

Good quarter !!!

Federal Bank reported decent Q4FY24 numbers – PAT came in at INR 10 bn, down by 10% qoq largely due to one-time pension provisions (INR 162 cr) created due to 12th Bipartite agreement. Also, reported other income was down by 12.6% qoq as Q3FY24 has one-off gain from IPO listing of its subsidiary Fedfina Financial Services (INR~80-90 cr). For the full year, other income excluding treasury gains was strong at 32.5% yoy. Loan growth was healthy at 20.1% yoy & 5.1% qoq to INR 209403 cr largely driven by retail loans (56% share). On the liability side, **excluding bulk deposits i.e. CASA + deposits <INR 2 cr, deposits have grown at slower pace 11.4% yoy (4.1% qoq) to INR 202027 cr. Margins & asset quality were stable with strong recoveries this quarter.**

Outlook for FY25

- Loans are likely to grow by 18% and deposits by 16-18%
- Margins are expected to maintained at the current levels
- Other income is anticipated to grow by 20-25%
- The bank aims to bring cost/income ratio down to 50%

Valuations

The bank has given good visibility of asset growth in FY25 alongwith stronger other income growth. There could be short-term hangover on the stock until it is known who will replace current CEO Mr.Shyam Srivasan as his term is ending soon. Bank process is started for the same and shortlisted names will be given to RBI for its approval

At current CMP, it is trading at 1.3x/1.1x FY25e/FY26e ABV on ROE/ROA of ~14-15%/1.3-1.4%. Our revised TP is INR 188, upside of 13% from current levels and discounting its FY26e ABV by 1.4x and revise rating from NEUTRAL to BUY

Financial Summary

Y/E Mar (Rs Bn)	FY22	FY23E	FY24E	FY25E	FY26E
NII	59.6	72.3	82.9	96.8	111.4
Net profit	18.9	30.1	37.2	43.5	52.9
Networth	188	215	291	327	372
Adj BVPS	83	95	114	130	149
EPS (Rs)	9.0	14.2	15.3	17.9	21.7
P/ABV (x)	2.0	1.7	1.5	1.3	1.1
P/E (x)	18.5	11.7	10.9	9.3	7.6

Source: Dalal & Broacha Research, Company

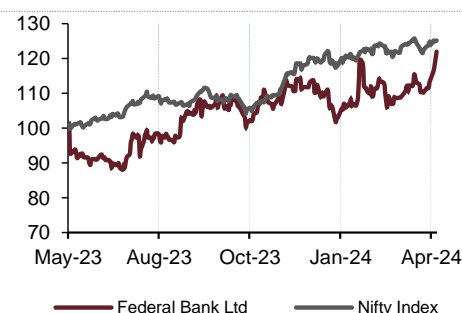
Rating	TP (Rs)	Up/Dn (%)
BUY	188	12

Market data

Current price	Rs	168
Market Cap (Rs.Bn)	(Rs Bn)	409
Market Cap (US\$ Mn)	(US\$ Mn)	4,903
Face Value	Rs	2
52 Weeks High/Low	Rs	170/121
Average Daily Volume	('000)	34,145
BSE Code		500469
Bloomberg		FB.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-24	Dec-23
Promoters	-	-
Public	100	100
Total	100	100

Source: Bloomberg

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Concall & Financial Highlights

- **During the quarter, employee cost registered sharp increase by 28% qoq largely led by one-time pension provisions created amounting to INR 162 cr due to rise in the wages as per 12th Bipartite Agreement.** Shortfall in pension provisions for the previous quarters was made good for and which are not required to be made in FY25.
- **Cost to income ratio had escalated to 62.3% in Q4 vs. 51.9% in Q3 due to this one off pension provisions.** It plans to bring C/I ratio to 50% levels and reduce further over the period of time. **In addition to this, it will be planning to add ~100 branches to its network in FY25**
- **Loan growth was strong in fourth quarter at 20% yoy and 5.1% qoq to INR 209403 cr** which was led by healthy growth across the sectors. Retail grew by 20% yoy (5% qoq) to INR 67435 cr (56% share) and corporate & commercial banking loans by 15% yoy (2.5% qoq) to INR 95083 cr (44% share)
- Within the retail loans, housing loans reported growth of 11.7% yoy to INR 28021 cr, LAP loans by 17.8% yoy to INR 11764 cr, auto loans by 34% yoy to INR 7302 cr, personal loans by 60.7% yoy to INR 3845 cr, credit cards by 106% yoy to INR 3060 cr.
- **Going forward, management has given loan growth outlook of 18% yoy for FY25 period vs. 20% achieved in FY24**
- On the liability side, overall deposits grew by 18.3% yoy (5.4% qoq) to INR 252534 cr. **Excluding bulk deposits i.e. CASA + deposits <INR 2 cr, deposits have grown at slower pace 11.4% yoy (4.1% qoq) to INR 202027 cr.** CASA deposits growth was slightly languish at 6.4% yoy (1.1% qoq) to INR 74200 cr - as overall industry is not witnessing much higher growth in the CASA deposits. Additionally, CASA deposits share has dropped to 29.4% from 32.7% on yoy basis. **Going forward for FY25, management expects deposits to grow by ~16-18% levels.**
- Other income had seen a drop of 12.6% qoq (2.7% yoy) to INR 754 cr in Q4 largely due to lower treasury gains. **Overall for the full year excluding treasury gains, core fee income has seen strong growth of 32.5% yoy to INR 2832 cr.** Going ahead, management sees fee income growth of 20-25% in FY25
- **Reported margins for the quarter were at 3.21% similar to last quarter levels of 3.19% while a drop of 16 bps on yoy basis.** For the quarter, rise in the cost of funds (+17 bps to 5.9%) was compensated by rise in the advances yields (+11 bps to 9.48%). **The bank aims to maintain the margins for FY25 period despite increase in the**

borrowings cost by shifting portfolios & building mix towards high yielding advances

- In Q4, there was write-back of provisions to the tune of INR 94.6 cr which was netted off against gains/loss on investment book in other income line item
- On the asset quality side as well Q4 quarter was good – GNPA/NNPA in % terms came down to 2.1%/0.6% vs. 2.3%/0.6% qoq. Incremental slippages for the quarter were at INR 352 cr vs. 479 in Q3FY24 and INR 436 in Q4FY23. Also, recoveries/upgrades/reductions to existing NPAs were strong at INR 452 cr vs. INR 290 cr in Q3 last quarter – the bank said there were no chunky accounts in this recoveries
- **The bank is in the process of finalising the candidature for CEO designate which will include 2 internal names and 1 external name. As this process gets completed, it is likely to send shortlisted names to RBI for its approval as current CEO Mr.Shyam Srinivasan term is ending soon.**

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At current CMP, it is trading at 1.3x/1.1x FY25e/FY26e ABV on ROE/ROA of ~14-15%/1.3-1.4%. Our revised TP is INR 188, upside of 13% from current levels and discounting its FY26e ABV by 1.4x and revise rating from NEUTRAL to BUY

Quarterly Financials (Q4FY24)

(Rs in Cr)	Q4FY24	Q4FY23	yoy (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY(%)
Interest earned	5978.4	4720.7	26.6	5730.1	4.3	22188.3	16803.6	32.0
Interest expenses	3783.2	2811.5	34.6	3606.7	4.9	13894.8	9571.5	45.2
Net Interest Income (NII)	2195.1	1909.3	15.0	2123.4	3.4	8293.5	7232.2	14.7
Other Income	753.9	733.9	2.7	862.6	-12.6	3079.3	2330.0	32.2
Total income	2949.0	2643.2	11.6	2985.9	-1.2	11372.8	9562.2	18.9
Operating expenses	1838.6	1308.6	40.5	1548.6	18.7	6198.3	4767.8	30.0
Operating profit	1110.4	1334.6	-16.8	1437.3	-22.7	5174.5	4794.4	7.9
Provision for contingencies	-94.6	116.7	-181.1	91.2	-203.7	196.1	749.9	-73.8
PBT	1205.0	1217.9	-1.1	1346.1	-10.5	4978.4	4044.5	23.1
Provision for taxes	298.7	315.3	-5.3	339.4	-12.0	1257.8	1033.9	21.7
Net profit	906.3	902.6	0.4	1006.7	-10.0	3720.6	3010.6	23.6
Equity	487.1	423.2	15.1	486.7	0.1	487.1	423.2	15.1
EPS	4.17	3.34	24.9	4.03	3.5	76.39	71.13	7.4
Ratios (%)								
Int. exp/Int earned (%)	63.3	59.6	-	62.9	-	62.6	57.0	-
Cost/Income ratio (%)	62.3	49.5	-	51.9	-	54.5	49.9	-
Gross NPAs (Rs)	4528.9	4183.8	8.2	4628.8	-2.2	4528.9	4183.8	8.2
Net NPAs (Rs)	1255.3	1205.0	4.2	1284.4	-2.3	1255.3	1205.0	4.2
Gross NPAs (%)	2.13	2.36	-	2.29	-	2.1	2.4	-
Net NPAs (%)	0.60	0.7	-	0.64	-	0.6	0.7	-
ROA (%)	0.3	0.4	-	0.4	-	1.5	1.5	-
CAR (%)	16.1	14.8	-	15.0	-	15.5	13.4	-
Balance Sheet (Rs.cr)								
Deposits	2,52,534	2,13,386	18.3	2,39,591	5.4	2,52,534	2,13,386	18.3
Advances	2,09,403	1,74,447	20.0	1,99,185	5.1	2,09,403	1,74,447	20.0

Source: Company, Dalal & Broacha Research

Financials

Profit & Loss Account

P&L (Rs Bn)	FY21	FY22	FY23	FY24e	FY25e	FY26e
Interest income	137.6	136.6	168.0	221.9	266.2	307.0
Interest expense	82.2	77.0	95.7	138.9	169.4	195.6
NII	55.3	59.6	72.3	82.9	96.8	111.4
Non-interest income	19.4	20.9	23.3	30.8	38.1	47.0
Net revenues	74.8	80.5	95.6	113.7	134.9	158.5
Operating expenses	36.9	42.9	47.7	62.0	70.7	80.7
PPOP	37.9	37.6	48.0	51.7	64.2	77.8
Provisions	16.6	12.2	7.5	2.0	5.7	6.7
PBT	21.2	25.4	40.5	49.8	58.4	71.1
Tax	5.5	6.5	10.3	12.6	15.0	18.2
PAT	15.8	18.9	30.1	37.2	43.5	52.9

Balance Sheet

Balance sheet (Rs.bn)	FY21	FY22	FY23	FY24e	FY25e	FY26e
Share capital	3.99	4.21	4.23	4.87	4.87	4.87
Reserves & surplus	157	184	211	286	322	367
Net worth	161	188	215	291	327	372
Deposits	1,726	1,817	2,134	2,525	2,920	3,384
Borrowings	91	154	193	180	198	218
Other liability	35	51	61	87	104	125
Total liabilities	2,014	2,209	2,603	3,083	3,550	4,099
Fixed assets	4.9	6.3	9.3	10.2	10.6	11.0
Investments	372	392	490	609	686	795
Loans	1,319	1,449	1,744	2,094	2,471	2,879
Cash	196	210	177	190	198	226
Other assets	122	152	183	181	184	188
Total assets	2,014	2,209	2,603	3,083	3,550	4,099

Ratios	FY21	FY22	FY23	FY24e	FY25e	FY26e
Growth (%)						
NII	19.0	7.7	21.3	14.7	16.7	15.1
PPOP	17.3	-0.8	27.6	7.9	24.0	21.2
PAT	0.6	19.8	59.4	23.6	16.9	21.6
Advances	7.9	9.9	20.0	19.0	18.0	16.5
Deposits	13.4	5.2	17.4	18.3	15.6	15.9
Spread (%)						
Yield on Funds	7.7	6.9	7.5	8.4	8.5	8.5
Cost of Funds	4.8	4.1	4.5	5.5	5.8	5.8
Spread	2.9	2.9	3.1	2.8	2.7	2.6
NIM	3.1	3.0	3.2	3.13	3.10	3.07
Asset quality (%)						
Gross NPAs	3.4	2.8	2.4	2.1	2.0	1.9
Net NPAs	1.2	1.0	0.8	0.6	0.5	0.3
Provisions	66	66	67	71	76	84
Return ratios (%)						
RoE	10.3	10.8	14.9	14.7	14.1	15.1
RoA	0.8	0.9	1.3	1.3	1.3	1.4
Per share (Rs)						
EPS	8	9	14	15	18	22
BV	81	89	102	119	134	153
ABV	73	83	95	114	130	149
Valuation (x)						
P/E	21.0	18.5	11.7	10.9	9.3	7.6
P/BV	2.1	1.9	1.6	1.4	1.2	1.1
P/ABV	2.3	2.0	1.7	1.5	1.3	1.1
Other Ratios (%)						
Cost/Income	49.4	53.3	49.9	54.5	52.4	50.9
CD ratio	76.4	79.8	81.8	82.9	84.6	85.1
CASA ratio	34.0	37.1	32.7	29.4	27.3	25.4
CAR	14.6	15.8	15.0	16.9	16.3	15.9

Source: Dalal & Broacha Research, Company

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