

Result Update

Q3 FY24

FEDERAL BANK

Institutional
Research

Highest-ever net profit aided by healthy operating performance surpassing market estimates

Net Interest Income stood at Rs. 2,123 crores in Q3FY24, showing a 3.3% QoQ / up 8.5% YoY growth, beating market estimates of Rs. 2,000 crores. Pre-provision operating profit (PPOP) stood at Rs. 1,437 crores in Q3FY24, showing a growth of 8.5% QoQ / up 12.8% YoY. Provisions advanced significantly to Rs. 431 crores in Q3FY24 from Rs. 371 crores in Q2FY24 and down from Rs. 471 crores in Q2FY23. The bank's quarterly net profit rose to Rs. 1,007 crores in Q2FY24, up 5.5% QoQ / up 25.2% YoY, beating market estimates of Rs. 933 crores. NIM declined marginally to 3.19% in Q3FY24, down 3bps QoQ / down 36bps YoY, mainly due to the rise in the cost of funds. Gross NPA stood at 2.29% in Q3FY24, up 3bps QoQ / down 14bps YoY. Net NPA stood at 0.64% in Q3FY24 similar to the previous quarter and down 9bps YoY. Credit cost saw a significant rise in Q3FY24 at 0.31%, up 18bps QoQ / down 7bps YoY, owing to higher slippages from its retail and corporate loan book. Cost to Income ratio stood at 51.9% in Q3FY24 compared to 52.5% in Q2FY24 and 48.8% in Q3FY23. Capital Adequacy Ratio declined to 15.02% in Q3FY24 from 15.50% in Q2FY24. Gross Deposits showed healthy growth and stood at Rs. 2,39,591 crores in Q3FY24, up 2.9% QoQ / up 19.0% YoY as the bank is gaining traction with more granularity. Gross Advances improved and stood at Rs. 2,02,475 crores in Q3FY24, up 3.3% QoQ / up 18.4% YoY, showing stable and diversified loan growth. CASA saw a 15-quarter low and stood at 30.63% in Q3FY24 from 31.17% in Q2FY24 and 34.24% in Q3FY23 as TDs gained growth at the cost of low-bearing CASA deposits.

Sector Outlook

Positive

Stock

CMP (Rs.)	147
BSE code	500469
NSE Symbol	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO

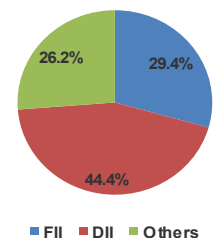
Key Data

Nifty	19,625
52 Week H/L (Rs.)	159/121
O/s Shares (Mn)	2,434
Market Cap (Rs. bn)	358
Face Value (Rs.)	2

Average Volume

3 months	1,24,25,850
6 months	1,51,76,050
1 year	1,37,27,110

Share Holding (%)

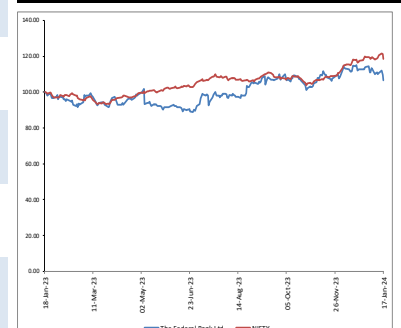


Key Highlights

Particulars (Rs. crores)	Q3FY23	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Net Interest Income	1,957	2,056	2,123	8.5	3.3
PPOP	1,274	1,325	1,437	12.8	8.5
Net Profit	804	954	1007	35.5	11.7
NIM (%)	3.55	3.22	3.19	(36bps)	(3bps)
RoA (%)	1.33	1.36	1.39	6bps	3bps
GNPA (%)	2.43	2.26	2.29	(14bps)	3bps
NNPA (%)	0.73	0.64	0.64	(9bps)	-
CASA (%)	34.24	31.17	30.63	(361bps)	(54bps)

Source: Company, BP Equities Research

Relative Price Chart



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Valuation and Outlook

As expected, Federal Bank reported healthy numbers in Q3FY24 and surpassed street expectations, beating net profit estimates. The bank's focus on commercial lending and vehicle financing alongside NR deposits helped to contribute an increase in advances. Although the bank faced marginal NIM compression this quarter, the impact was not seen in its profitability due to the bank's focus on high-margin lending products. The bank saw significant growth in its microfinance lending where the growth was 161% on a yearly basis and in addition, it continues to see remarkable growth in its vehicle financing, where the growth was 67% on a yearly basis. Surprisingly, the bank has seen a lower cost-to-income ratio due to improvement in its top line. However, amidst the positive set of numbers, the bank's asset quality took a nominal hit with an increase in slippages this quarter which needs to be monitored in the medium term. With return ratios of the bank at elevated levels consistently and branch expansion in line with the bank's guidance, we believe that the bank will improve its profitability going ahead. However, the growth should not be offset by deteriorating asset quality. Also, any surprise delinquencies in its corporate book may see a significant impact on its credit cost and may act as a hurdle in its way to improve RoA. Additionally, the bank's focus on para-banking (insurance, investments, wealth management) will lead to healthy growth. With the bank aspiring for higher return ratios, led by a combination of loan mix and improved pricing in the long run, we expect Federal Bank to lead the race in the regional private banking space.

"In Q3FY24, Federal Bank achieved a historic milestone with its first-ever four-digit profit number reaching Rs. 1,007 crores, with NII standing at an all-time high."

Key Concall Highlights

- There was a slippage in one account worth Rs. 70 crores during the quarter due to which the bank had an elevated provision in Q3FY24. However, the account will be upgraded in Q4FY24 and the main reason for the slippage was a fire in the client's factory and seems to have come through.
- Even though there is intense competition in the banking industry, the management is confident that RoA will be as per the guidance of 1.4% going forward due to an improved product mix.
- Though deposit rates would increase, the bank may not see any material impact on its NIMs going forward. The primary reason is that blended rates of some buckets and some tenures may start moderating.
- The Bank's opex to remain elevated for the next few quarters as some element of pension still needs to be accounted. However, the impact still needs to be calculated by the management.
- The bank is working on a fixed and floating rate product mix so that NIMs may see the effect from FY25 onwards.
- The recent change to risk weights had a negligible impact on the bank's CET-1 ratio.
- Management is upbeat about credit growth outlook and is confident about its guidance of 18-19% credit growth for FY24.

"Federal Bank has an aspirational RoA target of 1.5% in the long term."

Federal Bank

Result Update Q3FY24

Key Financials							
YE March (Rs. crores)	FY18	FY19	FY20	FY21	FY22	FY23	9MFY24
Net Interest Income	3,583	4,176	4,649	5,534	5,962	7,232	6,098
Growth %		16.6%	11.3%	19.0%	7.7%	21.3%	
PPOP	2,291	2,763	3,205	3,801	3,758	4,794	4,064
Growth%		20.6%	16.0%	18.6%	-1.1%	27.6%	
Net Profit	879	1,244	1,543	1,590	1,890	3,011	2,814
Growth %		41.5%	24.0%	3.1%	18.8%	59.3%	
EPS	4.62	6.28	7.76	7.97	9.13	14.27	10.00
Profitability & Valuation							
NIM (%)	3.21%	3.14%	3.04%	3.16%	3.20%	3.07%	3.07%
RoA (%)	0.75%	0.88%	0.94%	0.85%	0.94%	1.28%	1.35%
RoE (%)	8.39%	9.81%	11.10%	10.38%	10.87%	15.02%	15.42%
BV per Share (INR.)	61.28	66.87	72.86	80.71	88.75	95.64	110.4
P/E (x)	27.9	20.5	16.6	16.2	14.1	9.0	14.6
P/BV (x)	2.1	1.9	1.8	1.6	1.5	1.3	1.3
Cost to Income Ratio	51.69%	50.01%	51.30%	49.27%	53.32%	49.86%	51.73%

Source: Company, BP Equities Research



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