

Federal Bank

Rs 157

On healthy growth trajectory

Sensex: 71,484

Nifty: 21,457

FINANCIALS SUMMARY

	INTEREST EARNED	INTEREST EXP	III	NET TOTAL INCOME	OP	PROV. & CONT.	PBT	PAT	EPS* (Rs)	AD. BV (Rs)
2103 (12)	13757.91	8224.2	5533.71	7492.41	3800.69	1663.42	2137.27	1590.3	6.5	72.1
2203 (12)	13660.76	7698.8	5961.96	8051.05	3757.85	1221.77	2536.08	1889.82	7.8	81.1
2303 (12)	16803.63	9571.47	7232.16	9562.16	4794.39	749.89	4044.5	3010.59	12.4	94.6
2403 (12P)	22380	13881.8	8498.2	11444.43	5672.14	571.59	5100.55	3801.79	15.6	111.8
2503 (12P)	27303.6	16796.97	10506.62	13909.51	6867.32	714.49	6152.83	4583.86	18.8	128.6

* Annualized on current equity of Rs 486.49 crore. Face Value: Rs 2, Figures in Rs crore.
Source: Capitaline Databases

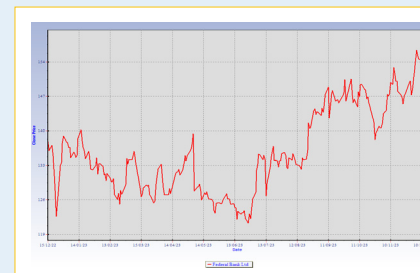
Federal Bank is a major private sector bank headquartered at Aluva in Kerala. It is one of the leading and preferred Personal, NRI and Business Banking partner for customers across India. The bank is focused on delivering value-led proposition to customers and become a one-stop solution for all their banking needs. Federal Bank has crafted a range of products and services that meet the diverse banking needs of customers across geographies and segments.

These banking solutions are provided through retail and wholesale banking segments. The retail banking segment meets the needs of individual clients and businesses. Under the segment, the bank offer products and services for CV/CE financing, agri banking, business banking and retail banking. The retail banking segment provides deposits, mortgage-backed housing loans, retail loan against property (Retail LAP), auto loans, cards and payments, non-resident banking and wealth management services. Business banking segment provides business loans primarily to Micro, Small and Medium Enterprises (MSMEs). The Agri Banking segment focuses on providing financing solutions to agriculture and priority sector.

The wholesale banking segment comprises commercial banking (CoB) and Corporate and Institutional Banking (CIB). The CoB division provides complete financing solution to mid-market and MSMEs. The CIB caters to large business houses and corporates, MNCs, capital market clients, PSUs and financial institutions. The solutions offered by wholesale banking include working capital, term loan, trade finance, cash management, supply chain finance, foreign exchange services, structured offerings, gold metal loan and liability products.

The Bank is a pioneer among traditional banks in India in the area of using technology to leverage its operations and was among the first banks in India to computerize all its branches. The Bank offers its customers, a variety of digital services as part of its strategy to position itself as a financial super market and to enhance customer convenience. An impressive 90% of transactions are now conducted through digital channels.

Federal Bank is listed on BSE, NSE and London Stock Exchange. The bank has huge distribution network of 1389 branches and 1937 ATM's /cash recyclers spread across 25 states and 4 union territories end September 2023. It has Representative Offices at Abu Dhabi and Dubai and an IFSC Banking Unit (IBU) in Gujarat International Finance Tec-City (GIFT City). Bank has handled 20.3% of the total NR remittance to the country



STOCK DATA

BSE Code	:	500469
BSE Group	:	A
NSE Code	:	FEDERALBNK
Bloomberg	:	FB IN
Reuters	:	FED.BO
Par Value	:	Rs 2
52-week High/Low	:	Rs 159 / 121
Sector	:	Banks

SHAREHOLDING PATTERN*

Category	% of equity
Foreign	: 33.25
Institutions	: 43.99
Govt Holding	: 0.00
Corporate Holding	: 1.25
Promoters	: 0.00
Public & Others	: 21.51
Totals	: 100

* as on 11/10/2023. Source: Capitaline Databases

in H1FY2024. Federal Bank has also established partnerships with over 75 fintech partners and developed more than 400 APIs to enable these collaborations and expand reach in the market.

Robust and well diversified loan growth, focus on high yield loan products

Federal Bank has recorded strong credit growth at 5% on sequential basis and 20% over a year ago driven by healthy growth across all the segments. The retail loan book has increased 18% yoy to Rs 62009 crore at end September 2023, while credit to agriculture jumped 24% to Rs 25115 crore and MSME 32% to Rs 21056 crore at end September 2023. The corporate credit also moved up 17% to Rs 87788 crore end September 2023.

The business of the bank has increased 21% yoy to Rs 428836 crore end September 2023, driven by 20% surge in advances to Rs 195968 crore. Deposits galloped 23% to Rs 232868 crore at end September 2023.

Within the retail book, the housing loan book has moved up 14%, LAP 19% and auto loans 30%. The gold loans also moved up 17% to Rs 22608 crore end September 2023. The LTV on the gold loan book stands at 74.431% with the yield of 10.14%. The gold tonnage has increased to 57.45 tonnes with 14.23 lakh loan accounts.

Further within retail loans, the growth in the unsecured loans segment was strong at 183% for credit cards, 76% for personal loans and 206% for microfinance loans end September 2023. The share of these unsecured loans has doubled from 2% end September 2022, but remains comfortable at to 4% end September 2023. Despite the sharp increase in unsecured loan book, the recent hike in risk weights for unsecured consumer credit would have marginal 40-50 bps impact on capital adequacy ratio of the bank.

The microfinance business of the bank is spread over 13 states and 1 union territory with 5.72 lakh loan accounts. About 99% of the customers are women. Further, 90% of microfinance loan book is PSL compliant with double digit yield.

The bank has completed significant capital raising in Q2FY2024, which would help to pursue growth opportunities. The bank is confident of sustaining its growth momentum and targets loan growth of 18-20% for FY2024.

Strong and granular liability franchise

Federal Bank deposits have improved at an accelerated pace of 23% to Rs 232868 crore end September 2023. CASA deposits of the bank rose at slower pace of 5% at Rs 72589 crore. The CASA ratio declined in line with the banking industry trend to 31.2% at end September 2023 compared to 31.8% a quarter ago and 36.4% a year ago. However, the term deposits with the bank have surged 33% to Rs 160279 crore. Investment book of the bank jumped 27% yoy to Rs 55169 crore at end March 2023. With the strong growth in deposits, the bank has improved deposits market share to 1.21% end September 2023 from 1.12% end September 2022.

The bank remains focused on maintaining granularity of its liability franchise. Federal Bank is targeting to add 100 branches every year. It would also focus on inclusive expansion with more on tie-ups / partnerships with fintech, BCs etc. In past few years, bank has been investing in digital infrastructure leading 95% of saving accounts serviced digitally. The bank has partnership with 75+ Fintechs primarily targeting new to bank and existing to credit customers via fintechs.

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The bank has huge distribution network of 1389 branches and 1937 ATM's / cash recyclers spread across 25 states and 4 union territories

Robust asset quality, credit cost under control

The asset quality of Federal Bank continues to be strong and it has continued to improve asset quality with stable fresh slippages of loans and healthy recoveries and upgradations of NPAs. The fresh slippages of loans declined to Rs 373 crore in Q2FY2024 compared with 501 crore in previous quarter and Rs 390 crore in the corresponding quarter last year. The recoveries and upgradations of NPAs stood at Rs 359 crore, while the write-off of loans was at Rs 13 crore in Q2FY2024.

The standard restructured loan book of the bank declined to Rs 2420 crore end September 2023. Provision coverage ratio improved to 71.03% at end September 2023 compared to 70.02% a quarter ago and 67.41% a year ago.

The bank has reduced GNPA ratio to 2.26% and NNPA ratio to 0.64% end September 2023.

The bank has reduced credit cost to 0.13% in Q2FY2024 from 0.41% in Q1FY2024 and 0.41% in Q2FY2023. The bank expects credit cost at 25-30 bps for next 2-3 quarters.

Of the gross NPAs of Rs 4436 crore, the retail segment contributed GNPA of Rs 1425 crore, agriculture Rs 942 crore, business banking Rs 996 crore, commercial vehicle Rs 39 crore, commercial banking Rs 664 crore and corporate at Rs 370 crore end September 2023.

The asset quality of the corporate book is holding well, while the slippages in the corporate loan book have been almost nil for last 11 straight quarters.

Healthy margins, expects margins to improve in H2FY2024

Federal Bank has witnessed sharp 116 bps yoy increase in cost of deposits to 5.52%, while yield on advances also surged 106 bps yoy to 9.35% in Q2FY2024. The NIM has declined 14 bps yoy, but improved 1 bps qoq to 3.16% in Q2FY2024. The deposit environment is challenging and it has not cooled off as yet. The bank expects the cost of deposits may continue uptrend for next couple of quarters.

However, the bank expects margins to further improve in H2FY2024. The bank expects full year margin at 3.25% for FY2024 against 3.31% in FY2023 and 3.20% in FY2022. The share of fixed rate loan book is 26%, EBLR is 51% and MCLR 13%. The LCR ratio stood at 121% compared with 120% end March 2023.

The high margin business such as personal loans, credit cards, microfinance, gold loans etc are growing at a strong pace of over 20% and would contribute to the higher margins. The share of high yielding unsecured loans has increased to 12.7% of retail assets from pre-covid level of 3%.

Comfortable capital adequacy position

The capital adequacy ratio of the bank stood at 15.5% with Tier I ratio at 13.8% at end September 2023.

Federal Bank has raised Rs 3040 crore via issue of 23.05 crore shares under qualified institutional placement (QIP) in July 2023. SBI Contra Fund picked up the highest number of shares at 18.2 lakh, comprising 7.9% of the QIP. It was followed by ICICI Prudential Value Discovery Fund, which picked up 6.9 lakh shares or 3.0% of the QIP. ICICI Prudential Mutual Fund was allotted 5.43% of the QIP, Aditya Birla Sun Life Mutual Fund 8.22%, SBI Mutual Fund 9.05%, and Mirae Asset Mutual Fund 6.71%.

The business of the bank has increased 21% yoy to Rs 428836 crore end September 2023

The bank has completed significant capital raising in Q2FY2024, which would help to pursue growth opportunities

Federal Bank further raised Rs 958.75 crore through issue of 7.27 crore through preferential allotment to IFC in October 2023. This capital raise would add 60 bps to capital adequacy of the bank in Q3FY2024. The recent hike in risk weights for unsecured consumer credit would have marginal 40-50 bps impact on capital adequacy ratio of the bank.

Subsidiary performance

The bank has major investments in four companies namely – Federal Operations & Services (FedServ) - a wholly owned subsidiary, which provides operational & technology oriented services to Federal Bank, FedBank Financial Services (62.4% stake post its IPO in November 2023), Ageas Federal Life Insurance Company of India (26% stake) and Equirus Capital, an unlisted investment banking firm, where the bank holds 19.79% stake.

Federal Operations and Services (FedServ) is a wholly owned subsidiary company of The Federal Bank Limited (the Bank) incorporated on 26 October 2018. FedServ provides operational and technology oriented services to the Bank.

The total revenue of FedServ increased to Rs 61.85 crore in FY2023 from Rs 44.10 crore in FY2022. The net profit increased to Rs 4.78 crore from Rs 3.46 crore. FedServ helps the Bank in serving the customers better and reducing the cost of operations significantly. FedServ also helps the Bank to improve turnaround time of various operational processes, improve First Time Right (FTR) rate and enable the Bank to become FIRST CHOICE Bank of customers.

Fedbank Financial Services (Fedfina) incorporated on 17 April 1995. is a Non-deposit taking & Systemically Important (ND-SI) NBFC. Fedfina provides various multiple loan products such as Loan against Property (LAP), Structured Finance and Loan against pledge of Gold ornaments. The total loan portfolio of Fedfina has increased 42% to Rs 9434 crore end June 2023. Gross NPA was 2.26% and Net NPA was 1.76% end June 2023. As of June 2023, 86.24% of the total Loan Assets are secured against tangible assets, namely gold or customer's property.

The Bank's Joint Venture Life Insurance Company, in association with IDBI Bank and Ageas Insurance International N.V. (Formerly known as Fortis), namely Ageas Federal Life Insurance Company (erstwhile IDBI Federal Life Insurance Company Limited), commenced operations in March 2008. The total premium collected by Ageas Federal Life Insurance Company was Rs 2289 crore and net profit stood at Rs 114 crore in FY2023.

Equirus Capital is a private company domiciled in India and is engaged in the business of Investment banking. It has 4 subsidiaries named Equirus Securities, Equirus Insurance Broking, Equirus Wealth and Equirus Finance. The total turnover of Equirus Capital on a consolidated basis was Rs 157.60 crore in FY2023 against Rs 152.23 crore for FY2022.

Sustains healthy performance in Q2FY2024 and H1FY2024

Federal Bank has reported strong 36% surge in net profit at Rs 953.82 crore for the quarter ended September 2023 (Q2FY2024). The bank has posted healthy 17% growth in net interest income (NII), while the core fee income of the bank also improved 30% in Q2FY2024. The bank has posted the record high quarterly net profit and net interest income in Q2FY2024. RoA and ROE continued to trend higher. The share of fee income has increased to more than 1% of assets.

The bank has reduced GNPA ratio to 2.26% and NNPA ratio to 0.64% end September 2023

The bank has reduced credit cost to 0.13% in Q2FY2024 from 0.41% in Q1FY2024 and 0.41% in Q2FY2023

Bank has posted 39% increase in net profit to Rs 1807.56 crore in H1FY2024. The net interest income increased 18% to Rs 3975.01 crore, while non-interest income moved up 38% to Rs 1462.83 crore. The operating expenses increased 25% to Rs 2811.04 crore, while provision and contingencies dipped 54% to Rs 199.48 crore, allowing profit before tax to increase 39% to Rs 2427.32 crore in H1FY2024. An effective tax rate was flat at 25.5% in H1FY2024 compared to 25.5% in H1FY2023.

The bank remains focused on improving RoA to 1.4% by FY2025, driven by increase in fee income, reduction in cost of deposits and rise in share of higher yielding loan book. The bank has accelerated investment in branch expansion and brand building. Thus, the cost to income ratio is expected to be sticky around 50% in FY25.

Valuation

We expect the bank to register EPS of Rs 15.6 in FY2024 and Rs 18.8 in FY2025. Adjusted book value at the same time is expected to grow to Rs 111.8 in FY2024 and Rs 128.6 in FY2025.

The stock price trades at Rs 157. P/E on projected FY2025 EPS of Rs 18.8 works out to 8.3x. P/Adj. BV on FY2025 projected adjusted book value of Rs 128.6 works out to 1.2x.

The bank expects full year margin at 3.25% for FY2024 against 3.31% in FY2023

FEDERAL BANK : RESULTS									
	2309 (3)	2209 (3)	VAR.(%)	2309 (6)	2209 (6)	VAR.(%)	2303 (12)	2203 (12)	VAR%
Interest Earned	5455.28	4020.78	36	10479.81	7649.64	37	16803.63	13660.76	23
Interest Expended	3398.86	2258.95	50	6504.80	4283.30	52	9571.47	7698.80	24
Net Interest Income	2056.42	1761.83	17	3975.01	3366.34	18	7232.16	5961.96	21
Net Total Income	2786.84	2371.35	18	5437.84	4428.48	23	9562.16	8051.05	19
Operating Profits	1324.45	1212.24	9	2626.80	2185.61	20	4794.39	3757.85	28
Provisions & Contingencies	43.90	267.86	-84	199.48	434.54	-54	749.89	1221.77	-39
Profit Before Tax	1280.55	944.38	36	2427.32	1751.07	39	4044.50	2536.08	59
PAT	953.82	703.71	36	1807.56	1304.37	39	3010.59	1889.82	59
EPS*(Rs)	15.7	11.6		14.9	10.7		12.4	7.8	
Adj BV (Rs)	105.6	86.1		105.6	86.1		94.6	81.1	

* Annualized on current equity of Rs 486.49 crore, Face Value: Rs 2, Figures in Rs crore
Source: Capitaline Corporate Database