



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Federal Bank advances increased by 3% QoQ / 10% YoY to Rs 1,476 billion, owing to strong growth in Agri and SME loans.
- The bank's asset quality improved, with GNPA falling to 2.8 percent from 3.06 percent in the previous quarter, thanks to stronger recoveries and upgrades. Stressed book percent of assets fell to 2.36 percent from 2.61 percent in the previous quarter.

2. MANAGEMENT COMMENTARY:

- Last year, the market for Gold Loan was slow. In Q4 FY22, bank witnessed an upward trend, which they hope to continue in FY23. In FY23, the Gold Loan book is expected to expand by 25%
- In FY23, bank expect to generate a ROA of roughly 1.1 percent, with a target range of 1.2-1.25 percent.
- The cost-to-income ratio is predicted to be 51%. In a quarter, management forecasts an operational expense run-rate of Rs 5 billion (Rs 20bn for the full year).

3. BUSINESS OVERVIEW:

- Federal Bank Limited, based in Aluva, Kerala, is one of the largest Indian commercial banks in the private sector. The bank's operations are divided into four categories: treasury operations, wholesale banking, retail banking, and other banking operations. Working capital term finance trade finance specialist corporate finance products structured finance foreign currency syndicated services and electronic banking needs are among the goods and services offered by the bank.

4. MANAGEMENT GUIDANCE

- Going forward, management hopes to keep the CASA deposit growth rate between 17 and 18 percent and enhance the CASA ratio by 39 percent over the medium term.
- The management sees ample prospects across product areas and anticipates a 15%+ increase in the book in FY23. While emerging companies are expected to expand at a faster pace on a lower base, the bank's corporate book may grow at a somewhat slower rate depending on ticket size and category competitiveness.
- The fintech relationships are expected to have a significant impact on the firm, according to management. While these agreements are more biased toward liability origination, they are expected to provide about 25% of incremental deposit growth in the future. On the asset side, management expects these collaborations to account for 40-50 percent of additional lending in some products.

5. BANKING INDUSTRY

- In addition to cooperative credit institutions, the Indian banking system includes 12 public sector banks, 22 private sector banks, 44 foreign banks, 43 regional rural banks, 1,484 urban cooperative banks, and 96,000 rural cooperative banks. The need for banking and related services will rise as the working population grows and disposable income rises.

6. VALUATION AND OUTLOOK:

- Among key large private banks, Federal Bank has one of the best retail and steady deposit franchises. The bank's liability franchise remains solid, with CASA plus Retail TD of 92 percent, and the bank intends to gradually increase its CASA deposits over the medium term. Despite the pandemic, the bank has managed asset quality well, and the restructured pool is operating well, with collections staying healthy.
- We value the company at 8.99x FY23 EPS to arrive at the target of 98.

RECOMMENDATION - ACCUMULATE

CMP - 87

TARGET - 98 (13%)

Industry	Bank - Private
NSE CODE	FEDERALBNK
BSE CODE	500469
Market Cap (₹ Cr)	18268.17
Shares Outstanding (in Cr)	210.25
52 wk High/Low (₹)	107.65 / 77.5
P/E	9.27
P/BV	0.95
Face Value (₹)	2.00
Book Value (₹)	91.52
EPS (FY22) (₹)	8.34
Dividend Yield (%)	0.92

SHAREHOLDING PATTERN

	Mar'22	Dec'21	Sep'21
Promoters	0.00	0.00	0.00
Mutual Funds	33.61	32.58	32.72
FII/FPI	26.01	25.23	25.92
Retail & Others	30.74	33.11	31.55
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022A	2023E
Core			
Interest Earned	13758	13661	14734
Other Income	1959	2089	2365
Total Income	15717	15750	17099
Interest Expense	8224	7699	8113
Profit from	2137	2536	3062
Ordinary Activity			
PAT	1590	1890	2297
EPS	7.97	8.99	10.9
Ratios			
ROE (%)	10.4	10.8	12.1
ROA (%)	0.8	0.9	1.0
Payout (%)	8.79	19.2	21.5
Valuation			
P/E (x)	11.4	10.1	8.0
P/BV (x)	1.1	1.0	0.9

Historical & Industrial Val Ratios

Historical P/E	9.27
Industry P/E	22.65
Historical P/B	0.95
Industry P/B	2.68



Liability Trends	Q4FY22	Q3FY22	Q2FY22	Q1FY22	Q4FY21	Q3FY21	Q2FY21
Total Deposit	171557	164340	161160	157055	155978	149278	145782
Current Account	12612	11330	10810	8963	10684	9158	8467
Saving Account	54510	53014	51381	49996	47686	46582	44318
CASA Ratio (%)	36.94	36.68	36.16	34.81	33.81	34.48	33.68

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21				FY22				FY23E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Interest Earned	3,444	3,488	3,460	3,366	3,356	3,379	3,443	3,483	14,734
YoY change (%)	6.66%	7.19%	3.90%	-0.91%	-2.56%	-3.13%	-0.49%	3.48%	7.8%
Other Income	488	449	475	477	552	444	484	465	2,365
Total Income	3,933	3,937	3,935	3,843	3,908	3,824	3,927	3,948	17,099
Operating Expense	852	883	956	1,001	933	1,059	1,109	1,192	4,612
Interest Expense	2,148	2,108	2,022	1,946	1,937	1,900	1,904	1,958	8,113
Operating Profit	932	947	956	897	1,037	865	914	798	4,374
Provision	396	532	414	255	544	246	214	75	1,312
Profit from Ordinary Activities	538	414	542	643	493	619	700	723	3,062
YoY change (%)	-8.97%	-11.35%	-7.03%	64.03%	-8.36%	49.52%	29.15%	12.44%	20.74%
Tax	25%	26%	25%	26%	26%	26%	26%	25%	25
Net Profit After Tax	401	308	404	478	367	460	522	541	2,297
YoY change (%)	4.43%	-26.14%	-8.39%	58.80%	-8.48%	49.35%	29.21%	13.18%	21.5%

EWS*Insights into the assumptions:

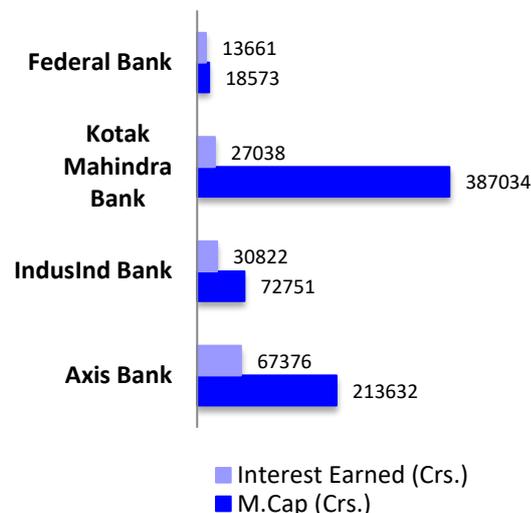
- 1> Credit growth has started showing signs of a gradual recovery.
- 2> Bank credit growth is likely to increase up, thanks to a low base effect and an extension of the ECLGS scheme.
- 3> Asset quality improved sequentially as lower slippages and better recoveries helped the overall performance.
- 4> Banks are preparing to expand their digital offerings through partnerships with fintech companies or in-house development.
- 5> The RBI's new guidelines will level the playing field by addressing indebtedness and numerous lending concerns.
- 6> The rise in home demand, combined with lenders initial concentration on secured lending, resulted in considerable growth in housing loans across banks and HFCs.
- 7> Improvement in collection.
- 8> Given the economy's return to normalcy, the forecast for company growth and credit costs remains positive.



INDUSTRY OVERVIEW

- Indian The banking sector has underperformed the entire market (the Bank Nifty has fallen 5.3 percent while the Nifty has fallen 2.5 percent in the last six months), owing to concerns about slowed credit growth, risk aversion, and uncertainty about accumulated stressed assets.
- Disruptions caused by the epidemic had slowed credit growth and delayed a quick recovery by providing asset quality challenges. The RBI had announced a number of regulatory measures that, to some extent, mitigated asset quality challenges.
- The Beginning in FY22, bank credit growth began to show signs of a slow recovery, spearheaded by the retail sector. In terms of a rebound in the capex cycle, the business sector is currently in a better position. Bank credit growth is likely to accelerate as the impact of pandemic-related disruptions fades, owing to the low base effect and the extension of the ECLGS scheme.
- Banks, particularly larger banks, are preparing to expand their digital offerings through partnerships with fintech or in-house development. Continuous focus on digital offerings will help incumbents deal with disruption problems. Furthermore, a new banking format known as "digital banking" is progressively taking development.

KEY PLAYERS



PEER PERFORMANCE

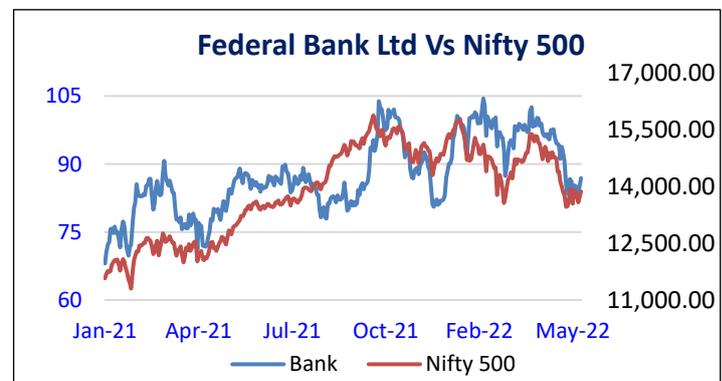
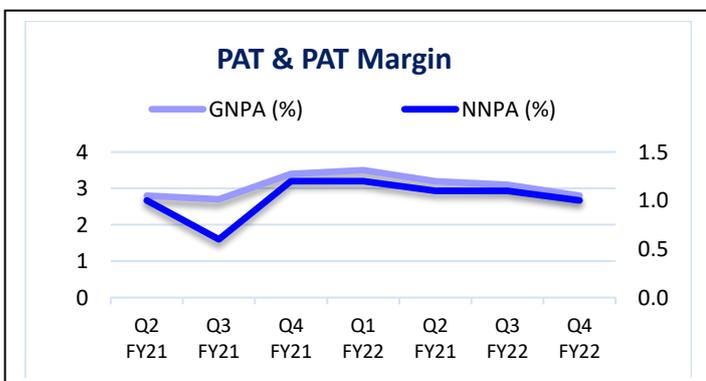
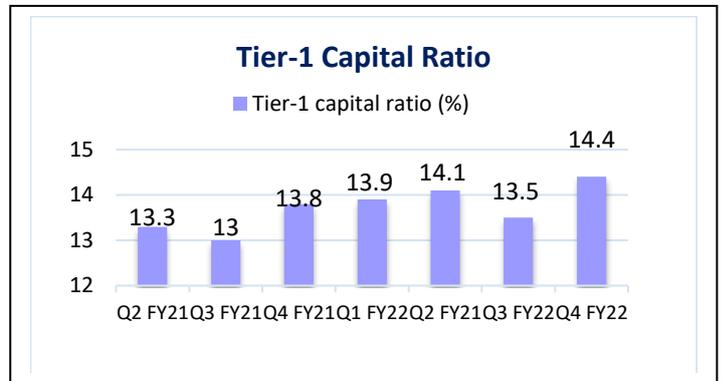
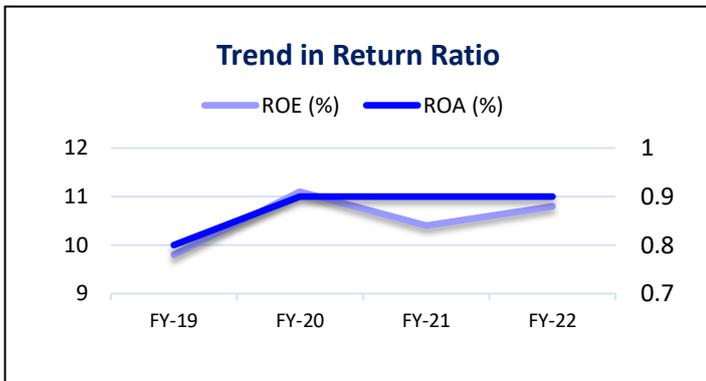
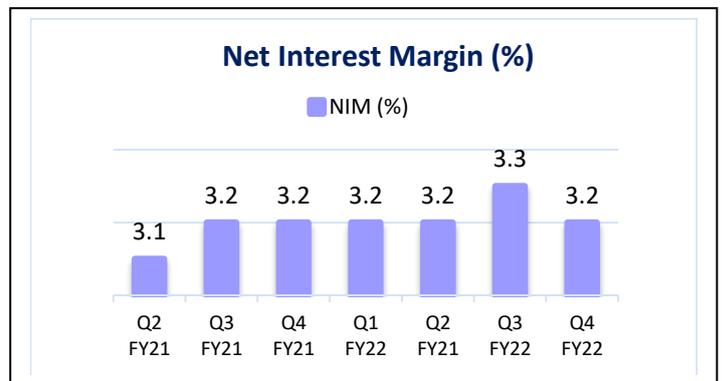
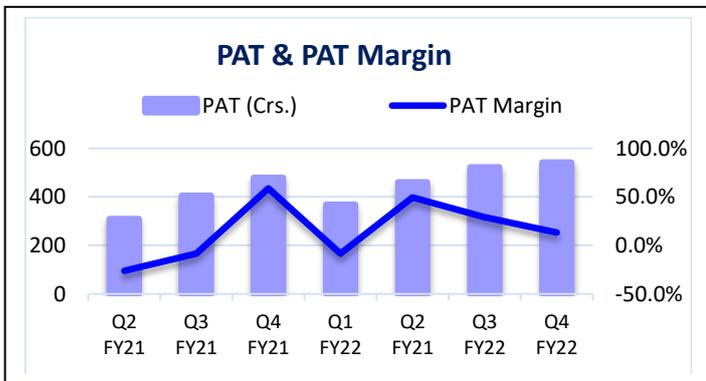
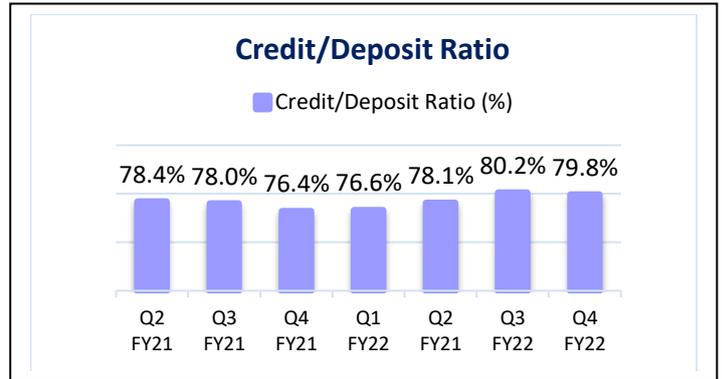
(₹ Cr)

Particulars	Federal Bank	Kotak Mahindra Bank	IndusInd Bank	Axis Bank
Market Cap	18573	387034	72751	213632
Interest Earned	13661	27038	30822	67376
Profit from Ordinary Activities	2536	11361	6433	17382
PAT	1890	8573	4805	13025
EPS(Rs)	8.99	43.19	62.03	42.43
Total Deposit	171557	311684	293349	821721
CASA Ratio	36.9	60.70	43	45
Net Interest Income	5962	16818	15000	33132
NIM	3.2	4.78	4.20	3.49%
Total Advances	147639	292481	239052	707696
Gross NPA (%)	2.8	2.37	2.27	2.82
Net NPA (%)	1.0	0.71	0.64	0.73
Provision Coverage Ratio	66.3	73.20	72	75
Capital Adequacy Ratio	15.8	22.70	18.42	18.54
Credit Deposit Ratio	86.05	129.66	127	116

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- The bank expects a 7-8 basis point increase in NIM to 3.2- 3.25 percent. Furthermore, the cost-to-income ratio is predicted to improve to 50%. The bank is continuing to move forward with its fintech partnerships, which are intended to help both sides of the balance sheet thrive. In FY23, the bank plans to grow credit by 15%, with the retail segment leading the way, while corporate lending prospects would be pursued with caution. On the back of a favorable asset quality outlook, credit costs are projected to continue low.
- The bank's net advances totaled \$1.45 billion, up 10% year over year and 3% quarter over quarter. Retail book sales (32 percent of total loan book) increased by 4.5 percent year over year. Agriculture book (13 percent of book), SME book (19 percent of book), and corporate book (35.0 percent) all increased by 4.4 percent quarter over quarter, 4.5 percent quarter over quarter, and -0.2 percent quarter over quarter, respectively. Since the lockdown began, the bank has focused on gold loans, which now total \$173 billion (9 percent YoY) with an LTV of 69 percent. For FY23, management forecasted a 15% increase in loan growth. Due to reduced gold loan growth in 9MFY22, loan growth was subdued in FY22.
- Asset quality improved in 4Q, with GNPA/NNPA falling to 280bps/96bps from 306bps/105bps in 3QFY22, owing to negative net delinquencies. For the third quarter in a row, net delinquencies were negative, as gross delinquency reduced to Rs 3 billion from Rs 4.4 billion in the previous quarter, with recoveries and upgrades totaling Rs 4.2 billion. With the exception of agri loans, gross slippages improved sequentially in all segments. Management stated that the elevated slippages in the agri segment were a one-time occurrence and that they will return to normal in the future.

RISK FACTORS:

- Increases in competitive intensity that are more than expected could have a detrimental influence on firm growth projections.
- Given the rising interest rate environment, treasury gains are expected to be unsupportive from here on out.
- Some of the restructured accounts may face solvency difficulties when support measures are phased out, with the impact on banks' balance sheets becoming evident in the coming quarters.
- Any new Regulatory framework by RBI might impact the industry.
- Higher delinquency in its agricultural portfolio.
- The cost/income ratio was elevated at 59.9% in 4QFY22 compared to 54.8% in 3QFY22 and 53.1% in 4QFY21.

COMPANY RECAP

- Federal Bank is the preferred Personal, NRI and Business banking partner for a growing expanse of customers across India, in both urban and rural areas. The Bank is driven by the quest to be one of the most admired banking institutions in the country. This is just one manifestation of the Bank's powerful 'Digital at the Fore, Human at the Core' proposition. Redefining human experience, the digital way has been our constant goal for a while now. Our digital innovations of today are on the cusp of redefining the banking paradigm of tomorrow. Federal Bank is continuously scaling up this mantra to reach out, meaningfully and impact fully, to more and more customers.
- Federal Bank is a notable player amongst the commercial banks in the country. Bank professes a set of values that are being nurtured over the years and these have become the principles of the organization. The Bank envisions an all-round prosperity to all the stakeholders - customers, shareholders, employees and associates. We practice and propagate with excellence, in all spheres of activities. Strategic alliances and diversification paths are adopted; making sure that the ultimate goal is achieved - To be a Bank of world-class standards.
- Shri Shyam Srinivasan took charge as the Managing Director & CEO of Federal Bank on 23rd September 2010. He joined Federal Bank, equipped with the experience of over 20 years with leading multinational banks in India, Middle East and South East Asia, where he gained significant expertise in retail lending, wealth management and SME banking. Shri Shyam Srinivasan is an alumnus of the Indian Institute of Management, Kolkata and Regional Engineering College, Tiruchirapally. He has completed a Leadership Development Program from the London Business School and has served on the Global Executive Forum (the top 100 executives) of Standard Chartered Bank from 2004 to 2010.



ANNUAL PERFORMANCE

Financials & Valuations						
Income Statement	(₹ Cr)					
	2018	2019	2020	2021	2022	2023E
Interest Earned	9,753	11,419	13,211	13,758	13,661	14,734
YoY change (%)	12.40	17.08	15.69	4.14	-0.71	7.8
Other Income	1,159	1,351	1,931	1,959	2,089	2,365
Total Income	10,912	12,770	15,142	15,717	15,750	17,099
Operating Expense	2,451	2,764	3,376	3,692	4,293	4,612
Interest Expense	6,170	7,243	8,562	8,224	7,699	8,113
Operating Profit	2,291	2,763	3,205	3,801	3,758	4,374
Provision	947	856	1,172	1,662	1,222	1,312
Profit from Ordinary Activities	1,344	1,907	2,033	2,137	2,536	3,062
YoY change (%)	2.91	41.89	6.61	5.12	18.67	20.74
Tax (%)	35	35	24	26	25	25
Net Profit After Tax	879	1,244	1,543	1,590	1,890	2,297
YoY change (%)	5.78	41.52	24.04	3.05	18.87	21.5
EPS	4.46	6.27	7.74	7.97	8.99	10.9
YoY change (%)	-7.47	40.58	23.44	2.97	12.80	21.2

Source: Company, Hem Securities Research.

Balance Sheet					
Y/E March	(₹ Cr)				
	2017	2018	2019	2020	2021
Share Capital	345	394	397	399	399
Reserves	8,598	11,816	12,876	14,119	15,724
Borrowings	1,03,562	1,23,526	1,42,736	1,62,663	1,81,713
Other Liabilities	2,473	2,578	3,331	3,458	3,531
Total Liabilities & Equity	1,14,977	1,38,314	1,59,340	1,80,638	2,01,367
Fixed Assets	475	448	455	455	479
CWIP	15	9	17	25	12
Investments	28,196	30,781	31,824	35,893	37,186
Other Assets	86,291	1,07,076	1,27,043	1,44,265	1,63,690
Total Assets	1,14,977	1,38,314	1,59,340	1,80,638	2,01,367

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR)	2019	2020	2021	2022
Profit and Loss Account				
Net interest income (%)	4176	4649	5534	5962
Employee expenses	1378	1772	2034	2321
ROE (%)	9.8	11.1	10.4	10.8
ROA (%)	0.8	0.9	0.8	0.9
EPS	6	8	8	9
Key Performance Indicator				
NIM (%)	3.1	3.0	3.2	3.2
CASA (%)	32.4	30.7	34.0	36.9
Yield on Assets (%)	8.4	8.6	8.0	7.3
Cost of Funds (%)	5.4	5.6	4.8	4.1
Cost-to-Income	50.0	51.3	49.4	53.3
GNPA (%)	2.9	2.8	3.4	2.8
NNPA (%)	1.5	1.3	1.2	1.0
Provision Coverage Ratio (%)	50.1	54.5	65.9	66.3
Credit Cost (%)	0.8	1.0	1.3	0.9
Capital Adequacy Ratio (%)	14.1	14.4	14.6	15.8
Tier I (%)	13.4	13.3	13.9	14.4
Valuations Ratios				
P/E (x)	14.5	11.7	11.4	10.1
P/BV (x)	1.4	1.2	1.1	1.0
Dividend Yield (%)	1.45	0.00	0.92	0.79
Growth (%)				
Advances	19.9	10.9	7.9	10
Deposit	20.5	12.8	13.4	5.2
Net Interest Income	16.6	11.3	19	7.7
Net Profit	41.5	24	3.1	18.8

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
30-May-2022	ACCUMULATE	98

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Name of the Research Analyst: Madhur Mandhana

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