

BUY

TP: Rs 189 | ▲ 29%

FEDERAL BANK

| Banking

| 18 January 2024

Higher other income supports PAT growth

- **Business growth healthy in Q3 despite deposit mobilisation challenges; PAT grew 25% YoY on higher other income**
- **NIM came in at 3.2% (-3bps QoQ), in line with guidance for FY24; credit cost normalised at 31bps from 13bps in Q2**
- **We raise FY24/FY25 PAT estimates 3%/8% for a new TP of Rs 189 (vs. Rs 180), set at 1.3x FY26E ABV (vs. 1.4x on FY25E); retain BUY**

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Strong business growth: FB's business growth held strong in Q3FY24, with deposits outpacing credit growth at 19% YoY (+2.9% QoQ) mainly led by term deposits which grew 26% YoY (compared to CASA growth of 6.4% YoY). Correspondingly, the CASA ratio fell 54bps QoQ to 30.6%. Loan growth was backed by a healthy rise in retail (+5% QoQ) and agri (+6%) business, even as microfinance witnessed strong growth of 12% off a low base. Management maintained its business growth guidance of 18-20% for FY24 with a target LDR of 80%.

NII muted; NIM dips QoQ: Higher interest expenses led to muted NII growth of 8.5% YoY (+3.3% QoQ), whereas other income increased 61% YoY (+18% QoQ) due to the stake sale in NBFC arm Fedfina. Cost of deposits moved up 21bps QoQ, in line with guidance, leading to a 3bps dip in reported NIM to 3.19%. Management maintained NIM guidance at 3.25% for FY24. Increased operational cost driven by higher branch addition and additional provisions towards wage revision slowed PPOP growth to 13% YoY, while PAT was up 25% YoY to Rs 10bn. Management guidance of additional costs towards the pension bill is likely to keep the C/I ratio elevated in Q4 as well.

Slippages up QoQ but asset quality stable: Slippages rose to Rs 4.9bn from Rs 3.7bn in Q2 as a single corporate account slipped into NPA. Management is confident of upgrading the same in Q4. GNPA/NNPA were stable at 2.3%/0.6% with 72.3% PCR. Credit cost normalised to 19bps from 9bps in Q2 and management retained guidance of 40bps for FY24. Considering stable asset quality and low credit cost, we cut our FY24/FY25 provision estimates by 44%/26% and raise PAT forecasts by 3%/8%.

Maintain BUY: FB's conservative approach towards asset quality versus asset pricing along with risk-adjusted growth over the past year is paying off. At current valuations of 1x FY26E P/ABV, the bank is one of the cheapest stocks among large-cap peers due to its relatively low return ratios. We expect strong growth with stable margins and a focus on risk-adjusted returns to raise ROE/ROA to 14%/1.2% by FY26, gradually narrowing the gap with peers. Alongside estimate revision, we now value the stock at 1.3x FY26E ABV (vs. 1.4x on FY25E earlier) based on the Gordon Growth Model, translating to a revised TP of Rs 189 (vs. Rs 180). **BUY.**

Key changes

| Target | Rating |
|--------|--------|
| ▲ | ◀ ▶ |

| | |
|------------------|---------------|
| Ticker/Price | FB IN/Rs 147 |
| Market cap | US\$ 4.4bn |
| Free float | 100% |
| 3M ADV | US\$ 22.7mn |
| 52wk high/low | Rs 159/Rs 121 |
| Promoter/FPI/DII | 0%/29%/44% |

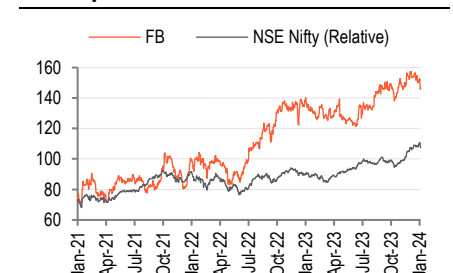
Source: NSE | Price as of 18 Jan 2024

Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|-------------------------|--------|--------|--------|
| Net interest income | 72,322 | 82,630 | 98,379 |
| NII growth (%) | 21.3 | 14.3 | 19.1 |
| Adj. net profit (Rs mn) | 29,086 | 37,595 | 41,688 |
| EPS (Rs) | 13.8 | 16.5 | 17.1 |
| Consensus EPS (Rs) | 13.8 | 15.7 | 17.4 |
| P/E (x) | 10.6 | 8.9 | 8.6 |
| P/BV (x) | 1.4 | 1.3 | 1.1 |
| ROA (%) | 1.2 | 1.3 | 1.3 |
| ROE (%) | 14.4 | 15.1 | 13.9 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

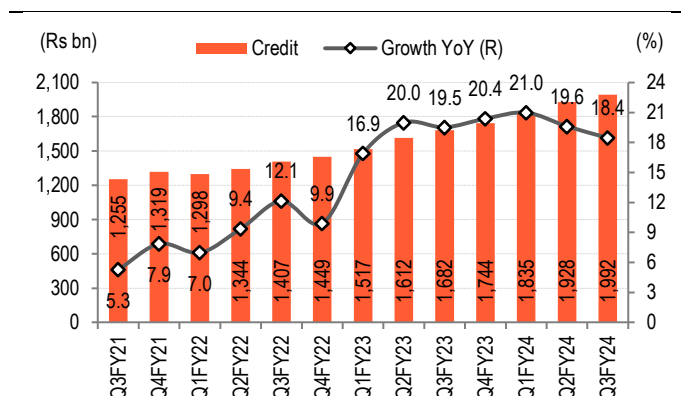
| (Rs mn) | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | YoY (%) | QoQ (%) |
|---|---------------|---------------|---------------|---------------|---------------|-------------|--------------|
| Income Statement | | | | | | | |
| Interest Income | 35,849 | 37,974 | 40,396 | 43,555 | 45,976 | 28.2 | 5.6 |
| Income on investments | 7,207 | 7,780 | 8,149 | 8,940 | 9,502 | 31.9 | 6.3 |
| Int. on bal. with RBI & inter-bank funds & Others | 1,277 | 1,453 | 1,701 | 2,058 | 1,823 | 42.8 | (11.4) |
| Interest income | 44,333 | 47,207 | 50,245 | 54,553 | 57,301 | 29.3 | 5.0 |
| Interest expense | 24,767 | 28,115 | 31,059 | 33,989 | 36,067 | 45.6 | 6.1 |
| Net interest income | 19,565 | 19,093 | 19,186 | 20,564 | 21,234 | 8.5 | 3.3 |
| Growth YoY (%) | 27.1 | 25.2 | 19.6 | 16.7 | 8.5 | (1,861bps) | (819bps) |
| Non-interest income | 5,340 | 7,339 | 7,324 | 7,304 | 8,626 | 61.5 | 18.1 |
| Growth YoY (%) | 10.3 | 57.8 | 61.8 | 19.8 | 61.5 | 5,124bps | 4,169bps |
| Total income | 24,905 | 26,432 | 26,510 | 27,868 | 29,859 | 19.9 | 7.1 |
| Growth YoY (%) | 23.1 | 32.8 | 28.9 | 17.5 | 19.9 | (321bps) | 237bps |
| Staff expenses | 5,608 | 5,972 | 6,167 | 6,263 | 6,932 | 23.6 | 10.7 |
| Other operating expenses | 6,555 | 7,114 | 7,319 | 8,361 | 8,554 | 30.5 | 2.3 |
| Operating expenses | 12,163 | 13,086 | 13,487 | 14,624 | 15,486 | 27.3 | 5.9 |
| Pre-Provisioning Profit (PPoP) | 12,742 | 13,346 | 13,024 | 13,245 | 14,373 | 12.8 | 8.5 |
| Growth YoY (%) | 39.4 | 67.2 | 33.8 | 9.3 | 12.8 | (2,656bps) | 355bps |
| Provisions | 1,987 | 1,167 | 1,556 | 439 | 912 | (54.1) | 107.8 |
| Growth YoY (%) | (7.1) | 55.1 | (6.7) | (83.6) | (54.1) | 1,486bps | (4,694bps) |
| PBT | 10,755 | 12,179 | 11,468 | 12,806 | 13,461 | 25.2 | 5.1 |
| Tax | 2,719 | 3,153 | 2,930 | 3,267 | 3,394 | 24.8 | 3.9 |
| PAT | 8,036 | 9,026 | 8,537 | 9,538 | 10,067 | 25.3 | 5.5 |
| Growth YoY (%) | 54.0 | 67.0 | 42.1 | 35.5 | 25.3 | (2,875bps) | (1,026bps) |
| Per Share | | | | | | | |
| FV (Rs) | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 0.0 | 0.0 |
| EPS (Rs) | 3.8 | 4.3 | 4.0 | 4.2 | 4.2 | 9.5 | (0.2) |
| Book Value (Rs) | 97 | 101 | 105 | 111 | 115 | 19.3 | 4.3 |

Source: BOBCAPS Research, Company

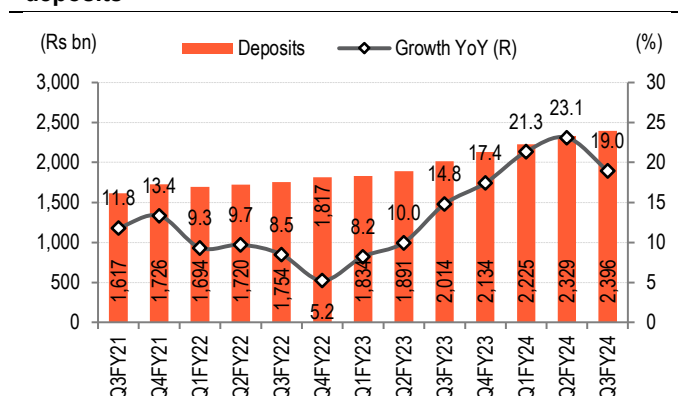
Fig 2 – Quarterly snapshot: Key balance sheet parameters & ratios

| (Rs mn) | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | YoY (%) | QoQ (%) |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|----------|----------|
| Deposits | 2,014,080 | 2,133,860 | 2,224,960 | 2,328,684 | 2,395,910 | 19.0 | 2.9 |
| Growth YoY (%) | 14.8 | 17.4 | 21.3 | 23.1 | 19.0 | 415bps | (416bps) |
| Advances | 1,681,730 | 1,744,469 | 1,834,870 | 1,928,167 | 1,991,850 | 18.4 | 3.3 |
| Growth YoY (%) | 19.5 | 20.4 | 21.0 | 19.6 | 18.4 | (105bps) | (114bps) |
| Investment | 462,650 | 489,834 | 519,420 | 551,691 | 573,730 | 24.0 | 4.0 |
| Equity | 210,110 | 219,295 | 228,000 | 265,892 | 286,590 | 36.4 | 7.8 |
| Assets | 2,504,720 | 2,603,418 | 2,741,960 | 2,874,260 | 2,962,130 | 18.3 | 3.1 |
| Growth YoY (%) | 19.9 | 17.8 | 21.7 | 21.2 | 18.3 | (165bps) | (296bps) |
| Yield (%) | | | | | | | |
| Yield on Funds | 7.84 | 7.98 | 8.11 | 8.35 | 8.40 | 56bps | 5bps |
| Cost of Funds | 4.60 | 4.96 | 5.22 | 5.49 | 5.67 | 107bps | 18bps |
| Spread | 3.24 | 3.02 | 2.89 | 2.86 | 2.73 | (51bps) | (13bps) |
| Net Interest Margin (calc.) | 3.46 | 3.23 | 3.10 | 3.15 | 3.11 | (35bps) | (3bps) |
| Ratios (%) | | | | | | | |
| Other Income / Net Income | 21.4 | 27.8 | 27.6 | 26.2 | 28.9 | 745bps | 268bps |
| Cost to Income ratio | 48.8 | 49.5 | 50.9 | 52.5 | 51.9 | 303bps | (61bps) |
| CASA ratio | 34.2 | 32.7 | 31.8 | 31.2 | 30.6 | (361bps) | (54bps) |
| C/D ratio | 83.5 | 81.8 | 82.5 | 82.8 | 83.1 | (36bps) | 33bps |
| Investment to Assets | 18.5 | 18.8 | 18.9 | 19.2 | 19.4 | 90bps | 17bps |
| Assets Quality | | | | | | | |
| GNPA | 41,479 | 41,838 | 44,348 | 44,361 | 46,288 | 11.6 | 4.34 |
| NNPA | 12,286 | 12,050 | 12,746 | 12,298 | 12,844 | 4.5 | 4.4 |
| Provision | 29,193 | 29,788 | 31,602 | 32,062 | 33,444 | 14.6 | 4.3 |
| GNPA (%) | 2.43 | 2.36 | 2.38 | 2.26 | 2.29 | (14bps) | 3bps |
| NNPA (%) | 0.73 | 0.69 | 0.69 | 0.64 | 0.64 | (9bps) | 0bps |
| PCR (%) | 70.4 | 71.2 | 71.3 | 72.3 | 72.3 | 187bps | (2bps) |

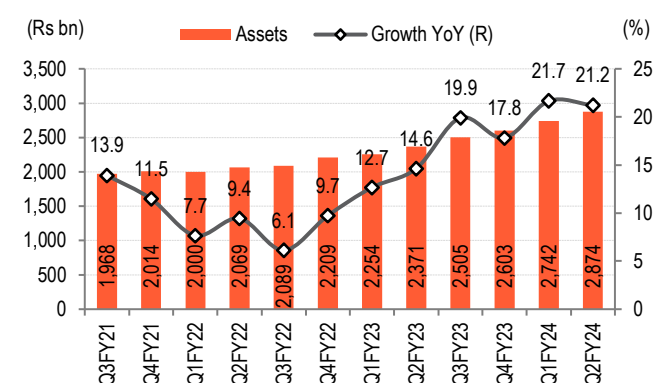
Source: Company, BOBCAPS Research

Fig 3 – Credit growth remained healthy supported by retail

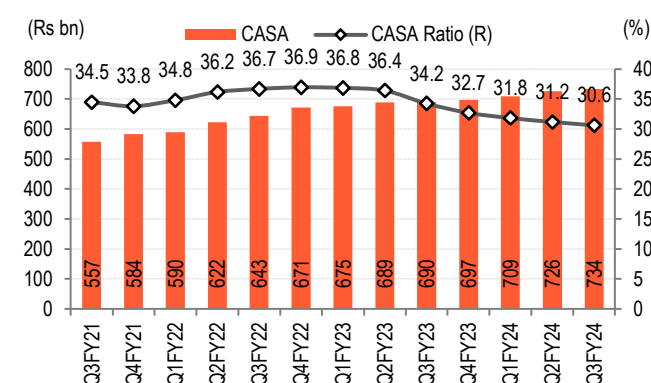
Source: Company, BOBCAPS Research

Fig 4 – Deposits outpaced credit growth led by term deposits

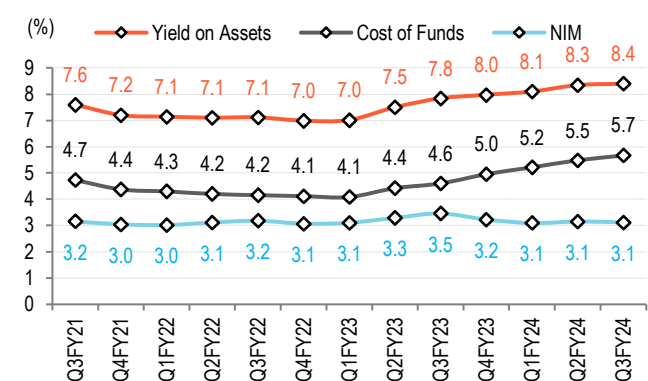
Source: Company, BOBCAPS Research

Fig 5 – Assets grew 21% YoY

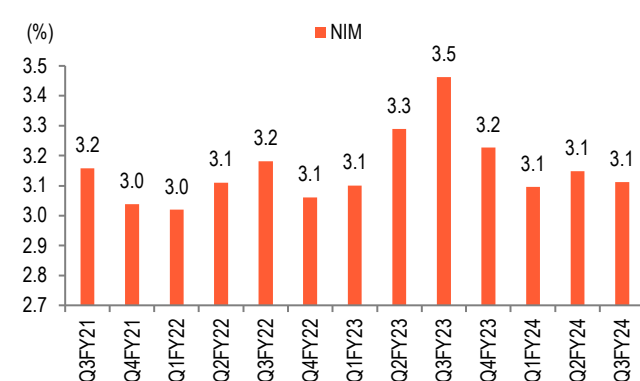
Source: Company, BOBCAPS Research

Fig 6 – CASA declined due to subdued SA mobilisation

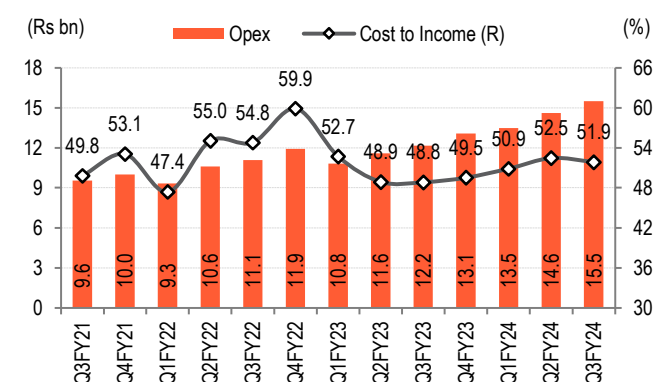
Source: Company, BOBCAPS Research

Fig 7 – NIM (calc.) remained flat despite higher cost of funds

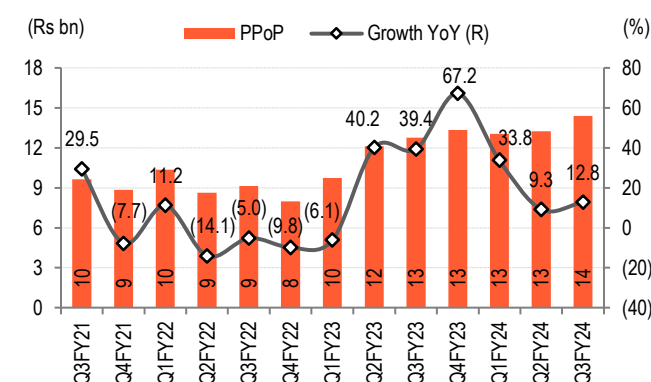
Source: Company, BOBCAPS Research

Fig 8 – NIM guidance maintained at 3.25% for FY24

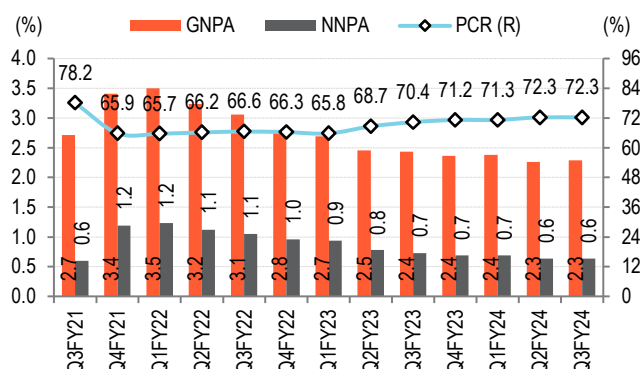
Source: Company, BOBCAPS Research

Fig 9 – C/I ratio elevated at 52%

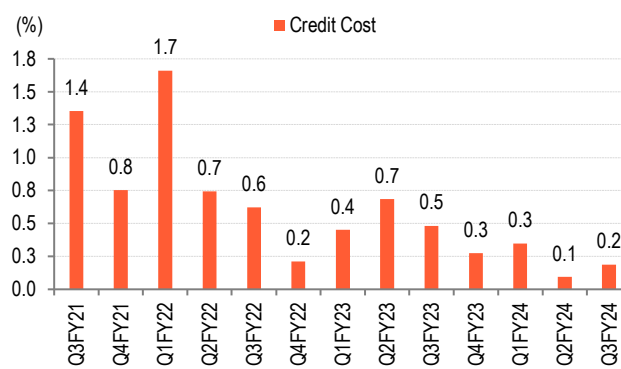
Source: Company, BOBCAPS Research

Fig 10 – Higher opex led to slowdown in PPOP growth

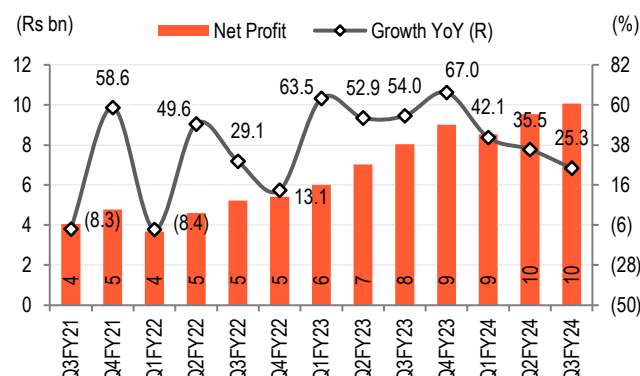
Source: Company, BOBCAPS Research

Fig 11 – Stable asset quality and PCR

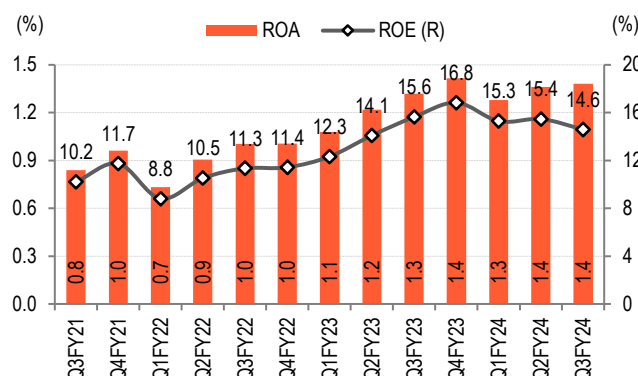
Source: Company, BOBCAPS Research

Fig 12 – Sustained low credit cost aided profit

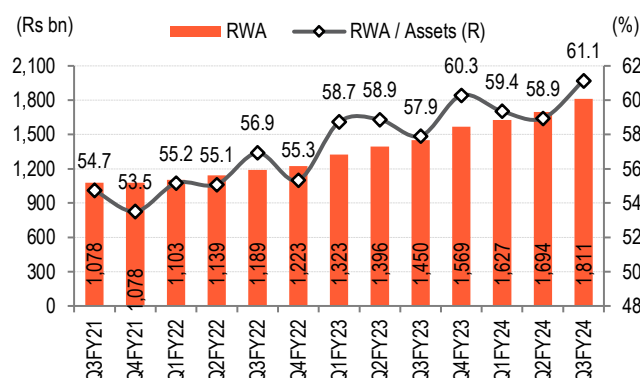
Source: Company, BOBCAPS Research

Fig 13 – Higher other income led to 25% YoY PAT growth

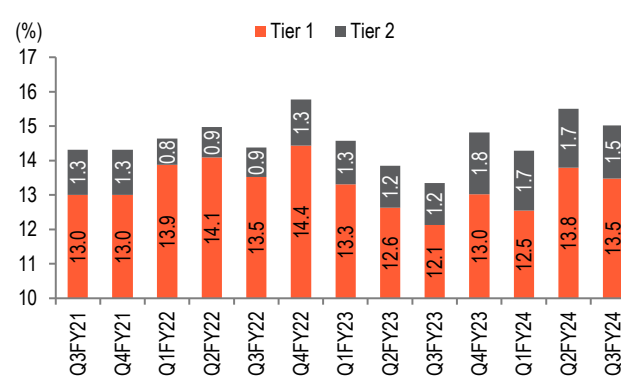
Source: Company, BOBCAPS Research

Fig 14 – Return ratios in line with management guidance

Source: Company, BOBCAPS Research

Fig 15 – RWA moved up due to change in regulation

Source: Company, BOBCAPS Research

Fig 16 – CAR stable at 15%

Source: Company, BOBCAPS Research

Earnings call highlights

Guidance

- FB is confident of maintaining growth momentum and reiterated its guidance of an 18-20% YoY rise in both loans and deposits for FY24.
- Management reiterated guidance of 3.25% NIM and 40bps credit cost for FY24.
- As the bank get closer to its ROA target of 1.4%, it now aspires to achieve 1.5% levels going ahead.

Asset quality

- Slippages during Q3FY24 were higher at Rs 5bn vs. Rs 3.6bn in Q2FY24, while upgrades and recoveries stood at Rs 3bn vs. Rs 3.6bn in Q2.
- Increased slippages arose largely from a single Rs 0.7bn account from the corporate segment that slipped into NPA. Management is confident of upgrading the same in Q4.
- GNPA and NNPA were flat at 2.3% and 0.6% respectively with PCR at 72.3

Loans and Deposits

- Management expects broad-based loan growth across segments and indicated that its strategy of targeting growth in high-yielding newly launched businesses is working well.
- Net advances increased 18% YoY (3% QoQ) for the quarter, wherein the retail segment grew 20%, business banking 18%, commercial banking 26% and corporate advances 14%. Within retail, CV/CE advances where the bank is a relatively new entrant increased 66% YoY.
- Deposits jumped 19% YoY in Q3 led by term deposits that grew 26% vs. CASA growth of 6.4%. Management indicated a structural change in deposit mobilisation towards term deposits due to rate repricing, as non-resident business has shifted towards consumption.
- Current accounts grew 25.5% YoY (+4% QoQ) while savings accounts were up 4% YoY (+2% QoQ). The CASA ratio declined to 30.6% from 31.2% in Q2FY24.
- NRE term deposits, where the bank has 8.4% market share, grew 6% YoY.

NII and NIM

- NII growth was subdued at 3% QoQ (+8% YoY) mainly due to a higher cost of funds wherein the cost of deposits increased 21bps QoQ while yield on assets grew by a mere 2bps sequentially.
- Other income for the quarter surged 18% QoQ (61.5% YoY) backed by a one-off stake sale in its NBFC subsidiary Fedfina.
- Opex increased mainly due to wage provisions. Further, management guidance of additional costs towards the pension bill is likely to keep the bank's C/I ratio elevated in Q4 as well.

Valuation methodology

Considering FB's strong growth momentum across segments over the last 2-3 quarters despite a challenging environment, we raise our deposit estimates by 2%/4% for FY24/FY25 while revising our credit estimate for FY25 up by 1%. We also introduce FY26 forecasts for the bank. Management is guiding for stable NIM at 3.25% in FY24 supported by a change in mix towards the retail business and we accordingly model for margins of 3.2% over our forecast period.

In terms of operating expenses, FB has retained its expansion target of 100 branches per year (63 branches in 9MFY24 vs. 73 in FY23), while expecting some additional costs from wage revision and pension liability during Q4FY24, which is likely to keep operating cost elevated. Accordingly, we adjust our PPOP growth expectations by -3%/+2% for FY24/FY25.

We expect stable asset quality and the bank's risk-averse approach to limit credit cost to 20bps in FY24 as against 40bps guided. We, therefore, cut our provision estimates by 44%/26% for FY24/FY25, leading to a rise in bottomline by 3%/8% from our previous assumptions. FB's CAR has declined 50bps YoY in Q3FY24 to 15% as a result of an increase in risk weights on the retail book. Tier-1 capital stood at 13.5% (vs. 13.8% in Q2FY24) – at the lower end when compared to peers.

FB's conservative approach towards asset quality versus asset pricing along with risk-adjusted growth over the past year is paying off, in our view. At current valuations of 1x FY26E P/ABV, the bank is one of the cheapest stocks among large-cap peers due to its relatively low return ratios. We expect strong growth with stable margins and a focus on risk-adjusted returns to raise ROE/ROA to 14%/1.3% by FY26, gradually narrowing the gap with peers. Alongside estimate revision, we now value the stock at 1.3x FY26E ABV (vs. 1.4x on FY25E earlier) based on the Gordon Growth Model, which translates to a revised TP of Rs 189 (vs. Rs 180). Maintain BUY.

Fig 17 – Revised estimates

| (Rs mn) | New | | Old | | Change (%) | |
|-----------|-----------|-----------|-----------|-----------|------------|--------|
| | FY24E | FY25E | FY24E | FY25E | FY24E | FY25E |
| Loan | 2,074,173 | 2,447,525 | 2,074,173 | 2,430,931 | 0.0 | 0.7 |
| Deposits | 2,545,695 | 3,026,832 | 2,498,751 | 2,918,541 | 1.9 | 3.7 |
| Assets | 3,068,568 | 3,536,459 | 3,045,405 | 3,535,652 | 0.8 | 0.0 |
| NII | 82,630 | 98,379 | 84,940 | 96,809 | (2.7) | 1.6 |
| PPOP | 54,240 | 64,171 | 55,704 | 62,805 | (2.6) | 2.2 |
| Provision | 3,819 | 8,139 | 6,874 | 11,038 | (44.4) | (26.3) |
| PAT | 37,595 | 41,688 | 36,409 | 38,515 | 3.3 | 8.2 |

Source: BOBCAPS Research

Fig 18 – Key operational assumptions

| (%) | FY23A | FY24E | FY25E | FY26E |
|-----------------|-------|-------|-------|-------|
| Advances growth | 20.4 | 18.9 | 18.0 | 17.1 |
| NII growth | 21.3 | 14.3 | 19.1 | 17.8 |
| PPoP growth | 27.6 | 13.1 | 18.3 | 17.1 |
| PAT growth | 53.9 | 29.3 | 10.9 | 15.6 |
| NIM | 3.3 | 3.2 | 3.2 | 3.2 |
| GNPA | 2.3 | 2.2 | 2.2 | 2.2 |
| CAR | 14.8 | 14.5 | 14.9 | 14.2 |

Source: Company, BOBCAPS Research

Fig 19 – Valuation assumptions

| Gordon Growth Model | Assumptions |
|---------------------------------------|-------------|
| Cost of equity (%) | 12.8 |
| Blended ROE (%) | 14.1 |
| Initial high growth period (yrs) | 10.0 |
| Payout ratio of high-growth phase (%) | 20.0 |
| Long-term growth (%) | 6 |
| Long term dividend payout ratio (%) | 60 |
| Justified P/BV Multiple (x) | 1.3 |

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- reversal in credit cycle, which can lead to higher deterioration in asset quality and thus overall profitability owing to higher provisions, and
- inability to manage cost of funds, which may drag down NIM as well as overall profitability.

Sector recommendation snapshot

| Company | Ticker | Market Cap (US\$ bn) | Price (Rs) | Target (Rs) | Rating |
|---------------------|------------|----------------------|------------|-------------|--------|
| Axis Bank | AXSB IN | 41.1 | 1,098 | 1,155 | BUY |
| Bandhan Bank | BANDHAN IN | 4.5 | 228 | 276 | BUY |
| Federal Bank | FB IN | 4.4 | 147 | 189 | BUY |
| HDFC Bank | HDFCB IN | 136.3 | 1,486 | 1,896 | BUY |
| ICICI Bank | ICICIB IN | 83.8 | 986 | 1,090 | BUY |
| Indusind Bank | IIB IN | 15.2 | 1,613 | 1,755 | BUY |
| Kotak Mahindra Bank | KMB IN | 43.0 | 1,777 | 2,007 | BUY |
| RBL Bank | RBK IN | 2.0 | 270 | 258 | HOLD |
| State Bank of India | SBIN IN | 68.2 | 628 | 747 | BUY |

Source: BOBCAPS Research, NSE | Price as of 18 Jan 2024

Glossary

| Glossary of Abbreviations | | | |
|---------------------------|---|-------------|------------------------------------|
| AUCA | Advance Under Collection Account | MTM | Mark to Market |
| CASA | Current Account and Savings Account | NII | Net Interest Income |
| CAR | Capital Adequacy Ratio | NIM | Net Interest Margin |
| CET1 | Common Equity Tier 1 | NNPA | Net Non-Performing Assets |
| CD | Credit-Deposit Ratio | NRE | Non-Resident (External) Account |
| C/I | Cost-Income Ratio | NRO | Non-Resident Ordinary Account |
| CV/CE | Commercial Vehicle/Construction Equipment | PCR | Provision Coverage Ratio |
| EBLR | External Benchmark-based Lending Rate | PPOP | Pre-Provision Operating Profit |
| ECL | Expected Credit Loss | PSU | Public Sector Unit |
| FCNR | Foreign Currency Non-Resident Account | RWA | Risk-weighted Assets |
| GNPA | Gross Non-Performing Assets | SA | Savings Account |
| LCR | Liquidity Coverage Ratio | SLR | Statutory Liquidity Ratio |
| LDR | Loan to Deposit Ratio | SMA | Special Mention Account |
| MCLR | Marginal Cost of Funds-based Lending Rate | SME | Small and Medium-sized Enterprises |
| MFI | Microfinance Institution | | |

Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
|---------------------|--------|--------|---------|---------|---------|
| Net interest income | 59,620 | 72,322 | 82,630 | 98,379 | 115,902 |
| NII growth (%) | 7.7 | 21.3 | 14.3 | 19.1 | 17.8 |
| Non-interest income | 20,891 | 23,300 | 31,621 | 36,658 | 41,503 |
| Total income | 80,510 | 95,622 | 114,251 | 135,037 | 157,405 |
| Operating expenses | 42,932 | 47,678 | 60,011 | 70,866 | 82,263 |
| PPOP | 37,579 | 47,944 | 54,240 | 64,171 | 75,142 |
| PPOP growth (%) | (1.1) | 27.6 | 13.1 | 18.3 | 17.1 |
| Provisions | 12,218 | 7,986 | 3,819 | 8,139 | 10,361 |
| PBT | 25,361 | 39,958 | 50,421 | 56,032 | 64,780 |
| Tax | 6,463 | 10,872 | 12,826 | 14,344 | 16,584 |
| Reported net profit | 18,898 | 29,086 | 37,595 | 41,688 | 48,197 |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 18,898 | 29,086 | 37,595 | 41,688 | 48,197 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
|--------------------------|-----------|-----------|-----------|-----------|-----------|
| Equity capital | 4,205 | 4,232 | 4,870 | 4,870 | 4,870 |
| Reserves & surplus | 183,733 | 210,830 | 278,780 | 312,130 | 350,687 |
| Net worth | 187,938 | 215,062 | 283,650 | 317,000 | 355,557 |
| Deposits | 1,817,006 | 2,133,860 | 2,545,695 | 3,026,832 | 3,571,662 |
| Borrowings | 153,931 | 193,193 | 175,806 | 186,354 | 197,535 |
| Other liab. & provisions | 50,588 | 61,303 | 63,417 | 6,274 | 24,449 |
| Total liab. & equities | 2,209,463 | 2,603,418 | 3,068,568 | 3,536,459 | 4,149,203 |
| Cash & bank balance | 210,103 | 176,887 | 208,783 | 215,100 | 254,702 |
| Investments | 391,795 | 489,833 | 588,577 | 658,750 | 775,044 |
| Advances | 1,449,283 | 1,744,469 | 2,074,173 | 2,447,525 | 2,866,051 |
| Fixed & Other assets | 158,282 | 192,229 | 197,034 | 215,085 | 253,405 |
| Total assets | 2,209,463 | 2,603,418 | 3,068,568 | 3,536,459 | 4,149,203 |
| Deposit growth (%) | 5.2 | 17.4 | 19.3 | 18.9 | 18.0 |
| Advances growth (%) | 9.9 | 20.4 | 18.9 | 18.0 | 17.1 |

Per Share

| Y/E 31 Mar (Rs) | FY22A | FY23A | FY24E | FY25E | FY26E |
|----------------------|-------|-------|-------|-------|-------|
| EPS | 9.2 | 13.8 | 16.5 | 17.1 | 19.8 |
| Dividend per share | 1.8 | 2.8 | 3.3 | 3.4 | 4.0 |
| Book value per share | 89.4 | 101.6 | 116.5 | 130.2 | 146.0 |

Valuations Ratios

| Y/E 31 Mar (x) | FY22A | FY23A | FY24E | FY25E | FY26E |
|--------------------|-------|-------|-------|-------|-------|
| P/E | 15.9 | 10.6 | 8.9 | 8.6 | 7.4 |
| P/BV | 1.6 | 1.4 | 1.3 | 1.1 | 1.0 |
| Dividend yield (%) | 1.3 | 1.9 | 2.3 | 2.3 | 2.7 |

DuPont Analysis

| Y/E 31 Mar (%) | FY22A | FY23A | FY24E | FY25E | FY26E |
|-------------------------|-------|-------|-------|-------|-------|
| Net interest income | 2.8 | 3.0 | 2.9 | 3.0 | 3.0 |
| Non-interest income | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 |
| Operating expenses | 2.0 | 2.0 | 2.1 | 2.1 | 2.1 |
| Pre-provisioning profit | 1.8 | 2.0 | 1.9 | 1.9 | 2.0 |
| Provisions | 0.6 | 0.3 | 0.1 | 0.2 | 0.3 |
| PBT | 1.2 | 1.7 | 1.8 | 1.7 | 1.7 |
| Tax | 0.3 | 0.5 | 0.5 | 0.4 | 0.4 |
| ROA | 0.9 | 1.2 | 1.3 | 1.3 | 1.3 |
| Leverage (x) | 12.1 | 11.9 | 11.4 | 11.0 | 11.4 |
| ROE | 10.8 | 14.4 | 15.1 | 13.9 | 14.3 |

Ratio Analysis

| Y/E 31 Mar | FY22A | FY23A | FY24E | FY25E | FY26E |
|--|-------|-------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Net interest income | 7.7 | 21.3 | 14.3 | 19.1 | 17.8 |
| Pre-provisioning profit | (1.1) | 27.6 | 13.1 | 18.3 | 17.1 |
| EPS | 15.6 | 49.5 | 19.8 | 3.6 | 15.6 |
| Profitability & Return ratios (%) | | | | | |
| Net interest margin | 3.1 | 3.3 | 3.2 | 3.2 | 3.2 |
| Fees / Avg. assets | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Cost-Income | 53.3 | 49.9 | 52.5 | 52.5 | 52.3 |
| ROE | 10.8 | 14.4 | 15.1 | 13.9 | 14.3 |
| ROA | 0.9 | 1.2 | 1.3 | 1.3 | 1.3 |
| Asset quality (%) | | | | | |
| GNPA | 2.8 | 2.3 | 2.2 | 2.2 | 2.2 |
| NNPA | 1.0 | 0.7 | 0.6 | 0.6 | 0.6 |
| Slippage ratio | 1.4 | 1.2 | 1.0 | 1.3 | 1.3 |
| Credit cost | 0.9 | 0.5 | 0.2 | 0.4 | 0.4 |
| Provision coverage | 65.4 | 70.5 | 71.6 | 71.9 | 71.4 |
| Ratios (%) | | | | | |
| Credit-Deposit | 79.8 | 81.8 | 81.5 | 80.9 | 80.2 |
| Investment-Deposit | 21.6 | 23.0 | 23.1 | 21.8 | 21.7 |
| CAR | 15.8 | 14.8 | 14.5 | 14.9 | 14.2 |
| Tier-1 | 14.4 | 13.0 | 13.0 | 14.0 | 13.3 |

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

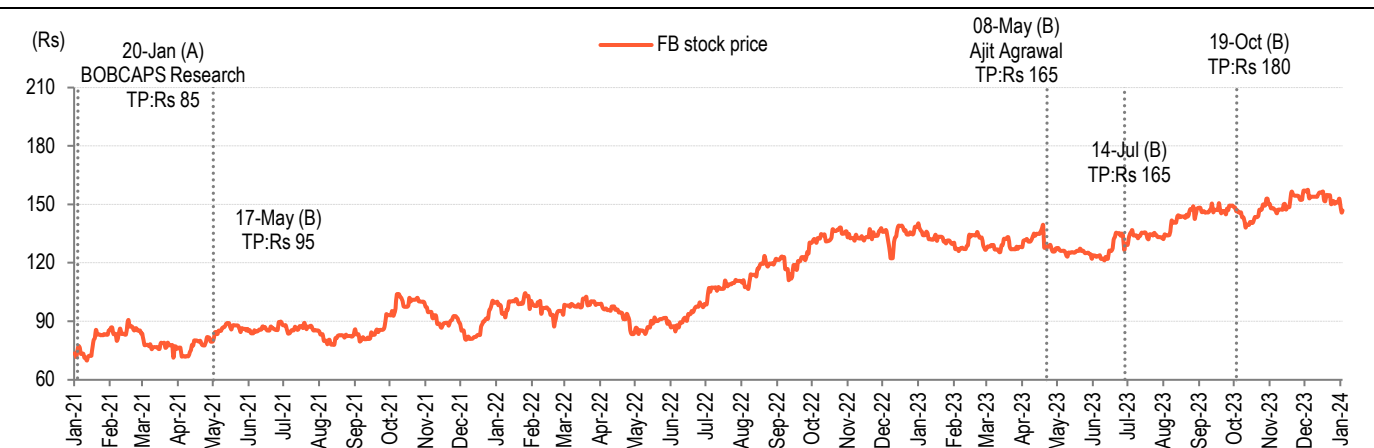
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): FEDERAL BANK (FB IN)



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