



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Federal Bank loan book stood at Rs. 2.3 Trn, which grew by 21% on YoY and 5% on a QoQ basis during the quarter
- Asset quality was constant, with GNPA at 2.11% vs 2.13% QoQ and NNPA at 0.60 vs 0.6% QoQ. Due to seasonality, the slippage ratio climbed to 0.8% from 0.7% in the previous quarter.
- The company aims to increase its portfolio's percentage of higher-yielding categories, resulting in a 2-3 bps YoY increase in NIM.

2. MANAGEMENT COMMENTARY:

- Credit costs were much lower than normalized levels, at 30bps. Credit costs are projected to vary between 30-35bp, while credit quality remains constant.
- In H1FY25, Mr. Shyam Sinivasan will step down as the Bank's MD and CEO. He will be succeeded by Mr. Krishnan V. Subramanian, a former Kotak MD.
- NRE-led deposit growth, which had tapered off in the preceding 2-3 quarters, was a key driver of deposit growth. The tendency has now been reversed, and management is optimistic in maintaining the momentum.
- The bank aims to open 100 branches this fiscal year, with around 40 opening in the first half and the remaining in the second half.
- Management anticipates that the gold yield has reached a low point owing to price corrections and will rise in the future.

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

- Management anticipates sustained deposit growth of 18-20%, with a concentration on retail deposits over bulk or purchased deposits.
- Launch new products every quarter and continues to gain market share in the deposits segment.
- Credit costs are expected to normalize at 30-35 bps.
- Bank has guided to grow its core fee income by 20-25% in FY25.
- Outlook on asset quality continues to remain stable and robust with a few seasonality factors being present in Q1FY25.
- Bank has guided to open 100 new branches in FY25.
- Bank expects major clearance by Q3FY25 for the RBI embargo on co-branded cards.

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 expect that the Bank will be able to achieve 20% growth in the loan book.
- We value the company at 11.6x FY25 EPS to arrive at the target of 230.

RECOMMENDATION - BUY

CMP - 198

TARGET - 230 (16%)

Industry	Bank - Private
NSE CODE	FEDERALBNK
BSE CODE	500469
Market Cap (₹ Cr)	48386
Shares Outstanding (in Cr)	244.76
52 wk High/Low (₹)	205.15 / 130.5
P/E	12.01
P/BV	1.55
Face Value (₹)	2.00
Book Value (₹)	127.16
EPS (FY24) (₹)	15.28
Dividend Yield (%)	0.61

SHAREHOLDING PATTERN

	Jun'24	Mar'24	Dec'23
Promoters	0.00	0.00	0.00
Mutual Funds	33.79	34.88	35.23
FII/FPI	28.63	28.57	29.38
Retail & Others	26.39	26.27	26.09
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2023A	2024A	2025E
Core			
Interest Earned	16803	22188	26521
Other Income	2330	3079	3745
Total Income	19133	25267	30284
Interest Expense	9571	13894	16488
Profit from Ordinary Activity	4044	4978	6499
PAT	3010	3720	4874
EPS	14.23	15.28	19.89
Ratios			
ROE (%)	15.02	14.73	14.5
ROA (%)	1.28	1.32	1.3
Valuation			
P/E (x)	9.30	10.2	11.6
P/BV (x)	1.30	1.31	1.38

Historical & Industrial Val Ratios

Historical P/E	12.01
Industry P/E	17.70
Historical P/B	1.55
Industry P/B	2.54



Liability Trends	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23	Q3FY23
Total Deposit	266065	252354	239591	232868	222496	213386	201408
Cost of Deposit	5.84	5.90	5.73	5.52	5.32	5.12	4.57
CASA Amount	77883	74200	73388	72589	70854	69741	68967
CASA Ratio (%)	29.27	29.38	30.63	31.17	31.85	32.68	34.24

QUARTERLY PERFORMANCE (STANDALONE)

Y/E March	FY23			FY24				FY25	FY25E*
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Interest Earned	4020.78	4433.25	4720.74	5024.53	5455.28	5730.10	5978.35	6330.88	26521
YoY change (%)	18.98%	28.78%	35.53%	38.46%	35.68%	29.25%	26.64%	26.00%	19.5%
Other Income	609.52	534.00	733.86	732.41	730.42	862.56	753.88	915.18	3745
Total Income	4630.30	4967.25	5454.60	5756.94	6185.70	6592.66	6732.23	7246.06	30284
Interest Expense	2258.95	2476.72	2811.45	3105.94	3398.86	3606.74	3783.24	4038.90	16488
Operating Expenses	1159.11	1216.32	1308.58	1348.65	1462.39	1548.59	1838.64	1706.25	6712
Operating Profit	1212.24	1274.21	1334.57	1302.35	1324.45	1437.33	1110.35	1500.91	7084
Provision	267.86	198.69	116.66	155.58	43.90	91.22	-94.60	144.27	585
Profit Before Tax	944.38	1075.52	1217.91	1146.77	1280.55	1346.11	1204.95	1356.64	6499
Tax	240.67	271.91	315.30	293.03	326.73	339.37	298.65	347.11	1625
Net Profit After Tax	703.71	803.61	902.61	853.74	953.82	1006.74	906.30	1009.53	4874
YoY change (%)	52.89%	54.03%	66.98%	42.13%	35.54%	25.28%	0.41%	18.25%	31%

Source: Company, Hem Securities Research.

EWS*Insights into the assumptions:

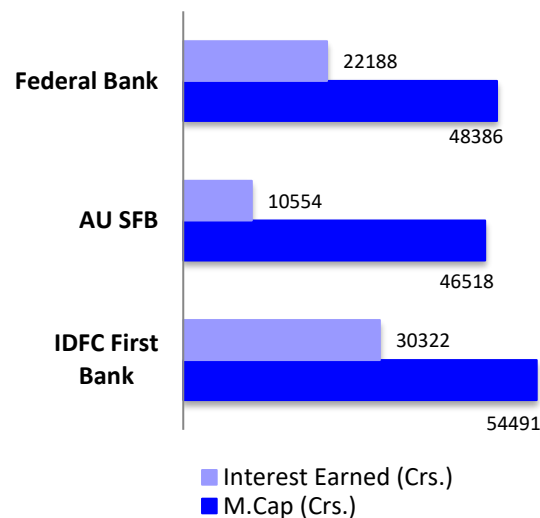
- 1> Credit growth has started showing signs of recovery.
- 2> Bank credit growth is likely to increase up.
- 3> Asset quality improved sequentially as lower slippages and better recoveries helped the overall performance.
- 4> Banks are preparing to expand their digital offerings through partnerships 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

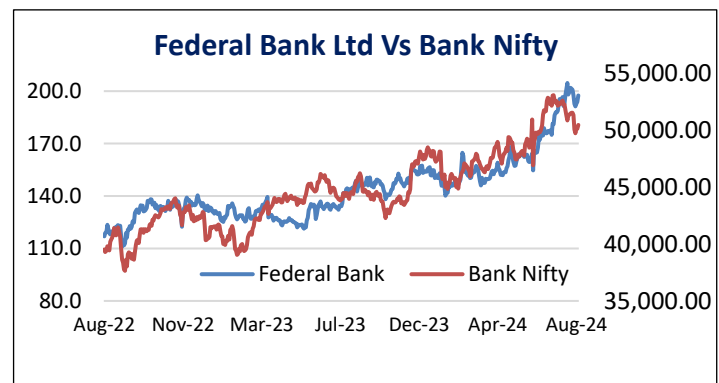
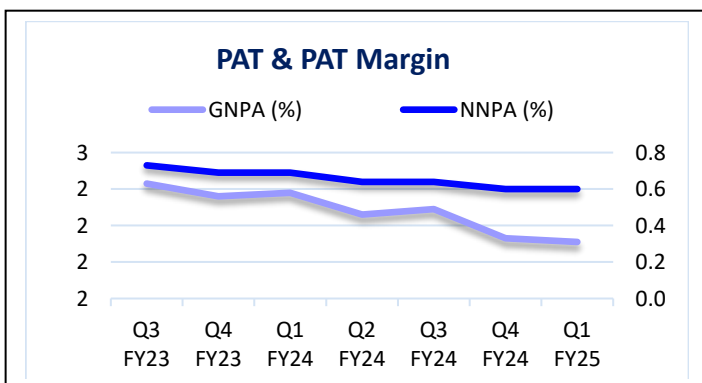
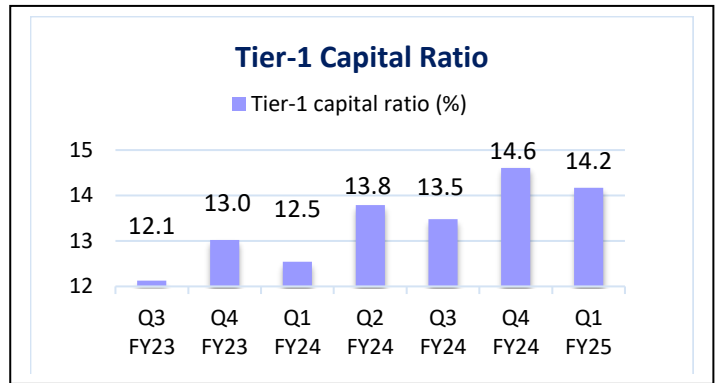
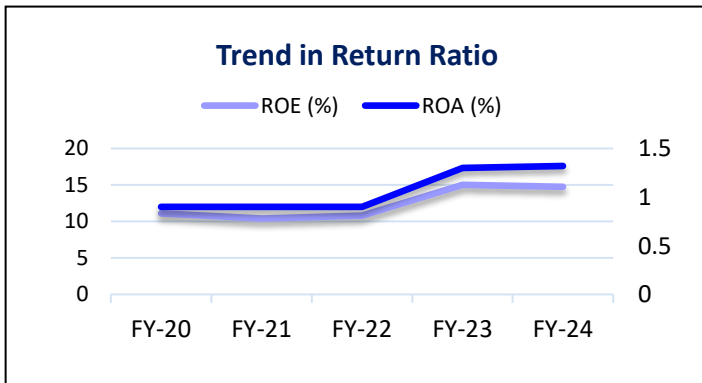
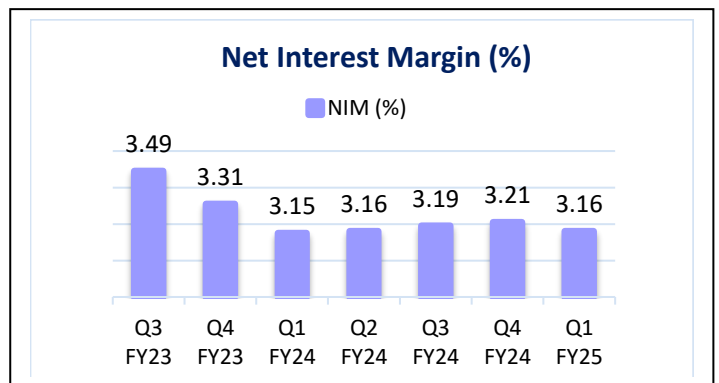
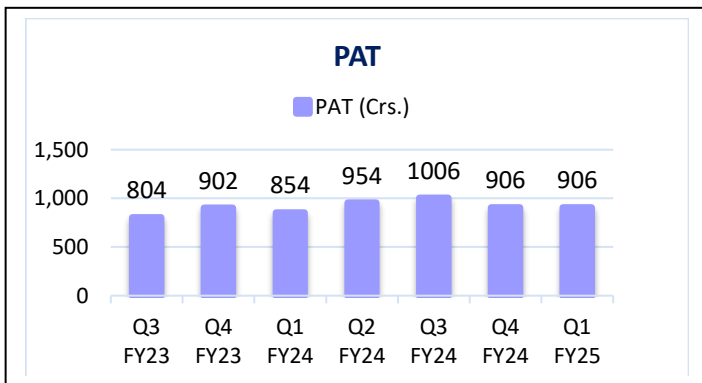
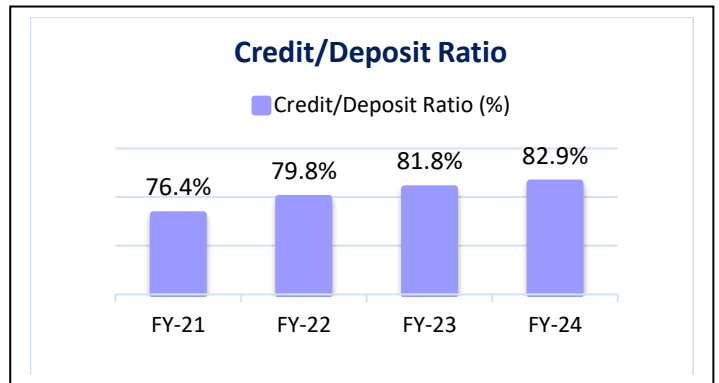
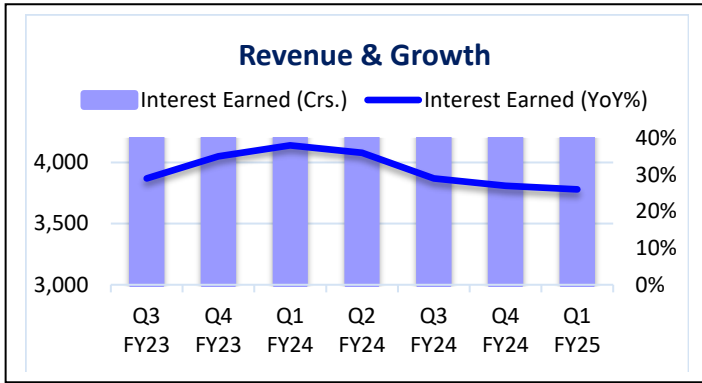
(₹ Cr)

Particulars	Federal Bank	AU SFB	IDFC First Bank
Market Cap	48386	46518	54491
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 unsupportive.
- 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	26,521
YoY change (%)	15.69	4.14	-0.71	23	32	18
Other Income	1,931	1,959	2,089	2,330	3,079	3,745
Total Income	15,142	15,717	15,750	19,133	25,267	30,284
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	6,499
YoY change (%)	6.61	5.12	18.67	59	23	30
Tax (%)	24	26	25	26	25	25
Net Profit After Tax	1,543	1,590	1,890	3,010	3,720	4,874
YoY change (%)	24.04	3.05	18.87	59	23	31
EPS	7.74	7.97	8.99	14.23	16.07	19.89
YoY change (%)	23.44	2.97	12.80	58	13	23.77

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
10-Aug-2024	BUY	230

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Name of the Research Analyst: Madhur Mandhana

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10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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