

CMP - 128

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About the Company

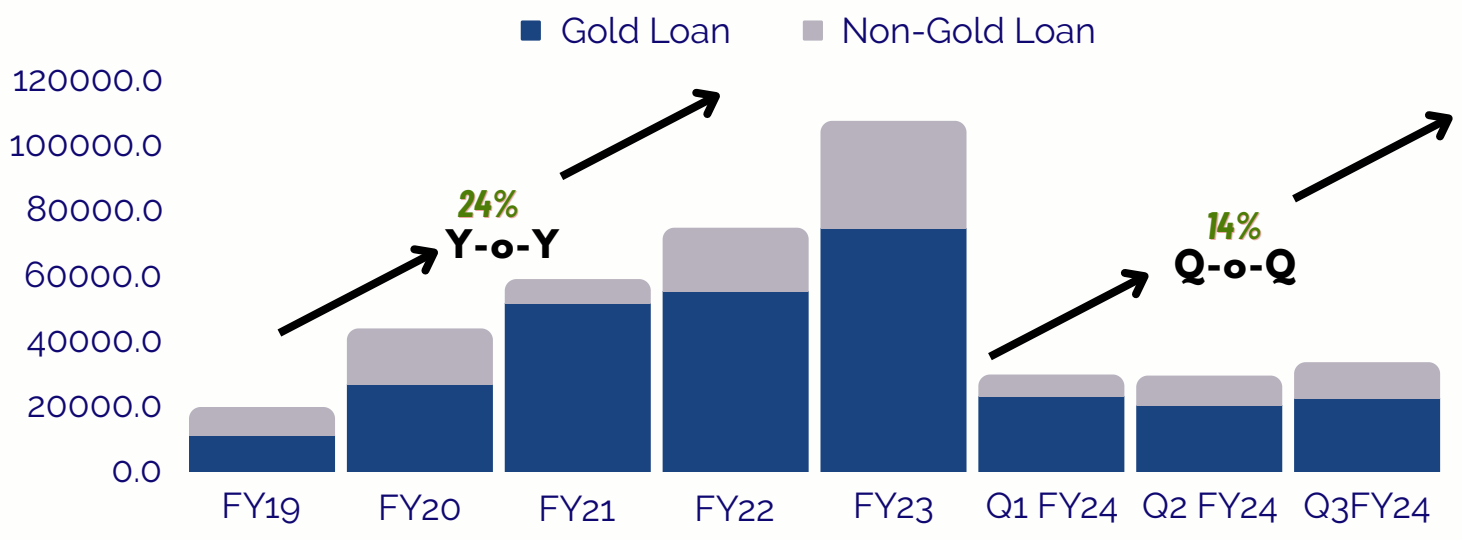
Fedbank Financial Services Limited, a retail-focused NBFC backed by The Federal Bank Limited, stands out with the second-lowest cost of borrowing among MSMEs, gold loans, and peers in India as of Fiscal 2023. Boasting the third-fastest AUM growth and positioned as the fastest-growing gold loan NBFC in the country, it's a dynamic player in the financial landscape. With a robust suite of products targeting MSMEs and self-employed individuals, it aims to bridge the credit gap. Headquartered in Mumbai, FFSL's strategic expansion across 16 states and union territories positions it as a key player in India's retail credit growth story.

Recent Quarter Highlights

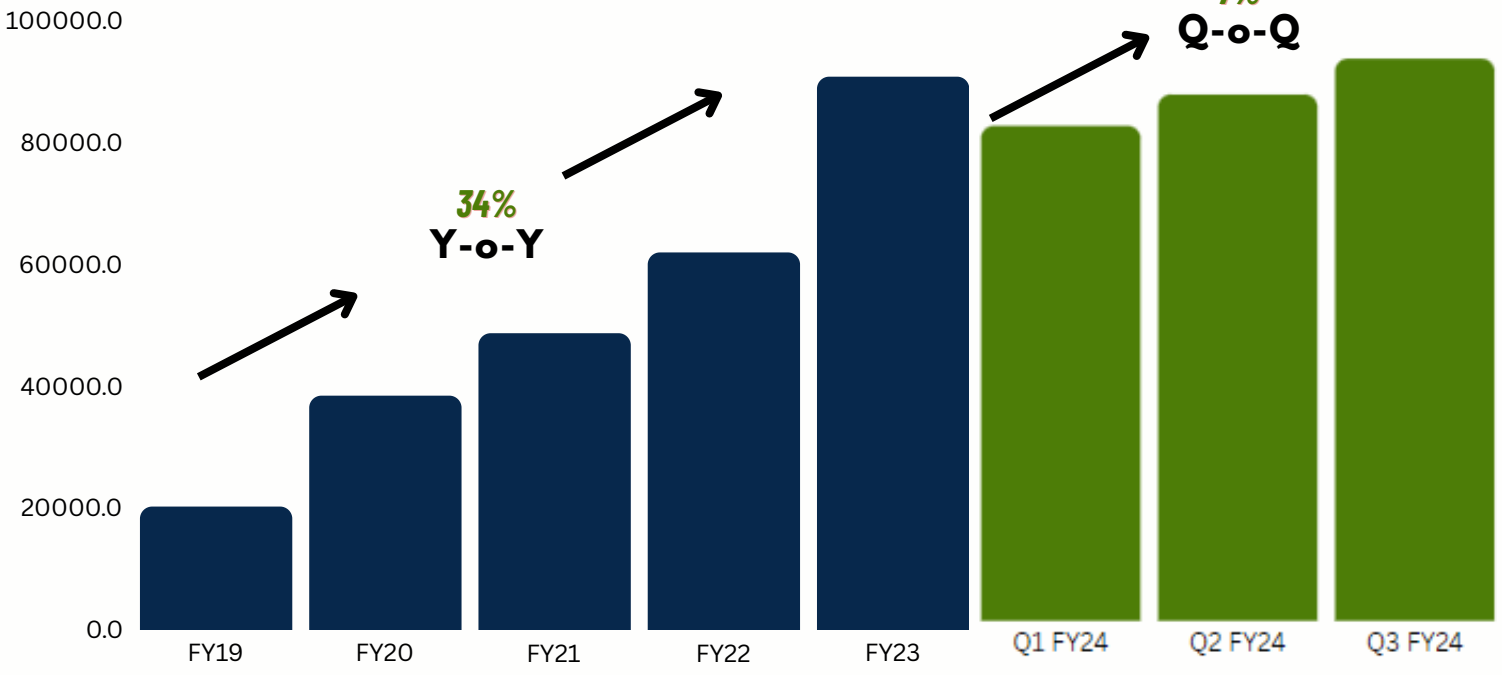
- They have three of their products which yield 17% plus, which is gold loans, small mortgage and unsecured loans. Now the proportion of medium ticket mortgage is lower and it is going to keep coming down.
- The company's total income and revenue from operations rose to ₹413.5 crore, marking a 34% increase compared to the previous year's ₹308.73 crore.
- The profit after tax for the quarter reached INR654 million or INR65.4 crores, showing a 28% growth year-on-year.
- Sequentially, the net profit rose by 13.2% from ₹57.76 crore in the previous quarter. Non-performing assets amounted to ₹429.45 crore for the quarter.
- Gross non-performing assets decreased from 2.34% to 2.19%, with absolute GNPA's declining by INR8.18 crores.
- The company increased its LGDs on mortgage loans to 23% from 20%, resulting in a provision increase of 3%. This raised the overall PCR to 24.5% and net stage 3 to 1.7%.
- The return on assets was 2.5%, and the return on equity was 14.3%.
- The company saw a 34% year-on-year growth in assets under management (AUM), reaching INR107.1 billion for the quarter.
- Disbursements amounted to INR33 billion, with INR11.2 billion for non-gold and nearly INR22 billion for gold, marking a 24% year-on-year and 14% quarter-on-quarter growth according to their management.
- Commenced Gold Loan Co-lending arrangement with two leading banks.
- They have opened 2 branches during Q3, taking our total count of branches to 609.

Sources: Recent Q3 reports

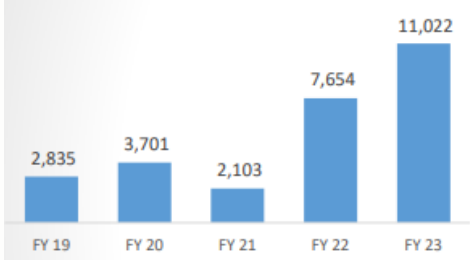
DISBURSEMENTS



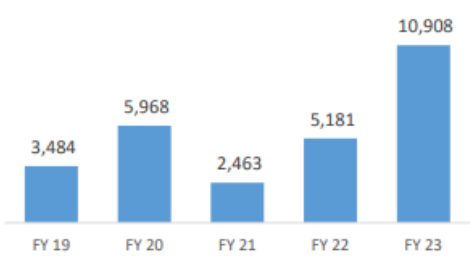
AUM



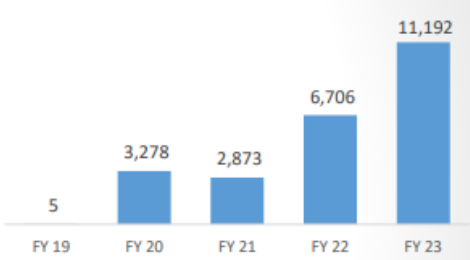
Small Ticket LAP & HL



Medium Ticket LAP

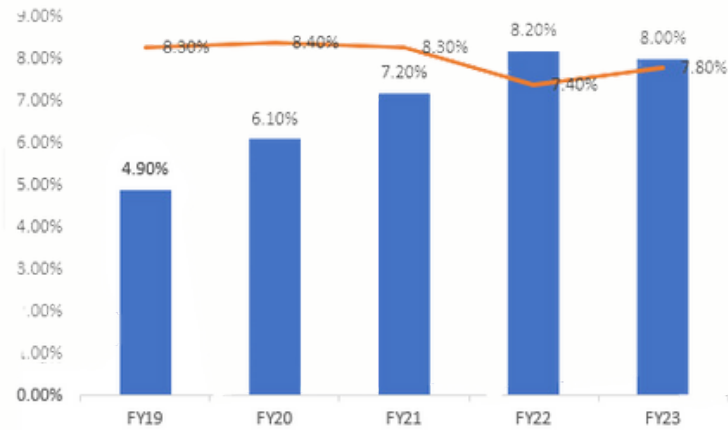


Business Loans

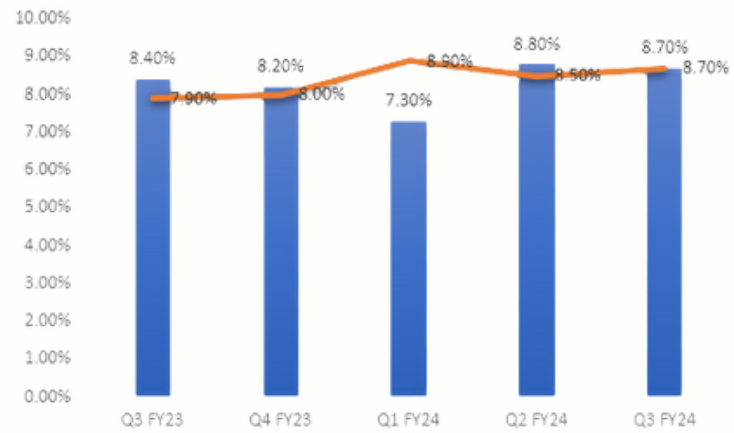


Sources: Recent Q3 reports

IMPROVING SPREADS (YEARLY)

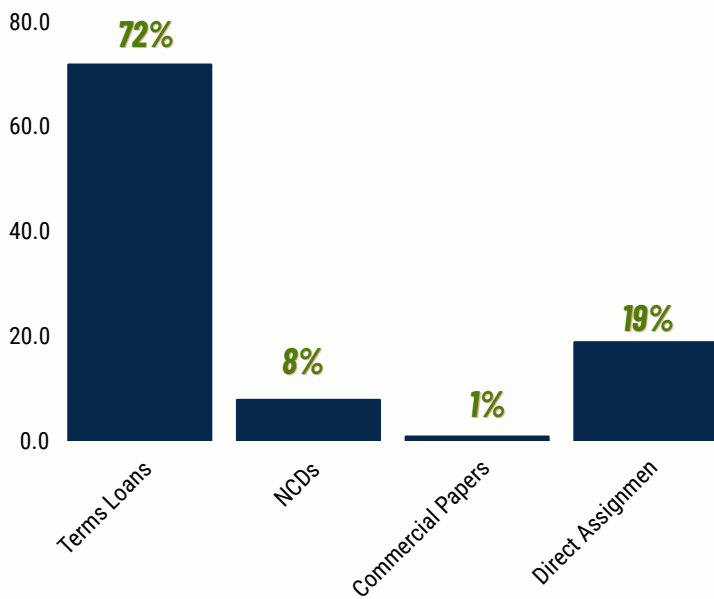


IMPROVING SPREADS (QUATERLY)

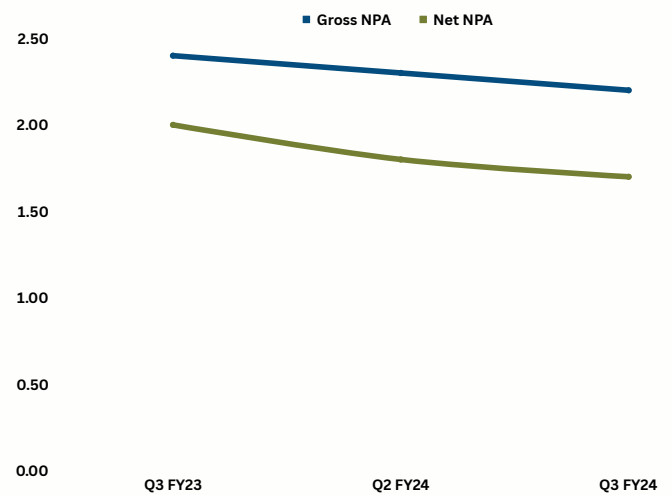


C&E : CONSUMER TECH AND ENTERPRISE DIGITAL TRANSFORMATION

DIVERSIFIED FUNDING PROFILE



GROSS NPA % VS NET NPA %



OFF-BOOK STRATEGY

₹ Mn

Product	AUM			AUF			Off Book %		
	Q3'24	Q2'24	Q3'23	Q3'24	Q2'24	Q3'23	Q3'24	Q2'24	Q3'23
Mortgage	54,707	50,062	39,802	43,079	40,245	34,823	21.3%	19.6%	12.5%
Gold Loan	34,036	32,694	26,106	32,271	32,694	26,106	5.2%	0.0%	0.0%
Business Loan	16,638	16,047	12,764	11,389	11,750	11,047	31.5%	26.8%	13.5%
Others	450	459	555	450	459	555	0.0%	0.0%	0.0%
Total^	1,07,139	1,00,304	79,728	88,498	86,191	73,018	17.4%	14.1%	8.4%

Sources: Recent Q3 reports

KEY FINANCIALS

Particulars	Q3 FY24	Q2 FY24	Q3 FY23
Operational Information			
Branches (#)	609	607	571
Disbursements	33,441	29,329	27,047
AUM	1,07,139	1,00,304	79,728
Employees (#)	4,134	3,970	3,481
Financial Information			
Total Income	4,294	3,980	3,189
Interest Expenses	1,758	1,669	1,252
Net Interest Income	2,166	2,073	1,654
Operating Expenses	1,432	1,389	1,171
Credit Cost	227	148	104
Profit before tax	878	774	663
Profit after tax	654	578	512
Shareholder's Fund	21,637	14,963	13,102
Book Value Per Share (₹)	58.6	46.2	40.7
Ratios			
Cost to Income	56.5%	60.1%	60.4%
Return on Average Assets	2.5%	2.4%	2.6%
Return on Average Equity	14.3%	15.9%	15.9%
Gross Stage 3 assets / Gross NPA	2.2%	2.3%	2.4%
Net Stage 3 assets / Net NPA	1.7%	1.8%	2.0%
CRAR	25.8%	19.7%	18.7%

BALANCE SHEET

Balance Sheet	Q3 FY24	Q2 FY24	Q3 FY23	QoQ	YoY	FY 23	FY 22
Assets							
Cash & Cash Equivalents & Other bank Balance	10,967	9,226	6,249			946	1,426
Loans	87,449	85,204	71,952			79,997	56,448
Investments	4,794	3,567	5,220			6,806	5,143
Other Financial Assets & Receivables	1,155	848	381			841	275
Non-Financial Assets	2,174	2,207	2,290			2,120	2,265
Total Assets	1,06,539	1,01,052	86,092	5%	24%	90,710	65,557
Liabilities & Equity							
Share Capital	3,690	3,239	3,219			3,219	3,215
Reserves & Surplus	17,947	11,724	9,883			10,338	8,320
Shareholder's Fund	21,637	14,963	13,102	45%	65%	13,557	11,535
Borrowings	79,889	81,525	68,934			71,358	50,168
Other Liabilities and Provisions	5,014	4,563	4,057			5,795	3,854
Total Liabilities & Equity	1,06,539	1,01,052	86,092	5%	24%	90,710	65,557

Sources: Recent Q3 reports

P&L STATEMENT

						₹ Mn	
Profit & Loss Statement	Q3 FY24	Q2 FY24	Q3 FY23	QoQ	YoY	FY 23	FY 22
Interest Income	3,759	3,560	2,839			10,754	8,149
Net Gain on Direct Assignment	165	182	66			348	70
Other Income	371	237	284			1,045	618
Total Income	4,294	3,980	3,189			12,147	8,836
Interest Expenses	1,758	1,669	1,252			4,722	3,477
Net Interest Income	2,166	2,073	1,654	5%	31%	6,380	4,742
Net Total Income	2,537	2,310	1,937			7,425	5,360
Operating Expenses	1,432	1,389	1,171			4,352	3,129
Operating Profit	1,105	922	767	20%	44%	3,073	2,231
Credit Cost	227	148	104			489	839
Profit Before Tax	878	774	663			2,430	1,392
Tax Expense	224	196	151			629	358
Profit After Tax	654	578	512	13%	28%	1,801	1,035

Activate Windows

ROA TREE

RoA Tree	Q3 FY24	Q2 FY24	Q3 FY23	FY 23	FY 22
Interest Income / Average total assets	14.5%	14.6%	14.2%	13.8%	13.6%
Net Gain on DA / Average total Assets	0.6%	0.7%	0.3%	0.4%	0.1%
Other Income / Average total assets	1.4%	1.0%	1.4%	1.3%	1.0%
Total Income / Average total assets	16.5%	16.3%	15.9%	15.5%	14.7%
Interest Expenses / Average total assets	6.8%	6.8%	6.2%	6.0%	5.8%
Net Interest Income / Average total assets	8.3%	8.5%	8.3%	8.2%	7.9%
Net Total Income / Average total assets	9.8%	9.5%	9.7%	9.5%	8.9%
Operating Expenses / Average total assets	5.5%	5.7%	5.8%	5.6%	5.2%
Operating Profit / Average total assets	4.3%	3.8%	3.8%	3.9%	3.7%
Credit Cost / Average total assets	0.9%	0.6%	0.5%	0.6%	1.4%
Profit before tax / Average total assets	3.4%	3.2%	3.3%	3.1%	2.3%
Tax expense / Average total assets	0.9%	0.8%	0.8%	0.8%	0.6%
Profit after tax on Average total assets	2.5%	2.4%	2.6%	2.3%	1.7%
Average total assets / Average Shareholders' Fund	5.7	6.7	6.2	6.2	6.0
Profit after tax on Average Shareholders' Fund (ROE)	14.3%	15.9%	15.9%	14.4%	10.4%
Average interest earning assets as % of Average total assets	96.9%	97.0%	96.9%	96.7%	96.1%
Average interest bearing liabilities as % of Average total assets	75.0%	80.7%	80.1%	79.6%	76.5%

Sources: Recent Q3 reports

WHAT SHOULD INVESTORS DO?

In the market they serve, there isn't much competition, especially for the size of loans they handle. Most competitors focus on smaller loan sizes, around INR 7-8 lakh, while their average loan size is INR 12-13 lakh. This segment is relatively new but growing fast. They estimate that only about 3% of the total loan market is in this segment, and it's been growing over the past few years. When it comes to unsecured loans, they're careful with their originations, aiming to keep less than 15% of their portfolio as unsecured. Currently, it's at 13%, and they plan to reduce it further.

As for their expansion plans, they review their entire portfolio annually to decide where to allocate their resources. They'll finalize their branch expansion plans soon, but for now, they're spreading their resources across different business lines.

For gold loans, their loss given default (LGD) is very low at 0.75%, and any non-performing loans typically get resolved within 60-90 days. Their retail assets under management (AUM) have grown significantly over the years, from INR 1,000 crores in FY'18 to nearly INR 11,000 crores now. With their resources and capabilities, they're aiming for a growth rate of 25%, and they plan to exceed that in the future.

Given their strong revenue growth and future plans, we maintain a positive outlook on FEDFINA, with a target price of 170-175 for the coming years.



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