

**Federal Bank – Q2FY20 Result Highlights**

*Federal Bank reported weak set of numbers during Q2FY20 result. The result was below our estimates. There was a miss in most of the key metrics. NII during the quarter grew by 10% while operating profit grew by 3% YoY. The growth rates of NII and PPOP were at multi quarter low. PAT grew by 57% YoY mainly due to sharp fall in tax. Yield during the quarter fell by 22bps to 9.33% while NIM declined by 14bps on QoQ basis. NIM declined due to strong growth in deposit compared to advances and due to external benchmarking of loans.*

*Owing to higher slippages GNPA of the bank increased by 6% QoQ to Rs 3,612 cr. Slippages for the quarter stood at Rs 540 cr vs. Rs 415 cr in previous quarter. The increase in slippages was mainly due to sharp jump in corporate banking slippages. Corporate slippages stood at Rs 199 cr vs. Rs 88 cr QoQ. GNPA/NNPA increased by 8bps/10bps QoQ.*

*Credit growth of the bank moderated to 15% YoY vs. 19% growth in previous quarter. Loan growth of the bank moderated due to lower growth in wholesale banking. Liability franchise of the bank continued to remain strong with a deposit growth at 18% YoY/5% QoQ. CASA ratio of the bank improved to 31.55% vs. 31.44 QoQ.*

**Suspension of Coverage**

*Federal Bank's Q2FY20 result was below our expectation and it has reported weak operating performance. There was a stress seen in its corporate banking asset quality. Total stressed book as a percentage of average total assets increased to 1.72% vs. 1.67% QoQ. Management has reduced its credit growth guidance to 15% from 18% earlier. This could be the result in miss in its return ratios trajectory. Due to miss in its operating performance and asset quality stress mainly on corporate book we are not much confident on bank's growth prospect. Thus, we discontinue our coverage and will relook at the stock if there is any improvement in bank's asset quality.*

Particulars (Rs in Cr)	Q2 FY20	Q2 FY19	YoY%	Q1 FY20	QoQ %	Comments
Interest Earned	3,254	2,765	17.7	3,229	0.8	
Interest Expended	2,130	1,742	22.3	2,075	2.7	
<b>Net Interest Income</b>	<b>1,124</b>	<b>1,022</b>	<b>9.9</b>	<b>1,154</b>	<b>-2.6</b>	Weak NII growth due of decline in yield
Other Income	421	323	30.4	392	7.5	
<i>Other income / Net Income (%)</i>	27	24		25		
<b>Total income</b>	<b>1545</b>	<b>1345</b>	<b>14.8</b>	<b>1546</b>	<b>-0.1</b>	
Employee Expenses	441	309	42.7	398	10.8	
Non-Employee expenses	385	339	13.7	365	5.5	
<b>Operating Expenses</b>	<b>826</b>	<b>648</b>	<b>27.5</b>	<b>763</b>	<b>8.3</b>	
<i>Cost-income Ratio (%)</i>	53.5	48.1		49.4		Opex is on higher side
<b>Pre-Prov Profits</b>	<b>719</b>	<b>698</b>	<b>3.0</b>	<b>783</b>	<b>-8.2</b>	Growth was multi quarter low
Provisions & Contingencies	252	289	-12.8	192	31.1	
<b>PBT</b>	<b>467</b>	<b>409</b>	<b>14.2</b>	<b>591</b>	<b>-20.9</b>	
Provisions for Tax	50	143	-64.7	207	-75.6	
<i>Effective Tax Rate (%)</i>	11	35		35		
<b>PAT (reported)</b>	<b>417</b>	<b>266</b>	<b>56.6</b>	<b>384</b>	<b>8.5</b>	PAT boosted due to sharp cut in tax rate
EPS	2.1	1.3	55.2	1.9	8.3	
GNPA	3612	3185	13.4	3395	6.4	Asset Quality deteriorated further due to increase in Slippages
NNPA	1844	1796	2.6	1673	10.2	
GNPA (%)	3.07	3.11		2.99		
NNPA (%)	1.59	1.78		1.49		
Provision Coverage (%)	66.2	63.4		67.4		
NIM (%)	3.01	3.15		3.15		Margin decline sequentially on account of decline in spread
Advances	115893	100941	14.8	112032	3.4	
Deposits	139547	118182	18.1	132538	5.3	

