

Federal Bank Ltd.

17th Jan 2024

Stable asset quality with reasonable valuation

Federal Bank Ltd's (FBL) loan book stood at ~Rs. 2.1 Trn, which grew by 21% on YoY and 6% on a QoQ basis during the quarter, with the retail loan book growing ahead of the overall loan book at 24% on a YoY and 6% on a QoQ basis. The wholesale segment grew by 17% on a YoY and 6% on a QoQ basis. Deposits grew by 19% and 3% on a YoY and QoQ basis, respectively. NII reached Rs. 21.2 Bn, with ~9% growth on a YoY and 3% on a QoQ basis, registering a NIM of 3.2%. The management expects stable NIM in FY24 and FY25. The Bank's asset quality is maintained on a QoQ basis, with the GNPA at 2.3%. The Bank has held an ROA of 1.4% on a QoQ basis, while ROE declined by 90 bps on a QoQ basis due to capital infusion. PAT surged by 23% on a YoY basis because of lower provisions.

Strong growth in loan book

FBL registered a growth of 21% on a YoY and 6% on a QoQ basis to close the loan book at Rs. 2,069 Bn in Q3 FY24. The retail and wholesale mix was at 55:45 in Q3 FY24, with segments like auto (33% YoY, 8% QoQ), personal (86% YoY, 13% QoQ), CV/CE (66% YoY, 12% QoQ), credit card (153% YoY, 20% QoQ), and MFI (161% YoY, 18% QoQ) exceeded the loan book growth. The management has guided that the loan book will grow at 18-20% in FY24.

Stable performance QoQ

The Bank NII grew by 9% on a YoY and 3% on a QoQ basis. The slow growth in NII is due to an increase in the cost of deposits. This led to stable NIM of 3.2% on a QoQ basis. Going forward, management expects NIM to maintain at this level. Other income grew by 62% on a YoY and 18% on a QoQ basis, driven by gains from the FedFina listing. The Bank cost to income ratio improved by 61 bps on a QoQ basis. Further, PAT increased by 23% on a YoY and 4% on a QoQ basis because of lower provisions.

Stable trend in asset quality

GNPA and NNPA ratios were stable at 2.3% and 0.6% QoQ, respectively, with PCR of 71%. During the quarter, the slippage ratio increased by 18 bps on a QoQ basis driven by one-off corporate slippage of Rs. 700 Mn which it expects to get upgraded in Q4FY24. In the previous call, management highlighted normalising credit cost, which has increased from 13 bps in Q2FY24 to 31 bps in Q3FY24.

View & Valuation

We have revised our estimates and maintained our view on Federal Bank Ltd with a BUY rating and a target price of Rs. 168.5 (1.5x FY25E Adj. book value). We expect that the Bank will be able to achieve 18-20% growth in the loan book and maintain an NIM of 3.2%. We expect the trend of improvement in asset quality to continue.

BUY

CMP Rs. 146

TARGET Rs. 168.5 (+15.4%)

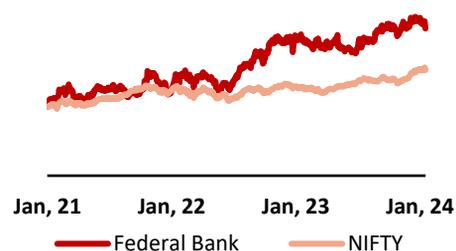
Company Data

Bloomberg Code	FB IN
MCAP (Rs. Mn)	3,55,083
O/S Shares (Mn)	2,433
52w High/Low	159 / 121
Face Value (Rs.)	2
Liquidity (3M) (Rs. Mn)	1,867

Shareholding Pattern %

	Dec 23	Sep 23	Jun 23
Promoters	0	0	0
FIs	29.38	27.01	26.94
DIs	44.52	45.97	43.78
Non-Institutional	26.09	27.02	29.28

Federal Bank vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
NII	78	82	95
PPOP	51	53	62
Net Profit	32	35	42
Advances	1,820	2,183	2,598
ROE (%)	14%	14%	15%
ROA (%)	1.2%	1.1%	1.2%

Source: Company, Keynote Capitals Ltd. estimates

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Federal Bank Ltd. | Quarterly Update

Q3 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q3FY24	Q3FY23	Change % (Y-o-Y)	Q2FY24	Change % (Q-o-Q)	9MFY24	9MFY23	Change % (Y-o-Y)	FY23
Net Interest Income	23,255	21,126	10%	22,471	3%	66,679	57,618	16%	78,365
Other Income	9,084	5,651	61%	7,569	20%	24,066	16,678	44%	24,362
Net Income	32,339	26,777	21%	30,041	8%	90,745	74,296	22%	1,02,728
Operating Expense	17,002	13,299	28%	16,038	6%	47,734	37,621	27%	52,112
Pre-provision Operating Profit	15,337	13,478	14%	14,003	10%	43,011	36,676	17%	50,616
Provisions	1,139	2,136	-47%	576	98%	3,361	6,734	-50%	7,986
PBT	14,198	11,342	25%	13,427	6%	39,650	29,942	32%	42,629
Tax	3,566	2,819	26%	3,426	4%	10,098	7,580	33%	10,872
Minority Interest	319	128	149%	126	153%	582	355	64%	451
Share of Associate	40	38	7%	65	-38%	127	101	26%	341
PAT	10,354	8,433	23%	9,941	4%	29,096	22,108	32%	31,647
EPS	4.22	3.94	7%	4.29	-2%	12.62	10.39	21%	14.8

Source: Company, Keynote Capitals Ltd.

Loan Book mix

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Advances	54%	54%	54%	55%	55%	24%	6%
Retail	32%	32%	31%	32%	31%	21%	5%
Housing	15%	15%	14%	13%	13%	5%	3%
Gold	3%	2%	2%	2%	2%	-5%	0%
LAP	6%	6%	6%	6%	5%	19%	4%
Others	4%	4%	5%	4%	4%	32%	5%
Auto	3%	3%	3%	3%	3%	32%	8%
Personal	1%	1%	2%	2%	2%	86%	13%
Credit Card				1%	1%	153%	20%
Agri	13%	13%	13%	13%	13%	21%	6%
Business Banking	8%	8%	8%	8%	8%	17%	4%
CV / CE	1%	1%	1%	1%	1%	66%	12%
MFI				1%	1%	161%	18%
Wholesale Advances	46%	46%	46%	45%	45%	17%	6%
Commercial	10%	10%	10%	10%	10%	24%	5%
CIB	36%	36%	36%	35%	35%	16%	6%
Total Funded Assets (Rs. Bn)	1,710	1,774	1,866	1,960	2,069	21%	6%

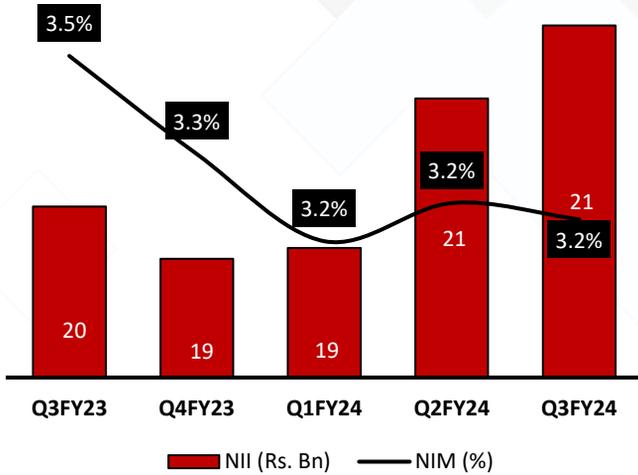
Source: Company, Keynote Capitals Ltd.

Deposits mix

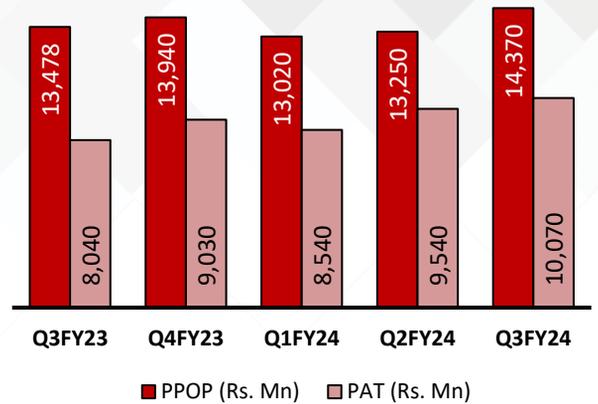
Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	34%	33%	32%	31%	31%	6%	1%
NRE Deposit	34%	33%	32%	31%	30%	6%	2%
Term Deposit	32%	34%	36%	38%	39%	47%	5%
Total Deposits (Rs. Bn)	2,014	2,134	2,225	2,329	2,396	19%	3%

Source: Company, Keynote Capitals Ltd.

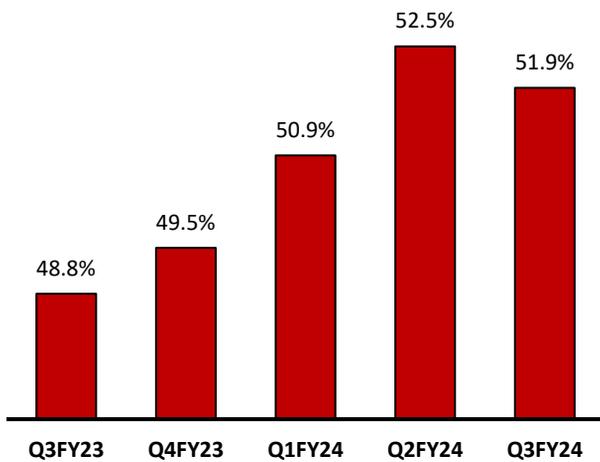
Stable NII and NIM



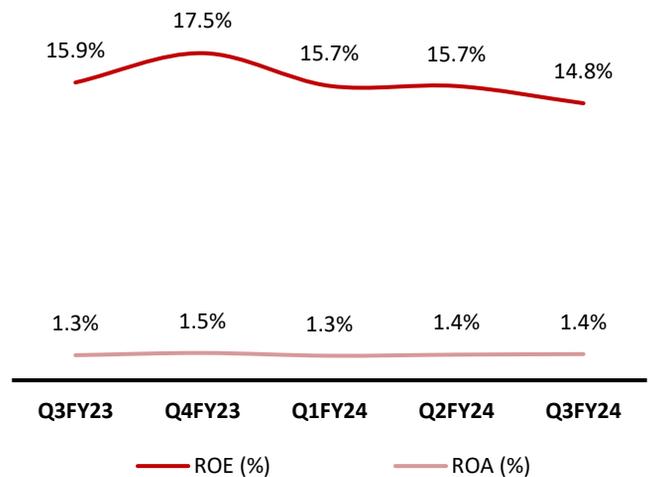
PPOP and PAT increase by 8% and 6% on QoQ basis respectively



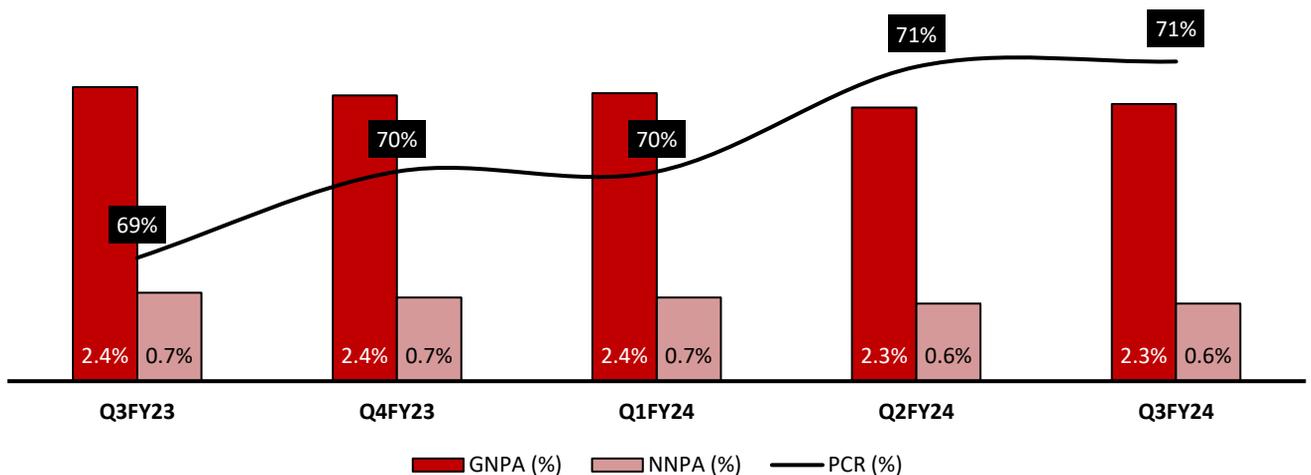
QoQ improvement in cost to Income ratio (%)



ROA and ROE (%)



Asset quality maintained (%)



Source: Company, Keynote Capitals Ltd.

Q3 FY24 Conference Call Takeaways

- The Bank aims for a cost-to-deposit (CD) ratio of 80% and 18-20% growth in loan book and deposits.
- In Q3FY24, retail deposits form 90%.
- Credit quality remains stable. Corporate slippages increased due to one account of Rs. 700 Mn, as the client had a fire in the factory but is expected to get upgraded in the next quarter.
- The Bank has made provision for the wage hike by Rs. 500 Mn in Q3FY24. Further, the challenges related to AIF provisioning may vary in Q4FY24.
- The Bank has guided to maintain an ROA of 1.4%.
- In the co-lending partnership, the Bank adheres to bank-level risk management practices and underwriting processes.
- For succession planning, the board has already started the process. The Bank will submit candidate names to the RBI in the coming months and is also open to considering external candidates.
- The increase in other income is due to trading gains of Rs. 800-900 Mn on account of the FedFina listing.
- The Bank is investing in technology costs as a percentage of total costs at 6.5-6.6% in Q3FY24.
- Regarding branch productivity, the Bank prioritises achieving breakeven for branches within a year.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	64,222	78,365	81,821	94,766	1,10,326
Other Income	21,209	24,362	25,365	29,378	34,201
Net Income	85,431	1,02,728	1,07,186	1,24,144	1,44,527
Operating Expenses	45,922	52,112	54,665	62,072	70,818
Pre-Provision Operating Profit	39,509	50,616	52,521	62,072	73,709
Provisions	13,047	7,986	6,005	5,977	7,080
Profit Before Tax	26,463	42,629	46,516	56,095	66,628
Tax	6,809	10,872	11,629	14,024	16,657
Profit After Tax	19,654	31,758	34,887	42,071	49,971

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	4,205	4,232	4,703	4,703	4,703
Reserves & Surplus	1,91,403	2,20,511	2,47,950	2,81,607	3,21,584
Total Equity	1,95,608	2,24,744	2,52,654	2,86,311	3,26,288
Deposits	18,16,775	21,29,885	26,62,782	32,47,928	38,32,555
Borrowings	1,95,874	2,58,620	1,16,409	-98,512	-2,43,391
Other Liabilities & Provisions	54,153	66,792	93,500	99,800	99,800
Total Liabilities	22,62,410	26,80,041	31,25,344	35,35,536	40,15,251
ASSETS					
Cash and Balance	2,11,361	1,78,039	1,96,637	1,40,696	1,13,446
Investments	3,90,652	4,87,022	5,45,081	5,96,000	6,35,000
Advances	14,99,515	18,19,568	21,83,481	25,98,342	30,66,044
Fixed Assets & Others	1,60,883	1,95,401	2,00,150	2,00,490	2,00,760
Total Assets	22,62,410	26,80,041	31,25,344	35,35,536	40,15,251

Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Growth YoY (%)					
Advance Growth (%)	13.7%	21.3%	20.0%	19.0%	18.0%
Deposit Growth (%)	5.2%	17.2%	25.0%	22.0%	18.0%
NII Growth (%)	16.1%	22.0%	4.4%	15.8%	16.4%
PPOP Growth (%)	4.0%	28.1%	3.8%	18.2%	18.7%
Ratios					
NIM (%)	3.2%	3.4%	3.0%	3.0%	3.1%
Cost to Income Ratio	53.8%	50.7%	51.0%	50.0%	49.0%
C/D Ratio	82.5%	85.4%	82.0%	80.0%	80.0%
CASA Ratio (%)	37.1%	32.7%	31.7%	31.0%	31.0%
ROE (%)	10.0%	14.1%	13.8%	14.7%	15.3%
ROA (%)	0.9%	1.2%	1.1%	1.2%	1.2%
Asset Quality					
GNPA	2.9%	2.4%	2.2%	2.0%	2.0%
NNPA	1.0%	0.7%	0.6%	0.5%	0.5%
PCR (%)	63.9%	68.9%	72.7%	75.0%	75.0%
Credit Cost (%)	0.9%	0.6%	0.3%	0.3%	0.3%
Valuation					
P/BV (x)	1.4	1.2	1.4	1.2	1.1
Price-ABV (x)	1.5	1.3	1.5	1.3	1.0

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
17 th Apr 2023	BUY	131.3	+24.9%
8 th May 2023	BUY	128.6	+32.2%
14 th July 2023	BUY	130.0	+30.0%
16 th Oct 2023	BUY	148.5	+15.3%
17 th Jan 2023	BUY	146.0	+15.4%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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