



Company Details:

- Amongst the **leading private sector banks** having pan India presence across both urban and rural areas.
- Built **multi-pronged distribution network** which comprises of its own expanding branch network, Fintech tie-ups, Direct Sales Agents (DSAs), Business Correspondents and Banking as a Platform through digital offerings.
- As of 30th Jun' 2023, Federal Bank catered to **1.67 cr customers** through its network of **1,366 branches** and other partnerships.
- Offers diversified financial products to its customers belonging to both retail and wholesale segment. Retail : Wholesale Advances Mix as of 30th Jun' 23 stood at 54 : 46.

Strength:

- Built granular retail book over the last few years with **share of Retail loans** in total Advances **increasing from 47% in FY19 to 54%** in FY23, enabling bank to better manage asset quality risk.
- Targeting salaried millennial customers through Partnerships with Neo Banks like Jupiter and Epifi, which is further helping in mobilizing CASA accounts. **More than 4.5 lac plus accounts** are being opened every month by Epifi and Jupiter.
- **Strategically targeting high yielding loan products** like CV Loans, Credit Cards, Gold Loans. MFI Loans and Digital Personal Loans.
- Continues to focus on growing a **secured credit portfolio**, which reflects focus on **quality over quantity** while ensuring liabilities continue to be organic and granular.

Opportunity Size:

- India continues to remain capital starved economy thereby providing long runway for growth. Credit to Private non-financial sector from Banks stood at **52.9% of GDP** as of 31.03.2023.
- Digitalization is facilitating financial inclusion.
- Federal Bank is **committed to bring the unserved population** of the country into the formal ambit of banking and offering new lending avenues to this group through various financial inclusion initiatives.



Key Financial Highlights:

Rs. Cr	FY19	FY20	FY21	FY22	FY23
Advances	111,829	124,153	134,877	147,639	174,447
Retail : Wholesale Mix	47 - 53	49 - 51	54 - 46	55 - 45	54 - 46
Deposits	134,954	152,290	172,644	181,701	213,386
CASA Deposits	43,388	46,448	58,371	67,120	69,735
CASA Ratio	32.15%	30.50%	33.81%	36.94%	32.68%
Networth	13,273	14,518	16,124	18,794	21,506
Net Interest Income	4,176	4,649	5,534	5,962	7,232
Other Income	1,351	1,931	1,959	2,089	2,330
- Fee Income	1,037	1,229	1,179	1,493	2,066
Operating Cost	2,764	3,376	3,692	4,293	4,768
Pre-Provisioning Operating Profit	2,763	3,205	3,801	3,758	4,794
Provisions	856	1,172	1,663	1,222	750
Profits before Tax	1,907	2,033	2,137	2,536	4,045
Tax Provision	663	490	547	646	1,034
Tax Rate	34.78%	24.10%	25.59%	25.48%	25.56%
Profits after Tax	1,244	1,543	1,590	1,890	3,011
EPS	6.24	7.70	7.94	9.06	14.13
<u>Asset Quality Metrics</u>					
- Slippages	1,620	1,832	1,874	1,880	1,719
- Recoveries & Upgrades	963	914	453	1,534	1,296
- Gross NPAs	3,261	3,531	4,602	4,137	4,184
- Net NPAs	1,626	1,607	1,569	1,393	1,205
Source: Company					



Key Ratios	FY19	FY20	FY21	FY22	FY23
- NIMs	3.14%	3.05%	3.16%	3.20%	3.31%
- Cost/Income	50.01%	51.30%	49.27%	53.32%	49.86%
- Gross NPAs	2.92%	2.84%	3.41%	2.80%	2.36%
- Net NPAs	1.48%	1.31%	1.19%	0.96%	0.69%
- PCR	49.26%	53.39%	65.14%	65.54%	70.02%
- CD Ratio	82.86%	81.52%	78.12%	81.25%	81.75%
- RoA	0.88%	0.94%	0.85%	0.94%	1.28%
- RoE	9.81%	11.10%	10.38%	10.87%	15.02%
- Book Value	66.87	72.86	80.77	88.75	101.22
- CRAR	14.14%	14.35%	14.62%	15.77%	14.81%
- Branches	1,251	1,263	1,272	1,282	1,355
Source: Company					

- Federal Bank's Loan book has grown at a CAGR of 11.8% between FY19 – FY23 to touch Rs. 174,447 cr. In Q1 FY24, Loan book has further inched up to Rs. 183,487 cr. Growth in Loan Book is more broad based with share of Retail segment increasing from 47% in FY19 to 54% in FY23.
- Deposit growth was slightly ahead of loan growth with Bank reporting CAGR of 12.1% between FY19 to FY23. CASA Ratio had inched up from 32.15% in FY19 to the peak of 36.94% in FY22, primarily due to customers preferring to keep liquid funds in bank account to meet any Covid-19 related contingency. However, CASA ratio declined to 32.68% in FY23 as the money moved to Term Deposits on the back of RBI increasing interest rates by 250 bps.
- Net Interest Income grew at a CAGR of 14.7% during FY19 – FY23 as the Net Interest Margins, inched up from 3.14% in FY19 to 3.31% in FY23 on the back of increase in share of Retail segment in the total loan book.
- Pre-Provisioning Operating Profit has grown in line with Net Interest Income between FY19 – FY23. However, as provisions declined in FY23, Profit after Tax of the Bank has grown from Rs. 1,244 cr in FY19 to Rs. 3,011 cr in FY23, translating into CAGR of 24.7%.
- Asset quality has steadily improved and the Gross NPAs in FY23 has fallen below FY19 (pre-covid) levels Gross NPAs in FY23 stood at 2.36% as against 2.92% in FY19. As the banks increased its provision coverage, Net NPAs declined even faster and it stood at 0.69% as of FY23 as against 1.48% in FY19. Provisioning Coverage Ratio inched up from 49.26%



in FY19 to 70.02% in FY23. Bank prudently utilized the higher operating profits towards shoring up the PCR which should help in absorbing any significant shock that may arise if any in future.

- Capital Efficiency of the Bank was weakened between FY15 – FY19 (in line with industry) as the entire banking sector underwent asset quality cleansing. However, as the economy emerged out of the Covid-19 pandemic inflicted pain, Federal Bank was able to significantly improve its capital efficiency with RoEs inching up to almost decadal high of 15% in FY23.

Capital Infusion:

- Federal Bank in Q2 FY24, raised aggregate equity capital of Rs. 3,998.75 cr to meet its future growth. Out of this, Rs. 958.75 cr was raised through issuance of 7.27 cr equity shares to International Finance Corporation at Rs. 131.91 per share while Rs. 3,040 cr was raised through issuance of 23.05 cr equity shares at Rs. 131.91 per share via QIP.

Conclusion:

At Current Market Price of Rs. 147.0, Federal Bank is trading at Price/Book of 1.4x, which looks attractive considering it has demonstrated steady growth over the last few years, improvement in operating performance and asset quality, prudently increased Provisioning Coverage Ratio to help absorb any asset quality deterioration in future and significant increase in RoEs on the back of better operating performance. Considering, Federal Bank is generating about 14% RoEs, it can be valued at Price/Book of 1.75x which translates to per share value of ~ Rs. 185.0 on its existing book value of Rs. 105.5.



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