

CMP : Rs 89

Rating : BUY

Target : Rs 107

STOCK INFO

INDEX	
BSE	500469
NSE	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs cr.)	394
Mkt Cap (Rs cr.)	17,587
52w H/L (Rs)	110/67
6M Avg Vol (BSE+NSE)	150,15,169

SHAREHOLDING PATTERN

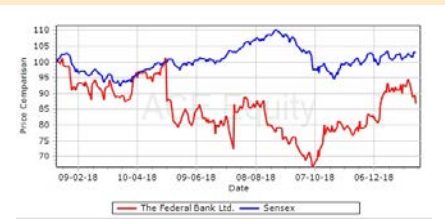
(as on September, 2018)	%
Promoters	-
FII	36.2
DII	30.0
Public & Others	33.8

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
Federal Bank	12.9	0.4	-15.7
SENSEX	4.0	-1.0	3.1

Source: ACE Equity, Arihant Research

Federal Bank v/s SENSEX



Source: ACE Equity, Arihant Research

Federal Bank reported mixed set of numbers with strong loan growth of 24% across both (Retail + Wholesale) segments. Net Profit grew sharply by 28% at Rs. 334 cr vs Rs. 260 cr in the corresponding quarter of the previous year aided by higher other income and slightly higher provision during the quarter.

Bank's top-line performance was up as net interest income increased by 13% to Rs 1077 cr compared to Rs.950 cr YoY & grew by 5% from Rs. 1022 cr QoQ. Other Income of the bank grew by 51% to Rs. 346 cr YoY with higher core fee income growth of 45%. C/I ratio for the bank decreased by 212 bps YoY and increased by 210 bps QoQ to 50.25%. Federal bank continued to achieve sustainable NIM and its expanded by 2 bps QoQ to 3.17% which is expected to remain at 3.20% by the end of FY19 as per management guidance.

Advances and Deposits:

Total Gross advances for the quarter under review grew by 25% YoY while total deposits for the bank stood at 123,457 cr registering growth of 28%. Retail deposits grew by 20% YoY. CASA ratio stood at 33.35% against 33.13% YoY. SME advances grew by 15% YoY while corporate loan book grew by 31% YoY.

Asset quality:

Total Slippages of Rs. 426 cr in Q3FY19, stood around same level from the past two quarters largely contributed by SME portfolio, however there is no stress in its corporate book. MSME slippage at Rs. 192 cr is a concern but incremental NPA from MSME might be mitigating in 4QFY19 due to use of RBI dispensation. Lag effects of demonetisation, GST implementation and other factors created stress in the SME segment. GNPA ratio stood at 3.14% vs. 3.11%QoQ while Net NPA's ratio stood at 1.72% vs. 1.78%. Provision coverage ratio stood at 64.2%.

Key Highlights:

1. Federal bank's total exposure pertaining to IL&FS stood at Rs. 245 cr towards three SPV accounts, which are considered as standard assets. These all are functioning assets, however bank has made 7.5% provisioning on the same.
2. Slippage guidance maintained at Rs. 1500 cr; credit cost guidance of 65-70 bps (0.68 as on Q3FY19), FY19 ROA guidance of ~1%.
3. Incremental yield on corporate book is currently at 8.7%.

Valuation:

Federal Bank has posted decent set of numbers boosted by healthy NII growth, steady margins, moderate credit cost and strong earnings supported by higher core fee income. We expect slippages will lower further as Kerala situation is back to normalcy from flood impact. Bank continues to focus on retail and mid corporate segment & expects to gain some market share (at present >1%). We expect operating performance, balance sheet growth of the bank will remain strong going forward with strong credit growth at ~25%.

We have revised our loan growth estimates for FY20 to 24% from 17% earlier, valued the stock at P/ABV of 1.6 x its FY20E ABV, and arrived at a fair value of Rs. 107 per share giving a potential upside of 20%. We have **'BUY'** rating on the stock.

Q3FY19 Quarterly Snapshot:

Particulars (Rs in Cr)	Q3 FY19	Q3 FY18	YoY%	Q2 FY19	QoQ %
Interest Earned	2,954	2,501	18.1	2,765	6.9
Interest Expended	1,877	1,551	21.0	1,742	7.7
Net Interest Income	1,077	950	13.40	1,022	5.4
Other Income	346	229	51.1	323	7.0
<i>Other income / Net Income (%)</i>	24	19		24	
Total income	1423	1179	20.7	1345	5.8
Employee Expenses	354	300	17.7	309	14.5
Non-Employee expenses	361	317	14.1	339	6.6
Operating Expenses	715	617	15.8	648	10.4
<i>Cost-income Ratio (%)</i>	50.3	52.4		48.1	
Pre-Prov Profits	708	561	26.1	698	1.5
Provisions & Contingencies	190	162	17.0	289	-34.2
PBT	518	399	29.8	409	26.6
Provisions for Tax	184	139	32.5	143	29.0
<i>Effective Tax Rate (%)</i>	36	35		35	
PAT (reported)	334	260	28.3	266	25.4
EPS	1.7	1.3	25.6	1.3	24.6
GNPA	3361	2161	55.5	3185	5.5
NNPA	1817	1157	57.1	1796	1.2
GNPA (%)	3.14	2.54		3.11	
NNPA (%)	1.72	1.36		1.78	
Provision Coverage	64.2	70.0		63.4	
Total CAR (%)	13.0	14.4		13.3	
NIM	3.17	3.33		3.15	
Advances	105550	84953	24.2	100941	4.6
Deposits	123457	96576	27.8	118182	4.5

Income Statement			
Particulars (Rs. cr)	FY18	FY19E	FY20E
Interest Income	9,753	11,558	13,996
Interest Expenses	6,170	7,004	7,951
Net Interest Income	3,583	4,554	6,045
- growth %	13	27	33
Other Income	1,159	1,189	1,296
Operating Income	4,742	5,744	7,342
Operating Expenses	2,451	2,901	3,548
- Staff Cost	1,242	1,451	1,692
- Other Operating Exp.	1,208	1,450	1,856
Gross Profits	2,291	2,842	3,794
Provisions	947	871	915
Profit Before Taxes	1344	1971	2879
Taxes	465	702	1,025
Profit After Taxes	879	1269	1854

Ratio Analysis			
Particulars	FY18	FY19E	FY20E
Basic Ratio (Rs.)			
EPS	4.5	6.4	9.4
Book Value per share	62	68	78
Adjusted Book Value	54	59	67
Dividend per share	1.0	1.0	1.0
Asset Quality (%)			
Gross NPAs	3.0	2.9	2.3
Net NPAs	1.7	1.6	1.5
PCR	65.0	68.0	71.0
Profitability ratios (%)			
RoAE	9.2	10.9	13.6
RoAA	1.1	2.0	2.5
NIM	3.2	3.4	3.8
Cost to Income	51.7	50.5	51.7

Balance Sheet			
Particulars (Rs. cr)	FY18	FY19E	FY20E
LIABILITIES			
Capital	394	394	394
Reserves & Surplus	11,816	13,085	14,939
Deposits	111,992	131,986	163,663
Borrowings	11,534	14,249	16,284
Other liabilities & provisions	2,578	2,604	2,994
Total Liabilities	138,314	162,318	198,274
ASSETS			
Cash on hand & with RBI	5,133	5,389	5,928
Money at call and short notice	4,071	5,699	7,409
Advances	91,957	112,188	139,113
Investments	30,781	32,474	38,319
Fixed assets	457	480	504
Other assets	5,915	6,087	7,000
Total Assets	138,314	162,318	198,274

Spread analysis (%)			
	FY18	FY19E	FY20E
Yield on advances	9.1	9.1	9.1
Yield on investments	6.5	6.4	6.4
Cost of deposits	5.7	5.9	6.0
Avg. Cost of funds	5.0	4.8	4.4
Spread	3.0	3.2	3.5
Interest Income to AWF	7.9	7.8	7.9
Net Interest Income to AWF	2.9	3.1	3.4
Non Interest Income to AWF	0.9	0.8	0.7
Operating Expense to AWF	2.0	2.0	2.0
Operating Profit to AWF	1.8	1.9	2.1
Net Profit to AWF	0.7	0.9	1.0
Valuation ratios (x)			
P/E	19.9	13.8	9.4
P/BV	1.4	1.3	1.1
P/ABV	1.6	1.5	1.3

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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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