

## RETAIL EQUITY RESEARCH

## Federal Bank Ltd.

Banking/Finance

BSE CODE:500469

NSE CODE: FEDERALBNK

Bloomberg CODE: FB:IN

SENSEX: 36,374

## Accumulate

Rating as per Midcap

12months investment period

CMP Rs. 89 TARGET Rs.99 RETURN 11% 

18th January 2019

## Operating momentum continues to fuel growth...

Federal Bank Limited is a major Indian commercial bank in the private sector headquartered at Kerala having 1251 branches and 1669 ATMs spread across different States in India with a loan book size of ~ 107,000Cr.

- The total interest income grew by 18% and reflects 13% growth in Net Interest Income amounting to Rs1,077 Cr.
- PAT increased 28% YoY in Q2FY19 supported by strong growth of 51% YoY in other income.
- GNPA/NNPA ratios almost stable at 3.14%/1.72% against 3.11%/1.78% in Q2FY19 on account of reduction in slippages and improved recoveries.
- Strong growth in loan book at 25% YoY with significant performance from Retail and Corporate segments, while deposits grew by 24% YoY.
- We factor 21% CAGR growth in loan book and 17% CAGR growth in deposits over FY18-21E.
- We value the bank at 1.4x Adjusted Book Value of FY21E and recommends Accumulate with a revised target price of Rs99.

## Strong operating performance supported by robust loan growth...

Total Interest income witnessed 18% YoY growth and contributed towards 13% YoY increase in Net Interest Income (NII), which stands at Rs1077 Cr. PAT increased by 28% YoY to reach Rs334 Cr, mainly due to a significant improvement in other income supported by 89% YoY growth in profit from sale of securities and 91% YoY increase in profit from forex transactions. The operating profit grew by 26% YoY supported by healthy growth in advances at 25% YoY. Net Interest Margins (NIM) remained almost stable with only a marginal increase of 2bps from the last quarter and stands at 3.17%. We factor 16% CAGR growth in NII over FY18-21E supported by strong growth in loans and advances.

## Healthy growth across segments...

Strong growth in loan book by 25% YoY in Q3FY19, supported by robust growth across segments. Both corporate and core retail segments grew by 31% YoY. Federal Bank has improved its YoY market share in advances by 11bps to 1.12% and deposits by 12 bps to 1.03% with the help of aggressive marketing strongly supported by digital and retail banking. Total deposits grew by 24% YoY in which low cost CASA grew by 23% and the CASA ratio increased by 22bps YoY to 33.35%. Corporate and Retail loans will continue to see strong traction and we factor 21% CAGR in loan book over FY18-21E.

## Stable asset quality with reduced slippages...

Compared to the last quarter, GNPA ratio marginally slipped by 3 bps to 3.14% and NNPA ratio have improved by 6 bps to 1.72%. The fresh slippage has reduced by Rs56 Cr from Rs477 in the last quarter to Rs426Cr in this quarter, whereas the recoveries has improved to Rs240Cr in Q3FY19 compared to Rs155Cr in Q2FY19, which helped the GNPA to remain at this level. Slippage from SME segment is at Rs192cr against Rs.169cr in Q2FY19. Also, the exposure to IL&FS is only Rs245 Cr, of completed projects and is serviced through escrow account.

## Valuations...

The stock is currently trading at Adj P/B of 1.40/1.26 for FY20E and FY21E respectively. On account of reduction in slippages and stability in asset quality, we value the bank at 1.4x Adj BV of FY21E with a target price of Rs99.

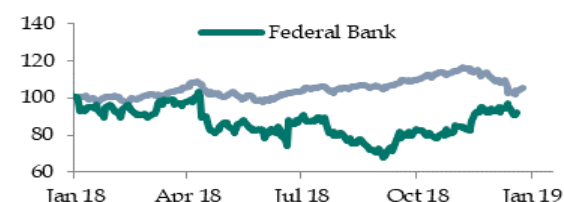
## Company Data

Market Cap (cr)	Rs. 17,599
Outstanding Shares (cr)	198
Free Float	100%
Dividend Yield	1.1%
52 week high	Rs. 109.80
52 week low	Rs.67.05
6m average volume (cr)	0.16
Beta	0.80
Face value	Rs2

Shareholding (%)	Q1FY19	Q2FY19	Q3FY19
Promoters	0	0	0
FPI's/FII's	38	37	38
MFs/Insti	27	29	29
Public	35	34	33
Total	100	100	100

Price Performance	3 month	6 month	1 Year
Absolute Return	13.5%	7.8%	-12.1%
Absolute Sensex	6.2%	-0.3%	3.7%
Relative Return	7.5%	8.1%	-15.8%

\*over or under performance to benchmark index



Standalone (Rs.cr)	FY19E	FY20E	FY21E
NII	4,402	5,027	5,620
Growth (%)	22.9	14.2	11.8
NIM (%)	3.2	3.1	3.0
PAT Adj	1,201	1,471	1,790
Growth (%)	36.7	22.5	21.7
Adj.EPS	6.1	7.4	9.0
Growth (%)	33.0	22.5	21.7
P/E	14.7	12.0	9.8
P/B	1.3	1.2	1.1
Adj. P/B	1.5	1.4	1.3
ROE %	9.4	10.4	11.4

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Research Analyst

## Quarterly Financials

### Profit & Loss Account

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	Q2FY19	QoQ Growth %
Interest Income	2,954	2,501	18	2765	7
Interest Expense	1,877	1,551	21	1742	8
Net Interest Income (NII)	1,077	950	13	1022	5
Fee and Other Income	346	229	51	323	7
<b>Total Income</b>	<b>1,423</b>	<b>1,179</b>	<b>21</b>	<b>1345</b>	<b>6</b>
Expenditure	715	617	16	648	10
Provision	190	162	17	289	-34
<b>PBT</b>	<b>518</b>	<b>399</b>	<b>30</b>	<b>409</b>	<b>27</b>
Tax	184	139	32	143	29
<b>Reported PAT</b>	<b>334</b>	<b>260</b>	<b>28</b>	<b>266</b>	<b>25</b>
Adjustment	-	-	-	-	-
<b>Adj PAT</b>	<b>334</b>	<b>260</b>	<b>28</b>	<b>266</b>	<b>25</b>
<b>Diluted EPS (Rs)</b>	<b>1.7</b>	<b>1.3</b>	<b>27</b>	<b>1.3</b>	<b>26</b>

### Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net Interest Income (NII)	4,315	5,092	4,402	5,027	2.0	-1.3
NIM (%)	3.1	3.1	3.2	3.0	2.0	-1.7
Fee and Other Income	1,252	1,494	1,248	1,485	-0.3	-0.6
Adj PAT	1,132	1,465	1,201	1,471	6.1	0.4
Diluted EPS (Rs)	5.7	7.4	6.1	7.4	6.4	0.4

## Standalone Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Interest Income	8,677	9,753	11,776	13,814	16,111
Interest Expense	5,625	6,170	7,375	8,787	10,492
<b>Net Int. Income</b>	<b>3,053</b>	<b>3,583</b>	<b>4,402</b>	<b>5,027</b>	<b>5,620</b>
% Change	21.7%	17.4%	22.9%	14.2%	11.8%
Non Int. Income	1,082	1,159	1,248	1,485	1,738
<b>Operating Income</b>	<b>4,134</b>	<b>4,742</b>	<b>5,650</b>	<b>6,512</b>	<b>7,358</b>
% Change	24.7%	14.7%	19.1%	15.3%	13.0%
<b>Pre Prov. Profit</b>	<b>1,925</b>	<b>2,291</b>	<b>2,939</b>	<b>3,405</b>	<b>3,822</b>
Prov. & Conting.	618	947	1,091	1,142	1,068
<b>PBT</b>	<b>1,306</b>	<b>1,344</b>	<b>1,848</b>	<b>2,263</b>	<b>2,753</b>
% Change	81.6%	2.9%	37.5%	22.5%	21.7%
Tax	476	465	647	792	964
Tax Rate (%)	36%	35%	35%	35%	35%
<b>Reported PAT</b>	<b>831</b>	<b>879</b>	<b>1,201</b>	<b>1,471</b>	<b>1,790</b>
Adj*	0	0	0	0	0
<b>Adj PAT</b>	<b>831</b>	<b>879</b>	<b>1,201</b>	<b>1,471</b>	<b>1,790</b>
% change	74.7%	5.8%	36.7%	22.5%	21.7%
No. of shares (cr)	172	197	198	198	198
<b>EPS (Rs)</b>	<b>4.8</b>	<b>4.6</b>	<b>6.1</b>	<b>7.4</b>	<b>9.0</b>
% change	74.2%	-5.4%	33.0%	22.5%	21.7%
DPS (Rs)	0.7	0.9	1.0	1.0	1.0
Interest Income	8,677	9,753	11,776	13,814	16,111

### Ratios

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
<b>Profitability &amp; Return Ratios</b>					
Interest yield (%)	9.13	8.40	8.46	8.37	8.33
Cost of funds (%)	5.99	5.52	5.54	5.43	5.38
Net int. spread (%)	3.14	2.89	2.92	2.94	2.95
NIM (%)	3.21	3.09	3.16	3.05	2.91
ROE (%)	9.75	8.31	9.38	10.42	11.38
ROA (%)	0.81	0.69	0.80	0.82	0.83
Loan (growth)	26.03	25.75	23.00	21.52	19.21
Deposit (growth)	23.36	14.67	17.33	17.01	16.05
<b>Asset Quality</b>					
GNPA (%)	2.3	3.0	3.0	2.8	2.8
NNPA (%)	1.3	1.7	1.7	1.6	1.6
<b>Capital</b>					
CAR(%)	12.4	14.7	13.6	13.5	13.3
<b>Valuation ratios</b>					
P/E (x)	18.5	20.0	14.7	12.0	9.8
P/BV (x)	1.7	1.4	1.3	1.2	1.1
P/ABV (x)	1.9	1.6	1.5	1.4	1.3

### Balance Sheet

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Cash	4,577	5,133	5,176	9,624	16,760
Loans & Advances	73,336	91,957	1,13,113	1,37,450	1,62,69
Investments	28,196	30,781	32,936	35,571	38,416
Gross Fixed Assets	1,266	1,317	1,380	1,445	1,515
Net Fixed Assets	475	448	379	305	230
CWIP	15	9	10	11	12
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	8,379	9,985	11,264	13,396	15,632
<b>Total Assets</b>	<b>1,14,977</b>	<b>1,38,314</b>	<b>1,62,878</b>	<b>1,96,358</b>	<b>2,33,74</b>
Deposits	97,665	1,11,992	1,31,399	1,53,744	1,78,42
Debt Funds	5,897	11,533	14,720	23,813	34,075
Other Liabilities	2,078	2,140	2,735	3,213	3,748
Provisions	395	437	636	752	896
Equity Capital	345	394	396	396	396
Reserves & Surplus	8,598	11,816	12,993	14,440	16,206
Shareholder's Fund	8,942	12,210	13,389	14,836	16,602
<b>Total Liabilities</b>	<b>1,14,977</b>	<b>1,38,314</b>	<b>1,62,878</b>	<b>1,96,358</b>	<b>2,33,74</b>
<b>BVPS (Rs)</b>	<b>51.9</b>	<b>61.9</b>	<b>67.6</b>	<b>74.9</b>	<b>83.8</b>
% change	10.19%	19.37%	9.19%	10.81%	11.90%
<b>Adj. BVPS (Rs)</b>	<b>46.4</b>	<b>54.0</b>	<b>57.9</b>	<b>63.5</b>	<b>70.8</b>

## Recommendation Summary (last 3 years)



Dates	Rating	Target
25-July -16	Accumulate	71
28-October -16	Hold	87
24-March -17	Hold	93
02-May -17	Hold	120
27-July- 17	Buy	134
18-October- 17	Accumulate	142
22-January-18	Buy	131
11-May-18	Accumulate	101
18-July-18	Accumulate	101
19-October-18	Accumulate	87
18-January-19	Accumulate	99

Source: Bloomberg, Geojit Research

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

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