

## Federal Bank

BUY

NIMs stable QoQ; One off opex impacted profits

## Summary

Federal Bank NIMs remained stable during Q4FY24 led by increase in yield on advances. Credit growth improved to 20% YoY (vs 18% YoY Q3FY24) backed by retail and SME portfolio. Deposits growth stood at 18% YoY vs 19% YoY (Q3FY24). Management guided for 18% credit growth and 16% deposit growth for FY25. Asset quality improved with GNPA at 2.13% vs 2.29% QoQ. NII grew by 3% QoQ; operating profit declined by 23% QoQ led by one off expenses of Rs.1.6bn towards employee retirement benefits. Write back of provisions during Q4FY24 supported the profitability; result RoA to 1.22% (1.39% Q3FY24). Management guided RoA to improve at pace of 5-7bps per annum in FY25. We have maintained estimates and BUY rating with the target price of Rs.200 based on pre-Covid avg. P/ABV of 1.4x FY26.

## Key Highlights and Investment Rationale

- **Credit growth improved:** Loan book grew by 20% YoY (up 5% QoQ) as against 18% YoY (Q3FY24). Retail/Agri/SME grew at 27% YoY/20% YoY/22% YoY respectively, whereas corporate book grew by 14% YoY. Deposits growth declined to 18% YoY vs 19% YoY (Q3FY24).
- **Asset quality improved; slippage ratio declined:** Asset quality improved as GNPA stood at 2.13% vs 2.29% QoQ and NNPA at 0.60% vs 0.64% QoQ. Slippage ratio increased to 0.7% vs 1% QoQ led by wholesale.
- **NIMs increased by 2bps QoQ:** NIMs increased by 2bp QoQ to 3.21% led by rise in yield on advances during the quarter. Cost to income ratio increased to 62.4% vs 51.9% QoQ led by Rs1.6bn provisions on employee retirement.
- **Outlook:** Bank focus on the higher margin products by leveraging on its digital, analytical and branch lite partnership based model should support higher return ratios. We expect RoA to sustain at higher levels (~1.3%).

TP Rs.200

CMP Rs.168

Potential upside/downside 19%

Previous Rating BUY

## Price Performance (%)

	-1m	-3m	-12m
Absolute	9.2	15.2	23.2
Rel to Sensex	8.2	11.7	1.6

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	17.3	20.1
Consensus	17.4	19.9
% difference	(0.3)	0.8

## Key Stock Data

Bloomberg / Reuters	FB IN / FED.BO
Sector	Banking
Shares o/s (mn)	2,437
Market cap. (Rs mn)	409,362
3-m daily avg trd value (Rs mn)	143.3
52-week high / low	Rs170 / 121
Sensex / Nifty	74,611 / 22,648

## Shareholding Pattern (%)

Promoters	0.0
FII	28.6
DII	44.0
Public	27.4

## Financial snapshot

(Rs mn)

Year	FY2022	FY2023	FY2024	FY2025E	FY2026E
NII	59,620	72,322	82,935	99,561	1,15,995
Change (yoy, %)	8%	21%	15%	20%	17%
Net Profit	18,898	30,106	37,206	42,104	49,047
Change (yoy, %)	19%	59%	24%	13%	16%
EPS (Rs)	9.0	14.2	15.3	17.3	20.1
Change (yoy, %)	13%	58%	7%	13%	16%
ABV (Rs)	84.4	97.4	115.6	128.4	143.8
PER (x)	18.7	11.8	11.0	9.7	8.3
P/ABV (x)	2.0	1.7	1.5	1.3	1.2
ROE (%)	10.8	14.9	14.7	13.6	14.0
ROA (%)	0.9	1.3	1.3	1.3	1.3
GNPA (%)	2.8	2.4	2.1	2.1	2.2
NNPA (%)	1.0	0.7	0.6	0.8	1.0
CAR (%)	15.8	14.8	14.5	14.1	13.9

Source: IDBI Capital Research

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## Other Key Conference call Highlights

### Operational Performance:

- Q4FY24 profitability had a one-off impact of ~Rs.1.6bn for the employee retirement benefits and wage revisions while there were no major one-offs in the overhead expenses
- The management has mentioned that payback from new branches is coming at a quicker pace
- The bank primarily cross sells to its savings banks customers and there is no major cross selling which takes place to co-branded credit card customers hence, the personal loan portfolio is not affected in a major way by the RBI restrictions

### Advances and Deposits:

- The cost of the deposits is proving to be a challenging aspect to manage for the bank. However, with the increased geographical footprint, the management is confident of growing CASA deposits.
- The management believes that there are no significant concentration risks in terms of deposits
- The bank did not witness any seasonality in Q4FY24 and the quarter was relatively stable in terms of deposits and current account balances
- The increase in cost of funds was driven by an increase in cost of term deposits which stood at 7.25% in Q4FY24 v/s 7.06% in Q3FY24
- The break of the advances was as follows:
- Floating- 52%, 27%- Fixed, 11%- MCLR and 10% were others
- NR rupee remittances have gone up. However, the same are not being converted into deposits as the same are being used for other purposes like paying off debts or for personal consumption

### Asset Quality:

- The slippages in Q4FY24 were lower than the recovery and upgrades. Further, there were no one-time or bulk recoveries during the quarter.

### Future Guidance:

- The management will continue to focus on improving its NPA and accretion in net worth
- ROA expansion is expected to continue in FY25 at a pace of 5-7bps per annum

- The management expects the core fee income to grow in the range of ~20-25% on a YoY basis in FY25
- The management expects to continue the branch expansion and investments in technology as it sees the same as drivers for growth
- The management believes that the bank's business is gradually shifting to higher yield products and expects the same to continue going forward
- The management expects the search panel set up by the board to submit a list of potential candidates for the position of MD to RBI within the next 2-3 weeks
- The credit cost for FY24 stood at 23bps. However, the management expects the credit cost to slightly increase and settle around 30bps in FY25
- The opex costs are expected to increase by 5% in FY25 on normalized levels
- Even though there is an opportunity to increase the retail advances portfolio, the management is not very keen on entering into pricing wars in order to grow the retail portfolio
- The management expects the NIMs to stabilize at ~3.2% levels going forward with the possibility of a marginal fluctuation
- The management expects the cost of funds to increase marginally for next couple of quarters going forward
- The management expects to add ~100 new branches in FY25.
- The management expects to increase the share of technology expenditure to ~8-8.5% of the total opex from the current 6% levels
- The management expects the NII to grow at the same trajectory as FY24 with slight improvement
- The management expects the cost to income ratio to moderate to ~50% in FY25.

**Co-branded credit cards update:**

- The bank is in the process of reviewing its co-branded credit cards process and expects to approach the RBI in the next 3-4 working days with the corrective actions for its approval to resume issuance
- The bank is not looking at shutting down or reducing its partnership quantum in term of co-branded credit cards

## Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Interest Income	59,784	47,207	57,301	26.6	4.3
Interest Expenses	37,832	28,115	36,067	34.6	4.9
<b>Net Interest Income</b>	<b>21,951</b>	<b>19,093</b>	<b>21,234</b>	<b>15.0</b>	<b>3.4</b>
<b>NIM (%)</b>	<b>3.21</b>	<b>3.36</b>	<b>3.19</b>	<b>-15 bps</b>	<b>2 bps</b>
Non-Interest Income	7,539	7,339	8,626	2.7	(12.6)
<b>Operating Income</b>	<b>29,490</b>	<b>26,432</b>	<b>29,859</b>	<b>11.6</b>	<b>(1.2)</b>
Staff Cost	8,869	5,972	6,932	48.5	28.0
Other Op Exp	9,518	7,114	8,554	33.8	11.3
<b>Total Operating Expenses</b>	<b>18,386</b>	<b>13,086</b>	<b>15,486</b>	<b>40.5</b>	<b>18.7</b>
<i>Cost to Income (%)</i>	<i>62.3</i>	<i>49.5</i>	<i>51.9</i>	<i>1284 bps</i>	<i>1049 bps</i>
<b>Operating Profit</b>	<b>11,104</b>	<b>13,346</b>	<b>14,373</b>	<b>(16.8)</b>	<b>(22.7)</b>
Provisions	-946	1,167	912	(181.1)	(203.7)
<b>PBT</b>	<b>12,050</b>	<b>12,179</b>	<b>13,461</b>	<b>(1.1)</b>	<b>(10.5)</b>
Tax	2,987	3,153	3,394	(5.3)	(12.0)
<i>- effective tax rate</i>	<i>24.8</i>	<i>25.9</i>	<i>25.2</i>	<i>-110 bps</i>	<i>-43 bps</i>
<b>PAT</b>	<b>9,063</b>	<b>9,026</b>	<b>10,067</b>	<b>0.4</b>	<b>(10.0)</b>
EPS (Rs)	3.7	4.3	4.1	(12.7)	(10.0)
BV (Rs)	119.5	101.6	115.7	17.6	3.3
Deposits	25,25,340	21,33,860	23,95,910	18.3	5.4
Advances	20,94,033	17,44,469	19,91,850	20.0	5.1

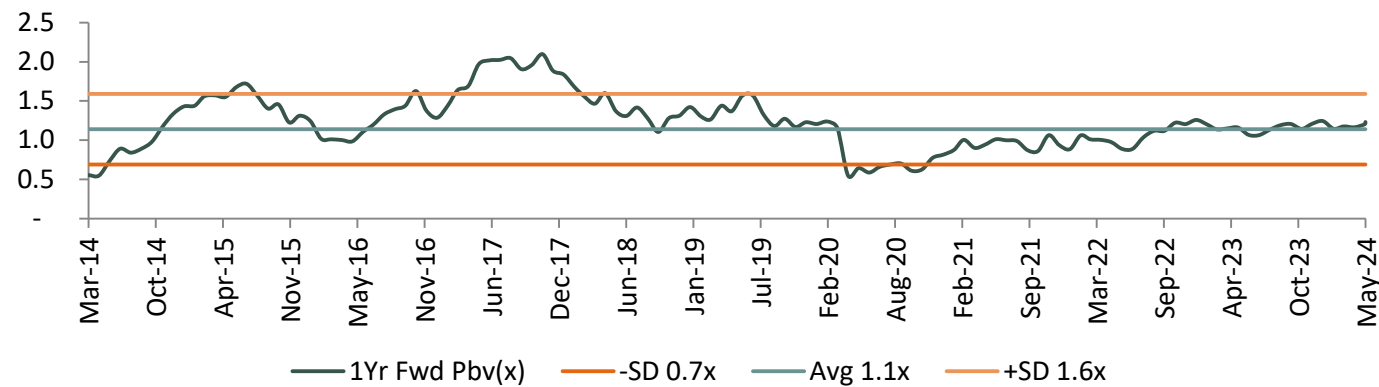
Source: Company; IDBI Capital Research

**Exhibit 2: ROE Decomposition**

(%)	FY22	FY23	FY24	FY25E	FY26E
NII	2.8	3.0	2.9	3.0	3.0
Fees	0.8	1.0	0.9	0.9	0.9
Other Income	0.1	0.0	0.2	0.2	0.2
Net Revenue	3.8	4.0	4.0	4.1	4.1
Op.Exp	2.0	2.0	2.2	2.2	2.1
Op.Profit	1.8	2.0	1.8	1.9	1.9
Provisions	0.6	0.3	0.1	0.2	0.3
PBT	1.2	1.7	1.8	1.7	1.7
Tax	0.3	0.4	0.4	0.4	0.4
ROA	0.9	1.3	1.3	1.3	1.3
Leverage (x)	12.1	11.9	11.2	10.8	11.2
ROE	10.8	14.9	14.7	13.6	14.0

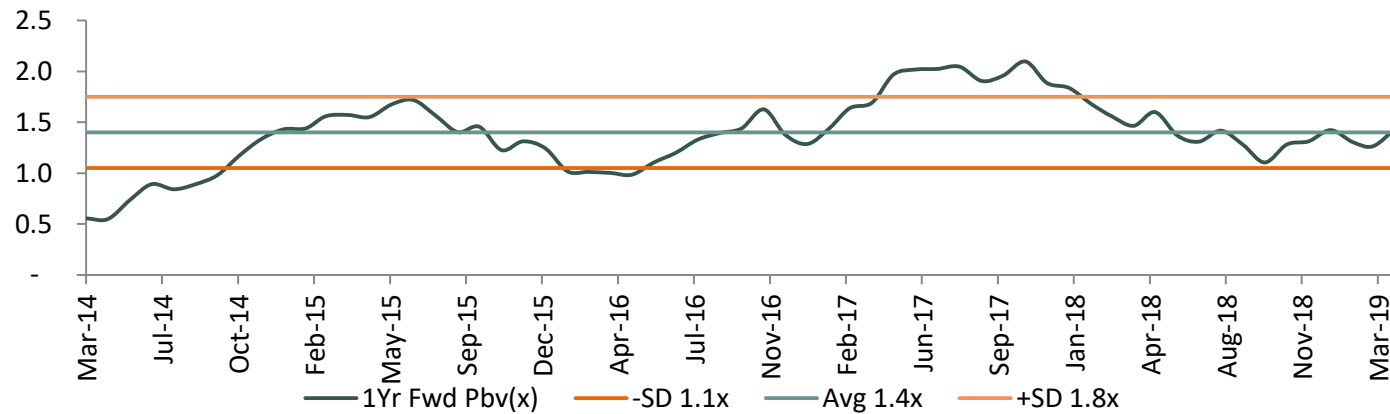
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-FY25)



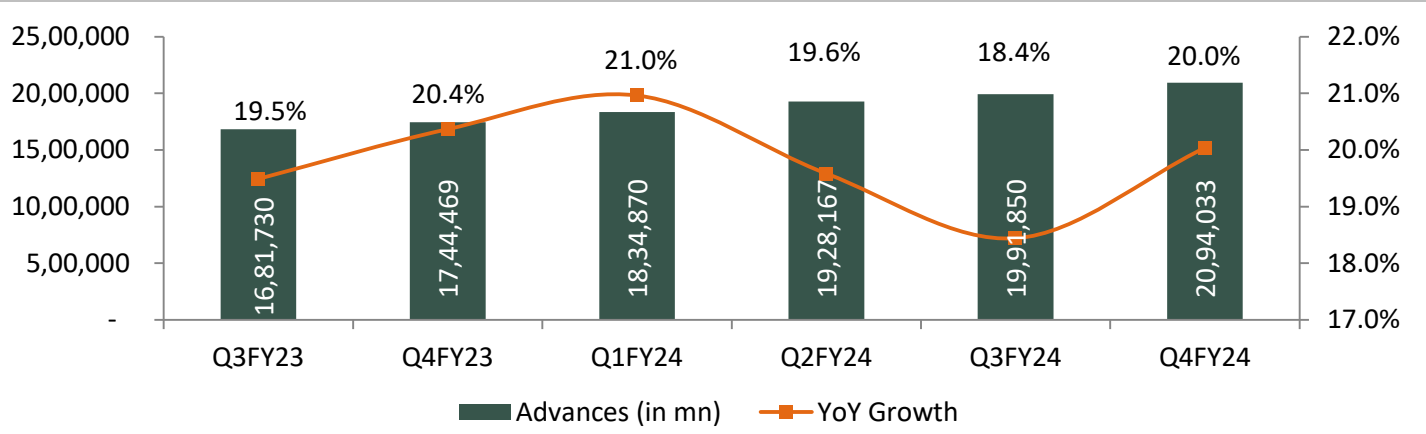
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY14-FY19)



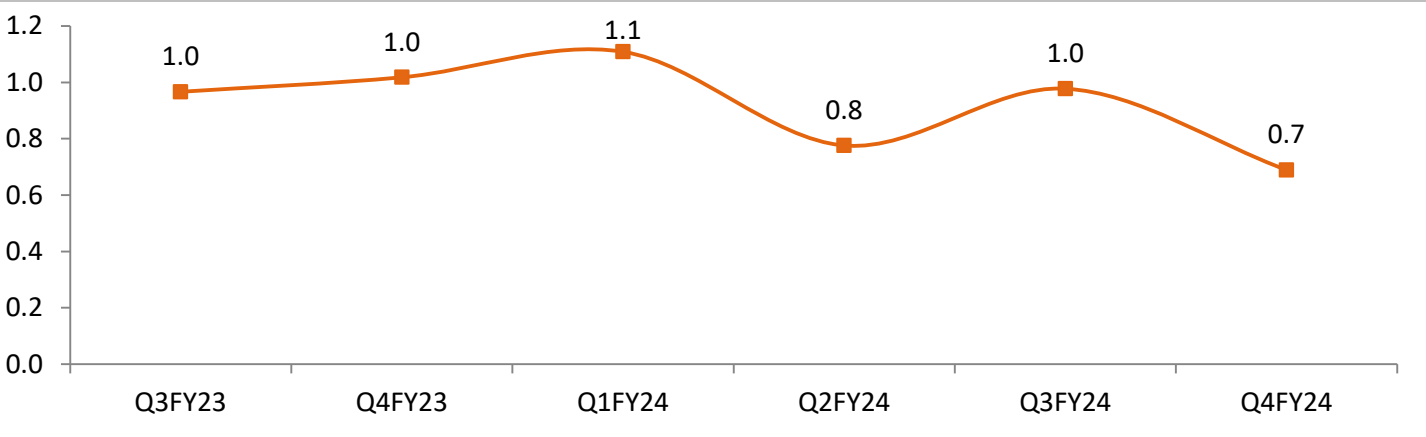
Source: Company; IDBI Capital Research

Exhibit 5: Advances growth continued to witness strong growth momentum on YoY basis



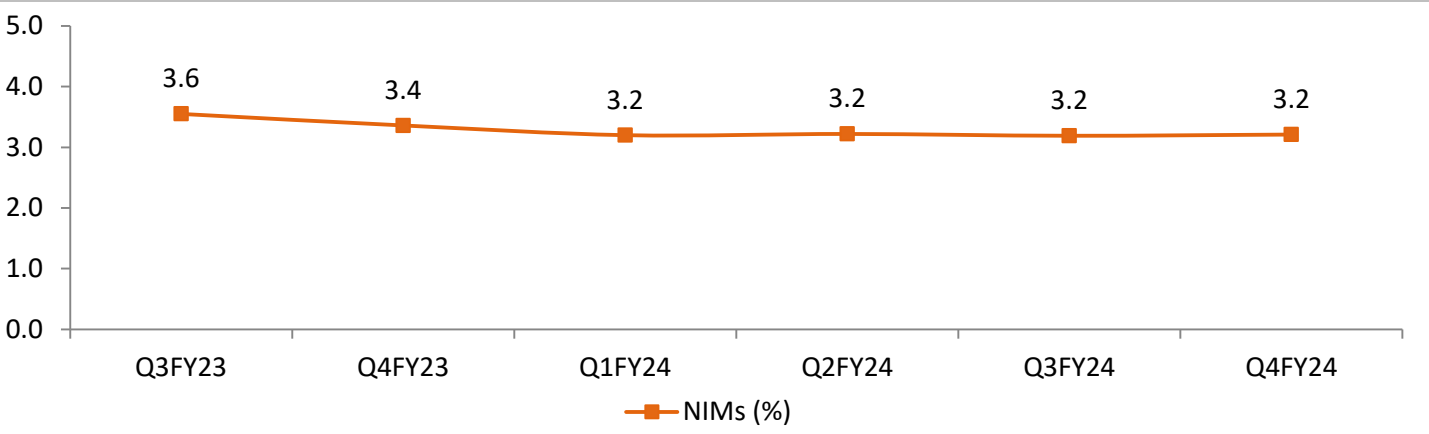
Source: Company; IDBI Capital Research

Exhibit 6: Slippage ratio improved sequentially



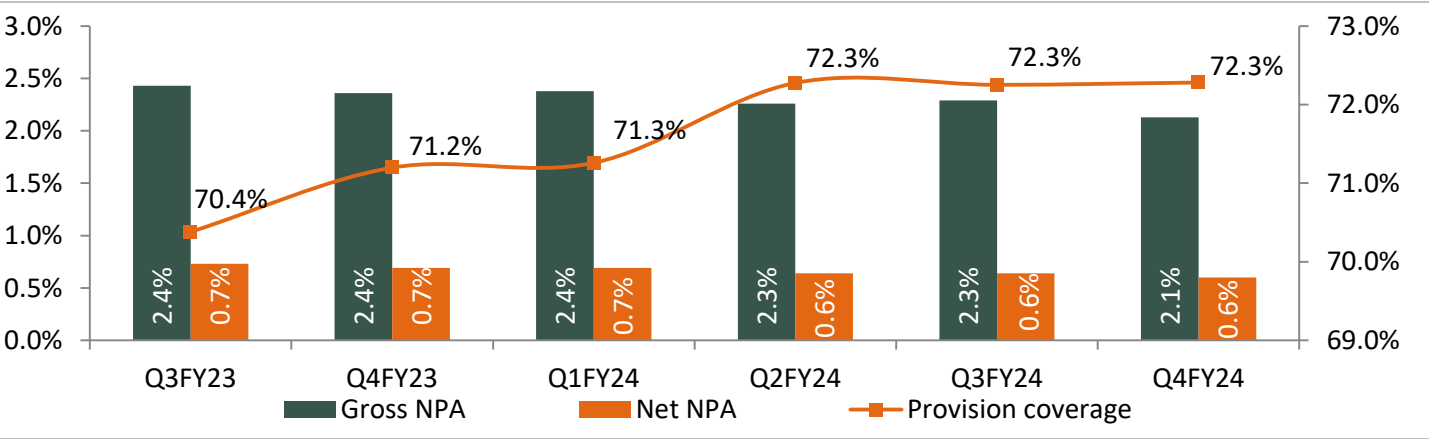
Source: Company; IDBI Capital Research

Exhibit 7: Net Interest margins remained stable QoQ



Source: Company; IDBI Capital Research

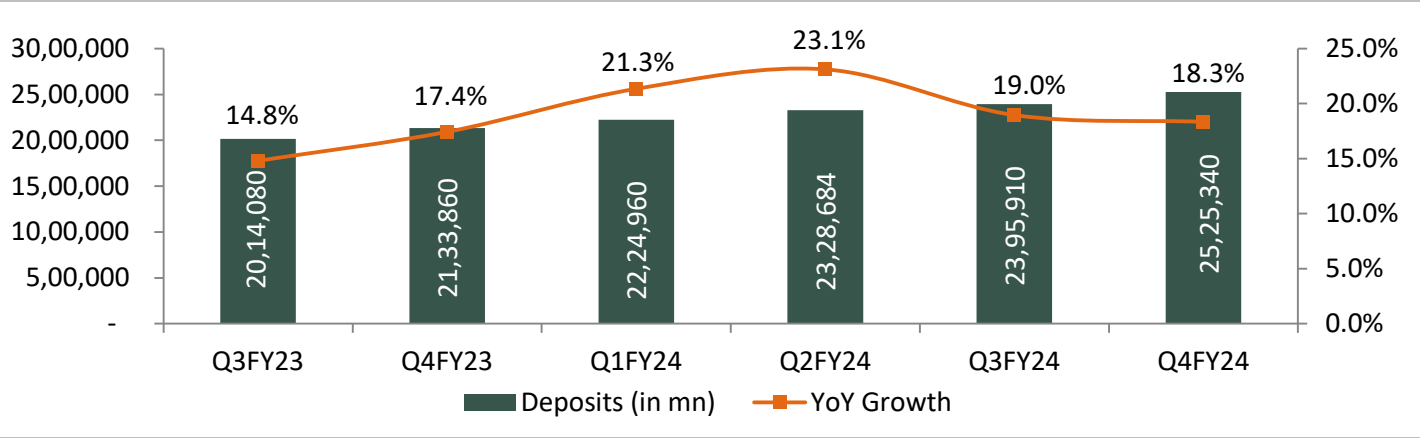
Exhibit 8: Asset quality improved QoQ



Source: Company; IDBI Capital Research

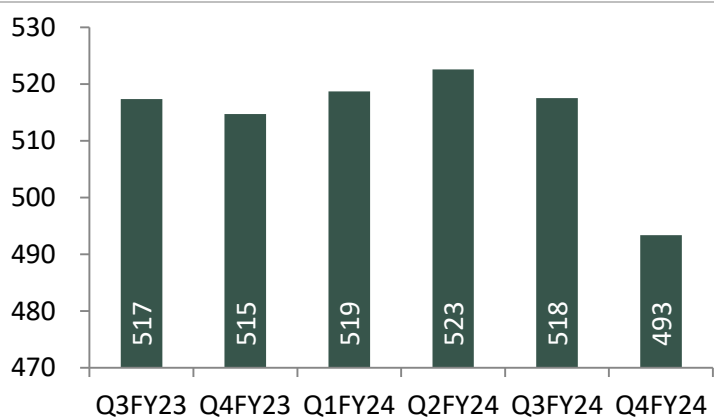


Exhibit 9: Deposits growth continued to witness uptick



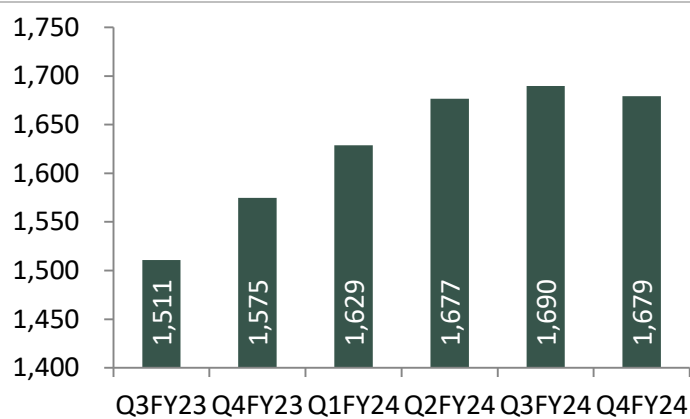
Source: Company; IDBI Capital Research

Exhibit 10: CASA per Branch



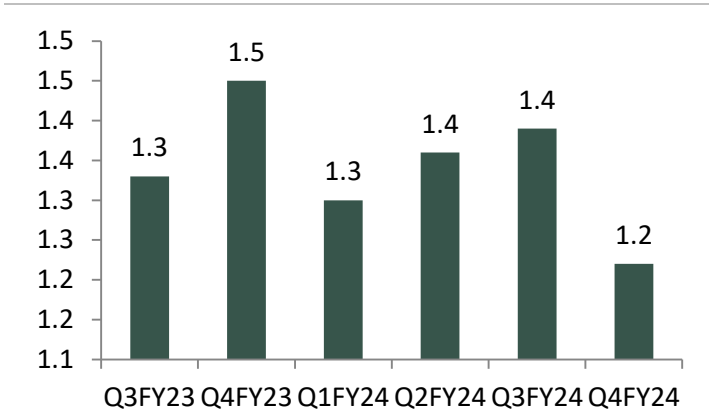
Source: Company; IDBI Capital Research

Exhibit 11: Deposit per Branch



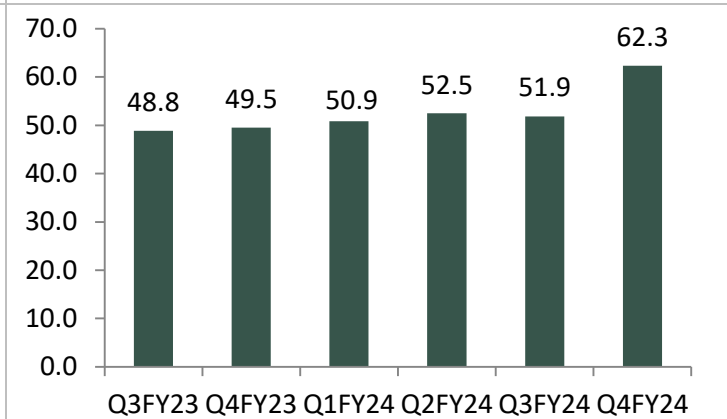
Source: Company; IDBI Capital Research

Exhibit 12: RoA declined QoQ



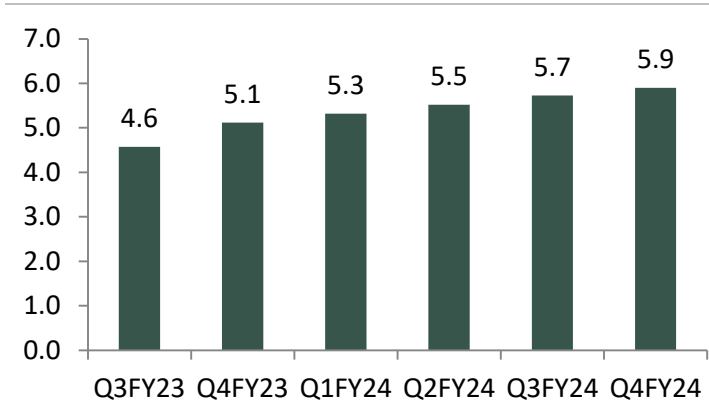
Source: Company; IDBI Capital Research

Exhibit 13: Cost to Income Ratio increased sequentially



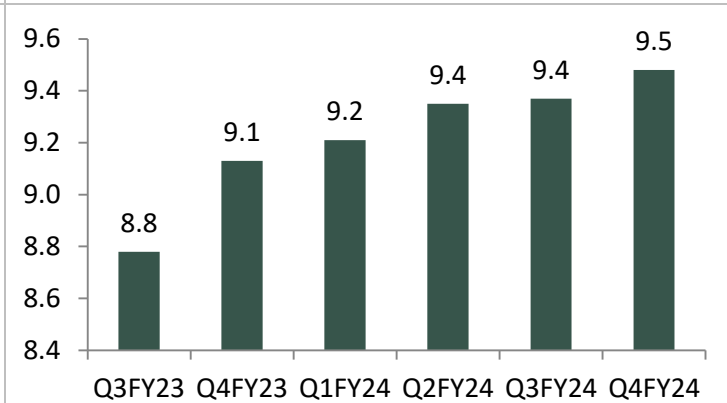
Source: Company; IDBI Capital Research

Exhibit 14: Cost of Deposits continued to inch up sequentially



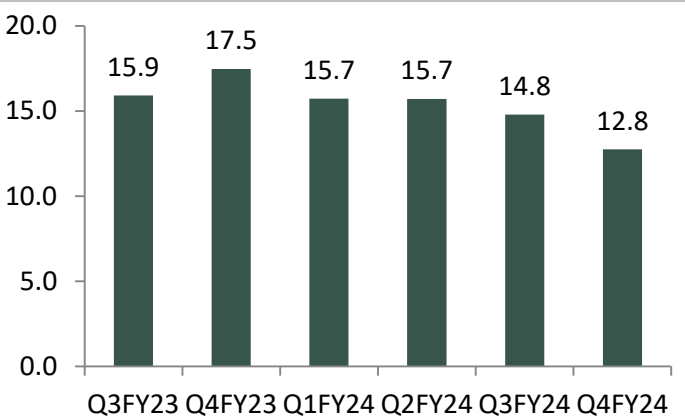
Source: Company; IDBI Capital Research

Exhibit 15: Yield on Advances inched up QoQ



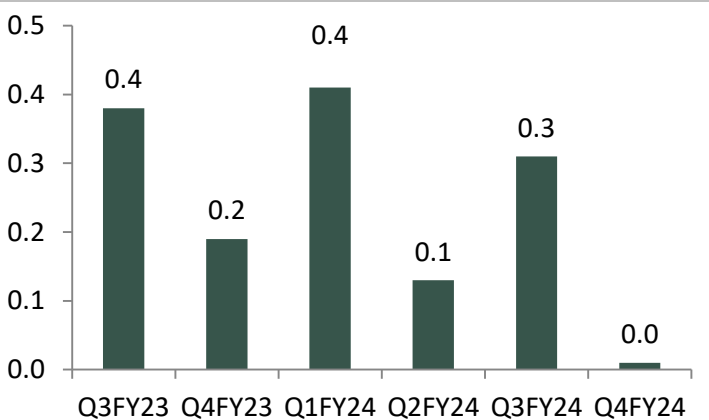
Source: Company; IDBI Capital Research

Exhibit 16: Return on Equity declined QoQ



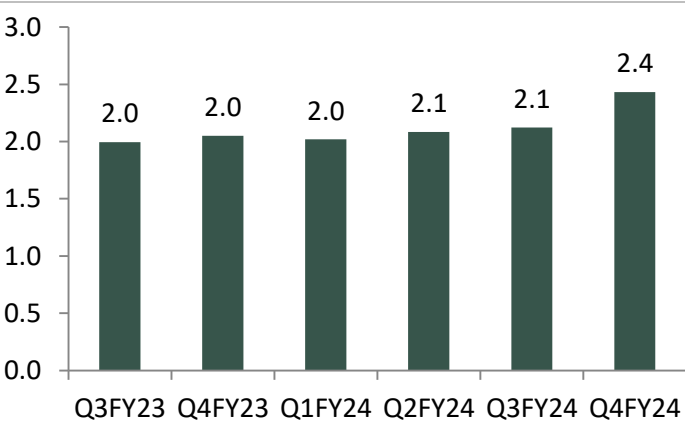
Source: Company; IDBI Capital Research

Exhibit 17: Credit Cost declined on a QoQ basis



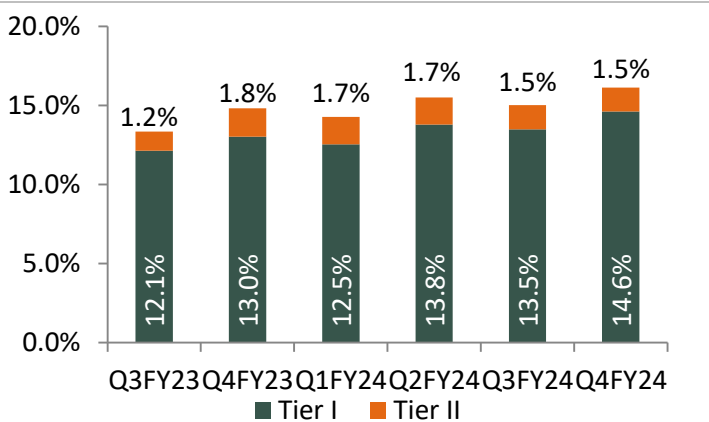
Source: Company; IDBI Capital Research

Exhibit 18: Cost to Assets increased QoQ

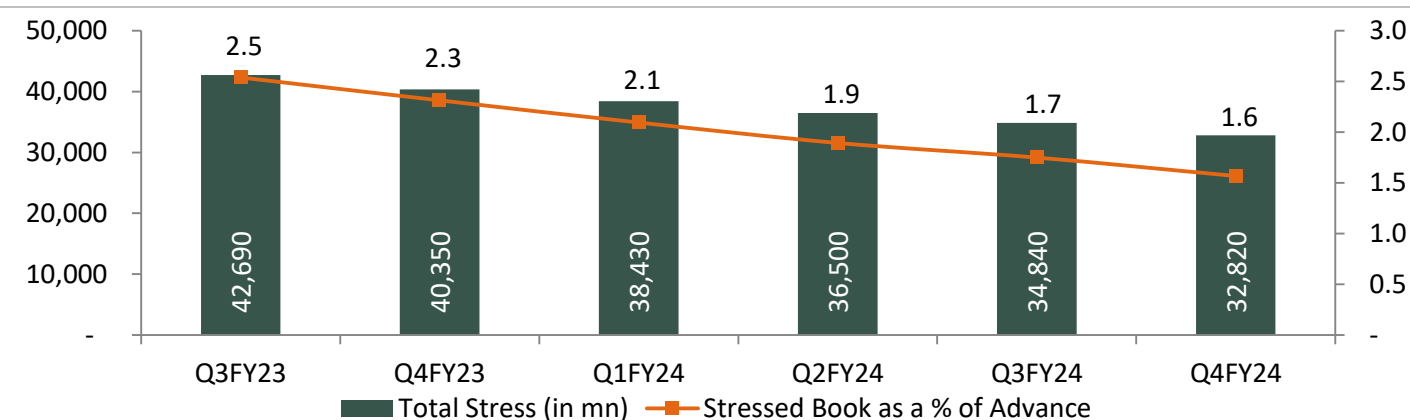


Source: Company; IDBI Capital Research

Exhibit 19: CAR remains comfortable



Source: Company; IDBI Capital Research

**Exhibit 20: Stress Book continuing to witness improvement on a sequential basis**

Source: Company; IDBI Capital Research

**Exhibit 21: Composition of Slippages (Product Wise)**

Slippages-Product Wise (In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Retail	2,100	1,430	2,140	46.9	(1.9)
Agri	570	1,390	500	(59.0)	14.0
Business Banking	550	910	740	(39.6)	(25.7)
CV/CE	70	50	140	40.0	(50.0)
Commercial Banking	230	580	490	(60.3)	(53.1)
Coporate Banking	-	-	780	-	(100.0)
<b>Total Slippages</b>	<b>3,520</b>	<b>4,360</b>	<b>4,790</b>	<b>(19.3)</b>	<b>(26.5)</b>

Source: Company; IDBI Capital Research

**Exhibit 22: Movement of Slippages Ratio (In %)**

Product Wise Slippage Ratio (In %)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Retail	1.39	1.67	1.92	1.27	1.29	1.16
Wholesale	0.46	0.30	0.18	0.19	0.56	0.10
<b>Bank</b>	<b>0.96</b>	<b>1.04</b>	<b>1.12</b>	<b>0.78</b>	<b>0.96</b>	<b>0.68</b>

Source: Company; IDBI Capital Research

**Exhibit 23: Composition of Retail Advances (Product Wise)**

Product Wise Retail Advances (In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Housing	2,80,210	2,50,970	2,72,260	11.7	2.9
LAP	1,17,640	99,840	1,13,520	17.8	3.6
Gold	45,730	43,660	45,400	4.7	0.7
Auto	73,020	54,480	67,750	34.0	7.8
Personal	38,450	23,930	36,470	60.7	5.4
Other	1,19,290	87,400	1,15,010	36.5	3.7
<b>Total Retail Advances</b>	<b>6,74,340</b>	<b>5,60,280</b>	<b>6,50,410</b>	<b>20.4</b>	<b>3.7</b>

Source: Company; IDBI Capital Research

**Exhibit 24: Changes in Product Mix (Retail Advances)**

Product Wise Retail Advances Mix(In %)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Housing	42	45	42	-325 bps	-31 bps
LAP	17	18	17	-38 bps	-1 bps
Gold	7	8	7	-102 bps	-20 bps
Auto	11	10	10	111 bps	42 bps
Personal	6	4	6	144 bps	10 bps
Other	18	16	18	210 bps	1 bps
<b>Total Retail Advances</b>	<b>100</b>	<b>100</b>	<b>100</b>		

Source: Company; IDBI Capital Research

**Exhibit 25: Composition of Gross Advances (Product Wise)**

Product Wise Gross Advances (In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Retail Loan*	7,08,810	5,60,280	6,77,950	26.5	4.6
Agri Loan	2,80,970	2,33,560	2,66,470	20.3	5.4
Business Banking	1,70,730	1,42,200	1,66,800	20.1	2.4
CV/CE	34,420	21,860	30,570	57.5	12.6
Commercial Banking	2,14,870	1,72,760	2,07,740	24.4	3.4
Corporate Banking	7,35,960	6,43,090	7,19,780	14.4	2.2
<b>Total Gross Advances</b>	<b>21,45,760</b>	<b>17,73,750</b>	<b>20,69,310</b>	<b>21.0</b>	<b>3.7</b>

Source: Company; IDBI Capital Research, \*Retail loan includes MFI portfolio.

**Exhibit 26: Changes in Product Mix (Gross Advances)**

Product Wise Gross Advances Mix(In %)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Retail Loan	33	32	33	145 bps	28 bps
Agri Loan	13	13	13	-8 bps	22 bps
Business Banking	8	8	8	-7 bps	-11 bps
CV/CE	2	1	1	38 bps	13 bps
Commercial Banking	10	10	10	28 bps	-3 bps
Corporate Banking	34	36	35	-196 bps	-49 bps
<b>Total Gross Advances</b>	<b>100</b>	<b>100</b>	<b>100</b>		

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net interest income</b>	<b>55,337</b>	<b>59,620</b>	<b>72,322</b>	<b>82,935</b>	<b>99,561</b>	<b>1,15,995</b>
<i>Change (yoy, %)</i>	<i>19%</i>	<i>8%</i>	<i>21%</i>	<i>15%</i>	<i>20%</i>	<i>17%</i>
Fees	13,343	17,809	22,995	25,176	29,672	35,013
Other Income	6,244	3,082	305	5,617	6,560	7,592
<b>Net Revenue</b>	<b>74,924</b>	<b>80,510</b>	<b>95,622</b>	<b>1,13,728</b>	<b>1,35,794</b>	<b>1,58,600</b>
<b>Operating expenses</b>	<b>36,917</b>	<b>42,932</b>	<b>47,678</b>	<b>61,983</b>	<b>71,954</b>	<b>83,032</b>
Employee expenses	20,342	23,206	21,730	28,231	33,151	37,245
Other expenses	16,575	19,726	25,948	33,752	38,802	45,787
<b>Pre-Provision Profit</b>	<b>38,007</b>	<b>37,579</b>	<b>47,944</b>	<b>51,745</b>	<b>63,840</b>	<b>75,568</b>
<i>Change (yoy, %)</i>	<i>19%</i>	<i>-1%</i>	<i>28%</i>	<i>8%</i>	<i>23%</i>	<i>18%</i>
Provision	16,634	12,218	7,499	1,961	7,574	10,024
PBT	21,373	25,361	40,445	49,784	56,267	65,544
Taxes	5,470	6,463	10,339	12,578	14,162	16,497
<i>Effective tax rate (%)</i>	<i>26%</i>	<i>25%</i>	<i>26%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>
<b>Net profit</b>	<b>15,903</b>	<b>18,898</b>	<b>30,106</b>	<b>37,206</b>	<b>42,104</b>	<b>49,047</b>
<i>Change (yoy, %)</i>	<i>3%</i>	<i>19%</i>	<i>59%</i>	<i>24%</i>	<i>13%</i>	<i>16%</i>
EPS	8.0	9.0	14.2	15.3	17.3	20.1
Return on Equity (%)	10.4	10.8	14.9	14.7	13.6	14.0
Return on Assets (%)	0.8	0.9	1.3	1.3	1.3	1.3

**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Capital	3,992	4,205	4,232	4,870	4,870	4,870
Reserves	1,57,252	1,83,733	2,10,830	2,86,074	3,23,308	3,67,484
<b>Networth</b>	<b>1,61,244</b>	<b>1,87,938</b>	<b>2,15,063</b>	<b>2,90,944</b>	<b>3,28,178</b>	<b>3,72,354</b>
<b>Deposits</b>	<b>17,26,445</b>	<b>18,17,006</b>	<b>21,33,860</b>	<b>25,25,340</b>	<b>29,39,959</b>	<b>34,29,209</b>
Current deposits	1,18,603	1,43,883	1,57,835	1,76,774	2,05,797	2,40,045
Saving deposits	4,68,523	5,30,827	5,43,370	7,32,349	8,52,588	9,94,470
Term deposit	11,39,319	11,42,296	14,32,656	16,16,218	18,81,573	21,94,693
Borrowings	90,685	1,53,931	1,93,193	1,80,264	2,43,579	3,31,556
Other liabilities	35,299	50,588	61,303	86,570	86,943	86,845
<b>Total Liab. &amp; Equity</b>	<b>20,13,673</b>	<b>22,09,463</b>	<b>26,03,419</b>	<b>30,83,118</b>	<b>35,98,658</b>	<b>42,19,965</b>
Cash	1,95,913	2,10,103	1,76,887	1,89,629	2,05,737	2,39,219
Advances	13,18,786	14,49,283	17,44,469	20,94,033	24,70,959	29,15,732
Investments	3,71,862	3,91,795	4,89,833	6,08,595	7,03,493	8,14,845
Fixed Assets	4,911	6,339	9,340	10,201	10,711	11,246
Other Assets	1,22,201	1,51,942	1,82,890	1,80,660	2,07,759	2,38,922
<b>Total assets</b>	<b>20,13,673</b>	<b>22,09,463</b>	<b>26,03,419</b>	<b>30,83,118</b>	<b>35,98,658</b>	<b>42,19,965</b>



## Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Growth</b>						
Deposits	13.4	5.2	17.4	18.3	16.4	16.6
Advances	7.9	9.9	20.4	20.0	18.0	18.0
NII	19.0	7.7	21.3	14.7	20.0	16.5
Pre-Provision Profit	18.6	(1.1)	27.6	7.9	23.4	18.4
Net Profit	3.1	18.8	59.3	23.6	13.2	16.5
<b>Spreads</b>						
Yield on Assets	8.0	7.2	7.8	8.7	8.7	8.7
Cost of Funds	4.8	4.1	4.5	5.5	5.6	5.6
NIM	3.2	3.2	3.4	3.2	3.3	3.3
CASA	34.0	37.1	32.9	36.0	36.0	36.0
<b>Operating Efficiency</b>						
Cost-to-Income	49.3	53.3	49.9	54.5	53.0	52.4
Cost-to-Assets	1.9	2.0	2.0	2.2	2.2	2.1
<b>Asset Quality</b>						
GNPA	3.4	2.8	2.4	2.1	2.1	2.2
NNPA	1.2	1.0	0.7	0.6	0.8	1.0
Provision Coverage	65.9	66.4	71.3	72.3	61.5	54.0
Credit Cost	1.3	0.9	0.5	0.1	0.3	0.4
<b>Capital Adequacy</b>						
CAR	14.6	15.8	14.8	14.5	14.1	13.9
Tier I	13.9	14.4	13.0	13.1	12.5	12.1
<b>Valuation</b>						
EPS	8.0	9.0	14.2	15.3	17.3	20.1
ABV	74.9	84.4	97.4	115.6	128.4	143.8
P/E	21.1	18.7	11.8	11.0	9.7	8.3
P/ABV	2.2	2.0	1.7	1.5	1.3	1.2
ROE	10.4	10.8	14.9	14.7	13.6	14.0
ROA	0.8	0.9	1.3	1.3	1.3	1.3
RORWA	1.5	1.6	2.2	2.2	2.0	2.0

Source: Company; IDBI Capital Research



# Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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**Key to Ratings Stocks:**

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

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