

Federal Bank Ltd.

3rd May 2024

One-off expenses impacted profitability and return ratios

Federal Bank Ltd's (FBL) loan book stood at ~Rs. 2.1 Trn, which grew by 21% on YoY and ~4% on a QoQ basis during the quarter, with the retail loan book growing ahead of the overall loan book at 25% on a YoY and 5% on a QoQ basis. The wholesale segment grew by 17% on a YoY and 3% on a QoQ basis. Deposits grew by 18% and 5% on a YoY and QoQ basis, respectively. NII reached Rs. ~22 Bn, with 15% growth on a YoY and 3% on a QoQ basis, registering a NIM of 3.2%. During the quarter, the Bank's cost-to-income ratio increased significantly from ~52% in Q3FY24 to ~62% in Q4FY24, led by a one-time effect related to pension costs of Rs. 1.6 Bn which impacted its profitability and return ratios. The Bank's asset quality improved on a QoQ basis, with the GNPA at 2.1% in Q4FY24 compared to 2.3% in Q3FY24.

Strong growth in loan book

FBL registered a growth of 21% on a YoY and 4% on a QoQ basis to close the loan book at Rs. 2,146 Bn in Q4 FY24. The retail and wholesale mix was at 56:44 in Q4 FY24, with segments like auto (34% YoY, 8% QoQ), personal (61% YoY, 5% QoQ), CV/CE (57% YoY, 13% QoQ), credit card (106% YoY, 10% QoQ), and MFI (141% YoY, 25% QoQ) exceeded the loan book growth. The management has guided to achieve higher loan book growth in FY25 compared to FY24.

Cost-to-income ratio impacted due to a one-off expense

Cost-income ratio was high at ~62% in Q4FY24. Operating expenses for the bank grew 38%/ 17% on a YoY and QoQ basis. The Bank has made a provision of Rs. 1.6 Bn for pension-related expenses pertaining to the current employee-related costs. This is unlikely to repeat in FY25. The Bank has also made higher provisions for IT-related and branch expansion costs, which tend to be a bit more seasonal in nature, with Q4 being on the higher side. Going forward, the management is guiding the cost-to-income ratio to be ~50% in FY25.

Improvement in asset quality

During the quarter, the GNPA ratio improved by 16 bps on a QoQ basis to 2.1%, while the NNPA ratio was stable at 0.6% on a QoQ basis. The slippages ratio declined by 28 bps on a QoQ basis, driven by strong recovery and upgrades. Going forward, management is guiding to normalize the credit costs from 1 bps in Q4FY24 to 30 bps in FY25.

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. 192.9 (1.5x FY25E Adj. book value). We expect that the Bank will be able to achieve 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. 166

TARGET Rs. 192.9 (+16.2%)

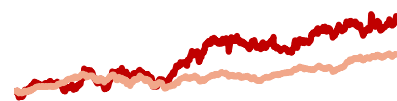
Company Data

Bloomberg Code	FB IN
MCAP (Rs. Mn)	4,09,362
O/S Shares (Mn)	2,435
52w High/Low	170 / 121
Face Value (Rs.)	2
Liquidity (3M) (Rs. Mn)	2,553

Shareholding Pattern %

	Mar 24	Dec 23	Sep 23
Promoters	0	0	0
FIIs	28.57	29.38	27.01
DIIIs	45.17	44.52	45.97
Non-Institutional	26.27	26.09	27.02

Federal Bank vs Nifty



Apr, 21	Apr, 22	Apr, 23	Apr, 24
Federal Bank			
NIFTY			

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24	FY25E
NII	78	91	96
PPOP	51	55	63
Net Profit	32	39	42
Advances	1,820	2,181	2,617
ROE (%)	14%	13%	13%
ROA (%)	1.2%	1.2%	1.1%

Source: Company, Keynote Capitals Ltd. estimates

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Federal Bank Ltd. | Quarterly Update

Q4 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q4FY24	Q4FY23	Change % (Y-o-Y)	Q3FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Net Interest Income	24,029	20,747	16%	23,255	3%	90,708	78,365	16%
Other Income	8,099	7,684	5%	9,084	-11%	32,165	24,362	32%
Net Income	32,128	28,431	13%	32,339	-1%	1,22,873	1,02,728	20%
Operating Expense	19,933	14,492	38%	17,002	17%	67,667	52,112	30%
Pre-provision Operating Profit	12,195	13,940	-13%	15,337	-20%	55,206	50,616	9%
Provisions	-765	1,253	-161%	1,139	-167%	2,596	7,986	-67%
PBT	12,960	12,687	2%	14,198	-9%	52,610	42,629	23%
Tax	3,237	3,292	-2%	3,566	-9%	13,335	10,872	23%
Minority Interest	254	96	163%	319	-20%	836	451	85%
Share of Associate	238	240	-1%	40	490%	365	341	7%
PAT	9,708	9,539	2%	10,354	-6%	38,804	31,647	23%
EPS	3.9	4.5		4.2		16.6	14.9	

Source: Company, Keynote Capitals Ltd.

Loan Book mix

Particulars	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Advances	54%	54%	55%	55%	56%	25%	5%
Retail	32%	31%	32%	31%	31%	20%	4%
Housing	15%	14%	13%	13%	13%	4%	3%
Gold	2%	2%	2%	2%	2%	6%	1%
LAP	6%	6%	6%	5%	5%	18%	4%
Others	4%	5%	4%	4%	4%	28%	2%
Auto	3%	3%	3%	3%	3%	34%	8%
Personal	1%	2%	2%	2%	2%	61%	5%
Credit Card			1%	1%	1%	106%	10%
Agri	13%	13%	13%	13%	13%	20%	5%
Business Banking	8%	8%	8%	8%	8%	20%	2%
CV / CE	1%	1%	1%	1%	2%	57%	13%
MFI			1%	1%	2%	141%	25%
Wholesale Advances	46%	46%	45%	45%	44%	17%	3%
Commercial	10%	10%	10%	10%	10%	24%	3%
CIB	36%	36%	35%	35%	34%	14%	2%
Total Funded Assets (Rs. Bn)	1,774	1,866	1,960	2,069	2,146	21%	4%

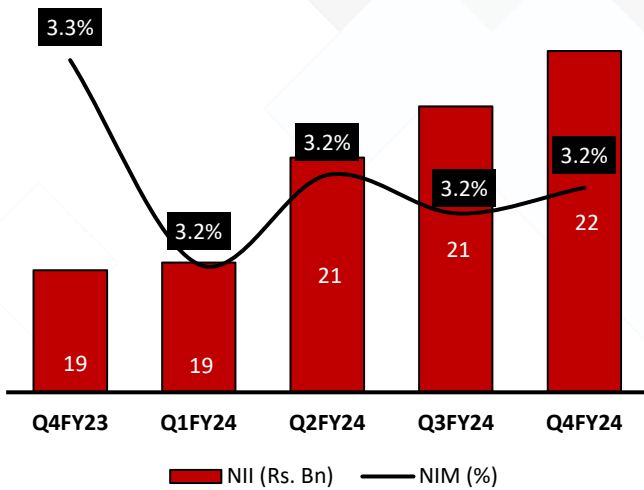
Source: Company, Keynote Capitals Ltd.

Deposits mix

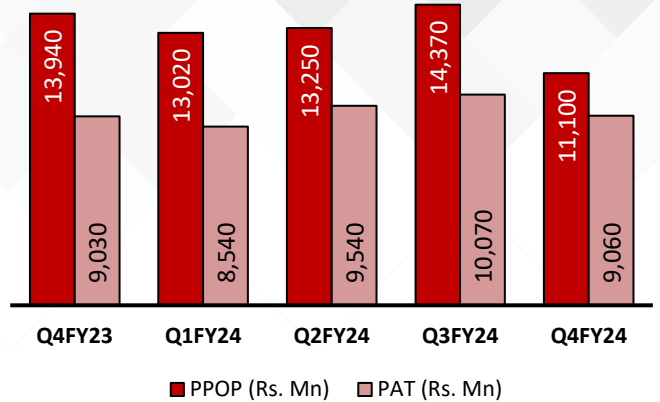
Particulars	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	33%	32%	31%	31%	29%	6%	1%
NRE Deposit	33%	32%	31%	30%	30%	8%	5%
Term Deposit	34%	36%	38%	39%	41%	40%	9%
Total Deposits (Rs. Bn)	2,134	2,225	2,329	2,396	2,525	18%	5%

Source: Company, Keynote Capitals Ltd.

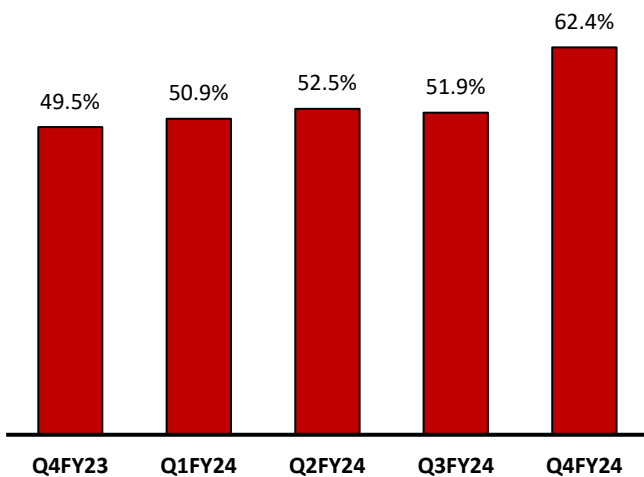
Stable NII and NIM



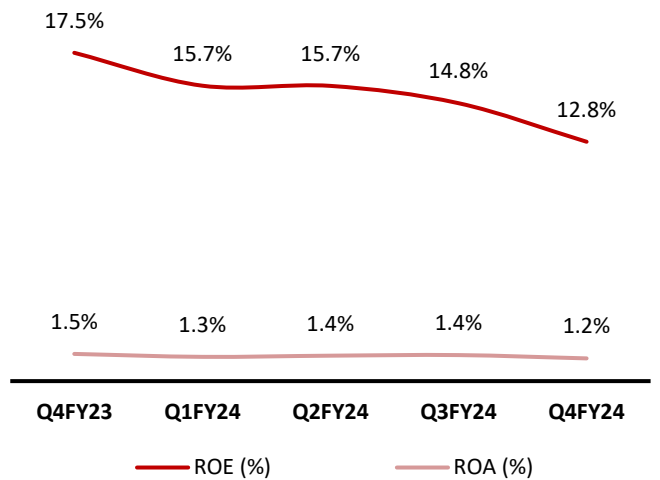
PPOP and PAT (Rs. Mn)



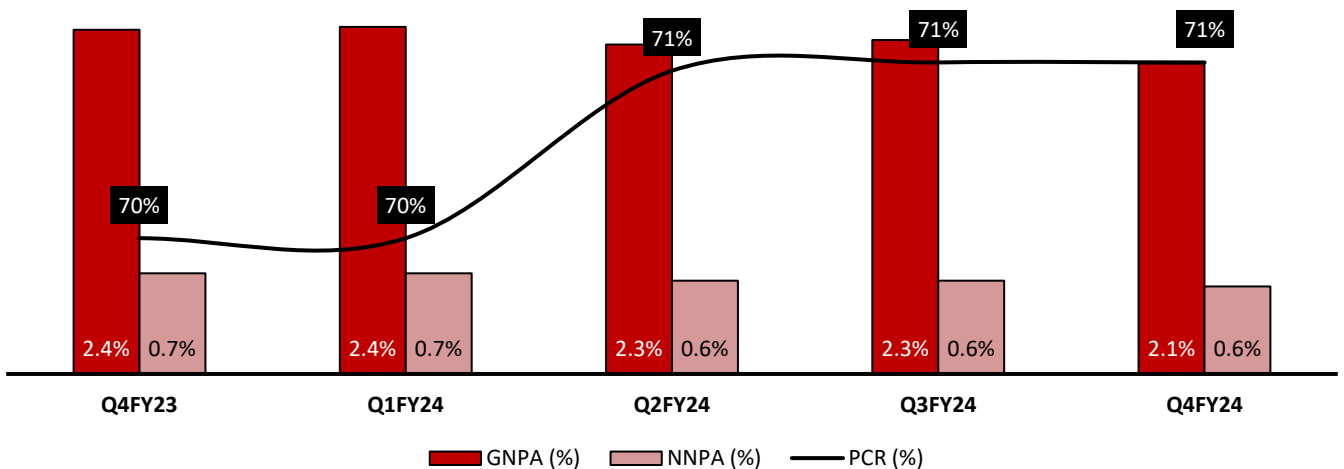
Cost to Income ratio (%)



ROA and ROE (%)



Asset quality maintained (%)



Federal Bank Ltd. | Quarterly Update

Q4 FY24 Conference Call Takeaways

General highlights

- In Q4FY24, the Bank reported a one-time effect related to pension costs of Rs. 1.6 Bn, which impacted its profitability and return ratios.
- During the quarter, slippages were lower than recovery and upgrades.
- Recovery and upgrades had no one-off or lumpy accounts. It was completely granular.
- The RBI has instructed the Bank to halt the distribution of co-branded credit cards. The Bank is currently reviewing the details related to the credit card issue and is implementing necessary corrective measures where needed.
- For succession planning, the board has already set up the search panel. The Bank will submit candidate names to the RBI over the next 2-3 weeks.
- The payback period for branches is getting faster at ~18 months. In FY23, the Bank opened 75 branches, of which ~55%, or 40 branches, have already become profitable.
- The board has decided to recommend a 60% dividend payout.

Management guidance

- The Bank has guided to grow its ROA by 3-4 bps every year.
- The Bank has guided to grow its core fee income by 20-25% in FY25.
- The Bank has guided to open 100 new branches in FY25.
- The Bank is expecting its credit cost to be at 30 bps in FY25.
- The Bank expects the cost-to-income ratio to be ~50% in FY25. This quarter included a one-time item, and the Bank expects this ratio to normalize subsequently.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	64,222	78,365	90,708	96,078	1,11,826
Other Income	21,209	24,362	32,165	29,784	34,666
Net Income	85,431	1,02,728	1,22,873	1,25,862	1,46,492
Operating Expenses	45,922	52,112	67,667	62,931	71,781
Pre-Provision Operating Profit	39,509	50,616	55,206	62,931	74,711
Provisions	13,047	7,986	2,596	7,198	7,198
Profit Before Tax	26,463	42,629	52,610	55,733	67,513
Tax	6,809	10,872	13,335	13,933	16,878
Profit After Tax	19,654	31,758	39,275	41,800	50,635

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Share Capital	4,205	4,232	4,871	4,871	4,871
Reserves & Surplus	1,91,403	2,20,511	3,04,388	3,21,108	3,41,362
Total Equity	1,95,608	2,24,744	3,09,258	3,25,978	3,46,232
Deposits	18,16,775	21,29,885	25,24,550	30,79,204	37,39,033
Borrowings	1,95,874	2,58,620	2,51,596	2,45,775	1,04,144
Other Liabilities & Provisions	54,153	66,792	92,985	99,800	99,800
Total Liabilities	22,62,410	26,80,041	31,78,390	37,50,767	42,89,210
ASSETS					
Cash and Balance	2,11,361	1,78,039	1,91,938	2,86,946	2,62,666
Investments	3,90,652	4,87,022	6,10,431	5,96,000	6,35,000
Advances	14,99,515	18,19,568	21,81,103	26,17,323	31,40,788
Fixed Assets & Others	1,60,883	1,95,401	1,94,917	2,50,490	2,50,760
Total Assets	22,62,410	26,80,041	31,78,390	37,50,767	42,89,210

Source: Company, Keynote Capitals Ltd.

Ratios

	FY22	FY23	FY24	FY25E	FY26E
Growth YoY (%)					
Advance Growth (%)	13.7%	21.3%	19.9%	20.0%	20.0%
Deposit Growth (%)	5.2%	17.2%	18.5%	22.0%	21.4%
NII Growth (%)	16.1%	22.0%	15.8%	5.9%	16.4%
PPOP Growth (%)	4.0%	28.1%	9.1%	14.0%	18.7%
Ratios					
NIM (%)	3.2%	3.4%	3.3%	3.0%	3.0%
Cost to Income Ratio	53.8%	50.7%	55.1%	50.0%	49.0%
C/D Ratio	82.5%	85.4%	86.4%	85.0%	84.0%
CASA Ratio (%)	37.1%	32.7%	29.4%	30.0%	31.0%
ROE (%)	10.0%	14.1%	12.7%	12.8%	14.6%
ROA (%)	0.9%	1.2%	1.2%	1.1%	1.2%
Asset Quality					
GNPA	2.9%	2.4%	2.1%	2.0%	2.0%
NNPA	1.0%	0.7%	0.6%	0.5%	0.5%
PCR (%)	63.9%	68.9%	71.8%	75.0%	75.0%
Credit Cost (%)	0.9%	0.6%	0.2%	0.3%	0.3%
Valuation					
P/BV (x)	1.4	1.2	1.3	1.2	1.2
Price-ABV (x)	1.5	1.3	1.4	1.3	1.2

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 2024	BUY	146.0	+15.4%
3 rd May 2024	BUY	166.0	+16.2%

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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