

Results were mixed bag !!!

Federal Bank results were mixed bag – strong on loan and fee income growth while disappointing on margins side. PAT reported growth of 67% yoy and 12% qoq to INR 9 bn.

Outlook

- Improvement in the cost ratios by 100 bps in FY24 from current levels of 50%
- Equity capital raising likely in FY24; the bank has already shareholder approval in place
- Maintain margins in the range of 3.3-3.35% levels in FY24 (contrary to our estimate of 10 bps fall in margins for the same period)
- Current run-rate of fee income growth will continue
- Credit growth in high-teens in FY24 (in-line with our estimate of 19%)
- Fee income growth will continue @20%+
- Asset quality - Slippage run rate of INR 18 bn in FY24 similar to FY23 levels and there will be equal amount of recoveries and upgrades for the same period

Valuations

Going forward, we expect PAT growth to slow down to 12% CAGR over the next 2 years i.e. FY23-25e mainly due to fall in the margins (~10-15 bps) despite assuming higher loan growth of 18-19%. At current CMP, it is trading at 1.2x/1.1x FY24e/FY25e ABV on ROE/ROA of ~15%/1.2%. Given slower trajectory of profitability, we revise **our TP to INR 146**, upside of 14% from current levels and discounting its FY25e ABV by 1.2x. **We assign ACCUMULATE rating to the stock; although stock is BUY but not one of our top picks.**

Financial Summary

Y/E Mar (Rs Bn)	FY21	FY22	FY23E	FY24E	FY25E
NII	55.3	59.6	72.3	82.9	93.5
Net profit	15.8	18.9	30.1	34.3	37.6
Networth	161	188	215	245	278
Adj BVPS	73	83	94	107	122
EPS (Rs)	7.9	9.0	14.2	16.2	17.8
P/ABV (x)	1.8	1.5	1.4	1.2	1.1
P/E (x)	16.2	14.2	9.0	7.9	7.2

Source: Dalal & Broacha Research, Company

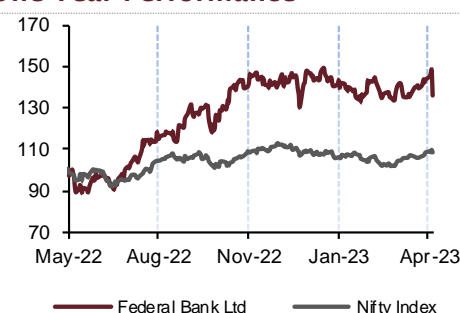
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	146	14

Market data

Current price	Rs	128
Market Cap (Rs.Bn)	(Rs Bn)	270
Market Cap (US\$ Mn)	(US\$ Mn)	3,305
Face Value	Rs	2
52 Weeks High/Low	Rs	143 / 83
Average Daily Volume	('000)	9,402
BSE Code		500469
Bloomberg		FB.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
Promoters	0.00	0.00
Public	100	100
Total	100	100

Source: Bloomberg

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Key Financial Highlights

- PAT reported growth of 67% yoy and 12% qoq to INR 9 bn. Barring trading income on investments (INR 1.9 bn), PBT growth was ~42% yoy to INR 10.3 bn
- **Asset growth was healthy** – Blended credit growth was strong at 20% yoy to INR 1744 bn. Loan growth was strong across segments – retail loans (31.6% share) showed 17% yoy growth, CV/CE (1.2% share) 71%, commercial banking (9.7% share) 18% and corporate loans (36.3% share) 23% yoy growth for the same period.
- Within retail, home loans showed grew by 17% yoy, LAP 18% and auto loans by 29% yoy growth in Q4FY23
- Total gold loan portfolio was up by 15% yoy to INR 198 bn. There was 9.6% increase in the number of accounts in gold loan accounts to 13.27 lacs. Here, the bank has average LTV of 68.7% and avg. yield of ~10.1%
- MFI business of the bank crossed INR 14 bn with monthly average run-rate of ~INR 2 bn.
- **CASA growth muted; bulk TDs drive deposit growth** – CASA showed a muted growth of 4% yoy to INR 696 bn; this resulted in fall in the CASA ratio from 37% year ago to 32.7% currently. While the growth was relatively better in retail term deposits at 14.3% yoy. Bulk TDs (12% share in total deposits) grew by ~1.3-1.4x over the last one year time to INR 246 bn. This drive the overall deposits growth to 17% yoy levels to INR 2134 bn
- **Margins came off by ~20 bps on qoq basis** – Calculated margins came off by ~30 bps on qoq basis to 3.2% levels in Q4 which was largely led by increase in the cost of funds (~45 bps increase to 5.3% levels). Assets yields rose by 18 bps but which was more than offset by higher increase in the cost of funds. Management reiterated that margins will be maintained at 3.3-3.35% (reported) similar to FY23 levels. However, as per our calculations, margins will drop by 10 bps in FY24.
- Core fee income growth was healthy at 20% yoy while there was profit on sale on investments amounting to INR 1.9 bn vs. loss of 90 mn last quarter.
- **Credit cost (calculated) was lower at 7 bps (INR 1.1 bn) vs. 12 bps in Q3FY23 (INR 2 bn)**. Cumulative credit cost for the full year was lower at 48 bps in FY23 vs. 85 bps in FY22. Incremental slippages for the quarter were at INR 4.4 bn vs. INR 4 bn in Q3FY23 which was largely led by higher slippages in agri portfolio. GNPA/NNPA ratio stood at 2.4%/0.7% in FY23 vs. 2.8%/1% in FY22

Concall Highlights

- Cost of deposits rose more sharply (up by 65 bps) than advances yields (up by 35 bps yoy) which impacted margins during the quarter.
- While in FY24, management aims to maintain the margins at 3.3-3.35% levels similar to FY23 period as upward deposit repricing is largely over. Management believes peak of pricing is already factored in and largely 80% of deposits are already repriced at higher rates (contrary to our estimate of 10 bps fall in margins for the same period)
- Improvement in the cost ratios by 100 bps in FY24 from current levels of 50%
- Equity capital raising likely in FY24; the bank has already shareholder approval in place
- Current run-rate of fee income growth will continue
- Credit growth in high-teens in FY24 (in-line with our estimate of 19%)
- Share of NR deposits have increased from 6.5% to 6.8%
- Bank is aiming to gain traction on savings deposits side.
- Asset quality - Slippage run rate of INR 18 bn in FY24 similar to FY23 levels and there will be equal amount of recoveries and upgrades for the same period
- Gold loans expected to grow by 20-25% and asset quality will be maintained at current levels
- Pension requirements go up when the market yields are falling
- RWA has grown by 20% because of higher growth seen in high risk weights assets like personal loans, micro-finance etc.
- Fee income growth will continue @20%+
- MTM trading gain on investment book was largely due to write-back of excess provisions on investments due to fall in the yields

Quarterly Financials (Q4FY23)

(Rs Cr.)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Interest earned	4720.7	3483.2	35.5	4433.3	6.5	16803.4	13660.8	23.0
-Interest/discount on advances/bills	3797.4	2754.5	37.9	3584.9	5.9	13491.8	10829.8	24.6
-Income on investments	778.0	592.9	31.2	720.7	8.0	2795.6	2338.7	19.5
-Interest on bal. with RBI	51.5	56.1	-8.2	49.8	3.5	206.3	220.3	-6.4
-Others	93.8	79.7	17.6	77.9	20.4	309.7	272.1	13.8
Interest expenses	2811.5	1958.0	43.6	2476.7	13.5	9571.5	7698.8	24.3
Net Interest Income (NII)	1909.3	1525.2	25.2	1956.5	-2.4	7231.9	5962.0	21.3
Other Income	733.9	465.0	57.8	534.0	37.4	2330.0	2089.1	11.5
Total income	2643.2	1990.2	32.8	2490.5	6.1	9561.9	8051.1	18.8
Operating expenses	1308.6	1192.0	9.8	1216.3	7.6	4767.8	4293.2	11.1
-Employee cost	597.2	637.3	-6.3	560.8	6.5	2173.0	2320.6	-6.4
-Other operating expenses	711.4	554.8	28.2	655.5	8.5	2594.8	1972.7	31.5
Operating profit	1334.6	798.2	67.2	1274.2	4.7	4794.1	3757.9	27.6
Provision for contingencies	116.7	75.2	55.1	198.7	-41.3	749.9	1221.8	-38.6
PBT	1217.9	723.0	68.5	1075.5	13.2	4044.2	2536.1	59.5
Provision for taxes	315.3	182.4	72.8	271.9	16.0	1033.9	646.3	60.0
Net profit	902.6	540.5	67.0	803.6	12.3	3010.3	1889.8	59.3
Equity	4232.4	4205.1	0.6	421.9	903.2	4232.4	4205.1	0.6
EPS	4.27	2.57	66.1	3.80	12.4	7.11	4.49	58.3
Ratios (%)								
Int. exp/Int earned (%)	59.6	56.2	-	55.9	-	57.0	56.4	-
Cost/Income ratio (%)	49.5	59.9	-	48.8	-	49.9	53.3	-
Gross NPAs (Rs)	4183.8	4136.7	1.1	4147.9	0.9	4183.8	4136.7	1.1
Net NPAs (Rs)	1205.0	1228.6	-1.9	1205.0	0.0	1205.0	1228.6	-1.9
Gross NPAs (%)	2.36	2.80	-	2.43	-	2.4	2.8	-
Net NPAs (%)	0.69	1.0	-	0.7	-	0.7	1.0	-
ROA (%)	0.4	0.3	-	0.3	-	1.5	1.5	-
CAR (%)	14.8	15.8	-	13.8	-	14.8	15.8	-
Balance Sheet (Rs.mn)								
Sources of Funds								
Capital	4,232	4,205	0.6	422	903.2	423	421	0.6
Reserves and Surplus	21,083	18,373	14.7	20,165	4.6	21,083	18,373	14.7
Deposits	2,13,386	1,81,701	17.4	2,01,308	6.0	2,13,386	1,81,701	17.4
Advances	1,74,447	1,44,928	20.4	1,68,173	3.7	1,74,447	1,44,928	20.4

Source: Company, Dalal & Broacha Research

Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest income	132.1	137.6	136.6	168.0	202.6	241.8
Interest expense	85.6	82.2	77.0	95.7	119.7	148.3
NII	46.5	55.3	59.6	72.3	82.9	93.5
Non-interest income	19.6	19.4	20.9	23.3	26.8	31.4
Net revenues	66.1	74.8	80.5	95.6	109.7	124.8
Operating expenses	33.8	36.9	42.9	47.7	55.0	63.0
PPOP	32.3	37.9	37.6	48.0	54.7	61.8
Provisions	11.7	16.6	12.2	7.5	8.6	11.3
PBT	20.6	21.2	25.4	40.5	46.1	50.5
Tax	4.9	5.5	6.5	10.3	11.8	12.9
PAT	15.7	15.8	18.9	30.1	34.3	37.6
<i>Growth (y-o-y)</i>		<i>0.6</i>	<i>19.8</i>	<i>59.4</i>	<i>13.9</i>	<i>9.6</i>
Balance sheet	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	3.99	3.99	4.21	4.23	4.23	4.23
Reserves & surplus	141	157	184	211	241	274
Net worth	145	161	188	215	245	278
Deposits	1,523	1,726	1,817	2,134	2,496	2,895
Borrowings	104	91	154	193	228	269
Other liability	35	35	51	61	71	82
Total liabilities	1,806	2,014	2,209	2,603	3,040	3,525
Fixed assets	4.8	4.9	6.3	9.3	9.7	10.0
Investments	359	372	392	490	571	662
Loans	1,223	1,319	1,449	1,744	2,076	2,450
Cash	126	196	210	177	197	213
Other assets	94	122	152	183	187	190
Total assets	1,806	2,014	2,209	2,603	3,040	3,525

Ratios	FY20	FY21	FY22	FY23E	FY24e	FY25e
Growth (%)						
NII	11.3	19.0	7.7	21.3	14.7	12.7
PPOP	14.2	17.3	-0.8	27.6	14.0	13.0
PAT	19.8	0.6	19.8	59.4	13.9	9.6
Advances	10.9	7.9	9.9	20.0	19.0	18.0
Deposits	12.8	13.4	5.2	17.4	17.0	16.0
Spread (%)						
Yield on Funds	8.2	7.7	6.9	7.5	7.7	7.8
Cost of Funds	5.6	4.8	4.1	4.5	4.7	5.0
Spread	2.6	2.9	2.9	3.1	3.0	2.8
NIM	2.9	3.1	3.0	3.24	3.16	3.03
Asset quality (%)						
Gross NPAs	2.8	3.4	2.8	2.4	2.3	2.3
Net NPAs	1.3	1.2	1.0	0.9	0.9	0.8
Provisions	53	66	66	65	63	63
Return ratios (%)						
RoE	11.3	10.3	10.8	14.9	14.9	14.4
RoA	0.9	0.8	0.9	1.3	1.2	1.1
Per share (Rs)						
EPS	8	8	9	14	16	18
BV	73	81	89	102	116	132
ABV	65	73	83	94	107	122
Valuation (x)						
P/E	16.3	16.2	14.2	9.0	7.9	7.2
P/BV	1.8	1.6	1.4	1.3	1.1	1.0
P/ABV	2.0	1.8	1.5	1.4	1.2	1.1
Other Ratios (%)						
Cost/Income	51.1	49.4	53.3	49.9	50.2	50.5
CD ratio	80.3	76.4	79.8	81.8	83.2	84.6
CASA ratio	30.7	34.0	37.1	32.7	29.8	27.4
CAR	14.3	14.6	15.8	15.0	14.4	14.0

Source: Dalal & Broacha Research, Company

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