

May 6, 2023

Q4FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	170		175	
NII (Rs. m)	81,431	94,839	83,743	97,428
% Chng.	(2.8)	(2.7)		
Op. Profit (Rs. m)	52,872	63,432	54,632	65,023
% Chng.	(3.2)	(2.4)		
EPS (Rs.)	14.7	17.7	15.3	18.1
% Chng.	(4.1)	(2.0)		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
NII (Rs m)	59,620	72,322	81,431	94,839
Op. Profit (Rs m)	37,579	48,420	52,872	63,432
PAT (Rs m)	18,898	30,106	31,145	37,697
EPS (Rs.)	9.0	14.2	14.7	17.7
Gr. (%)	12.8	58.3	3.2	20.7
DPS (Rs.)	0.7	0.9	1.2	1.2
Yield (%)	0.5	0.7	0.9	0.9
NIM (%)	3.2	3.5	3.3	3.3
RoAE (%)	10.8	14.9	13.8	15.0
RoAA (%)	0.9	1.3	1.1	1.2
P/BV (x)	1.4	1.3	1.1	1.0
P/ABV (x)	1.5	1.3	1.2	1.1
PE (x)	14.2	9.0	8.7	7.2
CAR (%)	15.8	14.8	14.6	14.6

Key Data

FED.BO | FB IN

52-W High / Low	Rs.143 / Rs.83
Sensex / Nifty	61,054 / 18,069
Market Cap	Rs.270bn / \$ 3,306m
Shares Outstanding	2,117m
3M Avg. Daily Value	Rs.1174.01m

Shareholding Pattern (%)

Promoter's	-
Foreign	26.94
Domestic Institution	43.79
Public & Others	29.27
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.6)	(6.3)	35.7
Relative	(2.8)	(6.5)	23.8

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Incremental loan mix a key for better margins

Quick Pointers:

- Core PPOP miss of 13% led by lower NII/NIM; higher NIM segments doing well.
- Overall fees to assets improved YoY from 61bps to 75bps in FY23.

FB saw a weak quarter with core PPOP missing PLe by 13% led by lower NII, as NIM at 3.7% missed PLe by 20bps. While bank attributed lower margins to deposit cost rise, weaker NIM (calc.) was led by 1) high share (72%) of low NIM segments in quarterly credit flow and 2) decline in CASA ratio by 156bps QoQ to 32.7%. We lower NIM for FY24/25E by 5bps to 3.3%. Slower growth in low yielding segments (57% share) is crucial for better NIM. Key positives were, (1) continuation of growth momentum in high yielding pool; its share in total loans inched up to 20.7% (20.5% in Q3) and (2) fee income growth of 41% YoY in FY23 to Rs18bn. Fees to assets enhanced over FY22-23 from 61bps to 75bps. We raise fees' for FY24/25E by average ~7%. Driven largely by lower NII, we cut FY24/25E PAT by average 3%. Accordingly, we trim our TP from Rs175 to Rs170, maintaining multiple at 1.5x on FY25E ABV. Retain BUY.

- NII/NIM miss; PAT beat led by better fees, treasury and lower provisions:** NII was a miss at Rs19bn (PLe Rs21bn) as NIM was lower at 3.7% (PLe 3.9%). Loan and deposit growth as expected was 20.5% YoY and 17.4% YoY. Other income was higher at Rs7.3bn (PLe Rs6bn) primarily led by better fees (10% beat) and trading income. Opex was in-line at Rs13.1bn (PLe Rs13.4bn). Core PPOP was a miss at Rs11.4bn (PLe Rs13.2bn). GNPA/NNPA improved by 7/4bps QoQ to 2.36%/0.69%. Gross slippages were largely in-line at Rs4.5bn, while recoveries were higher at Rs4.0bn (PLe Rs2.7bn). Provisions declined QoQ to Rs1.1bn (PLe Rs2.7bn) due to better recoveries. PAT was Rs9bn (PLe Rs8.1bn) while core PAT was lower to PLe by 2.7%.
- Momentum in high yielding loans intact:** Loan growth was 3.7% QoQ led by corporate (3.4%) and retail (4.0%) while SME was tepid at 1.3%. Retail growth QoQ was largely led by housing (+6.1%) and mortgage (+4.3%) although, momentum continues in higher yielding products like CV/CE, PL and MFI. Higher margin segments now contribute 20.7% to overall portfolio (vs 20.5% in Q3 and 19.8% a year ago). Guidance of high teens' loan growth for FY24E has been maintained and we are factoring a 17% CAGR over FY23-25E. Targeted retail to wholesale mix is 55:45 (now 54:46). Reliance on wholesale funding continues, which grew by +22.8% QoQ due to CD issuance for short term. However, bank sees no major impact on funding cost for Q1FY24E.
- NIM miss due to mix change; guidance at 3.00-3.35%:** Margins were a miss this quarter as 72% of the credit flow was attributable to low NIM segments and CASA ratio declined by 156bps QoQ to 32.7%. Bank attributed NIM miss largely to rise in deposit cost, though we believe lower yields also led to weaker margins. NIM guidance has been reduced from 335-340bps to 300-335bps; we lower NIM for FY24/25E by 5bps to 3.3%. On opex, FB targets to add 100 branches in FY24E, while it expects cost to income to reduce by 1% in FY24E from 49.6% in FY23. We see a opex CAGR of 15% over FY23-25E.

Exhibit 1: PAT beat led by better fees, treasury and lower provisions.

P&L Statement (Rs m)	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)
Interest Income	47,207	34,832	35.5	44,333	6.5
Interest Expended	28,115	19,580	43.6	24,767	13.5
Net interest income (NII)	19,093	15,252	25.2	19,565	(2.4)
-Treasury income	1,920	120	1,500.0	386	397.3
Other income	7,339	4,650	57.8	5,816	26.2
Total income	26,432	19,902	32.8	25,381	4.1
Operating expenses	13,086	11,920	9.8	12,163	7.6
-Staff expenses	5,972	6,373	(6.3)	5,608	6.5
-Other expenses	7,114	5,548	28.2	6,555	8.5
Operating profit	13,346	7,982	67.2	13,218	1.0
Core Operating Profit	11,426	7,862	45.3	12,832	(11.0)
Total provisions	1,167	752	55.1	2,463	(52.6)
Profit before tax	12,179	7,230	68.5	10,755	13.2
Tax	3,153	1,824	72.8	2,719	16.0
Profit after tax	9,026	5,405	67.0	8,036	12.3
Balance Sheet (Rs m)					
Deposits	2,133,860	1,817,006	17.4	2,014,080	5.9
Advances	1,744,469	1,449,283	20.4	1,681,730	3.7
Ratios (%) – Calc.					
NIM	3.7	3.3	36	3.9	(23)
RoaA	1.5	1.0	48	1.4	10
RoaE	17.9	12.4	553	16.6	137
Asset Quality					
Gross NPL (Rs m)	41,838	41,367	1.1	41,479	0.9
Net NPL (Rs m)	12,050	13,926	(13.5)	12,286	(1.9)
Gross NPL ratio	2.36	2.80	(44.3)	2.42	(7)
Net NPL ratio	0.69	0.96	(27.0)	0.73	(4)
Coverage ratio (Calc)	71.2	66.3	486.3	70.4	82
Business & Other Ratios					
Low-cost deposit mix	32.7	36.9	(426)	34.2	(156)
Cost-income ratio	49.5	59.9	(1,039)	47.9	159
Non int. inc / total income	27.8	23.4	440	22.9	485
Credit deposit ratio	81.8	79.8	199	83.5	(175)
CAR	14.8	15.8	(95)	13.4	146
Tier-I	13.0	14.4	(141)	12.1	89

Source: Company, PL

NII decline 2.4% QoQ as NIMs witness a decline of 23bps.

Other income saw a sharp increase of 57.8%YoY/26.2%QoQ rise led by better fees & treasury income.

Opex was largely in-line at Rs13bn

Provisions sharply declined QoQ led by better recoveries.

Loan growth was strong at 20.4% YoY led by corporate, retail and agri, deposits growth too was healthy at 17.4% YoY.

NIM witnessed a decline of 23bps as CoF increased faster than yields.

Asset quality improved sequentially, with GNPA/NNPA by 7/4bps QoQ

Q4FY23 Concall Highlights

Assets & Liabilities – Commentary & build-up

- **With strong credit growth and earnings, bank has reported ROA of +1.4%.** Management has guided for an overall growth of in high teens in FY24, as opportunities exist and market share gains. Focus would be on Business Banking, Commercial Banking, Personal Loans, Credit Cards and Commercial Vehicle/Construction Equipment. Target retail: wholesale mix would be 55:45.
- **CV, CE, CC & MFI expected to grow at a faster pace than other segments.** Focus would be on SA accretion too, however no disproportionate risk would be taken.
- **Gold Loans grew 1.6% QoQ/14.6% YoY** and continue to remain an attractive segment. Management endeavors to sustain 25% YoY growth and maintain its share at <15% (currently at 11%).
- **Deposit franchise has remained retail focused**, with retail deposits growing at 14% YoY. Market share in NR deposits have improved from 6.5% to 6.8%, while in overall saving deposits remained benign at sub 1%.
- **Wholesale TD increased by 22.8% QoQ** due to CD issuance for short term (2/3 months), hence no major impact on cost is expected in Q1FY24.
- **CD Ratio for Q4FY23 declined to 81.8% vs 83.5% in Q3FY23**, as focus was generating deposits while maintaining credit growth. For FY24, management guided C/D ratio to be between 82-84%. Aim would be to match deposit growth with credit expansion in order to maintain a comfortable level of CD ratio.
- **Bank has an enabling resolution for capital raise**, however the same is expected to take place in FY24 to fund growth requirement.
- Loan book breakup: Repo link – 50%, MCLR – 13-14%, fixed rate – 15%.
- Credit RWA have increased by 29% YoY as a few exposures of the bank were not rated, which led to categorization of those exposures as unrated and hence sharp increase. The same will reduce, as the exposures get rated.

NIMs/Yields

- **For Q4FY23, bank reported NIM of 3.31% vs 3.49% in Q3FY23**, the same has declined as cost of funds went up faster than yields. ~80% of deposits have been repriced, hence management does not foresee any major repricing on the deposit front. On advances front, some scope of repricing remains on MCLR linked book.
- For FY24, margins would be in the range of 330-335bps.

Opex/Branches/Fee income

- Branch expansion – Bank added 73 branches in FY23 and plans to add 100 branches in FY24.

- In Q4FY23, C/I stood at 49.5%. Management expects 100bps improvement in C/I in FY24.
- **Fee income grew 11.4% QoQ/34% YoY** led by consistent growth in loan processing fee, improvement in third party distribution, wallet share from corporate book; however, commission, brokerage income should come back, while forex income would be opportunistic.
- Treasury income was elevated led by factors other than interest rate changes although a small component of provision write back was included due to softening of yields.

Asset Quality

- Slippages for Q4FY23 at Rs4.5bn were slightly higher on account of conservative recognition of agri book and some uptick in business banking. Management expects the trend of ~1% slippage to continue.
- For FY23, management expects credit costs to be 40-50bps

Exhibit 2: Loan growth led by corp (+23.5% YoY), agri (+21.5% YoY) and retail

Advances break-up (Rs m)	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)
Advances					
Retail	560,770	478,630	17.2	539,360	4.0
SME	314,470	271,800	15.7	310,330	1.3
Agriculture	233,550	192,280	21.5	220,500	5.9
CV/CE	21,860	12,750	71.5	18,410	18.7
Corporate	643,110	520,940	23.5	621,830	3.4
Total	1,773,760	1,476,400	20.1	1,710,430	3.7
Retail Loans break-up					
Housing	270,030	229,290	17.8	254,540	6.1
LAP	99,840	84,530	18.1	95,730	4.3
Auto	54,480	42,290	28.8	51,290	6.2
Personal	23,930	17,510	36.7	19,570	22.3
Gold	43,130	45,260	(4.7)	47,600	(9.4)
Others	69,360	59,750	16.1	66,170	4.8

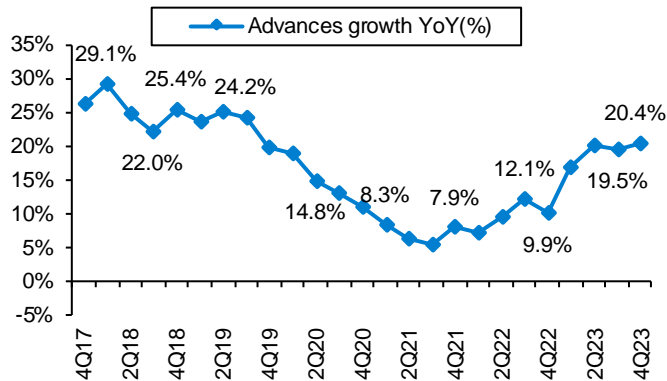
Source: Company, PL

Agri growth continues to be strong with 21.5%YoY growth

Corporate credit was strong at 23.5% YoY

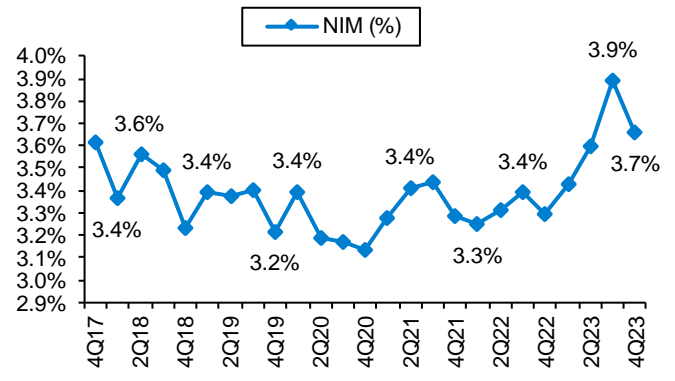
Most retail segments demand scenario has been strong with focus on Credit Cards and Personal Loans.

Exhibit 3: Loan growth was strong at 20.4%YoY



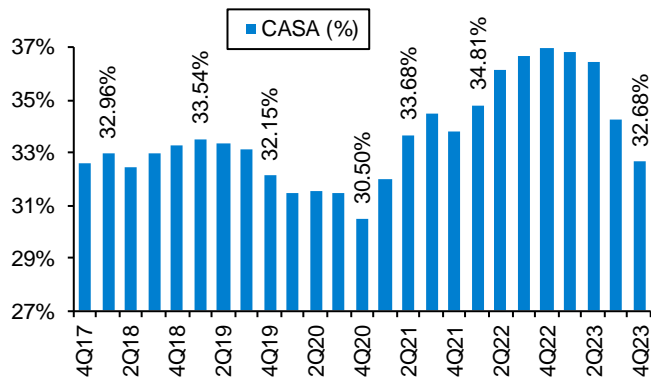
Source: Company, PL

Exhibit 4: NIM decline 23bps as CoF rise faster than yields



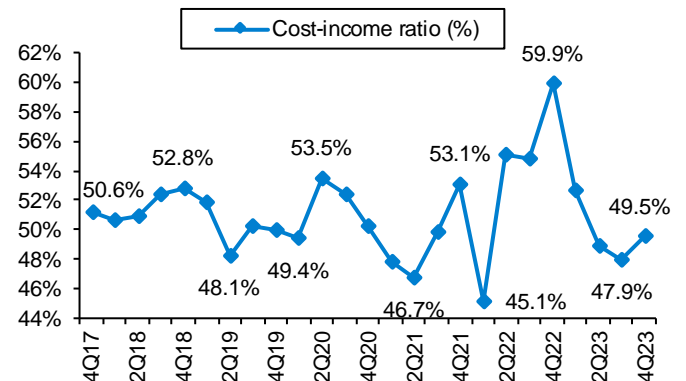
Source: Company, PL

Exhibit 5: CASA accretion slows down as TD grows faster



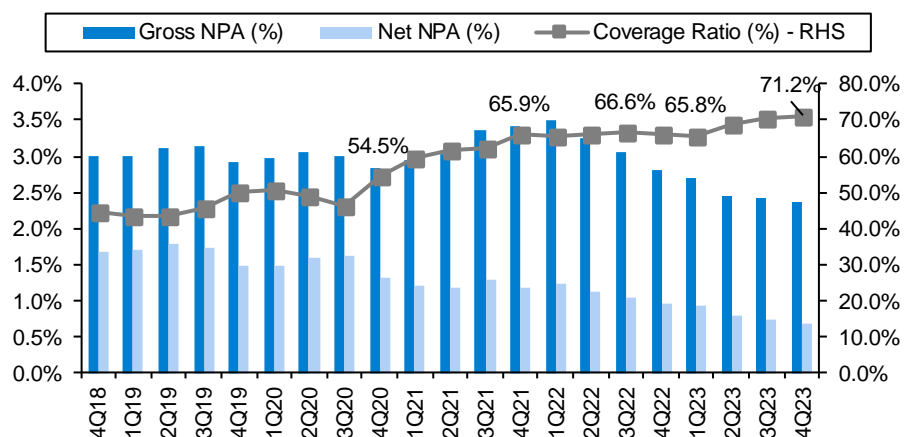
Source: Company, PL

Exhibit 6: C/I improves to 49.5% led by better fees/treasury



Source: Company, PL

Exhibit 7: Slippages slightly higher offset by better recoveries, PCR at 71.2%

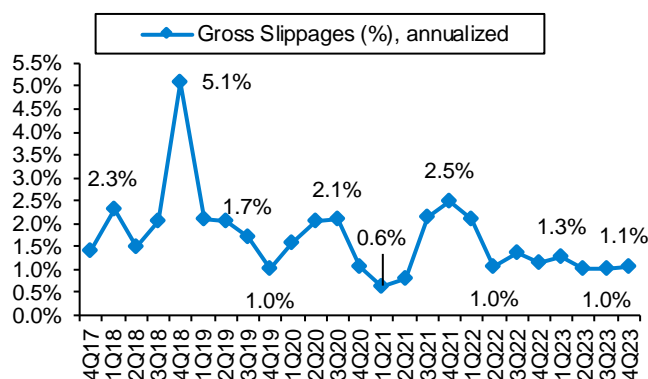


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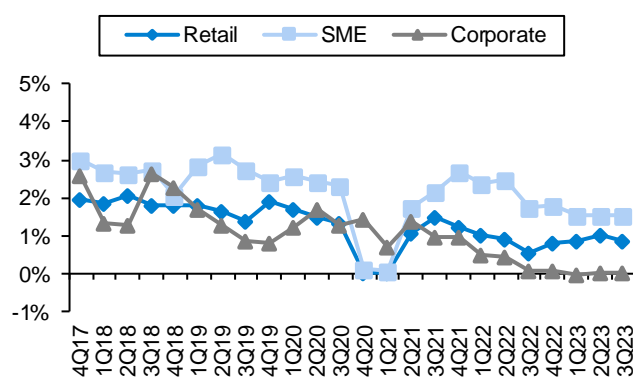
Exhibit 8: Fresh slippages slightly higher by 12bps QoQ, recoveries healthy

Movement of NPL	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)
Opening	41,478	44,007	(5.7)	40,309	2.9
Additions	4,540	3,990	13.8	4,120	10.2
Reduction	4,180	6,630	(37.0)	2,950	41.7
Closing	41,838	41,367	1.1	41,479	0.9
Slippages (%)	1.25	1.21	4	1.14	12
Segmental fresh slippages:					
Retail	1,430	860	66.3	1,810	(21.0)
Agri	1,390	1,470	(5.4)	660	110.6
SME	1,540	1,240	24.2	1,450	6.2
Corporate	-	-	N.A.	60	N.A.
Retail (% annualized)	1.04	1.22	(19)	1.02	2
Agri (% annualized)	1.42	1.97	(55)	1.25	17
SME (% annualized)	0.86	0.57	29	1.02	(16)
Corporate (% annualized)	0.01	0.10	(9)	0.01	(0)

Source: Company, PL

Exhibit 9: Slippages slightly higher at 1.1% vs 1% in Q3FY23


Source: Company, PL

Exhibit 10: SME and corporate slippages see uptick


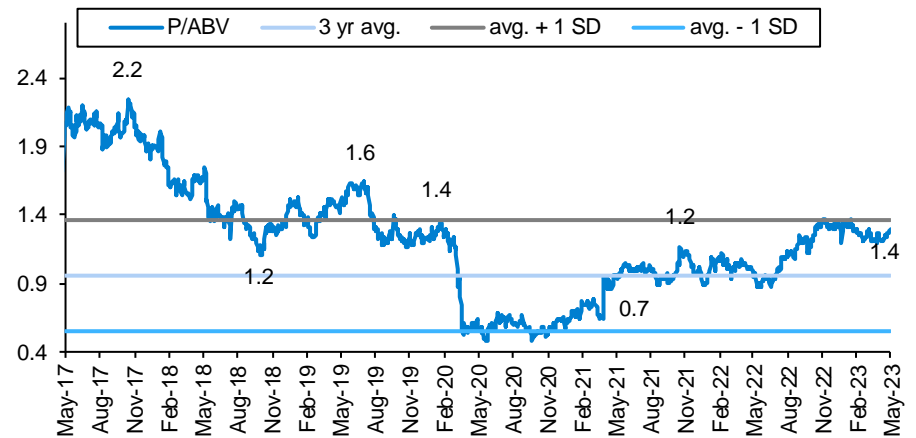
Source: Company, PL

Exhibit 11: Return ratios are on track to be in 14-15% range

Du-pont Analysis	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
NII/Assets	2.8	2.8	2.7	2.9	2.8	3.0	2.9	2.9
Other inc./Assets	0.9	0.9	1.1	1.0	1.0	1.0	0.9	1.0
Net revenues/Assets	3.7	3.7	3.9	3.9	3.8	4.0	3.9	3.9
Opex/Assets	1.9	1.9	2.0	1.9	2.0	2.0	2.0	2.0
Provisions/Assets	0.7	0.6	0.7	0.9	0.6	0.3	0.4	0.4
Taxes/Assets	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4
ROA (%)	0.7	0.8	0.9	0.8	0.9	1.3	1.1	1.2
ROE (%)	8.3	9.8	11.1	10.4	10.8	14.9	13.8	15.0

Source: Company, PL

Exhibit 12: One-year forward P/ABV trades at 1.4x



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Int. Earned from Adv.	1,08,298	1,34,918	1,78,119	2,16,022
Int. Earned from invt.	23,387	27,956	37,265	45,235
Others	2,721	3,100	2,609	2,722
Total Interest Income	1,36,608	1,68,036	2,19,765	2,66,155
Interest Expenses	76,988	95,715	1,38,334	1,71,316
Net Interest Income	59,620	72,322	81,431	94,839
Growth(%)	7.7	21.3	12.6	16.5
Non Interest Income	20,891	23,776	26,418	31,906
Net Total Income	80,510	96,098	1,07,850	1,26,745
Growth(%)	0.2	21.8	28.3	21.1
Employee Expenses	23,206	21,730	24,410	27,636
Other Expenses	18,497	25,948	30,568	35,677
Operating Expenses	42,932	47,678	54,978	63,313
Operating Profit	37,579	48,420	52,872	63,432
Growth(%)	(1.1)	28.9	9.2	20.0
NPA Provision	6,111	6,341	9,600	11,400
Total Provisions	12,218	7,975	11,234	13,034
PBT	25,361	40,445	41,638	50,398
Tax Provision	6,463	10,339	10,493	12,700
Effective tax rate (%)	25.5	25.6	25.2	25.2
PAT	18,898	30,106	31,145	37,697
Growth(%)	18.8	59.3	3.5	21.0

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Face value	2	2	2	2
No. of equity shares	2,103	2,116	2,121	2,127
Equity	4,205	4,232	4,243	4,254
Networth	1,87,939	2,15,062	2,36,801	2,65,031
Growth(%)	16.6	14.4	10.1	11.9
Adj. Networth to NNPA's	13,926	12,050	13,076	13,647
Deposits	18,17,006	21,33,860	24,59,177	28,81,481
Growth(%)	5.2	17.4	15.2	17.2
CASA Deposits	6,74,710	6,97,410	8,11,528	9,50,889
% of total deposits	37.1	32.7	33.0	33.0
Total Liabilities	22,09,463	26,03,418	29,92,870	34,65,574
Net Advances	14,49,283	17,44,469	20,41,279	23,89,941
Growth(%)	9.9	20.4	17.0	17.1
Investments	3,91,795	4,89,834	5,41,019	6,33,926
Total Assets	22,09,463	26,03,418	29,92,870	34,65,574
Growth (%)	9.7	17.8	15.0	15.8

Asset Quality

Y/e Mar	FY22	FY23	FY24E	FY25E
Gross NPAs (Rs m)	41,367	41,847	45,108	47,065
Net NPAs (Rs m)	13,926	12,050	13,076	13,647
Gr. NPAs to Gross Adv.(%)	2.8	2.4	2.2	1.9
Net NPAs to Net Adv. (%)	1.0	0.7	0.6	0.6
NPA Coverage %	66.3	71.2	71.0	71.0

Profitability (%)

Y/e Mar	FY22	FY23	FY24E	FY25E
NIM	3.2	3.5	3.3	3.3
RoAA	0.9	1.3	1.1	1.2
RoAE	10.8	14.9	13.8	15.0
Tier I	14.4	13.0	13.0	13.0
CRAR	15.8	14.8	14.6	14.6

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Interest Income	36,289	40,208	44,333	47,207
Interest Expenses	20,244	22,590	24,767	28,115
Net Interest Income	16,045	17,618	19,565	19,093
YoY growth (%)	13.1	19.1	27.1	25.2
CEB	3,780	4,460	4,630	5,160
Treasury	-	-	-	-
Non Interest Income	4,526	6,095	5,816	7,339
Total Income	40,815	46,303	50,149	54,546
Employee Expenses	4,993	5,156	5,608	5,972
Other expenses	5,844	6,435	6,555	7,114
Operating Expenses	10,838	11,591	12,163	13,086
Operating Profit	9,734	12,122	13,218	13,346
YoY growth (%)	(14.3)	40.2	44.6	67.2
Core Operating Profits	9,614	11,422	12,832	11,426
NPA Provision	-	-	-	-
Others Provisions	1,667	2,679	2,463	1,167
Total Provisions	1,667	2,679	2,463	1,167
Profit Before Tax	8,067	9,444	10,755	12,179
Tax	2,060	2,407	2,719	3,153
PAT	6,007	7,037	8,036	9,026
YoY growth (%)	63.5	52.9	54.0	67.0
Deposits	18,33,550	18,91,457	20,14,080	21,33,860
YoY growth (%)	8.2	10.0	14.8	17.4
Advances	15,16,890	16,12,403	16,81,730	17,44,469
YoY growth (%)	16.9	20.0	19.5	20.4

Key Ratios

Y/e Mar	FY22	FY23	FY24E	FY25E
CMP (Rs)	128	128	128	128
EPS (Rs)	9.0	14.2	14.7	17.7
Book Value (Rs)	89	102	112	125
Adj. BV (Rs)	83	96	105	118
P/E (x)	14.2	9.0	8.7	7.2
P/BV (x)	1.4	1.3	1.1	1.0
P/ABV (x)	1.5	1.3	1.2	1.1
DPS (Rs)	0.7	0.9	1.2	1.2
Dividend Payout Ratio (%)	-	-	-	-
Dividend Yield (%)	0.5	0.7	0.9	0.9

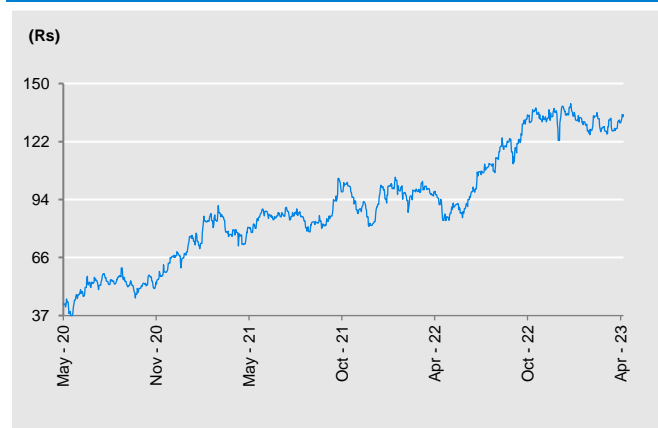
Efficiency

Y/e Mar	FY22	FY23	FY24E	FY25E
Cost-Income Ratio (%)	53.3	49.6	51.0	50.0
C-D Ratio (%)	79.8	81.8	83.0	82.9
Business per Emp. (Rs m)	255	292	329	374
Profit per Emp. (Rs lacs)	15	23	23	27
Business per Branch (Rs m)	2,548	2,862	3,158	3,550
Profit per Branch (Rs m)	15	22	22	25

Du-Pont

Y/e Mar	FY22	FY23	FY24E	FY25E
NII	2.82	3.01	2.91	2.94
Total Income	3.81	3.99	3.85	3.92
Operating Expenses	2.03	1.98	1.96	1.96
PPoP	1.78	2.01	1.89	1.96
Total provisions	0.58	0.33	0.40	0.40
RoAA	0.89	1.25	1.11	1.17
RoAE	10.82	14.94	13.79	15.02

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	BUY	175	127
2	01-Mar-23	BUY	175	129
3	17-Jan-23	BUY	175	140
4	05-Jan-23	BUY	165	137
5	15-Oct-22	BUY	165	130
6	05-Oct-22	BUY	135	121
7	16-Jul-22	BUY	135	99
8	08-Jul-22	BUY	135	97
9	08-May-22	BUY	135	91

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,403
2	Axis Bank	BUY	1,140	881
3	Bank of Baroda	BUY	220	166
4	Can Fin Homes	BUY	770	617
5	City Union Bank	BUY	190	160
6	DCB Bank	BUY	150	114
7	Federal Bank	BUY	175	127
8	HDFC	BUY	3,200	2,862
9	HDFC Asset Management Company	BUY	2,100	1,766
10	HDFC Bank	BUY	1,925	1,672
11	ICICI Bank	BUY	1,130	886
12	IDFC First Bank	UR	-	54
13	IndusInd Bank	BUY	1,530	1,102
14	Kotak Mahindra Bank	BUY	2,220	1,938
15	LIC Housing Finance	Accumulate	410	333
16	Punjab National Bank	UR	-	47
17	State Bank of India	BUY	730	526
18	UTI Asset Management Company	BUY	770	658

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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