

01 May 2024

India | Equity Research | Q4FY24 results review

## Fedbank Financial Services

### Financials

Expect AUM growth to remain at 25% with possibility of raising guidance if market trend continues to be robust

Fedbank Financial services (Fedfina) delivered strong Q4FY24 financial performance as reflected in 14% QoQ AUM growth, with core NII growing 6% QoQ and credit cost moderating to 0.6% vs 0.9% QoQ. Change in accounting policy on income recognition of DA portfolio to net basis vs gross basis earlier and lower assigned AUM in Q4FY24 temporarily impacted the top line. The same resulted in negative income of INR 180mn (unwinding of DA income recognised in previous quarter) vs INR 165mn DA income in Q3FY24. As a result, net revenue fell 3% QoQ. Asset quality continued to improve with GNPL falling to 1.7% vs 2.2% in Q3FY24. While 30+ DPD increased sequentially to 4.5% vs 4.3%, the same remained range bound at 4.3-4.6% in the past six quarters. Maintain **BUY** with an unchanged target price of INR 184, valuing the stock at 2x PBV on Sep'25E BVPS.

### Disbursement yield per product remained same but higher co-lending resulted in lower yield QoQ

Calculated yields (on average assets) fell 30bps QoQ to 14.2% vs 14.5% QoQ largely due to high disbursements under co-lending model in Q4FY24. Yields in co-lending were lower than on-book yields but customer quality was better. Disbursement yields in small ticket LAP and HL fell to 16.1% vs 16.5% QoQ, medium ticket LAP fell to 12.3% vs 12.7% QoQ, gold loan fell to 14.8% vs 15.3% QoQ and business loans fell to 16.9% vs 17.7% QoQ.

### Q4FY24 financial performance; continues to deliver as per earlier envisaged strategy of scaling small ticket LAP

While PAT during Q4FY24 grew only 3% QoQ vs AUM growth at 14% QoQ due to one-off impact, it continues to scale small ticket LAP book. Within products, small ticket LAP book grew 14% QoQ, gold loans grew 17% QoQ while it continues to calibrate growth in unsecured business loans (up 10% QoQ). The share of small ticket LAP increased to 26% by Mar'24 from 24% in Mar'23. PAT was primarily impacted by subdued net revenue (down 3% QoQ) due to change in accounting policy. The same resulted in cost-income ratio increasing to 57% vs 56% QoQ. Sharp reduction in provision to INR 177mn vs INR 227mn QoQ resulted in PAT growth of 3% QoQ to INR 677mn. Provision coverage remains same across products. The decline seen in ECL coverage to 1.2% vs 1.4% QoQ is due to the change in mix.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Interest Income (INR mn)	6,381	8,121	10,444	13,336
PAT (INR mn)	1,802	2,447	3,288	4,331
EPS (INR)	5.6	7.6	10.2	13.5
% Chg YoY	73.9	35.8	34.4	31.7
P/E (x)	22.9	16.9	12.6	9.5
P/BV (x)	3.0	1.8	1.6	1.4
Gross Stage - 3 (%)	2.0	1.7	1.7	1.7
RoA (%)	2.3	2.4	2.6	2.7
RoE (%)	14.4	13.5	13.6	15.4

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#### Market Data

Market Cap (INR)	47bn
Market Cap (USD)	568mn
Bloomberg Code	FEDFINA In Equity
Reuters Code	FEED.BD
52-week Range (INR)	154 / 109
Free Float (%)	28.0
ADTV-3M (mn) (USD)	0.9

Price Performance (%)	3m	6m	12m
Absolute	(2.3)	0.0	0.0
Relative to Sensex	(6.1)	0.0	0.0

Earnings Revisions (%)	FY25E	FY26E
Revenue	(8)	(7)
EPS	(3)	(2)

#### Previous Reports

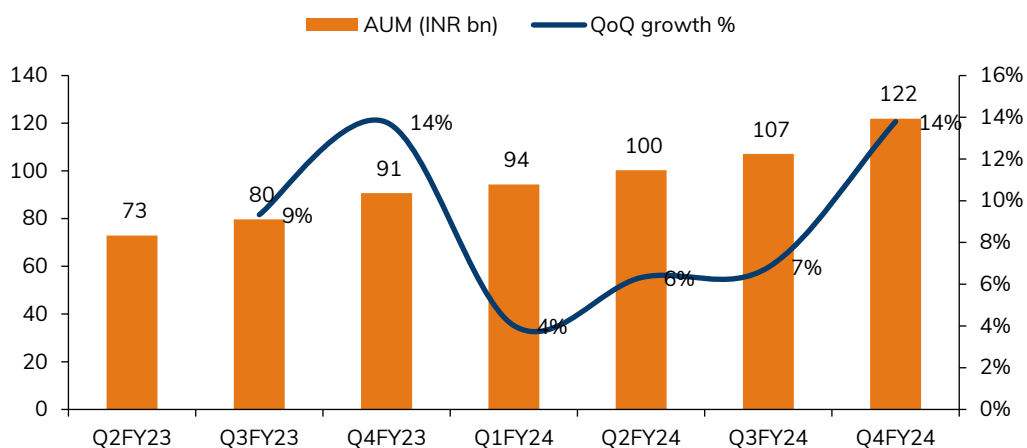
17-02-2024: [Initiating Coverage](#)

**Exhibit 1: Q4FY24 result review**

Income statement (INR mn)	Q4FY23	Q3FY24	Q4FY24	% YoY	% QoQ
Interest income (inc DA income)	3,175	3,924	3,838	20.9	(2.2)
Interest expense	1,410	1,758	1,733	22.9	(1.4)
NII	1,765	2,166	2,105	<b>19.3</b>	<b>(2.8)</b>
Non-interest income	292	371	439	50.5	18.4
<b>Total net income</b>	<b>2,056</b>	<b>2,537</b>	<b>2,544</b>	<b>23.7</b>	<b>0.3</b>
Employee Benefit Expense	689	835	858	24.5	2.7
Depreciation	111	97	95	(14.6)	(2.7)
Fees and commission expense	60	55	71	18.1	29.3
Other expenses	375	446	435	15.9	(2.3)
<b>Operating expenses</b>	<b>1,235</b>	<b>1,432</b>	<b>1,458</b>	<b>18.1</b>	<b>1.8</b>
<b>Pre-provisioning profit (PPoP)</b>	<b>821</b>	<b>1,105</b>	<b>1,086</b>	<b>32.3</b>	<b>(1.7)</b>
Provisions and write offs	119	227	177	49.6	(21.8)
<b>PBT</b>	<b>703</b>	<b>878</b>	<b>909</b>	<b>29.3</b>	<b>3.5</b>
Tax expenses	158	224	232	46.4	3.6
<b>PAT</b>	<b>390</b>	<b>654</b>	<b>677</b>	<b>73.3</b>	<b>3.4</b>
<b>EPS (Rs)</b>	<b>1.2</b>	<b>1.9</b>	<b>1.8</b>	<b>51.2</b>	<b>(4.7)</b>
<b>Balance Sheet (INR mn)</b>	<b>Q4FY23</b>	<b>Q3FY24</b>	<b>Q4FY24</b>	<b>% YoY</b>	<b>% QoQ</b>
Share capital	3,219	3,690	3,694	14.8	0.1
Reserves & surplus	9,352	17,947	18,914	102.2	5.4
<b>Shareholders' funds</b>	<b>12,571</b>	<b>21,637</b>	<b>22,608</b>	<b>79.8</b>	<b>4.5</b>
<b>Borrowings</b>	<b>57,823</b>	<b>79,889</b>	<b>82,146</b>	<b>42.1</b>	<b>2.8</b>
Other Liabilities and provisions	3,775	5,014	6,624	75.5	32.1
<b>Total Liabilities and SHE</b>	<b>74,169</b>	<b>1,06,540</b>	<b>1,11,378</b>	<b>50.2</b>	<b>4.5</b>
Cash & bank balances	1,432	10,967	1,855	29.6	(83.1)
<b>Loans</b>	<b>66,377</b>	<b>87,449</b>	<b>98,225</b>	<b>48.0</b>	<b>12.3</b>
Investments	3,649	4,794	7,513	105.9	56.7
Other financial assets & receivables	383	1,155	1,768	361.5	53.0
Non-Financial Assets	2,328	2,174	2,018	(13.3)	(7.2)
<b>Total Assets</b>	<b>74,169</b>	<b>1,06,540</b>	<b>1,11,378</b>	<b>50.2</b>	<b>4.5</b>
<b>Key financial metrics</b>	<b>Q4FY23</b>	<b>Q3FY24</b>	<b>Q4FY24</b>	<b>% YoY</b>	<b>% QoQ</b>
<b>AUM (INR mn)</b>	<b>90,696</b>	<b>1,07,139</b>	<b>1,21,919</b>	<b>34.4</b>	<b>13.8</b>
-Mortgage (INR mn)	45,064	54,707	62,179	38.0	13.7
-Gold loan (INR mn)	29,860	34,036	39,694	32.9	16.6
-Business loans (INR mn)	14,543	16,638	18,255	25.5	9.7
-Others (INR mn)	1,229	1,758	1,791	45.7	1.9
<b>Disbursements (INR mn)</b>	<b>32,038</b>	<b>33,441</b>	<b>43,361</b>	<b>35.3</b>	<b>29.7</b>
-Mortgage (INR mn)	6,959	7,588	10,660	53.2	40.5
-Gold loan (INR mn)	21,753	22,239	28,486	31.0	28.1
-Business loans (INR mn)	3,326	3,614	4,215	26.7	16.6
Calculated yield (%)	16.5	18.0	16.4	-13 bps	-161 bps
Calculated borrowing cost (%)	8.0	8.7	8.6	51 bps	-16 bps
Spreads (%)	8.4	9.3	7.8	-65 bps	-146 bps
Op cost as % of avg assets	5.6	5.5	5.3	-31 bps	-20 bps
Cost to income (%)	60.1	56.5	57.3	-280 bps	80 bps
Gross Stage 3 (%)	2.0	2.2	1.7	-33 bps	-50 bps
Net Stage 3 (%)	1.6	1.7	1.3	-29 bps	-40 bps
Provision coverage ratio (%)	22.2	24.5	20.4	-184 bps	-415 bps
Credit cost as a % of avg AUM [annualized]	0.6	0.9	0.6	6 bps	-26 bps
RoA reported (%)	1.8	2.5	2.5	70 bps	0 bps
RoE reported (%)	11.7	14.3	12.2	49 bps	-210 bps

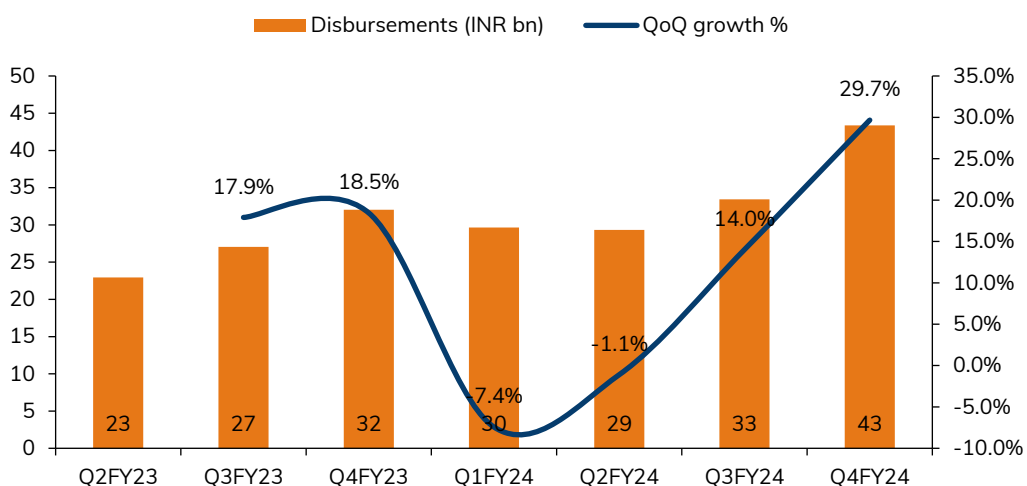
Source: Company data, I-Sec research

**Exhibit 2: Robust AUM growth at 14%/34% QoQ/YoY...**



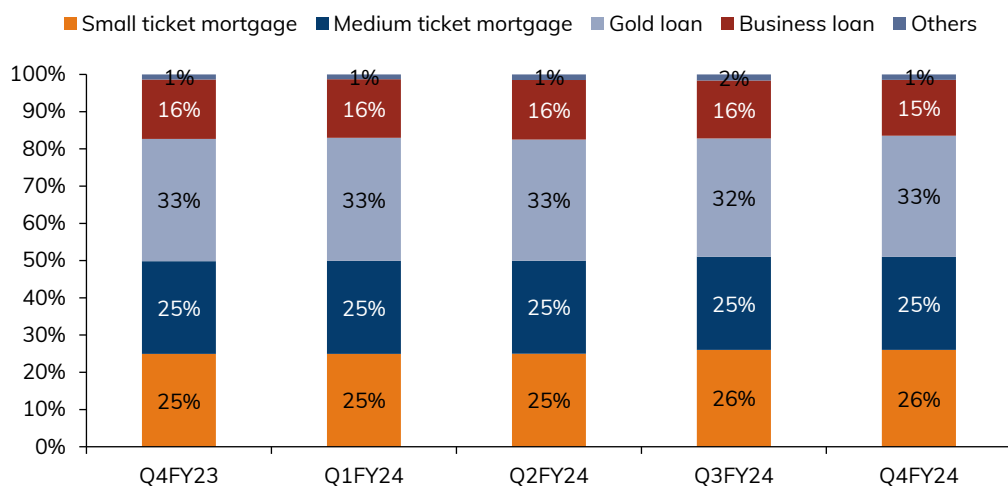
Source: Company data, I-Sec research

**Exhibit 3: ...supported by strong growth in disbursements which grew at 30%/35% QoQ/YoY**



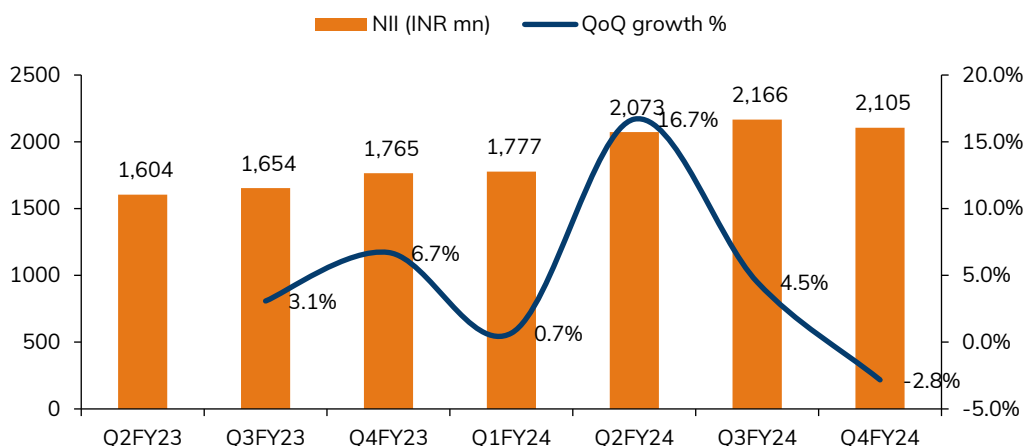
Source: Company data, I-Sec research

**Exhibit 4: Diversified portfolio mix with strategy of building up small-ticket mortgage book**



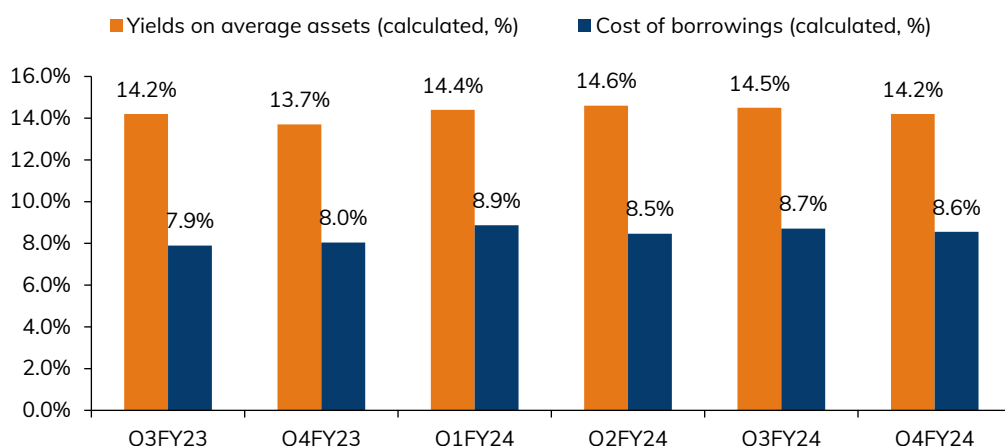
Source: Company data, I-Sec research

**Exhibit 5: NII down QoQ by 2.8% due to change in income recognition of DA book; however, core NII (ex-DA income) went up 6% QoQ**



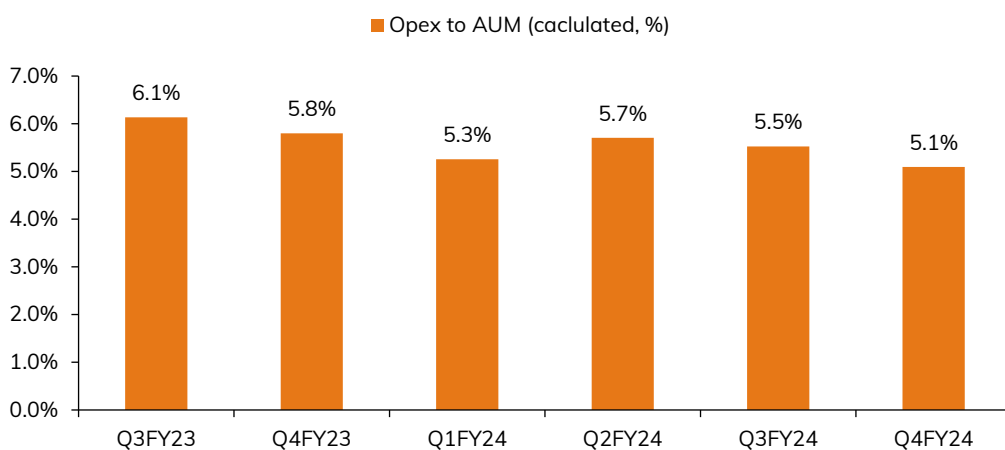
Source: Company data, I-Sec research

**Exhibit 6: Yields on average assets contracted 30bps owing to high disbursement in co-lending model**



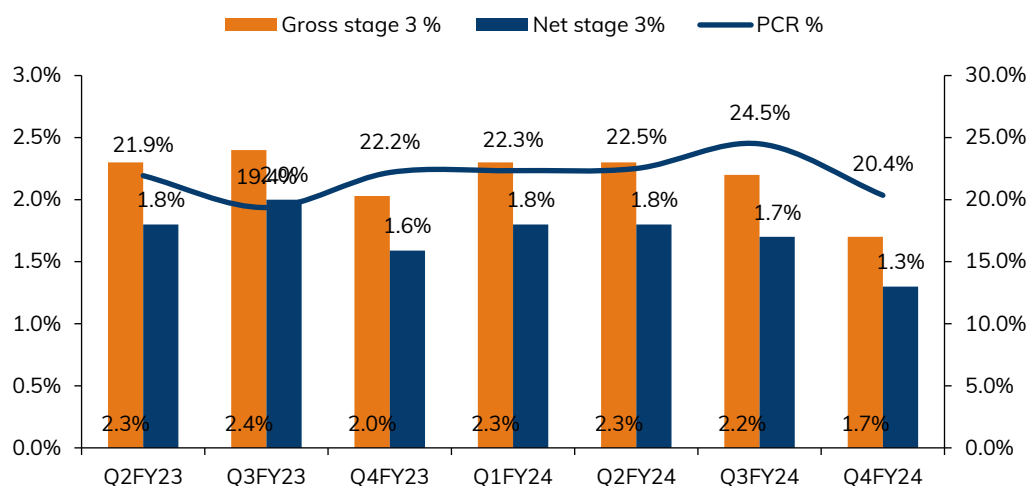
Source: Company data, I-Sec research

**Exhibit 7: Opex to AUM improved by 40bps QoQ to 5.1%**



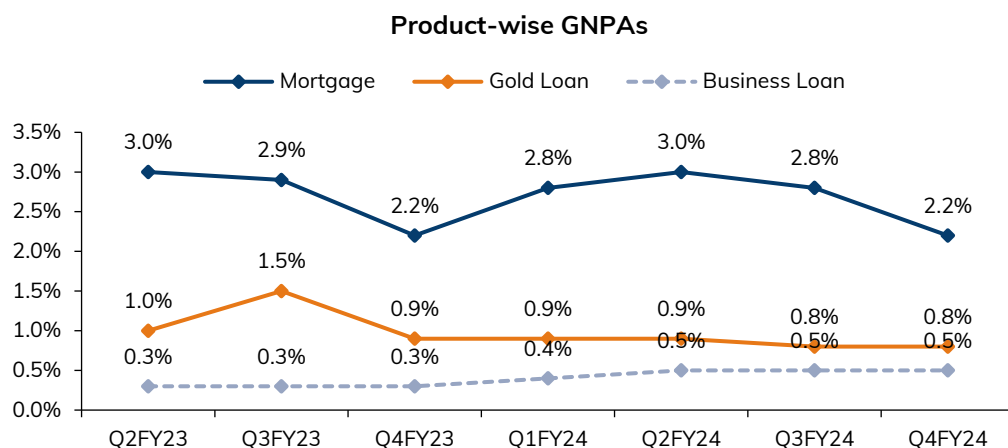
Source: Company data, I-Sec research

**Exhibit 8: Overall gross stage 3 down 50bps QoQ...**



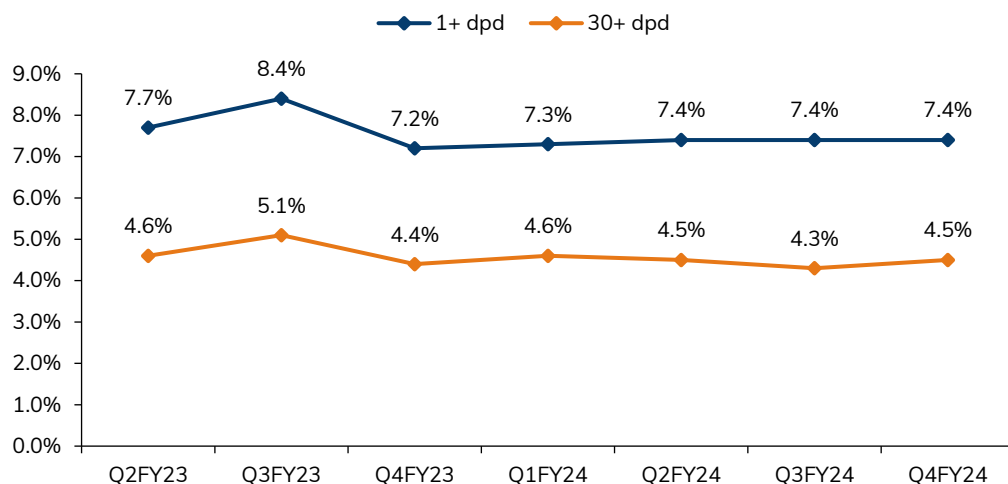
Source: Company data, I-Sec research

**Exhibit 9: ...driven by reduction in mortgage loans (51% of AUM) GNPA's**

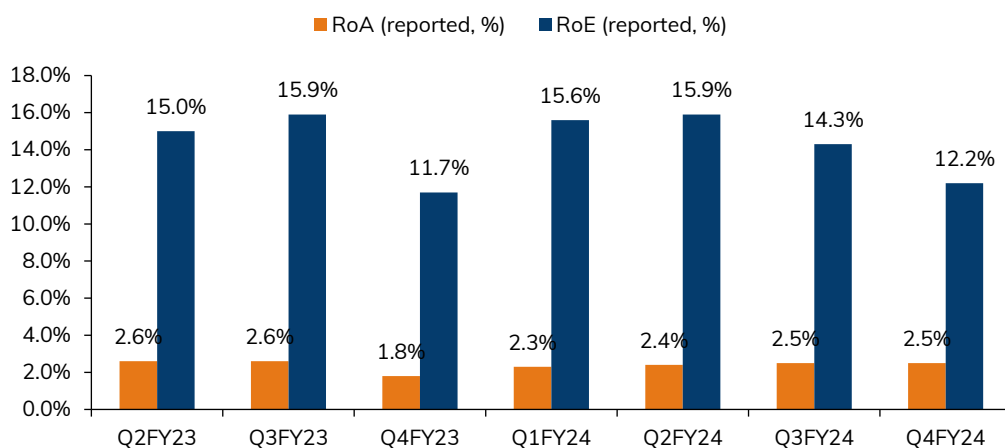


Source: Company data, I-Sec research

**Exhibit 10: Early delinquencies remained steady across quarters**



Source: Company data, I-Sec research

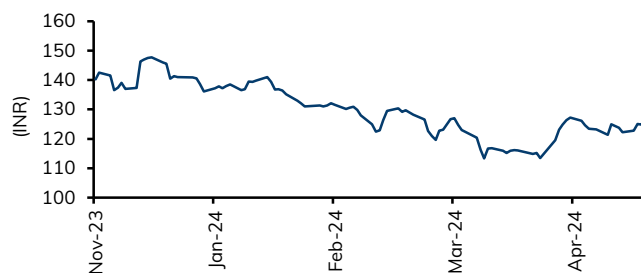
**Exhibit 11: RoA sustained at ~2.5%**

Source: Company data, I-Sec research

**Exhibit 12: Shareholding pattern**

%	Dec'23	Mar'24
Promoters	61.7	61.6
Institutional investors	25.3	24.3
MFs and others	2.4	2.6
FIs/Banks	0.0	0.0
Insurance	7.5	6.6
FIIIs	15.4	15.1
Others	13.0	14.1

Source: Bloomberg

**Exhibit 13: Price chart**

Source: Bloomberg

## Financial Summary

### Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest Income	11,102	14,917	19,153	24,357
Net gain on fair value changes	126	199	251	317
Interest Expenses	(4,722)	(6,796)	(8,709)	(11,022)
<b>Net Interest Income (NII)</b>	<b>6,381</b>	<b>8,121</b>	<b>10,444</b>	<b>13,336</b>
Other Income	359	458	556	701
<b>Total Income (net of interest expenses)</b>	<b>7,426</b>	<b>9,434</b>	<b>12,066</b>	<b>15,375</b>
Employee benefit expenses	(2,476)	(3,178)	(3,973)	(4,966)
Depreciation and amortization	(419)	(374)	(448)	(538)
Fee and commission expenses	(233)	(229)	(320)	(448)
Other operating expenses	(1,225)	(1,715)	(2,058)	(2,469)
<b>Total Operating Expense</b>	<b>(4,352)</b>	<b>(5,495)</b>	<b>(6,799)</b>	<b>(8,421)</b>
<b>Pre Provisioning Profits (PPoP)</b>	<b>3,073</b>	<b>3,939</b>	<b>5,267</b>	<b>6,954</b>
Provisions and write offs	(489)	(659)	(832)	(1,111)
<b>Profit before tax (PBT)</b>	<b>2,431</b>	<b>3,281</b>	<b>4,436</b>	<b>5,843</b>
Total tax expenses	(629)	(834)	(1,148)	(1,512)
<b>Profit after tax (PAT)</b>	<b>1,802</b>	<b>2,447</b>	<b>3,288</b>	<b>4,331</b>

Source Company data, I-Sec research

### Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share capital	3,219	3,694	3,694	3,694
Reserves & surplus	10,338	18,914	22,202	26,534
<b>Shareholders' funds</b>	<b>13,557</b>	<b>22,608</b>	<b>25,896</b>	<b>30,228</b>
Borrowings	71,358	82,146	1,03,154	1,36,450
Provisions & Other Liabilities	5,795	6,624	14,633	11,950
<b>Total Liabilities and Stakeholder's Equity</b>	<b>90,710</b>	<b>1,11,378</b>	<b>1,43,684</b>	<b>1,78,628</b>
Cash and balance with RBI	946	1,855	9,893	12,347
Fixed assets	1,463	1,458	1,604	1,765
<b>Loans</b>	<b>79,997</b>	<b>98,225</b>	<b>1,23,538</b>	<b>1,54,181</b>
Investments	6,806	7,513	6,177	7,709
Deferred tax assets (net)	218	22	24	26
Other Assets	1,279	2,306	2,448	2,600
<b>Total Assets</b>	<b>90,710</b>	<b>1,11,378</b>	<b>1,43,684</b>	<b>1,78,628</b>

Source Company data, I-Sec research

**Exhibit 16: Key ratios**

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>AUM and Disbursements (INR mn)</b>				
AUM	90,696	1,21,919	1,55,897	1,94,568
On-book Loans	81,027	99,163	1,24,718	1,55,654
Off-book Loans	9,669	22,756	31,179	38,914
Disbursements	1,07,487	1,35,788	1,76,334	2,18,345
<b>Growth (%):</b>				
Total AUM (%)	46.6	34.4	27.9	24.8
Disbursements (%)	43.9	26.3	29.9	23.8
Loan book (on balance sheet) (%)	40.6	22.4	25.8	24.8
Total Assets (%)	38.4	22.8	29.0	24.3
Net Interest Income (NII) (%)	34.5	27.3	28.6	27.7
Non-interest income (%)	60.6	21.3	23.1	25.6
Total Income (net of interest expenses) (%)	38.5	27.1	27.9	27.4
Operating Expenses (%)	39.1	26.3	23.7	23.9
Employee Cost (%)	41.2	28.4	25.0	25.0
Non-Employee Cost (%)	42.3	40.0	20.0	20.0
Pre provisioning operating profits (PPoP) (%)	37.8	28.2	33.7	32.0
Provisions (%)	(41.7)	34.7	26.3	33.6
PBT (%)	74.6	35.0	35.2	31.7
PAT (%)	74.1	35.8	34.4	31.7
EPS (%)	73.9	35.8	34.4	31.7
<b>Yields, interest costs and spreads (%)</b>				
NIM on loan assets (%)	9.4	9.1	9.4	9.6
NIM on IEA (%)	8.2	7.5	7.2	7.2
NIM on AUM (%)	8.4	7.6	7.5	7.6
Yield on loan assets (%)	16.3	16.7	17.3	17.5
Yield on IEA (%)	14.3	13.8	13.2	13.1
Yield on AUM (%)	14.6	14.0	13.8	13.9
Cost of borrowings (%)	7.8	8.9	9.4	9.2
Interest Spreads (%)	8.5	7.9	7.9	8.3
<b>Operating efficiencies</b>				
Non interest income as % of total income	52.5	50.0	50.3	50.5
Cost to income ratio	58.6	58.2	56.3	54.8
Op.costs/avg assets (%)	5.6	5.4	5.3	5.2
Op.costs/avg AUM (%)	5.7	5.2	4.9	4.8
Salaries as % of non-interest costs (%)	56.9	57.8	58.4	59.0
<b>Capital Structure</b>				
Average gearing ratio (x)	5.3	3.6	4.0	4.5
Leverage (x)	6.7	4.9	5.5	5.9
CAR (%)	17.9	17.1	15.8	15.4
Tier 1 CAR (%)	15.1	14.7	14.0	13.9
Tier 2 CAR (%)	2.9	2.3	1.8	1.4
RWA (estimate) - INR mn	81,402	99,949	1,28,939	1,60,298
RWA as a % of loan assets	101.8	101.8	104.4	104.0

Source Company data, I-Sec research

	FY23A	FY24A	FY25E	FY26E
<b>Asset quality and provisioning</b>				
GNPA (%)	2.0	1.7	1.7	1.7
NNPA (%)	1.6	1.3	1.3	1.3
GNPA (INR mn)	1,645	1,646	2,070	2,584
NNPA (INR mn)	1,280	1,311	1,649	2,058
Coverage ratio (%)	22.2	20.4	20.4	20.4
Credit Costs as a % of avg AUM (bps)	64	62	60	63
Credit Costs as a % of avg on book loans (bps)	71	73	74	79
<b>Return ratios</b>				
RoAA (%)	2.3	2.4	2.6	2.7
RoAE (%)	14.4	13.5	13.6	15.4
ROAAUM (%)	2.4	2.3	2.4	2.5
<b>Valuation Ratios</b>				
No of shares	322	322	322	322
No of shares (fully diluted)	322	322	322	322
ESOP Outstanding	-	-	-	-
EPS (INR)	5.6	7.6	10.2	13.5
EPS fully diluted (INR)	5.6	7.6	10.2	13.5
Price to Earnings (x)	22.9	16.9	12.6	9.5
Price to Earnings (fully diluted) (x)	22.9	16.9	12.6	9.5
Book Value (fully diluted)	42	70	80	94
Adjusted book value	39	67	77	89
Price to Book	3.0	1.8	1.6	1.4
Price to Adjusted Book	3.3	1.9	1.7	1.4

Source Company data, I-Sec research

**Exhibit 17: Key metrics**

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>DuPont Analysis</b>				
Average Assets (INR mn)	78,133	1,01,044	1,27,531	1,61,156
Average Loans (INR mn)	68,223	89,111	1,10,881	1,38,859
Average Equity (INR mn)	12,546	18,083	24,252	28,062
Interest earned (%)	14.2	14.8	15.0	15.1
Net gain on fair value changes (%)	0.2	0.2	0.2	0.2
Interest expended (%)	6.0	6.7	6.8	6.8
<b>Gross Interest Spread (%)</b>	<b>8.2</b>	<b>8.0</b>	<b>8.2</b>	<b>8.3</b>
Credit cost (%)	0.6	0.7	0.7	0.7
<b>Net Interest Spread (%)</b>	<b>7.5</b>	<b>7.4</b>	<b>7.5</b>	<b>7.6</b>
Operating cost (%)	5.3	5.2	5.1	4.9
<b>Lending spread (%)</b>	<b>2.3</b>	<b>2.2</b>	<b>2.5</b>	<b>2.6</b>
Non interest income (%)	1.2	1.1	1.1	1.1
<b>Operating Spread (%)</b>	<b>3.4</b>	<b>3.3</b>	<b>3.5</b>	<b>3.7</b>
Tax rate (%)	25.9	25.4	25.9	25.9
<b>ROAA (%)</b>	<b>2.3</b>	<b>2.4</b>	<b>2.6</b>	<b>2.7</b>
Effective leverage (AA/ AE)	6.2	5.6	5.3	5.7
<b>RoAE (%)</b>	<b>14.4</b>	<b>13.5</b>	<b>13.6</b>	<b>15.4</b>

Source Company data, I-Sec research

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