

CMP: Rs 107

Rating: Accumulate

Target Price: Rs 122

Stock Info

INDEX	
BSE	500469
NSE	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs cr.)	397
Mkt Cap (Rs cr.)	21,319
52w H/L (Rs)	110/67
Weekly Avg Vol (BSE+NSE)	73,92,770

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	Nil
FII	37.3
DII	29.7
Public & Others	33.0

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Federal Bank	9.4	17.4	44.9
Sensex	-0.4	7.7	7.7

Source: ACE Equity, Arihant Research

Federal Bank v/s Sensex



Source: ACE Equity, Arihant Research

Federal Bank reported a healthy operating performance with 46% yoy PAT growth led by 30% yoy rise in PPOP. Credit growth of the bank was healthy at 19% yoy while NIM was stable. Due to higher slippages the asset quality of the bank witnessed a slight deterioration. The bank is delivering consistent performance, on operating front. We are expecting this trend should continue going forward and bank is on track to achieve the targeted return ratios. We have reduced FY20 credit growth estimates to 19% from 20% earlier and revise our rating to Accumulate (Buy rating previously) with a target price of Rs 122.

Q1FY20 Highlights:

- Total Advances grew by 19% YoY/2% QoQ to Rs 112,032 cr, driven by growth in retail lending (up ~22% yoy) and wholesale loan book growth of 16% YoY. Under the retail segment, strong performance was seen in the agricultural portfolio (up 21% yoy) and retail lending. Growth in commercial and business banking was moderated at 12% YoY. Corporate loans grew 18% YoY. The bank has turned cautious on the business-banking front.
- Fresh slippages were higher at Rs 415 cr vs. Rs 256 cr in Q4FY19, primarily due to elevated NPAs in retail (Rs 141 cr) led by expectation of extension of moratorium period in Kerala state. Slippages from corporate segment came in at Rs 88 cr of which Rs 32 cr was on account of IL&FS. GNPA ratio for the quarter increased by 7bps QoQ to 3% while NNPA was stable.
- NIM was largely stable at 3.15% as increase in cost of deposits was offset by rise in yield on advances. Yield on loans continued to inch up.

Management commentary

- Management continued to maintain guidance on advances growth (+18-20%), return ratios i.e. RoAs (1.12% in FY20 & 1.25% in FY21) & RoE (increase of 10-12bps) etc.
- Slippages increased during the quarter mainly because of expectation of moratorium of loans caused due to Kerala floods. Management expects slippages run rate of Rs 400 odd cr on a quarterly basis.
- Bank's exposure to stressed HFCs is classified as standard. However, the bank has started making provisions towards this account. So far, the bank has made provisions to the tune of 15%. The bank's exposure to HFCs stands at Rs 275 cr.
- Management maintained credit cost guidance of 60 bps. Slippages run-rate on quarterly basis could be in the range of Rs 400 cr.
- The reduction in deposits growth was mainly due to running down of CDs which were issued in Q4FY19.
- Retail book is yielding at 10% and corporate book is yielding at 8.9%.

Valuation and Outlook; Accumulate

We believe the Bank is on track to achieve return ratios trajectory like RoA / RoE to healthy levels of 1.1%/13% by FY21E. Healthy loan growth with a sustainable margin, improving yields and strong operating performance drives our earnings growth. At CMP of Rs 107, currently it is trading at 1.5(x) to its FY21E ABV, which is quite reasonable at this juncture. We have valued the stock at 1.7x P/ABV and arrived at a fair value of Rs 122 per share, giving a potential upside of 14%.

Q1FY20 Financial Snapshot:

Particulars (Rs in Cr)	Q1 FY20	Q1 FY19	YoY%	Q4 FY19	QoQ %
Interest Earned	3,229	2,667	21.1	3,032	6.5
Interest Expended	2,075	1,687	23.0	1,936	7.2
Net Interest Income	1,154	980	17.8	1,097	5.3
Other Income	392	271	44.5	412	-4.9
<i>Other income / Net Income (%)</i>	25	22		27	
Total income	1546	1251	23.6	1508	2.5
Employee Expenses	398	345	15.3	370	7.5
Non-Employee expenses	365	303	20.5	383	-4.8
Operating Expenses	763	648	17.7	754	1.3
<i>Cost-income Ratio (%)</i>	49.4	51.8		50.0	
Pre-Prov Profits	783	603	29.8	755	3.7
Provisions & Contingencies	192	199	-3.6	178	8.0
PBT	591	404	46.3	577	2.4
Provisions for Tax	207	141	46.4	195	5.6
<i>Effective Tax Rate (%)</i>	35	35		34	
PAT (reported)	384	263	46.2	382	0.7
EPS	1.9	1.3	44.5	1.9	0.5
GNPA	3395	2869	18.3	3261	4.1
NNPA	1673	1620	3.2	1626	2.9
GNPA (%)	2.99	3.00		2.92	
NNPA (%)	1.49	1.72		1.48	
Provision Coverage (%)	67.4	64.7		67.2	
Total CAR (%)	14.1	14.5		14.1	
NIM (%)	3.15	3.12		3.17	
Advances	112032	94297	18.8	110223	1.6
Deposits	132538	111242	19.1	134955	-1.8

Income Statement			
Particulars (Rs. cr)	FY19	FY20E	FY21E
Interest Income	11,419	13,398	15,705
Interest Expenses	7,243	8,583	9,934
Net Interest Income	4,176	4,815	5,772
- growth %	17	15	20
Other Income	1,351	1,621	1,864
Operating Income	5,527	6,436	7,636
Operating Expenses	2,764	3,144	3,795
- Staff Cost	1,378	1,591	1,854
- Other Operating Exp.	1,387	1,553	1,941
Gross Profits	2,763	3,293	3,841
Provisions	856	941	989
Profit Before Taxes	1907	2351	2852
Taxes	663	818	992
Profit After Taxes	1244	1534	1860

Ratio Analysis			
Particulars	FY19	FY20E	FY21E
Basic Ratio (Rs.)			
EPS	6.3	7.7	9.4
Book Value per share	66.9	73.6	82.0
Adjusted Book Value	58.7	63.8	71.9
Dividend per share	1.0	1.0	1.0
Asset Quality (%)			
Gross NPAs	3.0	2.4	2.3
Net NPAs	1.5	1.5	1.3
PCR	68.0	71.0	71.0
Profitability ratios (%)			
RoAE	10.7	11.5	12.7
RoAA	1.0	1.0	1.1
NIM	3.2	3.1	3.2
Cost to Income	50.0	51.7	50.0

Balance Sheet			
Particulars (Rs. cr)	FY19	FY20E	FY21E
LIABILITIES			
Capital	397	397	397
Reserves & Surplus	12,876	14,211	15,873
Deposits	134,955	156,149	185,175
Borrowings	7,781	9,104	10,469
Other liabilities & provisions	3,331	4,057	4,869
Total Liabilities	159,340	183,918	216,783
ASSETS			
Cash on hand & with RBI	6,419	7,061	7,767
Money at call and short notice	3,648	4,012	4,815
Advances	110,223	131,165	157,398
Investments	31,824	33,416	36,757
Fixed assets	472	496	568
Other assets	6,754	7,768	9,477
Total Assets	159,340	183,918	216,783

Spread analysis (%)			
	FY19	FY20E	FY21E
Yield on advances	9.0	9.1	9.1
Yield on investments	6.5	6.5	6.5
Cost of deposits	5.7	6.0	6.2
Avg. Cost of funds	5.1	5.2	5.1
Spread	3.0	2.9	3.0
Interest Income to AWF	7.8	8.0	8.0
Net Interest Income to AWF	2.9	2.9	2.9
Non Interest Income to AWF	0.9	1.0	1.0
Operating Expense to AWF	1.9	1.9	1.9
Operating Profit to AWF	1.9	2.0	2.0
Net Profit to AWF	0.9	0.9	0.9
Valuation ratios (x)			
P/E	17.1	13.8	11.4
P/BV	1.6	1.5	1.3
P/ABV	1.8	1.7	1.5

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

Research**Analyst****Registration
No.****Contact****Website****Email Id**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.comresearch@arihantcapital.com

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880