



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade (022) 67141449

Result update@ Dalal & Broacha

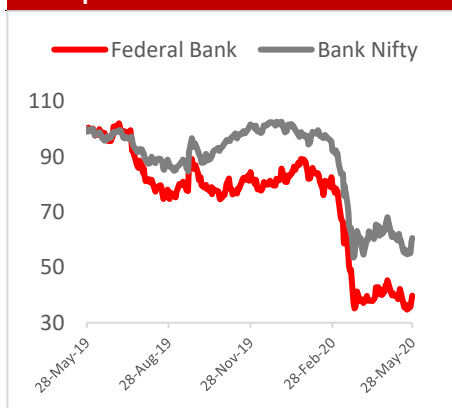
ACCUMULATE

Current Price (Rs)	45
52 Week Range	36/110
Target Price (Rs)	51
Upside (%)	13

Key Share Data

Market Cap (Rs.bn)	89.54
Market Cap (US\$ mn)	1,125.2
No of o/s shares (Cr)	1992.66
Face Value	2
BSE Code	500469
NSE Code	FEDERALBNK
Bloomberg	FB:IN

Price performance



% Shareholding	Mar-20	Dec-19
FII	33.30	32.47
DII	37.11	38.03
Others	29.59	29.50
Total	100	100

Federal Bank has reported stable set of numbers for the quarter ended March 31, 2020. Bank's numbers were below our estimates on the profitability front due to higher provisions, though operating performance was better than expectations, mainly due to higher other income.

- NII came in at INR 1216 Cr, +5.3% QoQ / +10.9% YoY and 0.2% above our est.
- Other Income came in at INR 711 Cr, +74.4% QoQ / +72.7% YoY and 70% above our est.
- PPOP came in at INR 959 Cr, +29% QoQ / +27% YoY and 21% above our est.
- Provisions came in at INR 568 Cr, +253% QoQ / +219% YoY and 160% above our est.
- PAT came in at INR 301 Cr, -31.6% QoQ / -21% YoY and 30% below our est.
- EPS stood at INR 1.5 vs INR 2.2 / INR 1.9 in Q3FY20 / Q4FY19 respectively.

Financial Highlights

- Bank's loan growth was driven by retail loans, which grew by 19% YoY, whereas corporate and Commercial Banking loans have grown by 7% YoY and 5% YoY respectively. Strong growth in retail loans was aided by 18% YoY and 19% YoY growth in housing loans and mortgages respectively. 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 Q4FY20. Bank has sourced 20,000+ PL loan through digital channels alone and grew by 93% YoY. We expect ~10% loan CAGR in FY20-22E.
- On liabilities, deposits growth was also strong at 13% YoY/5% QoQ with continued retail deposit traction keeping CASA mix steady at 30.5%. NRE deposits grow by 14% to reach Rs 57223 Cr. We expect ~13% deposits CAGR in FY20-22E.
- Bank's capital adequacy ratio stood at 14.3% (vs 14.1 % YoY/ 13.6% QoQ), of which Tier I capital was 13.3% (vs 13.4% YoY/ 12.6% QoQ) and Tier II capital was 1.06% (vs 1.02% YoY/ 0.76% 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.
- Bank's higher operating profitability was supported by better other income (73% YoY), which was aided by sharp rise in Profit on sale of securities (+401% YoY) and better growth in Fee Income (18% YoY). Further, operational efficiency remained strong, with cost to income ratio falling by 218 bps YoY to 50.2 %, backed by higher net income (NII + other income) growth of 11% vs opex growth of 28% in Q4FY20.
- Bank's asset quality improved during the quarter, with GNPA at 2.84 % (down by 23 bps QoQ) and NNPA at 1.31% (down by 28 bps QoQ). In absolute terms, GNPA's decreased by 2.4% QoQ and NNPA's decreased by 17% QoQ in Q4FY20. Material improvement in PCR at 54.5% (812 bps QoQ).
- ~35% of borrowers by value at account level availed the RBI moratorium. ~31% of Agri, ~38% of Retail, ~79% of Business Banking, ~53% of Commercial Banking, and ~20% of CLB have taken moratoriums.

Outlook and Valuation

Federal Bank's increasing focus on retail business, better capitalization levels (Tier-1 at 13.3%), and incremental lending to better-rated borrowers are key positives. However, Bank's profitability will remain under pressure in FY21 due to weak credit offtake & higher provisions. Bank has a significant exposure to SME/MSME segment, which is expected to be impacted by extended lockdown. Thus, we have cut our loan growth and built higher provisions to factor the possible impact of the Covid crisis. In the low interest rate regime, NIM could also be impacted in FY21E and then normalize in FY22E due to improvement in loan mix. Besides, global remittance may slow down and impact the bank, which has considerable NRE deposits (~38% of deposits). With stock trading at ~59% discount to last 5-year average P/B (1yr fwd), we believe slow growth concerns seems already factored in, though higher credit cost will keep the stock under pressure in the near term. We expect the bank's RoA/RoE to moderate to 0.6%/7.3% in FY21 and recover back to 0.8%/10.6% in FY22. At CMP the stock trades at 0.7x its FY21E ABV and 0.6x its FY22E ABV. We revise our rating to 'Accumulate' from Buy and arrive at a new target price of Rs 51/share, valuing the stock at a target multiple of 0.7x FY22E ABV.

Key Financials (Rs Mn)

YEARS	NII	PPOP	PAT	EPS	Adj. BVPS	P/ABVPS
FY20	46489	32047	15428	7.7	65	0.7
FY21E	50597	32844	10993	5.5	67	0.7
FY22E	58545	38569	17142	8.6	74	0.6



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Highlights of the Conference Call

- 1) Credit growth (+11% YoY) and Deposit growth (+ 13% YoY) are adversely impacted by the last 2-3 weeks slowdown otherwise it could have fit the mid-teams.
- 2) Digital transaction volume has picked up both for individuals and for corporates. IT Infrastructures were strengthened further to handle any surge in digital transaction volumes.
- 3) In terms of staff opex, there is further increase in wage hike provisions for employees.
- 4) Around Rs 16-18k Cr of the book is eligible for credit guarantee scheme. Under this scheme, Bank could disburse ~ Rs 2000 cr in next 6 months
- 5) All retail and MSME loans are linked to external benchmark from October 2019
- 6) Out of total loan book, 25% loans book is linked to external benchmarks, 5% linked to base rate, 40% linked to MCLR and remaining 30% is fixed.
- 7) Direct Covid impact on income & Provisions stood at 173 Cr. (Provision for Covid-19 at Rs 93 Cr & loss of income/ under recoveries & upgrades at Rs 80 Cr)
- 8) Asset quality improved, with the GNPA falling by 15 bps QoQ to 2.84% and NNPA down 32 bps QoQ.
 - LGD at portfolio level is 38-40%, with retail being lower and corporate being higher.
 - SMA 0-2 loans as on Feb 29, stood at Rs840 Cr (0.7% of loans), which includes Rs303 Cr, which would have slipped to NPLs in 4QFY20, if not for the asset quality standstill benefit (GNPL ratio would have been higher by ~20 bps). Bank has made the full ~10% provisions against these loans
 - Although 38% of retail customers opted for moratorium, LGD in retail book is low as large part of the book is secure. Only 5-7% of home loan & LAP portfolio needs attention, while unsecured book is largely stable as most of the loans disbursed to existing customers.
 - The corporate book looks reasonably under control as of now. No stress area barring one middle east account for which banks has started building provisions.
- 9) Liability & Liquidity
 - Bank's liability profile continue to remain strong, with retail deposits grew by 2-3% in first two months of FY21.
 - Bank's liquidity position is healthy and would continue to be the focus area. Average LCR stood at 185% in Q4FY20, which is one of the highest amongst Pvt Sector Banks. LCR will remain high for next 3 to 6 months, post that if situation improves it will come down ~150- 160%.
 - The bank has an adequate capital base and does not see a need for additional capital raising in the next 12 months.
 - Assumption low growth of deposits for small banks post yes bank issue, Bank has increased its borrowings as a prudent measure.
- 10) Near term focus
 - Asset side: Focus on growth in Gold Loan/ Cross selling to existing customers based on data Mining/ Identifying and focussing on well rated corporates/ Leveraging Government Schemes/ Targeting preapproved programmes.
 - Cost Side: Streamlining and renegotiating all cost lines / Enhancing the digital capabilities to tap business across verticals / Focus on conserving capital and continue to strengthen the Balance sheet.

Financial Highlights

Rs Mn	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Interest Earned	25480	26674	27649	29544	30323	32293	32543	33304	33968
Interest Expended	16148	16873	17425	18771	19358	20751	21305	21754	21808
NII	9332	9801	10225	10773	10965	11542	11238	11549	12160
Other Income	3142	2709	3229	3456	4117	3915	4209	4079	7111
Net Income	12474	12509	13454	14228	15083	15457	15447	15628	19271
Opex	6588	6480	6478	7150	7535	7629	8259	8190	9678
PPOP	5886	6029	6976	7078	7548	7828	7188	7438	9593
Provisions	3715	1992	2888	1901	1778	1920	2518	1609	5675
PBT	2170	4038	4088	5177	5770	5907	4670	5830	3918
Tax	721	1411	1427	1841	1955	2065	503	1423	906
PAT	1450	2627	2660	3336	3815	3842	4167	4406	3012
Balance Sheet									
Net-worth	122100	124990	126317	128870	132730	136610	140190	142115	145176
Deposits	1119920	1112420	1181824	1234570	1349540	1325372	1395214	1445920	1522901
Advances	919570	942970	1020676	1055500	1102230	1120320	1175454	1192220	1222679
Growth (%)									
NII	11	22	14	13	17	18	10	7	11
PPOP	7	8	20	26	28	30	3	5	27
PAT	-43	25	1	28	163	46	57	32	-21
Deposits	15	16	22	23	21	19	18	17	13
Advances	25	24	27	24	20	19	15	13	11
Efficiency (%)									
GNPA	3.00	3.00	3.11	3.14	2.92	2.99	3.07	3.07	-7.69
NNPA	1.69	1.72	1.78	1.72	1.48	1.49	1.59	1.59	-16.55
PCR	44.49	43.52	43.59	45.93	50.13	50.72	48.55	46.37	435.48
C/I Ratio	52.82	51.80	48.15	50.25	49.96	49.36	53.47	52.40	50.22



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P&L (Rs mn)	FY19	FY20	FY21	FY22
Interest Earned	114190	132108	141261	159178
Interest Expended	72427	85619	90664	100633
NII	41764	46489	50597	58545
Other Income	13510	19314	17647	20404
Net Income	55274	65803	68243	78949
Opex	27643	33756	35399	40379
PPOP	27631	32047	32844	38569
Provisions	8559	11722	18148	15652
PBT	19073	20325	14696	22917
Tax	6634	4898	3703	5775
PAT	12439	15428	10993	17142

BS (Rs mn)	FY19	FY20	FY21	FY22
Capital	3970	3985	3985	3985
Reserves	128760	141191	150596	164024
Deposits	1349544	1522901	1693045	1933851
Borrowings	77813	103724	86836	81989
Other Liabilities	33313	34579	45287	53113
Total	1593400	1806381	1979750	2236962
Cash & Bank	100668	125746	140806	166470
Investments	318245	358927	432888	475121
Advances	1102230	1222679	1301316	1482341
Fixed Assets	4720	4800	5045	5560
Other Assets	67537	94229	99694	107470
Total	1593400	1806381	1979750	2236962

Ratios (%)	FY19	FY20	FY21	FY22
Growth				
NII	17	11	9	16
Operating profit	21	16	2	17
Net profit	42	24	-29	56
Advances	20	11	6	14
Deposits	21	13	11	14
Returns				
ROA	0.8	0.9	0.6	0.8
ROE	9.8	11.1	7.3	10.6

Ratios (%)	FY19	FY20	FY21	FY22
Asset quality				
GNPA	2.9	2.8	3.8	3.4
NNPA	1.5	1.3	1.7	1.4
PCR	50	54	56	59
Per share (Rs)				
EPS	6.3	7.7	5.5	8.6
ABVPS	59	65	67	74
P/E	7	6	8	5
P/ABVPS	0.8	0.7	0.7	0.6



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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: research@dalalbroachaindia.com