

Federal Bank Ltd.

8th May 2023

Delivering on guidance

Federal Bank Ltd (FBL) reported strong loan book growth of 4% on Q-o-Q and 20% on a Y-o-Y basis during the quarter, with the wholesale loan book growing ahead of the overall loan book at 22% Y-o-Y. The retail segment grew by 4% on a Q-o-Q basis. Deposits rallied by 6% & 17% on Q-o-Q and Y-o-Y basis, respectively. With stable asset quality, the Company's ROE has jumped from ~12% in Q4FY22 to ~18% in Q4FY23. PAT surged by 12% Q-o-Q and 67% Y-o-Y in Q4FY23.

Strong growth in loan book

FBL reported strong growth of 4% Q-o-Q and 20% Y-o-Y in the loan book, led by higher growth in the wholesale loan book at 22% Y-o-Y. Going forward, management expects to increase the loan book by 17-20% and focus on improving the share of the high-yielding segment like MSME, CV/CE, credit cards, and microfinance.

Improvement in Cost to Income ratio

FBL has improved its cost-to-income ratio from 59.9% in Q4FY22 to 49.5% in Q4FY23. With regards to managing deposit pricing, the Bank anticipates that the highest pricing point has already been taken into account and does not expect any significant increase in rates. In FY24, the Bank expects a 100 bps improvement in the cost-to-income ratio.

Return ratios uptick

As guided by the management, the Bank's ROE and ROA are on an improving trend Q-o-Q. The ROE and ROA improved from 15.9% and 1.3% in Q3FY23 to 17.5% and 1.5% in Q4FY23, respectively. The improvement in return ratios is led by 25% Y-o-Y growth in NII and a 41% growth in fee income. This led to a strong 62% surge in PAT during Q4FY23. The Bank expects return ratios to improve further based on improvement in operating leverage and focus on the high-yielding segment.

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. 170 (1.5x FY24E Adj. book value). We expect the Bank to grow its loan book at 17-18% with stable NIM of 3.3%. Improvement in the cost-to-income ratio and provision will lead to the normalization of asset quality. All these factors will improve profitability growth, leading to improved return ratios.

BUY

CMP Rs. 128.6

TARGET Rs. 170 (+32.2%)

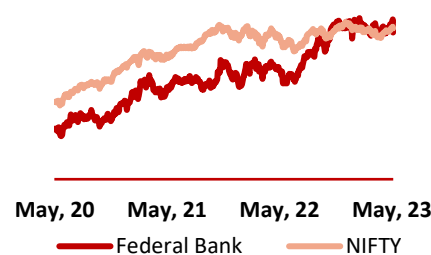
Company Data

MCAP (Rs. Mn)	2,70,542
O/S Shares (Mn)	2,116
52w High/Low	143 / 83
Face Value (Rs.)	2
Liquidity (3M) (Rs. Mn)	1,226.6

Shareholding Pattern %

	Mar 23	Dec 22	Sep 22
Promoters	0	0	0
FII's	26.94	27.72	26.39
DII's	43.78	42.33	44.22
Non-Institutional	29.28	29.97	29.39

Federal Bank vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY22	FY23	FY24E
NII	64.2	78.4	82.2
PPOP	39.5	50.6	54.5
Net Profit	19.7	31.8	34.2
Advances	1,499.5	1,819.6	2,128.9
ROE (%)	14.1%	13.6%	14.0%
ROA (%)	1.2%	1.1%	1.1%

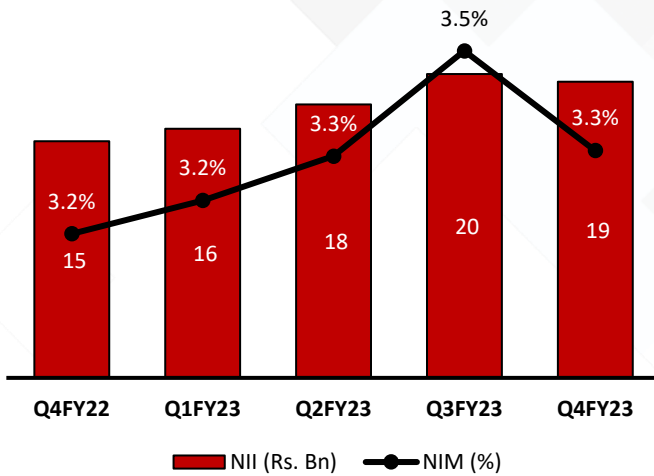
Source: Company, Keynote Capitals Ltd. estimates

Devin Joshi, Research Analyst

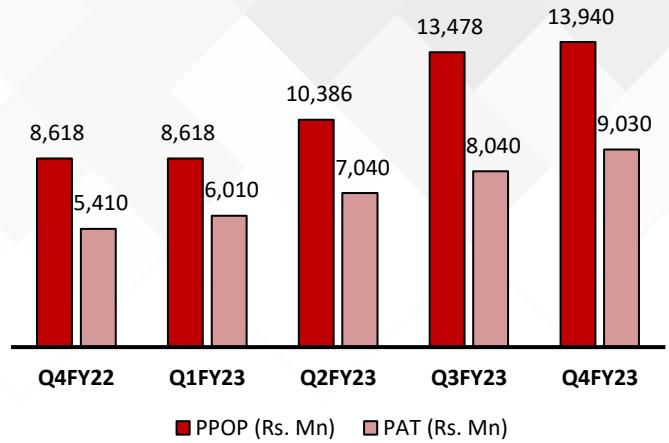
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Federal Bank Ltd. | Quarterly Update

Q4FY23 saw a moderation in NIM (%)

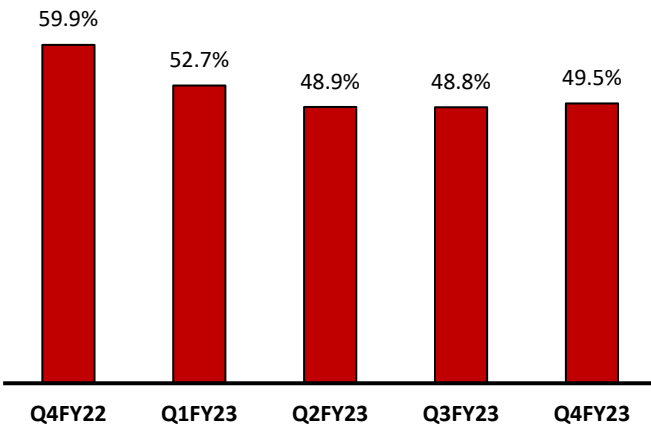


Q-o-Q increase in PPOP and PAT

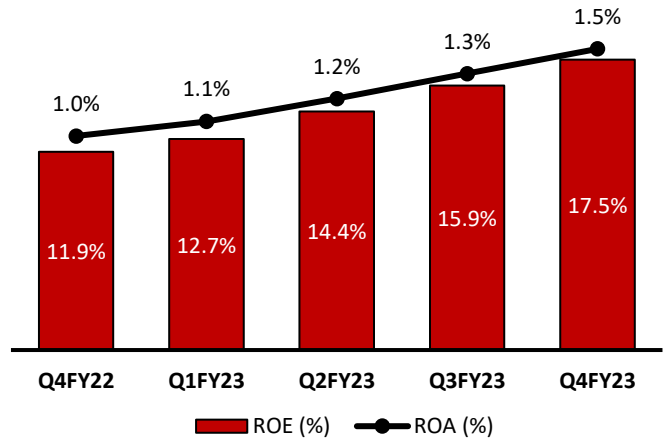


Source: Company, Keynote Capitals Ltd.

Cost to Income ratio (%)

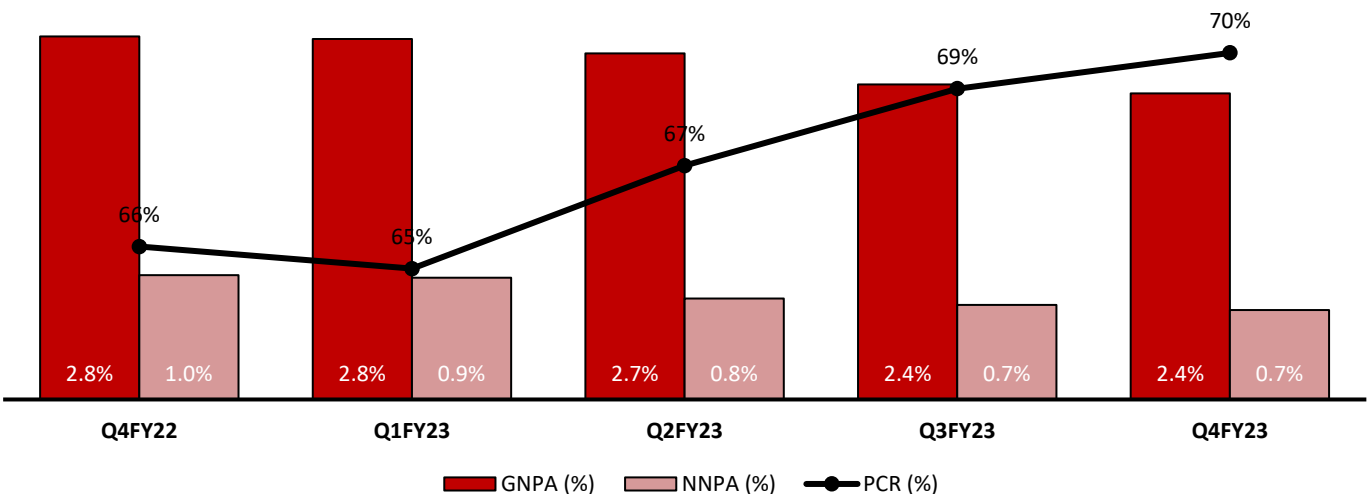


Q-o-Q improvement in Return Ratios (%)



Source: Company, Keynote Capitals Ltd.

Improvement in asset quality (%)



Source: Company, Keynote Capitals Ltd.

Q4FY23 Conference Call Takeaways

- The management has guided to grow its loan book at 17-20% in FY24.
- The management has guided to maintain a credit-to-deposit ratio of around 82-84%.
- The Bank is planning to raise capital in FY24.
- Management believes that they are conservatives on the underwriting process across product segments. The intention is to focus on credit standards.
- Retail deposit share has decreased from 92% in Q4FY22 to 85% in Q4FY23, while management claims that the retail deposit will increase again at 90%.
- 80% of the deposit base has already been repriced.
- The Bank maintains a slippage ratio of 1% and guides a quarterly run rate of Rs. 3,500-4,000 Mn on the slippage front.
- In the gold loan segment, management expects to grow 20-25% in FY24.
- Management has guided to maintain NIM at 3.30-3.35% in FY24. While in H1FY24, the margin would be slightly lower compared to H2FY24.
- Higher-yielding segments are growing at 30-40%

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Net Interest Income	55,337	64,222	78,365	82,179	94,724
Other Income	19,587	21,209	24,362	24,654	29,365
Net Income	74,924	85,431	1,02,728	1,06,833	1,24,089
Operating Expenses	36,917	45,922	52,112	52,348	59,563
Pre-Provision Operating Profit	38,007	39,509	50,616	54,485	64,526
Provisions	16,634	13,047	7,986	8,884	11,602
Profit Before Tax	21,373	26,463	42,629	45,601	52,924
Tax	5,470	6,809	10,872	11,400	13,231
Profit After Tax	15,903	19,654	31,758	34,201	39,693

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Share Capital	3,992	4,205	4,232	4,232	4,232
Reserves & Surplus	1,57,244	1,91,403	2,20,511	2,47,872	2,79,626
Networth	1,61,236	1,95,608	2,24,744	2,52,104	2,83,859
Deposits	17,26,445	18,16,775	21,29,885	25,34,398	29,55,406
Borrowings	90,685	1,95,874	2,58,620	2,38,750	1,67,039
Other Liabilities & Provisions	35,299	54,153	66,792	93,500	99,800
Total Liabilities	20,13,674	22,62,424	26,80,041	31,18,752	35,06,113
ASSETS					
Cash and Balance	1,95,914	2,11,361	1,78,039	2,24,627	2,74,396
Investments	3,71,862	3,90,652	4,87,022	5,45,081	5,45,081
Advances	13,18,786	14,99,515	18,19,568	21,28,894	25,12,095
Fixed Assets & Others	1,27,112	1,60,883	1,95,401	2,20,150	2,50,490
Total Assets	20,13,674	22,62,410	26,80,041	31,18,752	35,82,072

Source: Company, Keynote Capitals Ltd.

Ratios

	FY21	FY22	FY23	FY24E	FY25E
Growth YoY (%)					
Advance Growth (%)	7.9%	13.7%	21.3%	17.0%	18.0%
Deposit Growth (%)	13.4%	5.2%	17.2%	19.0%	16.6%
NII Growth (%)	19.0%	16.1%	22.0%	4.9%	15.3%
PPOP Growth (%)	18.6%	4.0%	28.1%	7.6%	18.4%
Ratios					
NIM (%)	3.1%	3.2%	3.4%	3.1%	3.0%
Cost to Income Ratio	49.3%	53.8%	50.7%	49.0%	48.0%
Credit /Deposit Ratio	76.4%	82.5%	85.4%	84.0%	85.0%
CASA Ratio (%)	34.0%	37.1%	32.7%	33.2%	34.0%
ROE (%)	9.9%	10.0%	14.1%	13.6%	14.0%
ROA (%)	0.8%	0.9%	1.2%	1.1%	1.1%
Asset Quality					
GNPA	3.4%	2.9%	2.4%	2.2%	2.0%
NNPA	1.2%	1.0%	0.7%	0.6%	0.5%
PCR (%)	65.1%	63.9%	68.9%	72.7%	75.0%
Credit Cost (%)	3.1%	3.2%	1.5%	1.2%	1.0%
Valuation					
Book Value Per Share			106.3	119.2	134.2
Adjusted Book Value Per Share			100.0	113.2	128.3
P/BV (x)			1.2	1.1	1.0
Price-ABV (x)			1.3	1.1	1.0

Note: Price is taken as of 5th May 2023

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%

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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