

Federal Bank Ltd.

31st October 2024

Stable performance to drive growth

In Q2FY25, Federal Bank Ltd's (FBL) loan book stood at ~Rs. 2.3 Tn, which grew by 20% on YoY and 2% on a QoQ basis, with the retail loan book growing ahead of the overall loan book at 22% on a YoY and 5% on a QoQ basis. The wholesale segment grew by 17% on a YoY and 3% on a QoQ basis. During the quarter, the Bank deposit growth was slow (16%/1% on a YoY/QoQ basis) due to its deliberate decision not to aggressively pursue TD that would come with higher costs. NIMs were marginally lower at 3.12% in Q2FY25 from 3.16% in Q1FY25 primarily due to regulatory changes on penal charges. During the quarter, the Bank's cost-to-income ratio improved by 20 bps on a QoQ basis at 53%. The Bank's asset quality was maintained on a QoQ basis, with GNPA at 2.1% in Q2FY25. With the recent transition in leadership under MD & CEO Mr. Krishnan V. Subramanian, the Bank has indicated that they will present a strategic plan by the next quarter, focusing on improving NIM and reducing OPEX.

Balanced approach is expected to drive deposit growth

The Bank loan growth outpaced deposit growth as it emphasizes the importance of maintaining a competitive position in the market without resorting to unsustainable high deposit rates. Slow deposit growth in Q2FY25 was mainly due to the Bank's deliberate decision not to aggressively pursue TD that would come with higher costs. Instead, it focused on growing low-cost CASA deposits, which grew by 11.5% on a YoY basis. The Bank has also seen healthy growth in NR deposits after a sluggish performance last year, with an improvement in market share on a QoQ basis.

The Bank plans to accelerate deposit growth by focusing on increasing low-cost CASA deposits and selectively growing term deposits by offering competitive rates on specific tenors. This balanced approach is expected to ensure that both loan and deposit growth move in tandem in the coming quarters.

Stable asset quality

During the quarter, the GNPA/NNPA ratio improved by 2/3 bps on a QoQ basis at 2.09%/0.57%, respectively. The slippage ratio decreased by 9 bps on a QoQ basis, as it pursue cautious approach in the unsecured segments. Going forward, management is guiding the credit costs of 30 bps in FY25.

View & Valuation

We have revised our estimates and changed our view from NEUTRAL to BUY rating on Federal Bank Ltd with a target price of Rs. 236.2 (1.5x FY26E Adj. book value). We expect that the Bank will be able to achieve 18% 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. 204

TARGET Rs. 236.2 (+15.7%)

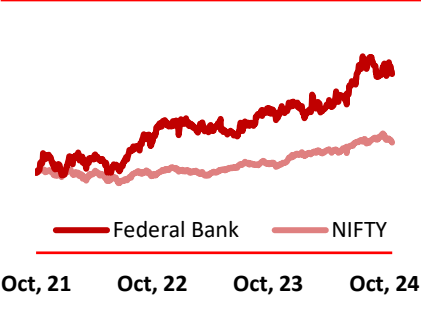
Company Data

Bloomberg Code	FB IN
MCAP (Rs. Mn)	4,98,267
O/S Shares (Mn)	2,452
52w High/Low	207 / 139
Face Value (Rs.)	2
Liquidity (3M) (Rs. Mn)	2,128

Shareholding Pattern %

	Sep 24	Jun 24	Mar 24
Promoters	0	0	0
FIIs	27.72	28.63	28.57
DIIIs	46.95	44.97	45.17
Non-Institutional	25.32	26.39	26.27

Federal Bank vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
NII	91	104	120
PPOP	55	69	80
Net Profit	39	45	53
Advances	2,181	2,573	3,037
ROE (%)	12.7%	12.9%	13.3%
ROA (%)	1.2%	1.2%	1.2%

Source: Company, Keynote Capitals Ltd. estimates

Devin Joshi, Research Analyst

Devin@keynoteindia.net

Federal Bank Ltd. | Quarterly Update

Q2FY25 Result Update

Result Highlight (Rs. Mn)

Particulars	Q2FY25	Q2FY24	Change % (Y-o-Y)	Q1FY25	Change % (Q-o-Q)	H1FY25	H1FY24	Change % (Y-o-Y)	FY24
Net Interest Income	26,122	22,471	16%	25,161	4%	51,283	43,424	18%	90,708
Other Income	10,096	7,569	33%	9,361	8%	19,457	14,982	30%	32,165
Net Income	36,218	30,041	21%	34,521	5%	70,740	58,406	21%	1,22,873
Operating Expense	19,527	16,038	22%	18,749	4%	38,276	30,732	25%	67,667
Pre-provision Operating Profit	16,692	14,003	19%	15,772	6%	32,464	27,674	17%	55,206
Provisions	1,961	576	241%	1,729	13%	3,690	2,223	66%	2,596
PBT	14,731	13,427	10%	14,043	5%	28,774	25,452	13%	52,610
Tax	3,686	3,426	8%	3,643	1%	7,329	6,533	12%	13,335
Minority Interest	186	126	47%	199	-7%	385	264	46%	836
Share of Associate	103	65	58%	74	40%	178	87	104%	365
PAT	10,963	9,941	10%	10,275	7%	21,238	18,742	13%	38,804
EPS	4.4	4.3		4.2		9	9		16.6

Source: Company, Keynote Capitals Ltd.

Loan Book mix

Particulars	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Advances	55%	55%	56%	48%	50%	22%	5%
Retail	32%	31%	31%	32%	33%	9%	4%
Housing	13%	13%	13%	14%	14%	11%	2%
Gold*	2%	2%	2%	0%	0%		
LAP	6%	5%	5%	6%	6%	20%	6%
Others	4%	4%	4%	4%	5%	13%	4%
Auto	3%	3%	3%	4%	4%	31%	6%
Personal	2%	2%	2%	2%	2%	21%	0%
Credit Card	1%	1%	1%	1%	1%	47%	5%
Gold*			12%	12%	14%		8%
Agri*	13%	13%	13%	4%	4%	-68%	4%
Business Banking	8%	8%	8%	9%	9%	20%	5%
CV / CE	1%	1%	2%	2%	2%	44%	5%
MFI	1%	1%	2%	2%	2%	76%	8%
Wholesale Advances	45%	45%	44%	52%	50%	17%	-3%
Commercial	10%	10%	10%	11%	12%	24%	6%
CIB	35%	35%	34%	40%	38%	15%	-5%
Total Funded Assets (Rs. Bn)	1,960	2,069	2,146	2,312	2,348	20%	2%

Source: Company, Keynote Capitals Ltd.

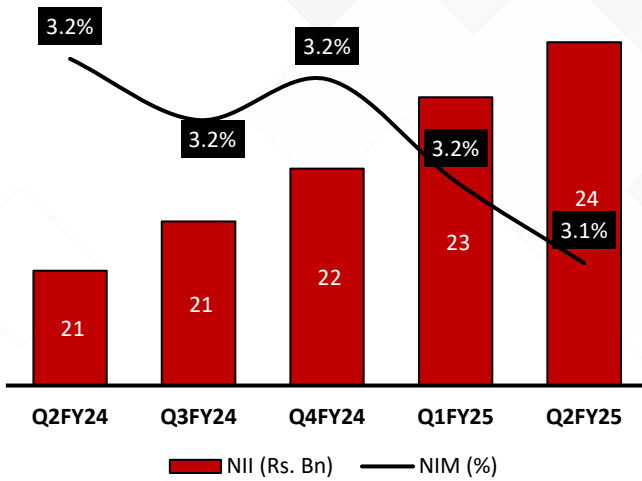
Note*: The gold loans business vertical has been carved out by separating Retail Gold loans and Agri Gold loans from the Retail and Agri verticals respectively

Deposits mix

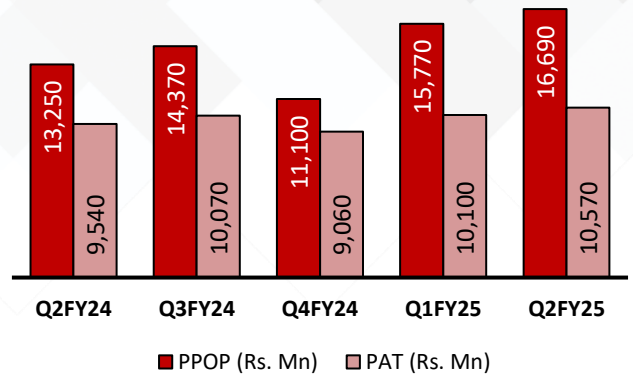
Particulars	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	31%	31%	29%	29%	30%	11%	4%
NRE Deposit	31%	30%	30%	29%	29%	9%	2%
Term Deposit	38%	39%	41%	42%	41%	24%	-1%
Total Deposits (Rs. Bn)	2,329	2,396	2,525	2,661	2,691	16%	1%

Source: Company, Keynote Capitals Ltd.

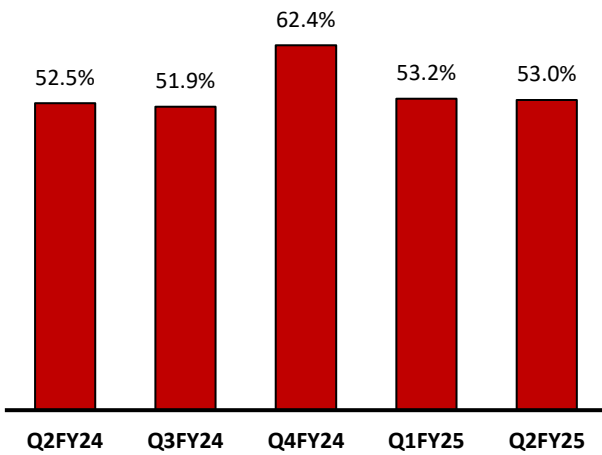
Stable NII and NIM



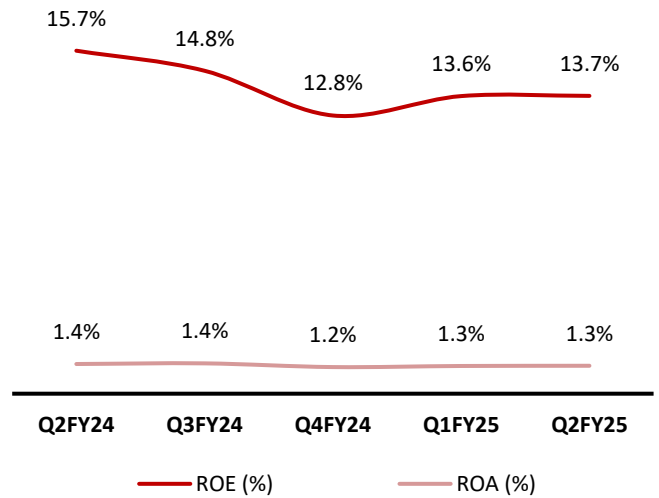
PPOP and PAT increase by 8% and 6% on QoQ basis respectively



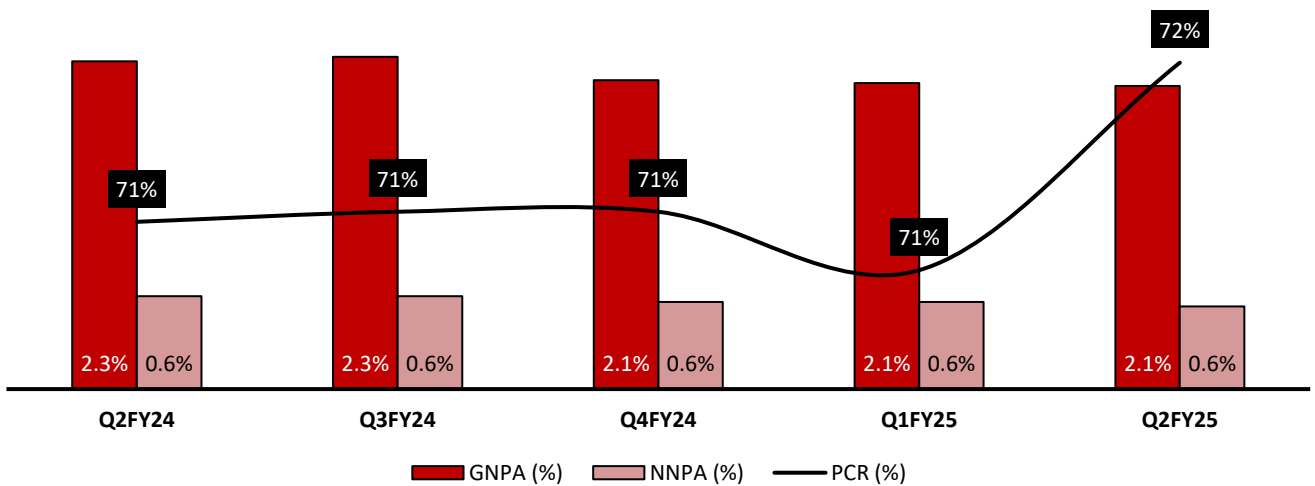
Cost to Income ratio (%)



ROA and ROE (%)



Asset Quality Maintained (%)



Q2 FY25 Conference Call Takeaways

General highlights

- In Q2FY25, the Bank reported highest ever Operating and Net profit.
- The Bank loan growth outpaced deposit growth as it emphasizes the importance of maintaining a competitive position in the market without resorting to unsustainable high deposit rates. Slow deposit growth in Q2FY25 was mainly due to the Bank's deliberate decision not to aggressively pursue TD that would come with higher costs.
- The Bank has shown a growth of 11.5% on a YoY basis in CASA and plans to keep this growth by engaging more with customers and attracting new ones.
- It has experienced strong growth in non-resident deposits after a slow performance last year. This improvement has also led to an increase in their market share on a QoQ basis.
- Currently, the CD ratio is above 85% and the management does not intend to slow down loan growth but aims to narrow or eliminate the gap between loans and deposits, ensuring a balanced approach moving forward.
- The impact of penal interest on NIM was 7 bps during the quarter.
- The Bank unsecured advances are 4.6% of total advances.
- The management mentioned that CC embargo is expected to be lifted soon.
- The management is calibrated in growing high-yielding products due to the current macroeconomic environment.
- The Bank credit quality remained stable in Q2FY25, with a slippage ratio of 0.73% and credit costs within 29-30 bps. The management is confident that this stability will continue, as they do not expect any significant deterioration in asset quality across their loan portfolio segments.
- The management claimed that credit cards and personal loans are a small part of its portfolio, but they have observed some stress in these areas. However, the management is confident that they have sufficient controls in place to manage this stress effectively. They also clarified that there are no First Loss Default Guarantees (FLDGs) associated with these products, which means they do not rely on third-party guarantees to cover potential losses from defaults in these segments.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	78,365	90,708	1,04,322	1,19,729	1,38,085
Other Income	24,362	32,165	41,729	47,892	55,234
Net Income	1,02,728	1,22,873	1,46,050	1,67,621	1,93,319
Operating Expenses	52,112	67,667	77,407	87,163	98,593
Pre-Provision Operating Profit	50,616	55,206	68,644	80,458	94,727
Provisions	7,986	2,596	8,321	9,819	11,586
Profit Before Tax	42,629	52,610	60,323	70,639	83,140
Tax	10,872	13,335	15,081	17,660	20,785
Profit After Tax	31,758	39,275	45,242	52,980	62,355

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	3,45,105	3,92,787	4,48,907
Total Equity	2,24,744	3,09,258	3,49,976	3,97,658	4,53,778
Deposits	21,29,885	25,24,550	29,58,277	34,90,767	41,19,105
Borrowings	2,58,620	2,51,596	2,96,501	2,86,981	1,91,781
Other Liabilities & Provisions	66,792	92,985	99,800	99,800	99,800
Total Liabilities	26,80,041	31,78,390	37,04,564	42,75,206	48,64,464
ASSETS					
Cash and Balance	1,78,039	1,91,938	2,84,036	3,01,876	3,13,886
Investments	4,87,022	6,10,431	5,96,000	6,35,000	6,35,000
Advances	18,19,568	21,81,103	25,73,701	30,36,968	35,83,622
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	37,04,564	42,75,206	48,64,464

Source: Company, Keynote Capitals Ltd.

Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Growth YoY (%)					
Advance Growth (%)	21.3%	19.9%	18.0%	18.0%	18.0%
Deposit Growth (%)	17.2%	18.5%	17.2%	18.0%	18.0%
NII Growth (%)	22.0%	15.8%	15.0%	14.8%	15.3%
PPOP Growth (%)	28.1%	9.1%	24.3%	17.2%	17.7%
Ratios					
NIM (%)	3.4%	3.3%	3.2%	3.2%	3.2%
Cost to Income Ratio	50.7%	55.1%	53.0%	52.0%	51.0%
C/D Ratio	85.4%	86.4%	87.0%	87.0%	87.0%
CASA Ratio (%)	32.7%	29.4%	30.0%	31.0%	31.0%
ROE (%)	14.1%	12.7%	12.9%	13.3%	13.7%
ROA (%)	1.2%	1.2%	1.2%	1.2%	1.3%
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%	0.4%	0.4%	0.4%
Valuation					
P/BV (x)		1.3	1.4	1.2	1.1
Price-ABV (x)		1.4	1.4	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	NEUTRAL	198.0	+4.7%
31 st Oct 2024	BUY	204.0	+15.7%

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

Disclosures and Disclaimers

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Keynote Capitals Ltd. (KCL) is a SEBI Registered Research Analyst having registration no. INH000007997. KCL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. Details of associate entities of Keynote Capitals Limited are available on the website at <https://www.keynotecapitals.com/associate-entities/>

KCL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

KCL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that KCL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Details of pending Enquiry Proceedings of KCL are available on the website at <https://www.keynotecapitals.com/pending-enquiry-proceedings/>

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of KCL or its associates maintains arm's length distance with Research Team as all the activities are segregated from KCL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL & its group companies to registration or licensing requirements within such jurisdictions. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Specific Disclosure of Interest statement for subjected Scrip in this document:

Financial Interest of Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Any other material conflict of interest at the time of publishing the research report by Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Receipt of compensation by KCL or its Associate Companies from the subject company covered for in the last twelve months; Managing/co-managing public offering of securities in the last twelve months; Receipt of compensation towards Investment banking/merchant banking/brokerage services in the last twelve months; Products or services other than those above in connection with research report in the last twelve months; Compensation or other benefits from the subject company or third party in connection with the research report in the last twelve months.	NO
Whether covering analyst has served as an officer, director or employee of the subject company covered	NO
Whether the KCL and its associates has been engaged in market making activity of the Subject Company	NO
Whether the Research Entity [KCL] and its associates; Research Analyst and its Relatives, have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.	NO

The associates of KCL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months
- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of KCL has not received any compensation or other benefits from third party in connection with the research report.

Above disclosures includes beneficial holdings lying in demat account of KCL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of KCL for other purposes (i.e. holding client securities, collaterals, error trades etc.). KCL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by KCL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KCL. The report is based on the facts, figures and information that are believed to be true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KCL will not treat recipients as customers by virtue of their receiving this report

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. KCL, its associates, their directors and the employees may from time to time, effect or have affected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. KCL, its associates, their directors and the employees may from time to time invest in any discretionary PMS/AIF Fund and those respective PMS/AIF Funds may affect or have effected any transaction in for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of KCL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt KCL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold KCL or any of its affiliates or employees responsible for any such misuse and further agrees to hold KCL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

For any complaints email at kcl@keynoteindia.net

General Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.keynotecapitals.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.