

Pick of the week



Federal Bank (FB)

Recommendation

BUY

Time Period

12 Months

Current Price

₹ 85

Target Price

₹ 100

Potential Upside

17.6%

Investment Argument

- Federal Bank is likely to come out closer/better to the best-in-class players on impairment ratios. Excelled in the first year of Covid impact with lower slippages, restructuring and use of ECLGS.
- It reported ~60% yoy earnings growth primarily on account of lower provisions (~55% yoy decline). Slippages mere at ~2% and restructured loans at 1.1%. In Q4FY21, Deposit growth held up much better with overall deposits increasing ~13% yoy.
- Gold loan growth was sharp at 70% yoy with loan book crossing ~Rs15800 cr. Gold loan portfolio growth benefitted by increase in gold prices and relaxations in LTV. The bank aims to grow gold loan book by 30-40% yoy.
- We maintain BUY rating with a Fair Value of Rs100. At our FV, we are valuing the bank at 1.1X book and 7X FY23 EPS for RoEs (return on equity) steadily moving closer to 12-14% levels. It remains our preferred mid-tier bank pick.
- A key challenge has been forecasting a return profile closer to the best players.