



Granular Liability Franchise

Federal Bank's numbers were below our estimates on the profitability front mainly due to higher provisions, though operating performance was better than expectations, mainly due to higher other income and lower operating expenses.

- NII came in at INR 14.18 Bn, +9.4% YoY / -0.1% QoQ
- Other Income came in at INR 6.50 Bn, +33% YoY / 39.7% QoQ
- PPOP came in at INR 11.35 Bn, 21.8% YoY / 28.3% QoQ
- Provisions came in at INR 6.42 Bn, 165% YoY / 62.6% QoQ
- PAT came in at INR 3.67 Bn, -8.4% YoY/-23.1% QoQ.
- EPS stood at INR 1.84 vs INR 2.39 / INR 2.01 in Q4FY21 / Q1FY21 respectively.

Financial Highlights

- Bank has shown credit growth of 7.6% YoY/0.6% QoQ in Q1FY22, led by Agri (up 24% YoY/5% QoQ) and Retail (up 15% YoY/-3% QoQ). Within retail advances, housing loans grew by 10.6% YoY/0.5% QoQ, while LAP, Auto & Personal loans grew by 11%, 14.3% & 13.9% YoY basis. However, wholesale loans declined by 0.9% YoY (-2% QoQ). Wholesale constitutes 45.7% of the overall book (down 390 bps YoY/) and is likely to fall going ahead.
- Within wholesale advances, commercial banking (CoB) grew by 10.4% YoY (-1.6% QoQ), while corporate banking (CIB) de-grew by 3.5% YoY/1.9% QoQ. Bank onboarded 45 new clients in CIB and 28 new clients in CoB, across business groups, geographies and sectors during the quarter ended June 2021. Average Ticket Size for CIB & CB Loans stood at 59 Cr & 7 Cr Respectively.
- On liabilities, deposits growth was stable at 9.3% YoY (-1.9% QoQ) with continued retail deposit traction keeping CASA mix steady at 34.8%. Bank has continued to build a granular liability franchise with more than 90% of its deposits being retail in nature. Bank is well capitalized, with CAR stood at 14.64% (vs 14.62% QoQ), of which Tier I capital was 13.87% (vs 13.85 % QoQ) and Tier II capital was 0.77% (vs flat QoQ).
- Bank's margins drop to 3.15% (8 bps QoQ), impacted by interest reversal of Rs 0.65 Bn. Yield on Advances dropped by 25 bps QoQ to 8.15%, while Cost of Deposits declined by 25 bps QoQ to 4.45% in Q1FY22. Other income of the bank increased by 33% to Rs 6.50 Bn, aided by treasury gains and one-off recovery in a large account.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	46.5	55.3	63.0	74.7
Adjusted net profit	15.4	15.9	19.3	26.3
Networth	145	161	177	199
Adj BVPS	65	73	79	89
EPS (Rs)	7.7	8.0	9.7	13.2
P/ABV (x)	1.3	1.2	1.1	1.0
P/E (x)	11.0	10.7	8.8	6.5
RoA (%)	0.9	0.8	0.9	1.1
RoE (%)	11.1	10.4	11.4	14.0

Source: Dalal & Broacha Research, Company

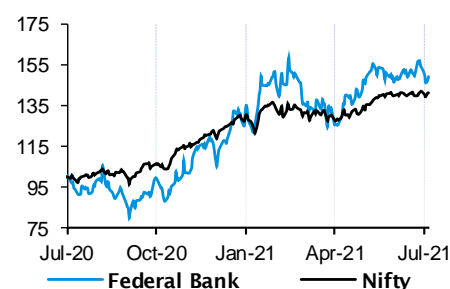
Rating	TP (Rs)	Up/Dn (%)
BUY	98	15

Market data

Current price	Rs	85
Market Cap (Rs.Bn)	(Rs Bn)	170
Market Cap (US\$ Mn)	(US\$ Mn)	2283
Face Value	Rs	2
52 Weeks High/Low	Rs	92/45
Average Daily Volume	('000)	13208
BSE Code		500469
Bloomberg		FB:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	0.0	0.0
FII	24.1	24.5
DII	43.4	43.3
Others	32.1	32.2
Total	100	100

Source: BSE

Avinash Tanawade
(022) 67141449

avinash.tanawade@dalal-broacha.com

- Bank's asset quality worsened during the quarter, with GNPA at 3.5% (up by 9 bps QoQ) and NNPA at 1.23% (up by 4 bps QoQ). Bank saw an increase in NPA for the quarter amounted to Rs 6.89 Bn, of which Rs 6.40 Bn were fresh slippages. The fresh slippages well spread across the broad segments with Business Banking contributing the most at Rs 1.69bn. Non-wholesale slippages stood at ~ Rs 1.27bn of which Rs 0.85bn were from gold loans. Meanwhile, Bank's corporate book holding well with no major accounts in watch list.
- Covid-specific restructuring stood at Rs 24.1bn (1.82% of advances), moved up from Rs 14.1bn (1.04% of advances) in Q4FY21. Out of total restructuring, Rs 14.2bn came from the retail book (Rs 9.6bn QoQ), while Rs 2bn came from the agri gold loan book. Meanwhile, PCR maintained at 65% level, despite higher slippages during the quarter. Provisions increased substantially 63% YoY to Rs 6.42 Bn, of which Rs 4.59 Bn were loan loss provisions whereas provisions on standard accounts (probably contingent provisions) were Rs 1.80bn.
- Bank's operational efficiency remained strong, with cost to income ratio falling by 264 bps YoY to 45.1%, backed by higher net income (NII + other inc) growth of 16% vs lower opex growth of 10%. We believe this ratio is not sustainable at the current level and expected it (CIR) to be around 48-50% in the near to medium term.

The fresh slippages well spread across the broad segments with Business Banking contributing the most at Rs 1.69bn.

Covid-specific restructuring stood at Rs 24.1bn (1.82% of advances), moved up from Rs 14.1bn (1.04% of advances) in Q4FY21.

Bank's operational efficiency remained strong, with cost to income ratio falling by 264 bps YoY to 45.1%, backed by higher net income growth of 16% vs lower opex growth of 10%.

Valuation and outlook

We like Federal bank for its healthy liability franchise (90% retail Deposit), increasing retail focus, strong fee income, and prudent provisioning. Even though Asset Quality is likely to remain under pressure in the near term, we take comfort from its tier-1 capital ratio (13.9%) and improvement in core operating performance, which provide an additional buffer to cushion any adverse effect of sudden spikes in slippages. We expect the bank's RoA/RoE to be around 0.9%/11.4% in FY22 and recover back to 1.1%/14% in FY23. At CMP the stock trades at 1.1x its FY22E ABV and 1x its FY23E ABV. We assign a BUY rating with a Target Price of Rs 98/share, valuing the stock at a target multiple of 1.1x FY23E ABV.

Exhibit 1:Financials

Rs Mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Interest Earned	32293	32543	33304	33968	34442	34879	34595	33663	33557
Interest Expended	20751	21305	21754	21808	21477	21081	20225	19460	19373
NII	11542	11238	11549	12160	12964	13799	14370	14204	14184
Other Income	3915	4209	4079	7111	4884	5093	4818	4654	6502
Net Income	15457	15447	15628	19271	17848	18892	19189	18858	20686
Opex	7629	8259	8190	9678	8524	8827	9560	10007	9334
PPOP	7828	7188	7438	9593	9324	10065	9629	8851	11352
Provisions	1920	2518	1609	5675	3946	5921	4206	2423	6418
PBT	5907	4670	5830	3918	5378	4145	5423	6428	4934
Tax	2065	503	1423	906	1370	1069	1382	1650	1261
PAT	3842	4167	4406	3012	4008	3076	4041	4778	3673
Balance Sheet									
Net-worth	136610	137543	142115	145176	149225	152353	156450	161236	164880
Deposits	1325372	1395465	1445920	1522901	1549380	1567474	1616700	1726445	1693930
Advances	1120320	1158932	1192220	1222679	1212970	1229120	1255050	1318786	1297650
Growth (%)									
NII	17.8	9.9	7.2	10.9	12.3	22.8	24.4	16.8	9.4
PPOP	29.8	3.0	5.1	27.1	19.1	40.0	29.5	-7.7	21.8
PAT	46.2	56.6	32.1	-21.0	4.3	-26.2	-8.3	58.6	-8.4
Deposits	19.1	18.1	17.1	12.8	16.9	12.3	11.8	13.4	9.3
Advances	18.8	13.5	13.0	10.9	8.3	6.1	5.3	7.9	7.0
Efficiency (%)									
GNPA	3.0	3.1	3.0	2.8	3.0	2.8	2.7	3.4	3.5
NNPA	1.5	1.6	1.6	1.3	1.2	1.0	0.6	1.2	1.2
PCR	50.7	48.6	46.4	54.5	59.6	65.7	78.2	65.9	65.7
Credit Cost (annualized)	0.7	0.9	0.5	1.9	1.3	1.9	1.3	0.7	2.0
C/I Ratio	49.4	53.5	52.4	50.2	47.8	46.7	49.8	53.1	45.1
CASA	31.4	31.5	31.5	30.5	32.0	33.7	34.5	33.8	34.8
NPA Composition									
Retail	21	20	20	20	19	19	19	27	28
Agri	15	15	16	16	16	16	15	16	18
Business Banking	41	39	38	39	37	37	37	18	20
Wholesale	23	24	26	25	28	29	29	40	34

Source: Dalal & Broacha Research, Company

Exhibit 2:

P&L (Rs Bn)	FY20	FY21	FY22E	FY23E
Interest income	132.1	137.6	160.0	195.6
Interest expense	85.6	82.2	97.0	120.9
NII	46.5	55.3	63.0	74.7
Non-interest income	19.3	19.4	21.7	25.4
Net revenues	65.8	74.8	84.7	100.1
Operating expenses	33.8	36.9	41.1	48.1
PPOP	32.0	37.9	43.6	52.0
Provisions	11.7	16.5	17.8	16.8
PBT	20.3	21.4	25.8	35.2
Tax	4.9	5.5	6.5	8.9
PAT	15.4	15.9	19.3	26.3

Balance sheet	FY20	FY21	FY22E	FY23E
Share capital	3.99	3.99	3.99	3.99
Reserves & surplus	141.2	157.2	173.0	194.5
Net worth	145.2	161.2	177.0	198.5
Deposits	1522.9	1726.4	1999.1	2349.8
Borrowings	103.7	90.7	91.8	102.2
Other liability	34.6	35.3	37.6	42.0
Total liabilities	1806.4	2013.7	2305.5	2692.5
Fixed assets	4.8	4.9	5.1	5.2
Investments	358.9	371.9	450.2	550.6
Loans	1222.7	1318.8	1544.7	1835.6
Cash	125.7	195.9	196.3	186.3
Other assets	94.2	122.2	109.3	114.7
Total assets	1806.4	2013.7	2305.5	2692.5

Source: Dalal & Broacha Research, Company

Exhibit 3:

Ratios	FY20	FY21	FY22E	FY23E
Growth (%)				
NII	11.3	19.0	13.8	18.6
PPOP	16.0	18.2	15.0	19.3
PAT	24.0	3.1	21.2	36.6
Advances	10.9	7.9	17.1	18.8
Deposits	12.8	13.4	15.8	17.5
Spread (%)				
Yield on Funds	8.2	7.7	7.8	8.2
Cost of Funds	5.6	4.8	5.0	5.3
Spread	2.6	2.9	2.9	2.9
NIM	2.9	3.1	3.1	3.1
Asset quality (%)				
Gross NPAs	2.8	3.4	3.3	2.9
Net NPAs	1.3	1.2	1.2	1.1
Provisions	53	66	64	63
Return ratios (%)				
RoE	11.1	10.4	11.4	14.0
RoA	0.9	0.8	0.9	1.1
Per share (Rs)				
EPS	8	8	10	13
BV	73	81	89	99
ABV	65	73	79	89
Valuation (x)				
P/E	11.0	10.7	8.8	6.5
P/BV	1.2	1.1	1.0	0.9
P/ABV	1.3	1.2	1.1	1.0

Source: Dalal & Broacha Research, Company

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services. D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any

copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read “Risk Disclosure Document for Capital Market and Derivatives Segments” as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	Head of Research	kunal.bhatia@dalal-broacha.com	022 67141442	Auto Auto Ancillary FMCG
Mrs. Charulata Gaidhani	Sr. Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma Healthcare
Mr. Mayank Babla	Sr. Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT Telecom Media
Mr. Avinash Tanawade	Sr. Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Miraj Shah	Associate	miraj.shah@dalal-broacha.com	022 67141489	FMCG Retail
Ms. Timshar Dhamodiwala	Associate	timshar.dhamodiwala@dalal-broacha.com	022 67141441	IT Telecom Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com