

Hopes around MD from Kotak Mah Bank nearly dashed

BFSI - Banks ▶ Company Update ▶ February 19, 2024

TARGET PRICE (Rs): 180

After a correction post results, Federal Bank (FB)'s stock recently rallied ~10% owing to news-flow about inclusion of KVS Manian (Head - Wholesale & Private Banking, Kotak Mahindra Bank) as one of the 3 candidates for the post of MD & CEO (due to be vacated in Sep-24) at FB. Notably, Mr Manian has been handling wholesale banking at KMB for a while now, and has earlier headed consumer banking till 2014 – this position was then swapped with Shanti Ekambaram's. This raised hopes for the replacement at FB with a pedigreed external candidate from a large bank as MD, after the current MD's extension for another term was rejected by the RBI. But in a separate move, KMB has elevated Mr Manian as its JMD, subject to RBI approval and, hence, possibly dashed hopes of him being a candidate for the MD post at FB. Thus, we believe any stock run-up attributed to this news-flow should come off. That said, we retain BUY on FB and our TP at Rs180/sh, given the Bank's healthy RoA/RoE trajectory, reasonable valuations (1x FY26E ABV), and lower exposure to unsecured retail loans.

Federal Bank: Financial Snapshot (Standalone)

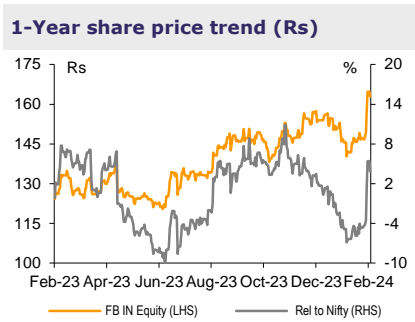
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	18,898	30,106	37,984	45,576	54,343
Loan growth (%)	9.9	20.4	18.1	18.3	20.1
NII growth (%)	7.7	21.3	14.5	18.8	20.8
NIM (%)	3.1	3.3	3.2	3.2	3.2
PPOP growth (%)	(1.1)	27.6	14.8	23.4	26.0
Adj. EPS (Rs)	9.2	14.3	16.7	18.7	22.3
Adj. EPS growth (%)	15.6	54.8	17.0	12.1	19.2
Adj. BV (INR)	84.8	96.7	134.0	141.6	161.3
Adj. BVPS growth (%)	10.3	16.6	30.0	13.0	13.9
RoA (%)	0.9	1.3	1.3	1.4	1.4
RoE (%)	10.9	15.2	14.4	13.6	14.3
P/E (x)	18.1	11.5	10.4	8.7	7.3
P/ABV (x)	2.0	1.7	1.3	1.2	1.0

Source: Company, Emkay Research

Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	10.5
CMP (19-Feb-24) (Rs)	163.0

Stock Data	Ticker
52-week High (Rs)	167
52-week Low (Rs)	121
Shares outstanding (mn)	2,433.4
Market-cap (Rs bn)	397
Market-cap (USD mn)	4,777
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	15
ADTV-3M (Rs mn)	2,197.0
ADTV-3M (USD mn)	26.5
Free float (%)	100.0
Nifty-50	22,122
INR/USD	83.0
Shareholding, Dec-23	
Promoters (%)	-
FPIs/MFs (%)	29.1/44.2

Price Performance (%)	1M	3M	12M
Absolute	11.2	10.0	28.2
Rel. to Nifty	8.7	(1.9)	4.0



Anand Dama

anand.dama@emkayglobal.com
+91 22 6624 2480

Kunaal N

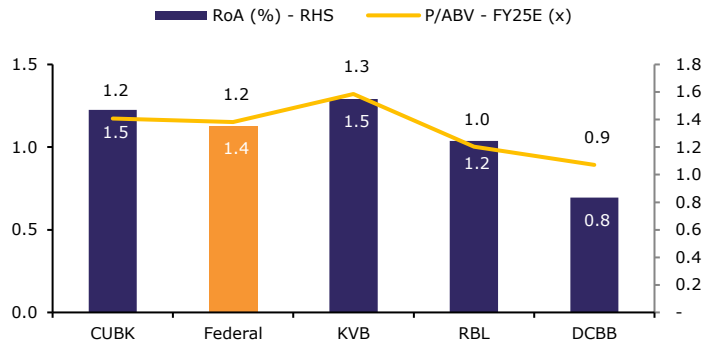
kunaal.n@emkayglobal.com
+91 22 6612 1275

Marazbaan Dastur

marazbaan.dastur@emkayglobal.com
+91 22 6612 1281

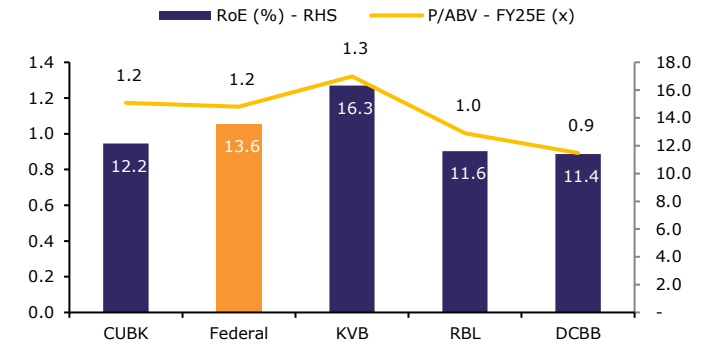
Story in Charts

Exhibit 1: Federal Bank trades at relatively reasonable valuations vs peers...



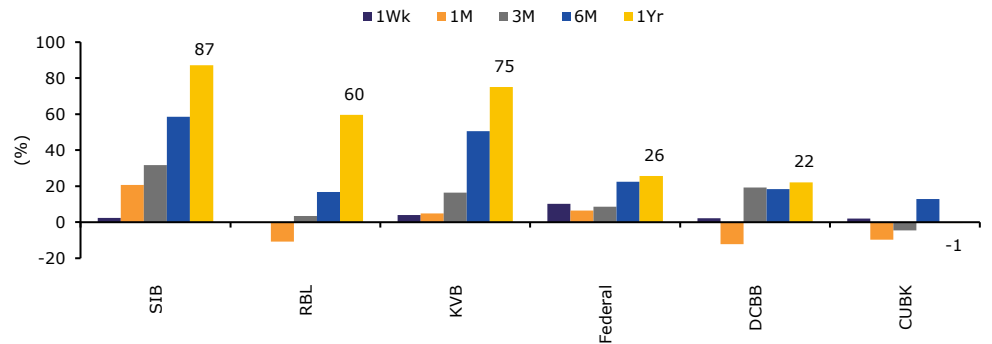
Source: Emkay Research

Exhibit 2: ... and is set to deliver healthy return ratios going forward



Source: Emkay Research

Exhibit 3: Stock-price performance



Source: Emkay Research

Federal Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	136,608	168,036	221,802	257,213	299,069
Interest Expense	76,988	95,715	138,991	158,852	180,295
Net interest income	59,620	72,322	82,812	98,361	118,774
NII growth (%)	7.7	21.3	14.5	18.8	20.8
Other income	20,891	23,300	31,536	35,960	42,133
Total Income	80,510	95,622	114,347	134,322	160,907
Operating expenses	42,932	47,678	59,315	66,409	75,309
PPOP	37,579	47,944	55,033	67,913	85,598
PPOP growth (%)	(1.1)	27.6	14.8	23.4	26.0
Core PPOP	34,550	47,647	49,534	61,589	78,326
Provisions & contingencies	12,218	7,499	4,048	6,737	12,654
PBT	25,361	40,445	50,985	61,176	72,944
Extraordinary items	0	0	0	0	0
Tax expense	6,463	10,339	13,001	15,600	18,601
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	18,898	30,106	37,984	45,576	54,343
PAT growth (%)	18.8	59.3	26.2	20.0	19.2
Adjusted PAT	18,898	30,106	37,984	45,576	54,343
Diluted EPS (Rs)	9.1	14.0	16.4	18.4	22.0
Diluted EPS growth (%)	14.1	54.9	17.1	12.2	19.2
DPS (Rs)	1.8	1.0	1.5	1.8	2.0
Dividend payout (%)	20.0	7.0	9.0	9.6	9.0
Effective tax rate (%)	25.5	25.6	25.5	25.5	25.5
Net interest margins (%)	3.1	3.3	3.2	3.2	3.2
Cost-income ratio (%)	53.3	49.9	51.9	49.4	46.8
Shares outstanding (mn)	2,102.5	2,116.2	2,435.0	2,435.0	2,435.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	41,366.9	41,837.2	46,286.1	51,235.5	57,917.1
Net NPLs	13,926.2	12,050.1	13,423.0	15,370.6	17,375.1
GNPA ratio (%)	2.8	2.4	2.2	2.1	2.0
NNPA ratio (%)	1.0	0.7	0.7	0.6	0.6
Provision coverage (%)	66.3	71.2	71.0	70.0	70.0
Gross slippages	18,808.1	17,191.3	17,795.8	19,797.3	26,726.3
Gross slippage ratio (%)	1.4	1.2	0.9	0.8	0.9
LLP ratio (%)	0.9	0.5	0.3	0.4	0.5
NNPA to networth (%)	7.1	5.3	4.1	4.1	4.1
Capital adequacy					
Total CAR (%)	15.8	14.8	18.7	17.5	16.3
Tier-1 (%)	14.4	13.0	17.2	16.2	15.2
CET-1 (%)	14.4	13.0	17.2	16.2	15.2
RWA-to-Total Assets (%)	55.3	60.3	58.0	59.0	60.0
Miscellaneous					
Total income growth (%)	0.2	21.5	32.4	15.7	16.4
Opex growth (%)	16.3	11.1	24.4	12.0	13.4
Core PPOP growth (%)	8.7	37.9	4.0	24.3	27.2
PPOP margin (%)	23.9	25.1	21.7	23.2	25.1
PAT/PPOP (%)	50.3	62.8	69.0	67.1	63.5
LLP-to-Core PPOP (%)	35.4	15.7	8.2	10.9	16.2
Yield on advances (%)	7.9	8.5	9.4	9.3	9.0
Cost of funds (%)	4.1	4.5	5.5	5.3	5.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	4,205	4,232	4,870	4,870	4,870
Reserves & surplus	179,949	208,714	310,188	351,381	400,854
Net worth	184,154	212,946	315,058	356,251	405,724
Deposits	1,817,006	2,133,860	2,512,766	2,987,766	3,585,319
Borrowings	153,931	193,193	215,714	239,206	265,517
Interest bearing liab.	1,970,937	2,327,053	2,728,480	3,226,972	3,850,836
Other liabilities & prov.	54,372	63,419	36,089	56,924	87,498
Total liabilities & equity	2,209,463	2,603,418	3,079,627	3,640,147	4,344,058
Net advances	1,449,283	1,744,469	2,060,759	2,438,796	2,929,052
Investments	391,795	489,833	584,789	689,351	820,197
Cash, other balances	210,103	176,887	207,364	238,796	269,559
Interest earning assets	2,051,181	2,411,189	2,852,912	3,366,944	4,018,807
Fixed assets	6,339	9,340	8,629	9,551	10,636
Other assets	151,942	182,889	218,086	263,654	314,615
Total assets	2,209,463	2,603,418	3,079,627	3,640,148	4,344,059
BVPS (Rs)	87.6	100.6	129.4	146.3	166.6
Adj. BVPS (INR)	82.6	96.3	134.0	141.6	161.3
Gross advances	1,476,724	1,774,256	2,093,622	2,474,661	2,969,593
Credit to deposit (%)	79.8	81.8	82.0	81.6	81.7
CASA ratio (%)	37.1	32.9	29.9	28.6	28.6
Cost of deposits (%)	4.1	4.4	5.3	5.2	5.0
Loans-to-Assets (%)	65.6	67.0	66.9	67.0	67.4
Net advances growth (%)	9.9	20.4	18.1	18.3	20.1
Deposit growth (%)	5.2	17.4	17.8	18.9	20.0
Book value growth (%)	8.4	14.9	28.6	13.1	13.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	18.1	11.5	10.4	8.7	7.3
P/B (x)	1.9	1.6	1.3	1.1	1.0
P/ABV (x)	2.0	1.7	1.3	1.2	1.0
P/PPOP (x)	9.1	7.2	7.2	5.8	4.6
Dividend yield (%)	1.1	0.6	0.9	1.1	1.2
DuPont-RoE split (%)					
NII/avg assets	2.8	3.0	2.9	2.9	3.0
Other income	1.0	1.0	1.1	1.1	1.1
Fee income	0.7	0.9	0.8	0.8	0.8
Opex	2.0	2.0	2.1	2.0	1.9
PPOP	1.8	2.0	1.9	2.0	2.1
Core PPOP	1.6	2.0	1.7	1.8	2.0
Provisions	0.6	0.3	0.1	0.2	0.3
Tax expense	0.3	0.4	0.5	0.5	0.5
RoA (%)	0.9	1.3	1.3	1.4	1.4
Leverage ratio (x)	12.2	12.1	10.8	10.0	10.5
RoE (%)	10.9	15.2	14.4	13.6	14.3

Quarterly data					
Rs mn, Y/E Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
NII	19,565	19,093	19,186	20,564	21,234
NIM (%)	3.6	3.4	3.2	3.2	3.2
PPOP	12,742	13,346	13,024	13,245	14,373
PAT	8,036	9,026	8,537	9,538	10,067
EPS (Rs)	3.80	4.27	4.03	4.50	4.75

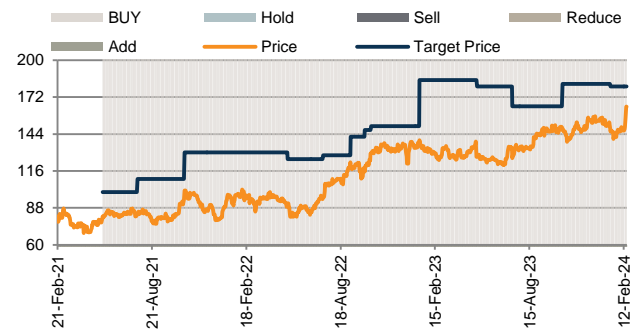
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
17-Jan-24	146	180	Buy	Anand Dama
30-Nov-23	147	182	Buy	Anand Dama
17-Oct-23	148	182	Buy	Anand Dama
13-Jul-23	126	165	Buy	Anand Dama
06-May-23	127	180	Buy	Anand Dama
09-Mar-23	133	185	Buy	Anand Dama
01-Mar-23	133	185	Buy	Anand Dama
16-Jan-23	139	185	Buy	Anand Dama
15-Oct-22	129	150	Buy	Anand Dama
03-Oct-22	115	147	Buy	Anand Dama
06-Sep-22	120	142	Buy	Anand Dama
15-Jul-22	96	128	Buy	Anand Dama
08-May-22	89	125	Buy	Anand Dama
26-Jan-22	93	130	Buy	Anand Dama
22-Oct-21	101	130	Buy	Anand Dama
01-Oct-21	81	110	Buy	Anand Dama
24-Jul-21	83	110	Buy	Anand Dama
18-May-21	82	100	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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