



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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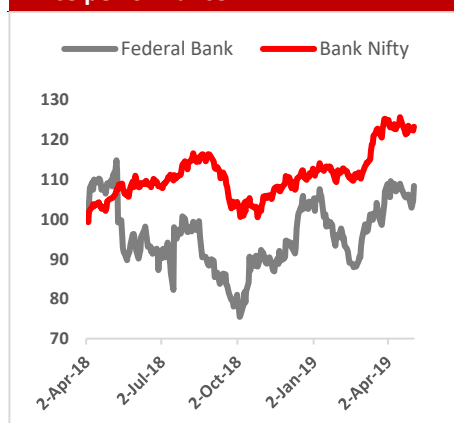
ACCUMULATE

Current Price	98
52 Week Range	105/67
Target Price	115
Upside (%)	18

Key Share Data

Market Cap (Rs.bn)	194
Market Cap (US\$ Mn)	2,805
No of o/s shares (Mn)	1985
Face Value	2
BSE Code	500469
NSE Code	FEDERALBNK
Bloomberg	FB:IN

Price performance



% Shareholding	Mar-18	Dec-18
FII	37.3	37.4
DII	29.7	29.9
Others	33.0	32.7
Total	100	100

Supported by strong loan growth, stable margin and improved asset quality, Federal Bank (FEDB) has reported a robust net profit growth of 163% YoY at Rs 382 Cr for the quarter ended March 31, 2019. Bank has shown phenomenal improvement in its return ratios, with exit quarter ROAs/ROEs stood at 1.0%/11.9% Vs 0.9%/10.5% in Q3FY19. With better operating efficiency, healthy traction in other income and improvement in credit cost, management is confident of achieving ROA of 1.25% by FY21.

Bank's NII came at Rs 1097 Cr (up 17% YoY/ 2% QoQ) led by higher credit growth at 20% YoY (4% QoQ) supported by healthy Retail (including Agri & BuB) loan growth at 23% YoY and Wholesale loan growth of 18% YoY. Under the retail segment, the auto loans grew by 62% whereas the personal loans and housing loans grew by 143% and 32% respectively. Bank's strong focus in branding along with higher investment in advertisement & technology has started showing its results as bank without adding a footprint in terms of branches for three years has been able to report this strong credit growth. **We expect that the bank will continue to register healthy credit growth of around 20% over FY19-FY21E.**

On the liability side, Bank's deposit grew by 21% in Q4FY19, with CASA growth of 16% YoY taking CASA ratio at 32%. As on March 31, capital adequacy ratio (CAR) stood at 14.14% and Tier I ratio was at 13.38%. **According to the Management, bank is well capitalised and there is no need to raise capital for next 2 years, if the bank sustains the growth rate of 20-22%.**

Asset quality improves; GNPA at 2.92%: FEDB's asset quality improved during the quarter, with GNPA/NNPA stood at 2.92% / 1.48% (vs 3.14%/1.72% in Q3FY19). **In the March quarter, overall gross slippage fell sharply to Rs 256 Cr, as compared to Rs 426 Cr in the previous quarter. The moderation in slippages was mainly due to nil slippages from Corporate segment (vs Rs 56 Cr in Q3FY19) and lower slippages from Retail (Rs 67 Cr v/s Rs 108 Cr) and SME (Rs 97 Cr v/s Rs 192 Cr) segments.** Credit cost was restricted at 51 bps (vs 68 bps in Q3FY19) and the management expects it to be in the range of 55-60 bps for the current financial year (FY20).

Strong growth in operating profit: Bank is consistently showing improvement in its operating performance, with its operating profit growing by 28% YoY and 7% QoQ to Rs 755 Cr in Q4FY19, supported by strong growth NII, healthy traction in other income and better operating efficiency. Bank's cost-to-income ratio declined by 29 bps QoQ/286 bps YoY to 50% backed by slight lower opex growth of 14% vs 21% Net income growth. **According to management, cost-to-income ratio will improve further around 250 bps in the next two years.**

Valuation & Outlook: We expect the healthy traction in earnings to continue going forward owing to strong growth in loan book, moderate credit cost and stable margins. At CMP the stock trades at 1.5x its FY20E ABV & 1.4x its FY21E ABV. We maintain our BUY rating on the stock with P/ABV multiple of 1.6x on FY21E book value to arrive target price to Rs 115 per share.

Key Financials (Rs Mn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	BVPS	PB (X)	ROE
FY19	41764	17	27631	21	12439	42	67	1.5	9.8
FY20E	49154	18	33169	20	15187	22	73	1.3	11.0
FY21E	58196	18	39982	21	18660	23	80	1.2	12.3



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Quarterly performance

<i>Rs Mn</i>	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Interest Earned	23241	23796	25012	25480	26674	27649	29544	30323
Interest Expended	15234	14807	15512	16148	16873	17425	18771	19358
NII	8007	8989	9500	9332	9801	10225	10773	10965
Other Income	3291	2872	2286	3142	2709	3229	3456	4117
Net Income	11298	11861	11786	12474	12509	13454	14228	15083
Opex	5719	6029	6172	6588	6480	6478	7150	7535
PPOP	5579	5832	5614	5886	6029	6976	7078	7548
Provisions	2364	1768	1624	3715	1992	2888	1901	1778
PBT	3214	4064	3990	2170	4038	4088	5177	5770
Tax	1113	1427	1390	721	1411	1427	1841	1955
PAT	2102	2637	2600	1450	2627	2660	3336	3815

Balance Sheet

Net-worth	116270	117330	120410	122100	124990	125410	128870	132730
Deposits	958390	972110	1005370	1119920	1112420	1181820	1234570	1349540
Advances	763070	806454	849530	919570	942970	1009410	1055500	1102230

Growth (%)

NII	16	24	20	11	22	14	13	17
PPOP	31	23	18	7	8	20	26	28
PAT	26	31	26	-43	25	1	28	163
Deposits	18	13	9	15	16	22	23	21
Advances	29	25	22	25	24	25	24	20

Efficiency (%)

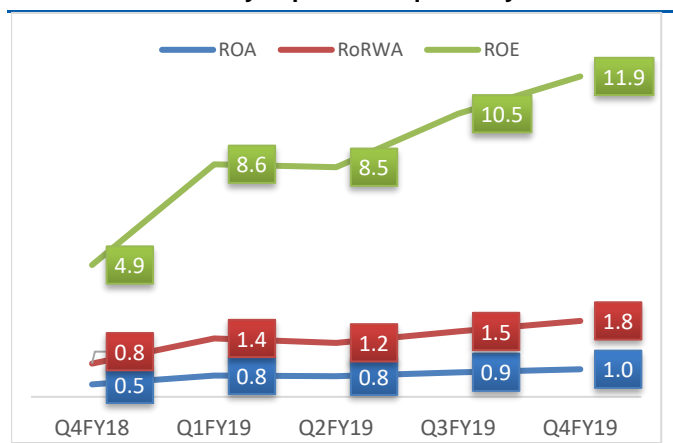
GNPA	2.42	2.39	2.52	3.00	3.00	3.11	3.14	2.92
NNPA	1.39	1.32	1.36	1.69	1.72	1.78	1.72	1.48
PCR	43.2	45.3	46.5	44.5	43.5	43.6	45.9	50.1
C/I Ratio	50.6	50.8	52.4	52.8	51.8	48.1	50.3	50.0



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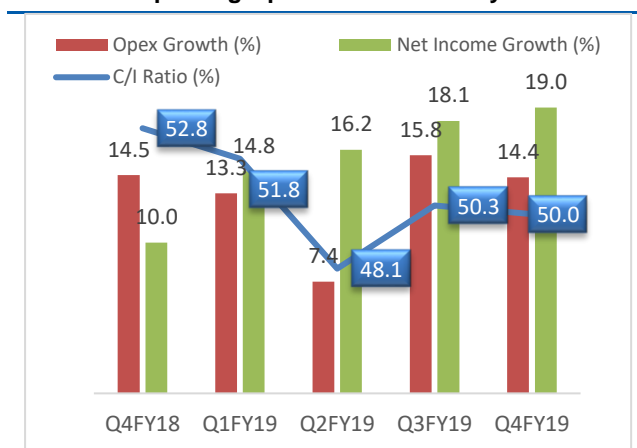
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Exhibit 1: Profitability improved sequentially



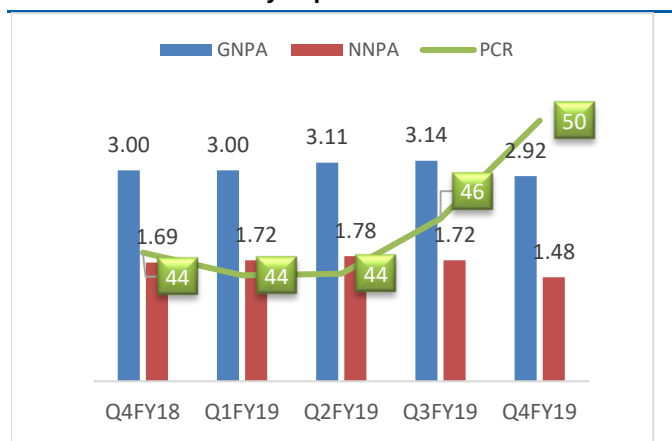
Source: D&B Research, Company

Exhibit 2: Improving Operational Efficiency



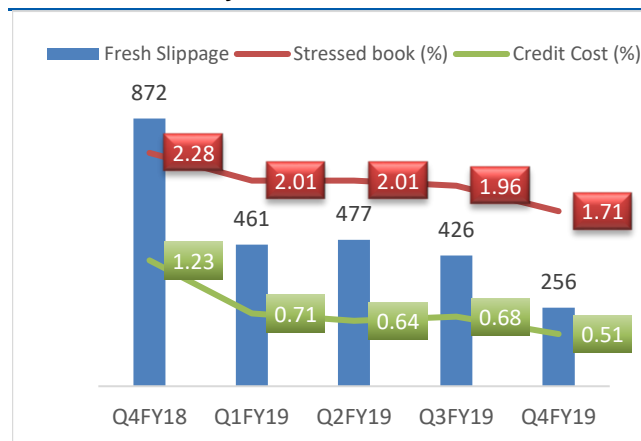
Source: D&B Research, Company

Exhibit 3: Asset Quality Improve



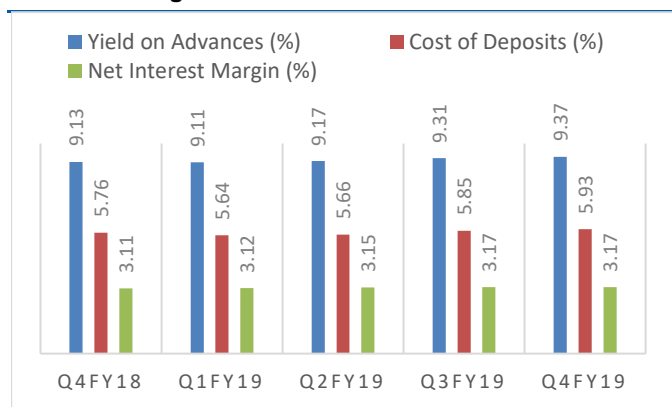
Source: D&B Research, Company

Exhibit 4: Materially reduced stressed book size



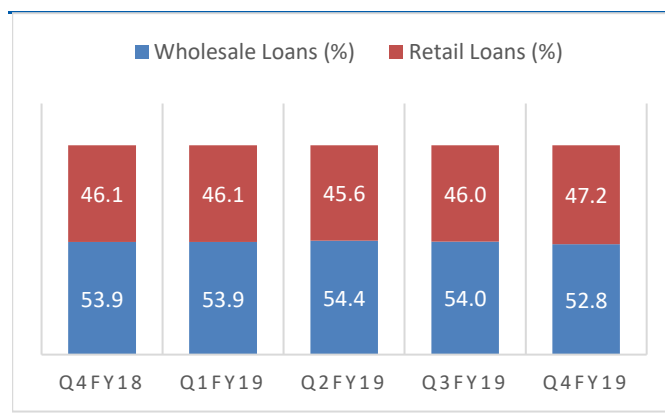
Source: D&B Research, Company

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&L (Rs mn)</i>	FY18	FY19	FY20	FY21	<i>BS (Rs mn)</i>	FY18	FY19	FY20	FY21
Interest Earned	97529	114190	134280	159261	Capital	3944	3970	3970	3970
Interest Expended	61701	72427	85126	101065	Reserves	118158	128760	140657	155275
NII	35828	41764	49154	58196	Deposits	1119925	1349543	1570066	1841601
Other Income	11591	13510	15380	17707	Borrowings	115335	77813	90478	107298
Net Income	47419	55274	64534	75904	Other Liabilities	25777	33313	43227	54618
Opex	24509	27643	31365	35922	Total	1383140	1593400	1848398	2162762
PPOP	22910	27631	33169	39982	Cash & Bank	92034	100668	108904	109304
Provisions	9472	8559	9914	11391	Investments	307811	318245	345572	387485
PBT	13439	19073	23255	28591	Advances	919575	1102230	1315238	1580100
Tax	4650	6634	8067	9932	Fixed Assets	4574	4720	5204	5779
PAT	8788	12439	15187	18660	Other Assets	59146	67537	73481	80094
					Total	1383140	1593400	1848398	2162762

<i>Ratios (%)</i>	FY18	FY19	FY20	FY21	<i>Ratios (%)</i>	FY18	FY19	FY20	FY21
Growth					Asset quality				
NII	17.4	16.6	17.7	18.4	GNPA	3.0	2.9	2.5	2.3
Operating profit	19.0	20.6	20.0	20.5	NNPA	1.7	1.5	1.2	1.1
Net profit	5.8	41.5	22.1	22.9	PCR	43	50	53	54
Advances	25.4	19.9	19.3	20.1	Per share (Rs)				
Deposits	14.7	20.5	16.3	17.3	EPS	4.5	6.3	7.7	9.4
Returns					ABVPS	54	59	65	72
ROA	0.7	0.8	0.9	0.9	P/E	22	16	13	10
ROE	8.3	9.8	11.0	12.3	P/ABVPS	1.8	1.7	1.5	1.4



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