

FEDERAL BANK

YOUR PERFECT BANKING PARTNER

CMP AS ON 1-12-2022 : 132 INR



PEE AAR SECURITIES LTD.

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Introduction

- The Federal Bank Limited was incorporated in 1931 as Travancore Federal Bank Limited. It provides retail and corporate banking, para banking activities such as debit card, third party product distribution etc., treasury and foreign exchange business.
- Federal Bank which is based out of Kerala has 1282 branches and 1885 ATM across various states.
- It's profit grew 50 per cent to Rs 733.34 crore in Q2, owing to a strong growth in both interest and other income streams. Federal Bank shares have been in uptrend since announcement of its strong Q2FY23 results.
- Federal Bank's margins at 3.30 per cent was up 8 bps QoQ on account of 35bps QoQ increase in yield on advances as against 16 bps QoQ increase in cost of deposits. Gross slippages amounted to ₹3.90bn (annualized slippage ratio of 1.0%) and recoveries and upgrades were healthy at ₹3.29bn.
- The bank partnered with FPL technologies Ltd to issue India's first metal credit card to customers. OneCard app is providing a unique experience to customers including the slide to pay option that helps customers to prevent online frauds.

How Federal Bank is riding the bank-Fintech partnership wave

- Federal Bank has been expanding its fintech partnerships across services at a scorching pace. **Federal Bank CEO Shyam Srinivasan** set the record straight. Srinivasan reasoned that the bank would have had to open 2,000 branches -- something that would have required a lot of investment, time and effort -- to achieve the same growth in the absence of these tie-ups.
- **Fi Money** is a digital platform created in partnership with Federal Bank and epiFi that aims at providing savings and investment services to working professionals.
- **Jupiter Money** app aims to provide a fully digital banking experience to customers with features like wealth management, portfolio analysis etc.

The bank serves as the backbone for these fintechs, which provide it with a technology interface.

The idea is to reach a scale that is, if not equal, closer to many larger banks. It has tie-ups across fintech verticals such as neobanking, prepaid cards/Buy Now Pay Later (BNPL), credit cards, payment gateways, merchant payments and SME lending.

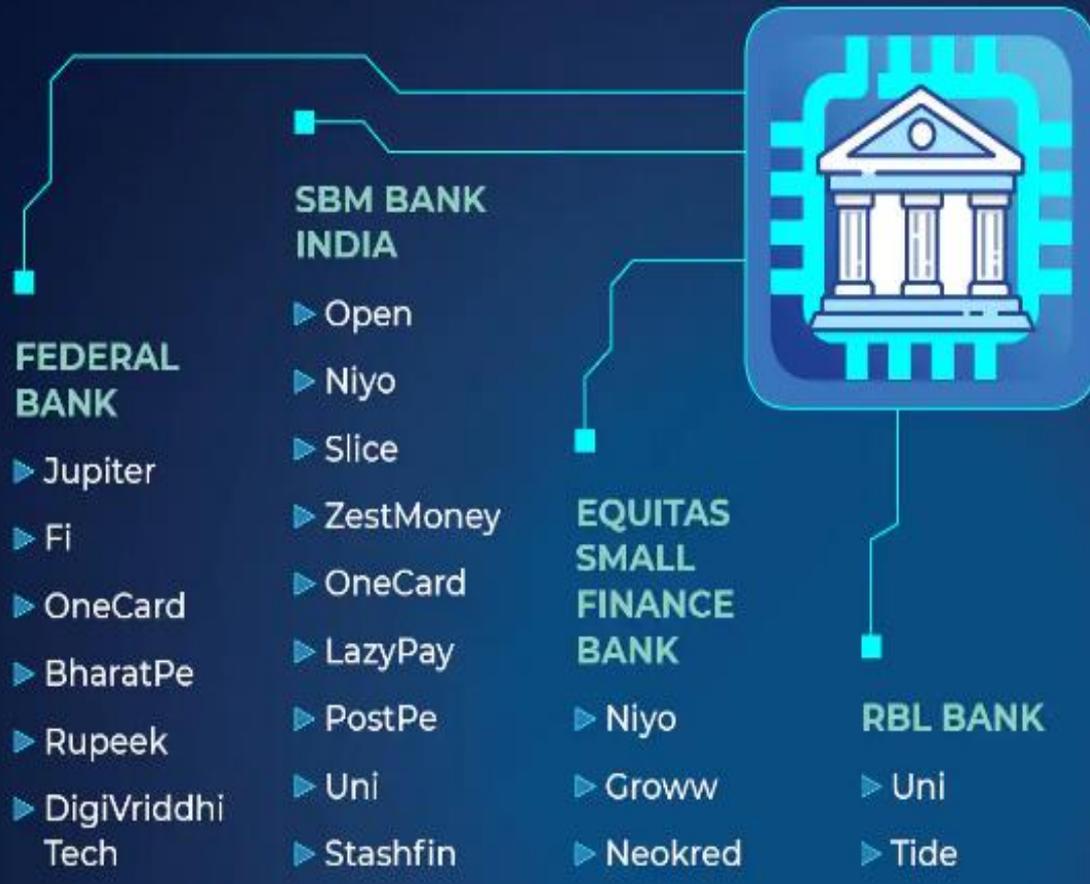
- It is a faster and cheaper way for banks to onboard more customers. Banks with a regional focus, such as Kochi-headquartered Federal Bank, can now have customers across the country without investing in a large branch network. Banks would otherwise have to invest crores in infrastructure and staff on a new branch, depending on the city and locality

Neo Bank

- Neobanks are essentially fintech firms that have tie-ups with existing banks, and are not licensed directly by the Reserve Bank of India (RBI).
- It offers a real-time breakdown of purchases, automatically sorted into categories. It also has a net worth and debt tracker to track bank balances or active loans from one place.
- It also provides 1% instant rewards on debit card and UPI spends, which can be redeemed as cash.
- Every fintech has a fixed cost that goes towards compliance because we function in a regulated environment. Therefore, if fintechs don't scale, it is cumbersome for the bank and these fixed costs become a problem. That is why you will see that fintechs that don't scale will be culled by the banks at a certain point.
- This is similar to what happened with payments – the offering that serves as the first point of contact to bring customers on to digital platforms. While a large number of banks and apps offer UPI, only three players rule the market – PhonePe, Google Pay and Paytm Payments Bank make up around 95 percent of the monthly volumes.

BANKS LEADING IN FINTECH PARTNERSHIPS

Key partnerships: Banking and lending



FEDERAL BANK

epifi. Jupiter



- Bank is live with 2 leading Fintech Partners - Fi & Jupiter.
- The proposition is positioned for the salaried millennial who are digitally native across their savings, investing and borrowing needs.
- More than 4.5L+ account are being opened every month by Fi & Jupiter.

Subsidiaries and JV Operations

Bank has various related business activities through subsidiaries and JVs:-

1. Federal Operations and Services Ltd - Federal Operations and Services Limited (FedServ) is a wholly owned Subsidiary Company of the bank. It provides operational and technology oriented services to the Bank.

2. Fedbank Financial Services Ltd (74% shareholding) - It is a Non-deposit taking & Systemically Important (ND-SI) NBFC. Fedfina provides various multiple loan products such as Loan against Property (LAP), Structured Finance and Loan against pledge of Gold ornaments. It also distributes loan products of the Bank. **It has over 300 branches across India providing multiple loan products to various segment of borrowers.**

3. IDBI Federal Life Insurance Co. Ltd (26% shareholding) - It is a joint venture Life Insurance Company between IDBI Bank, Ageas Insurance International N.V. and Federal Bank.

4. Equirus Capital Pvt Ltd (19.89% shareholding) - It has operations in India and is engaged in the business of Investment banking. It has 3 subsidiaries named Equirus Securities Private Limited, Equirus Digital Private Limited and Equirus Wealth Private Limited.

A DIGITAL BANK WITH A HUMAN FACE

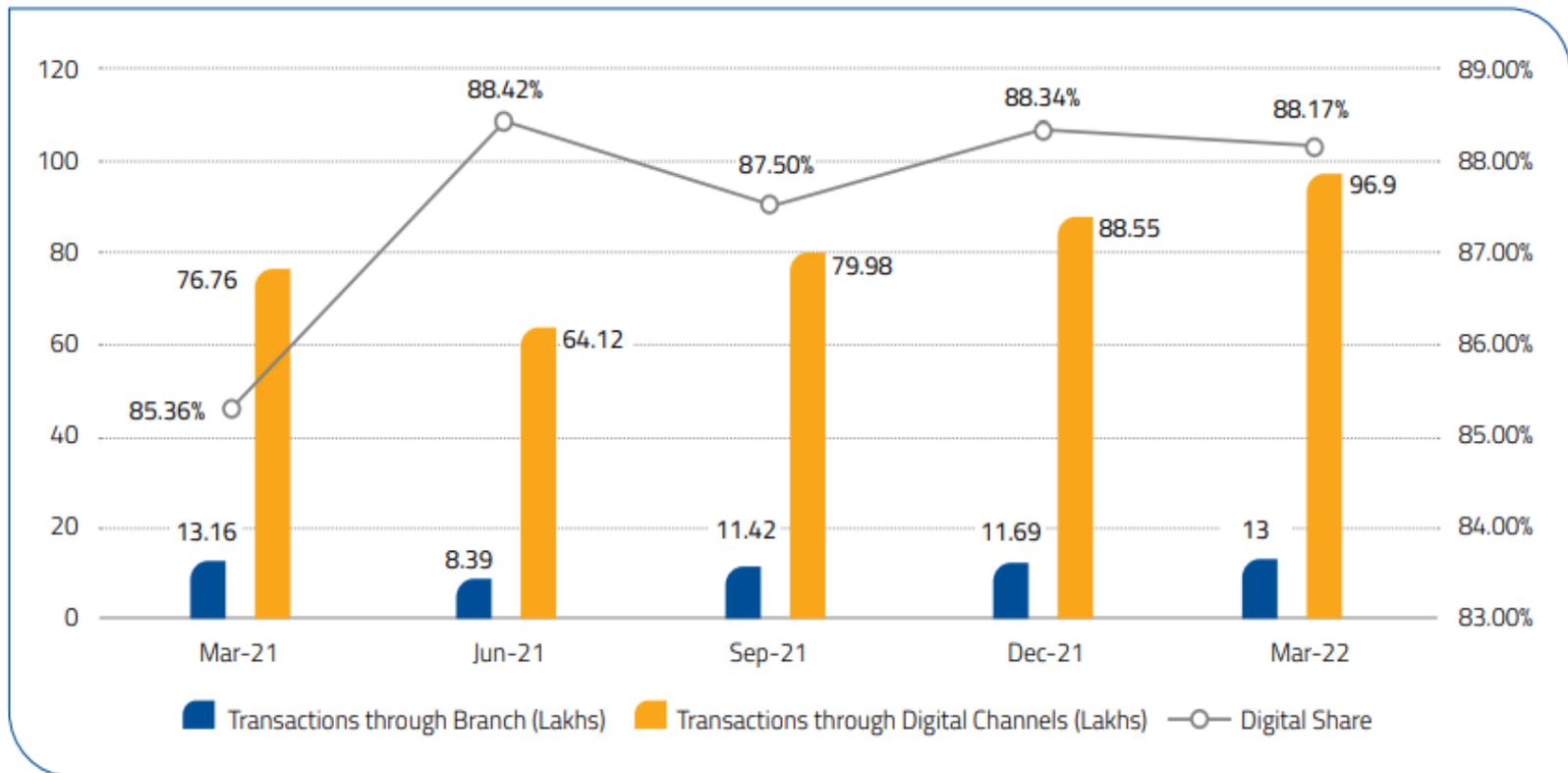
Hi, I am Feddy, your personal assistant.

- Banking requirements are evolving at a fast pace, especially for the younger audience. Today, consumers and Gen Z wants the banking experience with the mindset of an internet company by offering instant resolution to their needs.



DIGITAL PENETRATION

- Bank's digital users grew by 47.48% YOY and the monthly Mobile Banking volumes crossed 14,000 Crore mark during the Fiscal Year. Digital channels now account for 88.17% of all banking transactions.





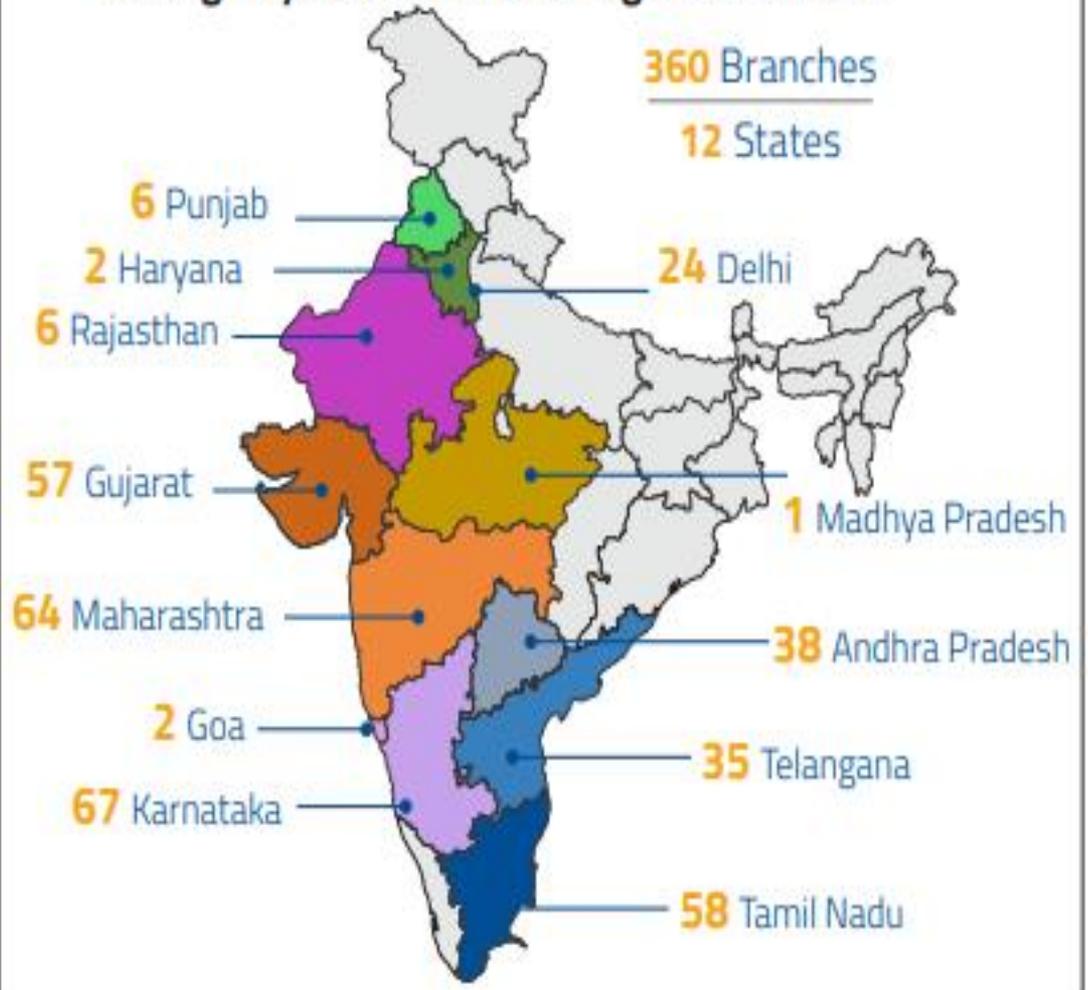
REPRESENTATIVE OFFICES

Abu Dhabi and Dubai

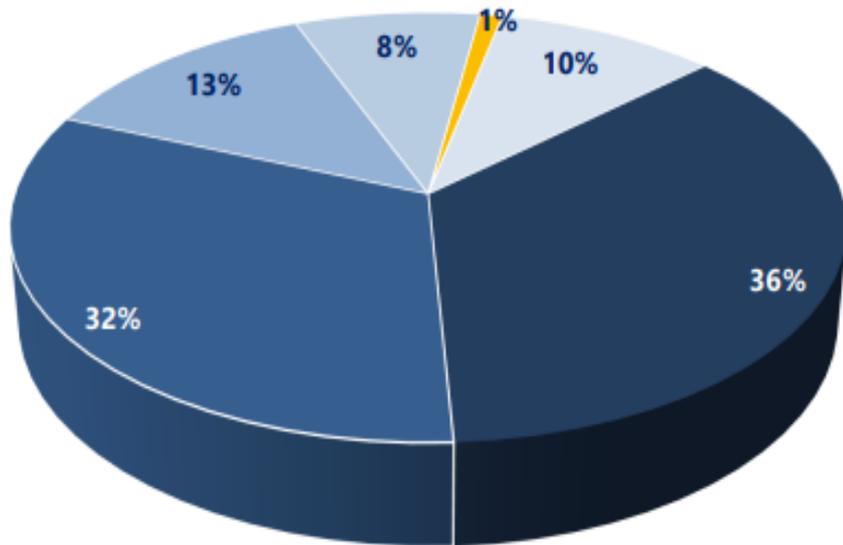
IFSC BANKING UNIT (IBU)

Gujarat International Finance Tec-City (GIFT City)

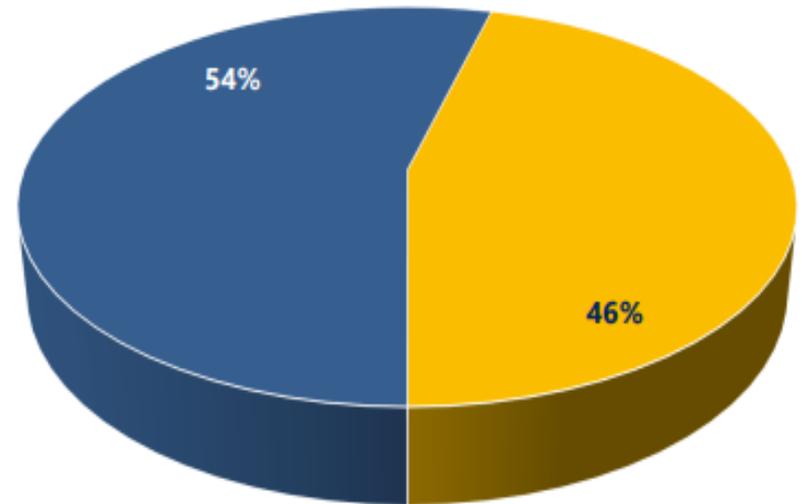
Strong Physical Reach with Digital Backbone



TOTAL LOAN BOOK

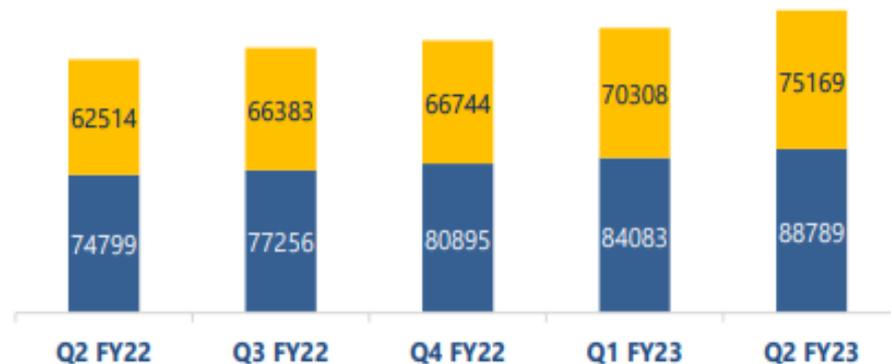
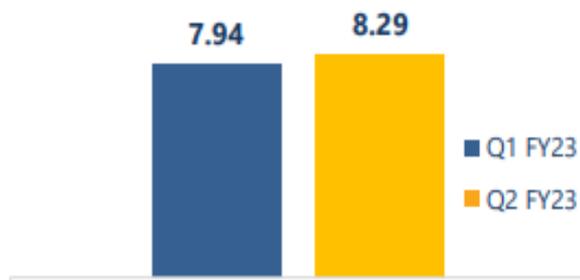


■ Retail ■ Agri ■ BuB ■ CV/CE ■ CoB ■ CIB

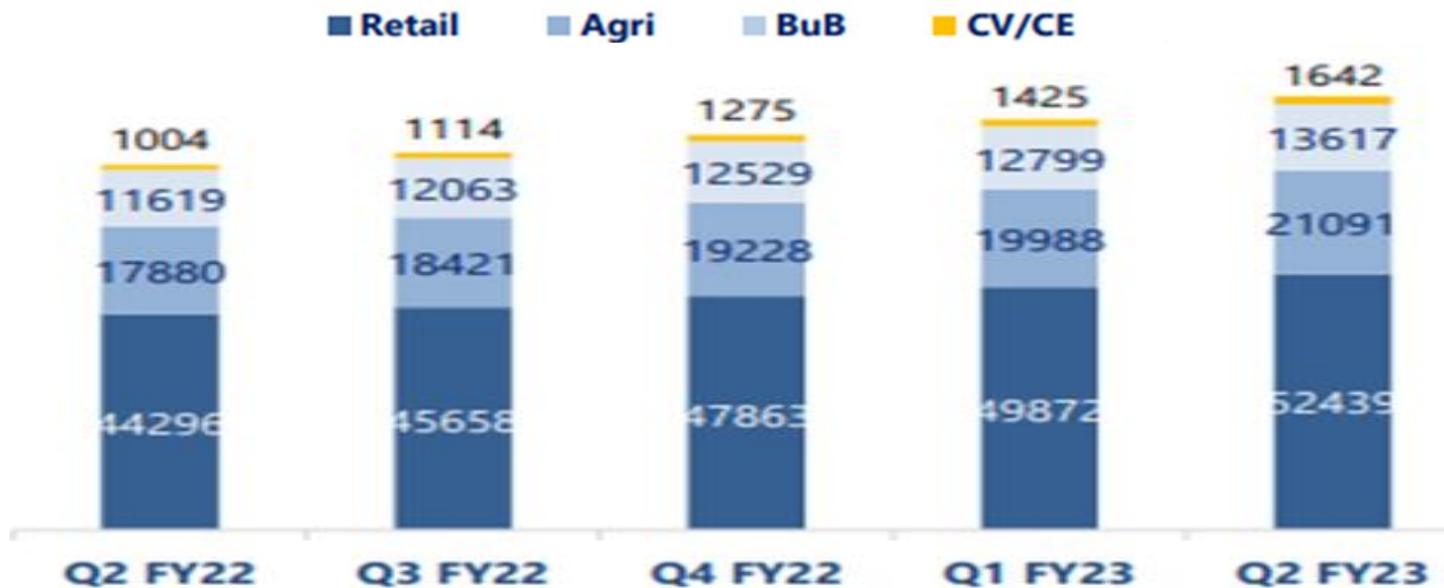
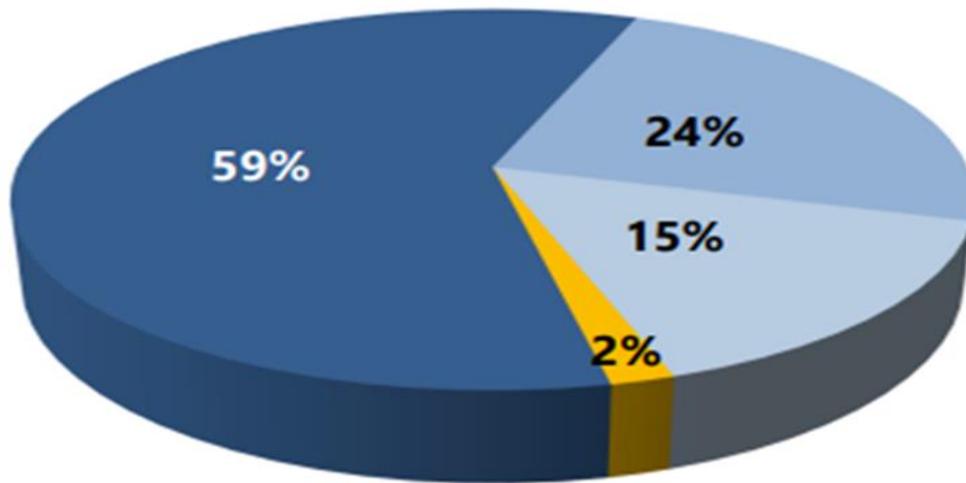


■ Retail ■ Wholesale

Yield on Advances

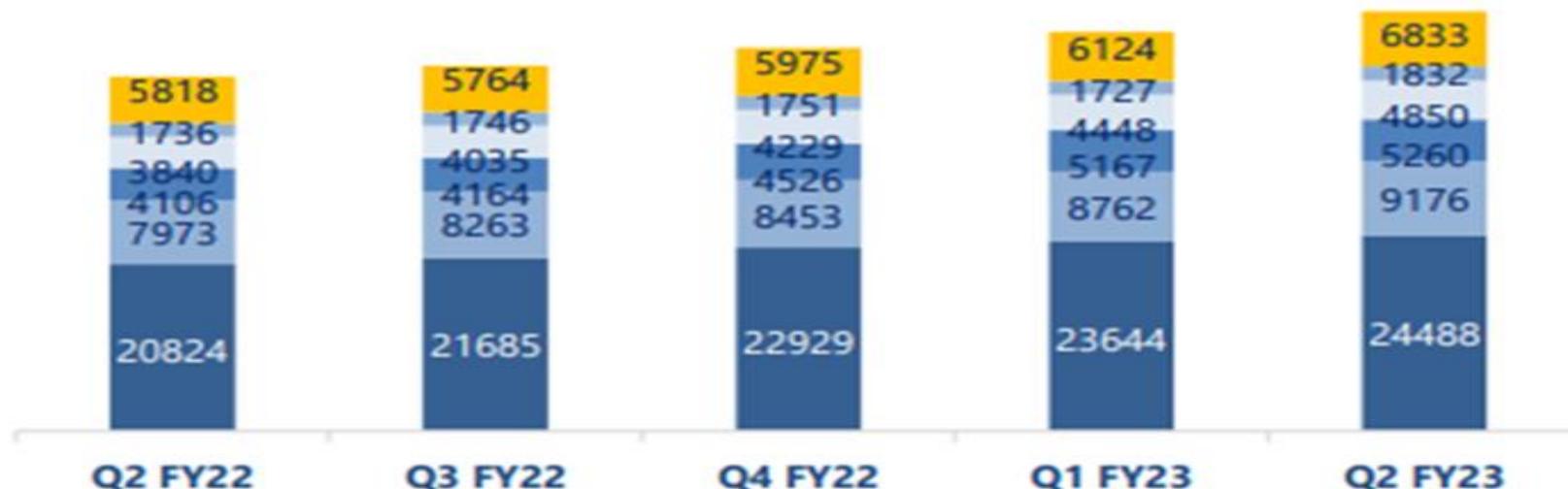


RETAIL BANKING



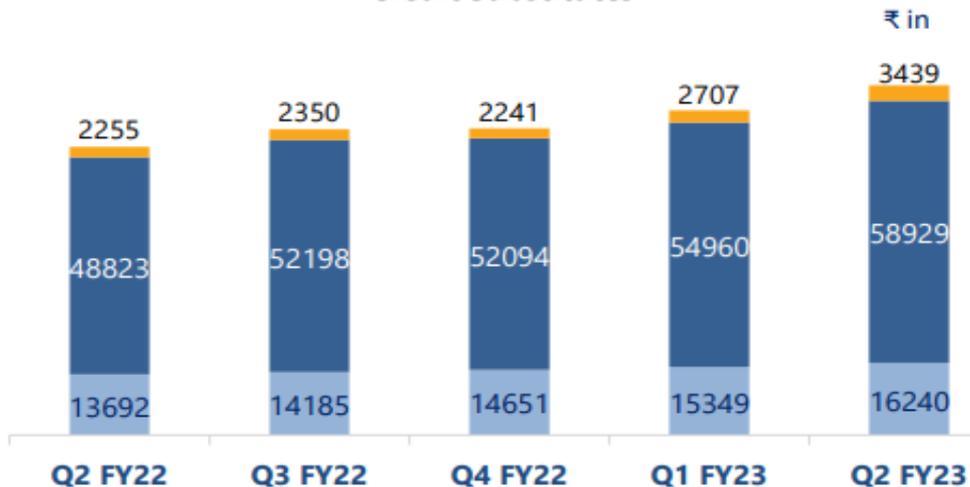
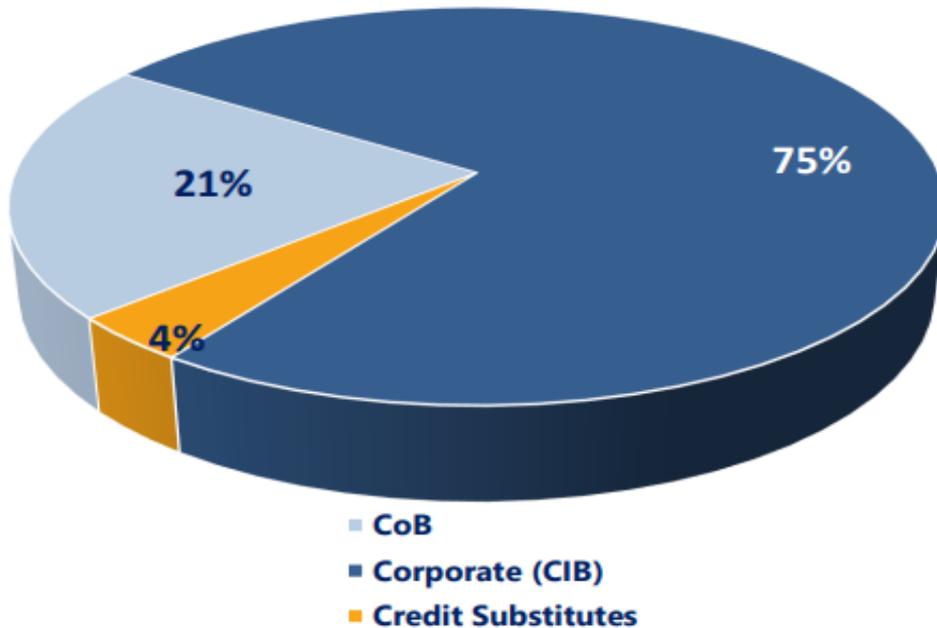
Retail Loan Book (Excl Agri, BuB & CV/CE)

■ Housing ■ LAP ■ Gold ■ Auto ■ Personal ■ Other



- Commercial Vehicle/Construction Equipment (CV/CE) Asset book grew by 63% YOY with 82% of the book qualifying under PSL. Activated CVCE business pan India.
- Retail Asset has grown at 18% YoY (Home loan - 18%, LAP - 15%, Auto Loan - 26%)
- Gold Loans registered 20.80% YoY growth touching 19300 Cr and registered 4.50% QoQ growth.
- MARG Business crossed Rs. 26,000 Cr milestone.
- Increased footprint in high margin MFI segment through BC delivery channels with monthly run rate crossing 100 Crs per month. • Debit Card Spend at a YoY growth of 30%

Wholesale Banking



- Corporate Banking book hit the milestone of 60000+ Crs and grew by 22% YoY with Transaction Banking and Trade mandates leading the way. 60 CIB clients added during the quarter and 104 clients added during the H1 as granular NTB focus continues to yield result. Fee income grew by 41% YoY.
- Commercial Banking saw robust traction with 109 new clients being onboarded in Q2. Asset Book and Fee Income both saw growth at 18% YoY.
- SCF business focus resulted in 61% growth in Dealer/Vendor finance during H1.

Select Segments

MSME

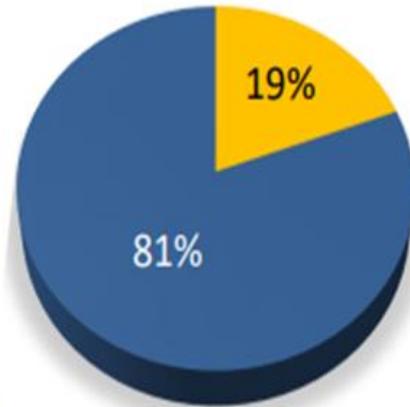
CV/CE

Credit Cards

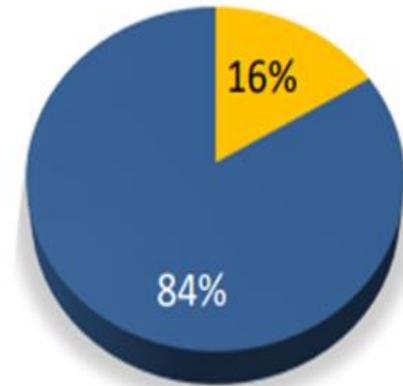
Micro Finance

Bank's select high yielding portfolio share in total advance grew to 20% in Sep'22. Revenue share from these select segments increased to 18%. MSME credit lines (BuB + CoB) registered a growth of 18% (YoY), CV/ CE @ 64% (YoY), Credit cards @ 2601% (YoY) and Micro Finance @128% (YoY).

Sep'21

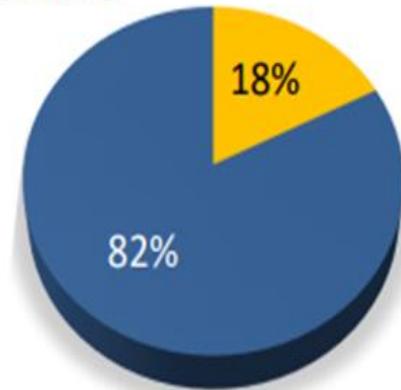
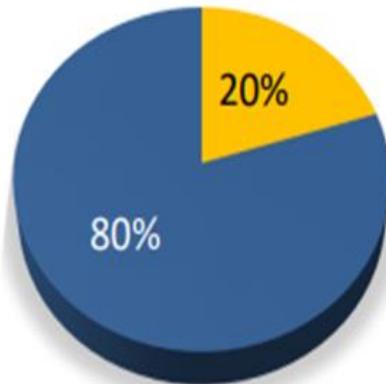


Business Share



Revenue Share

Sep'22

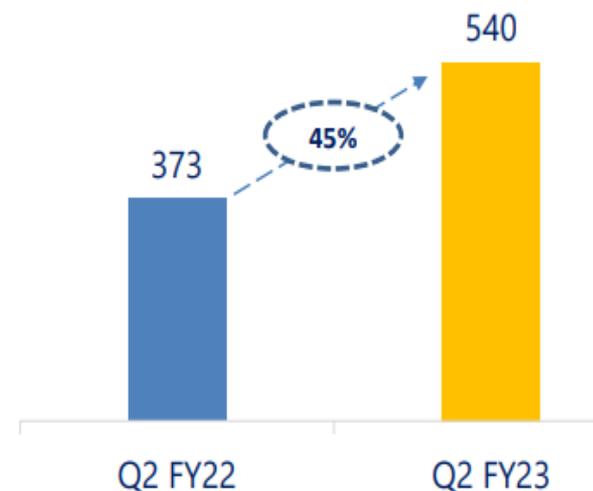


Fee Income/Other income

₹ in Cr

	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
Loan Processing Fee	96	104	105	103	125
Exchange, Commission, Brokerage & Other Fee Income	227	258	280	275	321
Net Profit on Forex Transactions	50	50	68	63	94
Fee Income	373	412	453	441	540
Profit on sale of securities/ Other Receipts & misc.	119	72	12	12	70
Total Other income	492	484	465	453	610

Fee Income (Y-o-Y)



Financials

₹ in Cr

	Q2 FY22	Q1 FY23	Q2 FY23	Q-o-Q	Y-o-Y
Interest Income	3379	3629	4021	10.8%	19.0%
Interest Expenses	1900	2024	2259	11.6%	18.9%
Net Interest Income	1479	1605	1762	9.8%	19.1%
Other Income	492	453	610	34.7%	24.0%
Operating Expense	1059	1084	1159	6.9%	9.4%
Total Income	3871	4081	4630	13.5%	19.6%
Total Expense	2959	3108	3418	10.0%	15.5%
Operating Profit	912	973	1212	24.5%	32.9%
Total Provisions	452	373	509	36.5%	12.6%
Net Profit	460	601	704	17.1%	53.0%
Net Interest Margin (%)	3.20	3.22	3.30	8 bps	10 bps
Cost to Income Ratio (%)	53.73	52.68	48.88	-380 bps	-485 bps

Key Ratios

Particulars	March 31, 2022	March 31, 2021
Return on Average Total Assets	0.94	0.85
Return on Average Equity	10.87	10.38
Cost to Income Ratio	53.32	49.27
Net interest margin	3.20	3.16
Earnings per Share (EPS) ₹ (Annualised)	9.13	7.97
Book value per share (end period) ₹	88.75	80.71

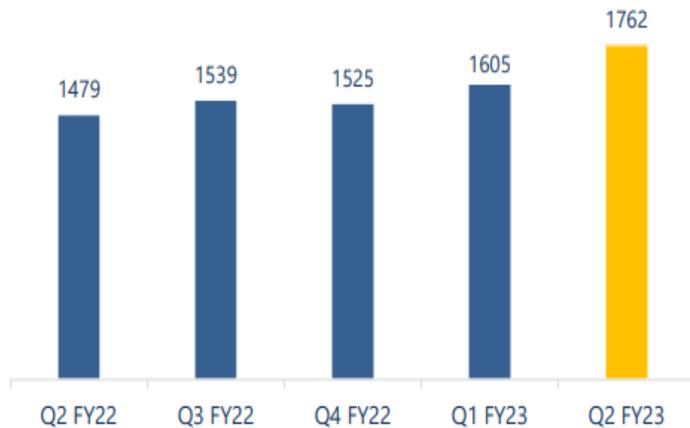
Net Interest Margin (↑ 4 bps)

Net Interest Margin (%)



Net Interest Income

In
Cr.



Net Interest margin is a measure of the difference between interest paid and interest received, adjusted for the total amount of interest generating assets held by the bank. The Net Interest Margin for the fiscal year is at 3.20 % as against 3.16%, in the previous year. Higher the Net interest margin, Better it is.

Net Interest margin = Net Interest Income / Average Earning Assets.

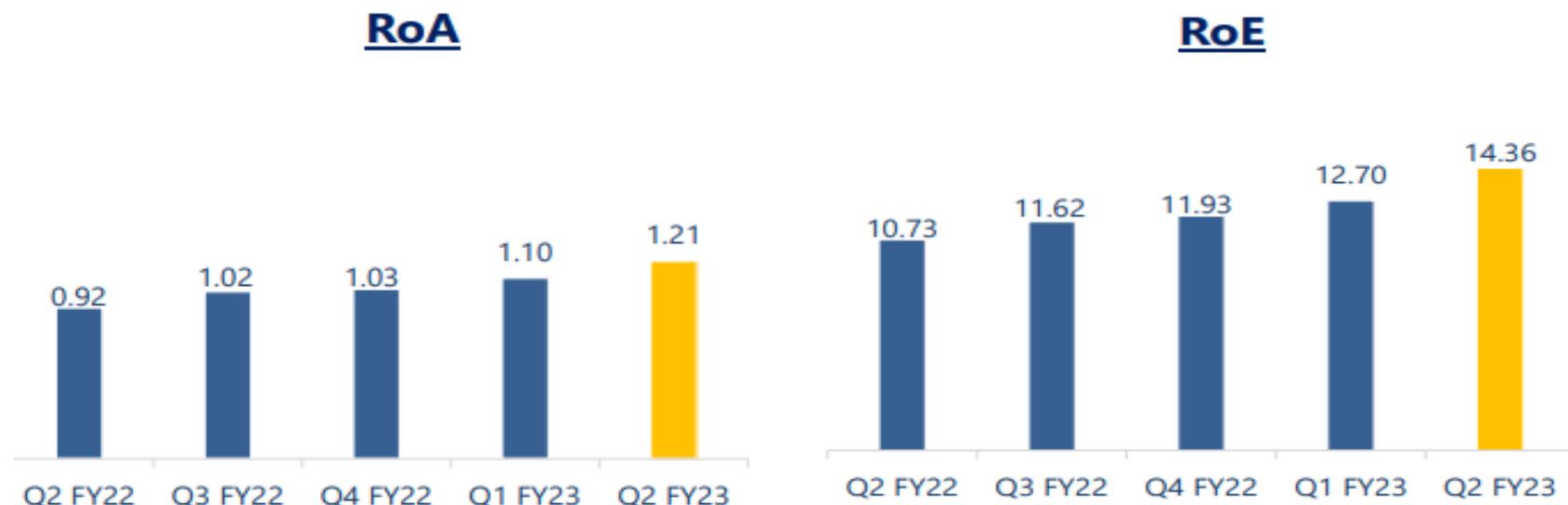
(Net Interest Income = Interest Income – Interest Expense).

- **Return on Assets** (↑ 9 bps) depends on the bank's Asset Quality, its cost structure and the product mix of the bank.

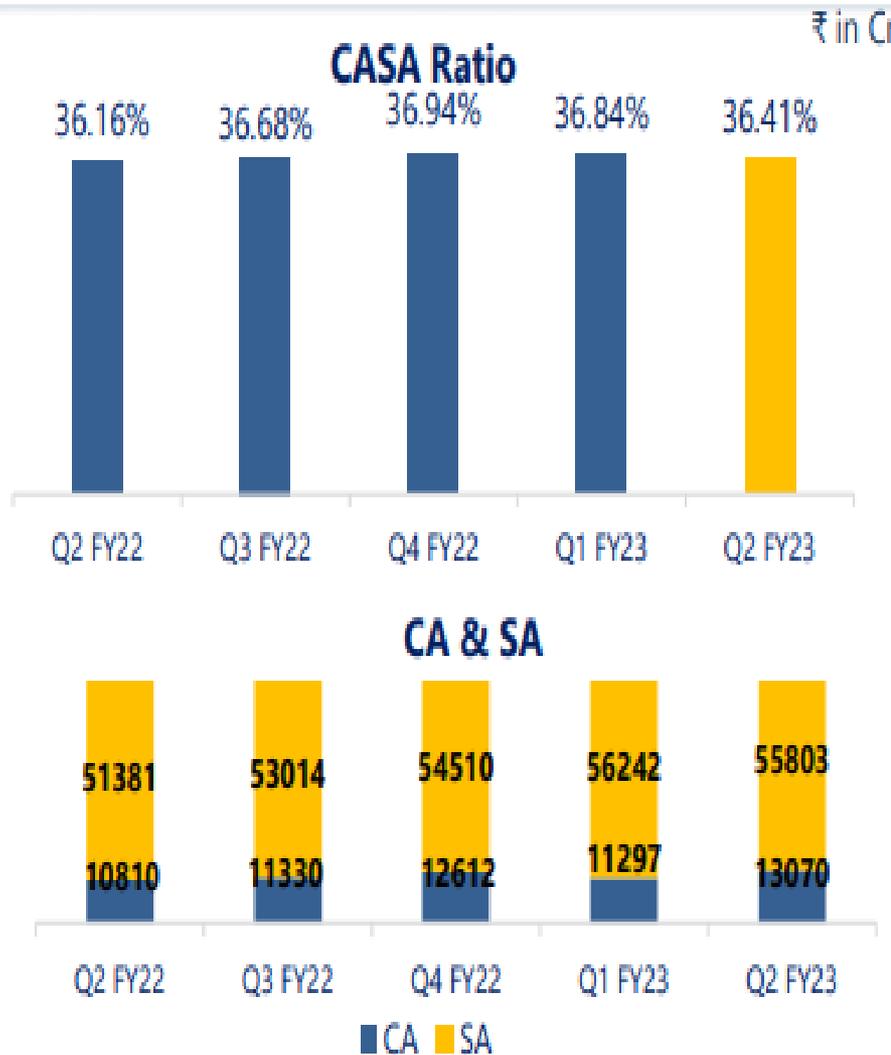
$$\text{ROA} = \text{Net profit} / \text{Total Assets}$$

The return on asset for FY22 is 0.94% as against 0.85% for last year. Higher the ROA, better it is for any bank.

- **Return on Equity (ROE):** ROE measures the ability of a firm to generate profits from its shareholders investments in the company. In other words, the return on equity ratio shows how much profit each rupee of common stockholders' equity generates. Federal Bank has ROE 10.87 % for the latest year as against 10.38% for last year.



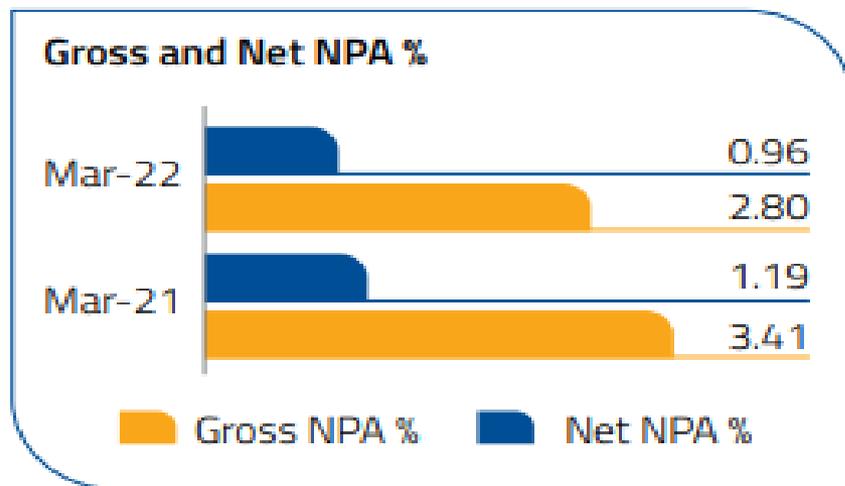
CASA Ratio



- CASA Ratio is the ratio of deposits in current account and savings account to the total deposits of the bank.
- A higher CASA ratio means that the bank has a higher share of deposits in current and savings accounts. A higher CASA ratio also indicates a better operating efficiency of the bank.
- The CASA ratio of Federal Bank is 36.41% of total deposits.

Asset Quality Parameters

Particulars	March 31, 2022	March 31, 2021
GNPA(in Crore)	4,137	4,602
NNPA (in Crore)	1,393	1,569
Provision Coverage Ratio (%)	65.54	65.14
Provision Coverage Ratio (%) (Inc TWO)	80.60	77.65



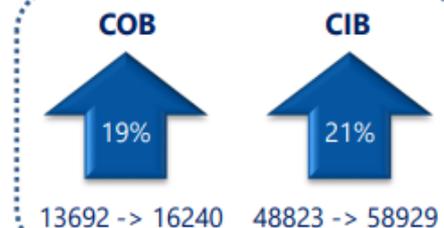
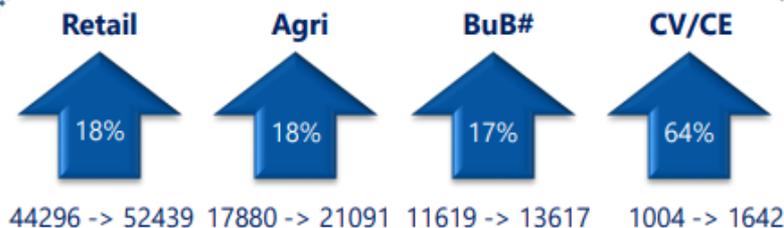
The asset quality metrics improved during the FY, with reduction in NPA ratios year on year. A non performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. The Gross NPA as on March 31, 2022 stood at 4,137 Crore. Gross NPA as a percentage to Gross Advances is at 2.80%. The Net NPA stood at 1,393 Crore and this as a percentage to Net Advances is at 0.96%. Total stressed book is at 1.98% of average total assets.

Comparison : Y-o-Y

RETAIL

WHOLESALE

Advances



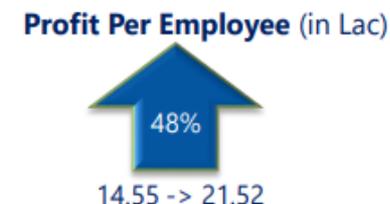
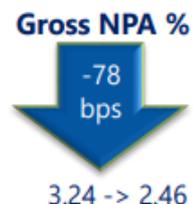
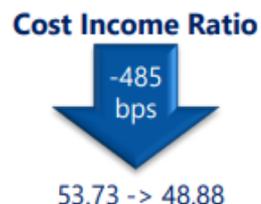
Deposits



Performance



Ratios



Conclusion

BUY

- Multiple interest rate increases planned by the RBI throughout the year and an apparent stop in the bull run in the capital markets may encourage depositors to look for safer options in bank deposits. Given this backdrop, Banks which are able to engage best with the customer and provide the best product and service, may see rapid growth for the coming year.
- FY23, could in many ways be the year that determines who emerges stronger from the trials of the past few years. The Annual results that have started to emerge may end up showing a trend of survival of the most agile. The company of the future may be described by strong fundamentals, agile but established processes with focussed and consistent growth. The banking and finance sector in India.
- As per report by RBI, bank credit growth had grown to double digits in March 22. Companies going for capital expenditure encouraged by the Government should help maintain the growth in bank credit throughout the year. Hence, there are strong growth opportunities for Federal Bank going forward but they need to have NPA under control.

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