



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Bank loan book stood at Rs. 2.1 Trn, which grew by 21% on YoY and ~4% on a QoQ basis during the quarter
- The asset quality stayed steady, with slippages at 0.68% and a benign credit cost of 0.01%. Both GNPA and NNPA showed improvement, with QoQ declines of 16 bps and 4 bps, respectively, to 2.13% and 0.6%.
- Strong advance growth drove a 15% YoY increase in net interest income, while NIM increased slightly to 3.2%.

2. MANAGEMENT COMMENTARY:

- The bank is optimistic that the pressure from future increases in deposit rates will be mitigated by the growing proportion of higher-yielding loans.
- Strong market dominance in the remittance industry and granular liabilities franchise are anticipated to help liabilities.
- The Bank has been directed by the RBI to stop offering co-branded credit cards. The Bank is presently looking over the specifics of the credit card problem and is taking the required corrective action when it is required.
- It is anticipated that branch expansion and technological investment will proceed at the same rate. A predicted range for branch expansion is 5–7%. One hundred more new branches are planned for FY'25.
- The bank guided that the list of candidates will be sent to RBI sooner with both external and internal candidates for the post of MD & CEO.

3. BUSINESS OVERVIEW:

- One of the biggest Indian commercial banks in the private sector is Federal Bank Limited, which has its headquarters in Aluva, Kerala. It offers retail and corporate banking, treasury and foreign exchange services, parabanking activities including debit cards, third-party product distribution, etc. The bank has a successful retail funding business, which includes a steady stream of NRI deposits that are mostly funded by the remittances of Indian expatriates in the Middle East.

4. MANAGEMENT GUIDANCE

- The Bank anticipates FY25 to have a cost-to-income ratio of about 50%. The Bank anticipates that after the one-time item in this quarter, the ratio will return to normal.
- The Bank has guided to open 100 new branches in FY25.
- The Bank is expecting its credit cost to be at 30 bps in FY25.
- Bank has guided to grow its core fee income by 20-25% in FY25.
- Bank has guided to grow its ROA by 3-4 bps every year.
- The bank anticipates that credit growth would slow to about 18% due to the weakness in certain retail operations, but it projects almost constant risk-adjusted profitability.

5. BANKING INDUSTRY

- In addition to cooperative credit institutions, the Indian banking system includes 12 public sector banks, 22 private sector banks, 44 foreign banks, 43 regional rural banks, 1,484 urban cooperative banks, and 96,000 rural cooperative banks. The need for banking and related services will rise as the working population grows and disposable income rises.

6. VALUATION AND OUTLOOK:

- Federal Bank has one of the greatest retail and consistent deposit franchises among significant large private banks. The bank's liability franchise is still strong, with CASA plus Retail TD at 81%, and over the medium term, it plans to steadily raise CASA deposits. The bank has managed asset quality well throughout the epidemic, and the bank intends to aggressively extend its footprint through partnerships with fintech companies as well as physical expansion.
- We value the company at 10.2x FY25 EPS to arrive at the target of 188.

RECOMMENDATION - BUY

CMP - 162

TARGET - 188 (16%)

Industry	Bank - Private
NSE CODE	FEDERALBNK
BSE CODE	500469
Market Cap (₹ Cr)	39525
Shares Outstanding (in Cr)	243.54
52 wk High/Low (₹)	170.3 / 121
P/E	10.2
P/BV	1.31
Face Value (₹)	2.00
Book Value (₹)	123.34
EPS (FY24) (₹)	16.07
Dividend Yield (%)	0.76

SHAREHOLDING PATTERN

	Mar'24	Dec'23	Sep'23
Promoters	0.00	0.00	0.00
Mutual Funds	34.88	35.23	37.01
FII/FPI	28.57	29.38	27.01
Retail & Others	26.27	26.09	27.02
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2024	2025E
Core			
Interest Earned	16803	22188	26221
Other Income	2330	3079	3545
Total Income	19133	25267	29766
Interest Expense	9571	13894	16488
Profit from Ordinary Activity	4044	4978	5981
PAT	3010	3720	4485
EPS	14.23	16.07	18.38
Ratios			
ROE (%)	15.02	14.73	14.2
ROA (%)	1.28	1.32	1.3
Valuation			
P/E (x)	9.30	10.2	10.2
P/BV (x)	1.30	1.31	1.35

Historical & Industrial Val Ratios

Historical P/E	10.19
Industry P/E	17.82
Historical P/B	1.31
Industry P/B	2.54



Liability Trends	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23	Q3FY23	Q2FY23
Total Deposit	252354	239591	232868	222496	213386	201408	189146
Cost of Deposit	5.90	5.73	5.52	5.32	5.12	4.57	4.36
CASA Amount	74200	73388	72589	70854	69741	68967	68873
CASA Ratio (%)	29.38	30.63	31.17	31.85	32.68	34.24	36.41

QUARTERLY PERFORMANCE (STANDALONE)

Y/E March	FY23				FY24				FY25E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Interest Earned	3628.86	4020.78	4433.25	4720.74	5024.53	5455.28	5730.10	5978.35	26221
YoY change (%)	8.14%	18.98%	28.78%	35.53%	38.46%	35.68%	29.25%	26.64%	18%
Other Income	452.62	609.52	534.00	733.86	732.41	730.42	862.56	753.88	3545
Total Income	4081.48	4630.30	4967.25	5454.60	5756.94	6185.70	6592.66	6732.23	29766
Interest Expense	2024.35	2258.95	2476.72	2811.45	3105.94	3398.86	3606.74	3783.24	16488
Operating Expenses	1083.76	1159.11	1216.32	1308.58	1348.65	1462.39	1548.59	1838.64	6712
Operating Profit	973.37	1212.24	1274.21	1334.57	1302.35	1324.45	1437.33	1110.35	6566
Provision	166.68	267.86	198.69	116.66	155.58	43.90	91.22	-94.60	585
Profit Before Tax	806.69	944.38	1075.52	1217.91	1146.77	1280.55	1346.11	1204.95	5981
Tax	206.03	240.67	271.91	315.30	293.03	326.73	339.37	298.65	1349
Net Profit After Tax	600.66	703.71	803.61	902.61	853.74	953.82	1006.74	906.30	4485
YoY change (%)	63.54%	52.89%	54.03%	66.98%	42.13%	35.54%	25.28%	0.41%	20%

Source: Company, Hem Securities Research.

EWS*Insights into the assumptions:

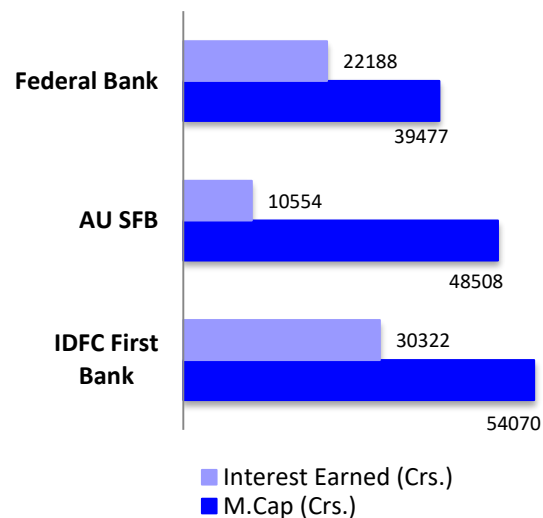
- 1> Credit growth has started showing signs of recovery.
- 2> Bank credit growth is likely to increase up.
- 3> Asset quality improved sequentially as lower slippages and better recoveries helped the overall performance.
- 4> Banks are preparing to expand their digital offerings through partnerships with fintech companies or in-house development.
- 5> The rise in home demand, combined with lenders initial concentration on secured lending, resulted in considerable growth in housing loans across banks and HFCs.
- 6> Improvement in collection.
- 7> Given the economy's return to normalcy, the forecast for company growth and credit costs remains positive.



INDUSTRY OVERVIEW

- The RBI changed its accommodative stance and raised the repo rate by a total of 225 basis points over the previous five monetary policy meetings, which led to an increase in interest rates. Banks may gain in the short run on the margin front because the majority of loans are made on a floating rate basis and higher deposit costs may take some time to take impact.
- Scheduled Commercial Banks (SCBs) continued to maintain robust capital positions, with CRAR and CET-1 Ratios of SCBs reaching as high as 16.7% and 13.6%, respectively, in March 2022. (RoE). The ratios of SCBs' gross nonperforming assets (GNPA) and net non-performing assets (NNPA) fell to six-year lows of 5.9 percent and 1.7%, respectively, in March 2022. The provisioning coverage ratio (PCR) increased from 67.6 percent in March 2021 to 70.9 percent in March 2022.
- Banks, especially larger banks, are getting ready to increase their digital offerings through internal development or partnerships with fintech. Incumbents will be helped by persistent focus on digital offerings to manage disruptive issues. Additionally, "digital banking," a new banking format, is developing steadily.
- According to RBI monthly figures, systemic credit growth reached a multi-year high of 15.0% YoY in FY23. Credit growth began the year at 11.2% (YoY) and peaked at 17.9% YoY in October'22.

KEY PLAYERS



PEER PERFORMANCE

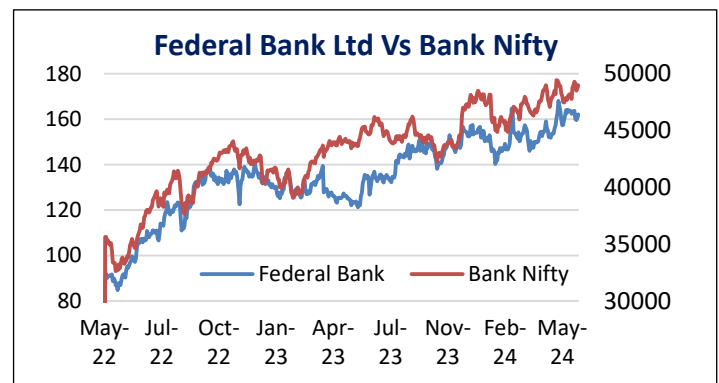
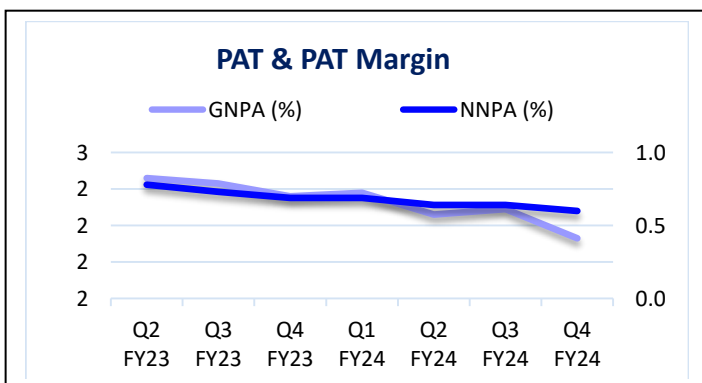
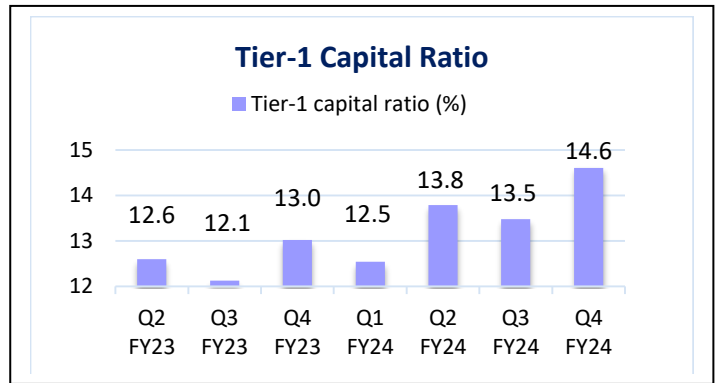
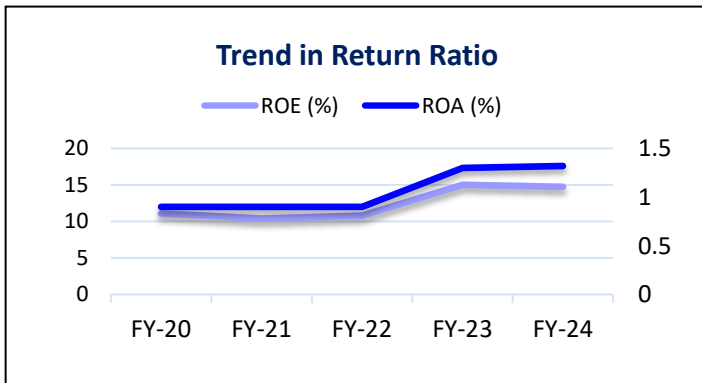
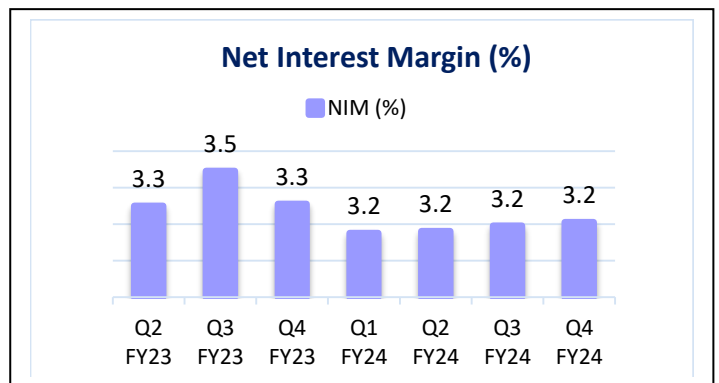
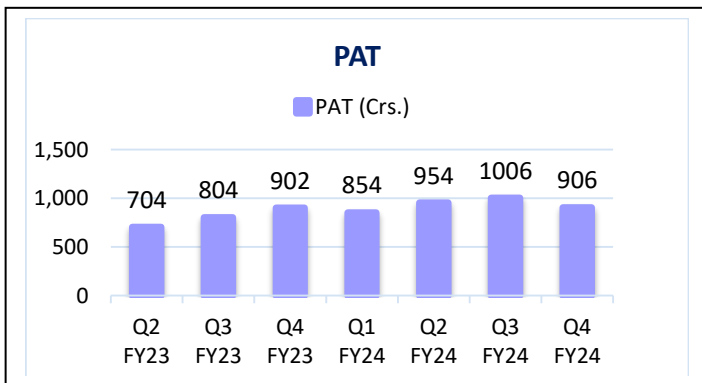
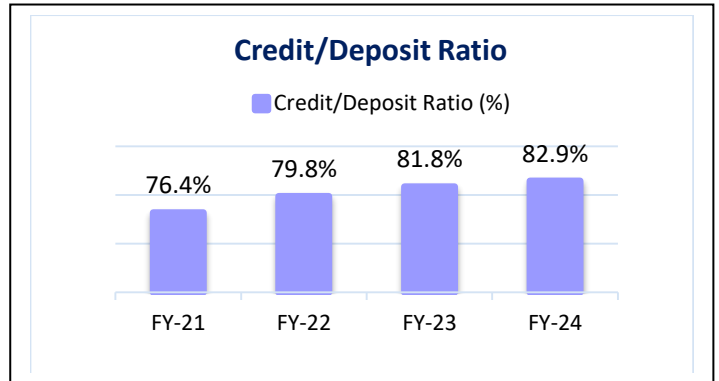
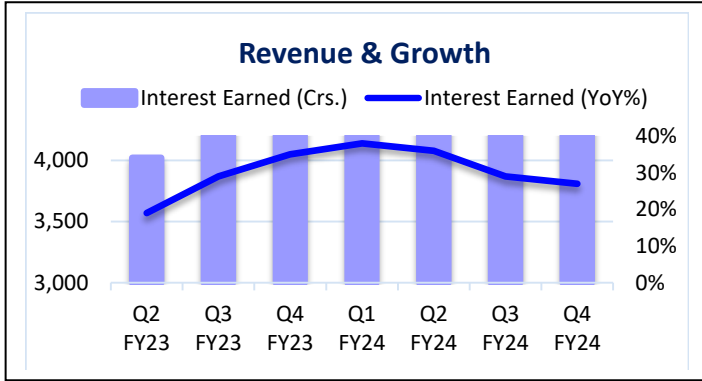
(₹ Cr)

Particulars	Federal Bank	AU SFB	IDFC First Bank
Market Cap	39477	48508	54070
Interest Earned (FY-24)	22188	10554	30322
Profit from Ordinary Activities	4978	1999	3855
PAT	3720	1534	2956
EPS(Rs)	16.07	22.98	4.32
Total Deposit	252354	87182	193753
CASA Ratio	29.38	33	47.2
Net Interest Income	8293	5157	16451
NIM	3.2	5.45	6.36
Total Advances	209403	73999	200965
Gross NPA (%)	2.13	1.67	1.88
Net NPA (%)	0.60	0.55	0.60
Provision Coverage Ratio	71	76	68.8
Capital Adequacy Ratio	16.13	20.06	16.11

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- In compliance with Basel III, the overall capital adequacy ratio (CAR) was 15.92% on September 30, 2023, up from 16.33% on March 31, 2022, and 15.24 percent on March 31, 2023. In July 2023, the World Bank's International Finance Corporation contributed Rs 959 crore and higher internal accruals of Rs 3,040 crore and Rs 19,256 crore, respectively, to support the net worth increase to Rs 26,802 crore from Rs 22,122 crore as on March 31, 2023, and Rs 19,256 crore as on March 31, 2022.
- The bank intends to put more emphasis on its portfolio of personal loans and credit cards. A higher net interest margin should be supported by a more diverse loan book (NIM). Nonetheless, the capacity to control credit costs and maintainable increase net interest margins (NIM) will be keenly watched.
- A robust foundation of retail deposits underpins liquidity. As of September 30, 2023, the average liquidity coverage ratio was 124.8%, which is below than the legally required minimum of 100%. Access to systemic funding sources like the call money market and the RBI's liquidity adjustment facility is also beneficial to liquidity.
- Retail deposits made up 81% of total deposits as of September 30, 2023, indicating a granular deposit base. Additionally, as of September 30, 2023, CASA (current account and savings account) deposits made up 31.2% of all standalone deposits (32.7% as of March 31, 2023), compared to 36.9% as of March 31, 2022.
- The Bank is looking for opportunities in the corporate sector, even though the current demand seen there is primarily for working capital requirements. Since the last couple of quarters, slippages in this sector have been almost nonexistent, and the bank has been increasing its lending to better rated corporates only, as can be seen from the rating mix.

RISK FACTORS:

- Overly high increases in competitive intensity could have a negative impact on firm growth expectations.
- Given the rising interest rate environment, treasury gains are expected to be unresponsive.
- The bank has a significant local presence in Kerala and the southern part of India. As of September 30, 2023, Kerala alone accounted for 46% of all branches.
- Any new Regulatory framework by RBI might impact the industry.
- Growth in CASA slowed, and overall deposits are growing less quickly than advances.
- The success and delinquencies of the Bank's aggressive product launches need to be tracked.

COMPANY RECAP

- Federal Bank is the preferred Personal, NRI and Business banking partner for a growing expanse of customers across India, in both urban and rural areas. The Bank is driven by the quest to be one of the most admired banking institutions in the country. This is just one manifestation of the Bank's powerful 'Digital at the Fore, Human at the Core' proposition. Redefining human experience, the digital way has been our constant goal for a while now. Our digital innovations of today are on the cusp of redefining the banking paradigm of tomorrow. Federal Bank is continuously scaling up this mantra to reach out, meaningfully and impact fully, to more and more customers.
- Federal Bank is a notable player amongst the commercial banks in the country. Bank professes a set of values that are being nurtured over the years and these have become the principles of the organization. The Bank envisions an all-round prosperity to all the stakeholders - customers, shareholders, employees and associates. We practice and propagate with excellence, in all spheres of activities. Strategic alliances and diversification paths are adopted; making sure that the ultimate goal is achieved - To be a Bank of world-class standards.
- Shri Shyam Srinivasan took charge as the Managing Director & CEO of Federal Bank on 23rd September 2010. He joined Federal Bank, equipped with the experience of over 20 years with leading multinational banks in India, Middle East and South East Asia, where he gained significant expertise in retail lending, wealth management and SME banking. Shri Shyam Srinivasan is an alumnus of the Indian Institute of Management, Kolkata and Regional Engineering College, Tiruchirapally. He has completed a Leadership Development Program from the London Business School and has served on the Global Executive Forum (the top 100 executives) of Standard Chartered Bank from 2004 to 2010.



ANNUAL PERFORMANCE

Financials & Valuations						
Income Statement	(₹ Cr)					
	2020	2021	2022	2023	2024	2025E
Interest Earned	13,211	13,758	13,661	16,803	22,188	26,221
YoY change (%)	15.69	4.14	-0.71	23	32	18
Other Income	1,931	1,959	2,089	2,330	3,079	3,545
Total Income	15,142	15,717	15,750	19,133	25,267	29,766
Operating Expense	3,376	3,692	4,293	4,767	6,198	6,712
Interest Expense	8,562	8,224	7,699	9,571	13,894	16,488
Provision	1,172	1,662	1,222	750	196	585
Profit from Ordinary Activities	2,033	2,137	2,536	4,044	4,978	5,981
YoY change (%)	6.61	5.12	18.67	59	23	20
Tax (%)	24	26	25	26	25	25
Net Profit After Tax	1,543	1,590	1,890	3,010	3,720	4,485
YoY change (%)	24.04	3.05	18.87	59	23	20
EPS	7.74	7.97	8.99	14.23	16.07	18.38
YoY change (%)	23.44	2.97	12.80	58	13	14.37

Source: Company, Hem Securities Research.

Balance Sheet					
	(₹ Cr)				
Y/E March	2020	2021	2022	2023	2024
Share Capital	399	399	421	423	487
Reserves	14,424	16,105	18,835	21,699	28,607
Borrowings	1,64,780	1,84,457	2,01,265	2,38,850	2,70,560
Other Liabilities	3,751	4,006	5,721	7,031	8,656
Total Liabilities & Equity	1,83,353	2,04,967	2,26,241	2,68,004	3,08,311
Fixed Assets	477	504	643	890	1,020
Investments	35,715	36,732	39,065	48,702	60,859
Other Assets	1,47,133	1,67,717	1,86,504	2,18,330	2,46,432
Total Assets	1,83,353	2,04,967	2,26,241	2,68,004	3,08,311

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR)	2021	2022	2023	2024
Profit and Loss Account				
Net interest income	5534	5962	7232	8293
Employee expenses	2034	2321	2173	2823
ROE (%)	10.4	10.8	15.02	14.73
ROA (%)	0.8	0.9	1.28	1.32
EPS	8	9	14	16.07
Key Performance Indicator				
NIM (%)	3.2	3.2	3.31	3.20
CASA (%)	34.0	36.9	32.68	29.38
Yield on Assets (%)	8.0	7.3	8.56	9.48
Cost of Funds (%)	4.8	4.1	4.58	5.97
Cost-to-Income	49.4	53.3	49.86	62.35
GNPA (%)	3.4	2.8	2.36	2.13
NNPA (%)	1.2	1.0	0.69	0.60
Provision Coverage Ratio (%)	65.9	66.3	70	71
Credit Cost (%)	1.3	0.9	0.40	0.23
Capital Adequacy Ratio (%)	14.6	15.8	14.8	16.13
Tier I (%)	13.9	14.4	13	14.61
Valuations Ratios				
P/E (x)	11.4	10.1	9.30	10.2
P/BV (x)	1.1	1.0	1.30	1.55
Dividend Yield (%)	0.92	0.79	0.76	0.62
Growth (%)				
Advances	7.9	10	20	20
Deposit	13.4	5.2	17.4	18.26
Net Interest Income	19	7.7	21.3	14.6
Net Profit	3.1	18.8	59	23

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
31-May-2024	BUY	188

DISCLAIMER

HEM Securities Limited ("Research Entity or HSL") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any



other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

ANALYST CERTIFICATION/ DISCLOSURE OF INTEREST

Name of the Research Analyst: Madhur Mandhana

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

SN	Particulars	Yes/No
1.	Research Analyst or his/her relative's or HSL's financial interest in the subject company(ies)	No
2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.