



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

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Result update@ Dalal & Broacha

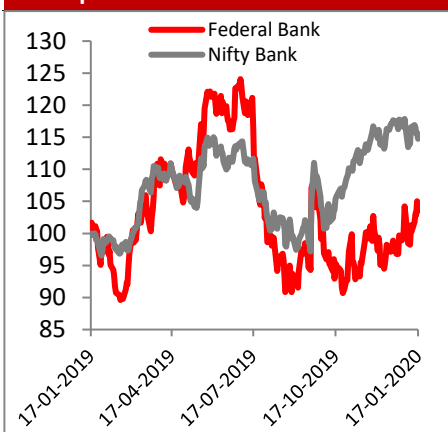
### BUY

Current Price (Rs)	94
52 Week Range	78/110
Target Price (Rs)	106
Upside (%)	13

### Key Share Data

Market Cap (Rs.bn)	186.78
Market Cap (US\$ mn)	2627.01
No of o/s shares (Cr)	33.22
Face Value	2
BSE Code	500469
NSE Code	FEDERALBNK
Bloomberg	FB:IN

### Price performance



% Shareholding	Dec-19	Sep-19
FII	32.47	34.95
DII	38.03	35.44
Others	29.50	29.61
Total	100	100

Federal Bank has reported its Q3FY20 performance which beat our estimates on the profitability front, but higher slippages and lower coverage ratio are cautionary. Bank has reported a net profit of Rs 441 Cr (3% above our estimate) for Q3 FY20, mainly due to sharp decline in provisions (-36% QoQ). While loan growth (+13% YoY in 2QFY20) was stable looking at a weak economic environment, NII were dented (~6% miss) due to interest reversal of two HFCs accounts which slipped into NPA category. Bank has reported a strong growth in other income (18% YoY), supported by higher contribution from treasury & recovery from written-off loans (24% vs 19% YoY) & stable fee income growth (~11% yoy). Bank's operating performance remained under pressure, with cost-to-income ratio remained elevated 52.4% in Q3 FY20 (up ~215 bps YoY), mainly due to opex growth of 15% vs 10% of net income growth.

Bank's loan growth was driven by retail loans, which grew by 23% YoY, whereas corporate and Commercial Banking loans have grown by 8% YoY and 6% YoY respectively. Strong growth in retail loans was aided by 21% YoY and 28% YoY growth in housing loans and mortgages respectively. Retail loans has been supported by greater distribution franchise through RMs and larger feet-on-street. Bank is moving closer towards its desired loan mix of a 50:50 retail-wholesale loan book, with the share of retail loans being 49% and corporate loans at 51% in Q3FY20. We expect ~18% loan CAGR in FY2019-22E. On liabilities, deposits growth was also strong at 17% YoY/4% QoQ with continued retail deposit traction keeping CASA mix steady at 31.6%. We expect ~18% deposits CAGR in FY2019-22E.

Bank's capital adequacy ratio stood at 13.64% (vs 12.97% YoY/ 13.98 % QoQ), of which Tier I capital was 12.62% (vs 12.44 % YoY/ 12.87 % QoQ) and Tier II capital was 1.02% (vs 0.54% YoY/ 1.11% QoQ). According to management, bank's capital position to support business growth is comfortable & would take a call on raising fresh capital (equity) at end of third or fourth quarter of next financial year (FY21).

**Asset quality:** Bank's asset quality remained stable during the quarter, with GNPA/NNPA stood at 2.99% / 1.63% (vs 3.07%/ 1.59 % in Q2FY20). In absolute terms, GNPA's decreased by 0.9% QoQ to Rs 3395 Cr, while NNPA's rose 3.3% QoQ to Rs 1941 Cr in Q3FY20. PCR (including technical write off) has improved by 24-25 bps. Excluding the technical write off PCR was 48.6% in the previous Quarter which was 46.4% in the Q3FY20. Bank is targeting PCR to ultimately be 70% (including tech write off)/50% (Excluding tech write off) over the few quarters. The comforting factor from the results is that the major slippages are from portfolios identified as stressed. Fresh slippages stood at Rs 593 Cr (Rs 540 QoQ/Rs 461 CR YoY), while the overall recoveries/ Upgrades stood at Rs 263 Cr (Rs 223 QoQ/Rs 240 Cr YoY). While Retail, SME and agri slippages were contained at Rs 217 Cr (vs 291 Cr in Q3FY20), corporate slippages rose to Rs 321 Cr (vs 199 in in Q4FY19), mainly driven by two large HFC accounts. According to management, there is no near-term stress in the large corporate book, while the stress in other segments is within expected limits.

### Valuation and Outlook

During the quarter, business momentum has sustained, and we expect return ratios to gradually improve over the next 2 to 3 quarters, supported by stable margins, change in credit mix, reasonable asset quality and improving cost efficiency. We expect the bank's business to register a 18% CAGR over FY19-22E, with advances and deposits CAGR of 17.8% and 18.1%, respectively. At CMP the stock trades at 1.3x its FY21E ABV & 1.1x its FY22E ABV. We retain our BUY rating on the stock, with an upgraded TP of Rs 106 (from Rs 98 earlier) based on 1.3x Mar-22 ABV, as we roll over our estimates to FY22E.

### Key Financials (Rs Mn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	ABVPS	PB (X)
FY19	41764	17	27631	21	12439	42	59	1.6
FY20E	47023	13	31191	13	16782	35	63	1.5
FY21E	56105	19	38064	22	20987	25	71	1.3
FY22E	67290	20	46854	23	25974	24	82	1.1



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Rs Mn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Interest Earned	26674	27649	29544	30323	32293	32543	33304
Interest Expended	16873	17425	18771	19358	20751	21305	21754
<b>NII</b>	<b>9801</b>	<b>10225</b>	<b>10773</b>	<b>10965</b>	<b>11542</b>	<b>11238</b>	<b>11549</b>
Other Income	2709	3229	3456	4117	3915	4209	4079
<b>Net Income</b>	<b>12509</b>	<b>13454</b>	<b>14228</b>	<b>15083</b>	<b>15457</b>	<b>15447</b>	<b>15628</b>
Opex	6480	6478	7150	7535	7629	8259	8190
<b>PPOP</b>	<b>6029</b>	<b>6976</b>	<b>7078</b>	<b>7548</b>	<b>7828</b>	<b>7188</b>	<b>7438</b>
Provisions	1992	2888	1901	1778	1920	2518	1609
<b>PBT</b>	<b>4038</b>	<b>4088</b>	<b>5177</b>	<b>5770</b>	<b>5907</b>	<b>4670</b>	<b>5830</b>
Tax	1411	1427	1841	1955	2065	503	1423
<b>PAT</b>	<b>2627</b>	<b>2660</b>	<b>3336</b>	<b>3815</b>	<b>3842</b>	<b>4167</b>	<b>4406</b>
<b>Balance Sheet</b>							
Net-worth	124990	126317	128870	132730	136610	140190	142110
Deposits	1112420	1181824	1234570	1349540	1325372	1395214	1445920
Advances	942970	1020676	1055500	1102230	1120320	1175454	1192220
<b>Growth (%)</b>							
NII	22	14	13	17	18	10	7
PPOP	8	20	26	28	30	3	5
PAT	25	1	28	163	46	57	32
Deposits	16	22	23	21	19	18	17
Advances	24	27	24	20	19	15	13
<b>Efficiency (%)</b>							
GNPA	3.00	3.11	3.14	2.92	2.99	3.07	2.99
NNPA	1.72	1.78	1.72	1.48	1.49	1.59	1.63
PCR	43.52	43.59	45.93	50.13	50.72	48.55	46.37
C/I Ratio	51.8	48.1	50.3	50.0	49.4	53.5	52.4



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<i>P&amp;L (Rs mn)</i>	FY19	FY20	FY21	FY22
Interest Earned	114190	133671	159677	190006
Interest Expended	72427	86648	103573	122716
NII	41764	47023	56105	67290
Other Income	13510	16566	19664	23137
Net Income	55274	63589	75769	90427
Opex	27643	32398	37705	43573
<b>PPOP</b>	27631	31191	38064	46854
Provisions	8559	8755	10006	12130
PBT	19073	22436	28058	34724
Tax	6634	5654	7071	8750
<b>PAT</b>	12439	16782	20987	25974

<i>BS (Rs mn)</i>	FY19	FY20	FY21	FY22
Capital	3970	3970	3970	3970
Reserves	128760	141907	158347	178694
Deposits	1349543	1584023	1873178	2224698
Borrowings	77813	86433	87888	92596
Other Liabilities	33313	40317	48322	58026
<b>Total</b>	<b>1593400</b>	<b>1856650</b>	<b>2171706</b>	<b>2557984</b>
Cash & Bank	100668	124823	135084	150279
Investments	318245	379875	443600	511273
Advances	1102230	1273268	1507149	1801215
Fixed Assets	4720	5204	5779	6474
Other Assets	67537	73481	80094	88744
<b>Total</b>	<b>1593400</b>	<b>1856650</b>	<b>2171706</b>	<b>2557984</b>

<i>Ratios (%)</i>	FY19	FY20	FY21	FY22
<b>Growth</b>				
NII	17	13	19	20
Operating profit	21	13	22	23
Net profit	42	35	25	24
Advances	20	16	18	20
Deposits	21	17	18	19
<b>Returns</b>				
ROA	0.8	1.0	1.0	1.1
ROE	9.8	12.0	13.6	15.1

<i>Ratios (%)</i>	FY19	FY20	FY21	FY22
<b>Asset quality</b>				
GNPA	2.9	3.1	2.7	2.3
NNPA	1.5	1.6	1.4	1.1
PCR	50	49	51	53
<b>Per share (Rs)</b>				
EPS	6.3	8.5	10.6	13.1
ABVPS	59	63	71	82
P/E	15	11	9	7
P/ABVPS	1.6	1.5	1.3	1.1



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