

Beat on all counts !!!

Federal Bank posted strong set of numbers – PAT came in at INR 1009.5 cr, up by 18.2% yoy and 11.4% qoq led by healthy growth in advances. Total advances grew by 20.3% yoy / 5.4% qoq to INR 220807 cr – outbeating the industry growth led by growth in retail loans (25% yoy & 5.4% qoq). Within retail loans, high-yielding products like MFI reported grew by 108% yoy growth, gold loans 31% yoy, credit cards 73% yoy, personal loans 40% yoy. While margins were largely stable qoq at 3.16%. On the asset quality side, run-rate of slippages was similar to last quarter at INR 417 cr vs. INR 420 cr in Q4. Management affirms that asset quality outlook remains robust with credit cost guidance for FY25 is at 30-35 bps. Additionally, embargo on co-branded credit cards will get lifted in Sep-Oct 2024. Management positive to improve ROA to 1.3-1.35% levels.

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%
- Credit cost is expected to be 30-35 bps
- ROA is expected to be at 1.3-1.35%

Valuations

Federal Bank has outperformed on business growth front both on deposits & advances. Also, it is gaining market share in deposits while the system is facing the crunch. This can be mainly due to bank's past investment in the technology, tie-ups with fintech partners, introduction of new products and upgradation of current processes & systems which is bearing fruits now. Management expects current run-rate of growth in business to continue ahead. Uncertainty regarding who would replace the current CEO is now resolved. The ex-Managing Director from Kotak will be the new CEO replacing Mr. Shyam Srinivasan best fit for the position according to our view.

Financial Summary

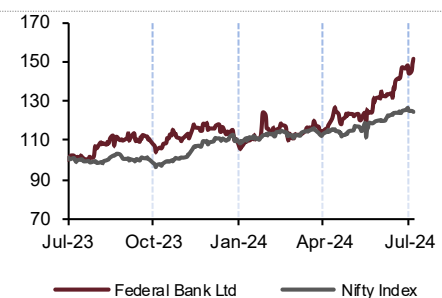
Y/E Mar (Rs Bn)	FY22	FY23E	FY24E	FY25E	FY26E
NII	59.6	72.3	82.9	96.8	111.4
Net profit	18.9	30.1	37.2	43.5	52.9
Networth	188	215	291	327	372
Adj BVPS	83	95	113	129	148
EPS (Rs)	9.0	14.2	15.2	17.8	21.6
P/ABV (x)	2.4	2.1	1.8	1.6	1.4
P/E (x)	22.5	14.2	13.3	11.4	9.3

Source: Company, Dalal & Broacha Research

Rating	TP (Rs)	Up/Dn (%)
Accumulate	223	11
Market data		
Current price	Rs	201
Market Cap (Rs.Bn)	(Rs Bn)	492
Market Cap (US\$ Mn)	(US\$ Mn)	5,884
Face Value	Rs	2
52 Weeks High/Low	Rs	204 / 130.5
Average Daily Volume	('000)	50,305
BSE Code		500469
Bloomberg		FB.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-24	Mar-24
Promoters	-	-
Public	100	100
Total	100	100

Source: Bloomberg

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We expect PAT to grow by 19% CAGR over FY24-26e. At current CMP, it is trading at 1.6x/1.4x FY25e/FY26e ABV on ROE/ROA of ~15%/1.4%. Although, valuations-wise the stock has re-rated from 1.1x to 1.4x on FY26e ABV. However, given expected good performance to continue, current valuations are likely to sustain.

We are revising our TP to INR 223, upside of 11% from current levels and discounting its FY26e ABV by 1.5x and assign Accumulate rating.

Concall & Financial Highlights

- Bank posted strong numbers – PAT came in at INR 1009.5 cr, up by 18.2% yoy and 11.4% qoq led by healthy growth in advances.
- NII grew by 19.5% yoy / 4.4% qoq to INR 2292 cr.
- Total advances grew by 20.3% yoy / 5.4% qoq to INR 220807 cr – outbeating the industry growth as well which was led by growth in all the segments of retail loans (56% share) & corporate loans (44% share). Retail loans grew by 25% yoy & 5.4% qoq to INR 125884 cr and corporate loans by 15% yoy & 4.4% qoq to INR 99276 cr.
- Within retail loans, high-yielding products like MFI reported 108% yoy growth, gold loans 31% yoy, credit cards 73% yoy, personal loans 40% yoy.
- **Total deposits was ahead of industry growth rate at 19.6% yoy & 5.4% qoq to INR 266082 cr** led by NRE deposits, CASA deposits. While avg. deposits grew by 7.1%. CASA deposits grew by whopping 5% qoq vs. negligible growth for the industry. Management attributed this to introduction of new products, tie-ups with the fintech partners, investment in the technology, improvisation of products & processes and rise in the branch distribution of the bank. Management expects the current run-rate of the deposit growth to continue going forward as well.
- Other income growth was strong at 25% yoy (21% qoq) to INR 915 cr on the back of steady core fee income growth. Apart from this, misc income was high at INR 227 cr vs. INR 92 cr qoq – this included PLSC income at INR 90 cr, recovery from written-off accounts INR 30 cr, dividend income INR 107 cr.
- **Change of guards** - Current CEO Shyam Srinivasan term is ending in Sep 22, 2024 who will be replaced by ex-Kotak MD Mr. Krishnan Venkat Subramanian with effect from Sep 23, 2024. At Kotak Bank, he was spearheading Corporate, Banking, Commercial banking, Private Banking and Asset Reconstruction business. This is our view, is one of the best fit for Federal Bank.

- **Details on RBI embargo on co-branded credit cards** – The bank highlighted that its active engagement with RBI on the same and relevant changes wrt to technology / fintech partners guidelines are being adhered to and positive outcome on the same is expected Sep-Oct 2024.
- **Asset quality stable & outlook remains robust** – In Q1, run-rate of slippages was similar to last quarter at INR 417 cr vs. INR 420 cr in Q4. Management affirms that asset quality outlook remains robust with credit cost guidance for FY25 is at 30-35 bps
- **Margins largely stable qoq** – Reported margins came in at 3.16% vs. 3.21% last quarter led by 10 bps improvement on investment yield (due to change in change in investment regulations by RBI) and marginal decline in cost of funds (7 bps qoq to 5.9%)
- Current cost/income ratio at 53% is expected to come down to 50% in the medium term (2-3 years) as continuous investment in technology, people and branches is happening. It is likely to add >100 branches in FY25 (40 in H1FY25 and 60 in H2FY25)
- Overall, the bank expects ROA of 1.3-1.35% in FY25

Valuations

Federal Bank has outperformed on business growth front both on deposits & advances. Also, it is gaining market share in deposits while the system is facing the crunch. This can be mainly due to bank's past investment in the technology, tie-ups with fintech partners, introduction of new products and upgradation of current processes & systems which is bearing fruits now. Management expects current run-rate of growth in business to continue ahead. Uncertainty regarding who would replace the current CEO is now resolved. The ex-Managing Director from Kotak will be the new CEO replacing Mr. Shyam Srinivasan best fit for the position according to our view.

We expect PAT to grow by 19% CAGR over FY24-26e. At current CMP, it is trading at 1.6x/1.4x FY25e/FY26e ABV on ROE/ROA of ~15%/1.4%. Although, valuations-wise the stock has re-rated from 1.1x to 1.4x on FY26e ABV. However, given expected good performance to continue, current valuations are likely to sustain.

We are revising our TP to INR 223, upside of 11% from current levels and discounting its FY26e ABV by 1.5x and assign accumulate rating.

Quarterly Financials (Q1FY25)

(Rs in Cr)	Q1FY25	Q1FY24	yoy (%)	Q4FY24	QoQ (%)	FY24	FY23	YoY (%)
Interest earned	6330.9	5024.5	26.0	5978.4	5.9	22188.3	16803.6	32.0
Interest expenses	4038.9	3105.9	30.0	3783.2	6.8	13894.8	9571.5	45.2
Net Interest Income (NII)	2292.0	1918.6	19.5	2195.1	4.4	8293.5	7232.2	14.7
Total income	3207.2	2651.0	21.0	2949.0	8.8	11372.8	9562.2	18.9
Operating expenses	1706.3	1348.7	26.5	1838.6	-7.2	6198.3	4767.8	30.0
Operating profit	1500.9	1302.4	15.2	1110.4	35.2	5174.5	4794.4	7.9
Provision for contingencies	144.3	155.6	-7.3	-94.6	-252.5	196.1	749.9	-73.8
PBT	1356.6	1146.8	18.3	1205.0	12.6	4978.4	4044.5	23.1
Provision for taxes	347.1	293.0	18.5	298.7	16.2	1257.8	1033.9	21.7
Net profit	1009.5	853.7	18.2	906.3	11.4	3720.6	3010.6	23.6
Equity	489.5	423.6	15.6	487.1	0.5	489.5	423.6	15.6
EPS	4.14	4.03	2.7	3.72	11.3	76.00	71.07	6.9
Ratios (%)								
Int. exp/Int earned (%)	63.8	61.8	-	391.2	-	62.6	57.0	-
Cost/Income ratio (%)	53.2	50.9	-	62.3	-	54.5	49.9	-
Gross NPAs (Rs)	4738.4	4434.8	6.8	4528.9	4.6	4738.4	4434.8	6.8
Net NPAs (Rs)	1330.4	1274.6	4.4	1255.3	6.0	1330.4	1274.6	4.4
Gross NPAs (%)	2.1	2.4	-	2.1	-	2.1	2.4	-
Net NPAs (%)	0.6	0.7	-	0.6	-	0.6	0.7	-
ROA (%)	0.3	0.3	-	0.3	-	1.5	1.5	-
CAR (%)	15.6	14.3	-	16.1	-	15.5	13.4	-
Balance Sheet (Rs.cr)								
Deposits	2,66,065	2,22,496	19.6	2,52,534	5.4	2,66,065	2,22,496	19.6
Advances	2,20,807	1,83,487	20.3	2,09,403	5.4	2,20,807	1,83,487	20.3

Source: Company, Dalal & Broacha Research

Financials

Profit & Loss Account

P&L (Rs Bn)	FY22	FY23e	FY24e	FY25e	FY26e
Interest income	136.6	168.0	221.9	266.2	307.0
Interest expense	77.0	95.7	138.9	169.4	195.6
NII	59.6	72.3	82.9	96.8	111.4
Non-interest income	20.9	23.3	30.8	38.1	47.0
Net revenues	80.5	95.6	113.7	134.9	158.5
Operating expenses	42.9	47.7	62.0	70.7	80.7
PPOP	37.6	48.0	51.7	64.2	77.8
Provisions	12.2	7.5	2.0	5.7	6.7
PBT	25.4	40.5	49.8	58.4	71.1
Tax	6.5	10.3	12.6	15.0	18.2
PAT	18.9	30.1	37.2	43.5	52.9
<i>growth (y-o-y)</i>	<i>19.8</i>	<i>59.4</i>	<i>23.6</i>	<i>16.9</i>	<i>21.6</i>

Balance Sheet

Balance sheet (Rs.bn)	FY22	FY23e	FY24e	FY25e	FY26e
Share capital	4.21	4.23	4.90	4.90	4.90
Reserves & surplus	184	211	286	322	367
Net worth	188	215	291	327	372
Deposits	1817	2134	2525	2920	3384
Borrowings	154	193	180	198	218
Other liability	51	61	87	104	125
Total liabilities	2209	2603	3083	3550	4099
Fixed assets	6.3	9.3	10.2	10.6	11.0
Investments	392	490	609	686	795
Loans	1449	1744	2094	2471	2879
Cash	210	177	190	198	226
Other assets	152	183	181	184	188
Total assets	2209	2603	3083	3550	4099

Ratios

Ratios	FY22	FY23e	FY24e	FY25e	FY26e
Growth (%)					
NII	7.7	21.3	14.7	16.7	15.1
PPOP	-0.8	27.6	7.9	24.0	21.2
PAT	19.8	59.4	23.6	16.9	21.6
Advances	9.9	20.0	19.0	18.0	16.5
Deposits	5.2	17.4	18.3	15.6	15.9
Spread (%)					
Yield on Funds	6.9	7.5	8.4	8.5	8.5
Cost of Funds	4.1	4.5	5.5	5.8	5.8
Spread	2.9	3.1	2.8	2.7	2.6
NIM	3.0	3.2	3.13	3.10	3.07
Asset quality (%)					
Gross NPAs	2.8	2.4	2.1	2.0	1.9
Net NPAs	1.0	0.8	0.6	0.5	0.3
Provisions	66	67	71	76	84
Return ratios (%)					
RoE	10.8	14.9	14.7	14.1	15.1
RoA	0.9	1.3	1.3	1.3	1.4
Per share (Rs)					
EPS	9	14	15	18	22
BV	89	102	119	134	152
ABV	83	95	113	129	148
Valuation (x)					
P/E	22.5	14.2	13.3	11.4	9.3
P/BV	2.3	2.0	1.7	1.5	1.3
P/ABV	2.4	2.1	1.8	1.6	1.4
Other Ratios (%)					
Cost/Income	53.3	49.9	54.5	52.4	50.9
CD ratio	79.8	81.8	82.9	84.6	85.1
CASA ratio	37.1	32.7	29.4	27.3	25.4
CAR	15.8	15.0	16.9	16.3	15.9

Source: Dalal & Broacha Research, Company

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