



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade (022) 67141449

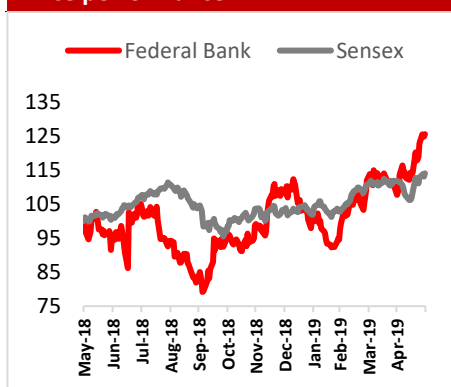
BUY

Current Price	108
52 Week Range	109/67
Target Price	130
Upside (%)	20

Key Share Data

Market Cap (Rs.bn)	214
Market Cap (US\$ Mn)	3057
No of o/s shares (Mn)	1985
Face Value	2
BSE Code	500469
NSE Code	FEDERALBNK
Bloomberg	FB:IN

Price performance



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

After showing strong result in recent quarters, we expect Federal Bank (FEDB) to strengthen its position in the banking sector and continue its growth story in the foreseeable future, supported by stable margin (over three percent), better operating efficiency (improvement in cost to income ratio), healthy traction in other income and improvement in credit cost. Growth has never been concerned for Federal Bank; it has reported ~ 24% CAGR in loan book during the past three years. Management has guided for a similar growth momentum to continue for the next two years.

Bank has a highly diversified liability franchise, with CASA ratio stood at 32% (one of the highest among regional banks), NRE Deposits stood at 37% and overall Retail Deposits stood at 91% (FEDB's reliance on bulk deposits is one of the lowest among peer banks). Management believed that the bank is well capitalized and there is no need to raise capital for the next two years, if the bank sustains the growth rate of 20-22%.

Bank is continuously working on its asset quality and has shown substantial progress in the last few quarters, which can be reflected in the stressed book that came down from 4.37% in Q3FY16 to 1.71% in Q4FY19. With a large part of the asset quality issues behind, we expect the bank's Non-Performing Assets (NPA) ratios to decline and coverage ratio to improve gradually. Besides, 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%).

Healthy loan growth: Bank's loan book has grown at a CAGR of ~24% in FY16-19. Its 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. FEDB is no longer just a Kerala focused bank, most of the corporate portfolio (83%) is based outside Kerala. In corporate segment, incremental credit has been towards higher rated companies (A & above portfolio at ~73%). In retail segment, the bank is focusing more on higher yielding segments like unsecured retail, commercial vehicle and business banking. **We expect that the bank will continue to register healthy credit growth of around 22% over FY19-FY21E.**

Stable asset quality: Bank has been proactive in recognizing its stressed assets including the impact of Kerala flood, which was front-loaded, and everything was recognized in Q2 and Q3 of FY19. We expect the lower possibility of slippages from fresh loans compared to previously disbursed loan with stiffer due diligence in place and more cautious lending. In the March quarter, overall gross slippage fell sharply to Rs 256 Cr, as compared to Rs 426 Cr in the previous quarter. Credit cost was also 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). FEDB's GNPA/NNPA stood at 2.92% / 1.48% (vs 3.14%/1.72% in Q3FY19).

Valuation & Outlook: We believe that FEDB'S stable margins, a strong growth profile, diversified credit book, reasonable asset quality and improving cost efficiency will help FEDB to deliver robust performance. We expect the bank's business to register a 20% CAGR over FY19-21E, with advances and deposits CAGR of 22% 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 and roll forward our fair value to Rs 130 (from Rs 115 earlier), valuing the bank at 1.8X adj. book.**

Key Financials (Rs Mn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	BVPS	PB (X)	ROE
FY18	35828	17	22910	19	8788	6	62	1.7	8
FY19	41764	17	27631	21	12439	42	67	1.6	10
FY20E	50097	20	33793	22	15496	25	73	1.5	11
FY21E	60829	21	41765	24	19564	26	81	1.3	13



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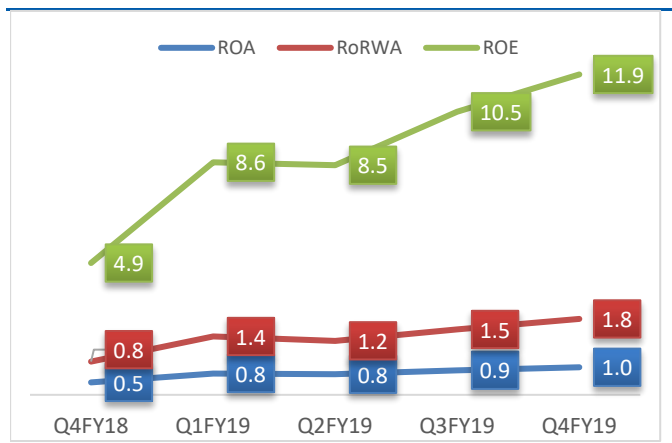
Quarterly performance

<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



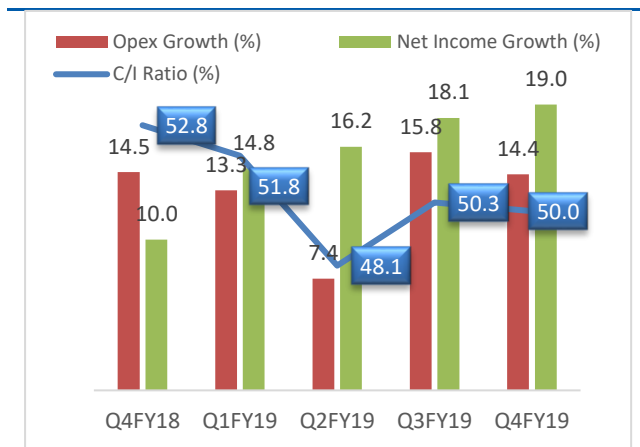
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Exhibit 1: Profitability improved sequentially



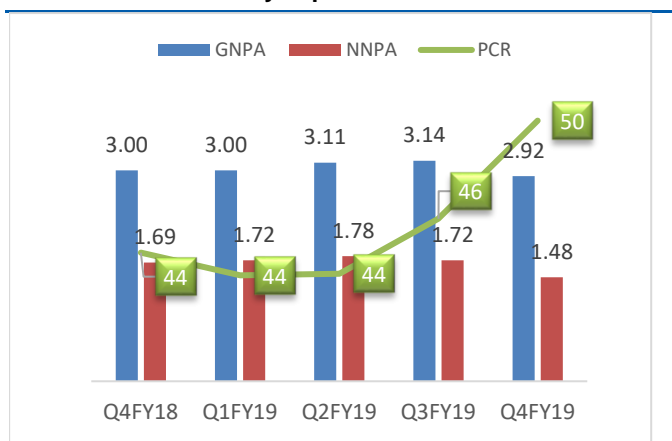
Source: D&B Research, Company

Exhibit 2: Improving Operational Efficiency



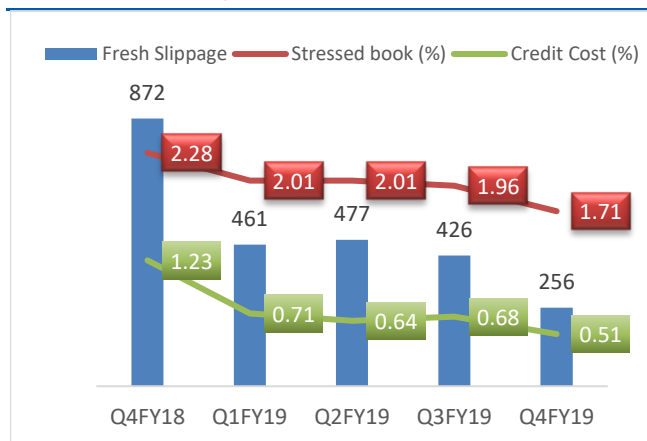
Source: D&B Research, Company

Exhibit 3: Asset Quality Improve



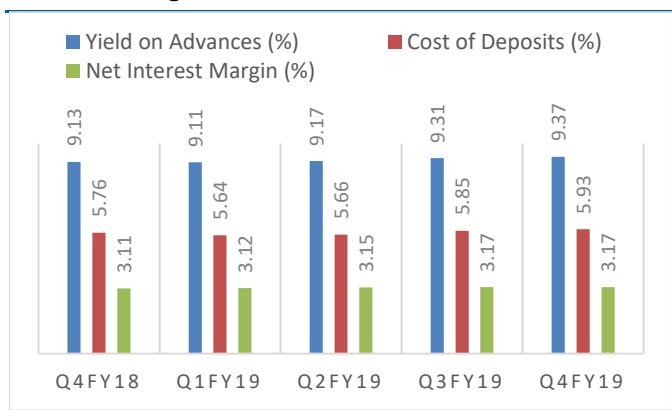
Source: D&B Research, Company

Exhibit 4: Materially reduced stressed book size



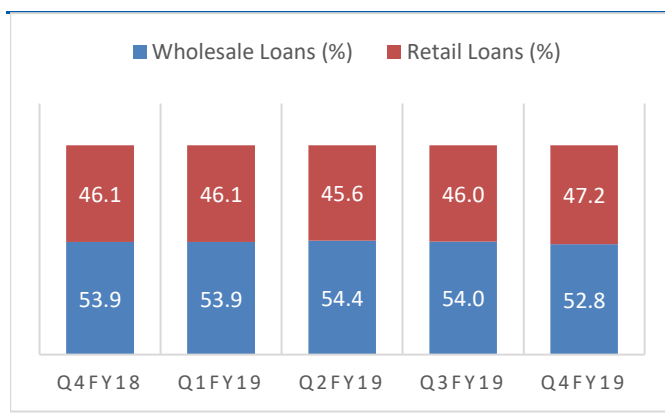
Source: D&B Research, Company

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	138301	169088	Capital	3944	3970	3970	3970
Interest Expended	61701	72427	88204	108259	Reserves	118158	128760	140899	156224
NII	35828	41764	50097	60829	Deposits	1119925	1349543	1595147	1896829
Other Income	11591	13510	15189	17165	Borrowings	115335	77813	92480	111057
Net Income	47419	55274	65286	77994	Other Liabilities	25777	33313	43379	55167
Opex	24509	27643	31493	36229	Total	1383140	1593400	1875875	2223248
PPOP	22910	27631	33793	41765	Cash & Bank	92034	100668	100209	93513
Provisions	9472	8559	10066	11788	Investments	307811	318245	342973	399105
PBT	13439	19073	23727	29976	Advances	919575	1102230	1354009	1644757
Tax	4650	6634	8231	10413	Fixed Assets	4574	4720	5204	5779
PAT	8788	12439	15496	19564	Other Assets	59146	67537	73481	80094
Ratios (%)	FY18	FY19	FY20	FY21	Total	1383140	1593400	1875875	2223248
	Growth				Ratios (%)	FY18	FY19	FY20	FY21
NII	17	17	20	21	Asset quality				
Operating profit	19	21	22	24	GNPA	3.0	2.9	2.6	2.3
Net profit	6	42	25	26	NNPA	1.7	1.5	1.3	1.0
Advances	25	20	23	21	PCR	43	50	52	54
Deposits	15	21	18	19	Per share (Rs)				
	Returns				EPS	4.5	6.3	7.8	9.9
ROA	0.7	0.8	0.9	1.0	ABVPS	54	59	64	72
ROE	8.3	9.8	11.2	12.8	P/E	24	17	14	11
					P/ABVPS	2.0	1.8	1.7	1.5



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141439	Midcaps
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	I.T/Telecom/Media
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Ms. Nidhi Babaria	Nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141432	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021
Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com