

Federal Bank

Sustained improvement in key metrics

FB's 3QFY21 operating performance increasingly demonstrates an improving franchise that is beginning to find and consistently exercise pricing power (a gradual 9bps QoQ NIM expansion and strong fee traction). Provisions remained sticky (~130bps ann.), as FB continued to cover pro forma slippages. Even as we continue to monitor asset quality outcomes, we revise our earnings upwards as we foresee a sustained improvement in operating metrics. Maintain BUY with a target price of Rs 92 (1.0x FY23E ABV).

- **Strong operating momentum:** For a second consecutive quarter, FB registered a strong operating performance, clocking a PPOP growth of 30% YoY (13% ahead of our estimates) on the back of 9bps margin expansion and strong fee momentum (~1% of loans, ann.).
- **Pricing power at play:** FB registered a 22/9bps YoY/QoQ reflation in margins to 3.2%, on the back of declining CoF (4.7% calc., -107/-32bps). This, in turn was aided by sustained re-pricing on the liabilities' side and strong CASA accretion (34.8%, +302/80bps). We've revised our NIM estimates to ~3.2% over FY21-23E (vs. ~3.1% earlier) to factor in CoF tailwinds.
- **Pro forma stress rising; par for the course:** FB's pro forma GNPA's rose to 3.38% (+39bps YoY), led by a spike in the retail segment. Over 9MFY21, the bank clocked pro forma slippages of ~Rs 10.8bn. Collection efficiency came in at 95% in 3QFY21, an improvement of sorts from 2QFY21 levels (excluding the moratorium portfolio). The bank reported a restructured portfolio to the tune of Rs 10.6bn and expects to restructure a further ~Rs 6bn (total ~1.2%). Surprisingly, the retail segment (and mortgages in particular) contributed to a significant chunk of the COVID-19 restructured portfolio. Adjusted for proforma slippages, the PCR improved marginally to 67% - we build blended credit costs at 75bps over F21-22E.

Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	14,370	11,549	24.4%	13,799	4.1%	46,489	55,271	59,747	65,973
PPOP	9,629	7,438	29.5%	10,065	-4.3%	32,047	37,771	40,635	43,265
PAT	4,041	4,406	-8.3%	3,076	31.4%	15,428	14,684	20,998	23,356
EPS (Rs)	2.0	2.2	-8.5%	1.5	31.4%	7.7	7.4	10.5	11.7
ROAE (%)						11.1	9.7	12.5	12.5
ROAA (%)						0.91	0.77	1.00	1.01
Adj. BVPS (Rs)						64.7	69.9	81.5	92.7
P/ABV (x)						1.19	1.10	0.95	0.83
P/E (x)						9.9	10.4	7.3	6.6

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	1,316	1,310	-0.5%	1,479	1,472	-0.5%	1,671	1,664	-0.5%
Deposits	1,685	1,669	-0.9%	1,852	1,844	-0.4%	2,041	2,052	0.5%
NIM (%)	3.1	3.2	9 bps	3.0	3.2	14 bps	3.1	3.2	9 bps
NII	53.9	55.3	2.6%	57.3	59.7	4.2%	64.2	66.0	2.7%
PPOP	37.0	37.8	2.1%	38.7	40.6	4.9%	41.6	43.3	3.9%
PAT	13.9	14.7	5.5%	19.1	21.0	9.9%	21.5	23.4	8.6%
ABVPS (Rs)	0.1	0.1	2.7%	0.1	0.1	2.9%	0.1	0.1	4.1%

Source: Bank, HSIE Research

BUY

CMP (as on 20 Jan 2021)	Rs 77
Target Price	Rs 92
NIFTY	14,645

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 84	Rs 92
EPS %	FY21E	FY22E
	5.5	9.9

KEY STOCK DATA

Bloomberg code	FB IN
No. of Shares (mn)	1,995
MCap (Rs bn) / (\$ mn)	154/2,112
6m avg traded value (Rs mn)	2,299
52 Week high / low	Rs 97/36

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	36.0	43.9	(17.5)
Relative (%)	13.2	10.9	(37.4)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	-	-
FIs & Local MFs	38.3	44.6
FPIs	24.6	21.7
Public & Others	37.0	33.7
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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