

Federal Bank

Refer to important disclosures at the end of this report

Focus shifting to profitable growth; asset quality/MD term extension key monitorable

- Federal Bank reported a strong beat on PAT at Rs4.8bn (est. Rs3.2bn), mainly driven by lower provisions. Stable GNPA at 3.4%, lower restructured pool at 1%, stable SMA pool at 4.6% and healthy specific PCR at 66% are positive, but the bank does not carry any contingent provision buffer entering into FY22 amid the second Covid-19 wave.
- Overall credit growth trajectory improved further in Q4 (9% yoy/5% qoq), led by healthy retail growth and seasonal pick-up in corporate book. Though the bank intends to focus on secured retail products, it plans to accelerate the share of CV, MFI and credit card businesses in order to boost margins, which may lead to sustainable high RoAs (>1%).
- The bank's retail portfolio remained largely resilient due to the higher share of secured mortgages/gold loans (~50%), but the recent diktat on collections in the state and cyclone pose near-term risk. The bank's Tier-I is reasonable at 13.9%, but we believe that the bank may consider raising capital to strengthen B/S and secure growth capital.
- We estimate the bank's RoA/RoE to improve gradually to 0.9-1.1%/11-14% over FY22-24E from 0.8%/10%, led by better NIMs/lower LLP. Retain Buy with a revised TP of Rs100 (from Rs95), valuing the bank at 1x FY23E ABV. Current MD's term has been extended twice by one year till Sep'21, and thus clarity on the same will be vital.

Healthy growth, stable margins: Overall credit growth improved to 8% yoy/5% qoq, led by continued healthy growth in retail (8% yoy/6% qoq) as well as seasonal pick-up in corporate (7% qoq). Deposit growth too was healthy (up 7% qoq/13% yoy), while CASA share improved by 330bps yoy to CASA of 33.8%, reflecting into lower cost of deposit (4.7% from 5.7% in Q4FY20). Reported NIM was largely stable at 3.2% despite interest reversal on NPAs. Going forward, the bank plans to accelerate growth in CV, MFI and credit card loans. It intends to grow its unsecured loan book from Rs20bn to Rs70-80bn in next 2-3 years. We believe that the bank's healthy CASA ratio and increasing share of unsecured book should drive structural improvement in NIMs, which otherwise has been sub-par.

Stable asset quality, but additional contingent provisioning buffer would have been preferred: Overall GNPA ratio remained qoq stable at 3.4% vs. pro forma in Q3, while restructured pool stood at 1% and SMA pool too was stable at 4.6%. The bank has consumed the Covid-19 provision buffer of Rs5.3bn (0.4% of loans) toward specific provisions on NPAs at Rs4.8bn and restructured provisions at Rs0.6bn. The bank now carries healthy specific PCR of 66% on its GNPA pool (54% in Q4FY20), but an additional contingent provisioning buffer would have been preferred, particularly given the drop in collection efficiency from 95% to ~90% in Apr'21 due to Covid-19-induced disruption. Recent adverse diktat on collections in the state adds to the concern.

Outlook and Valuations: We estimate the bank's RoA/RoE to improve gradually to 0.9-1.1%/11-14% over FY22-24E from 0.8%/10%, led by better NIMs/lower LLP. Retain Buy with a revised TP of Rs100 (valuing at 1x FY23E ABV), up from Rs95, factoring in a slight uptick in earnings estimates. Key risks: RBI has extended current MD's term twice by one year till Sep'21, and thus further extension could be difficult, leading to a potential regime change. Recent call by state CM to halt collections in the wake of Covid-19-induced disruption and cyclone should impact asset quality in the near term.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	65,803	74,785	83,985	95,251	111,061
Net profit	15,429	15,903	18,943	24,387	29,164
EPS (Rs)	7.8	8.0	9.5	12.2	14.6
ABV (Rs)	66.9	74.9	82.5	94.0	105.2
RoA (%)	0.9	0.8	0.9	1.0	1.1
RoE (%)	11.2	10.4	11.2	12.9	13.8
PE (x)	10.5	10.2	8.6	6.7	5.6
P/ABV	1.2	1.1	1.0	0.9	0.8

Source: Company, Emkay Research

CMP	Target Price
Rs 82 as of (May 16, 2021)	Rs 100 (▲) 12 months
Rating	Upside
BUY (■)	19.3 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	6/1
Target Price change (%)	5.3
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	9.5	12.2
Consensus	9.9	12.1
Mean Consensus TP (12M)	Rs 101	

Stock Details

Bloomberg Code	FB IN
Face Value (Rs)	2
Shares outstanding (mn)	1,995
52 Week H/L	93 / 37
M Cap (Rs bn/USD bn)	163 / 2.22
Daily Avg Volume (nos.)	25,290,600
Daily Avg Turnover (US\$ mn)	27.8

Shareholding Pattern Mar '21

Promoters	-%
FIIs	24.2%
DIIIs	42.7%
Public and Others	33.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	(6)	40	86
Rel. to Nifty	5	(4)	21	14

Relative price chart



Source: Bloomberg

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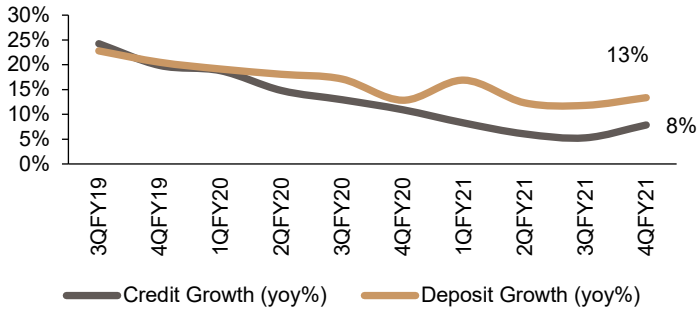
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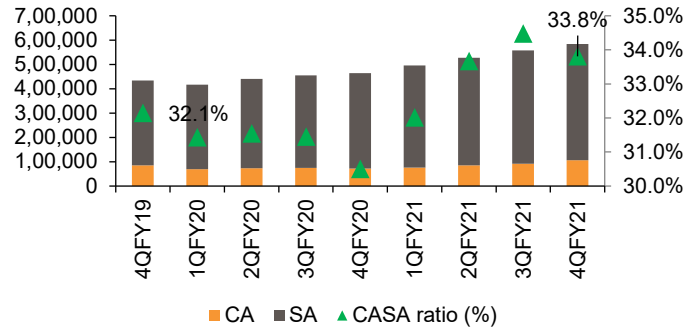
Story in Charts

Exhibit 1: Loan growth was driven by retail and corporate loans, while deposit growth was driven by Retail TD



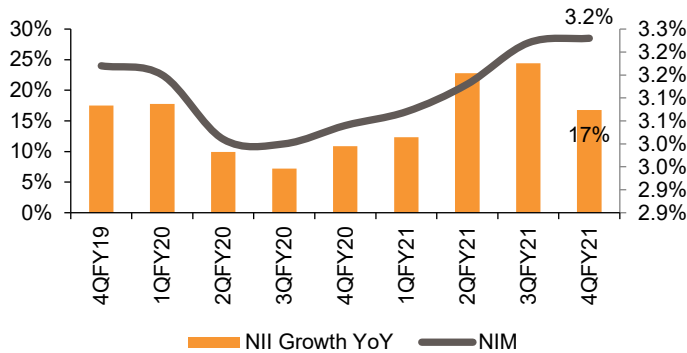
Source: Company, Emkay Research

Exhibit 2: CASA growth trajectory continued and the ratio stood at 33.8%



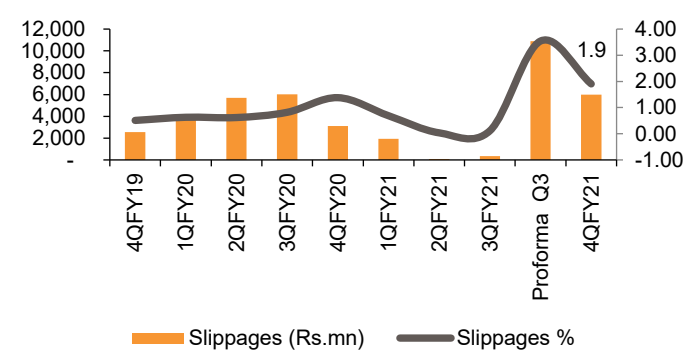
Source: Company, Emkay Research

Exhibit 3: NIM remained stable despite interest reversal due to lower CoF



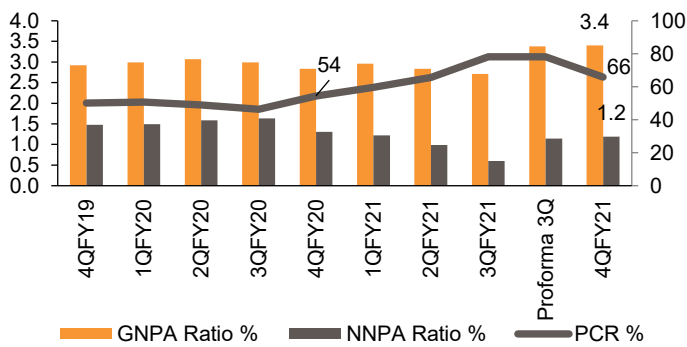
Source: Company, Emkay Research

Exhibit 4: Fresh slippages were from retail (Rs3bn) and CoB (Rs1.3bn)



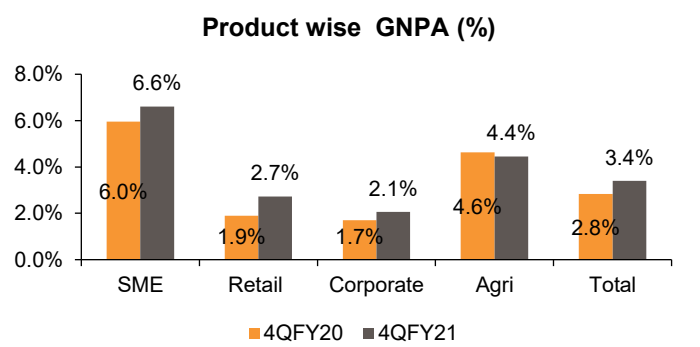
Source: Company, Emkay Research

Exhibit 5: GNPA was stable qoq despite fresh slippages due to write-off and recoveries/upgrades. Specific PCR improved to 66%



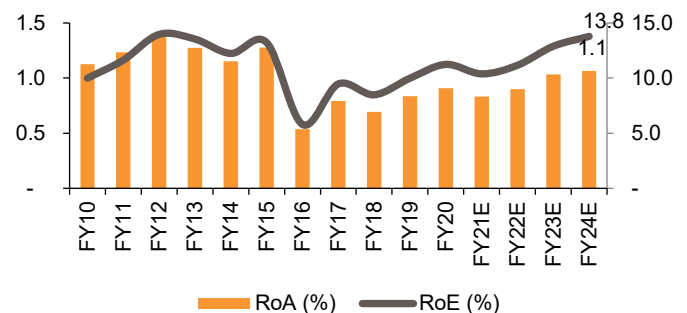
Source: Company, Emkay Research

Exhibit 6: Impact on asset quality due to Covid disruption seen mainly in retail and SME loans



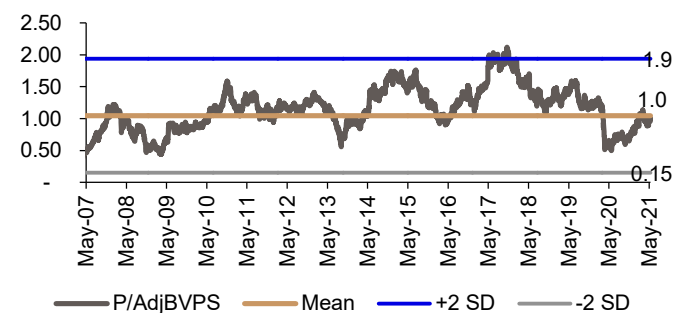
Source: Company, Emkay Research

Exhibit 7: ROA/ROE trajectory to improve from FY23E



Source: Company, Emkay Research

Exhibit 8: The stock is trading at 1x – 1-year forward P/ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actual vs. Estimates (Q4FY21)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	18,857	19,478	19,105	-3%	-1%	Interest reversal led to miss
PPOP	8,851	9,851	9,605	-10%	-8%	Lower NII and higher opex led to miss
PAT	4,778	3,197	4,202	49%	14%	Contained provisioning led to a beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	33,968	34,442	34,879	34,595	33,663	-1	-3	137,578	151,132	10
Interest Exp	21,808	21,477	21,081	20,225	19,460	-11	-4	82,242	89,378	9
Net Interest Income	12,160	12,965	13,798	14,370	14,203	17	-1	55,336	61,753	12
Global NIMs (reported)	3.04	3.07	3.13	3.22	3.23	19bps	1bps	3.11	3.15	5bps
Non-interest Income	7,111	4,884	5,093	4,818	4,654	-35	-3	19,449	22,231	14
Operating Expenses	9,678	8,524	8,827	9,559	10,006	3	5	36,917	40,977	11
Pre Provisioning Profit	9,593	9,324	10,065	9,629	8,851	-8	-8	37,868	43,008	14
Provision & Contingencies	5,675	3,946	5,921	4,206	2,423	-57	-42	16,496	17,683	7
PBT	3,918	5,378	4,144	5,423	6,428	64	19	21,372	25,325	18
Income Tax Expense (Gain)	906	1,370	1,069	1,382	1,650	82	19	5,470	6,382	17
Net Profit/(Loss)	3,012	4,008	3,076	4,041	4,778	59	18	15,903	18,943	19
Gross NPA (%)	2.84	2.96	2.84	2.71	3.40	56bps	69bps	3.41	3.62	20bps
Net NPA (%)	1.31	1.22	0.99	0.60	1.19	-12bps	59bps	1.19	1.22	3bps
Deposits (Rs in bn)	1,523	1,549	1,567	1,617	1,726	13	7	1,726	1,897	10
Net Advances (Rs in bn)	1,223	1,213	1,229	1,255	1,319	8	5	1,319	1,474	12

Source: Emkay Research, Company

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	84,220	83,985	-0.28%	97,912	95,251	-2.72%	95,251
PPOP	43,680	43,008	-1.5%	51,991	48,964	-5.8%	48,964
PAT	17,744	18,943	6.8%	24,126	24,387	1.1%	24,387
EPS (Rs)	8.9	9.5	6.7%	12.1	12.2	1.0%	12.2
BV (Rs)	87.9	89.3	1.6%	98.7	100.3	1.6%	100.3

Source: Emkay Research

Exhibit 12: Key Assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	7.9	11.8	18.3	18.3
Deposit Growth %	13.4	9.9	15.3	15.3
NIM %	3.1	3.2	3.2	3.2
GNPA %	3.4	3.6	3.1	3.1
Credit Cost %	1.3	1.2	0.9	0.9

Source: Emkay Research

Exhibit 13: Key Ratio and trends

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans Rs mn	1,102,230	1,120,320	1,158,932	1,192,220	1,222,679	1,212,970	1,229,120	1,255,050	1,318,786
Growth YoY %	19.9	18.8	14.8	13.0	10.9	8.3	6.1	5.3	7.9
Growth QoQ %	4.4	1.6	3.4	2.9	2.6	(0.8)	1.3	2.1	5.1
Composition %									
- Corporate	42.5	42.4	41.3	40.8	40.8	40.1	37.6	35.6	36.1
- SME/BB	18.9	18.4	18.5	18.6	18.3	18.1	18.8	19.2	18.6
- Retail (inc. agri)	38.6	39.2	40.1	40.6	40.9	41.8	43.6	45.2	45.2
Liability Profile & Margin									
Deposit	1,349,543	1,325,370	1,395,465	1,445,920	1,522,901	1,549,380	1,567,474	1,616,700	1,726,445
Growth YoY %	20.5	19.1	18.1	17.1	12.8	16.9	12.3	11.8	13.4
Growth QoQ %	9.3	(1.8)	5.3	3.6	5.3	1.7	1.2	3.1	6.8
CA	84,586	69,526	73,864	74,650	72,550	75,570	84,670	91,580	106,840
SA	349,291	347,170	366,405	380,190	391,950	420,590	443,180	465,820	476,860
CASA %	32.1	31.4	31.6	31.5	30.5	32.0	33.7	34.5	33.8
CA %	6.3	5.2	5.3	5.2	4.8	4.9	5.4	5.7	6.2
SA %	25.9	26.2	26.3	26.3	25.7	27.1	28.3	28.8	27.6
Branches	1,251	1,251	1,251	1,255	1,263	1,263	1,271	1,272	1,272
Asset Quality									
Fresh Addition	2,560	4,150	5,700	6,030	3,120	1,930	100	340	16,850
Recovery	2,320	2,020	2,230	2,630	2,270	660	1,050	1,080	1,740
Write-off	460	980	1,310	3,320	1,730	20	90	80	3,790
Total Reduction	3,566	2,810	3,526	5,964	3,999	680	1,140	1,160	5,530
GNPA	32,607	33,947	36,121	36,187	35,308	36,556	35,522	34,702	46,024
NPA	16,262	16,728	18,436	19,410	16,072	14,775	12,181	7,572	15,693
Restructured	6,040	6,190	6,120	4,630	3,970	4,060	4,410	11,290	14,090
Asset Quality %									
GNPA	2.9	3.0	3.1	3.0	2.8	3.0	2.8	2.7	3.4
NNPA	1.5	1.5	1.6	1.6	1.3	1.2	1.0	0.6	1.2
PCR	50.1	50.7	49.0	46.4	54.5	59.6	65.7	78.2	65.9
Slippages (Rs mn)	2,560	4,150	5,700	6,030	3,120	1,930	100	340	16,850
Annualized Slippages %	1.1	1.8	2.3	2.3	1.1	0.7	0.0	0.1	5.5
Capital Adequacy									
CAR %	14.1	14.1	14.0	13.6	14.4	14.2	14.6	14.3	14.6
Tier I %	13.4	13.0	12.9	12.6	13.3	13.0	13.3	13.0	13.9
ROE Decomposition %									
NII	2.8	2.9	2.8	2.7	2.8	2.8	2.9	3.0	2.9
Other Income	0.9	0.8	0.8	0.8	0.8	0.4	0.8	0.8	0.8
Opex	2.0	1.9	2.0	1.9	2.2	1.9	1.9	2.0	2.0
PPOP	2.0	2.0	1.8	1.8	2.2	2.0	2.1	2.0	1.8
Provisioning Cost	0.5	0.5	0.6	0.4	1.3	0.9	1.3	0.9	0.5
PBT	1.5	1.5	1.1	1.4	0.9	1.2	0.9	1.1	1.3
ROA	1.0	1.0	1.0	1.0	0.7	0.9	0.7	0.8	1.0
ROE	11.7	11.4	12.2	12.6	8.4	10.9	8.2	10.5	12.0

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	46,489	55,336	61,753	70,923	83,862
Other income	19,314	19,449	22,231	24,327	27,199
Fee income	9,895	10,380	11,418	13,131	15,363
Net income	65,803	74,785	83,985	95,251	111,061
Operating expenses	33,755	36,917	40,977	46,287	52,984
Pre provision profit	32,048	37,868	43,008	48,964	58,077
PPP excl treasury	25,970	31,768	37,213	43,459	52,847
Provisions	11,721	16,496	17,683	16,360	19,087
Profit before tax	20,327	21,372	25,325	32,603	38,990
Tax	4,898	5,470	6,382	8,216	9,825
Tax rate	24	26	25	25	25
Profit after tax	15,429	15,903	18,943	24,387	29,164

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	3,985	3,992	3,992	3,992	0
Reserves	141,191	157,244	174,265	196,250	223,012
Net worth	145,176	161,236	178,257	200,242	223,012
Deposits	1,522,901	1,726,445	1,897,199	2,188,359	2,524,597
Borrowings	103,724	75,685	71,901	75,496	79,271
Total liabilities	1,806,380	2,013,674	2,199,022	2,519,206	2,948,145
Cash and bank	61,749	76,470	95,588	119,485	149,356
Investments	358,926	371,862	401,506	450,253	517,652
Loans	1,222,679	1,318,786	1,474,404	1,743,810	2,099,285
Others	94,228	122,201	129,015	136,570	144,881
Total assets	1,806,379	2,013,674	2,199,022	2,519,206	2,952,137

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	2.9	3.1	3.2	3.2	3.3
Non-ll/avg assets	1.1	1.0	1.1	1.0	1.0
Fee income/avg assets	0.6	0.5	0.5	0.6	0.6
Opex/avg assets	2.0	1.9	1.9	2.0	1.9
Provisions/avg assets	0.7	0.9	0.8	0.7	0.7
PBT/avg assets	1.2	1.1	1.2	1.4	1.4
Tax/avg assets	0.3	0.3	0.3	0.3	0.4
RoA	0.9	0.8	0.9	1.0	1.1
RoAE	11.2	10.4	11.2	12.9	13.8
GNPA (%)	2.8	3.4	3.6	3.1	2.7
NNPA (%)	1.3	1.2	1.2	1.0	0.8

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	7.8	8.0	9.5	12.2	14.6
BVPS	73.0	80.8	89.3	100.3	111.7
ABVPS	66.9	74.9	82.5	94.0	105.2
DPS	0.0	0.0	1.0	1.2	1.2

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	10.5	10.2	8.6	6.7	5.6
P/BV	1.2	1.1	1.0	0.9	0.8
P/ABV	1.2	1.1	1.0	0.9	0.8
P/PPOP	5.1	4.3	3.8	3.3	0.0
Dividend Yield (%)	0.0	0.0	1.2	1.5	1.5

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	11.3	19.0	11.6	14.8	18.2
PPOP	16.0	18.2	13.6	13.8	18.6
PAT	24.0	3.1	19.1	28.7	19.6
Loans	10.9	7.9	11.8	18.3	20.4

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	12,160	12,965	13,798	14,370	14,203
NIM (%)	3.0	3.1	3.1	3.2	3.1
PPOP	9,593	9,324	10,065	9,629	8,851
PAT	3,012	4,008	3,076	4,041	4,778
EPS (Rs)	1.51	2.01	1.54	2.03	2.39

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	-	-	-	-	-
FII	32.8	30.5	24.3	21.4	24.2
DII	36.5	36.6	37.7	44.0	42.7
Public and Others	30.7	33.0	38.0	34.7	33.2

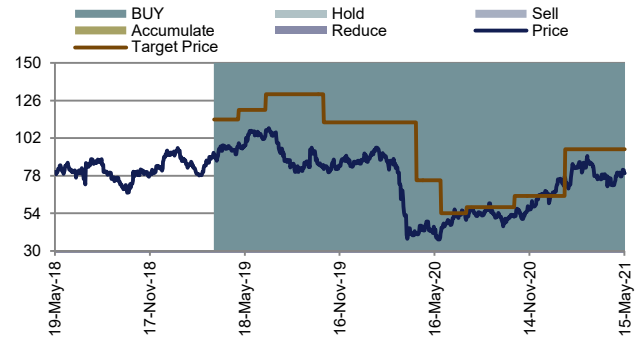
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
21-Jan-21	76	95	12m	Buy	Anand Dama
16-Oct-20	52	65	12m	Buy	Anand Dama
16-Jul-20	52	58	12m	Buy	Anand Dama
28-May-20	43	54	12m	Buy	Anand Dama
11-Apr-20	41	75	12m	Buy	Anand Dama
27-Feb-20	89	112	12m	Buy	Anand Dama
20-Jan-20	94	112	12m	Buy	Anand Dama
16-Oct-19	82	112	12m	Buy	Anand Dama
9-Oct-19	86	130	12m	Buy	Anand Dama
16-Jul-19	106	130	12m	Buy	Anand Dama
27-Jun-19	107	130	12m	Buy	Anand Dama
6-May-19	99	120	12m	Buy	Anand Dama
20-Mar-19	91	114	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	20.15	20.12	-0.2%	-3	100.00
Axis Bank	2.16	2.25	4%	8	11.15
AU Small Finance Bank	0.24	0.19	-18%	-4	0.96
Bandhan Bank	0.24	0.29	18%	4	1.42
Bank of Baroda	0.17	0.11	-31%	-5	0.57
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.14	0.21	48%	7	1.06
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.04	NA	4	0.21
Federal Bank	0.19	0.23	23%	4	1.16
HDFC Bank	6.78	6.89	2%	11	34.18
ICICI Bank	4.95	5.10	3%	15	25.32
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.61	0.70	16%	10	3.49
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.68	2.20	-18%	-47	10.93
Punjab National Bank	0.11	0.00	-100%	-11	0.00
RBL Bank	0.11	0.08	-27%	-3	0.41
State Bank of India	1.66	1.81	9%	15	8.98
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.03	NA	3	0.15

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	15-May-20	13-Nov-20	12-Feb-21	13-Apr-21	14-May-21
EAP - BFSI-Banks	100.0	65.3	99.1	123.2	108.8	110.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	64.4	97.4	120.8	106.8	108.2

*Performance measurement base date 1st April 2019

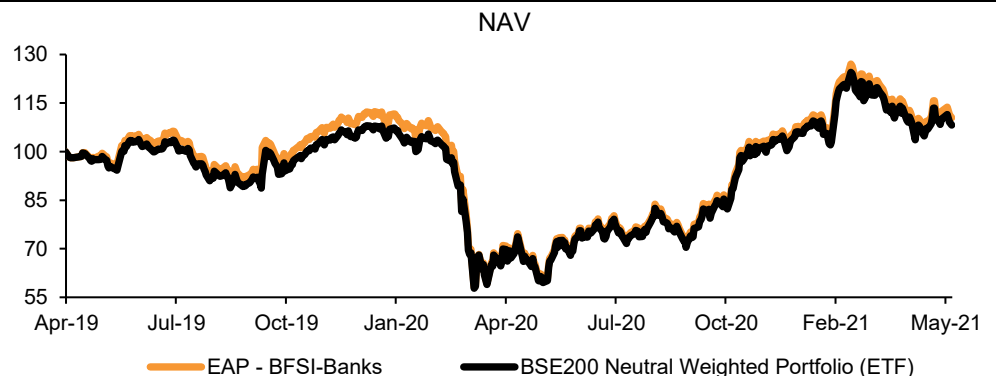
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	1.6%	-10.3%	11.5%	69.3%
BSE200 Neutral Weighted Portfolio (ETF)	1.3%	-10.4%	11.1%	68.1%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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