

Federal Bank

BUY

RoA continue to improve; NIMs declined QoQ

Summary

Federal Bank's credit growth remain strong; stood at 20% YoY (20% YoY Q3FY23) backed by strong growth across the segments. Management guided for high teens credit growth for FY24. Asset quality remains stable with GNPA at 2.36% vs 2.43% QoQ. Stressed book % of assets declined to 1.6% vs 1.78% QoQ. Deposits growth steadily improved to 17% YoY vs 15% YoY (Q3FY23). NII declined by 2% QoQ led by decline in NIMs. Operating profit grew by 5% QoQ led by higher non-interest income (up 37% QoQ). Provisions declined by 41% QoQ led to strong profitability growth (up 12% QoQ); resulted RoA to 1.41% (1.32% Q3FY23). Management guided exit RoA target to reach 1.3 - 1.35% FY24. We maintain BUY rating with the target price of Rs.175 based on pre-Covid avg. P/BV of 1.4x FY25.

Key Highlights and Investment Rationale

- **Robust Credit growth sustained:** Loan book grew by 20% YoY (3.7% QoQ) as against 20% YoY (Q3FY23). Retail/Agri/SME grew at 17% YoY/21% YoY/16% YoY respectively, whereas corporate book grew by 23% YoY. Management guided for high teens credit growth for FY24. Deposits growth improved to 17.4% YoY vs 15% YoY (Q3FY23). However, CASA ratio declined to 32.68% vs 36.9% YoY as customers have moved from saving accounts to deposits as deposit rates increased.
- **Asset quality stable; stressed assets at 1.6%:** Asset quality remain stable as GNPA stood at 2.36% vs 2.43% QoQ and NNPA at 0.69% vs 0.73% QoQ. However, slippage ratio increased to 1.67% vs 1.4% QoQ. Credit cost declined to 19bps vs 38bps QoQ. Management guided for 40bps credit cost for FY24 as asset quality remain stable. Stressed book % of assets declined to 1.6% vs 1.8% QoQ due to better recovery/upgrades.

TP Rs.175

CMP Rs.128

Potential upside/downside 37%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	0.6	(2.5)	40.9
Rel to Sensex	(1.4)	(3.8)	29.6

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	16.9	19.5
Consensus	16.1	18.8
% difference	5.1	3.8

Key Stock Data

Bloomberg / Reuters	FB IN / FED.BO
Sector	Banking
Shares o/s (mn)	2,117
Market cap. (Rs mn)	270,524
3-m daily avg trd value (Rs mn)	45.0
52-week high / low	Rs143 / 83
Sensex / Nifty	61,054 / 18,069

Shareholding Pattern (%)

Promoters	0.0
FII	26.9
DII	42.1
Public	31.0

Financial snapshot

(Rs mn)

Year	FY2021	FY2022	FY2023	FY2024E	FY2025E
NII	55,337	59,620	72,322	83,989	97,112
Change (yoy, %)	19%	8%	21%	16%	16%
Net Profit	15,903	18,898	30,106	35,793	41,188
Change (yoy, %)	3%	19%	59%	19%	15%
EPS (Rs)	8.0	9.0	14.2	16.9	19.5
Change (yoy, %)	3%	13%	58%	19%	15%
ABV (Rs)	74.9	84.4	97.3	112.0	128.7
PER (x)	16.0	14.2	9.0	7.6	6.6
P/ABV (x)	1.7	1.5	1.3	1.1	1.0
ROE (%)	10.4	10.8	14.9	15.5	15.5
ROA (%)	0.8	0.9	1.3	1.3	1.3
GNPA (%)	3.4	2.8	2.4	2.3	2.3
NNPA (%)	1.2	1.0	0.7	0.7	0.7
CAR (%)	14.6	15.8	14.8	14.9	15.0

Source: IDBI Capital Research

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- **NIMs surprised negatively; declined by 18bps QoQ:** NIMs surprisingly declined by 18bps QoQ to 3.31% led by increase in cost of funds (up 55bps QoQ). With higher deposits growth during the quarter and re-pricing at higher rates resulted increased in cost of deposits (55bps) as against 35bps increase in yields. Management guided 80% of deposits have been re-priced thus, impact on NIMs should be minimal; guided NIMs to be in the range of 3.30 – 3.35% for FY24 as compared to 3.3% FY23.
- **Cost to income ratio inched up slightly:** Cost to income ratio during Q4FY23 increased by 67bps QoQ to 49.5% led by impact on wage revision and branch expansion. Total branches increased by 75 to 1355 and further guided for opening 100 branches during FY24. For FY23 C/I ratio has declined to 49% as compared to 52-53% FY22 and management guided to progress well during FY24 backed by strong growth; expect to reach 48% FY24.
- **Capital adequacy ratio (CAR) stood at 14.8%:** CAR remains healthy with CET I at 13% as FY23 and total CAR at 14.8%. Bank has shareholder approval for capital raise; will require capital for growth. However, management said no timeline as of now and will raise capital at appropriate time.
- **Outlook:** Bank has abated the Covid-19 impact better with lower restructuring as compared to its peers (mid cap private banks). Bank's focus on the higher margin products (Credit Cards, Personal Loans, MSME Loans etc.) by leveraging on its digital, analytical and branch lite partnership based model should support higher return ratios. We believe there is potential for an improvement of 5-10bps every year in RoA.

	NII (In Bn)		PPoP (In Bn)		PAT (In Bn)		Advances(In Bn)		Deposits (In Bn)		RoA (%)	
	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Federal Bank	60	72	38	48	19	30	1,449	1,744	1,817	2,134	0.9	1.3

Conference Call Highlights

- There was no one off in the employee expenses in FY23. The same run rate is expected going forward unless the yield fall down and the bank has to make some adjustment for pension costs.
- In terms of deposit pricing, the bank believes that the peak of pricing has already been factored in (around 80% of the deposit has been re-priced) and it is the only play through that would happens. Expecting little material rate hiking going forward.
- Around 50% of the loan book is repo linked (which have been re-priced), 13-14% linked to MCLR (half got re-priced and half are yet to get re-priced) and some fixed rated loans (comprising of short and long tenure will get re-priced). Around 15% of the loan book is yet to be re-priced.
- Credit Cost for Q4FY23 stood at around 19bps while for FY23 at around 40bps (guidance of 40-50bps).
- Historically, Slippages remains in the range of 350-400Cr per qtr (for FY23 slippages were around 1,600Cr as compared to guidance of around 1,800Cr). Recoveries and upgrades were better than slippages.
- Slippages ratio for the bank is somewhere around 1% of advances (which management believes is one of the best in the industry).
- Performance of restructured book during 4 qtrs. of FY23 remained good and did not show any sign of stress.
- Expecting NIMs to be in the range of 3.3-3.35% and RoA to be in the range of 1.3-1.35% in FY24.
- Expecting the credit cost to be in the range of 40-50bps in FY24.
- Expecting gold loan to grow in the range of 20-25% in FY24. The bank has a limit on amount of gold loan advance at around 15% of overall advances (currently the same is at around 10-11%).
- Expecting cost to income ratio to witness 100bps improvement from the levels in FY23 (at around 49.5% for FY23).
- Based on the credit growth guidance, expecting credit deposit ratio to be in the range of 82-84% in FY24.
- Planning to add around 100 new branches in FY24 (added around 75 branches in FY23).

Exhibit 1: Quarterly Snapshot

(Rs mn)

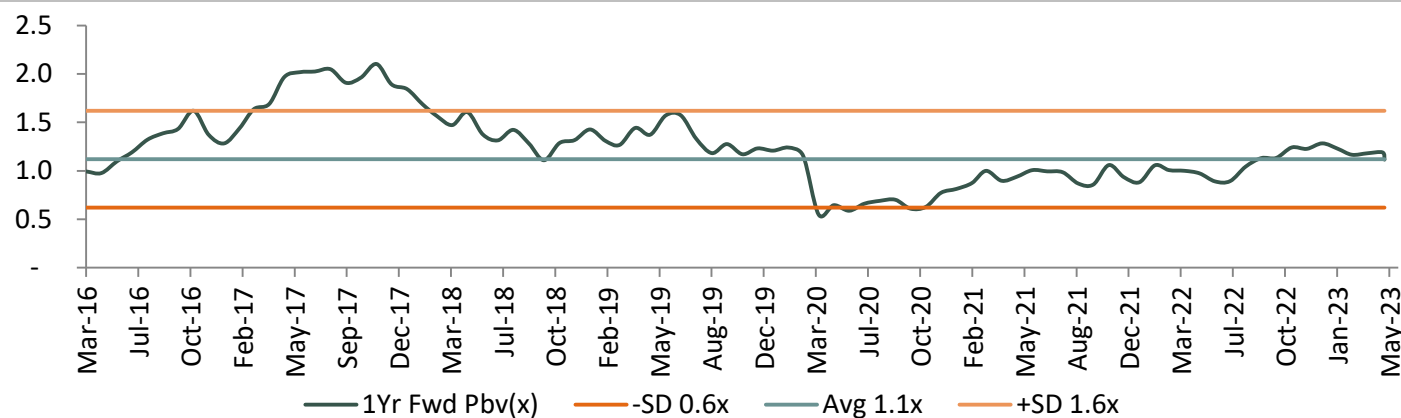
Year-end: March	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Interest Income	47,207	34,832	44,333	35.5	6.5
Interest Expenses	28,115	19,580	24,767	43.6	13.5
Net Interest Income	19,093	15,252	19,565	25.2	(2.4)
NIM (%)	3.31	3.16	3.49	15 bps	-18 bps
Non-Interest Income	7,339	4,650	5,340	57.8	37.4
Operating Income	26,432	19,902	24,905	32.8	6.1
Staff Cost	5,972	6,373	5,608	(6.3)	6.5
Other Op Exp	7,114	5,548	6,555	28.2	8.5
Total Operating Expenses	13,086	11,920	12,163	9.8	7.6
<i>Cost to Income (%)</i>	<i>49.5</i>	<i>59.9</i>	<i>48.8</i>	<i>-1039 bps</i>	<i>67 bps</i>
Operating Profit	13,346	7,982	12,742	67.2	4.7
Provisions	1,167	752	1,987	55.1	(41.3)
PBT	12,179	7,230	10,755	68.5	13.2
Tax	3,153	1,824	2,719	72.8	16.0
<i>- effective tax rate</i>	<i>25.9</i>	<i>25.2</i>	<i>25.3</i>	<i>66 bps</i>	<i>61 bps</i>
PAT	9,026	5,405	8,036	67.0	12.3
EPS (Rs)	4.3	2.6	3.8	65.9	12.3
BV (Rs)	101.6	89.4	97.3	13.7	4.4
Deposits	21,33,860	18,17,006	20,14,080	17.4	5.9
Advances	17,44,469	14,49,283	16,81,730	20.4	3.7

Source: Company; IDBI Capital Research

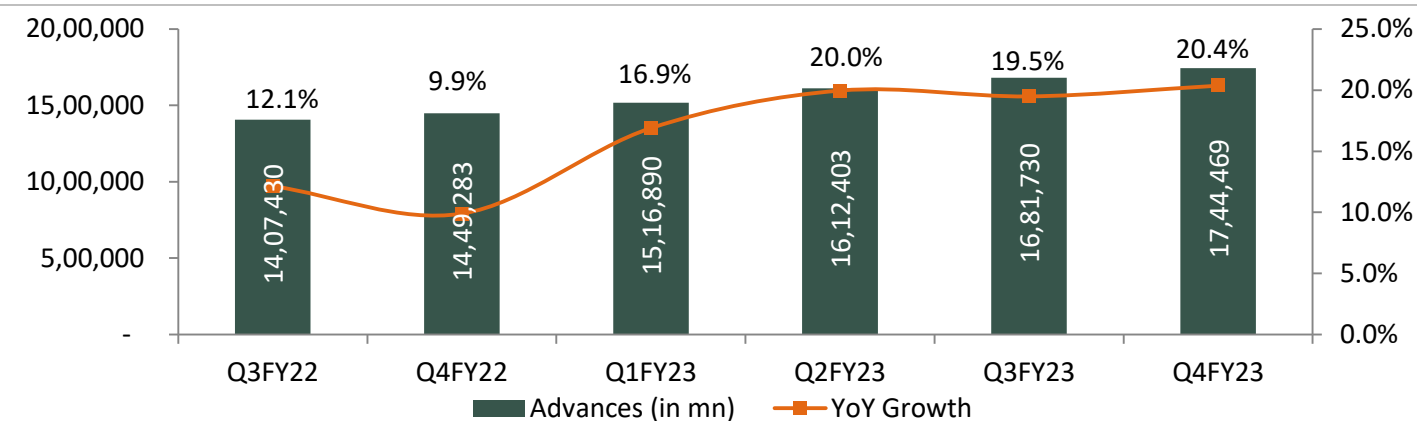
Exhibit 2: ROE Decomposition

(%)	FY21	FY22	FY23	FY24E	FY25E
NII	2.9	2.8	3.0	3.0	3.0
Fees	0.7	0.8	0.7	0.7	0.7
Other Income	0.3	0.1	0.2	0.2	0.2
Net Revenue	3.9	3.8	4.0	3.9	4.0
Op.Exp	1.9	2.0	2.0	1.9	1.9
Op.Profit	2.0	1.8	2.0	2.1	2.1
Provisions	0.9	0.6	0.3	0.3	0.3
PBT	1.1	1.2	1.7	1.7	1.7
Tax	0.3	0.3	0.4	0.4	0.4
ROA	0.8	0.9	1.3	1.3	1.3
Leverage (x)	12.5	12.1	11.9	12.1	12.1
ROE	10.4	10.8	14.9	15.5	15.5

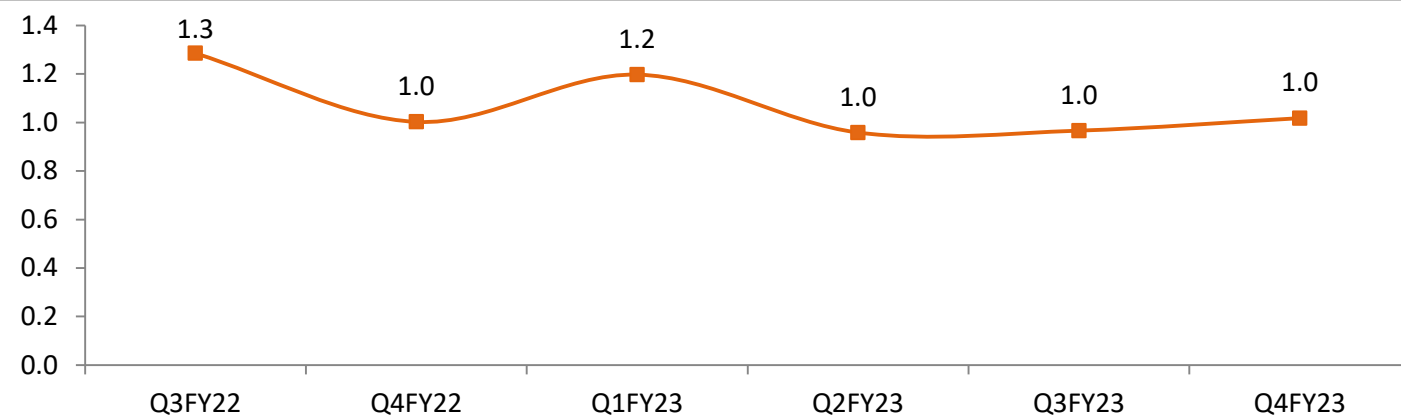
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV

Source: Company; IDBI Capital Research

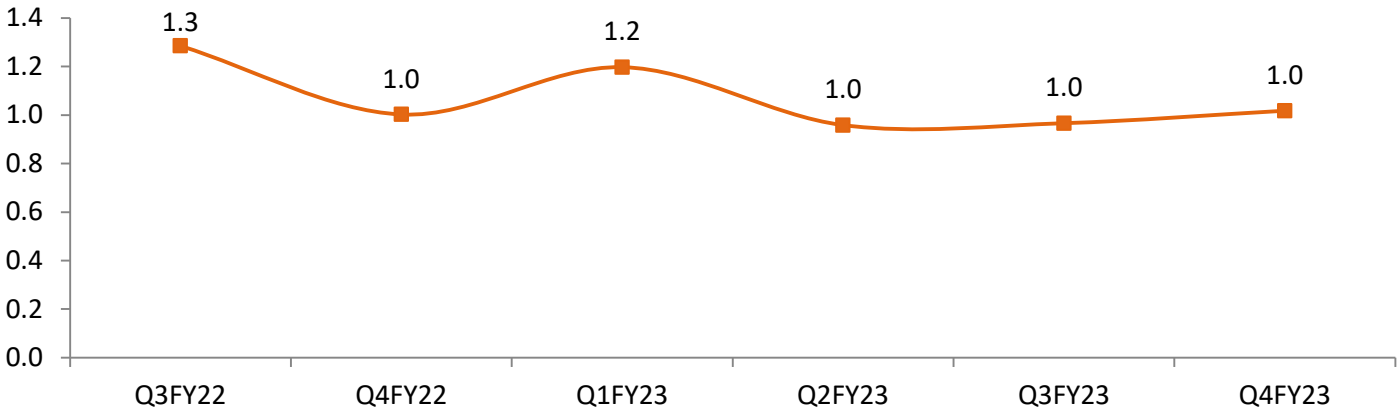
Exhibit 4: Advances growth continued to witness strong growth momentum on YoY basis

Source: Company; IDBI Capital Research

Exhibit 5: Slippage ratio remained stable sequentially

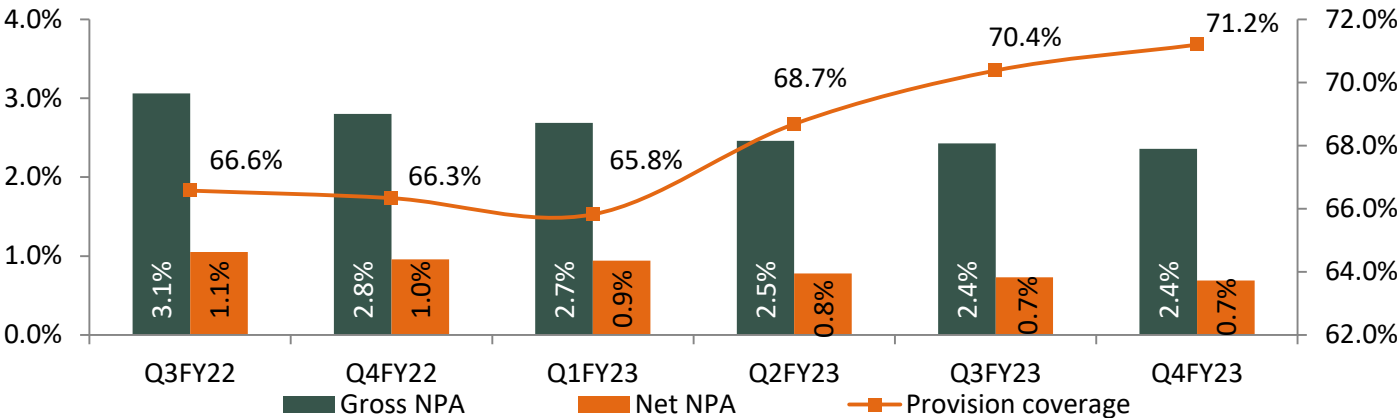
Source: Company; IDBI Capital Research

Exhibit 6: Net Interest margins witnessed downtick led by increased cost of deposits



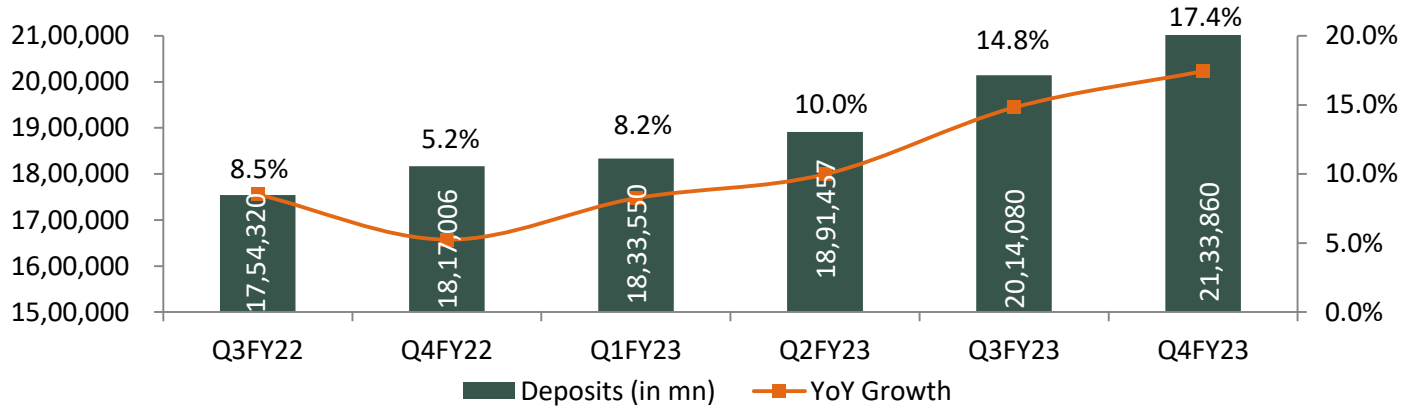
Source: Company; IDBI Capital Research

Exhibit 7: Asset quality remained stable



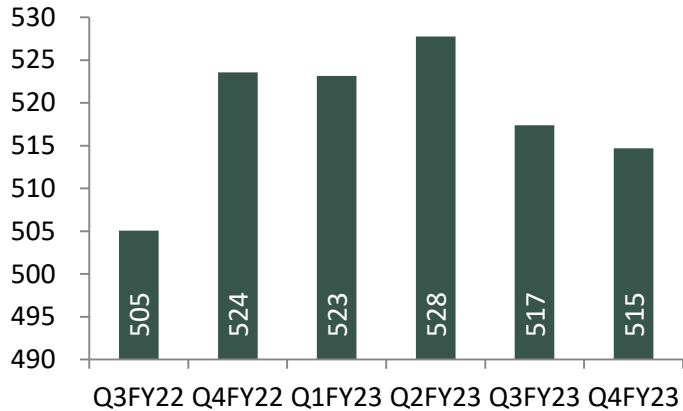
Source: Company; IDBI Capital Research

Exhibit 8: Deposits growth continued to witness strong growth uptick



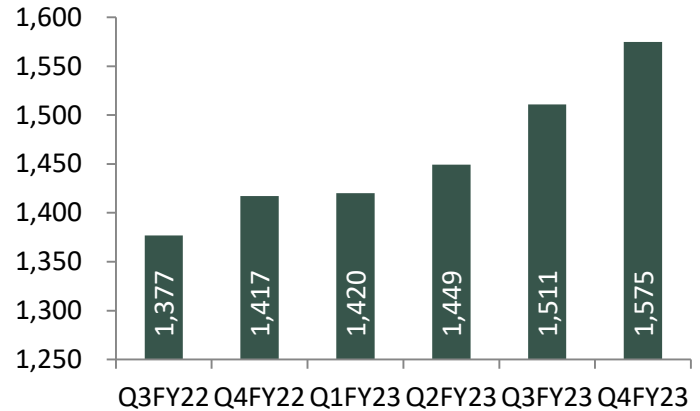
Source: Company; IDBI Capital Research

Exhibit 9: CASA per Branch

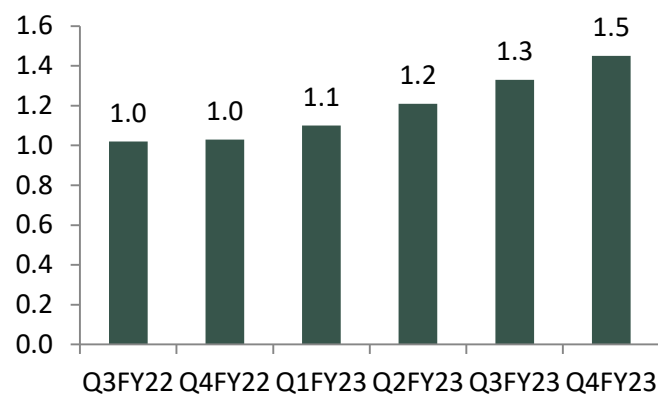


Source: Company; IDBI Capital Research

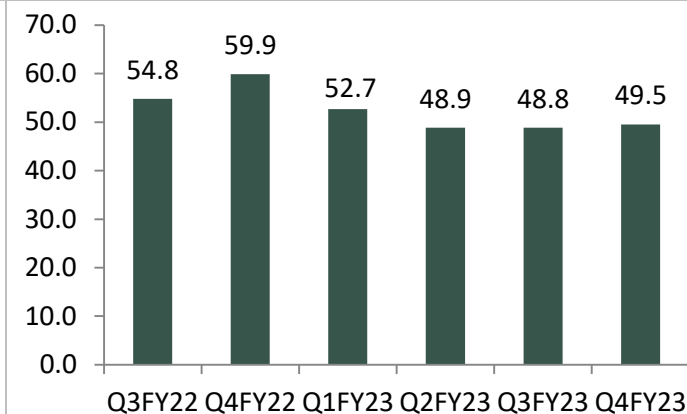
Exhibit 10: Deposit per Branch



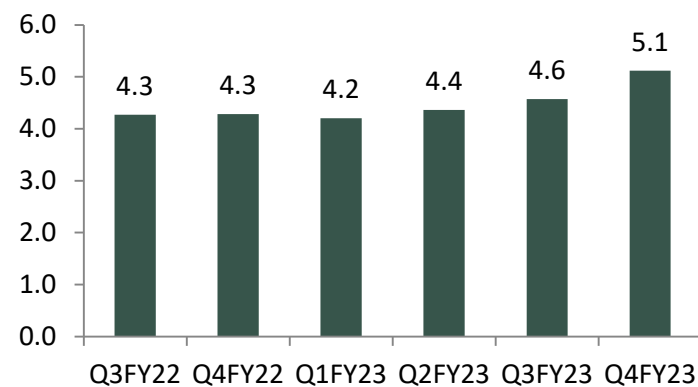
Source: Company; IDBI Capital Research

Exhibit 11: RoA continued witnessing up tick QoQ

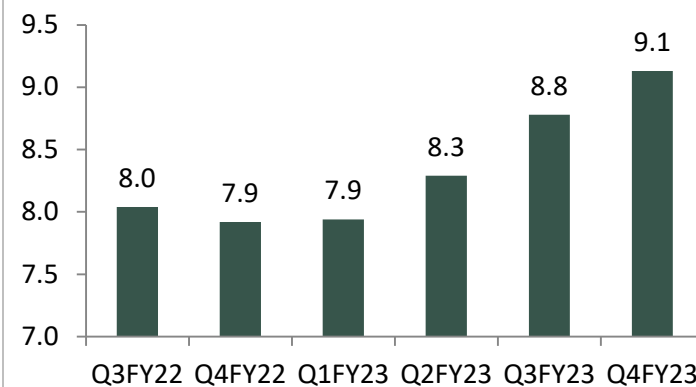
Source: Company; IDBI Capital Research

Exhibit 12: Cost to Income Ratio remained stable sequentially

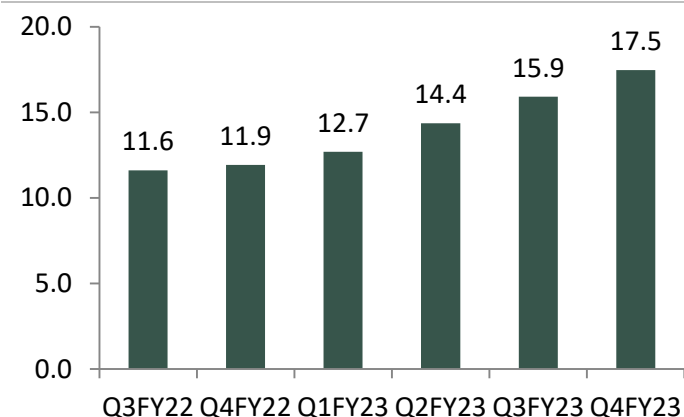
Source: Company; IDBI Capital Research

Exhibit 13: Cost of Deposits inched up sequentially

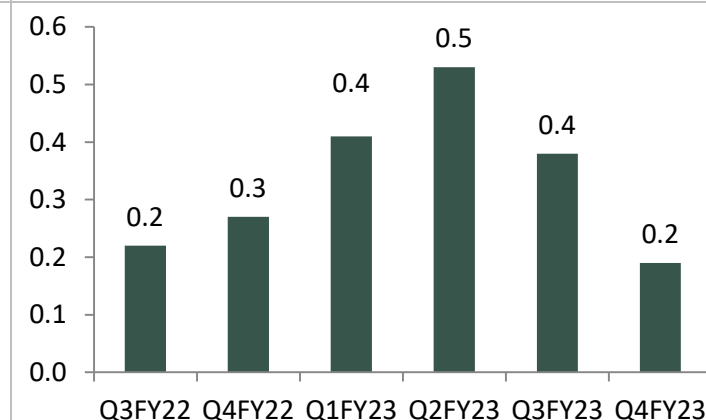
Source: Company; IDBI Capital Research

Exhibit 14: Yield on Advances witnessed sharp up tick QoQ

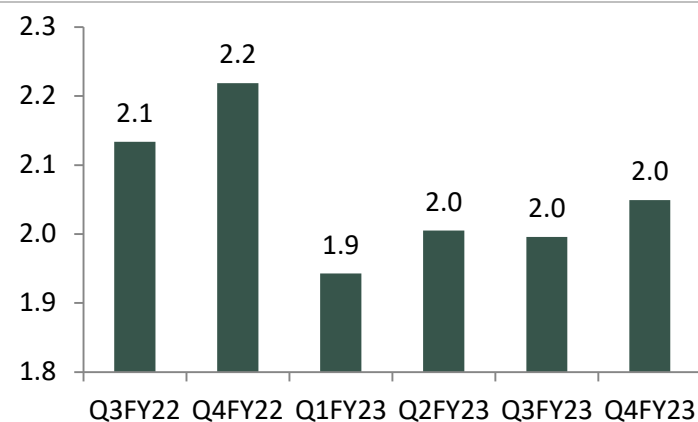
Source: Company; IDBI Capital Research

Exhibit 15: Return on Equity continued to trend upward

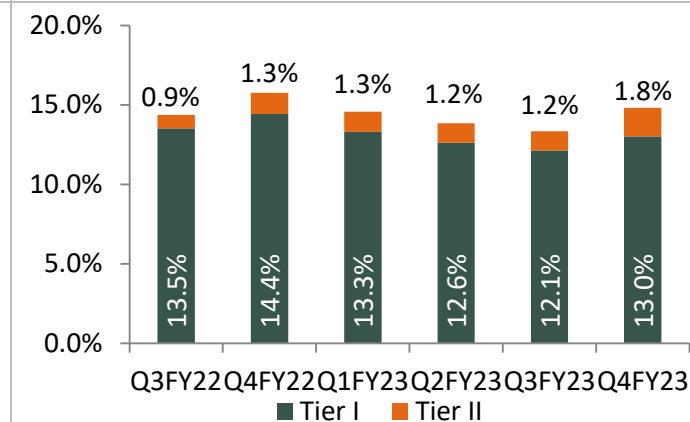
Source: Company; IDBI Capital Research

Exhibit 16: Credit Cost declined sequentially led by better asset quality

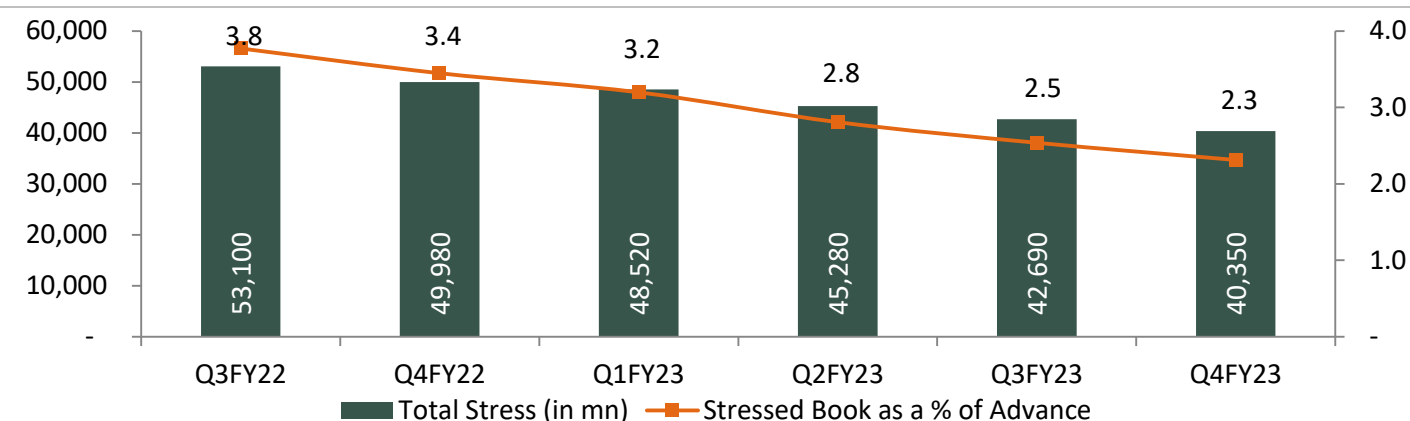
Source: Company; IDBI Capital Research

Exhibit 17: Cost to Assets remained stable QoQ

Source: Company; IDBI Capital Research

Exhibit 18: CAR remains comfortable

Source: Company; IDBI Capital Research

Exhibit 19: Stress Book continuing to witness improvement on a sequential basis

Source: Company; IDBI Capital Research

Exhibit 20: Composition of Slippages (Product Wise)

Slippages-Product Wise (In Mn)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Retail	1,430	860	1,810	66.3	(21.0)
Agri	1,390	1,470	660	(5.4)	110.6
Business Banking	910	680	550	33.8	65.5
CV/CE	50	20	90	150.0	(44.4)
Commercial Banking	580	550	810	5.5	(28.4)
Coporate Banking	-	-	60	-	(100.0)
Total Slippages	4,360	3,580	3,980	21.8	9.5

Source: Company; IDBI Capital Research

Exhibit 21: Movement of Slippages Ratio (In %)

Product Wise Slippage Ratio (In %)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Retail	1.32	1.56	1.99	1.44	1.39	1.67
Wholesale	1.02	0.34	0.25	0.39	0.46	0.30
Bank	1.19	0.99	1.20	0.96	0.96	1.04

Source: Company; IDBI Capital Research

Exhibit 22: Composition of Retail Advances (Product Wise)

Product Wise Retail Advances (In Mn)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Housing	2,70,030	2,29,290	2,59,010	17.8	4.3
LAP	99,840	84,530	95,730	18.1	4.3
Gold	43,130	45,260	47,600	(4.7)	(9.4)
Auto	54,480	42,290	51,290	28.8	6.2
Personal	23,930	17,510	19,570	36.7	22.3
Other	69,360	59,750	66,170	16.1	4.8
Total Retail Advances	5,60,770	4,78,630	5,39,370	17.2	4.0

Source: Company; IDBI Capital Research

Exhibit 23: Changes in Product Mix (Retail Advances)

Product Wise Retail Advances Mix(In %)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Housing	48	48	48	25 bps	14 bps
LAP	18	18	18	15 bps	6 bps
Gold	8	9	9	-177 bps	-114 bps
Auto	10	9	10	88 bps	21 bps
Personal	4	4	4	61 bps	64 bps
Other	12	12	12	-12 bps	11 bps
Total Retail Advances	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 24: Composition of Gross Advances (Product Wise)

Product Wise Gross Advances (In Mn)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Retail Loan	5,60,770	4,78,630	5,39,360	17.2	4.0
Agri Loan	2,33,550	1,92,280	2,20,500	21.5	5.9
Business Banking	1,41,730	1,25,290	1,42,380	13.1	(0.5)
CV/CE	21,860	12,750	18,410	71.5	18.7
Commercial Banking	1,72,740	1,46,510	1,67,950	17.9	2.9
Corporate Banking	6,43,110	5,20,940	6,21,820	23.5	3.4
Total Gross Advances	17,73,760	14,76,400	17,10,420	20.1	3.7

Source: Company; IDBI Capital Research

Exhibit 25: Changes in Product Mix (Gross Advances)

Product Wise Gross Advances Mix(In %)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Retail Loan	32	32	32	-81 bps	9 bps
Agri Loan	13	13	13	15 bps	28 bps
Business Banking	8	8	8	-50 bps	-34 bps
CV/CE	1	1	1	37 bps	16 bps
Commercial Banking	10	10	10	-19 bps	-9 bps
Corporate Banking	36	35	36	98 bps	-10 bps
Total Gross Advances	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net interest income	46,489	55,337	59,620	72,322	83,989	97,112
<i>Change (yoy, %)</i>	<i>11%</i>	<i>19%</i>	<i>8%</i>	<i>21%</i>	<i>16%</i>	<i>16%</i>
Fees	13,183	13,343	17,809	18,020	20,628	23,723
Other Income	6,131	6,244	3,082	5,280	5,249	6,002
Net Revenue	65,803	74,924	80,510	95,622	1,09,866	1,26,836
Operating expenses	33,756	36,917	42,932	47,678	52,400	60,715
Employee expenses	17,724	20,342	23,206	21,730	25,208	28,366
Other expenses	16,032	16,575	19,726	25,948	27,192	32,349
Pre-Provision Profit	32,047	38,007	37,579	47,944	57,466	66,121
<i>Change (yoy, %)</i>	<i>16%</i>	<i>19%</i>	<i>-1%</i>	<i>28%</i>	<i>20%</i>	<i>15%</i>
Provision	11,722	16,634	12,218	7,499	9,634	11,079
PBT	20,325	21,373	25,361	40,445	47,832	55,042
Taxes	4,897	5,470	6,463	10,339	12,039	13,854
<i>Effective tax rate (%)</i>	<i>24%</i>	<i>26%</i>	<i>25%</i>	<i>26%</i>	<i>25%</i>	<i>25%</i>
Net profit	15,428	15,903	18,898	30,106	35,793	41,188
<i>Change (yoy, %)</i>	<i>24%</i>	<i>3%</i>	<i>19%</i>	<i>59%</i>	<i>19%</i>	<i>15%</i>
EPS	7.7	8.0	9.0	14.2	16.9	19.5
Return on Equity (%)	11.1	10.4	10.8	14.9	15.5	15.5
Return on Assets (%)	0.9	0.8	0.9	1.3	1.3	1.3

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	3,985	3,992	4,205	4,232	4,232	4,232
Reserves	1,41,191	1,57,252	1,83,733	2,10,830	2,42,833	2,79,788
Networth	1,45,176	1,61,244	1,87,938	2,15,062	2,47,065	2,84,020
Deposits	15,22,901	17,26,445	18,17,006	21,33,860	24,47,865	28,08,970
Current deposits	82,398	1,18,603	1,26,120	1,42,890	1,71,351	1,96,628
Saving deposits	3,85,344	4,68,523	5,45,100	5,54,520	7,09,881	8,14,601
Term deposit	10,55,159	11,39,319	11,45,786	14,36,450	15,66,633	17,97,741
Borrowings	1,03,724	90,685	1,53,931	1,93,193	2,32,210	2,79,683
Other liabilities	34,580	35,299	50,588	61,303	59,690	57,630
Total Liab. & Equity	18,06,381	20,13,673	22,09,463	26,03,418	29,86,829	34,30,303
Cash	1,25,746	1,95,913	2,10,103	1,76,887	2,00,614	2,30,706
Advances	12,22,679	13,18,786	14,49,283	17,44,469	20,06,139	23,07,060
Investments	3,58,927	3,71,862	3,91,795	4,89,834	5,59,947	6,40,368
Fixed Assets	4,800	4,911	6,339	9,340	9,807	10,297
Other Assets	94,229	1,22,201	1,51,942	1,82,890	2,10,323	2,41,871
Total assets	18,06,381	20,13,673	22,09,463	26,03,418	29,86,829	34,30,303

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth						
Deposits	12.8	13.4	5.2	17.4	14.7	14.8
Advances	10.9	7.9	9.9	20.4	15.0	15.0
NII	11.3	19.0	7.7	21.3	16.1	15.6
Pre-Provision Profit	16.0	18.6	(1.1)	27.6	19.9	15.1
Net Profit	24.0	3.1	18.8	59.3	18.9	15.1
Spreads						
Yield on Assets	8.6	8.0	7.2	7.8	7.9	7.9
Cost of Funds	5.6	4.8	4.1	4.5	4.5	4.5
NIM	3.0	3.2	3.2	3.4	3.4	3.4
CASA	30.7	34.0	36.9	32.7	36.0	36.0
Operating Efficiency						
Cost-to-Income	51.3	49.3	53.3	49.9	47.7	47.9
Cost-to-Assets	2.0	1.9	2.0	2.0	1.9	1.9
Asset Quality						
GNPA	2.8	3.4	2.8	2.4	2.3	2.3
NNPA	1.3	1.2	1.0	0.7	0.7	0.7
Provision Coverage	54.5	65.9	66.4	71.1	71.3	70.6
Credit Cost	1.0	1.3	0.9	0.5	0.5	0.5
Capital Adequacy						
CAR	14.4	14.6	15.8	14.8	14.9	15.0
Tier I	13.3	13.9	14.4	13.0	13.0	13.0
Valuation						
EPS	7.7	8.0	9.0	14.2	16.9	19.5
ABV	66.8	74.9	84.4	97.3	112.0	128.7
P/E	16.5	16.0	14.2	9.0	7.6	6.6
P/ABV	1.9	1.7	1.5	1.3	1.1	1.0
ROE	11.1	10.4	10.8	14.9	15.5	15.5
ROA	0.9	0.8	0.9	1.3	1.3	1.3
RORWA	1.5	1.5	1.6	2.2	2.1	2.1

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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