



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade (022) 67141449

Result update@ Dalal & Broacha

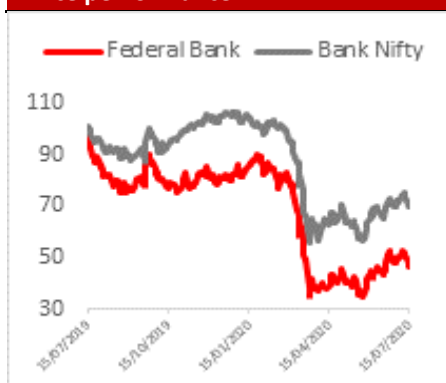
ACCUMULATE

Current Price (Rs)	50
52 Week Range	36/109
Target Price (Rs)	59
Upside (%)	18

Key Share Data

Market Cap (Rs.bn)	99.32
Market Cap (US\$ mn)	1321.98
No of o/s shares (Cr)	199.3
Face Value	2
BSE Code	500469
NSE Code	FEDERALBNK
Bloomberg	FB:IN

Price performance



% Shareholding	Mar-20	Dec-19
FII	33.31	32.47
DII	37.10	38.03
Others	29.59	29.50
Total	100	100

Please Note: SHP for June quarter is not updated on exchanges and thus march-20 is shown instead.

Given the challenging environment, Federal Bank has reported a good set of numbers for the quarter ended June 30, 2020. Strong operational performance was supported by better margin and lower operating cost, while profitability was hampered by higher provisions.

- NII came in at INR 1296 Cr, +6.6% QoQ / +12.3% YoY
- Other Income came in at INR 488 Cr, -31.3% QoQ / +24.7% YoY
- PPOP came in at INR 932 Cr, -2.8% QoQ / +19.1% YoY
- Provisions came in at INR 395 Cr, -30% QoQ / +105% YoY
- PAT came in at INR 401 Cr, 33% QoQ / 4.3% YoY
- EPS stood at INR 2.0 vs INR 2.2 / INR 1.9 in Q4FY20 / Q1FY20 respectively

Financial Highlights

- Bank's loan growth of 8% YoY was driven by retail loans, which grew by 15.6% YoY, whereas corporate and Commercial Banking loans have grown by 2.8% YoY and 2.6% YoY respectively. Strong growth in retail loans was aided by 13.5% YoY and 14.5% YoY growth in housing loans and mortgages respectively. Gold Loans registered YoY growth of 36% and QoQ growth of 10%, which is one of the best in the industry. Going forward, bank's incremental growth is expected to come from gold loans, select corporates and Govt guaranteed schemes announced in light of the pandemic.
- On liabilities, deposits growth was also strong at 16.9% YoY/1.7% QoQ with continued retail deposit traction keeping CASA mix steady at 32%. NRE deposits grew by 18.6% to reach Rs 60274 Cr. We expect ~13% deposits CAGR in FY20-22E
- Bank's capital adequacy ratio stood at 14.2% (vs 14.1% YoY/ 14.3% QoQ), of which Tier I capital was 13.0% (vs 13.0% YoY/ 13.3% QoQ) and Tier II capital was 1.2% (vs 1.1% YoY/ 1.1% QoQ). According to management, the bank has an adequate capital base and does not see a need for additional capital raising in the next 12 months.
- Operational efficiency remained strong, with cost to income ratio falling by 324 bps YoY to 47.8%, backed by higher net income (NII + other income) growth of 15.5% vs lower opex growth of 11.7% in Q1FY21. Federal Bank saw its margins expand slightly QoQ to 3.07% (3 bps QoQ), aided by a 37bps QoQ fall in CoD as yields on advances dipped 20bps QoQ.
- Bank's asset quality deteriorated during the quarter, with GNPA at 2.96% (up by 11 bps QoQ) and NNPA at 1.22% (down by 10 bps QoQ). In absolute terms, GNPA's increased by 3.5% QoQ and NNPA's decreased by 8% QoQ in Q1FY21. Material improvement in PCR at 59.6% (510 bps QoQ).

Outlook and Valuation

Federal Bank's strong liability franchise along with better capitalization levels (Tier-1 at 13%), and incremental focus on retail business are key positives. However, its profitability will remain under pressure in FY21 due to weak credit offtake & higher provisions. Bank has a significant exposure to SME/MSME segment, which may be an area of concern going ahead. We expect the bank's RoA/RoE to moderate to 0.6%/7.5% in FY21 and recover back to 0.8%/9.9% in FY22.

With stock trading at ~52% discount to last 5-year average P/B (1yrfwd), we believe slow growth concerns seems already factored in, though higher credit cost will keep the stock under pressure in the near term. At CMP the stock trades at 0.75x its FY21E ABV and 0.68x its FY22E ABV. We have maintained a 'Accumulate' rating on Federal Bank with a price target of Rs 59, valuing the stock at 0.8x FY22E P/ABV.

Key Financials (Rs Mn)

Year	NII	PPOP	PAT	ROE	Adj BVPS	P/ABVPS
FY19	41764	27631	12439	9.8	59	0.85
FY20	46489	32047	15428	11.1	65	0.77
FY21E	50694	32747	11236	7.5	67	0.75
FY22E	57695	37000	16002	9.9	73	0.68



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Highlights of the Conference Call

Cautious approach on loan growth

- Bank is keeping a cautious approach in its loan growth, expecting growth in the range of 8-10% in FY21
- Bank's Incremental growth is expected to come from retail loans such as gold loans, select corporates loans and government guaranteed schemes announced in light of the pandemic.
- SME book growth earlier had been expected to grow at 12-15% for FY21, but now the scenario has changed and will depend on the market conditions

Income and Cost Streams

- Better loan mix and strong growth in low cost liability help the bank to improve margin. NIM at 3.07%, highest in the last four quarters.
- Operating expenses lower sequentially, mainly due to lower variable cost and some cost saving on operational front (multi skilling) as well as digital benefits.
- Bank is trying to control cost by optimization, centralization and renegotiation of some expenses such as branch rentals.
- Some part of opex will likely to increase in coming quarters in line with business volume growth.

Credit Guarantee Scheme (CGS)

- 70-75% of the customers who are eligible for the CGS are taking it. Out of which, many are choosing to reduce their existing debt or keeping an additional buffer for any unforeseen circumstances.
- Under this Scheme, the bank has already disbursed Rs 1200 Cr of loans till the end of June 2020.

Asset quality

- Slippages stood at Rs 184 cr in Q1FY21; out of which, Rs 174 Cr came from one large corporate account from the Middle East. Bank has fully provided for this account.
- Credit cost stood at 83bps (vs 130 bps QoQ)
- Bank's pre-COVID-19 LGD was below 40%
- Management is expecting a lower recovery going ahead; Rs 100 Cr in Q2 FY21 and Rs 400 Cr in remaining two quarters of FY21.
- Bank has increased its provisioning coverage ratio by 1300 bps in last two years and will increase further cushion in next Q2FY21.
- Bank has also made Rs 110 cr additional standard asset provision for Covid related stress in Q1FY20. With this, the aggregate provision against the likely impact of Covid, stands at Rs 186.30 Cr as on June 30, 2020

Adequate capital base

- Bank's capital adequacy ratio stood at 14.2% (vs 14.1% YoY/ 14.3% QoQ), of which Tier I capital was 13.0% (vs 13.0% YoY/ 13.3% QoQ).
- According to management, the bank has an adequate capital base and does not see a need for additional capital raising in the next 12 months

Overall level of moratorium

- Net moratorium had fallen to 24% by value as on July 12 from 35% as on May 25.
- Out of total, 23% of Agri customers, 33% of Retail customers, 42% of Business Banking customers, 35% of Commercial Banking customers and 12% of CIB customers have opt for moratorium.
- In housing loans, 67% of customers under moratorium kept at list one month's EMI balance in their operational account. Out of which 15% of customers kept three months EMI balance and 24% of customers kept two months EMI balance. In Personal loans, 83% of customers kept at list one month's EMI balance in their operational account; and out of which 40% have kept more than two months' EMIs.



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Quarterly performance

Rs Mn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Interest Earned	26674	27649	29544	30323	32293	32543	33304	33968	34442
Interest Expended	16873	17425	18771	19358	20751	21305	21754	21808	21477
NII	9801	10225	10773	10965	11542	11238	11549	12160	12964
Other Income	2709	3229	3456	4117	3915	4209	4079	7111	4884
Net Income	12509	13454	14228	15083	15457	15447	15628	19271	17848
Opex	6480	6478	7150	7535	7629	8259	8190	9678	8524
PPOP	6029	6976	7078	7548	7828	7188	7438	9593	9324
Provisions	1992	2888	1901	1778	1920	2518	1609	5675	3946
PBT	4038	4088	5177	5770	5907	4670	5830	3918	5378
Tax	1411	1427	1841	1955	2065	503	1423	906	1370
PAT	2627	2660	3336	3815	3842	4167	4406	3012	4008
Balance Sheet									
Net-worth	124990	126317	128870	132730	136610	140190	142115	145176	149225
Deposits	1112420	1181824	1234570	1349540	1325372	1395214	1445920	1522901	1549380
Advances	942970	1020676	1055500	1102230	1120320	1175454	1192220	1222679	1212970
Growth (%)									
NII	22	14	13	17	18	10	7	11	12
PPOP	8	20	26	28	30	3	5	27	19
PAT	25	1	28	163	46	57	32	-21	4
Deposits	16	22	23	21	19	18	17	13	17
Advances	24	27	24	20	19	15	13	11	8
Efficiency (%)									
GNPA	3.00	3.11	3.14	2.92	2.99	3.07	3.07	2.84	2.96
NNPA	1.72	1.78	1.72	1.48	1.49	1.59	1.59	1.31	1.22
PCR	43.52	43.59	45.93	50.13	50.72	48.55	46.37	54.48	59.58
C/I Ratio	51.80	48.15	50.25	49.96	49.36	53.47	52.40	50.22	47.76



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P&L (Rs mn)	FY19	FY20	FY21E	FY22E
Interest Earned	114190	132108	141955	160311
Interest Expended	72427	85619	91260	102616
NII	41764	46489	50694	57695
Other Income	13510	19314	18787	20531
Net Income	55274	65803	69481	78226
Opex	27643	33756	36734	41226
PPOP	27631	32047	32747	37000
Provisions	8559	11722	17725	15606
PBT	19073	20325	15021	21394
Tax	6634	4898	3785	5391
PAT	12439	15428	11236	16002

BS (Rs mn)	FY19	FY20	FY21E	FY22E
Capital	3970	3985	3985	3985
Reserves	128760	141191	150804	163340
Deposits	1349543	1522901	1709142	1952453
Borrowings	77813	103724	88010	91030
Other Liabilities	33313	34579	42361	48447
Total	1593400	1806381	1994302	2259255
Cash & Bank	100668	125746	126886	127596
Investments	318245	358927	437004	469929
Advances	1102230	1222679	1325672	1548700
Fixed Assets	4720	4800	5045	5560
Other Assets	67537	94229	99694	107470
Total	1593400	1806380	1994302	2259255

Ratios (%)	FY19	FY20	FY21E	FY22E
Growth				
NII	17	11	9	14
Operating profit	21	16	2	13
Net profit	42	24	-27	42
Advances	20	11	8	17
Deposits	21	13	12	14
Returns				
ROA	0.8	0.9	0.6	0.8
ROE	9.8	11.1	7.5	9.9

Ratios (%)	FY19	FY20	FY21E	FY22E
Asset quality				
GNPA	2.9	2.8	3.8	3.3
NNPA	1.5	1.3	1.7	1.4
PCR	50	54	57	59
Per share (Rs)				
EPS	6.3	7.7	5.6	8.0
ABVPS	59	65	67	73
P/E	7.95	6.43	8.83	6.20
P/ABVPS	0.85	0.77	0.75	0.68



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Mrs.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. Mayank Babla	mayank.babladalal-broacha.com	022 67141412	I.T/Telecom/Media
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141441	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com