

Decent performance amid turmoil due to pandemic...

About the stock: Federal Bank is an old private sector bank based out of Kerala with around 1272 branches and 1953 ATM across various states.

- Strong liability franchisee with 93% of total deposits being retail
- Balanced loan mix with retail: corporate mix of 54:46

Q1FY22 Results: Mixed but relatively better performance.

- Loans up 5.1% YoY at ₹1.29 lakh crore, deposits up 9.3% YoY
- NII down 0.1% QoQ & up 9.4% YoY, NIMs fall 8 bps at 3.15%, C/I at 45.1%
- GNPA up 9 bps QoQ to 3.51%, restructuring up 80 bps QoQ to 2.3%

What should investors do? Federal Bank's share price has increased by ~40% in the past five years

- Factoring in a diversified asset mix and improving digital footprint, we retain our BUY rating on the stock

Target Price and Valuation: We value Federal Bank at ~1.1x FY23E ABV to arrive at a revised target price of ₹ 100.

Key triggers for future price performance:

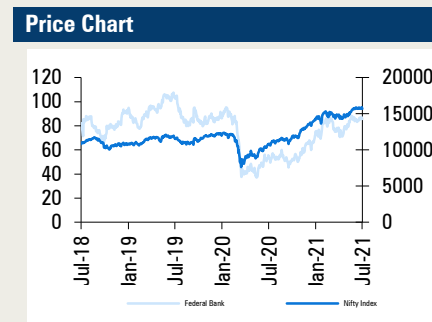
- Relatively better performance on asset quality front, steady collections despite lockdown
- Gradual pick up in advances & diversified asset mix to aid earnings
- Focus on high yielding book (MFI & credit cards) and strong liability franchisee to aid margin
- Benefit of digital partnership on opex & business growth to be watched

Alternate Stock Idea: Besides Federal, in our coverage we also like HDFC Bank

- HDFC Bank is a leading private sector bank in India with consistent performance and superior operating metrics across cycles
- BUY with target a price of ₹ 1800

Particulars	
Particulars	Amount
Market Capitalisation	₹ 17039 crore
52 week H/L	92 /45
Net Worth	₹16488
Face value	₹ 2
DII Holding (%)	43.9
FII Holding (%)	24.1

Shareholding pattern					
(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	0.0	0.0	0.0	0.0	0.0
FII	31.0	24.6	21.7	24.5	24.1
DII	37.2	38.3	44.6	43.3	43.9
Others	31.9	37.0	33.7	32.2	32.1



Recent Event & Key risks	
- GNPA up 9 bps QoQ to 3.51%. Collections stay steady ~95% QoQ Key Risk: Persisting impact of pandemic	

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Key Financial Summary

₹ crore	FY19	FY20	FY21	4 Year CAGR (FY17-FY21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
NII	4,176	4,649	5,534	16%	6,119	6,933	14%
PPP	2,763	3,205	3,787	19%	4,222	4,838	14%
PAT	1,244	1,543	1,590	12%	2,002	2,528	31%
ABV (₹)	58.6	64.8	72.9		76.8	85.6	
P/E	13.6	11.0	10.7		8.9	7.1	
P/ABV	1.4	1.3	1.2		1.1	1.0	
RoE (%)	9.8	11.1	10.4		11.8	13.4	
RoA (%)	0.8	0.9	0.8		0.9	1.0	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Mixed performance

- NII was flattish sequentially owing to 8 bps sequential fall in NIMs to 3.15%. NIM decline was due to stress accretion and interest reversals worth ₹ 65 crore
- Other income growth was strong due to treasury gains and healthy recoveries due to one-off recovery from a large account
- Loan growth was soft on account of lockdown; except agri loans other segments saw moderation. Deposits sequentially were down 2% and up 9.3% YoY with CASA growth of 19% YoY. Hence, CASA ratio increased to 34.8% vs. 32.02% YoY
- Asset quality deteriorated as GNPA, NNPA increased QoQ by 9 bps, 4 bps to 3.5%, 1.28%, respectively. Restructured book increased from ₹ 1917 crore to ₹ 2915 crore QoQ and now comprises 2.3% of net advances vs. 1.5% QoQ

Q1FY22 Earnings Conference Call highlights

- Home loans constitute ~50% of total retail slippage while majority of remaining is contributed by LAP
- Total ₹ 850 crore restructuring done in Q1FY22 while another ₹ 450 crore restructuring is expected ahead
- Also, ₹ 275 crore commercial banking was restructured of which ₹ 64 crore was in this quarter. Collection was 95.2%, similar to previous quarter
- We do not expect cost of funds to drop much from here. NIM range is expected to be around 3.2% in FY22E
- C/I ratio is expected to inch up to ~48% as business activity picks up
- Launched credit cards to ETB customers, getting close to ~25,000 credit cards per month as of now
- SMA book (0, 1, 2) is around 5% levels
- The board has approved allotment of 10.4 crore equity share at a price of ₹ 87.39 per share to International Finance Corporation, IFC Financial Institutions Growth Fund and IFC Emerging Asia Fund, LP

Exhibit 1: Peer Comparison (BFSI)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	₹	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Axis Bank (AXIBAN)	746	900	Buy	2288	25.2	47.7	58.7	29.6	15.7	12.7	2.6	2.2	1.9	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	154	200	Buy	114	8.4	10.0	12.0	18.4	15.3	12.8	2.3	2.0	1.7	1.2	1.3	1.4	11.2	11.9	12.6
DCB Bank (DCB)	105	110	Buy	32	10.8	12.3	15.6	9.7	8.5	6.7	1.1	0.9	0.8	0.9	0.9	1.1	10.2	10.5	11.8
Federal Bank (FEDBAN)	85	100	Buy	167	8.0	11.2	13.7	10.7	7.6	6.2	1.2	1.1	1.0	0.8	1.0	1.1	10.4	13.2	14.7
HDFC Bank (HDFBAN)	1,443	1,800	Buy	7975	56.4	66.4	77.8	25.6	21.7	18.5	4.0	3.6	3.3	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	982	1,100	Buy	760	36.7	63.6	76.3	26.8	15.4	12.9	1.8	1.6	1.4	0.8	1.3	1.4	7.3	10.6	11.3
Kotak Bank (KOTMAH)	1,703	2,040	Buy	3377	35.1	43.2	51.4	48.5	39.5	33.1	5.5	4.9	4.2	1.8	1.9	2.0	12.4	12.0	13.1
CSB Bank (CSBBAN)	327	380	Buy	583	12.6	18.3	25.5	26.0	17.9	12.8	3.0	2.7	2.2	0.1	1.0	1.2	10.5	13.6	16.4
Bandhan (BANBAN)	309	330	Hold	498	14.7	24.7	31.4	21.0	12.5	9.8	3.6	2.8	2.2	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	51	65	Buy	318	0.8	1.6	2.9	64.2	32.4	17.8	1.8	1.4	1.3	0.3	0.6	0.9	2.7	4.6	7.1

Source: Company, ICICI Direct Research

Federal Bank has been able to build and maintain healthy liability franchisee over the years and now with focus on digital banking & diversifying asset mix, the bank is poised to improve its overall performance.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
NII	1,418	1,457	1,296	9.4	1,420	-0.1	Fall in NIMs and muted business growth impacted NII growth
NIM (%)	3.15	3.03	3.07	8 bps	3.23	-8 bps	
Other Income	650	441	488	33.1	465	39.7	Treasury gains aid jump in non-interest income
Net Total Income	2,069	1,898	1,785	15.9	1,886	9.7	
Staff cost	528	536	496	6.5	525	0.6	
Other Operating Expenses	405	485	357	13.6	475	-14.8	Fall in opex due to restricted business activity due to lockdown
PPP	1,135	878	932	21.8	885	28.3	
Provision	642	277	395	62.6	242	164.9	Elevated due to increase in stress book
PBT	493	601	538	-8.3	643	-23.2	
Tax Outgo	126	153	137	-8.0	165	-23.6	
PAT	367	448	401	-8	478	-23	Profitability impacted by higher credit costs
Key Metrics							
GNPA	4,649	4,740	3,656	27.2	4,602	1.0	Rise in slippage in agri and business banking segment
NNPA	1,593	1,632	1,477	7.8	1,569	1.5	
Advances	129,765	133,312	123,437	5.1	131,879	-1.6	Slower business growth due to pandemic
Deposit	169,393	169,393	154,938	9.3	172,644	-1.9	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY22E			FY23E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Net Interest Income	6,453	6,119	-5	7,227	6,933	-4
Pre Provision Profit	4,345	4,222	-3	4,930	4,838	-2
NIM(%) (calculated)	3	3	-20 bps	3	3	-17 bps
PAT	2,229	2,002	-10	2,744	2,528	-8
ABV per share (₹)	79	77	-2	89	86	-4

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY21	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	10.6	11.0	13.2	11.7	13.3
Deposit Growth (%)	13.4	15.2	15.7	15.2	15.7
CASA ratio (%)	34.0	34.4	34.7	34.2	34.6
NIM Calculated (%)	3.2	3.2	3.2	3.4	3.3
Cost to income ratio (%)	49.4	48.9	47.7	49.4	48.6
GNPA (₹ crore)	4,602.4	4,527.4	4,833.2	4,406.7	4,707.0
NNPA (₹ crore)	1,569.3	1,775.5	1,928.4	1,875.6	2,025.7
Slippage ratio (%)	1.6	0.7	0.9	0.7	0.9
Credit cost (%)	0.1	0.5	0.6	0.6	0.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement					
₹ crore					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	11,419.0	13,210.8	13,757.9	15,532.3	17,638.8
Interest Expended	7242.7	8561.8	8224.2	9413.5	10706.1
Net Interest Income	4,176.3	4,648.9	5,533.7	6,118.8	6,932.6
growth (%)	16.6	11.3	19.0	10.6	13.3
Non Interest Income	1351.0	1931.4	1944.9	2142.1	2323.4
Net Income	5527.4	6580.3	7478.6	8260.9	9256.0
Staff cost	1377.8	1772.4	2034.2	2132.4	2235.1
Other operating Expense	1386.5	1603.3	1657.5	1907.1	2182.7
Operating Profit	2763.1	3204.7	3786.9	4221.5	4838.2
Provisions	855.9	1172.3	1649.6	1531.4	1440.2
PBT	1907.3	2032.4	2137.3	2690.1	3398.0
Taxes	663.4	489.8	547.0	688.5	869.6
Net Profit	1,243.9	1,542.6	1,590.3	2,001.7	2,528.4
growth (%)	41.5	24.0	3.1	25.9	26.3
EPS (₹)	6.3	7.7	8.0	9.5	12.0

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares (Crores)	198.5	199.3	199.6	210.0	210.0
EPS (₹)	6.3	7.7	8.0	9.5	12.0
BV (₹)	66.8	72.8	80.7	85.2	94.7
ABV (₹)	58.6	64.8	72.9	76.8	85.6
P/E	13.6	11.0	10.7	8.9	7.1
P/BV	1.3	1.2	1.1	1.0	0.9
P/ABV	1.4	1.3	1.2	1.1	1.0
Yields & Margins (%)					
Net Interest Margins	3.1	3.0	3.2	3.2	3.2
Yield on assets	8.4	8.5	8.0	8.0	8.1
Avg. cost on funds	5.2	5.4	4.6	4.9	4.8
Yield on average advances	9.0	9.2	8.5	8.7	8.8
Avg. Cost of Deposits	5.5	5.6	4.8	4.8	4.8
Quality and Efficiency (%)					
Cost to income ratio	50.0	51.3	49.4	48.9	47.7
Credit/Deposit ratio	81.7	80.3	78.3	75.4	73.8
GNPA	3.0	2.9	3.4	3.0	2.8
NNPA	1.5	1.3	1.2	1.2	1.1
RoE	9.8	11.1	10.4	11.8	13.4
RoA	0.8	0.9	0.8	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
₹ crore					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	397	399	399	420	420
Reserves and Surplus	12876	14119	15724	17483	19481
Networth	13273	14518	16124	17903	19901
Deposits	134954	152290	172644	198863	230025
Borrowings	7781	10372	9069	9578	10118
Other Liabilities & Provisions	3331	3458	3531	4562	5399
Total	159340	180638	201367	230906	265443
Application of Funds					
Fixed Assets	472	480	491	526	587
Investments	31824	35893	37186	42357	48289
Advances	110223	122268	131879	150007	169873
Other Assets	6754	9423	12220	16927	23968
Cash with RBI & call money	10067	12575	19591	21088	22727
Total	159340	180638	201367	230906	265443

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
FY22E (%)					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	15.2	13.4	11.5	14.7	15.0
Advances	19.9	10.9	10.6	11.0	13.2
Deposit	20.5	12.8	13.4	15.2	15.7
Total Income	17.0	18.6	3.7	12.6	12.9
Net interest income	16.6	11.3	19.0	10.6	13.3
Operating expenses	12.8	22.1	9.4	9.4	9.4
Operating profit	20.6	16.0	18.2	11.5	14.6
Net profit	41.5	24.0	3.1	25.9	26.3
Net worth	8.7	9.4	11.1	11.0	11.2

Source: Company, ICICI Direct Research

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