

Retail Equity Research (South India Focus)

Federal Bank Ltd

Banking

BSE CODE : 500469

NSE CODE: FEDERALBNK

BLOOMBERG CODE: FB:IN

SENSEX : 49,903

Buy

12M Investment Period

Rating as per Mid Cap

CMP Rs.84 TARGET Rs.103 RETURN 22% ↑

(Closing: 19-5-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Strong upside potential from current level

Federal Bank Ltd, is an Indian commercial bank in the private sector headquartered in Kerala having 1,272 branches and 1,941 ATM/Recyclers with a loan book size of ~Rs1,31,879cr.

- Total advances grew by 9% YoY and 5% QoQ supported by 19% YoY growth in retail advances and 23% growth in agri advances.
- We expect advances to grow at CAGR of 11.7% and deposits to grow at 11.0% over FY21-23E
- Net Interest Income grew 17% YoY while decline 1% sequentially partially due to interest on interest reversal of Rs.21cr.
- Current Account Savings Account (CASA) mix improved by 331bps YoY during Q4FY21 to 33.81%.
- Asset quality remains stable with GNPA/NNPA at 3.41%/1.19% against 3.38/1.14 during Q3FY21(pro forma basis)
- Provision Coverage Ratio has slightly declined on QoQ basis to 65.14% compared to 66.12% (pro forma basis)
- We maintain our Buy rating on the stock based on 1.1x Adj.BVPS of FY23E with a revised upward target price of Rs.103.

Advances grew by 9% YoY and deposit by 13% YoY

In Q4FY21, total advances grew by 9% YoY and 5% QoQ supported by 19% YoY growth in retail advances and 23% growth in agri advances. Gold loan has shown a stellar growth of 70% on YoY basis. Business banking segment has shown a growth of 13% YoY and commercial banking segment grew by 11%. We expect loan book to grow at a CAGR of 11.7% over FY21-23E. Total deposit of the bank grew by 13% YoY while retail deposits registered a growth of 14% YoY and 4% QoQ. NRE deposit of the bank grew by 12%YoY and 2% sequentially. CASA deposit grew by 26% YoY and 5% YoY and resultantly CASA ratio improved 331bps on YoY basis to 33.81% while on sequential basis, it has shown a dip of 67bps. We expect total deposit of the bank to grow at a CAGR of 11.0% during FY21-23E.

Highest quarterly net profit supported by lower provisioning

During Q4FY21, interest income has shown a decline of 0.9% YoY and 2.7% QoQ while interest expense declined by 10.8% YoY and 3.8% QoQ. As a result Net Interest Income grew 17% YoY and while it declined 1% sequentially. Sequential decline in interest income was partially due to interest on interest reversal of Rs.21 cr during the quarter. Reported NIM remained steady on QoQ basis at 3.23% against 3.22% in Q3FY21. Other income registered a de-growth of 34.6% YoY and 3.4% QoQ as treasury income fell 44% QoQ while operating expense increased 4.7% sequentially. Therefore, pre-provision profit de-grew by 8.1% QoQ and 7.7% YoY. Cost to Income ratio for the quarter increased to 53.06% against 49.82% last quarter. However, because of 57.3% YoY and 42.4% QoQ decline in provisioning, net profit jumped 58.6% YoY and 18.2% QoQ to register the highest quarterly new profit of Rs.478cr.

Asset quality steady compared to Q3FY21 pro forma numbers

During Q4FY21, bank has witnessed fresh slippage of Rs.1685cr and GNPA stands at Rs.4602cr while NNPA is at Rs.1569cr. GNPA ratio during the quarter is 3.41% compared to 3.38% last quarter (pro forma basis). NNPA ratio stands at 1.19% against 1.14% in Q3FY21 (pro forma basis). Total restructured books is at Rs.1618cr which is about 1.2% of advances. Provision Coverage Ratio has slightly declined on QoQ basis to 65.14% compared to 66.12%(pro forma basis). This quarter, banks has utilized much of its Covid related provision held in the previous quarter.

Outlook and valuation

We expect business to continue its growth supported by credit growth and improved margins. However, asset quality movement in the coming quarters has to be closely watched as bank has less provision buffer. We remain positive on the long term outlook of the bank and see upside potential from current levels. We therefore value the stock at 1.1x Adj.BVPS of FY23E with a revised upward target price of Rs.103.

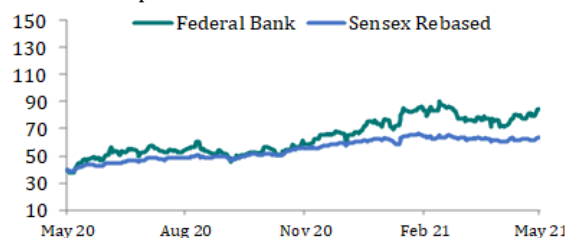
Company Data

Market Cap (Rs cr)	16,858
Outstanding Shares (cr)	199.6
Free Float(%)	100
Dividend Yield(%)	0.8
52 week high (Rs)	92
52 week low (Rs)	37
6m average volume (cr)	3.3
Beta	1.3
Face value (Rs)	2

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	0	0	0
FPI's	24.6	21.7	24.5
MFs/Institutions	37.9	43.9	42.0
Public/Others	37.5	34.4	33.5
Total	100	100	100
Promoter pledge	Nil	Nil	Nil

Price Performance	3 month	6 month	1 year
Absolute Return	1.3%	44.5%	116.0%
Absolute Sensex	-1.9%	13.7%	61.9%
Relative Return*	3.2%	30.8%	54.1%

*over or under performance to benchmark index



Standalone (cr)	FY21E	FY22E	FY23E
NII	5,534	6,085	6,670
Growth(%)	19.03	9.96	9.61
NIM(%)	3.16	3.19	3.25
Provisions	1,650	1,417	1,182
Adj. PAT	1,590	2,003	2,447
Growth(%)	3.08	25.95	22.16
Adj. EPS	7.9	10.0	12.3
Growth(%)	2.55	26.37	22.16
BVPS	80.77	90.69	102.72
Adj BVPS	70.09	80.43	93.65
P/E	10.60	8.42	6.89
P/B	1.05	0.93	0.82
Adj. P/B	1.20	1.05	0.90
ROE (%)	10.38	11.70	12.68

Quarterly Financials (Standalone)

(Rs cr)	Q4FY21	Q3FY21	QoQ Growth (%)	Q4FY20	YoY Growth (%)	FY21	FY20	YoY Growth (%)
Interest Income	3,366	3,460	-2.7	3,397	-0.9	13,758	13,211	4.1
Interest Expense	1,946	2,022	-3.8	2,181	-10.8	8,224	8,562	-3.9
Net Interest Income (NII)	1,420	1,437	-1.2	1,216	16.8	5,534	4,649	19.0
Fee and Other Income	465	482	-3.4	711	-34.6	1,945	1,931	0.7
Total Income	1,886	1,919	-1.7	1,927	-2.1	7,479	6,580	13.7
Expenditure	1,001	956	4.7	968	3.4	3,692	3,376	9.4
Pre-Provision Profit	885	963	-8.1	959	-7.7	3,787	3,205	18.2
Provision	242	421	-42.4	568	-57.3	1,650	1,172	40.7
PBT	643	542	18.5	392	64.0	2,137	2,033	5.2
Tax	165	138	19.4	91	82.1	547	490	11.7
Reported PAT	478	404	18.2	301	58.6	1,590	1,543	3.1
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	478	404	18.2	301	58.6	1,590	1,543	3.1
Diluted EPS (Rs)	2.4	2.0	17.7	1.5	58.3	7.9	7.7	2.6

Change in Estimates

Year / Rs cr	Old estimates		New Estimate		Change %	
	FY22E	FY23E	FY22E	FY23E	FY21E	FY22E
Net Interest Income (NII)	5,885	6,346	6,085	6,670	3%	5%
Net Interest Margin (%)	3.21	3.39	3.19	3.25	-2bps	-14bps
Pre-Provision Profit	3,841	3,875	4,142	4,511	8%	16%
Adj. PAT	1,678	1,815	2,003	2,447	19%	35%
Diluted EPS (Rs)	8.4	9.1	10.0	12.3	19%	35%

PROFIT & LOSS

Y.E March (Rs cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	11,419	13,211	13,758	15,192	16,880
Interest Expense	7,243	8,562	8,224	9,107	10,210
Net Int. Income	4,176	4,649	5,534	6,085	6,670
<i>Change</i>	<i>16.6%</i>	<i>11.3%</i>	<i>19.0%</i>	<i>10.0%</i>	<i>9.6%</i>
Non Int. Income	1,351	1,931	1,945	2,127	2,363
Operating Income	5,527	6,580	7,479	8,212	9,033
<i>Change</i>	<i>16.6%</i>	<i>19.0%</i>	<i>13.7%</i>	<i>9.8%</i>	<i>10.0%</i>
Operating Exp.	2,764	3,376	3,692	4,070	4,522
Pre Prov. Profit	2,763	3,205	3,787	4,142	4,511
Prov. & Conting.	856	1,172	1,650	1,417	1,182
PBT	1,907	2,033	2,137	2,725	3,329
<i>Change</i>	<i>41.9%</i>	<i>6.6%</i>	<i>5.2%</i>	<i>27.5%</i>	<i>22.2%</i>
Tax	663	490	547	722	882
Tax Rate (%)	35%	27%	27%	27%	27%
Reported PAT	1,244	1,543	1,590	2,003	2,447
Adjustment	0	0	0	0	0
Adj. PAT	1,244	1,543	1,590	2,003	2,447
<i>Change</i>	<i>41.5%</i>	<i>24.0%</i>	<i>3.1%</i>	<i>25.9%</i>	<i>22.2%</i>
No. of shares (Cr)	199	199	200	200	200
EPS (Rs)	6.2	7.7	7.9	10.0	12.3
<i>Change</i>	<i>36.8%</i>	<i>24.1%</i>	<i>2.6%</i>	<i>26.4%</i>	<i>22.2%</i>

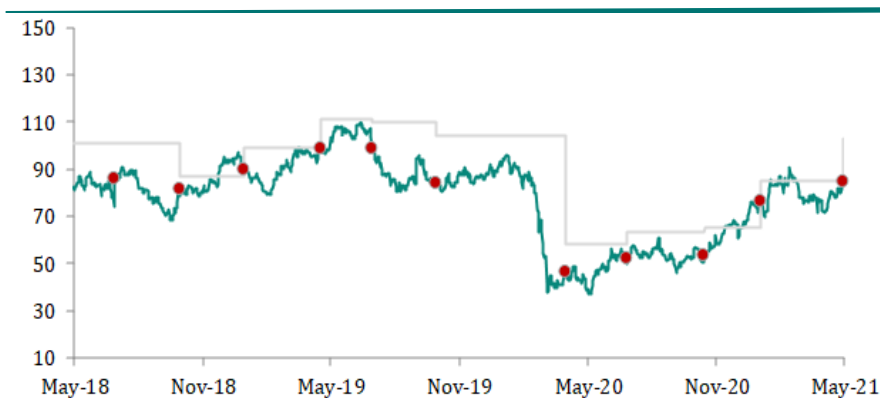
BALANCE SHEET

Y.E March (Rs cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	6,419	6,175	7,647	16,156	26,115
Loans & Advances	110,223	122,268	131,879	147,846	166,365
Investments	31,824	35,893	37,186	38,302	39,451
Gross Fixed Assets	1,398	1,416	1,491	1,551	1,611
Net Fixed Assets	455	455	491	364	314
CWIP	17	25	0	30	33
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	10,401	15,823	24,164	20,677	20,966
Total Assets	159,340	180,638	201,367	223,375	253,244
Deposits	134,954	152,290	172,644	191,635	212,715
Debt Funds	7,781	10,372	9,069	8,518	14,814
Other Liabilities	2,804	2,832	0	3,637	4,041
Provisions	527	626	3,531	1,483	1,169
Equity Capital	397	399	399	399	399
Reserves & Surplus	12,876	14,119	15,724	17,703	20,106
Shareholder's Funds	13,273	14,518	16,124	18,103	20,505
Total Liabilities	159,340	180,638	201,367	223,375	253,244
BVPS (Rs)	66.9	72.9	80.8	90.7	102.7
<i>Change</i>	<i>8.0%</i>	<i>9.0%</i>	<i>10.9%</i>	<i>12.3%</i>	<i>13.3%</i>
Adj. BVPS (Rs)	58.6	63.9	70.1	80.4	93.7
<i>Change</i>	<i>8.5%</i>	<i>9.0%</i>	<i>9.6%</i>	<i>14.8%</i>	<i>16.4%</i>

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
Yield on Advances (%)	8.9	9.0	8.3	8.4	8.6
Cost of Deposits (%)	5.5	5.6	5.1	5.0	5.1
Spread(%)	3.4	3.4	3.3	3.4	3.5
NIM (%)	3.1	3.0	3.2	3.2	3.2
ROE (%)	9.8	11.1	10.4	11.7	12.7
ROA(%)	0.8	0.9	0.8	0.9	1.0
Business Growth					
Loans & Advances (%)	20.0	11.0	8.8	9.7	12.6
Deposits (%)	20.5	12.8	13.4	11.0	11.0
Operating Ratios					
Cost to Income (%)	50.0	51.3	49.4	49.6	50.1
CASA (%)	32.2	30.5	33.8	35.0	35.0
Asset Quality					
GNPA (%)	2.9	2.8	3.4	3.1	2.7
NNPA (%)	1.5	1.5	1.6	1.4	1.1
Capital Adequacy					
CAR (%)	14.4	14.4	14.6	14.2	13.9
Valuation					
P/E (x)	13.5	10.9	10.6	8.4	6.9
P/B (x)	1.3	1.2	1.0	0.9	0.8
Adj. P/B (x)	1.4	1.3	1.2	1.0	0.9

Recommendation Summary (last 3 years)



Dates	Rating	Target
22 January 18	Buy	131
11 May 18	Accumulate	101
18 July 18	Accumulate	101
19 October 18	Accumulate	87
18 January 19	Accumulate	99
07 May 19	Accumulate	111
19 July 19	Accumulate	110
18 October 19	Buy	104
20 April 2020	Buy	58
17 July 2020	Buy	63
03 November 2020	Buy	65
22 January 2021	Buy	85
20 May 2021	Buy	103

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-		

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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