

|                 |   |
|-----------------|---|
| Estimate change | ↔ |
| TP change       | ↓ |
| Rating change   | ↔ |

|                       |             |
|-----------------------|-------------|
| Bloomberg             | FB IN       |
| Equity Shares (m)     | 2110        |
| M.Cap.(INRb)/(USD\$)  | 270.5 / 3.3 |
| 52-Week Range (INR)   | 143 / 83    |
| 1, 6, 12 Rel. Per (%) | -3/-6/28    |
| 12M Avg Val (INR M)   | 1614        |

## Financials & Valuations (INR b)

| Y/E Mar      | FY23 | FY24E | FY25E |
|--------------|------|-------|-------|
| NII          | 72.3 | 82.5  | 98.0  |
| OP           | 47.9 | 56.1  | 67.6  |
| NP           | 30.1 | 35.4  | 41.8  |
| NIM (%)      | 3.4  | 3.3   | 3.3   |
| EPS (INR)    | 14.3 | 16.7  | 19.8  |
| EPS Gr. (%)  | 54.8 | 17.3  | 18.0  |
| BV/Sh. (INR) | 102  | 116   | 134   |
| ABV/Sh. INR) | 94   | 108   | 124   |

## Ratios

|         |      |      |      |
|---------|------|------|------|
| ROE (%) | 14.9 | 15.4 | 15.8 |
| ROA (%) | 1.3  | 1.3  | 1.3  |

## Valuations

|           |     |     |     |
|-----------|-----|-----|-----|
| P/E(X)    | 9.0 | 7.6 | 6.5 |
| P/BV (X)  | 1.3 | 1.1 | 1.0 |
| P/ABV (X) | 1.4 | 1.2 | 1.0 |

## Shareholding pattern (%)

| As On    | Mar-23 | Dec-22 | Mar-22 |
|----------|--------|--------|--------|
| Promoter | 0.0    | 0.0    | 0.0    |
| DII      | 43.3   | 41.9   | 42.7   |
| FII      | 27.8   | 28.6   | 27.0   |
| Others   | 28.9   | 29.6   | 30.3   |

FII Includes depository receipts

**CMP: INR128**
**TP: INR155 (+21%)**
**Buy**

## Business growth healthy; margin takes a surprise U-turn

### FY23 RoA improves 36bp YoY to 1.25%

- FB posted a mixed quarter, with an 8% beat in PAT and a 6% miss in NII. PAT grew 67% YoY to INR9b, aided by low provisions. The NII miss was due to an 18bp fall in NIM to 3.31%. FB has prudently increased the PCR to ~71%.
  - Gross advances grew 20.1% YoY, driven by a broad-based pickup in all business segments. Deposit growth too was healthy, aided by strong traction in term deposits. Thus, the CASA ratio moderated to 32.7%.
  - Slippages came in at INR4.5b (~1.0% of loans), led by a QoQ increase in the Agri and SME segments. GNPA/NNPA ratios declined to 2.36%/0.69%, while restructured loans too improved ~20bp QoQ to ~1.6%.
  - FB reported RoA/RoE of 1.45%/17.5% in 4QFY23. We broadly maintain our estimates as controlled credit costs and healthy other income compensate for a slight drop in NII. We estimate FB to deliver RoA/RoE of 1.3%/15.8% in FY25.
- We reiterate our BUY rating on the stock.**

### Healthy growth across segments; PCR healthy at ~71%

- FB reported a net profit of ~INR9.0b (up 67% YoY; 8% beat), driven by lower provisions (down 41% QoQ). NII grew ~25% YoY to INR19.1b (down 2% QoQ, 6% miss) as margins moderated 18bp QoQ to 3.31%. For FY23, NII/PPoP/PAT grew 21%/28%/59% to INR72.3b/INR47.9b/INR30.1b.
- Core fee income grew 34% YoY (up 11% QoQ), driven by healthy business activity. Treasury gains were strong at INR1.92b.
- Opex saw modest ~10% growth YoY, thus the C/I ratio rose to 49.5% QoQ v/s 48.8% in 3QFY23. PPoP jumped ~67% YoY (core PPOP grew 45% YoY).
- On the business front, gross advances grew 20.1% YoY and 3.7% QoQ to INR1.77t, led by a broad-based pickup across segments. Its corporate portfolio grew 3% QoQ, while Retail, SME and Agri grew 2-6% QoQ. Deposits grew 17% YoY, with CASA up ~4% YoY. The CASA ratio declined to 32.7% (-180bp QoQ), while CASA + Retail deposits stood at 85% v/s 88% QoQ.
- GNPA/NNPA ratios moderated 7bp/4bp QoQ to 2.36%/0.49%, aided by a healthy recovery and upgrades, even as slippages grew QoQ to INR4.5b (~1.0% of loans). PCR improved 80bp QoQ to ~71%. Restructured loans declined to ~INR28.3b (~1.6%).

### Highlights from the management commentary

- In terms of the cost of deposits, a large part of the liability book (~80%) has already been re-priced in 4Q and some of it will be re-priced in 1QFY24.
- Credit growth is expected to be in high teens in FY24, driven by higher growth from new business and fintech partnerships.
- In FY24, FB expects RoA of ~1.3-1.35% and NIM of ~3.3-3.35% (3.31% in 4QFY23), with higher margin in the second half v/s the first half.
- The credit cost is expected to be in the controlled range of ~40-50bp in FY24 (40bp in FY23).
- The C/I ratio moderated to 49% as on 4QFY23 and is expected to moderate by 100bp in FY24.

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Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Valuation and view**

FB reported a mixed 4QFY23, with a beat in net earnings and a miss in NII. The earnings beat was driven by treasury gains and lower provisions, while the NII miss was due to margin compression. Business growth, though, was healthy, led by traction across segments. The liability franchise remains strong, with a retail deposit mix at ~85% and CASA ratio at ~32.7% (but moderated QoQ). The headline asset quality ratio improved, even as slippages came in a tad higher. We broadly maintain our estimates as controlled credit costs and healthy other income compensate for a slight moderation in NII growth. We estimate FB to deliver RoA/RoE of 1.3%/15.8% in FY25. **We reiterate our BUY rating with a TP of INR155 (1.2x Sep'24E ABV).**

**Quarterly performance****(INR m)**

|                             | FY22        |             |             |             | FY23        |             |             |             | FY22        | FY23        | FY23E       | V/s our     |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                             | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | 2Q          | 3Q          | 4Q          |             |             | 4QE         | Est.        |
| <b>Net Interest Income</b>  | <b>14.2</b> | <b>14.8</b> | <b>15.4</b> | <b>15.3</b> | <b>16.0</b> | <b>17.6</b> | <b>19.6</b> | <b>19.1</b> | <b>59.6</b> | <b>72.3</b> | <b>20.3</b> | <b>-6.0</b> |
| % Change (YoY)              | 9.4         | 7.2         | 7.1         | 7.4         | 13.1        | 19.1        | 27.1        | 25.2        | 7.7         | 21.3        | 33.2        |             |
| Other Income                | 6.5         | 4.9         | 4.8         | 4.7         | 4.5         | 6.1         | 5.3         | 7.3         | 20.9        | 23.3        | 5.8         | 27.3        |
| <b>Total Income</b>         | <b>20.7</b> | <b>19.7</b> | <b>20.2</b> | <b>19.9</b> | <b>20.6</b> | <b>23.7</b> | <b>24.9</b> | <b>26.4</b> | <b>80.5</b> | <b>95.6</b> | <b>26.1</b> | <b>1.3</b>  |
| Operating Expenses          | 9.3         | 10.6        | 11.1        | 11.9        | 10.8        | 11.6        | 12.2        | 13.1        | 42.9        | 47.7        | 12.6        | 4.0         |
| <b>Operating Profit</b>     | <b>11.3</b> | <b>9.1</b>  | <b>9.1</b>  | <b>8.0</b>  | <b>9.7</b>  | <b>12.1</b> | <b>12.7</b> | <b>13.3</b> | <b>37.6</b> | <b>47.9</b> | <b>13.5</b> | <b>-1.1</b> |
| % Change (YoY)              | 21.5        | -3.6        | -4.4        | -11.0       | -14.1       | 32.9        | 39.4        | 67.2        | -1.1        | 27.6        | 69.1        |             |
| Provisions                  | 6.4         | 2.9         | 2.1         | 0.8         | 1.7         | 2.7         | 2.0         | 1.2         | 12.2        | 7.5         | 2.2         | -47.7       |
| <b>Profit before Tax</b>    | <b>4.9</b>  | <b>6.2</b>  | <b>7.0</b>  | <b>7.2</b>  | <b>8.1</b>  | <b>9.4</b>  | <b>10.8</b> | <b>12.2</b> | <b>25.4</b> | <b>40.4</b> | <b>11.3</b> | <b>8.1</b>  |
| Tax                         | 1.3         | 1.6         | 1.8         | 1.8         | 2.1         | 2.4         | 2.7         | 3.2         | 6.5         | 10.3        | 2.9         | 8.9         |
| <b>Net Profit</b>           | <b>3.7</b>  | <b>4.6</b>  | <b>5.2</b>  | <b>5.4</b>  | <b>6.0</b>  | <b>7.0</b>  | <b>8.0</b>  | <b>9.0</b>  | <b>18.9</b> | <b>30.1</b> | <b>8.4</b>  | <b>7.8</b>  |
| % Change (YoY)              | -8.4        | 49.6        | 29.1        | 13.1        | 63.5        | 52.9        | 54.0        | 67.0        | 18.8        | 59.3        | 54.9        |             |
| <b>Operating Parameters</b> |             |             |             |             |             |             |             |             |             |             |             |             |
| Deposit (INR b)             | 1,694       | 1,720       | 1,754       | 1,817       | 1,834       | 1,891       | 2,014       | 2,134       | 1,817       | 2,134       | 2,134       | 0.0         |
| Loan (INR b)                | 1,298       | 1,344       | 1,407       | 1,449       | 1,517       | 1,612       | 1,682       | 1,744       | 1,449       | 1,744       | 1,742       | 0.1         |
| Deposit Growth (%)          | 9.3         | 9.7         | 8.5         | 5.2         | 8.2         | 10.0        | 14.8        | 17.4        | 5.2         | 17.4        | 17.4        | 0.0         |
| Loan Growth (%)             | 7.0         | 9.4         | 12.1        | 9.9         | 16.9        | 20.0        | 19.5        | 20.4        | 9.9         | 20.4        | 20.2        | 0.2         |
| <b>Asset Quality</b>        |             |             |             |             |             |             |             |             |             |             |             |             |
| Gross NPA (%)               | 3.5         | 3.2         | 3.1         | 2.8         | 2.7         | 2.5         | 2.4         | 2.4         | 2.8         | 2.4         | 2.3         | 0.0         |
| Net NPA (%)                 | 1.2         | 1.1         | 1.1         | 1.0         | 0.9         | 0.8         | 0.7         | 0.7         | 1.0         | 0.7         | 0.7         | 0.0         |
| PCR (%)                     | 65.7        | 66.2        | 66.6        | 66.3        | 65.8        | 68.7        | 70.4        | 71.2        | 66.3        | 71.2        | 70.3        | 0.9         |

E: MOFSL estimates

## Quarterly snapshot

|                          | FY21   |        |        |        | FY22   |        |        |        | FY23   |        |        |        | Change (%)  |        |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|--------|
| Profit and Loss INRm     | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | 3Q     | 4Q     | YoY         | QoQ    |
| Net Interest Income      | 12,964 | 13,799 | 14,370 | 14,204 | 14,184 | 14,794 | 15,389 | 15,252 | 16,045 | 17,618 | 19,565 | 19,093 | 25          | -2     |
| Other Income             | 4,884  | 4,494  | 4,754  | 4,775  | 6,483  | 4,917  | 4,842  | 4,650  | 4,526  | 6,095  | 5,340  | 7,339  | 58          | 37     |
| Trading profits          | 3,040  | 1,620  | 1,190  | 1,150  | 3,940  | 1,190  | 720    | 120    | 120    | 700    | -90    | 1,920  | NM          | NM     |
| Fee Income               | 1,484  | 2,554  | 3,114  | 3,225  | 2,133  | 3,227  | 3,622  | 3,850  | 3,776  | 4,455  | 4,630  | 5,159  | 34          | 11     |
| Total Income             | 17,848 | 18,292 | 19,124 | 18,979 | 20,667 | 19,711 | 20,231 | 19,902 | 20,571 | 23,714 | 24,905 | 26,432 | 33          | 6      |
| Operating Expenses       | 8,524  | 8,827  | 9,560  | 10,007 | 9,334  | 10,590 | 11,088 | 11,920 | 10,838 | 11,591 | 12,163 | 13,086 | 10          | 8      |
| Employee                 | 4,959  | 4,875  | 5,256  | 5,252  | 5,283  | 5,719  | 5,831  | 6,373  | 4,993  | 5,156  | 5,608  | 5,972  | -6          | 6      |
| Others                   | 3,566  | 3,952  | 4,303  | 4,754  | 4,051  | 4,871  | 5,257  | 5,548  | 5,844  | 6,435  | 6,555  | 7,114  | 28          | 9      |
| Operating Profits        | 9,324  | 9,466  | 9,564  | 8,973  | 11,333 | 9,121  | 9,143  | 7,982  | 9,734  | 12,122 | 12,742 | 13,346 | 67          | 5      |
| Core Operating Profits   | 6,284  | 7,846  | 8,374  | 7,823  | 7,393  | 7,931  | 8,423  | 7,862  | 9,614  | 11,422 | 12,832 | 11,426 | 45          | -11    |
| Provisions               | 3,946  | 5,321  | 4,142  | 2,545  | 6,399  | 2,926  | 2,140  | 752    | 1,667  | 2,679  | 1,987  | 1,167  | 55          | -41    |
| NPA provisions           | 2,560  | 1,690  | 3,890  | 7,010  | 4,590  | -650   | 750    | 950    | 1,500  | 2,050  | 1,567  | 796    | -16         | -49    |
| PBT                      | 5,378  | 4,145  | 5,423  | 6,428  | 4,934  | 6,195  | 7,003  | 7,230  | 8,067  | 9,444  | 10,755 | 12,179 | 68          | 13     |
| Taxes                    | 1,370  | 1,069  | 1,382  | 1,650  | 1,261  | 1,592  | 1,786  | 1,824  | 2,060  | 2,407  | 2,719  | 3,153  | 73          | 16     |
| PAT                      | 4,008  | 3,076  | 4,041  | 4,778  | 3,673  | 4,603  | 5,217  | 5,405  | 6,007  | 7,037  | 8,036  | 9,026  | 67          | 12     |
| Balance sheet (INR b)    |        |        |        |        |        |        |        |        |        |        |        |        |             |        |
| Deposits                 | 1,549  | 1,567  | 1,617  | 1,726  | 1,694  | 1,720  | 1,754  | 1,817  | 1,834  | 1,891  | 2,014  | 2,134  | 17          | 6      |
| CASA Deposits            | 496    | 528    | 557    | 584    | 590    | 622    | 643    | 671    | 675    | 689    | 690    | 697    | 4           | 1      |
| % of overall Deposits    | 32.0   | 33.7   | 34.5   | 33.8   | 34.8   | 36.2   | 36.7   | 36.9   | 36.8   | 36.4   | 34.2   | 32.7   | -426        | -156   |
| Retail Deposits          | 1,419  | 1,458  | 1,493  | 1,560  | 1,571  | 1,612  | 1,643  | 1,716  | 1,724  | 1,759  | 1,813  | 1,856  | 8           | 2      |
| % of overall Deposits    | 91.6   | 93.0   | 92.3   | 90.3   | 92.7   | 93.7   | 93.7   | 94.4   | 94.0   | 93.0   | 90.0   | 87.0   | -742        | -300   |
| Investments              | 347    | 363    | 344    | 372    | 374    | 370    | 375    | 392    | 412    | 436    | 463    | 490    | 25          | 6      |
| Advances                 | 1,213  | 1,229  | 1,255  | 1,319  | 1,298  | 1,344  | 1,407  | 1,449  | 1,517  | 1,612  | 1,682  | 1,744  | 20          | 4      |
| Retail                   | 379    | 396    | 422    | 449    | 436    | 443    | 457    | 479    | 499    | 524    | 539    | 561    | 17          | 4      |
| Total Assets             | 1,858  | 1,890  | 1,968  | 2,014  | 2,000  | 2,069  | 2,088  | 2,209  | 2,254  | 2,371  | 2,505  | 2,603  | 18          | 4      |
| Asset Quality (INR m)    |        |        |        |        |        |        |        |        |        |        |        |        |             |        |
| GNPA                     | 36,556 | 35,522 | 34,702 | 46,024 | 46,493 | 44,458 | 44,013 | 41,367 | 41,553 | 40,311 | 41,479 | 41,838 | 1           | 1      |
| NNPA                     | 14,775 | 12,181 | 7,572  | 15,693 | 15,932 | 15,024 | 14,712 | 13,926 | 14,203 | 12,624 | 12,286 | 12,050 | -13         | -2     |
| Slippages                | 1,930  | 100    | 340    | 16,850 | 6,890  | 3,390  | 4,530  | 3,990  | 4,630  | 3,900  | 4,120  | 4,540  | 14          | 10     |
| Ratios                   |        |        |        |        |        |        |        |        |        |        |        |        |             |        |
|                          | FY21   |        |        |        | FY22   |        |        |        | FY23   |        |        |        | Change (bp) |        |
| Asset Quality Ratios (%) | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | 3Q     | 4Q     | YoY         | QoQ    |
| GNPA                     | 3.0    | 2.8    | 2.7    | 3.4    | 3.5    | 3.2    | 3.1    | 2.8    | 2.7    | 2.5    | 2.4    | 2.4    | -44         | -7     |
| NNPA                     | 1.2    | 1.0    | 0.6    | 1.2    | 1.2    | 1.1    | 1.1    | 1.0    | 0.9    | 0.8    | 0.7    | 0.7    | -27         | -4     |
| PCR (Calculated)         | 60     | 66     | 78     | 66     | 66     | 66     | 67     | 66     | 66     | 69     | 70     | 71     | 486         | 82     |
| Slippage Ratio           | 0.7    | 0.0    | 0.1    | 5.3    | 2.2    | 1.1    | 1.4    | 1.2    | 1.3    | 1.1    | 1.0    | 1.0    | -11         | 6      |
| Credit Cost              | 0.9    | 0.6    | 1.3    | 2.2    | 1.5    | -0.2   | 0.2    | 0.3    | 0.4    | 0.6    | 0.4    | 0.2    | -8          | -21    |
| Business Ratios (%)      |        |        |        |        |        |        |        |        |        |        |        |        |             |        |
| Fees to Total Income     | 8.3    | 14.0   | 16.3   | 17.0   | 10.3   | 16.4   | 17.9   | 19.3   | 18.4   | 18.8   | 18.6   | 19.5   | 17.2        | 92.6   |
| Cost to Core Income      | 59.0   | 54.0   | 54.7   | 57.4   | 57.2   | 58.8   | 58.3   | 62.4   | 54.7   | 52.5   | 50.3   | 54.0   | -844.3      | 368.8  |
| Tax Rate                 | 25.5   | 25.8   | 25.5   | 25.7   | 25.6   | 25.7   | 25.5   | 25.2   | 25.5   | 25.5   | 25.3   | 25.9   | 65.6        | 60.7   |
| Loan/Deposit             | 78.3   | 78.4   | 77.6   | 76.4   | 76.6   | 78.1   | 80.2   | 79.8   | 82.7   | 85.2   | 83.5   | 81.8   | 199.0       | -174.7 |
| CAR                      | 14.2   | 14.6   | 14.3   | 14.6   | 14.6   | 15.0   | 14.4   | 15.8   | 14.6   | 13.8   | 13.4   | 14.8   | -96.0       | 146.0  |
| Tier I                   | 13.0   | 13.3   | 13.0   | 13.9   | 13.9   | 14.1   | 13.5   | 14.4   | 13.3   | 12.6   | 12.1   | 13.0   | -141.0      | 89.0   |
| Profitability Ratios (%) |        |        |        |        |        |        |        |        |        |        |        |        |             |        |
| Yield on loans           | 9.0    | 8.9    | 8.7    | 8.4    | 8.2    | 8.1    | 8.0    | 7.9    | 7.9    | 8.3    | 8.8    | 9.1    | 121         | 35     |
| Yield On Investments     | 7.3    | 7.0    | 7.0    | 6.3    | 6.5    | 6.3    | 6.4    | 6.2    | 6.4    | 6.6    | 6.9    | 7.1    | 85          | 18     |
| Yield on Funds           | 8.7    | 8.6    | 8.3    | 7.8    | 7.7    | 7.6    | 7.6    | 7.5    | 7.8    | 8.2    | 8.8    | 9.0    | 151         | 23     |
| Cost of Funds            | 5.2    | 5.0    | 4.6    | 4.3    | 4.3    | 4.2    | 4.1    | 4.0    | 4.1    | 4.3    | 4.5    | 4.8    | 86          | 35     |
| Cost of Deposits         | 5.4    | 5.1    | 4.9    | 4.7    | 4.5    | 4.3    | 4.3    | 4.3    | 4.2    | 4.4    | 4.6    | 5.1    | 84          | 55     |
| NIM                      | 3.1    | 3.1    | 3.2    | 3.2    | 3.2    | 3.2    | 3.3    | 3.2    | 3.2    | 3.3    | 3.5    | 3.3    | 15          | -18    |
| RoA                      | 0.9    | 0.7    | 0.8    | 1.0    | 0.8    | 0.9    | 1.0    | 1.0    | 1.1    | 1.2    | 1.3    | 1.5    | 42          | 12     |
| RoE                      | 10.9   | 8.1    | 10.4   | 12.2   | 9.0    | 10.7   | 11.6   | 11.9   | 12.7   | 14.4   | 15.9   | 17.5   | 555         | 157    |
| Others                   |        |        |        |        |        |        |        |        |        |        |        |        |             |        |
| Branches                 | 1,263  | 1,271  | 1,272  | 1,272  | 1,272  | 1,272  | 1,274  | 1,282  | 1,291  | 1,305  | 1,333  | 1,355  | 7,300       | 2,200  |
| ATMs                     | 1,936  | 1,941  | 1,948  | 1,957  | 1,953  | 1,874  | 1,882  | 1,885  | 1,860  | 1,876  | 1,896  | 1,916  | 3,100       | 2,000  |



## Highlights from the management commentary

### Balance sheet

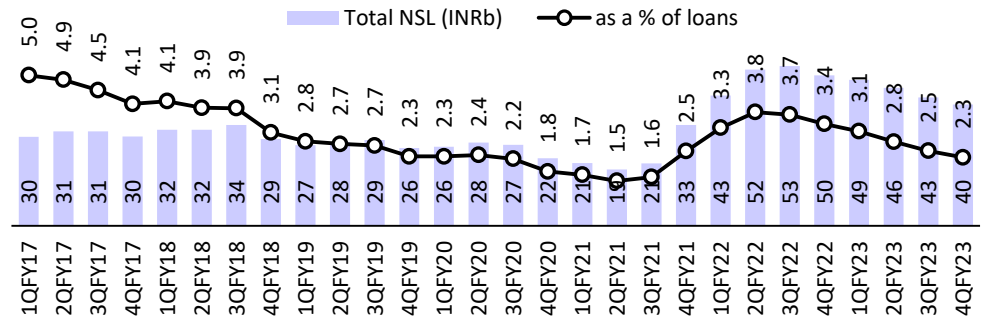
- In terms of the cost of deposits, a large part of the liability book (~80%) has already been re-priced in 4Q and some of it will be re-priced in 1QFY24.
- Credit growth is expected to be in high-teens in FY24, driven by higher growth from new business and fintech partnerships.
- Gold loans are expected to grow ~20-25% in FY24, with the capping of mix at ~15% of loans (~10-11% at present).
- Blended cost of term deposits would be ~6.2%.
- There remains a possibility of further expansion in yields on the MCLR book. ~15% of the book could be re-priced further going ahead.
- RWA assets increased due to risk adjustment being done for the un-rated borrowers.
- LCR ratio stands at ~120% as on 4QFY23.
- Retail deposit share has come down to 85% in 4QFY23 from 92% in 4QFY22, as NRE customers have moved a large part of their savings balance to TD due to the difference in interest rates.
- CD Ratio is expected to be 82%-84% in FY24 (currently ~81-83%).

### P&L

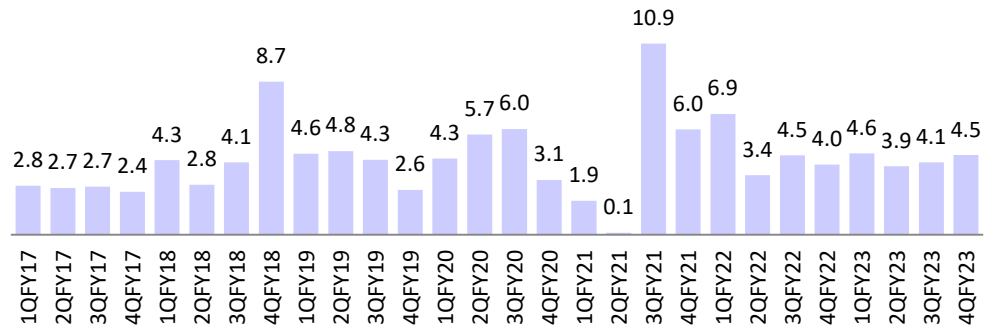
- The bank expects RoA of ~1.3-1.35% in FY24.
- NIM is expected to be ~3.3-3.35% in FY24 (3.31% in 4QFY23), with higher margin in the second half v/s the first half.
- The credit cost is expected to be in the controlled range of ~40-50bp in FY24 (Reported 40bp for FY23).
- 75 branches were added in FY23 and the bank is looking to add ~100 branches in FY24.
- The C/I ratio moderated to 49% as on 4QFY23 and is expected to moderate by 100bp in FY24.
- Slippages are expected to trend at ~1% of gross advances.
- The focus remains on improving the fee income pool by broadening the scope and deepening the relationship with corporates. Fees from corporate book grew ~35% YoY.
- Loan processing fee is stable at INR1.3b in 4QFY23. Fees related to third-party products grew sequentially to INR3.8b in 4QFY23. FX fee is an opportunistic source for the bank as it keeps fluctuating QoQ.

COVID-related restructuring stood at INR28.3b (1.6% of loans)

**Exhibit 1: Net stressed loans moderate to 2.3% of loans**

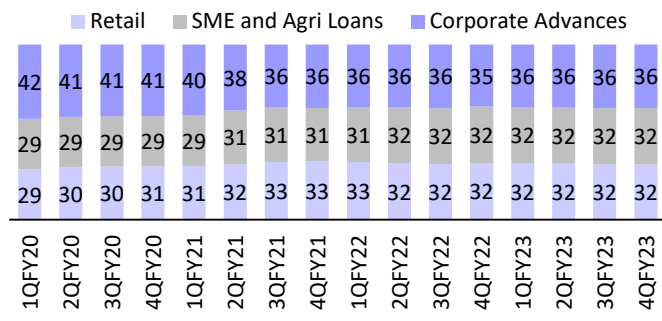


**Exhibit 2: Slippages came in at INR4.5b (including an increase in the balance of existing NPAs) due to an increase in Agri and SME slippages**



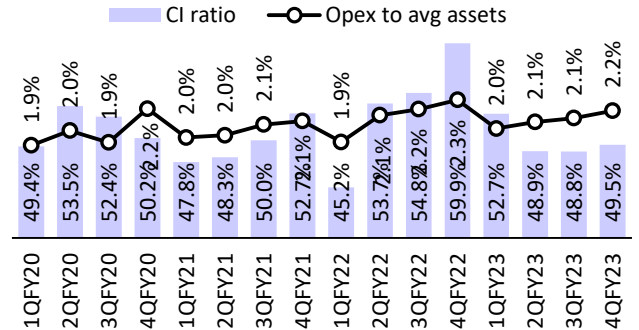
\*On a pro forma basis for 3QFY21

**Exhibit 3: Corporate books ~36% of total loans**



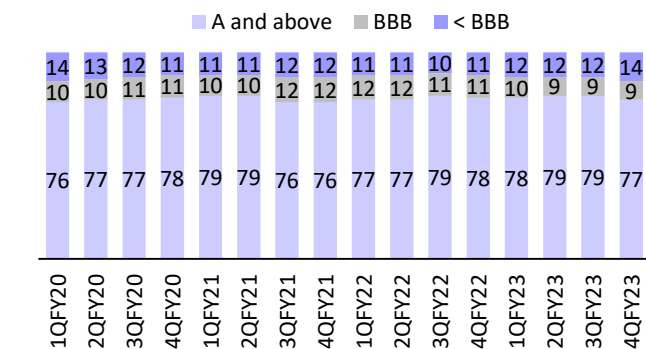
Sources: MOFSL, Company

**Exhibit 4: C/I ratio stood at ~49% in 4QFY23**



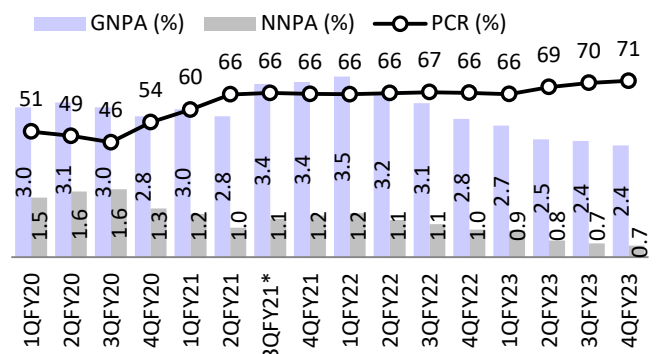
Sources: MOFSL, Company

**Exhibit 5: Share of 'A and above' book stands at 77%**



Sources: MOFSL, Company

**Exhibit 6: GNPA/NNPA ratio improves by 7bp/4bp QoQ to 2.36%/0.69%; PCR improves to ~71%**



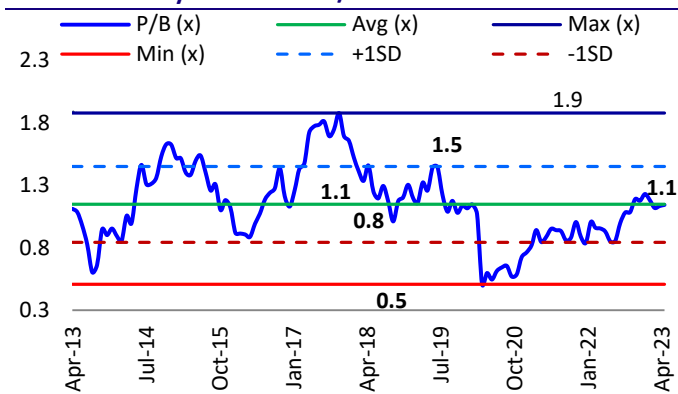
\*On a pro forma basis for 3QFY21

Sources: MOFSL, Company

## Valuation and view

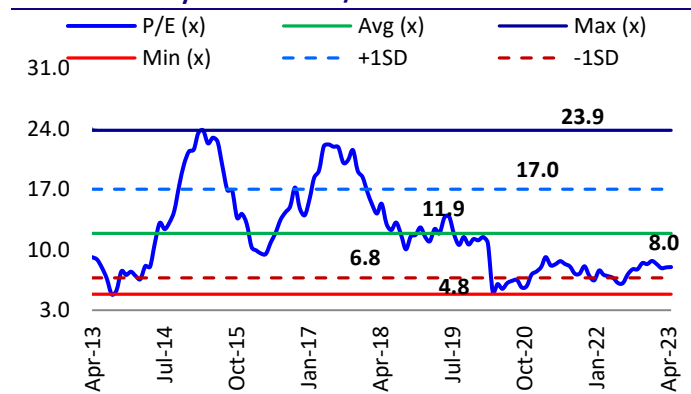
- **Restructuring book stands at ~1.6% of loans; asset quality improves despite higher slippages:** FB's total net stressed loans (NNPA + standard restructured + net SRs) moderated to ~2.3% of total loans, with Covid-related restructuring book at ~INR28.3b. Asset quality ratios are broadly stable thanks to healthy recoveries and upgrades despite a 10% QoQ rise in slippages to INR4.5b. The slippages were led by the Agri segment, which doubled QoQ to INR1.4b. While we remain watchful of asset quality, particularly in the SME and Agri segments and the restructuring book, we expect credit costs to remain under control. We expect slippages/credit costs/PCR of ~1.1%/~0.5%/~72% in FY25.
- **Strong liability franchise:** CASA and Retail TD (less than INR20m) account for ~85% of total deposits. FB has a lower cost of funds v/s other mid-sized banks. About 80% of deposits have been re-priced as on 4QFY23 and the bank expects the remaining to be re-priced by 1QFY24 post which the bank will see an improvement in margins.
- **Lending to better-rated corporates; broad-based pickup in advances:** The management is taking a cautious approach toward building its loan mix to higher-rated corporates and secured retail loans. The share of 'A and above' rated loans rose to 77% in 4QFY23 from 73% in FY19, while the mix of Retail loans improved to ~32% in 4QFY23 from 28.4% in FY19. We expect loan growth to remain healthy, driving further improvement in its overall operating performance.
- **Reiterate Buy with a TP of INR155:** FB reported a mixed 4QFY23, with a beat in net earnings and a miss in NII. The earnings beat was driven by treasury gains and lower provisions, while the NII miss was due to margin compression. Business growth, though, was healthy, led by traction across segments. The liability franchise remains strong, with a retail deposit mix at ~85% and CASA ratio at ~32.7% (but moderated QoQ). The headline asset quality ratio improved, even as slippages came in a tad higher. We broadly maintain our estimates as controlled credit costs and healthy other income compensate for a slight moderation in NII growth. We estimate FB to deliver RoA/RoE of 1.3%/15.8% in FY25. We **reiterate our BUY rating with a TP of INR155 (1.2x Sep'24E ABV).**

Exhibit 7: One-year forward P/B ratio



Sources: MOFSL, Company

Exhibit 8: One-year forward P/E ratio



Sources: MOFSL, Company

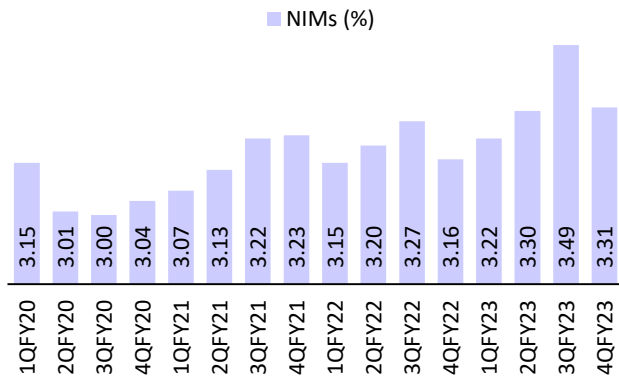
**Exhibit 9: DuPont Analysis: Expect return ratios to improve gradually**

| <b>Y/E March</b>              | <b>FY18</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22</b> | <b>FY23</b> | <b>FY24E</b> | <b>FY25E</b> |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Interest Income               | 7.70        | 7.67        | 7.77        | 7.20        | 6.47        | 6.98        | 7.58         | 7.55         |
| Interest Expense              | 4.87        | 4.87        | 5.04        | 4.31        | 3.65        | 3.98        | 4.63         | 4.51         |
| <b>Net Interest Income</b>    | <b>2.83</b> | <b>2.81</b> | <b>2.73</b> | <b>2.90</b> | <b>2.82</b> | <b>3.01</b> | <b>2.96</b>  | <b>3.04</b>  |
| Core Fee Income               | 0.73        | 0.75        | 0.78        | 0.70        | 0.85        | 0.91        | 0.92         | 0.95         |
| Trading and others            | 0.19        | 0.15        | 0.36        | 0.33        | 0.14        | 0.06        | 0.07         | 0.07         |
| <b>Non-Interest income</b>    | <b>0.92</b> | <b>0.91</b> | <b>1.14</b> | <b>1.03</b> | <b>0.99</b> | 0.97        | 0.98         | 1.01         |
| <b>Total Income</b>           | <b>3.74</b> | <b>3.71</b> | <b>3.87</b> | <b>3.92</b> | <b>3.81</b> | <b>3.97</b> | <b>3.94</b>  | <b>4.06</b>  |
| <b>Operating Expenses</b>     | <b>1.94</b> | <b>1.86</b> | <b>1.99</b> | <b>1.93</b> | <b>2.03</b> | <b>1.98</b> | <b>1.93</b>  | <b>1.96</b>  |
| Employee cost                 | 0.98        | 0.93        | 1.04        | 1.07        | 1.10        | 0.90        | 0.91         | 0.91         |
| Others                        | 0.95        | 0.93        | 0.94        | 0.87        | 0.93        | 1.08        | 1.02         | 1.05         |
| <b>Operating Profits</b>      | <b>1.81</b> | <b>1.86</b> | <b>1.89</b> | <b>1.99</b> | <b>1.78</b> | <b>1.99</b> | <b>2.01</b>  | <b>2.10</b>  |
| <b>Core Operating Profits</b> | <b>1.62</b> | <b>1.70</b> | <b>1.53</b> | <b>1.66</b> | <b>1.64</b> | <b>1.93</b> | <b>1.95</b>  | <b>2.03</b>  |
| Provisions                    | 0.75        | 0.58        | 0.69        | 0.87        | 0.58        | 0.31        | 0.31         | 0.35         |
| <b>PBT</b>                    | <b>1.06</b> | <b>1.28</b> | <b>1.20</b> | <b>1.12</b> | <b>1.20</b> | <b>1.68</b> | <b>1.70</b>  | <b>1.74</b>  |
| Tax                           | 0.37        | 0.45        | 0.29        | 0.29        | 0.31        | 0.43        | 0.43         | 0.44         |
| <b>RoA</b>                    | <b>0.69</b> | <b>0.84</b> | <b>0.91</b> | <b>0.83</b> | <b>0.89</b> | <b>1.25</b> | <b>1.27</b>  | <b>1.30</b>  |
| Leverage (x)                  | 12.0        | 11.7        | 12.2        | 12.5        | 12.1        | 11.9        | 12.1         | 12.2         |
| <b>RoE</b>                    | <b>8.3</b>  | <b>9.8</b>  | <b>11.1</b> | <b>10.4</b> | <b>10.8</b> | <b>14.9</b> | <b>15.4</b>  | <b>15.8</b>  |



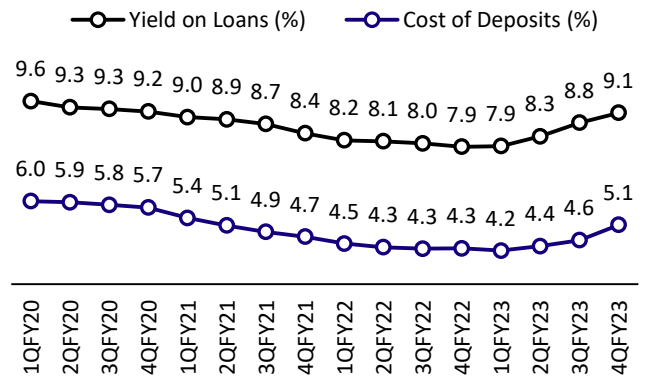
## Story in charts

**Exhibit 10: NIM moderates 18bp QoQ to 3.31%**



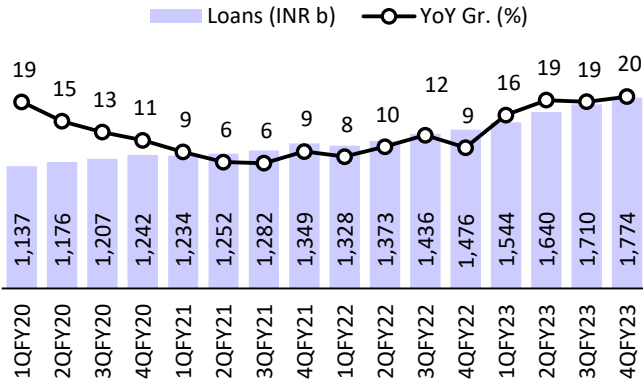
Sources: MOFSL, Company

**Exhibit 11: YoA up 35bp QoQ while CoD up 55bp QoQ**



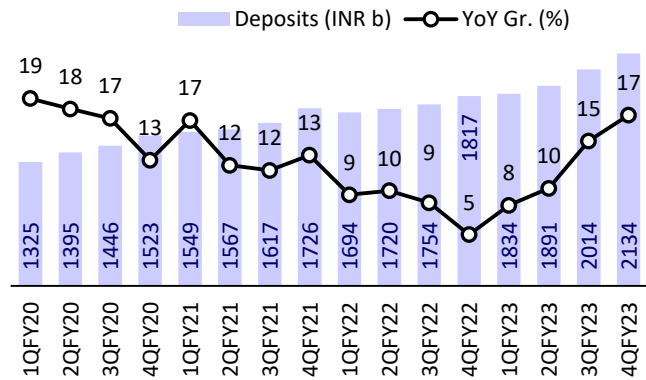
Sources: MOFSL, Company

**Exhibit 12: Loan book grew 20.1% YoY and 3.7% QoQ**



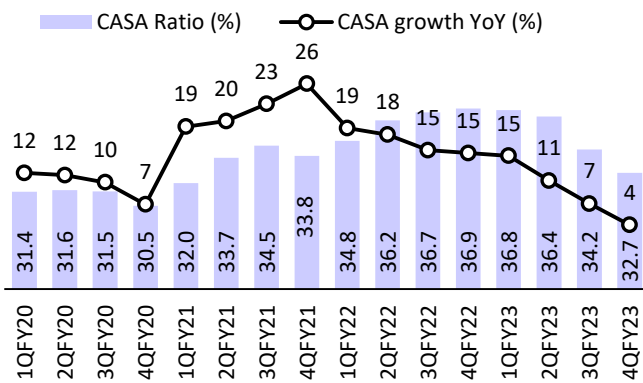
Sources: MOFSL, Company

**Exhibit 13: Deposits grew ~17% YoY and ~6% QoQ**



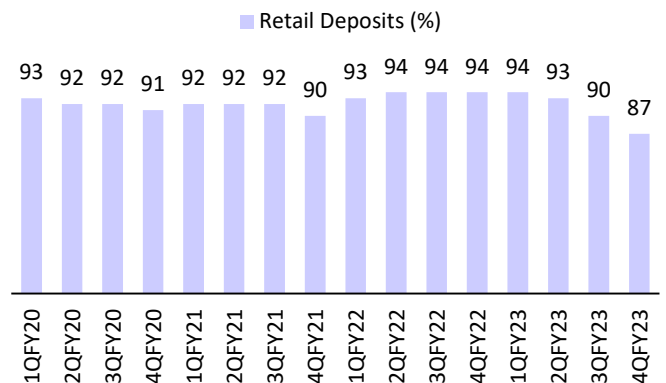
Sources: MOFSL, Company

**Exhibit 14: CASA ratio moderates ~160bp QoQ to 32.7%**



Sources: MOFSL, Company

**Exhibit 15: Proportion of Retail deposits steady at 87%**



Sources: MOFSL, Company



## Financials and valuations

| Income Statement             |               |               |               |               |               |               | (INR m)         |                 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|
| Y/E March                    | FY18          | FY19          | FY20          | FY21          | FY22          | FY23          | FY24E           | FY25E           |
| Interest Income              | 97,529        | 1,14,190      | 1,32,108      | 1,37,579      | 1,36,608      | 1,68,036      | 2,11,700        | 2,43,357        |
| Interest Expense             | 61,701        | 72,427        | 85,618        | 82,242        | 76,988        | 95,715        | 1,29,176        | 1,45,318        |
| <b>Net Interest Income</b>   | <b>35,828</b> | <b>41,763</b> | <b>46,489</b> | <b>55,337</b> | <b>59,620</b> | <b>72,322</b> | <b>82,523</b>   | <b>98,039</b>   |
| Growth (%)                   | 17.4          | 16.6          | 11.3          | 19.0          | 7.7           | 21.3          | 14.1            | 18.8            |
| Non-Interest Income          | 11,591        | 13,510        | 19,314        | 19,587        | 20,891        | 23,300        | 27,494          | 32,718          |
| <b>Total Income</b>          | <b>47,419</b> | <b>55,274</b> | <b>65,803</b> | <b>74,924</b> | <b>80,510</b> | <b>95,622</b> | <b>1,10,017</b> | <b>1,30,757</b> |
| Growth (%)                   | 14.7          | 16.6          | 19.0          | 13.9          | 7.5           | 18.8          | 15.1            | 18.9            |
| Operating Expenses           | 24,509        | 27,643        | 33,756        | 36,917        | 42,932        | 47,678        | 53,894          | 63,196          |
| <b>Pre Provision Profits</b> | <b>22,910</b> | <b>27,631</b> | <b>32,047</b> | <b>38,007</b> | <b>37,579</b> | <b>47,944</b> | <b>56,123</b>   | <b>67,561</b>   |
| Growth (%)                   | 19.0          | 20.6          | 16.0          | 18.6          | -1.1          | 27.6          | 17.1            | 20.4            |
| <b>Core PPP</b>              | <b>20,521</b> | <b>25,347</b> | <b>25,969</b> | <b>31,781</b> | <b>34,550</b> | <b>46,429</b> | <b>54,306</b>   | <b>65,380</b>   |
| Growth (%)                   | 27.0          | 23.5          | 2.5           | 22.4          | 8.7           | 34.4          | 17.0            | 20.4            |
| Provisions (exc. tax)        | 9,472         | 8,559         | 11,722        | 16,634        | 12,218        | 7,499         | 8,566           | 11,443          |
| <b>PBT</b>                   | <b>13,439</b> | <b>19,073</b> | <b>20,325</b> | <b>21,373</b> | <b>25,361</b> | <b>40,445</b> | <b>47,557</b>   | <b>56,118</b>   |
| Tax                          | 4,650         | 6,634         | 4,898         | 5,470         | 6,463         | 10,339        | 12,127          | 14,310          |
| Tax Rate (%)                 | 34.6          | 34.8          | 24.1          | 25.6          | 25.5          | 25.6          | 25.5            | 25.5            |
| <b>PAT</b>                   | <b>8,789</b>  | <b>12,439</b> | <b>15,428</b> | <b>15,903</b> | <b>18,898</b> | <b>30,106</b> | <b>35,430</b>   | <b>41,808</b>   |
| Growth (%)                   | 5.8           | 41.5          | 24.0          | 3.1           | 18.8          | 59.3          | 17.7            | 18.0            |

| Balance Sheet                 |                  |                  |                  |                  |                  |                  |                  |                  |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Y/E March                     | FY18             | FY19             | FY20             | FY21             | FY22             | FY23             | FY24E            | FY25E            |
| Equity Share Capital          | 3,944            | 3,970            | 3,985            | 3,992            | 4,205            | 4,232            | 4,232            | 4,232            |
| Reserves & Surplus            | 1,18,158         | 1,28,760         | 1,41,191         | 1,57,252         | 1,83,733         | 2,10,830         | 2,42,028         | 2,78,545         |
| <b>Net Worth</b>              | <b>1,22,102</b>  | <b>1,32,730</b>  | <b>1,45,176</b>  | <b>1,61,245</b>  | <b>1,87,938</b>  | <b>2,15,062</b>  | <b>2,46,260</b>  | <b>2,82,777</b>  |
| <b>Deposits</b>               | <b>11,19,925</b> | <b>13,49,543</b> | <b>15,22,901</b> | <b>17,26,445</b> | <b>18,17,006</b> | <b>21,33,860</b> | <b>24,75,278</b> | <b>28,96,075</b> |
| Growth (%)                    | 14.7             | 20.5             | 12.8             | 13.4             | 5.2              | 17.4             | 16.0             | 17.0             |
| <b>of which CASA Deposits</b> | <b>3,76,867</b>  | <b>4,37,314</b>  | <b>4,67,743</b>  | <b>5,87,126</b>  | <b>6,74,710</b>  | <b>6,97,410</b>  | <b>8,68,823</b>  | <b>10,28,107</b> |
| Growth (%)                    | 17.6             | 16.0             | 7.0              | 25.5             | 14.9             | 3.4              | 24.6             | 18.3             |
| Borrowings                    | 1,15,335         | 77,813           | 1,03,724         | 90,685           | 1,53,931         | 1,93,193         | 1,91,629         | 2,18,457         |
| Other Liabilities & Prov.     | 25,777           | 33,313           | 34,579           | 35,299           | 50,588           | 61,303           | 66,207           | 71,503           |
| <b>Total Liabilities</b>      | <b>13,83,140</b> | <b>15,93,400</b> | <b>18,06,380</b> | <b>20,13,674</b> | <b>22,09,463</b> | <b>26,03,418</b> | <b>29,79,373</b> | <b>34,68,813</b> |
| Current Assets                | 92,034           | 1,00,668         | 1,25,746         | 1,95,914         | 2,10,103         | 1,76,887         | 1,68,015         | 1,93,101         |
| <b>Investments</b>            | <b>3,07,811</b>  | <b>3,18,245</b>  | <b>3,58,927</b>  | <b>3,71,862</b>  | <b>3,91,795</b>  | <b>4,89,834</b>  | <b>5,63,309</b>  | <b>6,53,438</b>  |
| Growth (%)                    | 9.2              | 3.4              | 12.8             | 3.6              | 5.4              | 25.0             | 15.0             | 16.0             |
| <b>Loans</b>                  | <b>9,19,575</b>  | <b>11,02,230</b> | <b>12,22,679</b> | <b>13,18,786</b> | <b>14,49,283</b> | <b>17,44,469</b> | <b>20,58,473</b> | <b>24,28,998</b> |
| Growth (%)                    | 25.4             | 19.9             | 10.9             | 7.9              | 9.9              | 20.4             | 18.0             | 18.0             |
| Fixed Assets                  | 4,574            | 4,720            | 4,800            | 4,911            | 6,339            | 9,340            | 9,807            | 10,297           |
| Other Assets                  | 59,146           | 67,537           | 94,229           | 1,22,201         | 1,51,942         | 1,82,890         | 1,79,770         | 1,82,978         |
| <b>Total Assets</b>           | <b>13,83,140</b> | <b>15,93,400</b> | <b>18,06,380</b> | <b>20,13,674</b> | <b>22,09,463</b> | <b>26,03,418</b> | <b>29,79,373</b> | <b>34,68,813</b> |

| Asset Quality              |        |        |        |        |        |        |        |        |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| GNPA (INR m)               | 27,956 | 32,607 | 35,308 | 46,024 | 41,367 | 41,838 | 43,927 | 49,280 |
| NNPA (INR m)               | 15,520 | 16,262 | 16,072 | 15,693 | 13,926 | 12,050 | 12,491 | 13,810 |
| GNPA Ratio                 | 3.0    | 2.9    | 2.8    | 3.4    | 2.8    | 2.4    | 2.1    | 2.0    |
| NNPA Ratio                 | 1.7    | 1.5    | 1.3    | 1.2    | 1.0    | 0.7    | 0.6    | 0.6    |
| Slippage Ratio             | 2.7    | 1.6    | 1.7    | 1.5    | 1.4    | 1.1    | 1.1    | 1.1    |
| Credit Cost                | 1.1    | 0.8    | 1.0    | 1.3    | 0.9    | 0.5    | 0.4    | 0.5    |
| PCR (Exc. Tech. write off) | 44.5   | 50.1   | 54.5   | 65.9   | 66.3   | 71.2   | 71.6   | 72.0   |

## Financials and valuations

### Ratios

| Y/E March                         | FY18       | FY19       | FY20       | FY21       | FY22       | FY23       | FY24E      | FY25E      |
|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Yield and Cost Ratios (%)</b>  |            |            |            |            |            |            |            |            |
| <b>Avg. Yield-Earning Assets</b>  | <b>8.4</b> | <b>8.4</b> | <b>8.5</b> | <b>8.0</b> | <b>7.3</b> | <b>7.9</b> | <b>8.5</b> | <b>8.3</b> |
| Avg. Yield on loans               | 9.1        | 9.0        | 9.2        | 8.5        | 7.8        | 8.4        | 8.9        | 8.8        |
| Avg. Yield on Investments         | 6.6        | 6.6        | 6.6        | 6.6        | 6.3        | 6.5        | 7.1        | 7.1        |
| <b>Avg. Cost-Int. Bear. Liab.</b> | <b>5.4</b> | <b>5.4</b> | <b>5.6</b> | <b>4.8</b> | <b>4.1</b> | <b>4.5</b> | <b>5.2</b> | <b>5.0</b> |
| Avg. Cost of Deposits             | 5.5        | 5.5        | 5.6        | 4.8        | 4.1        | 4.5        | 5.2        | 5.0        |
| Avg. Cost of Borrowings           | 5.1        | 5.2        | 5.1        | 4.3        | 3.0        | 4.2        | 5.0        | 5.2        |
| <b>Interest Spread</b>            | <b>3.0</b> | <b>2.9</b> | <b>2.9</b> | <b>3.2</b> | <b>3.2</b> | <b>3.5</b> | <b>3.3</b> | <b>3.2</b> |
| <b>Net Interest Margin</b>        | <b>3.1</b> | <b>3.1</b> | <b>3.0</b> | <b>3.2</b> | <b>3.2</b> | <b>3.4</b> | <b>3.3</b> | <b>3.3</b> |

### Capitalization Ratios (%)

|         |      |      |      |      |      |      |      |      |
|---------|------|------|------|------|------|------|------|------|
| CAR     | 14.9 | 14.4 | 14.4 | 14.6 | 15.8 | 14.8 | 14.1 | 13.4 |
| Tier I  | 14.4 | 13.7 | 13.3 | 13.9 | 14.4 | 13.0 | 12.6 | 12.2 |
| Tier II | 0.5  | 0.8  | 1.1  | 0.8  | 1.3  | 1.8  | 1.5  | 1.2  |

### Business and Efficiency Ratios (%)

|                          |      |      |      |      |      |      |      |      |
|--------------------------|------|------|------|------|------|------|------|------|
| Loans/Deposit Ratio      | 82.1 | 81.7 | 80.3 | 76.4 | 79.8 | 81.8 | 83.2 | 83.9 |
| CASA Ratio               | 33.7 | 32.4 | 30.7 | 34.0 | 37.1 | 32.7 | 35.1 | 35.5 |
| Cost/Assets              | 1.8  | 1.7  | 1.9  | 1.8  | 1.9  | 1.8  | 1.8  | 1.8  |
| Cost/Total Income        | 51.7 | 50.0 | 51.3 | 49.3 | 53.3 | 49.9 | 49.0 | 48.3 |
| Cost/Core Income         | 54.4 | 52.2 | 56.5 | 53.7 | 55.4 | 50.7 | 49.8 | 49.2 |
| Int. Expense/Int. Income | 63.3 | 63.4 | 64.8 | 59.8 | 56.4 | 57.0 | 61.0 | 59.7 |
| Fee Income/Net Income    | 19.4 | 20.3 | 20.1 | 17.8 | 22.2 | 22.8 | 23.3 | 23.4 |
| Non Int. Inc./Net Income | 24.4 | 24.4 | 29.4 | 26.1 | 25.9 | 24.4 | 25.0 | 25.0 |
| Emp. Cost/Op. Exp.       | 50.7 | 49.8 | 52.5 | 55.1 | 54.1 | 45.6 | 47.2 | 46.3 |
| Investment/Deposit Ratio | 27.5 | 23.6 | 23.6 | 21.5 | 21.6 | 23.0 | 22.8 | 22.6 |

### Valuation

|                          |             |             |             |             |             |            |            |            |
|--------------------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|
| RoE                      | 8.3         | 9.8         | 11.1        | 10.4        | 10.8        | 14.9       | 15.4       | 15.8       |
| RoA                      | 0.7         | 0.8         | 0.9         | 0.8         | 0.9         | 1.3        | 1.3        | 1.3        |
| RoRWA                    | 1.0         | 1.3         | 1.4         | 1.4         | 1.5         | 1.9        | 1.9        | 1.9        |
| Book Value (INR)         | 62          | 67          | 73          | 81          | 89          | 102        | 116        | 134        |
| Growth (%)               | 21.9        | 8.0         | 9.0         | 10.9        | 10.7        | 13.7       | 14.5       | 14.8       |
| Price-BV (x)             | <b>2.1</b>  | <b>1.9</b>  | <b>1.8</b>  | <b>1.6</b>  | <b>1.4</b>  | <b>1.3</b> | <b>1.1</b> | <b>1.0</b> |
| Adjusted BV (INR)        | 54          | 59          | 65          | 73          | 82          | 94         | 108        | 124        |
| Price-ABV (x)            | <b>2.4</b>  | <b>2.2</b>  | <b>2.0</b>  | <b>1.8</b>  | <b>1.6</b>  | <b>1.4</b> | <b>1.2</b> | <b>1.0</b> |
| EPS (INR)                | 4.8         | 6.3         | 7.8         | 8.0         | 9.2         | 14.3       | 16.7       | 19.8       |
| Growth (%)               | -1.3        | 32.2        | 23.4        | 2.8         | 15.6        | 54.8       | 17.3       | 18.0       |
| Price-Earnings (x)       | <b>26.9</b> | <b>20.4</b> | <b>16.5</b> | <b>16.1</b> | <b>13.9</b> | <b>9.0</b> | <b>7.6</b> | <b>6.5</b> |
| Dividend Per Share (INR) | 1.1         | 1.2         | 1.7         | 0.7         | 1.8         | 1.0        | 2.0        | 2.5        |
| Dividend Yield (%)       | <b>0.8</b>  | <b>0.9</b>  | <b>1.3</b>  | <b>0.5</b>  | <b>1.4</b>  | <b>0.8</b> | <b>1.6</b> | <b>2.0</b> |

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| Explanation of Investment Rating |  |
|----------------------------------|--|
| Investment Rating                | Expected return (over 12-month)  |
| BUY                              | >=15%  |
| SELL                             | < - 10%  |
| NEUTRAL                          | < - 10 % to 15%  |
| UNDER REVIEW                     | Rating may undergo a change  |
| NOT RATED                        | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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