

Strong Quarter!

19th Jan, 2017

CMP: Rs. 77
Target Price: Rs. 96
Recommendation: BUY

For the quarter ended Q3 FY17 Federal bank reported strong profitability. The net profit stood at Rs 205 cr vs. Rs 163 cr in the corresponding quarter of the previous year and Rs 202 cr in the sequential quarter.

Stock Info

BSE Group	A
BSE Code	500469
NSE Symbol	FEDERALBNK
Bloomberg	FB IN
Reuters	FED.BO
BSE Sensex	27,214
NSE Nifty	8,408

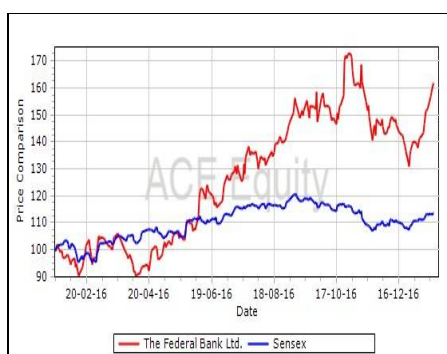
Market Info

Market Capital	Rs 13,271 cr
Equity Capital	Rs 344cr
Avg. Trading Vol.	84,20,440
52 Wk High/ Low	86/41
Face Value	2

Shareholding Pattern (%) (Dec 2016)

Promoters	-
Domestic Institutions	32.0
Foreign Institutions	26.7
Public & Others	41.3

Price Vs Sensex Chart



NII:

The bank's top-line performance was up as net interest income increased by 31% to Rs 791 crs compared to Rs 605 crs YoY & Rs 726 crs QoQ. Other income rose by 43.5% to Rs 263 crs YoY. C/I ratio for the bank dropped to 55% vs. 58.7% YoY and increased sequentially by 310 bps on account of demonetization. Adjusting for demonetization expenses CTI stood at 50.9%. NIM expanded from 3.0% in corresponding quarter of previous year to 3.3% and stood flat sequentially.

Advances and Deposits:

Gross advances for the quarter under review grew by 32% YoY and deposits grew by 23% YoY. CASA ratio stood at 35% against 32% YoY and 31% QoQ majorly due to demonetization. Retail advances grew by 35% YoY, SME advances grew by 16% YoY and corporate advances grew by 53% YoY.

Asset quality:

Quality of assets improved during the quarter with gross NPA's at 2.8 vs. 3.2 in the corresponding quarter of previous year. Gross NPA's in the previous quarter stood at 2.8. Fresh accretion during the quarter cooled to Rs 274 crs vs. Rs 571 crs in the corresponding quarter of previous year. There were no sales done to ARC's. Major fresh accretion were from retail segment which increased from Rs 61 cr to Rs 86 cr YoY while accretion from corporate segment dropped to Rs 55 cr vs. Rs 375 cr. PCR for the quarter stood at 71%.

Bank added 48 ATMs during the quarter taking the total to 1655 while the number of branches stood constant at 1252.

Valuation:

Federal Bank reported consistent performance backed by NII growth and better operational efficiency. Asset quality too showed improvement. We expect the bank to continue trend with more focus on digitalization and distribution. At CMP stock trades at P/ABV multiple of 1.6x on FY 18E. We have valued the stock at P/ABV multiple of 2.0x & arrived at fair value of Rs 96 per share and have 'BUY' rating.

(Rs Cr)	FY15	FY16	FY17E	FY18E
Net interest income	2380	2504	3016	3697
Operating Profit	1628	1424	1875	2448
PAT	1006	476	793	1097
EPS (Rs)	11.7	2.8	4.6	6.4
EPS Growth (%)	19.7%	-76.4%	66.4%	38.4%
RoE (%)	13.7	6.0	9.7	12.5
P/E (x)	5.6	16.8	16.7	12.1
P/ABV (x)	0.8	1.1	1.7	1.6



Q3 FY 17 Earnings Snapshot

Particulars (Rs in Cr)	Q3 FY17	Q3FY16	YoY%	Q2 FY17	QoQ %
Interest Earned	2,281	1,903	19.9	2,066	10.4
Interest Expended	1,490	1,298	14.8	1,340	11.2
Net Interest Income	791	605	30.8	726	9.0
Other Income	263	183	43.5	262	0.4
<i>Other income / Net Income (%)</i>	25	23		27	
Total income	1054	789	33.7	988	6.7
Employee Expenses	320	259	23.6	292	9.6
Non-Employee expenses	260	204	27.2	221	17.6
Operating Expenses	580	463	25.2	513	13.1
<i>Cost-income Ratio (%)</i>	55.0	58.7		51.9	
Pre-Prov Profits	475	325	45.8	475	-0.2
Provisions & Contingencies	159	75	111.4	168	-5.7
PBT	316	250	26.1	307	2.9
Provisions for Tax	110	88	26.0	105	4.9
<i>Effective Tax Rate (%)</i>	35	35		34	
PAT (reported)	205	163	26.2	202	1.8
EPS	1.2	1.0	25.7	1.2	1.8
GNPA	1952	1684	15.9	1820	7.2
NNPA	1102	876	25.8	1040	6.0
GNPA (%)	2.8	3.2		2.8	
NNPA (%)	1.6	1.7		1.6	
Provision Coverage	71.0	71.7		71.7	
Total CAR (%)	12.3	14.3		12.9	
NIM	3.32	3.04		3.31	
Advances	69629	52753	32.0	64687	7.6
Deposits	92236	74792	23.3	86299	6.9

Source: Ace Equity, Arihant Research



Income Statement				
Particulars (Rs. cr)	FY15	FY16	FY17E	FY18E
Interest Income	7,419	7,745	8,746	10,351
Interest Expenses	5,039	5,240	5,730	6,655
Net Interest Income	2,380	2,504	3,016	3,697
- growth %	7	5	20	23
Other Income	878	787	1,044	1,148
Fee-based Income	497	546	629	671
Treasury Income	256	128	350	385
Other non interest income	125	113	175	193
Operating Income	3,259	3,291	4,059	4,845
Operating Expenses	1,631	1,867	2,184	2,397
- Staff Cost	892	1,053	1,225	1,299
- Other Operating Exp.	739	814	959	1,098
Gross Profits	1,628	1,424	1,875	2,448
Provisions	107	704	655	760
Profit Before Taxes	1,521	720	1,219	1,688
Taxes	515	244	427	591
Profit After Taxes	1,006	476	793	1,097

Balance Sheet				
Particulars (Rs. cr)	FY15	FY16	FY17E	FY18E
LIABILITIES				
Capital	171	344	344	344
Employee stock option	-	-	-	-
Reserves & Surplus	7,567	7,747	8,437	9,225
Deposits	70,825	79,172	94,215	1,09,289
Borrowings	2,308	2,177	6,530	4,897
Other liabilities & provisions	1,979	1,991	4,530	4,632
Total Liabilities	82,850	91,430	1,14,055	1,28,387
ASSETS				
Cash on hand & with RBI	3,380	3,775	4,528	5,025
Money at call and short notice	1,400	1,645	2,137	3,301
Advances	51,285	58,090	70,870	85,044
Investments	20,569	22,217	30,454	28,128
Fixed assets	467	520	514	525
Other assets	5,750	5,183	5,552	6,364
Total Assets	82,850	91,430	1,14,055	1,28,387

Ratio Analysis				
Particulars	FY15E	FY16	FY17E	FY18E
Basic Ratio (Rs.)				
EPS	11.7	2.8	4.6	6.4
Book Value per share	90	47	51	56
Adjusted Book Value	86	42	44	48
Dividend per share	2.2	0.7	0.5	1.5
Asset Quality (%)				
Gross NPAs	2.1	2.9	2.8	2.6
Net NPAs	0.8	1.7	1.6	1.5
PCR	83.9	72.1	71.0	70.0
Profitability ratios (%)				
RoAE	13.7	6.0	9.7	12.5
RoAA	1.3	0.5	0.8	1.0
NIM	3.4	3.3	3.3	3.5
Cost to Income	50.0	56.7	53.8	49.5

Spread analysis (%)				
	FY15E	FY16	FY17E	FY18E
Yield on advances	11.5	11.1	10.5	10.5
Yield on investments	8.2	8.2	7.5	7.5
Cost of deposits	7.1	7.1	6.5	6.5
Cost of funds	6.9	6.4	5.7	5.8
Spread	3.5	3.2	3.0	3.3
Interest Income to AWF	9.7	9.1	8.8	8.9
Net Interest Income to AWF	3.1	2.9	3.0	3.2
Non Interest Income to AWF	1.1	0.9	1.0	1.0
Operating Expense to AWF	2.1	2.2	2.2	2.1
Operating Profit to AWF	2.1	1.7	1.9	2.1
Net Profit to AWF	1.3	0.6	0.8	0.9
Valuation ratios (x)				
P/E	5.6	16.8	16.7	12.1
P/BV	0.7	1.0	1.5	1.4
P/ABV	0.8	1.1	1.7	1.6

Source: Ace Equity, Arianth Research

**Arihant Research Desk**

E. research@arihantcapital.com
T. 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

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.

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**research@arihantcapital.com**Disclaimer:**

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

ARIHANT Capital Markets Ltd.www.arihantcapital.com