

## Business growth outlook improving...

Federal Bank reported mixed results wherein it saw an improvement in business growth and stable asset quality but with utilisation of Covid-provisions in the current quarter, additional provisioning buffer has reduced.

Net interest income (NII) declined 1.2% QoQ to ₹ 1420 crore. This was below our expectations. Reversals worth ₹ 21 crore for interest on interest relief were partly responsible for slower NII growth. **NIMs remained stable at 3.23% vs. 3.22% on a QoQ basis** aided by lower cost of funds. Other income also declined 3.4% QoQ to ₹ 465 crore as treasury income fell 44% QoQ but fee income saw decent growth of 21.9% YoY, 3.5% QoQ.

Opex increased 4.7% QoQ due to increased business activity. Hence, as a result of subdued topline and increase in opex, C/I ratio jumped from 49.8% to 53.1% QoQ. **The bank, during the quarter, used ₹ 60 crore worth provisions towards restructuring under resolution framework and ₹ 475 crore towards IRAC norms requirement, from ₹ 536 crore Covid-19 provisions held in previous quarter.** Overall provisions declined 42% QoQ. As a result, PAT was up 58% YoY, 18% QoQ to ₹ 478 crore.

Overall asset quality saw a spike on a reported basis due to removal of standstill classification norm. However, on a proforma basis, GNPA ratio was largely stable at 3.41% vs. 3.38% (proforma) QoQ. Slippages for the quarter were at ₹ 598 crore vs. ₹ 1089 QoQ (proforma) while write-offs came in at ₹ 379 crore vs. ₹ 8 crore QoQ. Total standard restructured book is now at ₹ 1618 crore (~1.2% of loans), of which ~₹ 1409 crore pertains to Covid related stress. **Around 70% of restructured book are secured loans.** Collection efficiency in April dipped to ~88% from 95% in March due to partial lockdowns.

Business traction saw increased momentum on a sequential basis as credit growth during the quarter came in at 5.1% QoQ to ₹ 131878 crore. This was mainly driven by 18.6% YoY and 6.3% QoQ growth in retail advances, in which gold loan saw robust growth of 70% YoY. On the deposit front, growth was at 6.8% QoQ to ₹ 172644 crore. Term deposit growth was higher at 7.9% QoQ vs. CASA growth of 4.7% QoQ.

## Valuation & Outlook

Amid a gradual pick-up in advances, focus on operational matrix through improving margins and cost control is expected to contribute to earnings growth. We believe performance on the asset quality front holds the key as it will dictate credit cost requirements as the bank has relatively less buffer. However, valuations are benign, which factor in near term concerns. Hence, we remain positive at current levels of 0.9x FY23E ABV while RoA, RoE are expected at 1.1%, 14.7%, respectively, by FY23E. We maintain **BUY** rating on the stock with a revised target price of ₹ 95 (earlier ₹ 90) by valuing the share at 1.1x FY23E ABV.

### Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
NII	4,176	4,649	5,534	6,453	7,227	14%
PPP	2,763	3,205	3,787	4,345	4,930	14%
PAT	1,244	1,543	1,590	2,229	2,744	31%
ABV (₹)	58.6	64.8	71.5	78.6	88.7	
P/E	13.1	10.6	10.3	7.3	6.0	
P/ABV	1.4	1.3	1.1	1.0	0.9	
RoE (%)	9.8	11.1	10.4	13.2	14.7	
RoA (%)	0.8	0.9	0.8	1.0	1.1	

Source: Company, ICICI Direct Research



### Particulars

Particulars	Amount
Market Capitalisation	₹ 16291 crore
GNPA (Q4FY21)	₹ 4602 crore
NNPA (Q4FY21)	₹ 1569 crore
NIM (Q4FY21) %	3.2
52 week H/L	92 /37
Net Worth	₹16123
Face value	₹ 2
DII Holding (%)	43.3
FII Holding (%)	24.5

### Key Highlights

- Sequential rise in loan growth driven by retail segment growth
- The bank has utilised Covid related provisions during the quarter
- Maintain BUY with revised TP of ₹ 95

### Risk to our call

- Slow pick-up in overall credit offtake could elongate improvement of return ratios
- Prolonged impact of pandemic may hurt asset quality

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**Exhibit 1: Variance Analysis**

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
NII	1,420	1,521	1,216	16.8	1,437	-1.2	Modest sequential growth due to interest on interest reversals
NIM (%)	3.23	3.03	3.04	19 bps	3.22	1 bps	
Other Income	465	444	711	-34.6	482	-3.4	Decline on account of lower treasury income
Net Total Income	1,886	1,965	1,927	-2.1	1,919	-1.7	
Staff cost	525	536	519	1.2	526	-0.1	
Other Operating Expenses	475	452	449	5.9	430	10.5	Rise on account of increased business activity
PPP	885	977	959	-7.7	963	-8.1	
Provision	242	410	568	-57.3	421	-42.4	Provisions decline as Covid provisions get utilised
PBT	643	567	392	64.0	542	18.5	
Tax Outgo	165	142	91	82.1	138	19.4	
PAT	478	425	301	58.6	404	18.2	Lower credit cost helps profitability
<b>Key Metrics</b>							
GNPA	4,602	4,398	3,531	30.3	3,470	32.6	Largely stable GNPA% on proforma basis
NNPA	1,569	1,099	1,607	-2.4	757	107.2	
Advances	1,31,879	1,33,272	1,22,268	7.9	1,25,505	5.1	Loan growth driven by retail segment
Deposit	1,72,644	1,72,655	1,52,290	13.4	1,61,670	6.8	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	5,542	6,453	16	5,988	7,227	21
Pre Provision Profit	3,958	4,345	10	4,359	4,930	13
NIM(%) (calculated)	3	3	47 bps	3	3	59 bps
PAT	1,992	2,229	12	2,342	2,744	17
ABV per share (₹)	75	79	5	81	89	9

Source: Company, ICICI Direct Research

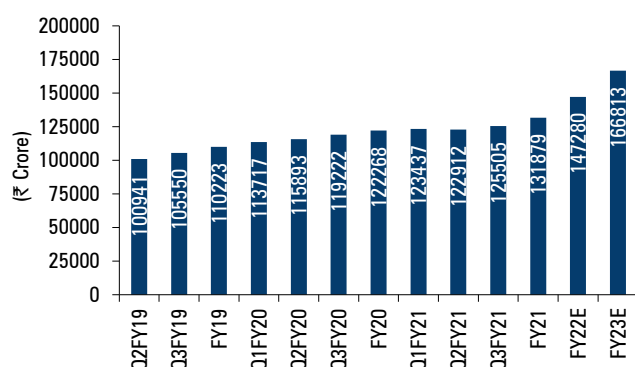
**Exhibit 3: Assumption**

	Current			Earlier			
	FY20	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Credit growth (%)	10.9	7.9	11.7	13.3	9.0	13.6	13.1
Deposit Growth (%)	12.8	13.4	15.2	15.7	12.5	16.6	16.6
CASA ratio (%)	30.7	33.8	34.2	34.6	32.2	33.1	34.0
NIM Calculated (%)	3.0	3.2	3.4	3.3	3.1	2.9	2.8
Cost to income ratio (%)	51.3	49.4	49.4	48.6	48.0	49.5	49.5
GNPA (₹ crore)	3,530.8	4,480.4	4,406.7	4,707.0	4,130.4	4,705.6	5,013.7
NNPA (₹ crore)	1,607.2	1,849.8	1,875.6	2,025.7	1,904.3	2,464.4	2,952.2
Slippage ratio (%)	1.7	1.2	0.7	0.9	0.9	0.9	0.9
Credit cost (%)	0.2	0.8	0.6	0.6	0.8	0.6	0.6

Source: Company, ICICI Direct Research

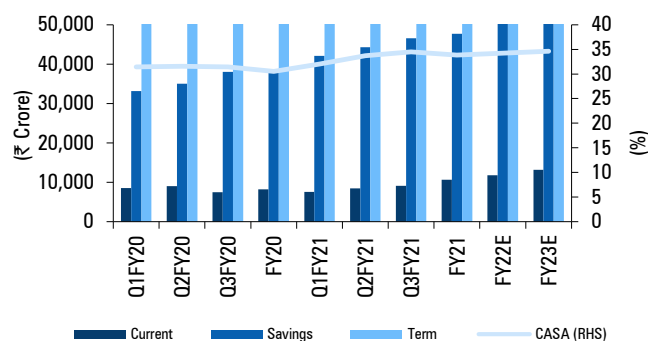
## Story in charts

**Exhibit 4: Credit growth to pick up from H2FY22 onwards**



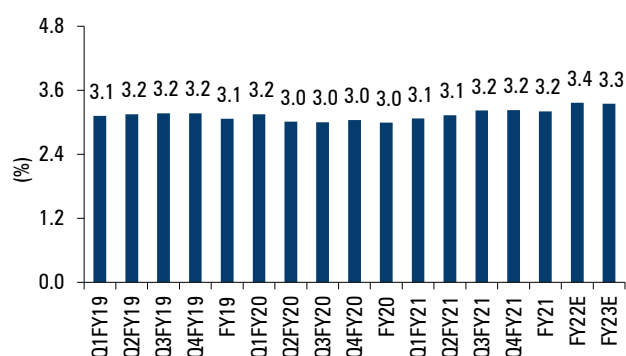
Source: Company, ICICI Direct Research

**Exhibit 5: Deposit profile**



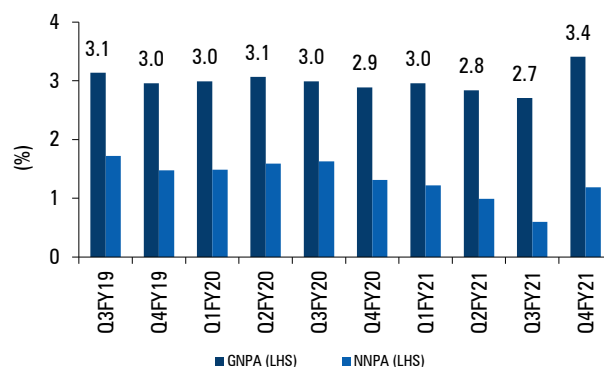
Source: Company, ICICI Direct Research

**Exhibit 6: Margins to be range bound**



Source: Company, ICICI Direct Research

**Exhibit 7: GNPA spike due to removal of standstill**



Source: Company, ICICI Direct Research

**Exhibit 8: Better credit growth, controlled costs to aid RoA**

	FY18	FY19	FY20	FY21	FY22E	FY23E
Net interest income/ avg total assets	3.2	2.8	2.7	2.9	3.0	2.9
Non-interest income/ avg total assets	1.0	0.9	1.1	1.0	1.0	1.0
Net total income/ avg total assets	4.2	3.7	3.9	3.9	4.0	3.9
Operating expenses/ avg total assets	2.2	1.9	2.0	1.9	2.0	1.9
Operating profit/ avg total assets	2.1	1.9	1.9	2.0	2.0	2.0
Provisions/ avg total assets	0.8	0.6	0.7	0.9	0.6	0.5
Return on avg assets	0.8	0.8	0.9	0.8	1.0	1.1
Leverage (avg assets/ avg equity) (x)	10.4	11.7	12.2	12.5	12.8	13.3
Return on equity	8.2	9.8	11.1	10.4	13.2	14.7

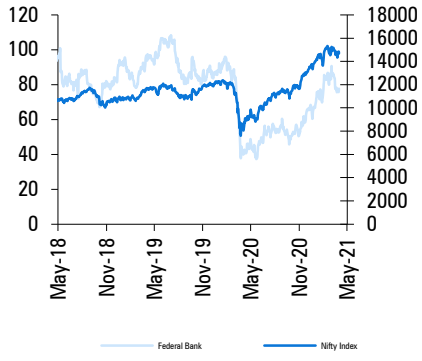
Source: Company, ICICI Direct Research

**Exhibit 9: Shareholding Pattern**

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	0.0	0.0	0.0	0.0	0.0
FII	33.3	31.0	24.6	21.7	24.5
DII	37.1	37.2	38.3	44.6	43.3
Others	29.6	31.9	37.0	33.7	32.2

Source: Company, ICICI Direct Research

**Exhibit 10: Price Performance**



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 11: Profit and loss statement					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	11,419.0	13,210.8	13,757.9	15,840.6	17,997.5
Interest Expended	7242.7	8561.8	8224.2	9388.0	10771.0
Net Interest Income	4,176.3	4,648.9	5,533.7	6,452.6	7,226.5
growth (%)	16.6	11.3	19.0	16.6	12.0
Non Interest Income	1351.0	1931.4	1944.9	2136.4	2360.2
Net Income	5527.4	6580.3	7478.6	8589.0	9586.7
Staff cost	1377.8	1772.4	2034.2	2286.1	2418.4
Other operating Expense	1386.5	1603.3	1657.5	1958.1	2238.1
Operating Profit	2763.1	3204.7	3786.9	4344.8	4930.2
Provisions	855.9	1172.3	1649.6	1372.7	1271.4
PBT	1907.3	2032.4	2137.3	2972.0	3658.8
Taxes	663.4	489.8	547.0	743.0	914.7
Net Profit	1,243.9	1,542.6	1,590.3	2,229.0	2,744.1
growth (%)	41.5	24.0	3.1	40.2	23.1
EPS (₹)	6.3	7.7	8.0	11.2	13.7

Source: Company, ICICI Direct Research

Exhibit 12: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
<b>Valuation</b>					
No. of Equity Shares (Crores)	198.5	199.3	199.6	199.6	199.6
EPS (₹)	6.3	7.7	8.0	11.2	13.7
BV (₹)	66.8	72.8	80.7	88.0	98.8
ABV (₹)	58.6	64.8	71.5	78.6	88.7
P/E	13.1	10.6	10.3	7.3	6.0
P/BV	1.2	1.1	1.0	0.9	0.8
P/ABV	1.4	1.3	1.1	1.0	0.9
<b>Yields &amp; Margins (%)</b>					
Net Interest Margins	3.1	3.0	3.2	3.4	3.3
Yield on assets	8.4	8.5	8.0	8.3	8.3
Avg. cost on funds	5.2	5.4	4.9	4.9	4.9
Yield on average advances	9.0	9.2	9.1	9.1	9.2
Avg. Cost of Deposits	5.5	5.6	4.8	4.8	4.8
<b>Quality and Efficiency (%)</b>					
Cost to income ratio	50.0	51.3	49.4	49.4	48.6
Credit/Deposit ratio	81.7	80.3	76.4	74.0	72.5
GNPA	3.0	2.9	3.4	3.0	2.8
NNPA	1.5	1.3	1.4	1.3	1.2
RoE	9.8	11.1	10.4	13.2	14.7
RoA	0.8	0.9	0.8	1.0	1.1

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
<b>Sources of Funds</b>					
Capital	397	399	399	399	399
Reserves and Surplus	12876	14119	15724	17163	19331
Networth	13273	14518	16124	17562	19730
Deposits	134954	152290	172644	198936	230169
Borrowings	7781	10372	9069	9581	10124
Other Liabilities & Provisions	3331	3458	3531	4634	5500
Total	159340	180638	201367	230714	265524
<b>Application of Funds</b>					
Fixed Assets	472	480	491	565	644
Investments	31824	35893	37186	42250	48102
Advances	110223	122268	131879	147280	166813
Other Assets	6754	9423	12220	19240	26605
Cash with RBI & call money	10067	12575	19591	21379	23359
Total	159340	180638	201367	230714	265524

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
<b>(%)</b>					
Total assets	15.2	13.4	11.5	14.6	15.1
Advances	19.9	10.9	7.9	11.7	13.3
Deposit	20.5	12.8	13.4	15.2	15.7
Total Income	17.0	18.6	3.7	14.5	13.2
Net interest income	16.6	11.3	19.0	16.6	12.0
Operating expenses	12.8	22.1	9.4	15.0	9.7
Operating profit	20.6	16.0	18.2	14.7	13.5
Net profit	41.5	24.0	3.1	40.2	23.1
Net worth	8.7	9.4	11.1	8.9	12.3

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
SBI (STABAN)	383	410	Buy	3421	20.0	28.1	30.5	19	13.6	12.6	1.7	1.5	1.4	0.4	0.6	0.6	7.4	9.6	9.5
Indian Bank (INDIBA)	125	180	Buy	141	16.9	29.1	45.5	7.4	4.3	2.7	0.8	0.7	0.6	0.4	0.5	0.7	6.1	8.5	12.5
Axis Bank (AXIBAN)	709	900	Buy	2173	25.2	47.7	58.7	28.1	14.9	12.1	2.5	2.1	1.8	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	167	200	Buy	125	10.0	10.0	10.0	16.7	16.7	16.7	2.5	2.2	2.2	1.2	1.3	1.3	11.2	11.9	11.9
DCB Bank (DCB)	98	110	Buy	31	10.8	12.3	15.6	9.1	8.0	6.3	1.0	0.9	0.7	0.9	0.9	1.1	10.2	10.5	11.8
Federal Bank (FEDBAN)	82	95	Buy	163	8.0	11.2	13.7	10.3	7.3	6.0	1.1	1.0	0.9	0.8	1.0	1.1	10.4	13.2	14.7
HDFC Bank (HDFBAN)	1,439	1,700	Buy	7941	56.4	66.4	77.8	25.5	21.7	18.5	4.0	3.6	3.3	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	956	1,100	Buy	739	36.8	56.5	66.5	26.0	16.9	14.4	1.9	1.8	1.8	0.8	1.1	1.2	7.4	10.3	11.7
J&K (JAMKAS)	28	25	Hold	20	7.5	10.4	0.0	3.7	2.7		0.4	0.3	1.1	0.5	0.6	0.0	8.1	10.6	0.0
Kotak Bank (KOTMAH)	1,744	2,040	Buy	3456	35.1	43.2	51.4	49.6	40.4	33.9	5.7	5.0	4.3	1.8	1.9	2.0	12.4	12.0	13.1
Bandhan (BANBAN)	284	330	Hold	458	14.7	24.7	31.4	19.3	11.5	9.0	3.3	2.6	2.0	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	56	65	Buy	345	0.8	1.6	2.9	70.3	35.4	19.4	2.0	1.6	1.4	0.3	0.6	0.9	2.7	4.6	7.1

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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