

Steady Outlook!

28th July, 2017

CMP: Rs.113
Target Price: Rs.124
Recommendation: HOLD

Stock Info

BSE Group	A
BSE Code	500469
NSE Symbol	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO
BSE Sensex	32,310
NSE Nifty	10,014

Market Info

Market Capital	Rs 22,103 cr
Equity Capital	Rs 388cr
Avg. Trading Vol.	97,77,620
52 Wk High/ Low	122/61
Face Value	2

Shareholding Pattern (%)

Promoters	-
Domestic Institutions	30.88
Foreign Institutions	31.29
Public & Others	37.83

For the quarter ended Q1 FY18 Federal bank reported steady profitability. The net profit stood at Rs 210 cr vs. Rs 167 cr in the corresponding quarter of the previous year and Rs 256 cr in the sequential quarter.

NII:

The bank's top-line performance was up as net interest income increased by 16% to Rs 801 crs compared to Rs 693 crs YoY & Rs 842 crs QoQ. Other income rose by 39% to Rs 392 crs YoY. C/I ratio for the bank dropped to 50.62% vs. 54.19% YoY and decreased sequentially by 54 bps from 51.16%. NIM contracted from 3.28% in corresponding quarter of previous year to 3.13% and 29bps sequentially from 3.42%.

Advances and Deposits:

Gross advances for the quarter under review grew by 29% YoY and deposits grew by 19% YoY. CASA ratio stood at 33.44% against 32.83% YoY and 35% QoQ majorly due to expansion on retail front. Retail advances grew by 27.82% YoY, SME advances grew by 9.54% YoY and large corporate advances grew by 45.59% YoY.

Asset quality:

Quality of assets improved during the quarter with gross NPA's at 2.4 vs. 2.9 in the corresponding quarter of previous year. Gross NPA's in the previous quarter stood at 2.3. Fresh accretion during the quarter increased to Rs 425 crs vs. Rs 244 crs in the corresponding quarter of previous year. Major fresh accretion were from agri, retail & corporate segment which increased from Rs 37 cr to Rs 169 cr QoQ while accretion from SME segment dropped to Rs 114 cr vs. Rs 122 cr. PCR for the quarter stood at 70.26%.

Valuation:

Federal Bank reported consistent performance backed by NII growth and better operational efficiency. Asset quality stood steady. We expect the bank to continue trend with more focus on digitalization and distribution. At CMP stock trades at P/ABV multiple of 2.1x on FY 19E. We have valued the stock at P/ABV multiple of 2.3x & arrived at fair value of Rs 124 per share and have 'HOLD' rating.

Price Vs Sensex Chart



(Rs Cr)	FY16	FY17	FY18E	FY19E
Net interest income	2504	3053	3741	4374
Operating Profit	1424	1925	2545	3007
PAT	476	831	1139	1392
EPS (Rs)	2.8	4.8	6.6	8.1
EPS Growth (%)	-76.4%	73.9%	37.1%	22.2%
RoE (%)	6.0	10.1	12.8	14.2
P/E (x)	16.8	18.7	17.2	14.1
P/ABV (x)	1.1	2.0	2.3	2.1



Q1 FY 18 Earnings Snapshot

Particulars (Rs in Cr)	Q1 FY18	Q1 FY17	YoY%	Q4 FY17	QoQ %
Interest Earned	2,324	2,014	15.4	2,316	0.4
Interest Expended	1,523	1,321	15.3	1,474	3.4
Net Interest Income	801	693	15.6	842	-5.0
Other Income	329	237	38.8	282	16.7
<i>Other income / Net Income (%)</i>	29	25		25	
Total income	1130	930	21.5	1124	0.5
Employee Expenses	298	289	3.1	263	13.5
Non-Employee expenses	273	214	27.5	312	-12.4
Operating Expenses	572	504	13.5	575	-0.6
<i>Cost-income Ratio (%)</i>	50.6	54.2		51.2	
Pre-Prov Profits	558	426	31.0	549	1.6
Provisions & Contingencies	236	168	40.3	123	92.7
PBT	321	257	24.9	426	-24.6
Provisions for Tax	111	90	23.5	170	-34.5
<i>Effective Tax Rate (%)</i>	35	35		40	
PAT (reported)	210	167	25.6	256	-18.1
EPS	1.2	1.0	24.4	1.5	-18.7
GNPA	1862	1747	6.6	1727	7.8
NNPA	1061	995	6.7	941	12.7
GNPA (%)	2.4	2.9		2.4	
NNPA (%)	1.4	1.7		1.3	
Provision Coverage	70.3	72.1		71.8	
Total CAR (%)	15.3	13.6		12.4	
NIM	3.13	3.28		3.42	
Advances	76307	59118	29.1	73336	4.1
Deposits	95839	81132	18.1	97665	-1.9

Source: Ace Equity, Arian Research



Income Statement			
Particulars (Rs. cr)	FY17	FY18E	FY19E
Interest Income	8,677	10,395	12,128
Interest Expenses	5,625	6,655	7,754
Net Interest Income	3,053	3,741	4,374
- growth %	22	23	17
Other Income	1,082	1,190	1,309
Fee-based Income	704	874	952
Treasury Income	309	340	373
Other non interest income	69	76	84
Operating Income	4,134	4,931	5,683
Operating Expenses	2,210	2,385	2,675
- Staff Cost	1,164	1,299	1,429
- Other Operating Exp.	1,046	1,086	1,247
Gross Profits	1,925	2,545	3,007
Provisions	760	794	866
Profit Before Taxes	1,165	1,752	2,141
Taxes	334	613	749
Profit After Taxes	831	1,139	1,392

Balance Sheet			
Particulars (Rs. cr)	FY17	FY18E	FY19E
LIABILITIES			
Capital	345	345	345
Employee stock option	-	-	-
Reserves & Surplus	8,598	9,426	10,456
Deposits	97,665	1,09,289	1,25,682
Borrowings	5,897	4,423	4,865
Other liabilities & provisions	2,473	4,632	4,735
Total Liabilities	1,14,977	1,28,114	1,46,084
ASSETS			
Cash on hand & with RBI	4,577	5,007	5,222
Money at call and short notice	2,876	3,046	2,408
Advances	73,336	85,044	1,00,352
Investments	28,195	28,128	30,259
Fixed assets	490	525	535
Other assets	5,503	6,364	7,307
Total Assets	1,14,977	1,28,114	1,46,084

Ratio Analysis			
Particulars	FY17	FY18E	FY19E
Basic Ratio (Rs.)			
EPS	4.8	6.6	8.1
Book Value per share	52	57	63
Adjusted Book Value	45	49	54
Dividend per share	0.5	1.5	1.8
Asset Quality (%)			
Gross NPAs	2.7	2.6	2.5
Net NPAs	1.6	1.6	1.5
PCR	71.0	70.0	70.0
Profitability ratios (%)			
RoAE	10.1	12.8	14.2
RoAA	0.9	1.1	1.1
NIM	3.3	3.5	3.6
Cost to Income	53.4	48.4	47.1

Spread analysis (%)			
	FY17	FY18E	FY19E
Yield on advances	10.5	10.5	10.5
Yield on investments	7.5	7.5	7.5
Cost of deposits	6.5	6.5	6.6
Cost of funds	5.4	5.9	5.9
Spread	3.1	3.3	3.4
Interest Income to AWF	8.5	8.8	9.2
Net Interest Income to AWF	3.0	3.2	3.3
Non Interest Income to AWF	1.1	1.0	1.0
Operating Expense to AWF	2.2	2.0	2.0
Operating Profit to AWF	1.9	2.2	2.3
Net Profit to AWF	0.8	1.0	1.1
Valuation ratios (x)			
P/E	18.7	13.6	11.1
P/BV	1.7	1.6	1.4
P/ABV	2.0	1.8	1.7

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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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