be mapped as per Fitch's criteria. A change in SBI's Long-Term IDR (xgs) would lead to a similar change in its senior unsecured long-term ratings (xgs).

VR ADJUSTMENTS

The OE score of 'bb+' is above the implied category of 'b' for the following adjustment reasons: economic performance, and size and structure of the economy (positive).

The capitalisation and leverage score of 'bb-' is above the implied category of 'b' for the following adjustment reason: capital flexibility and ordinary support (positive).

The funding and liquidity score of 'bbb-' is above the implied category of 'bb' for the following reason: deposit structure (positive).

Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

SBI's IDRs and the Outlook are the same as India's sovereign ratings and directly linked via the bank's GSR. This reflects our view of the probability of extraordinary state support, if needed.

ESG CONSIDERATIONS

SBI has an ESG Relevance Score of '4' for Governance Structure, in line with similarly rated Indian state banks. This reflects our assessment that key governance aspects - particularly board independence and effectiveness, ownership concentration, and protection of creditor and stakeholder rights - are of moderate influence yet are negative for SBI's credit profile, and are relevant to the ratings in conjunction with other factors.

Fitch views SBI's governance to be less developed, similar to other state banks, as evident from significant lending to higher-risk borrowers and segments which had led to above-average levels of impaired loans and credit losses. The board is also dominated by government appointees, and the bank's business models often focus on supporting government policy, while it already has a healthy appetite for risk. Lending could be directed towards socioeconomic and economic policies, and may include lending to government-owned companies. These factors also drive our view of the bank's state linkages, which influence support prospects and drive the long-term ratings.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅	PRIOR ⇅
State Bank of India	LT IDR BBB- Rating Outlook Stable	BBB- Rating Outlook Stable
	Affirmed	

	ST IDR	F3	Affirmed	F3
	Viability	bb	Affirmed	bb
	Government Support	bbb-	Affirmed	bbb-
	LT IDR (xgs)	BB(xgs)	Affirmed	BB(xgs)
	ST IDR (xgs)	B(xgs)	Affirmed	B(xgs)
senior unsecured	LT	BBB-	Affirmed	BBB-
senior unsecured	LT (xgs)	BB(xgs)	Affirmed	BB(xgs)

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 16 Mar 2024\) \(including rating assumption sensitivity\)](#)

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State Bank of India

EU Endorsed, UK Endorsed

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