

Steady quarter

- Federal bank reported in-line NII growth at 15% YoY, with stable NIM at 3.2%. Operating profits (-17% YoY) were impacted by one-time wage hike related pension provisions of Rs1.62bn. However, negative credit costs driven by strong recoveries and reversal of standard provisions helped restore profitability, with RoA at 1.2%.
- Management guided for RoA expansion by 4-5 bps in FY25. Even as we factor in lower NIM moderation relative to peers and operating leverage over FY25-26E, RoAs at 1.2% for FY25/26E remain lower vs FY24 owing to normalization in credit costs (40-45 bps) and missing one-off treasury gains (Fedfina stake sale in FY24).
- Earnings for FY26E benefit from lower opex assumptions. We maintain "Accumulate" rating with TP of Rs185 (from Rs 165), valuing the bank at 1.3x FY26E P/ABV against RoA/RoE of 1.2%/14%. While strong growth from high yielding segments has helped NIM, their seasoning and impact on credit costs remains a monitorable.

Margins benefit from improved yields

Despite rising CoF, stable NIM at 3.21% (+2 bps QoQ) benefitted from rising share of higher yielding segments and interest reversal from robust recoveries. Management guided for 2-3 bps higher NIM for FY25E as it expects yield uptick to be more pronounced hereon. We build in lower NIM moderation relative to peers, but factor in 3-5 bps NIM decline over FY25/26E vs 10 bps in FY24.

Growth driven by high yielding focus segments

Loan growth during the quarter was led by retail, at 5% QoQ followed by SME (+3% QoQ. Higher yielding focus segments grew like CC, CV, and MFI grew at 10%/13%/25% QoQ respectively (off a low base). We factor in 16-17% YoY for FY25/26E vs 20% in FY24. Unsecured loans (PL/CC/MFI) now constitute 5% of advances vs 3% a year ago.

Negative credit costs aid profitability

Apart from low slippages at 0.8%, decline in restructured book (-13 bps to 1%), and healthy recoveries, credit costs also benefited from reversal of standard restructured provisions and some fee related provision charges incurred in Q3FY24. Restructured book PCR now stands at +15% (20% in Q3). Seasoning of higher yielding books and lower incremental benefit from standard provision reversals will impact credit costs going forward. We build normalized credit costs of 40-45 bps over FY25/26E against 52/11 bps over FY23/24 respectively.

Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net interest income	21,951	19,093	15.0	21,230	3.4
Other income	7,539	7,339	2.7	8,626	(12.6)
Total Net Income	29,490	26,432	11.6	29,856	(1.2)
Operating expenses	18,386	13,086	40.5	15,486	18.7
Pre-provision profits	11,104	13,346	(16.8)	14,370	(22.7)
Provisions	(946)	1,167	NA	912	NA
Tax expense	2,987	3,153	(5.3)	3,394	(12.0)
Reported Net Profit	9,063	9,026	0.4	10,064	(9.9)
			(bps)		(bps)
Advances Growth YoY (%)	20.0	20.4	33	18.4	160
NIM (%)	3.2	3.3	(10)	3.2	2
RoA (%)	1.2	1.4	(22)	1.4	(16)
RoE (%)	12.8	17.5	(473)	14.8	(205)
Gross NPA (%)	2.1	2.4	(23)	2.3	(16)

CMP	Rs 168
Target / Upside	Rs 185 / 10%
NIFTY	22,648

Scrip Details

Equity / FV	Rs 4,871mn / Rs 2
Market Cap	Rs 409bn
	USD 4.9bn
52-week High/Low	Rs 170/ 121
Avg. Volume (no)	16,503,400
Bloom Code	FB IN

Price Performance	1M	3M	12M
Absolute (%)	9	15	23
Rel to NIFTY (%)	8	12	(7)

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	0.0	0.0	0.0
MF/Banks/FIs	45.7	44.4	45.2
FIs	27.0	29.4	28.6
Public / Others	27.3	26.2	26.3

Valuation (x)

	FY24A	FY25E	FY26E
P/E	11.0	10.2	8.7
P/ABV	1.5	1.3	1.2
ROAA	1.3	1.2	1.2
ROAE	14.7	13.0	13.5

Estimates (Rs bn)

	FY24A	FY25E	FY26E
NII	82.9	97.0	111.8
PPOP	51.7	61.8	74.2
PAT	37.2	40.2	46.8
Adj BV (Rs)	111.5	128.2	142.9

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Risks to our view: Weaker than anticipated macro-economic trends could adversely impact growth, asset quality, NIM (lower than expected) and opex (higher than expected).

Exhibit 1: Actual v/s estimates

Particulars (Rs mn)	Actual	Estimated	% Variance
NII	21,951	21,848	0.5
Operating Profit	11,104	13,366	(16.9)
PAT	9,063	9,322	(2.8)

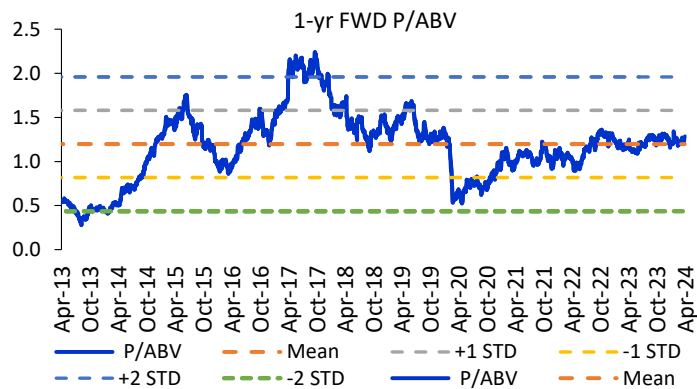
Source: Company, DART

Exhibit 2: Earnings Estimates

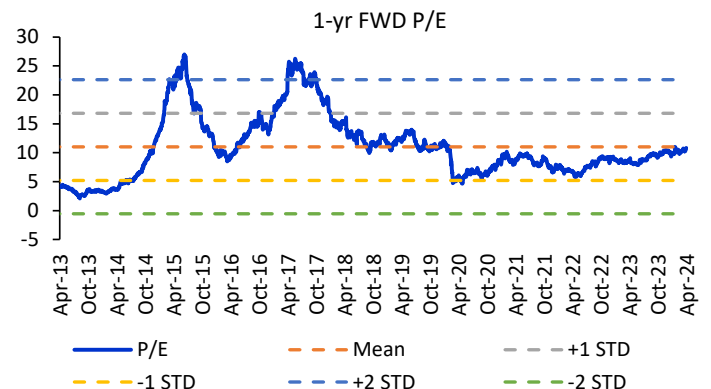
Particulars (Rs mn)	Previous		Revised		Change %	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Op Rev	132,011	152,315	131,074	152,940	(0.7)	0.4
PPOP	62,729	71,455	61,770	74,155	(1.5)	3.8
PAT	39,020	43,331	40,157	46,816	2.9	8.0

Source: Company, DART

Exhibit 3: The bank trades at 1.3x 1-yr forward P/ABV and 11x 1-yr forward P/E



Source: Company, DART



Source: Company, DART

Earnings Call KTAs

- **Guidance:** Guided for 4-5 bps expansion in RoAs and 30 bps credit costs for FY25. Drivers of RoA will include NIM expansion and fee traction. Expect CoF to continue to rise marginally for the next couple of quarters. 20-25% growth in fee lines expected. 18-20% business growth to sustain. Unsecured share to be capped at 10%. C/I to be 50% in FY25 and will decline from there on.
- **Margins:** NIMs could inch up by 2-3 bps in FY25. NIM this quarter did benefit from higher interest reversal owing to strong recoveries. Yields should continue to improve led by small actions on granularization etc across many products. Yields increase has been lower vs peers at 150 bps through the cycle as the bank doesn't trade risk for growth. As it pivots to higher yielding businesses, yield uptick should get little more pronounced.
- **Opex-** Opex included pension impact of Rs1.62bn in Q4 and Rs2bn of wage and pension related provisions in FY24. Ex of this, staff costs to rise by 5% from Q4 run rate. Investment in new branches, CASA, and distribution costs to continue. Q4 had some impact of higher IT spends as well. 6% of opex towards tech investments in FY24, which could rise to 8%. In FY25, minimum 100 branches to be opened. Breakeven in branches is faster now. Variable costs will continue to be in-line with business growth.
- **Asset quality:** No one-off in recovery and upgrades during the quarter. No AIF provisions in Q4/Q3. On reversal in 'other provisions' in Q4, extra provision in Q3 were made on fee charges, which has been reversed in Q4. This resulted in lower fee, but also lower provisions in Q4. Restructured book PCR at over 15% vs 20% last quarter.
- **Deposits –** NRI flows are more in TDs instead of SA. Post COVID, NR remittances and its behaviour has altered. NR deposits are now being used for paying off debt, setting up new businesses etc and not going directly into deposits. Also, remittances outside of Middle East (to Kerala) have been moving towards FCNR where the bank is not a big player.
- **Retail gold loans-** While retail gold book growth was softer QoQ, organic growth was robust. The bank does not encourage top-ups in GL.
- **Co-branded credit cards restrictions-** Expect co-branded credit cards to resume shortly, as the bank has responded to RBI with corrective action on partnerships. Partnerships to continue in credit cards. PL loans are not necessarily tied to credit cards. Cross sell is mainly to SA customers, and not CC customers currently.
- **Succession plan-** In two about weeks' time, board to share with RBI list of probable candidates for CEO role. And in about 4 months' time, investors should have clarity on succession plan.

Quarterly Financials

Profit and Loss (Rs mn)	Q4FY24	Q4FY23	% YoY / bps	Q3FY24	% QoQ / bps	FY24	FY23	% YoY / bps
Interest Income	59,784	47,207	26.6	57,301	4.3	226,115	171,136	32.1
Yield on Advances (%)	9.48	9.13	35	9.37	11	9.35	8.54	82
Interest Expenses	37,832	28,115	34.6	36,067	4.9	138,948	95,715	45.2
Cost of Dep. (%)	5.90	5.12	78	5.73	17	5.62	4.56	106
Net Interest Income	21,951	19,093	15.0	21,234	3.4	87,167	75,421	15.6
NII to Net Operative Income	74.4	72.2	220	71.1	333	73.7	76.4	(269)
NIM (%)	3.21	3.31	(10)	3.19	2	3.19	3.33	(14)
Risk Adjusted NIM	3.20	3.17	3	2.96	24	3.02	3.06	(4)
Loan Processing Fee	186	1,320	(85.9)	1,490	(87.5)	24,870	4,890	408.6
Other Fee Income	5,544	3,840	44.4	4,340	27.7	17,384	13,136	32.3
Forex Operations	470	260	80.8	590	(20.3)	2,180	2,630	(17.1)
Core Fee Income	6,500	5,420	19.9	6,420	1.2	24,870	20,656	20.4
Profit on Sale / Rev of Investments	420	400	5.0	1,540	(72.7)	2,470	780	216.7
Other Income - Total	7,539	7,339	2.7	8,630	(12.6)	31,090	23,300	33.4
Other Inc to Net Oper. Income (%)	25.6	27.8	(220)	28.9	(333)	26.3	23.6	269
Net Operating Revenue	29,490	26,432	11.6	29,864	(1.3)	118,257	98,721	19.8
Employee Expenses	8,869	5,972	48.5	6,932	28.0	28,231	21,730	29.9
Employee Exp. / Assets	1.2	1.0	26	1.0	25	1.0	0.9	9
Other Opex	9,518	7,114	33.8	8,554	11.3	33,752	25,948	30.1
Other Opex/ Assets (%)	0.3	0.3	4	0.3	3	1.2	1.1	11
Total Opex	18,386	13,086	40.5	15,486	18.7	61,983	47,678	30.0
Cost to Income Ratio (%)	62.3	49.5	1,284	51.9	1,049	52.4	48.3	412
Pre Provision Profits	11,104	13,346	(16.8)	14,378	(22.8)	56,274	51,044	10.2
Provisions & Contingencies - Total	(946)	1,170	NA	910	NA	1,964	7,499	(73.8)
NPA Provisions as % PPP	(8.5)	8.8	NA	6.3	NA	3.5	14.7	(1,120)
Profit Before Tax	12,050	12,176	(1.0)	13,468	(10.5)	54,310	43,545	24.7
Tax	2,987	3,153	(5.3)	3,394	(12.0)	12,578	10,339	21.7
Effective Tax Rate (%)	24.8	25.9	(111)	25.2	(41.4)	23.2	23.7	(58)
Reported Profits	9,063	9,023	0.4	10,074	(10.0)	41,732	33,206	25.7
RoA (%)	1.22	1.44	(22)	1.39	(17.0)	1.32	1.28	4
Basic EPS (Rs)	3.72	4.27	(12.9)	4.41	(15.6)	16.07	14.27	12.6

Source: DART, Company

Balance Sheet Analysis	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ % / bps	YoY % / bps
Net Worth	205,880	215,062	223,760	261,188	281,720	290,944	3.3	35.3
RoE (%)	15.9	17.5	15.7	15.7	14.8	12.8	(205)	(473)
Tier 1 (%)	12.1	13.0	12.5	13.8	13.5	14.6	113	159
Total CAR (%)	13.4	14.8	14.3	15.5	15.0	16.1	111	132
RWA - Total	1,450,230	1,569,160	1,627,420	1,693,930	1,810,730	1,896,900	4.8	20.9
Net Advances - Total	1,681,730	1,744,469	1,834,870	1,928,167	1,991,850	2,094,033	5.1	20.0
Investments	462,650	489,834	519,420	551,691	573,730	608,595	6.1	24.2
Total Assets	2,504,720	2,603,418	2,741,960	2,874,260	2,962,130	3,083,118	4.1	18.4
RoA (%)	1.32	1.44	1.28	1.36	1.38	1.22	(17)	(22)
Deposits	2,014,080	2,133,860	2,224,960	2,328,684	2,395,910	2,525,340	5.4	18.3
CASA Deposits	689,670	697,410	708,540	725,890	733,880	742,490	1.2	6.5
CASA Ratio (%)	34.2	32.7	31.9	31.2	30.6	29.4	(123)	(328)
Term Deposits	1,324,410	1,436,450	1,516,420	1,602,794	1,662,030	1,782,850	7.3	24.1

Movement of NPA (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ % / bps	YoY % / bps
Gross Advances	1,706,934	1,772,784	1,863,349	1,962,854	2,021,306	2,126,230	5.2	19.9
Gross NPA	41,479	41,838	44,348	44,361	46,288	45,289	(2.2)	8.2
Gross NPA Ratio (%)	2.43	2.36	2.38	2.26	2.29	2.13	(16)	(23)
PCR - Calculated (%)	70.4	71.2	71.3	72.3	72.3	72.3	3	108
Net NPA	12,286	12,050	12,746	12,298	12,844	12,553	(2.3)	4.2
Net NPA Ratio (%)	0.73	0.69	0.69	0.64	0.64	0.60	(4)	(9)

Loan Book Analysis (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ % / bps	YoY % / bps
Corporates	621,830	657,310	671,400	705,590	719,780	735,960	2.2	12.0
SME	310,330	310,630	334,630	357,260	374,540	385,600	3.0	24.1
BuB	142,380	140,950	150,980	159,970	166,800	170,730	2.4	21.1
CoB (wholesale)	167,950	169,680	183,650	197,290	207,740	214,870	3.4	26.6
Agri	220,500	219,190	233,120	251,150	266,470	280,970	5.4	28.2
Retail	557,780	582,630	608,790	647,430	680,980	708,760	4.1	21.6
CV/CE	18,410	21,860	24,570	27,340	30,570	34,420	12.6	57.5
Housing	241,010	270,030	255,280	264,540	272,260	280,210	2.9	3.8
Mortgage	95,730	99,840	103,890	108,920	113,520	117,640	3.6	17.8
Auto	51,290	54,480	57,700	63,010	67,750	73,020	7.8	34.0
PL	19,570	23,930	28,020	32,320	36,470	38,450	5.4	60.7
Others-retail	74,040	80,560	95,490	82,850	87,230	88,690	1.7	10.1
Gold	195,200	198,410	209,270	226,080	239,170	252,260	5.5	27.1
Non- Agri Gold	47,600	43,130	43,820	45,370	45,400	45,730	0.7	6.0
Advances – Total	1,710,440	1,769,760	1,847,940	1,961,430	2,041,770	2,145,760	5.1	21.2
Unsecured share	2%	3%	3%	4%	4%	5%	39	178

Source: DART, Company

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY23A	FY24A	FY25E	FY26E
Interest Income	168,036	221,883	260,425	302,234
Interest expenses	95,715	138,959	163,433	190,456
Net interest income	72,322	82,923	96,991	111,778
Other incomes	23,300	30,790	34,082	41,162
Total expenses	47,678	61,983	69,304	78,785
- Employee cost	21,730	28,231	30,489	34,148
- Other	25,948	33,752	38,815	44,637
Pre provisioning profit	47,944	51,731	61,770	74,155
Provisions	7,499	1,960	7,868	11,316
Profit before taxes	40,445	49,771	53,902	62,840
Tax provision	10,339	12,578	13,745	16,024
Profit after tax	30,106	37,193	40,157	46,816
Adjusted profit	30,106	37,193	40,157	46,816

Balance Sheet (Rs Mn)

Particulars	FY23A	FY24A	FY25E	FY26E
Sources of Funds				
Equity Capital	4,232	4,871	4,871	4,871
Reserves & Surplus	210,830	286,074	322,718	362,210
Minority Interest	0	0	0	0
Net worth	215,062	290,944	327,589	367,081
Borrowings	193,193	180,264	222,450	296,196
- Deposits	2,133,860	2,525,340	2,955,414	3,406,250
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	61,303	86,570	87,118	92,416
Total Liabilities	2,603,418	3,083,118	3,592,571	4,161,943
Application of Funds				
Cash and balances with RBI	176,887	189,629	220,109	254,427
Investments	489,834	608,595	694,390	792,650
Advances	1,744,469	2,094,033	2,450,019	2,842,022
Fixed assets	9,340	10,201	11,262	12,694
Other current assets, loans and advances	182,889	180,660	216,792	260,150
Total Assets	2,603,418	3,083,118	3,592,571	4,161,943

E – Estimates

Important Ratios

Particulars	FY23A	FY24A	FY25E	FY26E
(A) Margins (%)				
Yield on advances	8.4	9.2	9.2	9.2
Yields on interest earning assets	7.5	8.4	8.3	8.3
Yield on investments	6.3	6.7	6.6	6.6
Costs of funds	4.5	5.5	5.6	5.5
Cost of deposits	4.4	5.4	5.5	5.4
NIMs	3.2	3.1	3.1	3.1
(B) Asset quality and capital ratios (%)				
GNPA	2.4	2.4	2.2	2.4
NNPA	0.7	0.6	0.6	0.7
PCR	71.2	72.3	72.0	72.0
Slippages	1.2	1.2	1.2	1.3
NNPA to NW	5.6	4.3	4.7	5.2
CASA	33.4	29.4	29.0	29.0
CAR	14.8	16.1	15.8	15.3
Tier 1	13.0	14.6	14.3	13.9
Credit - Deposit	81.8	82.9	82.9	83.4
(C) Dupont as a percentage of average assets				
Interest income	7.0	7.8	7.8	7.8
Interest expenses	4.0	4.9	4.9	4.9
Net interest income	3.0	2.9	2.9	2.9
Non interest Income	1.0	1.1	1.0	1.1
Total expenses	2.0	2.2	2.1	2.0
- cost to income	49.9	54.5	52.9	51.5
Provisions	0.3	0.1	0.2	0.3
Tax	0.4	0.4	0.4	0.4
RoA	1.3	1.3	1.2	1.2
Leverage	12.1	10.6	11.0	11.3
RoE	14.9	14.7	13.0	13.5
RoRwa	1.9	2.0	1.9	1.9
(D) Measures of Investments				
EPS - adjusted	14.2	15.3	16.5	19.2
BV	101.6	119.4	134.5	150.7
ABV	93.1	111.5	128.2	142.9
DPS	2.5	1.2	2.5	2.5
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	21.3	14.7	17.0	15.2
PPoP	27.6	7.9	19.4	20.1
Adj PAT	59.3	23.5	8.0	16.6
Advances	20.4	20.0	17.0	16.0
Total borrowings	25.5	(6.7)	23.4	33.2
Total assets	17.8	18.4	16.5	15.8
(F) Valuation Ratios				
Market Cap (Rs. mn)	409,297	409,297	409,297	409,297
CMP (Rs.)	168	168	168	168
P/E (x)	11.8	11.0	10.2	8.7
P/BV (x)	1.7	1.4	1.2	1.1
P/ABV (x)	1.8	1.5	1.3	1.2
Div Yield (%)	1.5	0.7	1.5	1.5

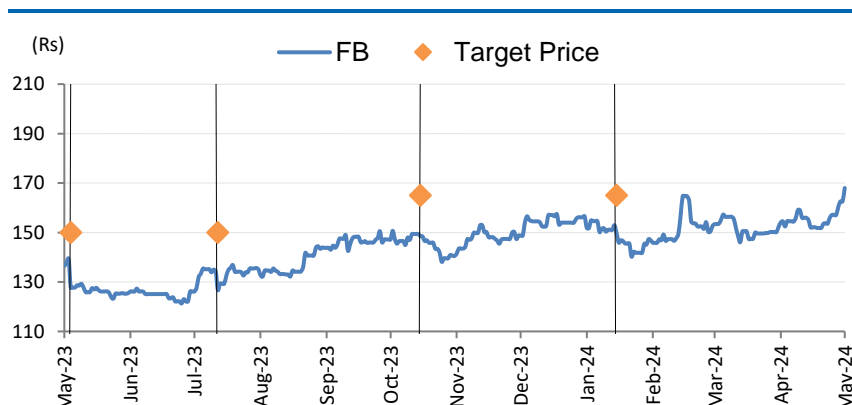
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-23	Accumulate	150	128
Jul-23	Accumulate	150	127
Oct-23	ACCU	165	149
Jan-24	ACCU	165	150

*Price as on recommendation date

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Analyst(s) Certification

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