


BUY

Target Price

155

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	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	-	-

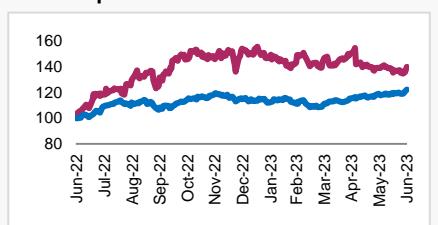
ESG disclosure Score**

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

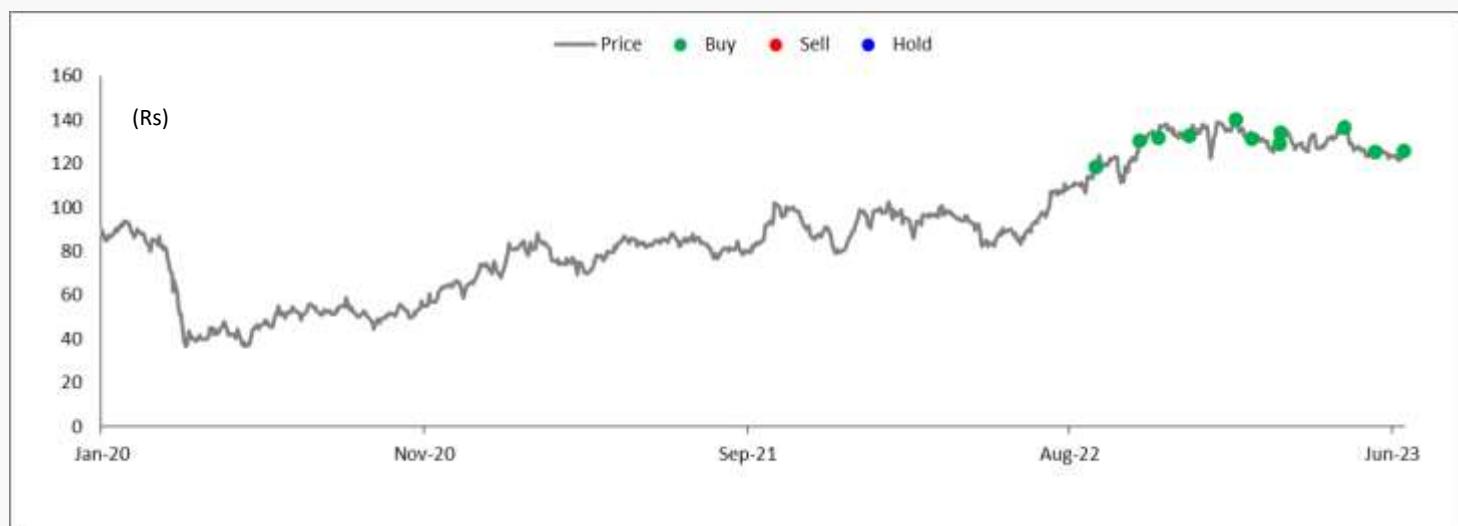
Source: Company, Axis Securities

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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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
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