

January 16, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	175		165	
NII (Rs. m)	83,704	97,459	83,222	97,026
% Chng.	0.6	0.4		
Op. Profit (Rs. m)	54,500	65,052	53,062	63,076
% Chng.	2.7	3.1		
EPS (Rs.)	15.3	18.1	15.0	17.7
% Chng.	1.7	2.1		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII (Rs m)	59,620	73,324	83,704	97,459
Op. Profit (Rs m)	37,579	47,979	54,500	65,052
PAT (Rs m)	18,898	28,821	32,362	38,461
EPS (Rs.)	9.0	13.6	15.3	18.1
Gr. (%)	12.8	51.6	12.0	18.5
DPS (Rs.)	0.7	0.9	1.2	1.2
Yield (%)	0.5	0.6	0.9	0.9
NIM (%)	3.2	3.5	3.4	3.4
RoAE (%)	10.8	14.4	14.4	15.3
RoAA (%)	0.9	1.2	1.2	1.2
P/BV (x)	1.6	1.4	1.3	1.1
P/ABV (x)	1.7	1.5	1.3	1.2
PE (x)	15.6	10.3	9.2	7.8
CAR (%)	15.8	15.0	14.6	14.3

Key Data

FED.BO | FB IN

52-W High / Low	Rs.143 / Rs.83
Sensex / Nifty	60,093 / 17,895
Market Cap	Rs.297bn/ \$ 3,635m
Shares Outstanding	2,115m
3M Avg. Daily Value	Rs.1926.27m

Shareholding Pattern (%)

Promoter's	-
Foreign	26.40
Domestic Institution	44.25
Public & Others	29.36
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.1	42.1	41.0
Relative	5.3	27.1	43.7

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Outperformance continues

Quick Pointers:

- Core earnings beat of 16% led by better NIM driven by lower funding cost.
- Fees in 9MFY23 grew strongly by 43% YoY; current run-rate should sustain.

FB again surpassed its previous quarter best, with core earnings at Rs7.75bn, beating PLe by ~16% led by NIM beat which came in at 3.89% (PLe 3.66%) as funding cost was lower at 4.9% (PLe 5.1%). Bank further raised steady state NIM guidance from 3.30% to 3.35-3.40%. We too increase NIM for FY23E by 12bps and FY24/25E by ~6bps each as 1) high yielding book, which touched Rs62bn, could double in 2+ years and 2) upward deposit repricing could be slower to peers (~60% of deposits as at FY22 have a maturity >3 years). Fee income in 9MFY23 has risen by 43% to Rs12.9bn and bank expects current run-rate to continue. Hence, we increase FY23 PAT by 6% and FY24/25E PAT by ~2% each. With consistent beat in core profitability, re-rating should continue for FB. Rolling forward to FY25E ABV, we raise TP to Rs175 from Rs165, maintaining multiple at 1.5x. Reiterate BUY.

- Earnings beat led by higher NII due to lower funding cost:** NII was a beat at Rs19.5bn (est. Rs18.4bn) due to lower cost of funds. NIM was a beat at 3.89% (PLe 3.66%) as funding cost was better at 4.9% (PLe 5.1%) while yield on assets as expected was 8.81%. Loans/deposits grew by 19.5%/14.8% YoY. While other income was in-line at Rs5.8bn, fee income was ahead at Rs4.63bn (PLe Rs4.5bn). As estimated, opex was Rs.12.2bn. Core PPOp was a beat at Rs12.8bn (PLe Rs11.5bn). GNPA/NNPA was stable QoQ 2.42%/0.73%. While provisions were in-line at Rs2.5bn, net slippages were lower suggesting bulk provisions were made to shore up PCR which rose QoQ from 68.7% to 70.4%. PAT was Rs8.04bn while core PAT at Rs7.75bn beat PLe by 16%.
- NIM trending upwards; guidance raised:** Steady state NIM guidance has been further raised from 3.30% to 3.35%-3.40% (last quarter it was raised from 3.20-3.25%). We raise NIM for FY23E by 12bps and FY24/25E by ~6bps each as 1) high yielding book could double in 2+ years 2) deposit bucketing is favorable since ~60% of deposits as at FY22 have a tenure higher than 3 years and 3) fixed rate book (25%) is expected to reprice in near term. On opex, bank in factoring wage revision of Rs200mn p.m. while it might add 20-25 branches in Q4FY23E. We see a opex CAGR of 15% over FY23-25E.
- Share of high yielding loans enhancing:** Loan growth was 4.3% QoQ and led by corporate and SME growing at 5.5%/3.9% while retail growth was tad slower at 2.9%. Robust corporate growth largely emanated from WC as private capex demand has been enhancing. On retail, the higher yielding segments of CV/CE, MFI and CC have touched Rs62bn (less than 1/3rd a year ago) and target is to double this book in 2+ years. Due to new digital lending guidelines, gold loans fell by 9.5% QoQ to Rs4.8bn (digital contribution at 35-40%), which is expected to normalize. Management has guided for an overall loan growth of high teens in FY24E. Bank raised higher wholesale deposits (~10% share) as LDR threshold is 84-85% although SA is expected to pick up in near term.

Exhibit 1: Strong quarter led by higher NII and lower provisions

NII growth was strong at 27% YoY led by better yields.

Fee income was steady sequentially, while treasury reported loss.

Opex growth was mainly led by higher employee expenses

Overall provisioning was lower sequentially

Loan growth was strong at 19.5% YoY, deposits growth was healthy at 14.8% YoY.

NIM expansion as yields increased faster to CoF.

Asset quality metrics were stable, while PCR increased to 70%

CASA declined to 34%

P&L Statement (Rs m)	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Interest Income	44,333	34,426	28.8	40,208	10.3
Interest Expended	24,767	19,037	30.1	22,590	9.6
Net interest income (NII)	19,565	15,389	27.1	17,618	11.1
-Treasury income	(90)	720	(112.5)	700	(112.9)
Other income	5,340	4,842	10.3	6,095	(12.4)
Total income	24,905	20,231	23.1	23,714	5.0
Operating expenses	12,163	11,088	9.7	11,591	4.9
-Staff expenses	5,608	5,831	(3.8)	5,156	8.8
-Other expenses	6,555	5,257	24.7	6,435	1.9
Operating profit	12,742	9,143	39.4	12,122	5.1
Core Operating Profit	12,832	8,423	52.3	11,422	12.3
Total provisions	1,987	2,140	(7.1)	2,679	(25.8)
Profit before tax	10,755	7,003	53.6	9,444	13.9
Tax	2,719	1,786	52.3	2,407	13.0
Profit after tax	8,036	5,217	54.0	7,037	14.2
Balance Sheet (Rs m)					
Deposits	2,014,080	1,754,320	14.8	1,891,457	6.5
Advances	1,681,730	1,407,430	19.5	1,612,403	4.3
Ratios (%) – Calc.					
NIM	3.9	3.4	50	3.2	65
RoaA	1.4	1.0	37	1.3	13
RoaE	16.6	12.3	424	15.0	153
Asset Quality					
Gross NPL (Rs m)	41,479	44,013	(5.8)	40,311	2.9
Net NPL (Rs m)	12,286	14,712	(16.5)	12,624	(2.7)
Gross NPL ratio	2.42	3.06	(63.9)	2.46	(3)
Net NPL ratio	0.73	1.05	(31.5)	0.78	(5)
Coverage ratio (Calc)	70.4	66.6	380.6	68.7	170
Business & Other Ratios					
Low-cost deposit mix	34.2	36.7	(244)	36.5	(222)
Cost-income ratio	48.8	54.8	(597)	48.9	(4)
Non int. inc / total income	21.4	23.9	(249)	25.7	(426)
Credit deposit ratio	83.5	80.2	327	85.2	(175)
CAR	13.4	14.4	(102)	13.8	(49)
Tier-I	12.1	13.5	(139)	12.6	(49)

Source: Company, PL

Q3FY23 Concall Highlights

Assets & Liabilities – Commentary & build-up

- With strong credit growth and earnings, bank has reported highest ROA of +1.3%. Management has guided for an overall growth of in high teens in FY23 & FY24 as opportunities exist and market share gains. Focus would be on Business Banking, Commercial Banking, Personal Loans, Credit Cards and Commercial Vehicle/Construction Equipment. Target retail: wholesale mix would be 50:50.
- Credit substitutes are being undertaken in the form CP, NCD and PTCs based on pricing and client convenience. PTCs are undertaken for PSL requirement.
- Bank's focus segments Credit Cards, Personal Loans, Gold Loans, Business Banking, CV/CE have seen good traction and has been growing at 70-80% YoY on smaller base and reach 3 digit in FY23 & FY24. However, overall contribution to loan book would remain small.
 - **Gold Loans** declined by 9.5% QoQ due to readjustments in agreements with Fintech (overall 10-12% contribution), however the same is expected to bounce back from Q4FY23 onwards. Management endeavors to sustain 25% YoY growth.
 - **Credit Card** business has been organically scaled up and is expected to grow faster for next 2 years. It has been contributing materially to fee income with no asset quality issues.
 - **Personal Loans** focus was on ETB customers through digital medium, bank has expanded to NTB and tied up with Paisabazar & Fi
- Comfortable CD Ratio for bank is 84-85% hence deposit & borrowings are raised based on that. In 3-4 quarters, SA share should start improving. **NR deposit** – Currently market share in remittance is there, however the same is yet to translate into deposit growth. NR SA has seen improvement.

NIMs/Yields

- For Q3FY23, bank reported NIM of 3.49% which was mainly due to yields going up faster than cost of funds. For FY23 and FY24, management expects margin to be in the range of 3.35-3.40% as the deposit rate hike gets transmitted (residual rate hike on deposits to take place in Q4FY23). Better yielding segments would not materially alter margins.
- Management guides for ROA to sustain or move upwards of 1.25%(+/- 10bps).

Opex/Branches/Fee income

- Employee expenses are to be higher by Rs.0.2bn per month due to wage revision.
- Branch expansion – Bank added 50 branches in 9MFY23 and plans to add 30-40 branches during the year.

- C/I – In Q3FY23, C/I improved was steady at 48.8%. Management expects C/I to settle in the range 48%-49% in FY24.
- Other income improved due to loan processing fee from corporates, Gains on treasury income, write back of provisioning on MTM for treasury and forex income led by hedging for corporates.

Asset Quality

- Slippages for H1FY23 are Rs.8.5bn, for H2FY23, management guides of Rs.9-10bn (incl. of slippages from the restructured pool).
- As on Dec 31, 2022, restructured book stood at 2.2% and ~Rs6bn would be out of moratorium in H2FY23. By FY23 end 70% of the book would be out of moratorium. Bank has created excess provisioning on restructured assets of Rs.1.4bn, O/s Provisions on restructured assets is Rs.6.5bn.
- For FY23, management expects credit costs to be 50-55bps and PCR would be maintained at 67.5%

Others

- Bank has enabling provisioning of Rs.12bn for fund raise, however the same would be done in FY24.

Exhibit 2: Broad-based loan growth across segments

Advances break-up (Rs m)	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Advances					
Retail	539,360	455,410	18.4	524,389	2.9
SME	310,330	274,430	13.1	298,574	3.9
Agriculture	220,500	184,210	19.7	210,907	4.5
CV/CE	18,410	11,140	65.3	16,420	12.1
Corporate	621,830	522,230	19.1	589,289	5.5
Total	1,710,430	1,447,420	18.2	1,639,578	4.3
Retail Loans break-up					
Housing	254,540	216,850	17.4	244,880	3.9
LAP	95,730	82,630	15.9	91,760	4.3
Auto	51,290	40,350	27.1	48,500	5.8
Personal	19,570	17,460	12.1	18,320	6.8
Gold	47,600	41,640	14.3	52,600	(9.5)
Others	70,640	57,640	22.6	68,330	3.4

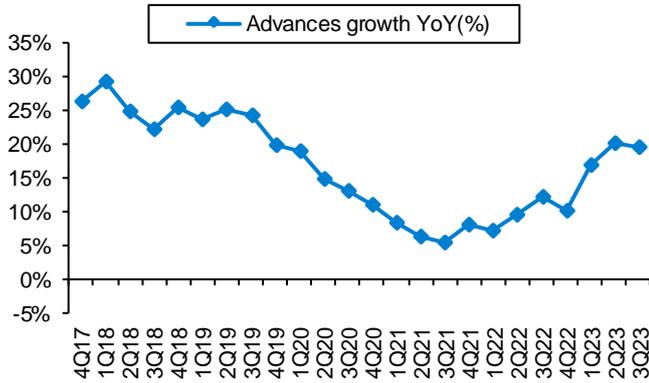
Source: Company, PL

Agri growth continues to be strong

Corporate credit was strong at ~19% YoY

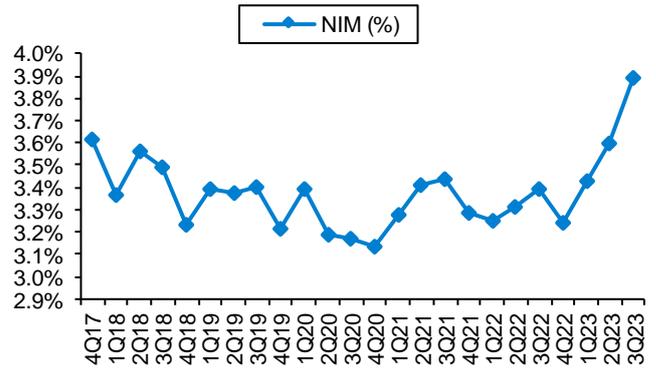
Most retail segments demand scenario has been strong with focus on Credit Cards and Personal Loans.

Exhibit 3: Loan growth was strong at 19.5%YoY,



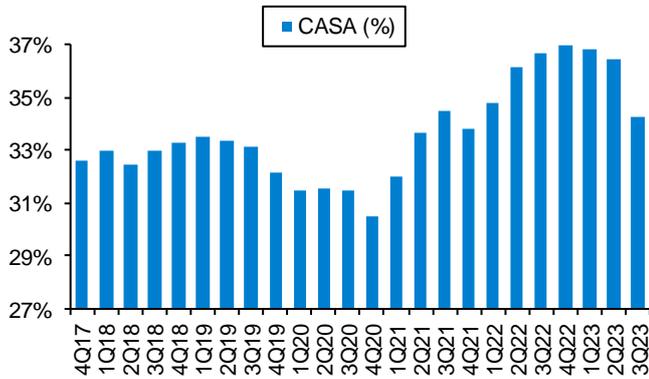
Source: Company, PL

Exhibit 4: NIM improves as yields raise faster than CoF



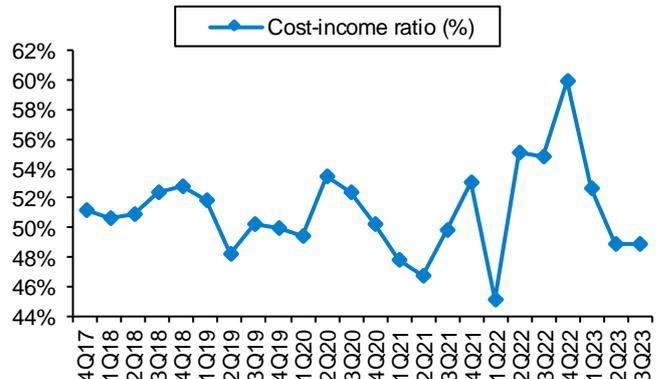
Source: Company, PL

Exhibit 5: CASA accretion slows down as TD grows faster



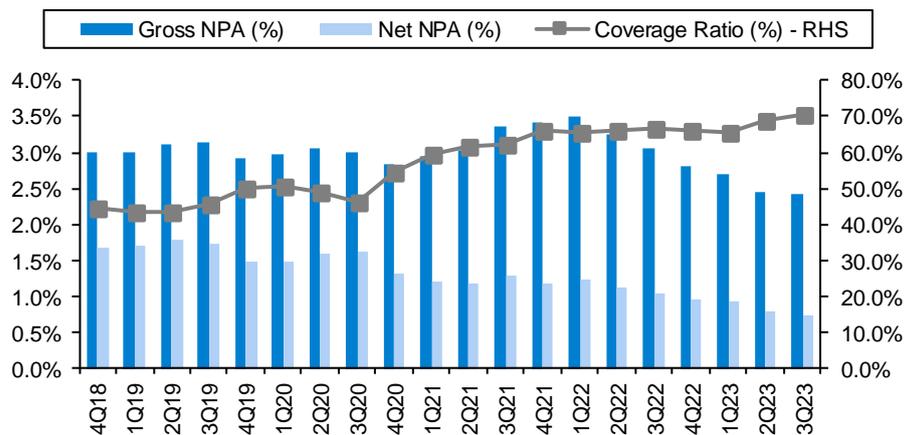
Source: Company, PL

Exhibit 6: C/I remains steady at 48.8%



Source: Company, PL

Exhibit 7: Slippages increase, PCR increased to +70%



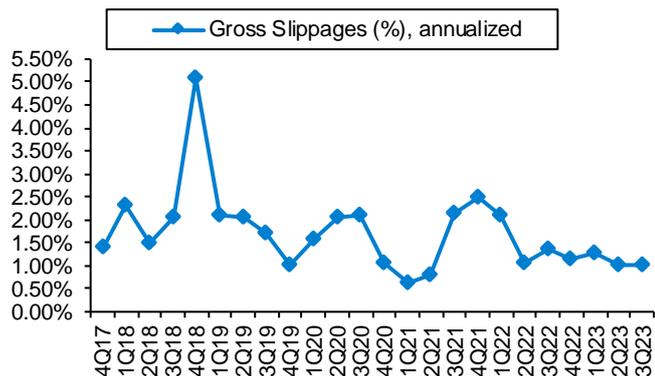
Source: Company, PL

Exhibit 8: Fresh slippages see spike mainly from Retail/SME

Movement of NPL	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Opening	40,309	44,463	(9.3)	41,551	(3.0)
Additions	4,120	4,530	(9.1)	3,900	5.6
Reduction	2,950	4,980	(40.8)	5,140	(42.6)
Closing	41,479	44,013	(5.8)	40,311	2.9
Slippages (%)	1.14	1.37	(24)	1.08	6
Segmental fresh slippages:					
Retail	1,810	950	90.5	1,230	47.2
Agri	660	1,030	(35.9)	980	(32.7)
SME	1,450	1,940	(25.3)	1,540	(5.8)
Corporate	60	500	NA	-	NA
Retail (% annualized)	1.02	1.33	(32)	1.09	(8)
Agri (% annualized)	1.25	2.90	(165)	1.71	(46)
SME (% annualized)	1.02	0.93	9	0.85	17
Corporate (% annualized)	0.01	0.45	(44)	-	1

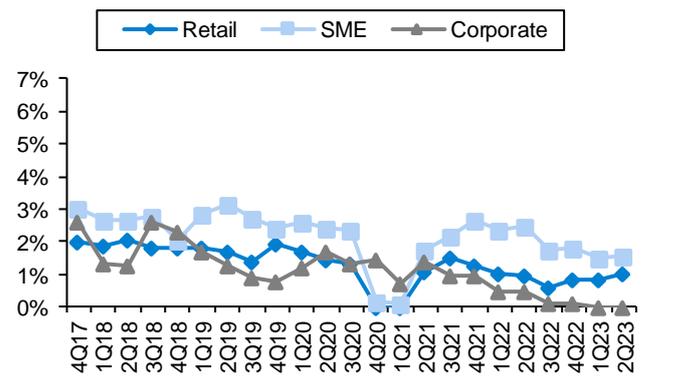
Source: Company, PL

Exhibit 9: Overall slippages go up



Source: Company, PL

Exhibit 10: Slippages higher sequentially in Retail and SME



Source: Company, PL

Exhibit 11: Return ratios are on track to see mid-tier levels

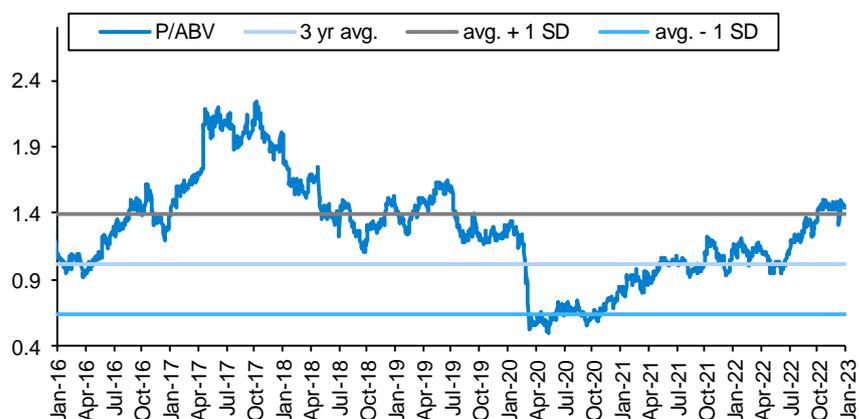
Du-pont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII/Assets	2.8	2.8	2.7	2.9	2.8	3.1	3.0	3.0
Other inc./Assets	0.9	0.9	1.1	1.0	1.0	0.9	0.9	0.9
Net revenues/Assets	3.7	3.7	3.9	3.9	3.8	4.0	3.9	3.9
Opex/Assets	1.9	1.9	2.0	1.9	2.0	2.0	2.0	1.9
Provisions/Assets	0.7	0.6	0.7	0.9	0.6	0.4	0.4	0.4
Taxes/Assets	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4
ROA (%)	0.7	0.8	0.9	0.8	0.9	1.2	1.2	1.2
ROE (%)	8.3	9.8	11.1	10.4	10.8	14.4	14.4	15.3

Source: Company, PL

Exhibit 12: We marginally tinker our estimates on NII front

Earnings Estimates Changes (Rs mn)	Earlier			Revised			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	
Net interest income	71,387	83,222	97,026	73,324	83,704	97,459	2.7	0.6	0.4
Operating profit	45,880	53,062	63,076	47,979	54,500	65,052	4.6	2.7	3.1
Net profit	27,197	31,736	37,581	28,821	32,362	38,461	6.0	2.0	2.3
Loan Growth (%)	20.8	18.6	17.1	20.7	17.1	17.1	(0.4)	(7.7)	0.0
Credit Cost (bps)	58.42	55.59	56.98	58.2	59.2	61.3	(0.4)	6.4	4.3
EPS (Rs)	12.9	15.0	17.7	13.6	15.3	18.1	5.7	1.7	2.1
ABVPS (Rs)	94.9	104.3	116.3	95.1	105.1	118.0	0.2	0.8	1.4
Price target (Rs)	165			175			6.1		
Recommendation	BUY			BUY					

Source: Company, PL

Exhibit 13: Federal Bank One-year forward P/ABV chart


Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Earned from Adv.	1,08,298	1,35,923	1,79,638	2,19,250
Int. Earned from invt.	23,387	27,766	36,439	45,337
Others	2,721	2,962	2,574	2,678
Total Interest Income	1,36,608	1,68,799	2,21,166	2,70,112
Interest Expenses	76,988	95,474	1,37,463	1,72,653
Net Interest Income	59,620	73,324	83,704	97,459
Growth(%)	7.7	23.0	14.2	16.4
Non Interest Income	20,891	22,598	26,077	30,746
Net Total Income	80,510	95,922	1,09,781	1,28,206
Growth(%)	0.2	21.5	29.2	21.7
Employee Expenses	23,206	22,095	25,516	29,151
Other Expenses	18,497	25,848	29,765	34,003
Operating Expenses	42,932	47,943	55,281	63,153
Operating Profit	37,579	47,979	54,500	65,052
Growth(%)	(1.1)	27.7	13.6	19.4
NPA Provision	6,111	7,674	9,600	12,000
Total Provisions	12,218	9,308	11,234	13,634
PBT	25,361	38,670	43,265	51,418
Tax Provision	6,463	9,850	10,903	12,957
Effective tax rate (%)	25.5	25.5	25.2	25.2
PAT	18,898	28,821	32,362	38,461
Growth(%)	18.8	52.5	12.3	18.8

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Face value	2	2	2	2
No. of equity shares	2,103	2,115	2,120	2,126
Equity	4,205	4,230	4,241	4,251
Networth	1,87,939	2,13,621	2,36,733	2,65,728
Growth(%)	16.6	13.7	10.8	12.2
Adj. Networth to NNPA's	13,926	12,420	13,911	14,896
Deposits	18,17,006	21,06,728	24,75,059	28,77,615
Growth(%)	5.2	15.9	17.5	16.3
CASA Deposits	6,74,710	7,58,422	8,91,021	10,35,942
% of total deposits	37.1	36.0	36.0	36.0
Total Liabilities	22,09,463	25,97,029	30,24,471	34,92,489
Net Advances	14,49,283	17,48,999	20,48,840	23,98,416
Growth(%)	9.9	20.7	17.1	17.1
Investments	3,91,795	4,63,480	5,44,513	6,33,075
Total Assets	22,09,463	25,97,029	30,24,471	34,92,489
Growth (%)	9.7	17.5	16.5	15.5

Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs (Rs m)	41,367	40,987	46,642	51,716
Net NPAs (Rs m)	13,926	12,420	13,911	14,896
Gr. NPAs to Gross Adv.(%)	2.8	2.3	2.2	2.1
Net NPAs to Net Adv. (%)	1.0	0.7	0.7	0.6
NPA Coverage %	66.3	69.7	70.2	71.2

Profitability (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	3.2	3.5	3.4	3.4
RoAA	0.9	1.2	1.2	1.2
RoAE	10.8	14.4	14.4	15.3
Tier I	14.4	13.8	13.4	13.1
CRAR	15.8	15.0	14.6	14.3

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Interest Income	34,832	36,289	40,208	44,333
Interest Expenses	19,580	20,244	22,590	24,767
Net Interest Income	15,252	16,045	17,618	19,565
YoY growth (%)	7.4	13.1	19.1	27.1
CEB	3,850	3,780	4,460	4,630
Treasury	-	-	-	-
Non Interest Income	4,650	4,526	6,095	5,816
Total Income	39,482	40,815	46,303	50,149
Employee Expenses	6,373	4,993	5,156	5,608
Other expenses	5,548	5,844	6,435	6,555
Operating Expenses	11,920	10,838	11,591	12,163
Operating Profit	7,982	9,734	12,122	13,218
YoY growth (%)	(9.8)	(14.3)	40.2	44.6
Core Operating Profits	7,862	9,614	11,422	12,832
NPA Provision	-	-	-	-
Others Provisions	752	1,667	2,679	2,463
Total Provisions	752	1,667	2,679	2,463
Profit Before Tax	7,230	8,067	9,444	10,755
Tax	1,824	2,060	2,407	2,719
PAT	5,405	6,007	7,037	8,036
YoY growth (%)	13.1	63.5	52.9	54.0
Deposits	18,17,006	18,33,550	18,91,457	20,14,080
YoY growth (%)	5.2	8.2	10.0	14.8
Advances	14,49,283	15,16,890	16,12,403	16,81,730
YoY growth (%)	9.9	16.9	20.0	19.5

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	140	140	140	140
EPS (Rs)	9.0	13.6	15.3	18.1
Book Value (Rs)	89	101	112	125
Adj. BV (Rs)	83	95	105	118
P/E (x)	15.6	10.3	9.2	7.8
P/BV (x)	1.6	1.4	1.3	1.1
P/ABV (x)	1.7	1.5	1.3	1.2
DPS (Rs)	0.7	0.9	1.2	1.2
Dividend Payout Ratio (%)	-	-	-	-
Dividend Yield (%)	0.5	0.6	0.9	0.9

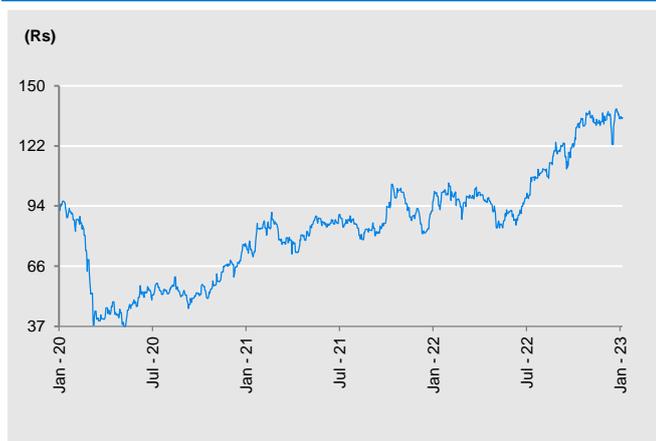
Efficiency

Y/e Mar	FY22	FY23E	FY24E	FY25E
Cost-Income Ratio (%)	53.3	50.0	50.4	49.3
C-D Ratio (%)	79.8	83.0	82.8	83.3
Business per Emp. (Rs m)	-	-	-	-
Profit per Emp. (Rs lacs)	-	-	-	-
Business per Branch (Rs m)	-	-	-	-
Profit per Branch (Rs m)	-	-	-	-

Du-Pont

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	2.82	3.05	2.98	2.99
Total Income	3.81	3.99	3.91	3.93
Operating Expenses	2.03	1.99	1.97	1.94
PPoP	1.78	2.00	1.94	2.00
Total provisions	0.58	0.39	0.40	0.42
RoAA	0.89	1.20	1.15	1.18
RoAE	10.82	14.35	14.37	15.31

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	BUY	165	137
2	15-Oct-22	BUY	165	130
3	05-Oct-22	BUY	135	121
4	16-Jul-22	BUY	135	99
5	08-Jul-22	BUY	135	97
6	08-May-22	BUY	135	91
7	09-Apr-22	BUY	135	100

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,250	1,750
2	Axis Bank	BUY	1,100	949
3	Bank of Baroda	BUY	220	181
4	Can Fin Homes	BUY	700	545
5	City Union Bank	BUY	220	178
6	DCB Bank	BUY	150	130
7	Federal Bank	BUY	165	137
8	HDFC	BUY	3,000	2,622
9	HDFC Bank	BUY	1,850	1,601
10	ICICI Bank	BUY	1,090	879
11	IDFC First Bank	UR	-	60
12	IndusInd Bank	BUY	1,450	1,216
13	Kotak Mahindra Bank	Accumulate	2,100	1,820
14	LIC Housing Finance	Accumulate	410	420
15	Punjab National Bank	UR	-	57
16	State Bank of India	BUY	730	605

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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