

# HSIE Results Daily

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# Federal Bank

## Closing in on true franchise potential

Federal Bank (FB) reported its highest-ever quarterly earnings, largely on the back of strong loan growth (+20% YoY), margin expansion (+19bps QoQ), sustained fee traction and lower credit costs (38bps annualised). FB benefitted from a timing difference in asset/deposit repricing, offsetting higher employee opex (provision for wage revision) and higher provisions for security receipts as per the RBI circular. FB is confident of leveraging its differentiated FinTech ecosystem partnerships to clock market share gains in high-yield segments and driving further business productivity on both sides of the balance sheet. FB appears to be on track to deliver its targeted RoA of 1.25% for FY23 and is likely to clock a further 10bps RoA accretion over the next couple of years as the bank further calibrates the mix of high-yielding loans. We tweak our FY23E/FY24E earnings estimates to factor in lagged deposit repricing, offset by marginally lower provisions; maintain BUY, with a TP of INR175 (1.6x Sep-24 ABVPS).

- **Conducive pricing environment translates into better NIMs:** FB reported a sequentially strong NII growth with multi-quarter high NIMs at 3.5% (+19bps QoQ), aided by a conducive pricing environment. Loan growth (+19% YoY) was balanced across segments, including a sizeable contribution from working capital loans in the corporate book. Within retail, high-margin segments—PL, CC, CV/CE, MFI—sustained strong double-digit growth on a low base. These categories, organically and by way of FinTech partnerships, are likely to begin incrementally accounting for a meaningful mix of the loan book by FY25.
- **Benign asset quality:** GNPA (2.4%) was largely stable QoQ as slippages from the restructured book (retail and wholesale) were offset by recoveries. Given a strong PCR (~70%), we build in ~53/63bps of credit costs for FY23/FY24.
- **Operational efficiencies to complement FinTech partnerships:** We believe that FB's ability to leverage its FinTech partnerships to build an NTB customer franchise and deepen its ETB relationships alongside a calibrated distribution ramp-up places the bank ahead of its peers to deliver sustained productivity and efficiency gains. We remain constructive on FB's ability to further dial up and monetise such partnerships and build scalable profit pools.

### Financial summary

(INR bn)	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
NII	19.6	15.4	27.1%	17.6	11.0%	59.6	70.9	83.0	95.7
PPOP	12.7	9.1	39.4%	12.1	5.1%	37.6	48.0	58.1	68.1
PAT	8.0	5.2	54.0%	7.0	14.2%	18.9	29.1	33.6	38.7
EPS (INR)	3.8	2.5	52.4%	3.3	13.3%	9.0	13.8	16.0	18.4
ROAE (%)						10.8	14.5	14.9	15.1
ROAA (%)						0.9	1.2	1.3	1.3
ABVPS (INR)						82.8	93.1	104.7	118.7
P/ABV (x)						1.7	1.5	1.3	1.2
P/E (x)						15.7	10.2	8.8	7.7

### Change in estimates

INR bn	FY23E			FY24E			FY25E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Net advances	1,689	1,690	0.0%	1,974	1,976	0.1%	2,280	2,281	0.1%
NIM (%)	3.4	3.4	-1 bps	3.5	3.4	-5 bps	3.5	3.4	-4 bps
NII	71.1	70.9	-0.3%	84.0	83.0	-1.3%	96.7	95.7	-1.0%
PPOP	48.2	48.0	-0.4%	58.8	58.1	-1.2%	68.6	68.1	-0.8%
PAT	28.6	29.1	1.6%	33.6	33.6	0.3%	39.1	38.7	-1.0%
ABVPS (INR)	93.3	93.1	-0.2%	105.2	104.7	-0.5%	119.4	118.7	-0.6%

Source: Company, HSIE Research

## BUY

CMP (as on 16 Jan 2023)	INR 140
Target Price	INR 175
NIFTY	17,895

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 174	INR 175
	FY23E	FY24E
EPS %	1.6%	0.3%

### KEY STOCK DATA

Bloomberg code	FB IN
No. of Shares (mn)	2,115
MCap (INR bn) / (\$ mn)	297/3,637
6m avg traded value (INR mn)	1,908
52 Week high / low	INR 143/83

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.6	42.1	41.0
Relative (%)	3.9	30.3	42.9

### SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	0.0	0.0
FIs & Local MFs	43.8	44.3
FPIs	27.0	26.4
Public & Others	29.2	29.3
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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**Rating Criteria**

BUY: &gt;+15% return potential

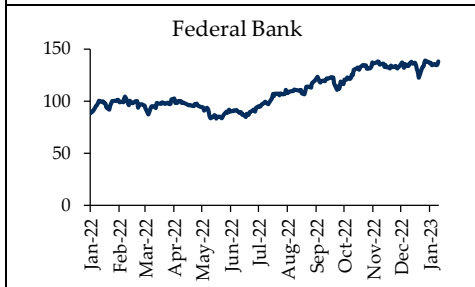
ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: &gt; 10% Downside return potential

**Disclosure:**

Analyst	Company Covered	Qualification	Any holding in the stock
Krishnan ASV	Federal Bank	PGDM	NO
Deepak Shinde	Federal Bank	PGDM	NO
Neelam Bhatia	Federal Bank	PGDM	NO

**1 Yr Price Movement**

**Disclosure:**

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