



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Result update@ Dalal & Broacha

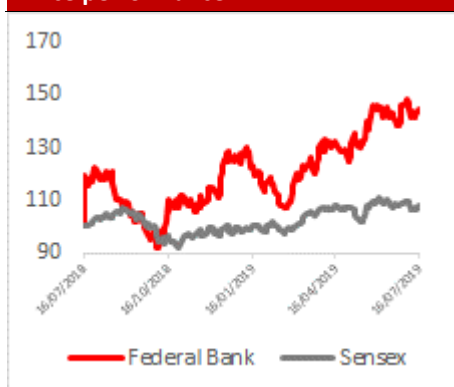
### BUY

Current Price	107
52 Week Range	105/67
Target Price	130
Upside (%)	21

### Key Share Data

Market Cap (Rs.bn)	205.27
Market Cap (US\$ Mn)	2932.43
No of o/s shares (Mn)	1985
Face Value	2
BSE Code	500469
NSE Code	FEDERALBNK
Bloomberg	FB:IN

### Price performance



% Shareholding	June-19	Mar-19
FII	37.3	37.4
DII	29.7	29.9
Others	33.0	32.7
Total	100	100

Federal Bank (FEDB) has reported a robust net profit growth of 46% YoY at Rs 384 Cr for the quarter ended June 30, 2019, supported by higher interest income and better other income. NII came at Rs 1154 Cr (up 18% YoY/ 5% QoQ) led by higher credit growth at 19% YoY (1.6% QoQ), which includes Retail (including Agri & BuB) loan growth of 22% YoY and Wholesale loan growth of 16% YoY. On the liability side, Bank's deposit grew by 19% in Q1FY20, with CASA growth of 12% YoY taking CASA ratio at 31.4%. While there has been some softening in SA deposit growth, the growth in CA deposit has been strong. Management is targeting CASA ratio of 33% by the end FY20 (from 31.44% in Q1FY20).

Going forward, reduction in credit cost, improving operating efficiency and traction in other income would be the key levers to profitability. Management has guided for an improvement of 10-15 bps every year in ROA for next two financial year (targeting FY21 exit quarter RoA of 1.25%).

### Steady growth in operating performance

Bank is consistently showing improvement in its operating performance, with its operating profit growing by 30% YoY and 3.7% QoQ to Rs 783 Cr in Q1FY20, supported by strong growth NII, healthy traction in other income and better operating efficiency. Bank's cost-to-income ratio declined by 60 bps QoQ/244 bps YoY to 49.4% backed by lower opex growth of 18% vs 24% net income growth. Fee income was robust, up by 25% YoY to Rs 260 Cr driven by higher retail & treasury income.

### Stable asset quality

FEDB's asset quality remained stable during the quarter, with GNPA/NNPA stood at 2.99% / 1.49% (vs 2.92%/ 1.48 % in Q4FY19). In absolute terms, GNPA's increased by 4.1% QoQ to Rs 3395 Cr and NNPA's rose 2.9% QoQ to Rs 1673 Cr in Q1FY20. Fresh slippages stood at Rs 415 Cr (Rs 256 QoQ/Rs 461 CR YoY), including Rs 32 Cr to two SPVs of IL&FS, while the overall recoveries/ Upgrades stood at Rs 202 Cr (Rs 323 QoQ/Rs 246 Cr YoY). The rise slippages is attributable to the retail slippages, which stood at Rs 140 Cr (Rs 67 QoQ/Rs 109 Cr YoY). Out of which, around Rs 100 Cr was mainly triggered by local event in the state of Kerala. It may persist for the next one or two quarters. While SME and agri slippages were contained at Rs 186 Cr (vs 189 Cr in Q4FY19), corporate slippages rose to Rs 88 Cr (vs Nil in in Q4FY19). Bank has total exposure of Rs 275 Cr towards two stressed HFCs. Out of which, Bank has taken the provision of 15% for its exposure to one of this HFCs. Credit cost was restricted at 63 bps and the management expects it to be in the range of 55-60 bps for the full year.

### Valuation and Outlook:

With stable margins, diversified credit book, reasonable asset quality and improving cost efficiency, we expect FEDB to deliver strong earnings growth of 25% over FY19-21E. We also expect the bank's business to register a 19% CAGR over FY19-21E, with advances and deposits CAGR of 20% and 19%, respectively. At CMP the stock trades at 1.7x its FY20E ABV & 1.5x its FY21E ABV. We maintain our Buy rating on FEDB with an unchanged price target of Rs. 130, valuing the bank at 1.8X FY21E adj. book

### Key Financials (Rs Mn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	BVPS	PB (X)	ROE
FY19	41764	17	27631	21	12439	42	67	1.6	9.8
FY20E	49520	19	33196	20	15502	25	73	1.5	11.2
FY21E	59406	20	40339	22	19568	26	81	1.3	12.8



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### Quarterly performance

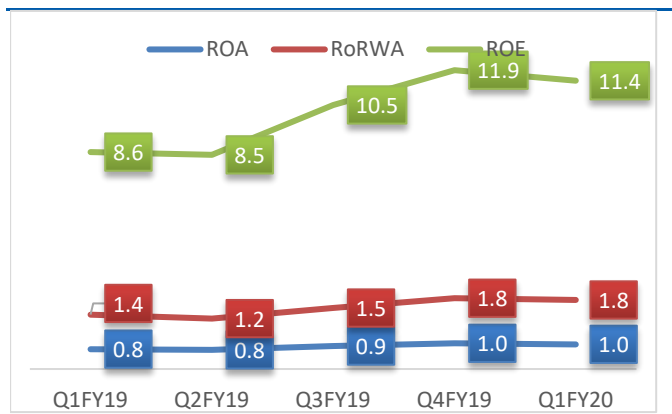
<i>Rs Mn</i>	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Interest Earned	23160	23241	23796	25012	25480	26674	27649	29544	30323	32293
Interest Expended	14736	15234	14807	15512	16148	16873	17425	18771	19358	20751
<b>NII</b>	<b>8424</b>	<b>8007</b>	<b>8989</b>	<b>9500</b>	<b>9332</b>	<b>9801</b>	<b>10225</b>	<b>10773</b>	<b>10965</b>	<b>11542</b>
Other Income	2821	3291	2872	2286	3142	2709	3229	3456	4117	3915
<b>Net Income</b>	<b>11245</b>	<b>11298</b>	<b>11861</b>	<b>11786</b>	<b>12474</b>	<b>12509</b>	<b>13454</b>	<b>14228</b>	<b>15083</b>	<b>15457</b>
Opex	5753	5719	6029	6172	6588	6480	6478	7150	7535	7629
<b>PPOP</b>	<b>5492</b>	<b>5579</b>	<b>5832</b>	<b>5614</b>	<b>5886</b>	<b>6029</b>	<b>6976</b>	<b>7078</b>	<b>7548</b>	<b>7828</b>
Provisions	1227	2364	1768	1624	3715	1992	2888	1901	1778	1920
<b>PBT</b>	<b>4265</b>	<b>3214</b>	<b>4064</b>	<b>3990</b>	<b>2170</b>	<b>4038</b>	<b>4088</b>	<b>5177</b>	<b>5770</b>	<b>5907</b>
Tax	1699	1113	1427	1390	721	1411	1427	1841	1955	2065
<b>PAT</b>	<b>2566</b>	<b>2102</b>	<b>2637</b>	<b>2600</b>	<b>1450</b>	<b>2627</b>	<b>2660</b>	<b>3336</b>	<b>3815</b>	<b>3842</b>
<b>Balance Sheet</b>										
Net-worth	89430	116270	117330	120410	122100	124990	125410	128870	132730	136610
Deposits	976650	958390	972110	1005370	1119920	1112420	1181820	1234570	1349540	1325372
Advances	733360	763070	806454	849530	919570	942970	1009410	1055500	1102230	1120320
<b>Growth (%)</b>										
NII	23	16	24	20	11	22	14	13	17	18
PPOP	39	31	23	18	7	8	20	26	28	30
PAT	2401	26	31	26	-43	25	1	28	163	46
Deposits	23	18	13	9	15	16	22	23	21	19
Advances	26	29	25	22	25	24	25	24	20	19
<b>Efficiency (%)</b>										
GNPA	2.33	2.42	2.39	2.52	3.00	3.00	3.11	3.14	2.92	2.99
NNPA	1.28	1.39	1.32	1.36	1.69	1.72	1.78	1.72	1.48	1.49
PCR	45.5	43.2	45.3	46.5	44.5	43.5	43.6	45.9	50.1	50.7
C/I Ratio	51.2	50.6	50.8	52.4	52.8	51.8	48.1	50.3	50.0	49.4



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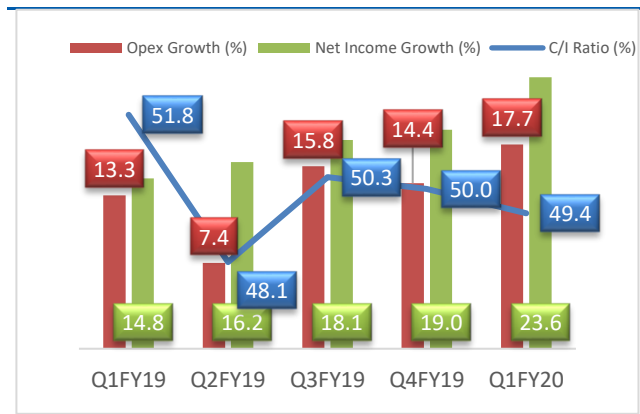
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**Exhibit 1: sustainability in return ratios**



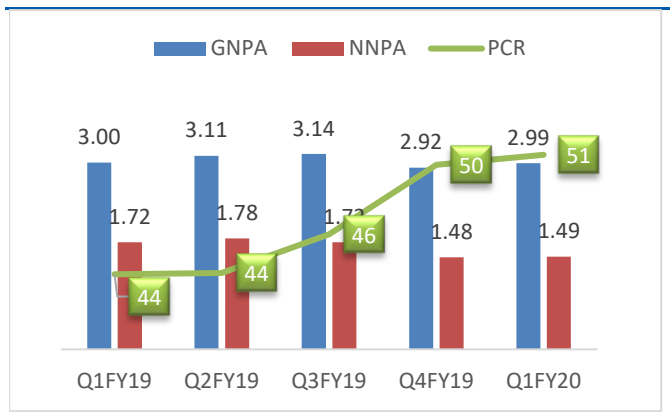
Source: D&B Research, Company

**Exhibit 2: Improving Operational Efficiency**



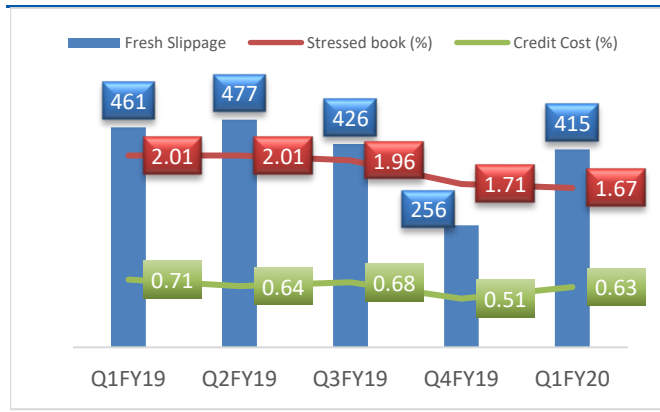
Source: D&B Research, Company

**Exhibit 3: Asset Quality stable**



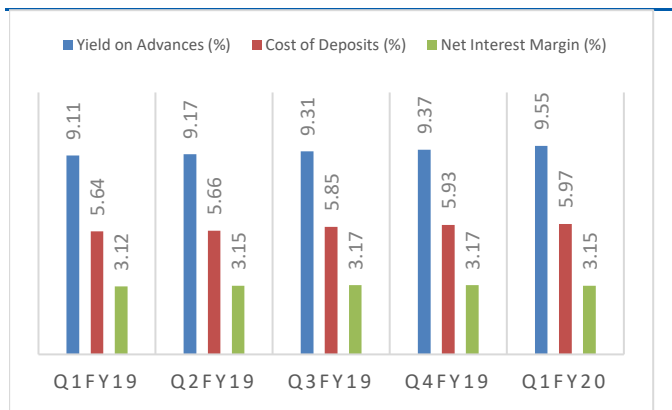
Source: D&B Research, Company

**Exhibit 4: Materially reduced stressed book size**



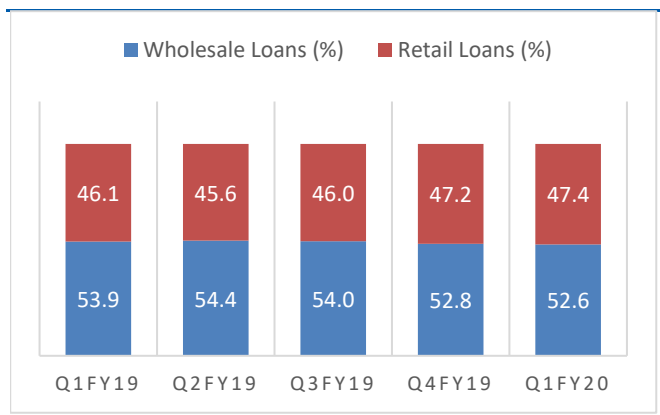
Source: D&B Research, Company

**Exhibit 5: Margins remain stable**



Source: D&B Research, Company

**Exhibit 6: Loan Book Mix**



Source: D&B Research, Company



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<i>P&amp;L (Rs mn)</i>	FY18	FY19	FY20	FY21
Interest Earned	97529	114190	136757	165908
Interest Expended	61701	72427	87236	106502
<b>NII</b>	<b>35828</b>	<b>41764</b>	<b>49520</b>	<b>59406</b>
Other Income	11591	13510	15542	17472
<b>Net Income</b>	<b>47419</b>	<b>55274</b>	<b>65062</b>	<b>76878</b>
Opex	24509	27643	31867	36539
<b>PPOP</b>	<b>22910</b>	<b>27631</b>	<b>33196</b>	<b>40339</b>
Provisions	9472	8559	9459	10356
<b>PBT</b>	<b>13439</b>	<b>19073</b>	<b>23737</b>	<b>29983</b>
Tax	4650	6634	8235	10415
<b>PAT</b>	<b>8788</b>	<b>12439</b>	<b>15502</b>	<b>19568</b>

<i>BS (Rs mn)</i>	FY18	FY19	FY20	FY21
Capital	3944	3970	3970	3970
Reserves	118158	128760	140904	156233
Deposits	1119925	1349543	1596324	1907989
Borrowings	115335	77813	99418	109737
Other Liabilities	25777	33313	42771	53128
<b>Total</b>	<b>1383140</b>	<b>1593400</b>	<b>1883388</b>	<b>2231057</b>
Cash & Bank	92034	100668	145373	152249
Investments	307811	318245	343226	401453
Advances	919575	1102230	1316105	1591481
Fixed Assets	4574	4720	5204	5779
Other Assets	59146	67537	73481	80094
<b>Total</b>	<b>1383140</b>	<b>1593400</b>	<b>1883388</b>	<b>2231057</b>

<i>Ratios (%)</i>	FY18	FY19	FY20	FY21
<b>Growth</b>				
NII	17	17	19	20
Operating profit	19	21	20	22
Net profit	6	42	25	26
Advances	25	20	19	21
Deposits	15	21	18	20
<b>Returns</b>				
ROA	0.7	0.8	0.9	1.0
ROE	8	10	11	13

<i>Ratios (%)</i>	FY18	FY19	FY20	FY21
<b>Asset quality</b>				
GNPA	3.0	2.9	2.7	2.3
NNPA	1.7	1.5	1.3	1.1
PCR	43	50	52	54
<b>Per share (Rs)</b>				
EPS	4.5	6.3	7.8	9.9
ABVPS	54	59	64	72
P/E	24	17	14	11
P/ABVPS	2.0	1.8	1.7	1.5



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