

Strong Quarter!

26th Oct, 2016

CMP: Rs. 82
Target Price: Rs. 97
Recommendation: Accumulate

For the quarter ended Q2 FY17 Federal bank reported strong profitability. The net profit stood at Rs 202 cr vs. Rs 161 cr in the corresponding quarter of the previous year and Rs 167 cr in the sequential quarter.

Stock Info

BSE Group	A
BSE Code	500469
NSE Symbol	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO
BSE Sensex	27,803
NSE Nifty	8,541

NII:

The bank's top-line performance was up as net interest income increased by 19.4% to Rs 726 crs compared to Rs 608 crs YoY & Rs 693 crs QoQ. Other income rose by 43.7% to Rs 262 crs YoY. C/I ratio for the bank dropped to 51.9% vs. 57.4% YoY and down sequentially by 230 bps. NIM expanded from 3.11% in corresponding quarter of previous year to 3.31% and expanded marginally by 3 bps sequentially.

Market Info

Market Capital	Rs 14,104 cr
Equity Capital	Rs 344cr
Avg. Trading Vol.	70,34,920
52 Wk High/ Low	86/41
Face Value	2

Advances and Deposits:

Gross advances for the quarter under review grew by 27% YoY and deposits grew by 17% YoY. CASA ratio stood at 31% against 31.9% YoY and 32.8% QoQ. Retail advances grew by 30% YoY, SME advances grew by 17% YoY and corporate advances grew by 47% YoY.

Asset quality:

Quality of assets deteriorated during the quarter with gross NPA's at Rs 1,820 crs vs. Rs 1,499 crs in the corresponding quarter of previous year. Gross NPA's in the previous quarter stood at Rs 1,747 crs. Fresh slippages during the quarter cooled to Rs 266 crs vs. Rs 403 crs in the corresponding quarter. There were no sales done to ARC's. Major fresh accretion were from SME segment which stood steady sequentially at Rs 135 cr. GNPA as a percentage stood at 2.8 while NNPA was at 1.6. PCR for the quarter stood at 71.7%.

Shareholding Pattern (%)	(Sep 2016)
Promoters	-
Domestic Institutions	30.6
Foreign Institutions	20.8
Public & Others	48.6

There was not much addition to the branches which stood at 1252 & ATM's stood at 1607, addition of 84 over the corresponding quarter.

Valuation:

Federal Bank reported strong profitability this quarter backed by NII growth and better operational efficiency. The asset quality too showed improvement. We expect the bank to continue the trend. At CMP the stock trades at P/ABV multiple of 1.7x based on FY 18E. We have valued the stock at a P/ABV multiple of 2.0x to its FY 18E and arrived at a fair value of Rs 97 per share. We have 'Accumulate' rating on the stock.

Price Vs Sensex Chart



(Rs Cr)	FY15	FY16	FY17E	FY18E
Net interest income	2380	2504	3075	3589
Operating Profit	1628	1424	1951	2307
PAT	1006	476	801	947
EPS (Rs)	11.7	2.8	4.7	5.5
EPS Growth (%)	19.7%	-76.4%	68.2%	18.2%
RoE (%)	13.7	6.0	9.8	10.9
P/E (x)	5.6	16.8	17.6	14.9
PABV (x)	0.8	1.1	1.8	1.7



Q2 FY 17 Earnings Snapshot

Particulars (Rs in Cr)	Q2 FY17	Q2FY16	YoY%	Q1 FY17	QoQ %
Interest Earned	2,066	1,902	8.6	2,014	2.6
Interest Expended	1,340	1,294	3.6	1,321	1.4
Net Interest Income	726	608	19.4	693	4.8
Other Income	262	182	43.7	237	10.5
<i>Other income / Net Income (%)</i>	27	23		25	
Total income	988	791	25.0	930	6.3
Employee Expenses	292	249	17.1	289	0.8
Non-Employee expenses	221	205	7.8	214	3.2
Operating Expenses	513	454	12.9	504	1.8
<i>Cost-income Ratio (%)</i>	51.9	57.4		54.2	
Pre-Prov Profits	475	337	41.2	426	11.6
Provisions & Contingencies	168	87	92.9	168	0.0
PBT	307	249	23.1	257	19.3
Provisions for Tax	105	88	19.6	90	16.9
<i>Effective Tax Rate (%)</i>	34	35		35	
PAT (reported)	202	161	25.1	167	20.6
EPS	1.2	0.9	24.8	1.0	20.6
GNPA	1820	1499	21.4	1747	4.1
NNPA	1040	675	54.1	995	4.5
GNPA (%)	2.8	2.9		2.9	
NNPA (%)	1.6	1.3		1.7	
Provision Coverage	71.7	76.6		72.1	
Total CAR (%)	12.9	14.7		13.6	
NIM	3.31	3.11		3.28	
Advances	64687	50867	27.2	59118	9.4
Deposits	86299	73783	17.0	81132	6.4

Source: Ace Equity, Arihant Research



Income Statement				
Year to 31st March (Rs.Cr)	FY15	FY16	FY17E	FY18E
Interest Income	7,419	7,745	8,684	10,349
Interest Expenses	5,039	5,240	5,609	6,760
Net Interest Income	2,380	2,504	3,075	3,589
- growth %	7	5	23	17
Other Income	878	787	931	998
Fee-based Income	497	546	636	682
Treasury Income	256	128	179	194
Other non interest income	125	113	116	122
Operating Income	3,259	3,291	4,006	4,587
Operating Expenses	1,631	1,867	2,055	2,280
- Staff Cost	892	1,053	1,141	1,210
- Other Operating Exp.	739	814	914	1,071
Gross Profits	1,628	1,424	1,951	2,307
Provisions	107	704	719	851
Profit Before Taxes	1,521	720	1,232	1,456
Taxes	515	244	431	510
Profit After Taxes	1,006	476	801	947

Balance Sheet				
As on 31st March (Rs. cr)	FY15	FY16	FY17E	FY18E
LIABILITIES				
Capital	171	344	344	344
Employee stock option	-	-	-	-
Reserves & Surplus	7,567	7,747	8,342	9,041
Deposits	70,825	79,172	93,423	1,08,371
Borrowings	2,308	2,177	2,721	2,857
Other liabilities & provisions	1,979	1,991	3,333	3,410
Total Liabilities	82,850	91,430	1,08,162	1,24,023
ASSETS				
Cash on hand & with RBI	3,380	3,775	4,144	4,915
Money at call and short notice	1,400	1,645	1,722	2,040
Advances	51,285	58,090	69,708	82,256
Investments	20,569	22,217	26,775	28,445
Fixed assets	467	520	563	592
Other assets	5,750	5,183	5,250	5,775
Total Assets	82,850	91,430	1,08,162	1,24,023

Ratio Analysis				
Year to 31st March	FY15E	FY16	FY17E	FY18E
Basic Ratio (Rs.)				
EPS	11.7	2.8	4.7	5.5
Book Value per share	90	47	51	55
Adjusted Book Value	86	42	45	49
Dividend per share	2.2	0.7	1.0	1.2
Asset Quality (%)				
Gross NPAs	2.1	2.9	2.7	2.5
Net NPAs	0.8	1.7	1.4	1.3
PCR	83.9	72.1	71.5	71.8
Profitability ratios (%)				
RoAE	13.7	6.0	9.8	10.9
RoAA	1.3	0.5	0.9	0.9
NIM	3.4	3.3	3.5	3.5
Operating Profit Margin	19.6	16.7	20.3	20.3
Net Profit Margin	12.1	5.6	8.3	8.3
Cost to Income	50.0	56.7	51.3	49.7

Spread analysis (%)				
	FY15E	FY16	FY17E	FY18E
Yield on advances	11.5	11.1	10.6	10.8
Yield on investments	8.2	8.2	7.8	7.9
Cost of deposits	7.1	7.1	6.5	6.7
Cost of funds	6.9	6.4	5.8	6.1
Spread	3.5	3.2	3.2	3.3
Interest Income to AWF	9.7	9.1	8.9	9.2
Net Interest Income to AWF	3.1	2.9	3.2	3.2
Non Interest Income to AWF	1.1	0.9	1.0	0.9
Operating Expense to AWF	2.1	2.2	2.1	2.0
Operating Profit to AWF	2.1	1.7	2.0	2.0
Net Profit to AWF	1.3	0.6	0.8	0.8
Valuation ratios (x)				
P/E	5.6	16.8	17.6	14.9
P/BV	0.7	1.0	1.6	1.5
P/ABV	0.8	1.1	1.8	1.7

Source: Ace Equity, Arianth Research

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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