

Pick of the week



Federal Bank

Recommendation

BUY

Time Period

12 Months

Current Price

₹ 73

Target Price

₹ 90

Potential Upside

23.3%

Investment Argument

- Federal Bank reported ~8% yoy earnings decline despite a solid 30% yoy operating profit growth primarily on account of higher provisions with most of the provisions driven to improve coverage ratio which is ~55% on overall stress loans in 3QFY21.
- Operating profits grew ~30% yoy led by 23% yoy growth in revenues and 17% yoy cost growth. Net Interest Income grew 24% yoy while Net Interest Margin improved marginally qoq at ~3.2%.
- Slippages at ~2% of loans and restructured loans at 1-1.5% are trending well and show that the bank should be able to come out of Covid with a much lower impact. Gross and net NPLs declined qoq to 2.7% and 0.6% respectively.
- We are forecasting flat earnings for FY21 and 14% & 45.3% growth in FY22E & FY23E on the back of marginal growth in loan book of ~5% in FY21-22 and ~11% in FY23. We expect Net interest margins of 3.2% throughout FY23E.
- Federal Banks trades at quite undemanding valuation of ~0.8X FY23E Book value & ~5.9X FY23E Earnings per share & and does not reflect the strength of the franchise. We are valuing the bank at 1x book and 8x FY23E EPS for Return on equities inching higher to 11% levels.

Note: The above is a brief note on the company, based on the inputs of KIE research report dated 20th January 2021, which is available on our website at: <https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental>.

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