

Mixed quarter; growth momentum key for re-rating

About the stock: Federal Bank is an old private sector bank based out of Kerala with 1282 branches and 1885 ATM across various states.

- Strong liability franchisee with over 94% of total deposits being retail
- Balanced loan mix with retail: wholesale mix of 55:45

Q4FY22 Results: Subdued operational performance, lower provisions aided PAT.

- Loans up 9.9% YoY, 3% QoQ at ₹ 1.4 lakh crore, deposits up 5.2% YoY
- NII up 7.4% YoY, flat QoQ. NIMs declined 11 bps QoQ at 3.16%
- GNPA down 26 bps QoQ to 2.8%. Restructured book at ~2.36%

What should investors do? Federal Bank's share price has increased by ~15% in the past one year.

- Targeted business growth of ~15% and RoA of 1.1% in FY23E remains key. However, rising competitive intensity remains a challenge. Thus, we downgrade the stock from BUY to **HOLD**.

Target Price and Valuation: We value Federal Bank at ~1.1x FY24E ABV and revise our target price from ₹ 120 to ₹ 100 per share

Key triggers for future price performance:

- Management guidance on pedalling growth with focus on retail & business banking to aid earnings trajectory though liabilities accumulation without distorting margins will remain key
- Digital & fintech push through partnerships to aid business growth
- RoA guidance at 1.2-1.25% needs to be watched given steady margins & high anticipated opex

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

- IndusInd Bank is a Hinduja group promoted newer age private sector bank and is the fifth largest private bank in India
- BUY with target a price of ₹ 1150



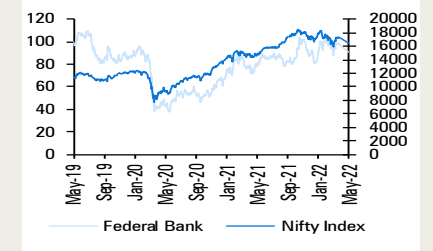
Particulars

Particulars	Amount
Market Capitalisation	₹ 19065 crore
52 week H/L	108 / 77
Net Worth	₹18661
Face value	₹ 2

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	0.0	0.0	0.0	0.0	0.0
FI	24.5	24.1	25.9	25.2	26.0
DII	43.3	43.9	42.5	41.7	43.3
Others	32.2	32.1	31.6	33.1	30.7

Price Chart



Recent Event & Key risks

- GNPA down 26 bps QoQ to 2.8%
- **Key Risk:** Slower growth momentum to impact RoA momentum. Improvement in efficiency pose upside risk

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Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
NII	4,176	4,649	5,534	5,962	13%	6,893	8,036	16%
PPP	2,763	3,205	3,787	3,758	11%	4,439	5,248	18%
PAT	1,244	1,543	1,590	1,890	15%	2,215	2,707	20%
ABV (₹)	58.6	64.8	72.9	81.5		84.5	94.5	
P/E	14.5	11.7	11.4	10.1		8.6	7.0	
P/ABV	1.5	1.4	1.2	1.1		1.1	1.0	
RoE (%)	9.8	11.1	10.4	10.8		11.6	13.1	
RoA (%)	0.8	0.9	0.8	0.9		1.0	1.0	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Growth relatively moderate; asset quality improved

- NII was up 7.4% YoY and flat QoQ to ₹ 1525 crore due to decline in margins by 11 bps QoQ to 3.16%. Other income was flat YoY at ₹ 465 crore, due to lower treasury gains and loss on revaluations of SRs
- Provisions were down 65% QoQ at ₹ 75 crore. PAT, thus, increased 13% YoY and 4% QoQ to ₹ 541 crore
- Asset quality improved on a sequential basis as GNPA and NNPA declined by 26 bps and 9 bps QoQ to 2.8% and 0.96%, respectively. Total stressed book was down at 2.36%. Retail GNPA declined 7.6% QoQ while corporate segment GNPA declined 15% QoQ
- Total funded assets were up 10% YoY & 3% QoQ to ₹ 1.4 lakh crore wherein retail funded assets were up 6% YoY to ₹ 47593 crore. Agri loans were up 20% YoY to ₹ 19238 crore. Customer deposit growth was at 5.2% YoY to ₹ 1.8 lakh crore. This was led by 15% YoY uptick in CASA. CASA ratio is now at 36.94% vs. 36.68% QoQ

Q4FY22 Earnings Conference Call highlights

- RoE commitment was driven largely by good quality loan portfolio and improving asset quality
- Loan mix – external benchmark linked: 46%, MCLR linked: 18%
- Margins were impacted by slightly higher slippages in the agri segment during Q4FY22. NIMs are expected to be at ~3.25% in FY23E
- CASA close to 39%. Credit growth aim is 15% YoY in FY23E. RoA is expected to be at 1.2-1.25%
- Fee income was healthy driven by cards business, wealth management business
- Opex run rate to be ~ ₹ 500-510 crore
- Normalisation in CI is one year away. Till then it will be ~50%
- During Q4FY22, the bank had borrowing from Nabard at lower CoF
- Going ahead, 25% of incremental deposits to come from fintech partners
- At the moment, the bank has no plan to grow inorganically

Exhibit 1: Peer Comparison (BFSI)

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoA (%)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	673	970	Buy	2067	21.5	42.4	52.7	63.7	31.3	15.9	12.8	10.6	2.2	1.9	1.7	1.6	0.7	1.2	1.4	1.5	7.1	12.0	13.3	14.8
Federal Bank (FEDBAN)	91	115	Buy	190	8.0	9.0	10.5	12.9	11.4	10.1	8.6	7.1	1.2	1.2	1.1	1.0	0.8	0.9	1.0	1.0	10.4	10.8	11.6	13.1
IndusInd Bank (INDBA)	917	1,150	Buy	710	36.7	59.5	82.4	101.0	25.0	15.4	11.1	9.1	1.7	1.6	1.5	1.3	0.8	1.2	1.5	1.6	7.3	10.1	13.1	15.1
Kotak Bank (KOTMAH)	1,773	2,150	Buy	3519	35.1	43.2	49.6	57.8	50.5	41.0	35.7	30.7	5.8	5.1	4.4	3.9	1.9	2.1	2.1	2.1	12.4	12.6	12.9	13.1
CSB Bank (CSBBAN)	228	320	Buy	39	12.6	24.6	27.6	32.5	18.1	9.2	8.2	7.0	2.1	1.7	1.4	1.2	1.0	1.8	1.8	1.7	10.5	17.9	17.0	16.9
Bandhan (BANBAN)	318	300	Hold	512	13.7	-5.0	21.1	31.3	23.2	-63.0	15.1	10.2	3.5	3.8	3.0	2.4	2.1	-0.7	2.5	3.1	13.5	-4.8	19.0	23.1
IDFC First (IDFBAN)	39	56	Buy	240	0.8	0.2	2.4	3.6	48.6	165.4	16.3	10.7	1.4	1.3	1.0	1.0	0.3	0.1	0.7	1.0	2.7	0.7	6.4	8.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	1,525	1,590	1,420	7.4	1,539	-0.9	Sequential weak topline due to reduced margins
NIM (%)	3.16	3.35	3.23	-7 bps	3.27	-11 bps	
Other Income	465	516	465	-0.1	484	-4.0	
Net Total Income	1,990	2,106	1,886	5.5	2,023	-1.6	
Staff cost	637	612	525	21.3	583	9.3	
Other Operating Expenses	555	605	475	16.7	526	5.5	Higher spends on digital initiatives
PPP	798	889	885	-9.8	914	-12.7	
Provision	75	220	242	-69.0	214	-64.8	Decline sequentially due to better recoveries
PBT	723	670	643	12.5	700	3.2	
Tax Outgo	182	171	165	10.6	179	2.2	
PAT	541	499	478	13.1	522	3.6	Lower credit costs aided PAT
Key Metrics							
GNPA	4,137	4,357	4,602	-10.1	4,401	-6.0	Slippages were lower sequentially
NNPA	1,393	1,442	1,569	-11.3	1,471	-5.3	
Advances	144,928	140,565	131,879	9.9	140,743	3.0	Loan growth driven by agri, corporate loans
Deposit	181,701	175,432	172,644	5.2	175,432	3.6	CASA up 15% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	6,923	6,893	0	8,121	8,036	-1
Pre Provision Profit	4,469	4,439	-1	5,333	5,248	-2
NIM(%) (calculated)	3.2	3.2	1 bps	3.3	3.3	2 bps
PAT	2,227	2,215	-1	2,751	2,707	-2
ABV per share (₹)	85	85	0	95	94	0

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier	
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E
Credit growth (%)	10.6	7.2	14.2	14.2	14.0	14.8
Deposit Growth (%)	13.4	5.2	15.1	14.0	12.9	13.9
CASA ratio (%)	34.0	35.9	36.1	36.0	35.2	35.2
NIM Calculated (%)	3.2	3.1	3.2	3.3	3.2	3.3
Cost to income ratio	49.4	49.8	51.6	50.3	51.4	49.9
GNPA (₹ crore)	4,602.4	4,231.9	4,529.9	4,870.3	4,536.0	4,885.2
NNPA (₹ crore)	1,569.3	1,661.9	1,757.1	1,804.4	1,759.0	1,807.5
Slippage ratio (%)	1.6	0.6	0.9	0.9	0.9	1.0
Credit cost (%)	0.1	0.4	0.6	0.6	0.6	0.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	13,210.8	13,757.9	13,660.8	16,353.3	18,965.8
Interest Expended	8561.8	8224.2	7698.8	9460.3	10930.0
Net Interest Income	4,648.9	5,533.7	5,962.0	6,893.0	8,035.8
growth (%)	11.3	19.0	7.7	15.6	16.6
Non Interest Income	1931.4	1944.9	2089.1	2278.9	2518.9
Net Income	6580.3	7478.6	8051.1	9171.9	10554.7
Staff cost	1772.4	2034.2	2207.6	2425.0	2663.5
Other operating Expense	1603.3	1657.5	2085.6	2308.3	2642.9
Operating Profit	3204.7	3786.9	3757.9	4438.7	5248.3
Provisions	1172.3	1649.6	1221.8	1461.6	1610.3
PBT	2032.4	2137.3	2536.1	2977.1	3638.0
Taxes	489.8	547.0	646.3	761.9	931.0
Net Profit	1,542.6	1,590.3	1,889.8	2,215.2	2,706.9
growth (%)	24.0	3.1	18.8	17.2	22.2
EPS (₹)	7.7	8.0	9.0	10.5	12.9

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares (Crores)	199.3	199.6	210.3	210.3	210.3
EPS (₹)	7.7	8.0	9.0	10.5	12.9
BV (₹)	72.8	80.7	89.4	92.9	103.1
ABV (₹)	64.8	72.9	81.5	84.5	94.5
P/E	11.7	11.4	10.1	8.6	7.0
P/BV	1.2	1.1	1.0	1.0	0.9
P/ABV	1.4	1.2	1.1	1.1	1.0
Yields & Margins (%)					
Net Interest Margins	3.0	3.2	3.1	3.2	3.3
Yield on assets	8.5	8.0	7.2	7.7	7.9
Avg. cost on funds	5.4	4.6	4.5	4.7	4.7
Yield on average advances	9.2	8.5	8.3	8.5	8.7
Avg. Cost of Deposits	5.6	4.8	4.5	4.6	4.7
Quality and Efficiency (%)					
Cost to income ratio	51.3	49.4	49.8	51.6	50.3
Credit/Deposit ratio	80.3	78.3	79.8	79.1	79.3
GNPA	2.9	3.4	2.9	2.7	2.6
NNPA	1.3	1.2	1.1	1.1	1.0
RoE	11.1	10.4	10.8	11.6	13.1
RoA	0.9	0.8	0.9	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	399	399	421	421	421
Reserves and Surplus	14119	15724	18373	19114	21252
Networth	14518	16124	18794	19534	21673
Deposits	152290	172644	181701	209170	238360
Borrowings	10372	9069	15393	10308	11086
Other Liabilities & Provisions	3458	3531	5059	6059	7167
Total	180638	201367	220946	245071	278285
Application of Funds					
Fixed Assets	480	491	634	587	665
Investments	35893	37186	39179	48289	55094
Advances	122268	131879	144928	165551	189119
Other Assets	9423	12220	15194	11200	13230
Cash with RBI & call money	12575	19591	21010	19444	20177
Total	180638	201367	220946	245071	278285

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Total assets					
Total assets	13.4	11.5	9.7	10.9	13.6
Advances	10.9	10.6	7.2	14.2	14.2
Deposit	12.8	13.4	5.2	15.1	14.0
Total Income	18.6	3.7	3.9	14.2	15.3
Net interest income	11.3	19.0	7.7	15.6	16.6
Operating expenses	22.1	9.4	16.3	10.2	12.1
Operating profit	16.0	18.2	-0.8	18.1	18.2
Net profit	24.0	3.1	18.8	17.2	22.2
Net worth	9.4	11.1	16.6	3.9	11.0

Source: Company, ICICI Direct Research

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