

Business Momentum Healthy; NIM Movement Keenly Watched!

Federal Bank (FB) reported its Q1FY24 provisional numbers and the following are our key takeaways:

- **Credit growth momentum remains healthy** – The bank reported a healthy advances growth of 21/5% YoY. Growth in both the Retail and Corporate segment continued to remain healthy at ~20/22% YoY respectively. The mix of Retail to Corporate has remained stable at 54:46 YoY/QoQ. **A key monitorable for the quarter would be the growth in the higher-yielding segments and their improving mix in the portfolio as they remain a key lever in improving the margins for the bank.**
- **Deposits growth strong; primarily led by TDs** – Federal Bank's deposits growth was strong at 21/4% YoY/QoQ. Deposits growth was primarily led by TDs while CASA deposits growth took a backseat. CASA Deposits grew by 5%/2% YoY/QoQ, while TD growth was robust at 30/6% YoY/QoQ. Resultantly, CASA Ratio (at a multi-quarter low) stood at 31.9% vs. 36.8/32.7% YoY/QoQ. As stated by the management previously, the CoF during the quarter will continue to inch up as the balance of the deposit base gets repriced.

Outlook & Recommendation:

Business growth continues to remain robust with no visible sign of slowing down so far. While margins could remain soft in H1FY24, improving the share of higher-yielding products in the portfolio mix along with stabilising CoF are likely to aid margins in H2FY24. We remain confident in FB's ability to deliver a consistent RoA of 1.3% despite margin pressures. The current valuations of 1.1x Sep'24E ABV are undemanding for an expected strong RoA/RoE delivery of 1.3%/15-16% over the medium term. **We re-iterate a BUY on the stock with a target price of Rs 155/share, implying an upside of 22% from CMP.**

Quarterly Trends – Business Metrics (Rs Cr)

| | Q1FY24P | Q4FY23 | QoQ | Q1FY23 | YoY |
|-------------------------|----------|----------|---------|----------|--------|
| Gross Advances | 1,86,593 | 1,54,392 | 20.9% | 1,77,377 | 5.2% |
| Deposits | 2,22,513 | 1,83,355 | 21.4% | 2,13,386 | 4.3% |
| Customer Deposits | 2,10,439 | 1,79,586 | 17.2% | 2,02,133 | 4.1% |
| Certificate of Deposits | 9,179 | 2,724 | 237.0% | 9,461 | -3.0% |
| Interbank Deposits | 2,895 | 1,045 | 177.0% | 1,792 | 61.6% |
| CASA Deposits | 70,872 | 67,540 | 4.9% | 69,741 | 1.6% |
| CASA Ratio | 31.9% | 36.8% | -498bps | 32.7% | -83bps |

Source: Company, Axis Securities

(CMP as of 03 Jul, 2023)

| | |
|----------------------------|-----------|
| CMP (Rs) | 128 |
| Upside /Downside (%) | 22% |
| High/Low (Rs) | 143/89 |
| Market cap (Cr) | 27,002 |
| Avg. daily vol. (6m) Shrs. | 11,87,080 |
| No. of shares (Cr) | 211.7 |

Shareholding (%)

| | Sep-22 | Dec-22 | Mar-23 |
|-----------|--------|--------|--------|
| Promoter | 0.0 | 0.0 | 0.0 |
| FII's | 26.1 | 27.4 | 26.6 |
| MFs / UTI | 34.4 | 32.4 | 33.6 |
| Others | 39.6 | 40.2 | 39.8 |

Financial & Valuations

| Y/E Mar (Rs Cr) | FY23P | FY24E | FY25E |
|-----------------|-------|-------|-------|
| NII | 7,232 | 8,254 | 9,635 |
| PPOP | 4,794 | 5,637 | 6,761 |
| Net Profit | 3,011 | 3,512 | 4,218 |
| EPS (Rs) | 14.2 | 16.6 | 19.9 |
| ABV (Rs) | 95.9 | 110.0 | 126.9 |
| P/ABV (x) | 1.3 | 1.2 | 1.0 |
| RoA (%) | 1.3 | 1.3 | 1.3 |
| NNPA (%) | 0.7 | 0.7 | 0.7 |

Change in Estimates (%)

| Y/E Mar | FY24E | FY25E |
|---------|-------|-------|
| NII | - | - |
| PPOP | - | - |
| PAT | - | - |

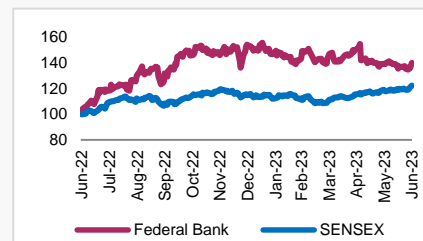
ESG disclosure Score**

| | |
|-----------------------------------|-------------|
| Environmental Disclosure | 19.4 |
| Social Disclosure Score | 27.0 |
| Governance Disclosure Score | 78.6 |
| Total ESG Disclosure Score | 41.7 |
| Sector Average | 38.9 |

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Financials (Standalone)

Profit & Loss

(Rs Cr)

| Y/E March | FY22 | FY23P | FY24E | FY25E |
|----------------------------|--------------|--------------|--------------|--------------|
| Net Interest Income | 5,962 | 7,232 | 8,254 | 9,635 |
| Other Income | 2,089 | 2,330 | 2,845 | 3,402 |
| Total Income | 8,051 | 9,562 | 11,099 | 13,036 |
| Total Operating Exp | 4,293 | 4,768 | 5,462 | 6,275 |
| PPOP | 3,758 | 4,794 | 5,637 | 6,761 |
| Provisions & Contingencies | 1,222 | 750 | 941 | 1,121 |
| PBT | 2,536 | 4,044 | 4,696 | 5,640 |
| Provision for Tax | 646 | 1,034 | 1,184 | 1,422 |
| PAT | 1,890 | 3,011 | 3,512 | 4,218 |

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

| Y/E March | FY22 | FY23P | FY24E | FY25E |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| SOURCES OF FUNDS | | | | |
| Share Capital | 421 | 423 | 423 | 423 |
| Reserves | 18,373 | 21,083 | 24,244 | 28,040 |
| Shareholder's Funds | 18,794 | 21,506 | 24,667 | 28,463 |
| Total Deposits | 1,81,701 | 2,13,386 | 2,46,635 | 2,85,787 |
| Borrowings | 15,393 | 19,319 | 22,518 | 30,384 |
| Other Liabilities & Provisions | 5,059 | 6,130 | 7,085 | 8,311 |
| Total Liabilities | 2,20,946 | 2,60,342 | 3,00,906 | 3,52,945 |
| APPLICATION OF FUNDS | | | | |
| Cash & Bank Balance | 21,010 | 17,689 | 18,476 | 21,409 |
| Investments | 39,179 | 48,983 | 54,149 | 62,745 |
| Advances | 1,44,928 | 1,74,447 | 2,06,062 | 2,42,731 |
| Fixed Assets & Other Assets | 15,828 | 19,223 | 22,218 | 26,060 |
| Total Assets | 2,20,946 | 2,60,342 | 3,00,906 | 3,52,945 |

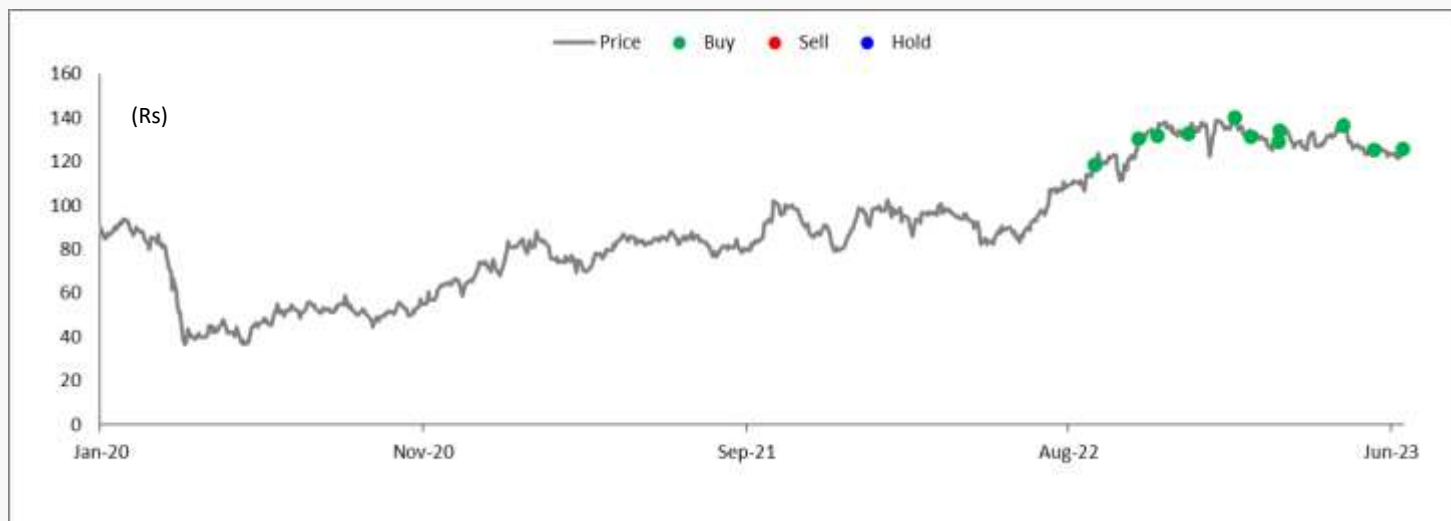
Source: Company, Axis Securities

Ratio Analysis
(%)

| Y/E March | FY22 | FY23P | FY24E | FY25E |
|---------------------------------------|------|-------|-------|-------|
| VALUATION RATIOS | | | | |
| EPS | 9.0 | 14.2 | 16.6 | 19.9 |
| Earnings Growth (%) | 12.8 | 58.3 | 16.7 | 20.1 |
| BVPS | 89.4 | 101.6 | 116.6 | 134.5 |
| Adj. BVPS | 82.8 | 95.9 | 110.0 | 126.9 |
| ROAA (%) | 0.9 | 1.3 | 1.3 | 1.3 |
| ROAE (%) | 10.8 | 14.9 | 15.2 | 15.9 |
| P/E (x) | 14.2 | 9.0 | 7.7 | 6.4 |
| P/ABV (x) | 1.5 | 1.3 | 1.2 | 1.0 |
| PROFITABILITY | | | | |
| NIM (%) | 3.2 | 3.3 | 3.2 | 3.2 |
| Cost-Assets Ratio | 2.0 | 2.0 | 1.9 | 1.9 |
| Cost-Income Ratio | 53.3 | 49.9 | 49.2 | 48.1 |
| BALANCE SHEET STRUCTURE RATIOS | | | | |
| Loan Growth (%) | 9.9 | 20.4 | 18.1 | 17.8 |
| Deposit Growth (%) | 5.2 | 17.4 | 15.6 | 15.9 |
| C/D Ratio (%) | 79.8 | 81.8 | 83.5 | 84.9 |
| CAR | 15.8 | 14.8 | 14.2 | 13.7 |
| CAR Tier I | 14.4 | 13.0 | 12.5 | 12.1 |
| ASSET QUALITY | | | | |
| Gross NPLs (%) | 2.9 | 2.4 | 2.3 | 2.3 |
| Net NPLs (%) | 1.0 | 101.0 | 0.7 | 0.7 |
| Coverage Ratio (%) | 66.3 | 71.2 | 71.0 | 71.0 |
| Credit Costs | 0.9 | 0.5 | 0.5 | 0.5 |
| ROAA TREE | | | | |
| Net Interest Income | 2.8 | 3.0 | 2.9 | 2.9 |
| Non-Interest Income | 1.0 | 1.0 | 1.0 | 1.0 |
| Operating Cost | 2.0 | 2.0 | 1.9 | 1.9 |
| Provisions | 0.6 | 0.3 | 0.3 | 0.3 |
| Tax | 0.3 | 0.4 | 0.4 | 0.4 |
| ROAA | 0.9 | 1.3 | 1.3 | 1.3 |
| Leverage (x) | 12.1 | 11.9 | 12.2 | 12.3 |
| ROAE | 10.8 | 14.9 | 15.2 | 15.9 |

Source: Company, Axis Securities

Federal Bank Price Chart and Recommendation History



| Date | Reco. | TP | Research |
|-----------|-------|-----|----------------|
| 01-Sep-22 | BUY | 130 | Top Picks |
| 01-Oct-22 | BUY | 130 | Top Picks |
| 14-Oct-22 | BUY | 155 | Result Update |
| 01-Nov-22 | BUY | 155 | Top Picks |
| 01-Dec-22 | BUY | 155 | Top Picks |
| 01-Jan-23 | BUY | 160 | Top Picks |
| 17-Jan-23 | BUY | 170 | Result Update |
| 01-Feb-23 | BUY | 170 | Top Picks |
| 01-Mar-23 | BUY | 170 | Company Update |
| 01-Mar-23 | BUY | 170 | Top Picks |
| 01-Apr-23 | BUY | 170 | Top Picks |
| 02-May-23 | BUY | 170 | Top Picks |
| 08-May-23 | BUY | 155 | Result Update |
| 01-Jun-23 | BUY | 155 | Top Picks |
| 03-Jul-23 | BUY | 155 | Top Picks |
| 04-Jul-23 | BUY | 155 | Company Update |

Source: Axis Securities

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