

Federal Bank

Refer to important disclosures at the end of this report

Strong delivery on growth; margins and asset quality to drive-up RoAs

- Federal Bank reported a strong beat on PAT yet again, at Rs7bn (vs est: Rs 6.3bn), mainly backed by better delivery on growth/margins, fees and treasury, and partly offset by higher provisions to shore-up PCR. The bank has clocked 1.2% RoA in Q2 and is gaining confidence on growth/margins, given that it has upped its RoA guidance for FY22 to 1.2% (Q4 exit RoA to 1.25%).
- Bank delivered a strong 20% YoY/6% QoQ credit growth, mainly led by acceleration in the corporate book and continued traction in Retail/SME. This, coupled with continued asset re-pricing and lower NPA drag, led to healthy improvement in margins, by 8bps QoQ to 3.3%. Bank expects margins to remain elevated, supported by the enduring strong growth and some additional benefit expected to flow from asset re-pricing.
- Overall asset quality continues to trend well, with GNPA ratio down by 23bps QoQ to 2.5%, which the bank expects to retain despite some macro-dislocation. Tier I capital remains reasonable at 13.6% (Calc), while Management maintains that it is in no hurry to raise capital.
- We revise our earnings estimate by 7% for FY23 and by 4% for FY24-25, factoring-in better delivery on margin/fees, and expect RoA/RoE to steadily improve to 1.2%/16% by FY25E (without accounting for capital raise). We retain BUY on the stock, with revised TP of Rs150/share, valuing the bank at 1.2x Sep-24E ABV and subs value at Rs8/share.

- Accelerating credit growth, coupled with asset re-pricing, driving-up margins:** The bank has posted higher credit growth at 20% YoY/6% QoQ (highest in the past 13 quarters), which now looks to be broad-based, with even the corporate book seeing acceleration. Within Retail, mortgage growth remains healthy; CV and gold loan book are also gaining traction. Card partnership, too, is delivering good results, thereby supporting fee growth, which is otherwise fueled by acceleration in credit growth. Deposit/CASA growth has slightly lagged, leading to some drop in CASA ratio to 36%, which we believe is becoming an industry-wide phenomenon. However, the bank has logged strong margins – up 8bps QoQ to 3.3% – and guides to margins remaining elevated led by strong growth/asset repricing.
- NPA trend down, but the bank shores-up PCR:** Slippages moderated to Rs3.9bn/1.2% in Q2 due to lower slippages in Retail and relapse from the restructured book. This, along with better recoveries/w-offs, led to 23bps reduction in GNPA ratio to 2.5%. The restructured pool stood surprisingly flat QoQ at Rs39bn (2.4% of the loans); the bank expects the pool to decline, as it has started to come out of the moratorium. Further, the bank has made sufficient provision on the RSA book and has not utilized any provisions yet, which grants comfort. The bank has shored-up its PCR to 69% (66% in Q1), which puts it in a better position to absorb any asset-quality shocks
- Outlook and valuations** We revise our earnings estimate by 7% for FY23 and by 4% for FY24-25, factoring-in better delivery on margin/fees and expect RoA/RoE to steadily improve to 1.2%/16% by FY25E (ex capital raise). Potential value unwinding in the NBFC subsidiary (FedFina) via an IPO could be an additional catalyst for the stock and may help shore up the receding capital levels. **Key risks:** Higher relapse from the restructured pool and top management attrition.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 6\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	74,923	80,510	92,189	107,758	129,109
Net profit	15,903	18,898	27,513	32,941	39,573
EPS (Rs)	8.0	9.2	13.1	15.7	18.8
ABV (Rs)	75.0	84.4	93.5	106.5	122.2
RoA (%)	0.8	0.9	1.2	1.2	1.2
RoE (%)	10.4	11.0	14.1	15.0	15.8
P/E (x)	16.4	14.2	10.0	8.3	6.9
P/ABV (x)	1.7	1.6	1.4	1.2	1.1

Source: Company, Emkay Research

CMP	Target Price
Rs 131 as of (October 14, 2022)	Rs 150 (▲) 12 months
Rating	Upside
BUY (■)	14.7 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	2.0
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	13.1	15.7
Consensus	11.8	13.9
Mean Consensus TP (12M)	Rs 132	

Stock Details

Bloomberg Code	FB IN
Face Value (Rs)	2
Shares outstanding (mn)	2,110
52 Week H/L	132 / 79
M Cap (Rs bn/USD bn)	276 / 3.35
Daily Avg Volume (nos.)	16,598,930
Daily Avg Turnover (USD mn)	23.0

Shareholding Pattern Jun '22

Promoters	-%
FIIs	25.9%
DIIIs	41.6%
Public and Others	32.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	35	32	40
Rel. to Nifty	13	25	34	50

Relative price trend



Source: Bloomberg

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Exhibit 1: Quarterly Summary (Q2FY23)

(Rs mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	33,557	33,792	34,426	34,832	36,289	40,208	19.0	10.8	136,608	160,616	17.6
Interest Exp	19,373	18,998	19,037	19,580	20,244	22,590	18.9	11.6	76,988	89,613	16.4
Net Interest Income	14,184	14,793	15,389	15,252	16,045	17,618	19.1	9.8	59,620	71,003	19.1
Global NIMs (reported)	3.15	3.20	3.27	3.16	3.22	3.30	10bps	8bps	3.05	3.24	19bps
Non-interest Income	6,483	4,443	4,842	4,650	4,526	6,095	37.2	34.7	20,891	21,185	1.4
Operating Expenses	9,334	10,590	11,088	11,920	10,838	11,591	9.5	7.0	42,932	46,153	7.5
Pre Provisioning Profit	11,333	8,647	9,143	7,982	9,734	12,122	40.2	24.5	37,579	46,036	22.5
Provision & Contingencies	6,399	2,453	2,140	752	1,667	2,679	9.2	60.7	12,218	9,254	-24.3
PBT	4,933	6,194	7,003	7,230	8,067	9,444	52.5	17.1	25,361	36,782	45.0
Income Tax Expense (Gain)	1,261	1,592	1,786	1,824	2,060	2,407	51.2	16.8	6,463	9,269	43.4
Net Profit/(Loss)	3,672	4,602	5,217	5,405	6,007	7,037	52.9	17.2	18,898	27,513	45.6
Gross NPA (%)	3.50	3.24	3.06	2.80	2.69	2.46	-78bps	-23bps	2.80	2.35	-45bps
Net NPA (%)	1.23	1.12	1.05	0.96	0.94	0.78	-34bps	-15bps	0.96	0.72	-24bps
Deposits (Rs in bn)	1,694	1,720	1,754	1,817	1,834	1,891	10.0	3.2	1,817	2,072	14.0
Net Advances (Rs in bn)	1,298	1,344	1,407	1,449	1,517	1,612	20.0	6.3	1,449	1,714	18.3

Source: Company, Emkay Research

Exhibit 2: Actual vs Estimates (Q2FY23)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	23,714	21,620	21,704	10%	9%	Better margins, coupled with higher other income, led to a beat
PPOP	12,122	10,359	10,167	17%	19%	Higher Net Income, partly offset by higher opex, led to a beat
PAT	7,037	6,259	6,055	12%	16%	Higher PPOP, partly offset by higher LLP led to a beat

Source: Company, Emkay Research

Exhibit 3: Revision in estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	88,523	92,189	4.1%	105,485	107,758	2.2%	126,765	129,109	1.85%
PPOP	42,760	46,036	7.7%	53,205	54,664	2.7%	66,908	67,840	1.4%
PAT	25,618	27,513	7.4%	31,552	32,941	4.4%	37,936	39,573	4.3%
EPS (Rs)	12.2	13.1	7.4%	15.0	15.7	4.4%	18.0	18.8	4.3%
BV (Rs)	97.0	97.9	0.9%	109.1	110.9	1.7%	123.8	126.8	2.5%

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	55,336	59,620	71,003	82,699	98,878
Other income	19,587	20,891	21,185	25,060	30,232
Fee income	10,374	12,831	14,499	16,964	20,357
Net income	74,923	80,510	92,189	107,758	129,109
Operating expenses	36,917	42,932	46,153	53,094	61,269
Pre provision profit	38,006	37,579	46,036	54,664	67,840
PPP excl treasury	31,780	34,550	44,976	53,074	65,455
Provisions	16,634	12,218	9,254	10,626	14,935
Profit before tax	21,372	25,361	36,782	44,039	52,905
Tax	5,470	6,463	9,269	11,098	13,332
Tax rate	26	25	25	25	25
Profit after tax	15,903	18,898	27,513	32,941	39,573

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	3,992	4,205	4,205	4,205	4,205
Reserves	157,252	179,178	201,630	229,004	262,504
Net worth	161,244	183,383	205,835	233,209	266,709
Deposits	1,726,444	1,817,006	2,071,793	2,414,287	2,866,601
Borrowings	90,685	153,931	145,878	160,466	168,489
Total liabilities	2,013,673	2,209,463	2,523,878	2,945,660	3,486,755
Cash and bank	76,470	99,993	124,991	156,239	195,298
Investments	371,862	391,795	441,530	508,970	595,581
Loans	1,318,786	1,449,283	1,713,841	2,044,574	2,458,252
Others	122,200	151,942	160,570	177,206	195,615
Total assets	2,013,673	2,209,463	2,523,878	2,945,660	3,486,755

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	3.1	3.1	3.2	3.2	3.3
Non-ll/avg assets	1.0	1.0	0.9	0.9	0.9
Fee income/avg assets	0.5	0.6	0.6	0.6	0.6
Opex/avg assets	1.9	2.0	2.0	1.9	1.9
Provisions/avg assets	0.9	0.6	0.4	0.4	0.5
PBT/avg assets	1.1	1.2	1.6	1.6	1.6
Tax/avg assets	0.3	0.3	0.4	0.4	0.4
RoA	0.8	0.9	1.2	1.2	1.2
RoAE	10.4	11.0	14.1	15.0	15.8
GNPA (%)	3.4	2.8	2.4	2.0	1.7
NNPA (%)	1.2	1.0	0.7	0.6	0.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	8.0	9.2	13.1	15.7	18.8
BVPS	80.8	89.5	97.9	110.9	126.8
ABVPS	75.0	84.4	93.5	106.5	122.2
DPS	0.0	2.2	2.4	2.6	2.9

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	16.4	14.2	10.0	8.3	6.9
P/BV	1.7	1.5	1.4	1.2	1.1
P/ABV	1.7	1.6	1.4	1.2	1.1
P/PPOP	6.8	7.3	5.9	5.0	4.0
Dividend Yield (%)	0.0	1.7	1.8	2.0	2.2

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	19.0	7.7	19.1	16.5	19.6
PPOP	18.6	(1.1)	22.5	18.7	24.1
PAT	3.1	18.8	45.6	19.7	20.1
Loans	7.9	9.9	18.3	19.3	20.2

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
NII	14,793	15,389	15,252	16,045	17,618
NIM (%)	3.2	3.3	3.2	3.2	3.3
PPOP	8,647	9,143	7,982	9,734	12,122
PAT	4,602	5,217	5,405	6,007	7,037
EPS (Rs)	2.19	2.48	2.57	2.86	3.34

Source: Company, Emkay Research

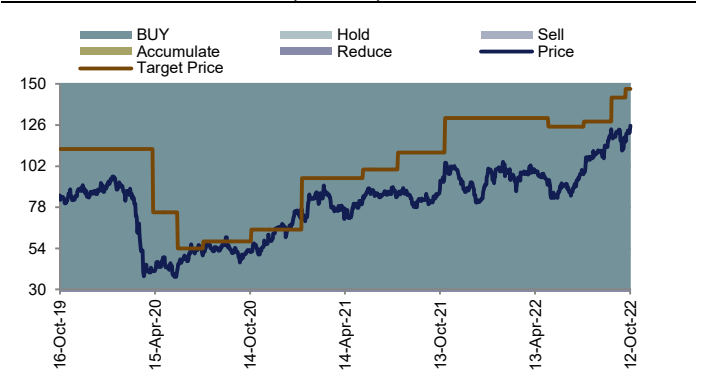
Shareholding Pattern (%)	Jul-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	-	-	-	-	-
FII	27.2	25.6	24.9	25.7	25.9
DII	41.5	42.0	41.1	42.7	41.6
Public and Others	31.3	32.5	34.0	31.7	32.5

Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
3-Oct-22	116	147	12m	Buy	Anand Dama
6-Sep-22	121	142	12m	Buy	Anand Dama
15-Jul-22	99	128	12m	Buy	Anand Dama
8-May-22	91	125	12m	Buy	Anand Dama
26-Jan-22	96	130	12m	Buy	Anand Dama
22-Oct-21	104	130	12m	Buy	Anand Dama
1-Oct-21	83	110	12m	Buy	Anand Dama
24-Jul-21	85	110	12m	Buy	Anand Dama
18-May-21	84	100	12m	Buy	Anand Dama
21-Jan-21	76	95	12m	Buy	Anand Dama
16-Oct-20	52	65	12m	Buy	Anand Dama
16-Jul-20	52	58	12m	Buy	Anand Dama
28-May-20	43	54	12m	Buy	Anand Dama
11-Apr-20	41	75	12m	Buy	Anand Dama
27-Feb-20	89	112	12m	Buy	Anand Dama
20-Jan-20	94	112	12m	Buy	Anand Dama
16-Oct-19	82	112	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)

Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	20.55	20.55	0.0%	0	100.00	
Axis Bank	2.18	2.30	5%	11	11.18	0
AU Small Finance Bank	0.27	0.27	0%	0	1.31	0
Bandhan Bank	0.20	0.20	0%	0	0.95	0
Bank of Baroda	0.24	0.20	-15%	-4	0.99	0
Canara Bank	0.15	0.20	36%	5	0.98	0
City Union Bank	0.00	0.00	NA	0	0.00	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.24	0.25	0%	0	1.19	0
HDFC Bank	6.02	6.06	1%	4	29.49	0
ICICI Bank	5.83	6.02	3%	19	29.29	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.76	0.82	9%	7	4.01	0
Karur Vysya Bank	0.00	0.08	NA	8	0.37	0
Kotak Mahindra Bank	2.53	2.01	-21%	-52	9.77	0
Punjab National Bank	0.10	0.00	-100%	-10	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	1.92	2.10	10%	18	10.24	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.05	0.00	-100%	-5	0.00	0
Yes Bank	0.05	0.05	-2%	0	0.22	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	13-Oct-21	13-Apr-22	13-Jul-22	13-Sep-22	13-Oct-22
EAP - BFSI-Banks	100.0	132.2	128.3	120.2	139.6	131.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	129.5	125.7	117.8	136.9	128.7

*Performance measurement base date 1st April 2019

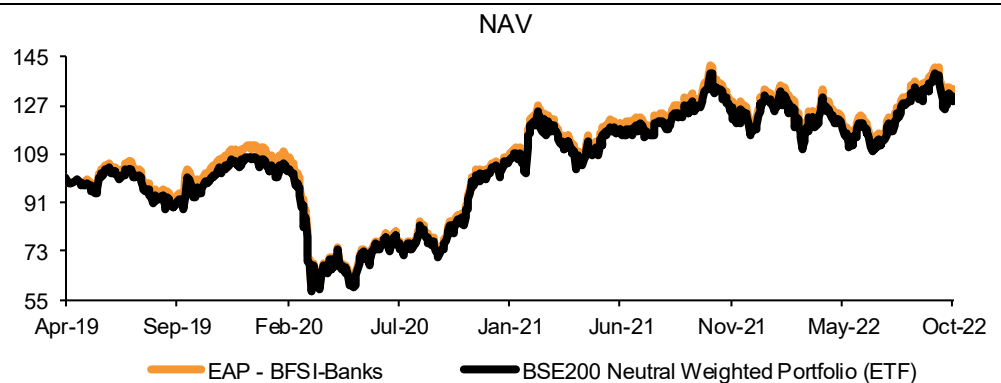
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-5.8%	9.4%	2.5%	-0.5%
BSE200 Neutral Weighted Portfolio (ETF)	-5.9%	9.3%	2.4%	-0.6%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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