

Federal Bank Ltd.

29th July 2024

Strong performance already factored into near-term outlook

Federal Bank Ltd's (FBL) loan book stood at ~Rs. 2.3 Trn, which grew by 21% on YoY and ~5% 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 16% on a YoY and 4% on a QoQ basis. Deposits grew by 20% and 5% on a YoY and QoQ basis, respectively. NII reached Rs. ~23 Bn, with 19% growth on a YoY and 4% on a QoQ basis, registering a NIM of 3.2%. During the quarter, the Bank's cost-to-income ratio normalized from ~62% in Q4FY24 (led by a one-time effect related to pension costs) to ~53% in Q1FY25, which improved its profitability and return ratios. The Bank's asset quality was maintained on a QoQ basis, with the GNPA at 2.1% in Q1FY25. The board has approved the appointment of the new MD & CEO Mr. Krishnan V. Subramanian, who will resume office from H2FY25.

Strong growth in loan book and deposits

FBL registered a growth of 21% on a YoY and 5% on a QoQ basis to close the loan book at Rs. 2,252 Bn in Q1 FY25. The retail and wholesale mix was at 56:44 in Q1 FY25, with segments like auto (35% YoY, 7% QoQ), gold (31% YoY, 9% QoQ), CV/CE (52% YoY, 8% QoQ), credit card (73% YoY, 6% QoQ), and MFI (108% YoY, 10% QoQ) exceeded the loan book growth. The management has guided to achieve higher loan book growth in FY25 compared to FY24.

FBL registered a strong deposit growth of ~20%/5% on a YoY/QoQ basis. The Bank has maintained its CASA ratio at 29% on a QoQ basis. While term deposits grew by ~9% on a QoQ basis. The management is optimistic that this deposit growth momentum will persist, contributing to an increase in market share led by the expansion of the branch network, new product launches, and digital initiatives.

NIM to improve as the share of higher-yielding loan book increases

During the quarter, NIM remained stable at 3.2% as both yields on advances and cost of funds declined by 5 bps and 7 bps on a QoQ basis, respectively. For FY25, the Bank's NIM is expected to remain at current levels. The Bank is also dedicated to increasing the share of higher-yielding segments in its portfolio, which is anticipated to boost the NIM by 2-3 bps on a YoY basis.

Stable asset quality

During the quarter, the GNPA ratio improved by 2 bps on a QoQ basis to 2.1%, while the NNPA ratio was stable at 0.6% on a QoQ basis. The slippage ratio increased by 10 bps on a QoQ basis, due to seasonality impact. Going forward, management is guiding the credit costs of 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. 223.3 (1.62x 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. 200.5

TARGET Rs. 223.3 (+11.4%)

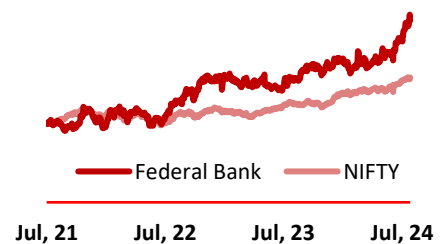
Company Data

Bloomberg Code	FB IN
MCAP (Rs. Mn)	4,85,084
O/S Shares (Mn)	2,448
52w High/Low	205 / 131
Face Value (Rs.)	2
Liquidity (3M) (Rs. Mn)	2,932

Shareholding Pattern %

	Jun 24	Mar 24	Dec 23
Promoters	0	0	0
FIIs	28.63	28.57	29.38
DIIIs	44.97	45.17	44.52
Non-Institutional	26.39	26.27	26.09

Federal Bank vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
NII	91	96	112
PPOP	55	65	78
Net Profit	39	45	53
Advances	2,181	2,617	3,141
ROE (%)	13%	13%	13%
ROA (%)	1.2%	1.2%	1.2%

Source: Company, Keynote Capitals Ltd. estimates

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Federal Bank Ltd. | Quarterly Update

Q1 FY25 Result Update

Result Highlight (Rs. Mn)

Particulars	Q1FY25	Q1FY24	Change % (Y-o-Y)	Q4FY24	Change % (Q-o-Q)	FY24
Net Interest Income	25,161	20,953	20%	24,029	5%	90,708
Other Income	9,361	7,413	26%	8,099	16%	32,165
Net Income	34,521	28,366	22%	32,128	7%	1,22,873
Operating Expense	18,749	14,694	28%	19,933	-6%	67,667
Pre-provision Operating Profit	15,772	13,671	15%	12,195	29%	55,206
Provisions	1,729	1,647	5%	-765	-326%	2,596
PBT	14,043	12,024	17%	12,960	8%	52,610
Tax	3,643	3,107	17%	3,237	13%	13,335
Minority Interest	199	138	45%	254	-22%	836
Share of Associate	74	22	245%	238	-69%	365
PAT	10,275	8,801	17%	9,708	6%	38,804
EPS	4.2	4.5		3.9		16.6

Source: Company, Keynote Capitals Ltd.

Loan Book mix

Particulars	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Advances	55%	55%	55%	56%	56%	25%	5%
Retail	31%	32%	31%	28%	29%	11%	-3%
Housing	14%	13%	13%	13%	13%	13%	3%
Gold*	-	2%	2%	-	-		
LAP	6%	6%	5%	5%	6%	19%	5%
Others	5%	4%	4%	4%	4%	-6%	2%
Auto	3%	3%	3%	3%	3%	35%	7%
Personal	2%	2%	2%	2%	2%	40%	2%
Credit Card	1%	1%	1%	1%	1%	73%	6%
Gold*	11%			12%	12%	31%	9%
Agri*	4%	13%	13%	4%	3%	14%	2%
Business Banking	8%	8%	8%	8%	8%	20%	6%
CV / CE	1%	1%	1%	2%	2%	52%	8%
MFI	1%	1%	1%	2%	2%	108%	10%
Wholesale Advances	45%	45%	45%	44%	44%	16%	4%
Commercial	10%	10%	10%	10%	10%	24%	6%
CIB	35%	35%	35%	34%	34%	14%	4%
Total Funded Assets (Rs. Bn)	1,866	1,960	2,069	2,146	2,252	21%	5%

Source: Company, Keynote Capitals Ltd.

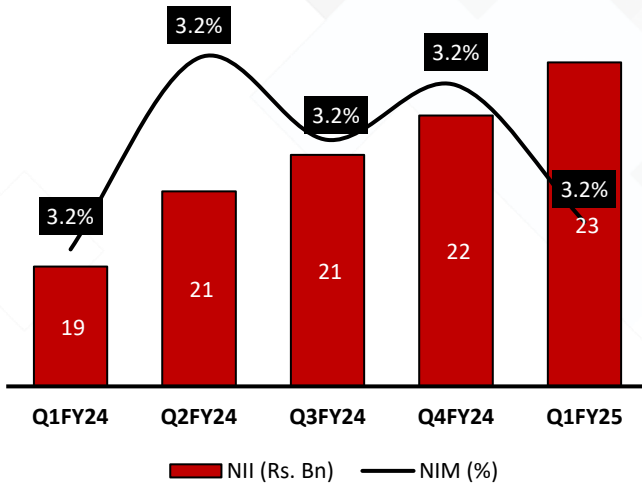
Note*: The gold loans business vertical has been carved out by separating Retail Gold loans and Agri Gold loans from the Retail and Agri verticals respectively

Deposits mix

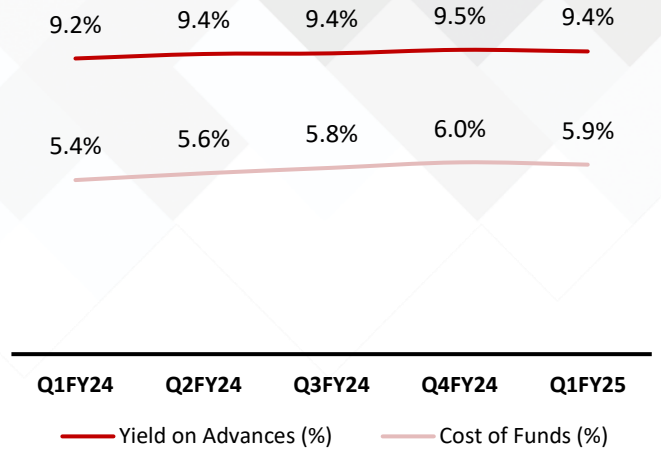
Particulars	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	32%	31%	31%	29%	29%	10%	5%
NRE Deposit	32%	31%	30%	30%	29%	9%	1%
Term Deposit	36%	38%	39%	41%	42%	38%	9%
Total Deposits (Rs. Bn)	2,225	2,329	2,396	2,525	2,661	20%	5%

Source: Company, Keynote Capitals Ltd.

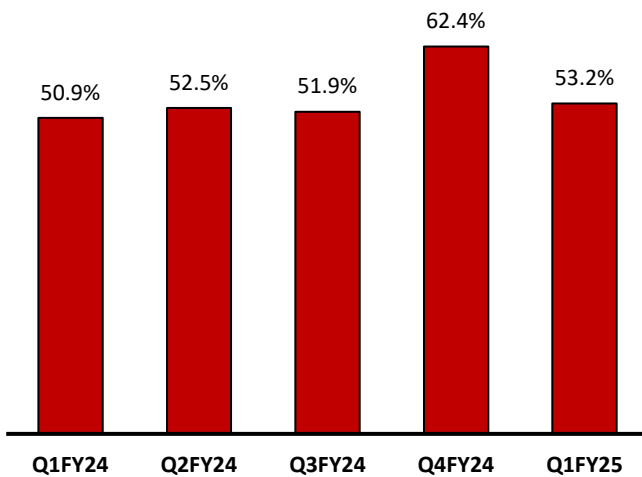
Stable NII and NIM (%)



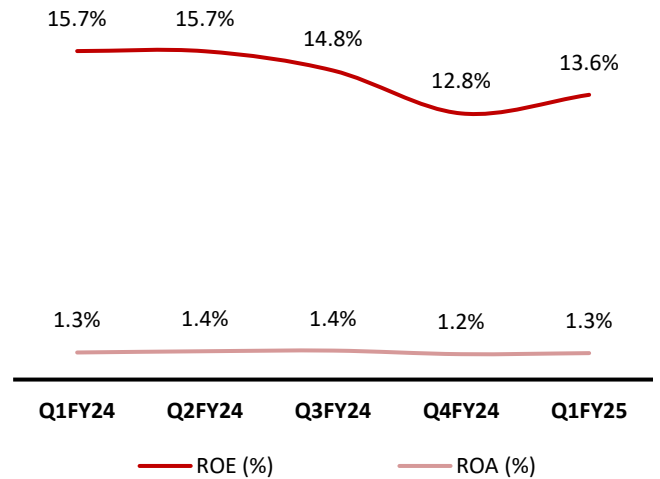
Yield on advances and cost of funds (%)



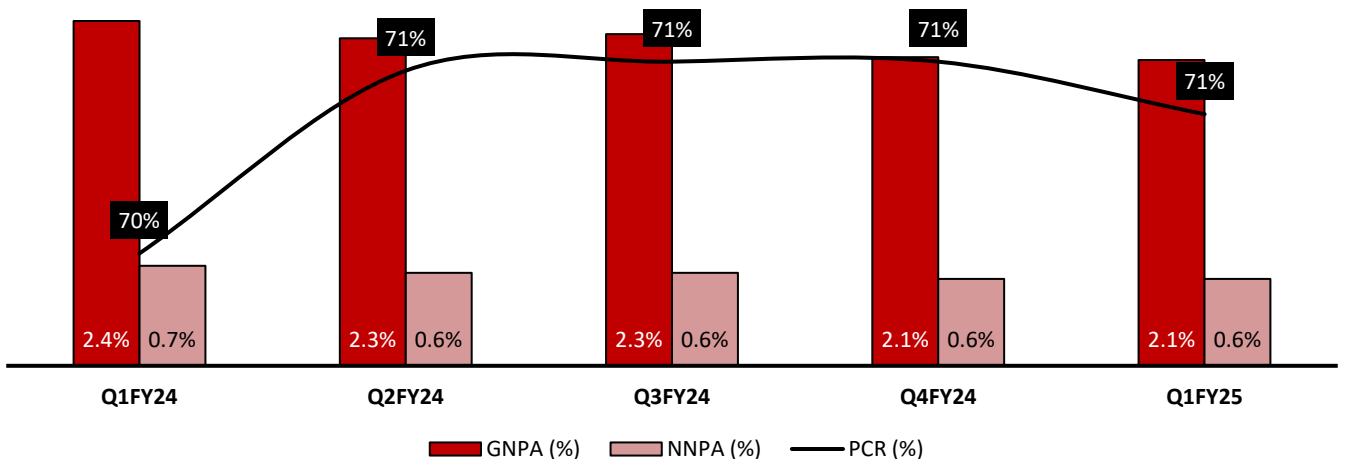
Cost to Income ratio (%)



ROA and ROE (%)



Asset quality maintained (%)



Federal Bank Ltd. | Quarterly Update

Q1 FY25 Conference Call Takeaways

General highlights

- In Q1FY25, the Bank reported highest ever NII, Other Income, Operating and Net profit.
- The Bank expects major clearance by Q3FY25 for the RBI embargo on co-branded cards.
- The management believes the gold yield has bottomed out due to price correction and is expected to increase in the coming period.
- There is continued competition in the gold loans from PSU banks.
- Management expects continued sustainable deposit growth of 18-20%, with more focus on retail deposits rather than bulk or purchased deposits.
- The Bank is gaining market share on deposits as a result of new product introductions, process optimization, and improved digital capability.
- The Bank is actively retiring some of its high-cost borrowings and replacing them with relatively attractive customer deposits to manage its cost of deposits.
- Mr. Shyam Sinivasan will sign off as MD and CEO of the Bank in H1FY25 and will be replaced by ex-Kotak MD Mr. Krishnan V. Subramanian.

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	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	78,365	90,708	96,078	1,11,826	1,30,876
Other Income	24,362	32,165	38,431	44,730	52,350
Net Income	1,02,728	1,22,873	1,34,509	1,56,556	1,83,226
Operating Expenses	52,112	67,667	69,272	79,061	90,697
Pre-Provision Operating Profit	50,616	55,206	65,237	77,495	92,529
Provisions	7,986	2,596	7,198	8,637	10,365
Profit Before Tax	42,629	52,610	58,039	68,858	82,165
Tax	10,872	13,335	13,461	15,969	19,054
Profit After Tax	31,758	39,275	44,578	52,889	63,110

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	4,232	4,871	4,871	4,871	4,871
Reserves & Surplus	2,20,511	3,04,388	3,44,508	3,92,108	4,48,907
Total Equity	2,24,744	3,09,258	3,49,378	3,96,978	4,53,778
Deposits	21,29,885	25,24,550	31,15,861	37,47,957	45,13,707
Borrowings	2,58,620	2,51,596	2,09,117	2,56,861	1,54,908
Other Liabilities & Provisions	66,792	92,985	99,800	99,800	99,800
Total Liabilities	26,80,041	31,78,390	37,74,167	45,01,596	52,22,193
ASSETS					
Cash and Balance	1,78,039	1,91,938	3,10,016	4,24,446	4,86,286
Investments	4,87,022	6,10,431	5,96,000	6,35,000	6,35,000
Advances	18,19,568	21,81,103	26,17,323	31,40,788	37,68,946
Fixed Assets & Others	1,95,401	1,94,917	2,50,820	3,01,360	3,31,960
Total Assets	26,80,041	31,78,390	37,74,167	45,01,596	52,22,193

Source: Company, Keynote Capitals Ltd.

Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Growth YoY (%)					
Advance Growth (%)	21.3%	19.9%	20.0%	20.0%	20.0%
Deposit Growth (%)	17.2%	18.5%	23.4%	20.3%	20.4%
NII Growth (%)	22.0%	15.8%	5.9%	16.4%	17.0%
PPOP Growth (%)	28.1%	9.1%	18.2%	18.8%	19.4%
Ratios					
NIM (%)	3.4%	3.3%	3.0%	2.9%	2.9%
Cost to Income Ratio	50.7%	55.1%	51.5%	50.5%	49.5%
C/D Ratio	85.4%	86.4%	84.0%	83.8%	83.5%
CASA Ratio (%)	32.7%	29.4%	30.0%	31.0%	31.0%
ROE (%)	14.1%	12.7%	12.8%	13.3%	13.9%
ROA (%)	1.2%	1.2%	1.2%	1.2%	1.2%
Asset Quality					
GNPA	2.4%	2.1%	2.0%	2.0%	2.0%
NNPA	0.7%	0.6%	0.5%	0.5%	0.5%
PCR (%)	68.9%	71.8%	75.0%	76.0%	77.5%
Credit Cost (%)	0.6%	0.2%	0.3%	0.3%	0.3%
Valuation					
P/BV (x)		1.3	1.4	1.2	1.1
Price-ABV (x)		1.4	1.3	1.3	1.1

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%
29 th July 2024	BUY	200.5	+11.4%

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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